

FRANCHISING - IBERIAN COMPANIES INTERNATIONALIZATION

**PEDRO Maria Isabel C. (P), FILIPE José António Candeias Bonito (P),
COELHO Manuel Francisco Pacheco (P); FERREIRA Manuel Alberto M. (P)**

Abstract. A study has been made for the internationalization of the franchising Iberian companies. Our aim was to analyze the most important variables for the internationalization. We studied it using several statistical methods applied to the answers given by companies to a questionnaire. We have concluded that are some relevant variables to be considered in the internationalization such as age, dimension, bond, dispersion, structure of the network and some variable connected with environment and motivational factors.

Key words. Franchising, Internationalization, Organizational theory, Entrepreneurship

Mathematics Subject Classification: Primary 62H15; Secondary 62H25.

1 Introduction

Franchising is a concept that has grown of importance either in the economic level either as area of research and analysis for students, investigators, journalists, politicians and investors, becoming the main strength for the globalization of companies in the services sector. The existing theoretical references in literature have, however, shown somewhat incomplete when they try to extend the analysis for the process of internationalization of the franchisor companies whose represent today a great diffused way of entrance in external markets.

A peculiar aspect of the literature has to do with the multidisciplinary nature of franchising. The theoretical contributions are dispersed among such distinct areas such as economy, marketing, sociology, psychology and law. In each of these areas, the existing models befall mainly in specific aspects and show how these aspects contribute to the franchising as a form of business (Business Format Franchising).

The term franchising reflects a great variety of relations in the level of businesses and is many times wrongly used as alternative to the word licensing. However, the main distinction of a business under the form of franchising comparing to one under licensing is that the first has a network structure that requires a bigger relationship between the implicated parts.

2 Basic methodological question

Not all models have in consideration the set of the internal factors (organizational factors), the external factors to the company (factors of the environment), as well as the motivation factors (factors related with the perspectives and objectives of the manager) to explain the internationalization of the franchising companies.

In our approach it is considered the concept of international business format franchising as an organizational network that admits multiple ways of entrance in the international markets through the different contractual relations that influence the level of control of the franchisee units. As for different contractual forms the internationalization of franchising could happen through subsidiary owned by the parent company, joint ventures with a partner in the destination market or through the existence of a master franchising.

3 Formulization of the model

With basis on the internal, external and behavioural factors we claim to identify the determinative variables in the internationalization of the Iberian franchising companies and to develop a clarifying model, presented in Fig. 1.

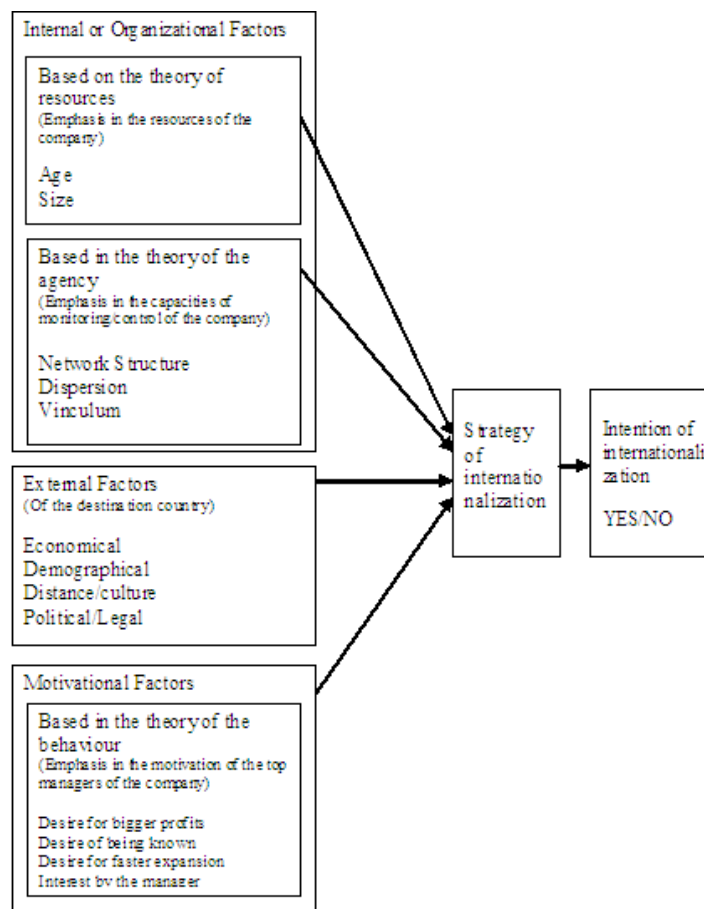


Fig. 1. Model of the Intention in the Internationalization of Iberian Franchising Systems

This model partially adopts the model proposed by Daniels [1]. That is, we widen the model of Daniels [1] to incorporate other theoretical variable related with the agency theory and resources theory which allows analyzing internal or organizational and behavioural factors relatively to the intention of the franchising to be internationalized.

The intention of internationalizing was considered as the dependent variable. We used the SPSS-X for analyzing the data that we have obtained through a questionnaire sent to all the companies of franchising of Iberian origin. We have 12% of valid answers relatively to the universe which we had been considered as a representative sample.

To analyze more easily the intention of internationalization of the Iberian Franchising we have put some hypotheses as we have mentioned above and for that we have used several statistical methods like: qui-square, test of equality of averages, analysis of variance – ANOVA and main components analysis [2] [3].

The research hypotheses we intend to validate are:

Hypothesis 1: “A positive relationship exists between the number of years a company is in the market and the intention of internationalizing, since it will have acquired bigger resources (particularly financial, monitoring, control, or management resources, especially of long-distance).”

Hypothesis 2: “A positive relationship exists between the number of units owned by the franchisor and the intention of internationalizing.”

Hypothesis 3: “A positive relationship exists between the franchising company possesses own units and franchised units in the origin country and the intention of internationalizing.”

Hypothesis 4: “A positive relationship exists between the degree of geographic dispersion of a franchising network in the domestic market and the intention of that company to proceed to internationalization.”

Hypothesis 5: “The bigger the risk and costs associated with the destination country, the higher will be the royalties, entrance fees and costs of entrance. Consequently, the intention on the internationalization will be influenced.”

Hypothesis 6: “The intention of internationalization is inversely related with the cultural difference and distance of the destination country.”

Hypothesis 7: “A positive relationship exists between factors of motivation related with the manager of the company (nominated the desire of attainment of bigger profits, of being known, of expansion and the interest of the manager) and the intention to internationalize.”

4 The age of the network and the intention to internationalize (Hypothesis 1)

In this analysis we considered that the network age was gotten by the difference between the year of the franchising activity beginning and December 2001. The existence (or not) of differences between the intention to internationalize and the network age was analyzed through the application of the ANOVA. The results show that only for the item “my company is planning to explore international franchising” exists some statistical evidence ($F=3,799$; $p<0,0145$) for the hypothesis of the relationship between the age of the network and the intention to internationalize. Consequently, the youngest companies (1 year or less) are those in which the decision to initiate international franchising is more reiterated. In contrast the oldest companies are the ones who show smallest predisposition for the beginning of the internationalization of the franchising.

5 The dimension of the network and the intention to internationalize (Hypothesis 2)

The network dimension was gotten by the total of units in functioning in December of 2001 in Portugal more Spain.

The existence (or not existence) of differences between the intention to internationalize and the dimension of the network was analyzed through the application of the ANOVA. We have considered four levels¹ for the dimension of the company. The results had indicated that just for the item “my company is planning to expand international franchising” exists some statistical differences ($F=2,554$; $p<0,0625$) for the hypothesis of the relationship between the dimension of the company and the intention to internationalize. The companies with dimension between 21 and 59 units are the ones that more agree with the statement: “my company is planning to expand international franchising”. This means that the companies of the level 3 (between 21 and 59 units) are those where we can verify the higher average value. This means that for the companies of a bigger dimension (level 4) the decision to expand is not very consistent.

For other words: there is a considered dimension of a company since which the expansion intention tends to decrease. For all the other items does not exist significant statistical differences.

6 The structure of the company and the intention to internationalize (Hypothesis 3)

Structure of the network was gotten through the number of own units and franchisees units in December of 2001. As a mixed structure we consider the companies that have, at the same time, own units and franchisees unites and as simple (no mixed) structure the one in which the franchisor have just franchisees unites.

We have made the test of equality of averages to inquire about the existence of differences between the companies with mixed structure and those that only have franchisees units. The results show that just for the inquired companies that consider that the “franchising is a desirable activity for the company” exists some statistical evidence for the hypothesis of the difference between the group of companies with mixed structure and the ones where does not exist a mixed structure ($t=1,766$; $p<0,0815$). This means that the companies with mixed structure are more confident that franchising is a desirable activity.

7 The dispersion and the intention to internationalize (Hypothesis 4)

The dispersion variable was gotten by the ratio between the number of provinces where each company has units and the total amount of provinces in the two countries, varying between 0 and 1. It was not taken in consideration neither the dimension of the province nor the population density of each province. The number of Spanish provinces was 19 and the number of Portuguese provinces was 13, in a total of 32.

The four levels that group the dispersion of the companies had been gotten in the values of the quartiles of the variable dispersion and it was assigned as: high concentration (values between 0 and

¹ The four levels that group the number of units of the companies are gotten on the basis of the values of the quartiles of the question “number of total units”. The four considered levels had been: 1 to 10 units; 11 to 20 units; 21 to 59 units and more than 60 units.

0,16); concentration (values between 0,17 and 0,37); dispersion (values between 0,37 and 0,63); high dispersion (higher than 0,63)

The existence of differences (or not) between the intention of internationalizing and the dispersion of the network was, also, analyzed through the ANOVA. The results indicate that there are significant differences for the items listed in the Fig. 2.

Item	F	p
My company is planning to expand franchising international	3,080	0,033
The international franchising profits are in accordance with the expectations	4,652	0,006
International franchising is too much complicated to value the effort	4,288	0,007

Fig. 2 - Values of statistics F and p-values for the dispersion variable

The intention to expand the international franchising is higher in the group of companies classified as being high dispersion. They are also the companies classified in the group of dispersion and high dispersion the ones who affirm that exist an adjustment between the expectation of profit and the real profit by the international franchising. Also, the companies with a higher degree of dispersion of their networks are the ones who consider that international franchising is not too much complicated for the effort that it demands.

8 The Bond and the intention to internationalize (Hypothesis 5)

The bond was considered as the entrance fees, royalties and publicity tax given by the franchisees to the franchisors.

To analyze the relationship between the intention to internationalize and the entrance fees, we used the test of equality of averages, having assumed equality of variances. The results indicate that there are significant differences for the items: “international franchising involves a higher risk than the franchising in the domestic market” ($t=-1,938$; $p<0,057$) and “international franchising involves higher costs than franchising in the domestic market” ($t=-2,817$; $p<0,007$). The companies who consider higher entrance fees are the ones who much have in account the risk and the cost of franchising in the international market when compared with domestic market.

Between the intention to internationalize and the starting costs, the results indicate that there are significant differences for the item “my company has a product or service that can be internationally franchised” ($t=1,763$; $p<0,0835$) and “international franchising involves a higher risk than franchising in the domestic market” ($t=-1,752$; $p<0,007$). The companies who consider the starting costs more significant are the ones who have more conviction that their product can be internationally franchised and have the perception that international franchising has a higher risk.

For the analysis between the intention to internationalize and royalty the results indicate that there are significant differences for the items “international franchising can give a higher contribution to the growth of my company” ($t=1,857$; $p<0,0895$), “international franchising involves higher costs than franchising in the domestic market” ($t=2,067$; $p<0,0435$). So, the companies who consider equivalent royalties in the international and in the domestic market are the ones who consider that international franchising can contribute for higher profits. The companies

who require a higher international royalty are the ones who affirm that the costs of international franchising are higher than the ones in the domestic market.

As for the advertising fee no differences had been considered statistically significant between the companies that consider this fee equal or higher and the intention to internationalize.

The association between the entrance fees, starting cost, royalty and advertising fee was analysed using the correlation of Spearman’s rho for ordinal variables.

There were significant statistical correlations between the rate of royalties and the starting costs ($r=0,279$; $p<0,0245$); between the royalty fee and the advertising fee ($r=0,542$; $p<0,005$); and between the advertising fee and the starting cost ($r=0,295$; $p<0,0205$). These positive associations indicate that the companies who place royalties higher also place higher starting costs and higher advertising fees (and vice versa). The companies who place advertising fees higher also place higher starting costs (and vice versa).

9 The destination country variables of the Iberian franchising companies and the intention to internationalize (Hypothesis 6)

To identify which variables, related with the destination country, have greater influence in the intention of internationalization of the Iberian companies, it was asked several questions (synthesized in Fig. 3) in the questionnaire that the inquired companies have answered, to be answered according the following scale: 1 - nothing important to 4 - very important.

We used the main components analysis to reduce the number of variables for a smaller number of components (Fig. 3).

F1g3_3 component - economic and politic factors (29,284)	Politic Stability of the destination country (g3_3_4)
	Economic stability of the destination country (g3_3_5)
	Tax policy advantages of the destination country(g3_3_6)
	To have infrastructure (good distribution, communication and transports system) in the destination country (g3_3_8)
F2g3_3 component - social and competitive factors (15,150)	Instruction degree of the destination country population (g3_3_7)
	Country with high incomes per capita (g3_3_10)
	Small competition in the product or service (g3_3_11)
	High population density (g3_3_12)
F3g3_3 component – linguistics, cultural and physical proximity (12,853)	Physical proximity of the destination country (g3_3_1)
	Cultural proximity of the destination country (g3_3_2)
	Linguistics proximity of the destination country (g3_3_3)
F4g3_3 component (9,319)	Potential market for its product or service (g3_3_9)
F5g3_3 component (7,135)	To have franchisees interested (g3_3_13)
Total explained variance: 73,74	

Fig. 3. – Main components - destination country

We have made the test of equality of averages to inquire the existence of differences between the main components for the involving environment related with the country of destination and the intention of internationalizing. The answers had been re-codified and grouped in only two categories: not important and important.

The results indicate the following:

- The inquired who tend to value the economics and politics factors, relatively to the destination country (F1_g3_3) are also the ones that more agree that international franchising involves high starting costs (g3_2_12) (p-value<0,05) although they consider that international franchising is not too much complicated for the effort (g3_2_13) (p-value<0,089).
- The inquired who more devaluate the social and competition factors (F2_g3_3) are the ones that consider that the international franchising is according their expectations (g3_2_8) (p-value<0,004).
- The inquired who consider important to have a market with potential for their product or service (F4_g3_3) are the ones that more agree that international franchising is a desirable factor for the activity of the company (g3_2_2) (p-value<0,058) although it involves high start costs (g3_2_12) (p-value<0,06) as high general costs (g3_2_10) (p-value<0,15) and they are also the ones that consider international franchising is not too much complicated for the effort (g3_2_13) (p-value<0,07).
- The inquired who give importance to the fact that there are interested franchisees in the destination country (F5_g3_3) are also the ones that consider that international franchising involves high starting costs (g3_2_12) (p-value<0,047).

10 The motivational variables of the management of the Iberian franchising companies and the intention to internationalize (Hypothesis 7)

To identify which variables related with the motivation have more influence in the intention of the internationalization of the Iberian companies, we asked about motivational factors to the inquired companies some questions to classify the answers according the scale: 1 - nothing important to 4 - very important (Fig. 4).

F1_g3_6 component – Sales and profits increase allied to the desire of gaining advantage in markets of great potential or because it appeared a chance (32,077)	If there appears a chance (g3_6_4)
	Because there is the desire of gaining advantage in markets of high potential (g3_6_6)
	Because the company desires to spread the name of the company in markets with importance for the future (g3_6_7)
	Because there is the desire of obtaining a higher profit than the one obtained with the domestic investment (g3_6_10)
	Because there is the desire of increasing the sales (g3_6_11)
F2_3_6 component - Desire of expansion and being known allied to the will of the manager (12,836)	Because there is the desire of faster expansion (g3_6_3)
	Because there is interest on the part of the manager of the franchising company (g3_6_8)
	Because there is the desire of being known as an international company (g3_6_9)
F3_g3_6 component - structure of costs optimization (12,678)	If the company has obtained an enough high dimension in the domestic country (g3_6_2)
	Because there is the desire of structure of costs optimization (g3_6_5)

F4_g3_6 component (9,582)	If the company was searched by a foreign entity (g3_6_1)
Total explained variance: 67,17	

Fig. 4 – Main components – motivation factors of the managers of the franchising companies

Made the test of equality of averages to investigate the existence (or not) of differences between the intention of internationalizing and the main components gotten through the variable related with the motivation we concluded that there was just a statistical evidence between the item g3_2_9 and F2_g3_6 ($p < 0,056$). This means that the inquired companies who are not interested or do not desire to expand internationally are the ones that agree with the fact that international franchising involves higher risk than franchising in the domestic market.

11 Recommendation notes

In face of the displayed, the Iberian franchisers interested in international expansion must have a financial and human resources structure that allows them to follow and control the international network. They should also own a sufficient number of units under the regimen of franchising, and have a high dispersion of the network in the internal market, so they can test the functioning of the network before starting the internationalization. Furthermore, it's important to define the profile of the international franchisees, as well as the capacity to control the meeting of the rules imposed by the franchising system (through the contract, the payment of the entrance fee or the royalties). It's verified that, preferentially, the franchisees should have a mixed structure.

The franchisors should know the legislation of the destination country, related with the business as with the regimen of franchising itself; they ought to understand in which ways the business corresponds to the expectations of the consumers of the destination country or in which ways it can mould itself; they should analyze and evaluate on the economical and political stability and should analyse and evaluate every cost relatively to internationalization.

In relation to the motivation, it should be known the real motives behind the internationalization of the business and analyze if effectively it's an internationalizable business and should evaluate its potential of success in the country of destination.

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Current address

Maria Isabel Craveiro Pedro, Professor Auxiliar
 IST - Instituto Superior Técnico (Technical University of Lisbon)
 CEGIST – Centro de Estudos Gestão

Av. Rovisco Pais 1100-099 Lisboa (Lisbon, Portugal), Tel.+351 21 423 35 07
e-mail: ipedro@ist.utl.pt

José António Candeias Bonito Filipe, Professor Auxiliar

ISCTE - Instituto Superior de Ciências do Trabalho e da Empresa
UNIDE – Unidade de Investigação e Desenvolvimento Empresarial
Av. Forças Armadas 1649-026 Lisboa (Lisbon, Portugal), Tel.+351 217 903 000
e-mail: jose.filipe@iscte.pt

Manuel Francisco Pacheco Coelho, Professor Auxiliar

ISEG – Instituto Superior de Economia e Gestão
SOCIOUS – Centro de Investigação em Sociologia Económica e das Organizações
Rua do Quelhas, 6, 1200-781 Lisboa (Lisbon, Portugal), Tel.+351 213 925 800
e-mail: coelho@iseg.utl.pt

Manuel Alberto Martins Ferreira, Professor Catedrático

ISCTE - Instituto Superior de Ciências do Trabalho e da Empresa
UNIDE – Unidade de Investigação e Desenvolvimento Empresarial
Av. Forças Armadas 1649-026 Lisboa (Lisbon, Portugal), Tel.+351 217 903 000
e-mail: manuel.ferreira@iscte.pt

