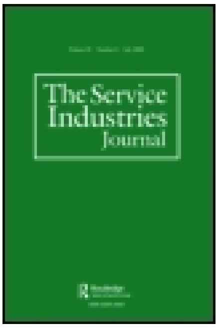

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International franchise expansion of service chains: insights from the Spanish market

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International franchise expansion of service chains: insights from the Spanish market

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This paper attempts to identify the effects of several variables on the international expansion pursued by Spanish service franchise chains. These include: management and franchising experience, brand awareness, the international franchise ratio, and a franchisor's size. Specifically, the study looks at 125 franchisors doing business in 44 foreign countries in late 2009. Findings allow us to conclude that management and franchising experience, together with brand awareness, the international franchise ratio and company size are significantly associated with (i) the number of countries where the chain has a presence; (ii) the number of operational outlets the franchisor has abroad, and (iii) the number of years the chain has been operating overseas.

Keywords: international marketing; service companies; franchise system; internationalization; agency theory; signaling theory

Introduction

Entry mode choice is one of the firm's most important strategic choices. It influences the firm's resource commitment, investment risk, degree of control, and shares of profits (Alon, 2005; Alon, Ni, & Wang, 2010; Baena, 2011; Thompson, & Stanton, 2010; Zhu, Wang, & Quan, 2011). Several foreign entry options exist. They include exporting, joint venture, wholly owned subsidiaries (greenfield or acquisitions), and contractual agreements (management service contracts, licensing and franchising).

Entry mode via franchising is designed as a short-term strategy to gain market knowledge, to have access to socio-political contacts, and/or to maneuver around legal restrictions (i.e. in some countries, 100% foreign investment is not allowed). For instance, China prohibits foreign investment in projects whose objectives are not deemed to be in line with the government's plan for national economic development. Moreover, where foreign investment is allowed, there are areas where some restrictions apply in order to protect the domestic markets, such as China's services sector. Malaysia also has regulations in limiting the degree of foreign equity ownership in some sectors. In India, any proposal for foreign equity participation exceeding 51% or any project considered to be politically sensitive is screened by the Foreign Investment Promotion Board. As a result of such restrictions, there has been an exponential amount of growth in franchising over

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the past two decades, across both the developed and developing countries (Brand & Croonen, 2010; Doherty, 2007; Pan, Nunes, & Peng, 2011). Even in Cuba, where foreign investment is not allowed in the distribution sector (Cerviño & Bonache, 2005), some global franchisors such as the Italian fashion retailer, Benetton, or the Spanish retailer, Mango, were allowed to establish via franchise contracts with government-owned corporations. As the foreign investment minister announced in 2005, 'Cuba is now interested in partnering only with well-known companies in strategic sectors of the economy'. Thus, in order to improve the economic and touristic image of the country, the Cuban government allows franchisors to enter the country, but only if they have a very well-known and highly reputed brand and are willing to enter into a franchise agreement with the government. Nevertheless, knowledge is still scarce concerning factors influencing the international expansion of franchising (Hoffman, Kincaid, & Preble, 2008; Mariz-Pérez & García-Álvarez, 2009).

Specifically, most of the existing literature has analyzed the international franchising from a country-level perspective and tested, for instance, the effect of the host country's economic development or political factors on the franchisor's international spread and its foreign entry mode (Alon & McKee, 1999; Baena, 2011; Burton, Cross, & Rhodes, 2000; Eroglu, 1992). However, knowledge is still scarce about the factors influencing its worldwide expansion (Hoffman et al., 2008; Mariz-Pérez & García-Álvarez, 2009). In addition, due to the scarcity of data on international franchise companies and their activity (Kedia, Ackerman, Bush, & Justis, 1994), most published works lack empirical comparisons (Alon & McKee, 1999; Doherty, 2007; Eroglu, 1992; Sashi & Karuppur, 2002) or merely focus on the American or British retailing and hospitality industries (Alon et al., 2010; Doherty, 2009). This fact hinders generalization of any obtained results, especially in the service industry, where research on internationalization is rather scarce (Ball, Lindsay, & Rose, 2008). Therefore, work is needed that will go beyond previous studies and focus on the service sector (Pla-Barber, Sánchez-Peinado, & 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. Specifically, the effects of service franchisors' management/franchising experience and brand awareness are examined. Also considered here are the international franchise ratio (number of franchised outlets each franchisor has abroad divided by the total–both franchised and company-owned outlets and the chain has overseas) and the franchisor's size. Moreover, most of the studies in this area analyze the US/UK franchise industries, focusing on just one sector, such as retailing or hospitality. In contrast, all the Spanish service chains have been considered in this study, which adds incremental value to this work. Notably, and according to the data published annually by the International Franchise Association and the Global Franchise Network, the Spanish franchise system ranks fifth in the world, both in terms of the number of chains and of the number of franchised outlets. At the close of 2009, there were 1019 franchising chains operating in Spain through 65,026 operative outlets. However, the weaker internationalization activity of the Spanish service chains, in comparison with those of the US or the UK, highlights the importance of this study and the need to explore those factors acting as stimuli in the choice of foreign expansion. This is the basis of our contribution.

The remainder of this paper is structured as follows: The proceeding section provides the theoretical background and the formulation of hypotheses. In the subsequent section, we discuss the empirical analysis and describe the results. The final section presents our conclusions and their implications for practitioners and academics, as well as the discussion of the limitations of the study and the future research possibilities.

Literature review and hypotheses development

Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) 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 et al., 2010). To solve these problems, principals have to spend resources on direct observation, i.e. monitoring costs (Alon, Boulanger, & Misati, 2011; Chen, 2010).

However, some studies have opted to analyze franchising from another theoretical approach, applying signaling theory (Gallini & Lutz, 1992). This perspective argues that companies emit observable signals for evaluation by the public. Specifically, signaling theory suggests that the franchisors possess privileged information about the true profitability and viability of their businesses (Polo-Redondo, Bordonaba-Juste, & Palacios, 2011). As a result, they can 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 is not afraid to invest (Alon et al., 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.

Management experience

The literature has suggested that the 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; Sashi & Karuppur, 2002; Shane, 1996). 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 et al., 2008; Mariz-Pérez & 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 et al., 2011).

The management experience in itself is also an indicator of success, one which may provide an edge in the competitive marketplace (Alon et al., 2011). Therefore, companies with many years in the market and a history of good performance become well known to potential franchisees based on the 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 & Doherty, 2000) by enabling him/her to identify the ideal franchisees and reduce the risk of adverse selection (Doherty, 2009; Sashi & Karuppur, 2002). 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 & García-Álvarez, 2009).

In short, in spite of the information asymmetries and the likelihood of opportunistic behavior arising in geographically distant markets (Demirbag, Tatoglu, & Glaister, 2008), 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 & McKee, 1999; Alon et al., 2010; Doherty, 2009; Quinn & Doherty, 2000) to support the idea that the 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.

Clearly, franchisors need to gain experience in the transfer of knowledge, as they must encode their know-how (through manuals, lists of procedures, etc.) in ways that franchisees can assimilate and replicate (Lafontaine & Slade, 1997). However, the transfer of knowledge is neither simple nor automatic (Szulanski, 1996). This complexity particularly increases when the company's know-how is of a tacit nature, as conventional transfer mechanisms may encounter transmission problems (Sashi & Karuppur, 2002) or even result in loss of content (Szulanski, 1996). As Paswan and Wittmann (2009) have documented, service franchise chains share more tacit knowledge than explicit knowledge, and they are more likely to exchange both types of knowledge with everyone in the network. Thus, service franchises need to have significant experience in tacit knowledge transfer mechanisms in order to manage the franchising network and make it profitable. Therefore, whether due to information asymmetries and opportunistic behavior or the need to manage complex mechanisms for the knowledge transfer, franchising experience is very important in the service sector. Hence, we present the following hypothesis:

> *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 & Kim, 1988). Thus, from a consumer perspective, the brand simplifies the shopping and selection process (Sashi & 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. First, the franchisee of a well-known brand does not have to invest in the creation of a major brand name.

Second, 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 & García-Álvarez, 2009). Therefore, companies with well-known brand names signal strong sales in conjunction with marketing expertise (Holverson & Revaz, 2006). All these aspects boost the number of candidates to be franchisees, as brand names create 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 & 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 make the following hypothesis:

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

Methodology

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 et al., 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 the 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 & García-Álvarez, 2009). Thus, although franchisors supplied the data, the literature validates over 80% of it, reducing the risk of any significant bias (Combs & 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 the previous studies (see, e.g. Hoffman & Preble, 2001). The companies' founding dates and the dates they awarded their first franchise come from data published in 2009 by the AEF and by the leading franchising consulting firm, *Tormo & Asociados*.

Finally, brand awareness of Spanish franchisors with presence abroad (AWARENESS) was measured by using the 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, 1993) or the strength of the brand-to-category association (Herr et al., 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 et al., 1996). Peterson et al. (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 4800 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. According to Peterson et al. (1999), a firm's brand awareness score is the combined average score of the typicality and dominance rates. On the basis of the survey data, it can be argued that brands with higher scores are more famous or well known than brands with lower scores.

Control variables

In conjunction with management and franchising experience and franchisor's brand awareness, we controlled for two variables: first, the international franchise ratio (RATIOFR), which is assessed as the number of franchised outlets that each chain has abroad divided by the total (both franchised and company-owned) outlets this franchisor has overseas; second, 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. Alon et al., 2010; Mariz-Pérez & García-Álvarez, 2009).

Results

Having collected the data, we proceeded to analyze the effects 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 10135 outlets), a total of 125 chains were service business-oriented, operating across 44 foreign countries with 2944 outlets, as shown in Table 1. All of these were considered in this study, which means that the sample size corresponds to 100% of the population.

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 0–100), 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

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 esthetics	17	222	25
Software and computers services	11	217	19
Photography services	3	171	16
Travel agencies	4	64	15
Health centres	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	2944	44

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

franchise ratio of 0.973. This means that, on average, less than 5% 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 1218 outlets (franchised and company-owned) distributed across the Spanish market and abroad. The lowest value corresponds to 'Saboréate y Café' (restaurant) with only seven outlets operating in Spain and Portugal in late 2009.

Concerning the values associated with the three indicators, we used to assess international franchise expansion of service chains, Table 2 shows that the Spanish service franchisors with international presence are doing business on an average in 5.1 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 50.1, 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 the 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.

As stated in the previous section, the international franchise expansion of service chains was tested according to the 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.

As shown, Models 1–3 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 number of years the chain has been operating overseas (YEARS). 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 *H1*, and only supports *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 a 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 and conclusions

Employing the franchise model in international markets is a central element of the internationalization strategy for many companies (Doherty, 2009), as this entry mode not only entails a more limited resource commitment, but also allow firms to reduce the uncertainty

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

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		Dependent variable: OUTLETS		Dependent variable: OUTMEAN	
	R^2: 0.685 Adj. R^2: 0.575 $F = 100.428$, $p = 0.000$		R^2: 0.687 Adj. R^2: 0.476 $F = 91.338$, $p = 0.000$		R^2: 0699 Adj. R^2: 0.597 $F = 59.151$, $p = 0.000$	

exposure of going international (Alon, 2005; Alon et al., 2010; Baena, 2011; Thompson, & Stanton, 2010; Zhu et al., 2011).

Due to the scarcity of data on international franchise companies (Kedia et al., 1994), most published works lack empirical comparisons (Alon & McKee, 1999; Doherty, 2007; Eroglu, 1992; Sashi & Karuppur, 2002), or merely focus on the American or British chains in a small number of service sectors like hospitality and retailing (Moore, Doherty, & Doyle, 2010; Thompson & Stanton, 2010). Thus, knowledge is still scarce about the factors influencing international franchise expansion (Hoffman et al., 2008; Mariz-Pérez & García-Álvarez, 2009). This scarcity is especially true for the service sector, which constitutes over 50% of GDP in low-income countries, and whose growth usually coincides with development in such countries (Cali, Ellis, & Velde, 2008). In short, services represent an increasing percentage of GDP in nearly all developing countries, as well as the largest share of global foreign direct investment, and have become a driving force in the global economy (Javalgi, Griffith, & White, 2003).

This paper attempts to contribute to the literature by exploring specifically the factors driving international franchise expansion of service franchise chains. To achieve this goal, all the Spanish service franchisors doing business abroad in late 2009 have been considered (a total of 125 chains). Findings indicate that service chains with strong brand awareness have a greater tendency to enter foreign markets. According to the signaling theory, franchisors with strong brands gain a reputation for quality and signal success for the overall franchise network. In short, a strong brand simplifies the purchasing process by signaling successful performance. Therefore, service franchisors should first create a strong brand in the national market before looking for franchisees in foreign markets. A strong brand generates more business applications from potential franchisees, which gives franchisors a bigger pool of potential franchisees from which to select those most appropriate for the business. This reduces the risk of mistakes in franchisee selection and boosts the intensity of the chain's international expansion. It also increases the pool of agents interested in becoming franchisees, and helps the franchisor's international expansion to go more smoothly. Moreover, franchisors with valuable domestic brands should also pursue global growth opportunities for their brands in order to generate higher global brand recognition and awareness, which in turn creates higher brand value.

In addition, this study allows us to confirm a negative and significant association between a franchisor's management experience and the international expansion of service franchise chains, which contradicts *H1*. One plausible explanation is that the franchise experience in the domestic market seems to be more important and relevant than overall management experience. This means that many Spanish service franchisors were established from their beginning with a clear objective of being franchise chains. Building on their experiences from franchising in the domestic market has led these franchisors to use the same expansion mechanism for the international development. These results are in line with Welchs' (1989, 1990) research in Australia, which emphasizes that the main path to international franchising for Australian companies was started from a domestic franchising base rather than a non-franchising base.

Moreover, results show that a large proportion of chains with presence abroad have a distinct international character from the beginning of their business activity; that is, they did not wait for the home market's overwhelming offer before expanding into foreign countries. Although the literature shows that a major reason for firms deciding to be global lies in home market saturation (Eroglu, 1992; Welch, 1990), our results show that this issue is not very relevant or explanatory for the international franchise expansion of service chains.

The results of this study are more in line with previous research in franchising. Specifically, Hacketts' (1976) study revealed that the most important factor influencing the US-based franchisors to internationalize was the desire to exploit potential markets. Trankheim (1979) found the most common reasons given by franchisors for having entered foreign markets to be increased sales and profits, market expansion, and a desire to be known as an international firm. Thus viewed, Spanish service franchises seem to follow the path of the 'born-global' companies. These types of companies have recently begun to stimulate research interest (see, e.g. Anderson, Gabrielsson, & Wictor, 2006; Gabrielsson, 2005; Knight & Cavusgil, 2004; López, Kundu, & Ciravegna, 2009), although few studies on the topic have been completed so far. The results of this study contribute to this line of research, given that the Spanish service companies appear to fit this profile. In fact, while preparing this study, the authors had the opportunity to confirm the rate of the international expansion process of Spanish chains, specifically that of franchisors with less than 20 years of managerial experience. For instance, this is the case of Tony Roma's (restaurant), Presto (dry cleaners), Consulting-e.com (consulting firm), Naturhouse (beauty and esthetics), Sports Bar, Sports Café (sports), as well as Ecolider or Recycling System (software and computers), which all have a significant presence abroad. In fact, some of them are doing business not only in European countries such as Portugal, France, and Greece but also in the US, Latin America (Puerto Rico, Honduras, Mexico, Chile, Peru, Panama, Venezuela, Dominican Republic), Africa (Morocco, Angola), Asia (China, Israel, Malaysia, India, and Singapore), and Australia.

In contrast to the management experience, the international franchise expansion of service chains associates positively with their franchising experience. We can then argue that the greater franchising experience enables better transfer of tacit knowledge and the identification of optimum franchisee candidates, thereby, rejection of the less suitable. This minimizes agency problems and adverse selection and enhances the success of the international expansion. It appears essential for service franchisors to have a global orientation from the beginning of their franchising operations, in terms of services development, global branding, trademark protection, and global customer segment orientation. Though the domestic market is typically the place to gain franchising experience while running and improving the business concept, an international orientation should be a major component of any service franchise firm's strategic business plan.

An additional finding of this study is that the service chains with large international presence – in terms of the number of foreign countries and the average number of outlets established abroad – have fewer franchised outlets, versus company-owned ones, overseas. It confirms claims from previous literature 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 this. However, once the chain has enough resources, it buys back the franchised outlets (Hunt, 1973), choosing to grow through company-owned stores.

Results also allow us to conclude that a franchisor's size does have an impact on the intensity of international expansion. Findings pointed to a positive and significant association between the total outlets of the chain and the franchisor's spread across countries in conjunction with the total number of outlets abroad, divided by the number of countries of foreign operation. Therefore, in line with the recent literature (i.e. Mariz-Pérez & García-Álvarez, 2009), our results confirm that the company size has a positive effect on a firm's reputation, which smoothens the process of international expansion.

To the authors' knowledge, this is the first study to consider management and franchising experience in conjunction with brand awareness as driving factors upon the 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 2944 outlets present in 44 foreign countries). In so much as most studies in this area have analyzed the US/UK franchise industries or focused on the particular service sectors, such as the hotel industry (Contractor & Kundu, 1998), we believe our work adds incremental value to the literature. Our paper also has direct implications for managers, as it develops and tests an explanatory model potentially 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 franchise chains and associations when planning their future strategic expansion.

Limitations and areas of future research

Limitations of this study include the need to incorporate certain 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 variables enhancing the internationalization process are not modulated by host country 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 others located in Africa or certain regions of Asia. Thus, further research should 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 lies in the use of a single country: Spain. Analysis of the Spanish service chains is clearly one of this paper's contributions, as most previous literature merely focused on the US/UK franchise industries. However, narrowing analysis onto a single country (Spain) is also a limitation, as non-Spanish franchisors were never considered. Therefore, a multi-country study was proposed as further research in order to assess the generalizability of these 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.

Third, as shown in Table 1, the Spanish service franchise chains show a very wide dispersion in the number of countries where franchisors do business. This figure ranges from 44 (hospitality and restaurants) to only 1 (consulting firms and sports). We encourage further research into this area based on a regional perspective, instead of just a country analysis. This could help us to explore the possibility of psychic distance as a complementary driving influence upon distribution effects and experience effects.

Our work explores the effect of managerial and franchising experience on service chains' international franchise expansion. Nevertheless, a franchisor's international experience is not considered here. It is important to note that the international experience has been tested in the business literature dealing with entry modes, as well as in research concerning the 'born global' phenomenon (e.g. Bengtsson, 2004; López et al., 2009, among others). All these studies confirm that the international experience enhances the firm's ability to learn and consequently, to internationalize rapidly. Specifically, it is argued that the accumulated international experience may affect the extent to which psychic distance from strategic markets is perceived to be an obstacle to internationalization. It is also plausible that the entrepreneurs with international experience have a well-developed network of contacts, which allows them to internationalize earlier (Contractor, Hsu, & Kundu, 2005; Kundu & Katz, 2003). Therefore, in order to broaden our knowledge of this issue, we propose that future studies include the franchisor's international experience as a predictor variable in the international franchise expansion of service chains.

An alternative line of research might focus on the relationship between the international expansion and the type of service franchises. According to Paswan and Wittmann (2009), service franchise chains seem to be best suited to 'network franchise organizations' rather than 'traditional systems', with the rationale that the service franchising requires the sharing of more tacit knowledge. In service franchise chains, knowledge (both explicit and tacit) is also more likely to be exchanged among everyone in the network. However, literature has not yet empirically assessed how this issue relates to the various types of service franchise chains or to their propensity to internationalize.

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.

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