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Verónica Baena ^a & Julio Cerviño ^b

^a Department of Business Administration , European University of
Madrid , Madrid , Spain

^b Department of Business Economics , University Carlos III of
Madrid , Madrid , Spain

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International Franchising Decision-Making: A Model for Country Choice

VERÓNICA BAENA

Department of Business Administration, European University of Madrid, Madrid, Spain

JULIO CERVIÑO

Department of Business Economics, University Carlos III of Madrid, Madrid, Spain

ABSTRACT. *The present study examines how a number of market conditions may drive diffusion of franchising. It considers a sample of 63 Spanish franchisors operating through 2321 franchisee outlets across 20 different Latin American countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Uruguay, and Venezuela in January 2011. Results conclude that geographical and cultural distance between the host and home country, as well as the level of the host country's uncertainty avoidance, individualism, political stability, unemployment rate, market potential, and efficiency of contract enforcement, may drive the spread of international franchising. Results reinforce previous research on country choice as to the association between international franchising and the host country's unemployment rate and cultural distance, but also identify differences from other regions in some issues such as political stability. Moreover, new insights relative to the effect of market potential, individualism, uncertainty avoidance, and the efficiency of contract enforcement on international franchise diffusion are also shown.*

RESUMEN. *El presente trabajo examina el efecto que ciertas características del mercado receptor pueden tener en la difusión internacional del sistema de franquicia. Se ha analizado una muestra*

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Address correspondence to Verónica Baena, European University of Madrid, Calle Tajo, s/n. Urb. El Bosque, s/n. 28670-Villaviciosa de Odón (Madrid), Spain. E-mail: veronica.baena@uem.es

de 63 cadenas franquiciadoras españolas que en enero de 2011 operaban a través de 2.321 puntos de venta en 20 países latinoamericanos: Argentina, Brasil, Chile, Colombia, Costa Rica, Cuba, República Dominicana, Ecuador, El Salvador, Guatemala, Haití, Honduras, México, Nicaragua, Panamá, Paraguay, Perú, Puerto Rico, Uruguay y Venezuela. Los resultados concluyen que la distancia geográfica y cultural entre el país de origen y el receptor de la inversión, así como el nivel de aversión al riesgo, individualismo, estabilidad política, tasa de desempleo, potencial de mercado y la eficiencia de la ejecución de contratos del país receptor inciden en la expansión internacional del sistema de franquicia. Estos resultados son consistentes con la literatura sobre la relación existente entre la expansión de la franquicia y la tasa de desempleo del país receptor, así como la distancia cultural entre el país inversor y el receptor de la inversión. Sin embargo, este estudio identifica diferencias con trabajos anteriores en algunos aspectos como el papel de la estabilidad política del mercado receptor. Asimismo, resultan novedosas las aportaciones realizadas sobre el efecto del potencial de mercado, individualismo, aversión al riesgo y la eficiencia de la ejecución de contratos del país receptor sobre la difusión internacional del sistema de franquicia.

RESUMO. *O presente trabalho examina como uma série de condições de mercado podem impulsionar a difusão do sistema de franquias. Avalia uma amostra de 63 franqueadores espanhóis que operavam 2.321 pontos de venda em 20 países latinoamericanos (Argentina, Brasil, Chile, Colômbia, Costa Rica, Cuba, República Dominicana, Equador, El Salvador, Guatemala, Haiti, Honduras, México, Nicarágua, Panamá, Paraguai, Peru, Puerto Rico, Uruguai e Venezuela) em janeiro de 2011. Os resultados indicam que a distância geográfica e cultural entre o país de origem e o receptor do investimento, assim como o nível de aversão ao risco, individualismo, estabilidade política, índice de desemprego, potencial de mercado e obrigatoriedade do cumprimento dos contratos, pode levar à difusão internacional do sistema de franquias. Os achados reforçam pesquisas anteriores sobre escolha do país como uma combinação entre a franquicia internacional e o desemprego e a distância cultural do país anfitrião, mas identificam diferenças em relação a outras regiões, quanto a algumas questões tais como a estabilidade política. Também são apresentadas percepções sobre o efeito do potencial de mercado, individualismo, aversão ao risco e obrigatoriedade do cumprimento de contratos, na difusão internacional do sistema de franquias.*

KEYWORDS. *country choice, franchising, international strategy, Latin America, transaction cost theory*

INTRODUCTION

Franchising is an organizational model where local entrepreneurs, termed franchisees, are granted the right to operate one or multiple units of the franchise chain at a location by investing their own funds. In return, the franchisee pays the franchisor a royalty based on gross sales. Profits after expenses (including royalties) are received by the franchisee as compensation (Elango, 2007). However, it is also viewed as a strategic business model that empowers its associates and significantly impacts the surrounding economic environment (Spinelli, 2007).

The literature on franchising has fully covered issues such as why firms should organize as a franchise chain and engage franchisees (Lafontaine & Kaufmann, 1994; Alon, 2001, 2005), franchising efficiency (Lafontaine, 1992), and the relationship between franchisor and franchisee (Sanders, 2002). In contrast, although recently greater effort has been made to examine the scope of franchising from an international standpoint, international franchising has generally received limited academic attention (Alon, 2010; Quinn & Doherty, 2000). Moreover, the scant theoretical and empirical attention given to this topic has generally been examined from a U.S. and British base. Thus, there is a great need for a deeper explanatory model of international diffusion via franchising, one that can explore this issue by focusing on franchising systems other than those from the United States or Great Britain.

The present study attempts to cover this gap by introducing a model that explores a set of host country drivers of franchise diffusion among Latin American nations. According to an annual report launched by Economic Commission for Latin America and the Caribbean (ECLAC) (in December 2011), Latin American nations will grow by 5% in 2012 thanks to the economic recovery posted by most countries in the region. Specifically, it is expected that South American gross domestic product (GDP) will grow by 6%, while GDP will rise by 4% in Mexico and Central America in 2012. Therefore, while franchising in the United States, Canada, and parts of Western Europe has reached domestic market saturation (Alon, 2010), Latin American markets remain relatively untapped. Nevertheless, research in international marketing in the Latin American context is very limited (Birnik & Browman, 2007; Fastoso & Whitelock, 2010). This is surprising given the substantive economic importance of the region with a population over 550 million and a GDP of approximately US\$4 trillion. Additionally, most Latin American countries, including the largest ones (Argentina, Mexico, Brazil, Chile, Peru, Venezuela, and Colombia), had a greater per capita GDP than China did in 2010. As of 2011 Latin America

included five nations classified as high-income countries: Chile, Mexico, Argentina, Uruguay, and Panama.

This research sets out to go beyond the traditional analysis of international market selection in developed countries by further exploring this issue in the Latin American context. We focus on the Spanish franchise system. In this sense, it is worth mentioning that since the mid-1990s Spain has been the second biggest foreign investor in Latin America; second only to the United States (Toral, 2008). However, scant literature has addressed the question of international franchising in Latin America (Baena, 2013). Previous research has tended to focus on a single sector such as retailing, manufacturing, or hospitality (see, e.g., Aliouche & Schlenrich, 2011; Alon & McKee, 1999; Doherty, 2007; Elango, 2007; Moore, Doherty, & Doyle, 2010) while this study seeks to advance understanding by encompassing 52 different business sectors (see Appendix). Moreover, over the past decade, the relevance of the Spanish franchise system has grown. Since 2008 it has been ranked fifth worldwide both in terms of the number of franchisors (1019) and the quantity of franchisee outlets (65,026). These exist in 112 foreign countries through 172 chains with a total of 10,186 outlets in early 2011.

The present study explores the factors affecting international expansion into Latin America via franchising. More specifically, it examines the effect of a set of variables regarding country choice decision that have been identified in previous research (list authors) These include geographical and cultural distance between the host and home country, uncertainty avoidance, individualism, political stability, unemployment rate, and level of a country's economic development. The effect of the host country's market potential and corruption has also been considered. These will be our contributions.

The rest of the article proceeds as follows. The second section explains the conceptual model and presents the hypotheses. The third section discusses the empirical analysis and describes the results. Finally, we describe the implications of these findings for practitioners and researchers, point out the main limitations of the study, and recommend avenues for further research.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Several theories about international expansion provide the theoretical background that contributes to an understanding of the internationalization of firms. Most notably we can point to the Uppsala model as well as Agency theory and the importance of Transaction Cost theory.

Specifically, according to the Uppsala model the flow of information between the firm and the market are crucial in the internationalization process. Johanson and Wiedersheim-Paul's (1975) study served as the basis of subsequent research of the internationalization process (Buckley & Ghauri, 2004). The seminal article in this tradition was published by Johanson and

Vahlne (1977) who argued that the process of internationalization unfolds as a sequence of stages, where firms gain experience stepwise, build management competence, and reduce uncertainty in order to incrementally increase investments in target markets. Since knowledge is developed gradually, international expansion takes place incrementally (Johanson & Vahlne, 2003). Nevertheless, the Uppsala model has often been misunderstood. Specifically, Johanson and Vahlne (2006) emphasized that this model is not “the establishment chain,” going from ad hoc exports to the establishment of manufacturing subsidiaries. The model addresses learning and commitment building and the interplay between knowledge development and increasing foreign market commitments.

Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976), another theoretical framework that is frequently applied in relation to internationalization, seeks to explain the relationship between the principal (owner of the company) and the agent (subsidiary’s manager). Specifically, it illustrates how parties enter and fulfill contracts governing this relationship. This focus 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, this does not mean that the agent will necessarily perform the tasks in question in the way that best suits the principal. In fact, the contrary can very often be the case. The franchisee is more likely to pursue his or her own interests (Garg & Rasheed, 2006). Nonetheless, despite the problems mentioned previously, agency theory defends franchising as a means of international expansion, since the franchisee has more incentives to maximize his or her efforts under this than any other type of business expansion system (Combs & Ketchen, 1999).

The third most commonly applied theory in explaining international franchising is Transaction Cost theory (Alon, 2010; Baena, 2012; Burton, Cross, & Rhodes, 2000;). Transaction cost analysis is an application of business concepts defended by Coase (1937) and Williamson (1975). It views companies as efficient agents (Chang & Rosenzweig, 2001) who subcontract activities that external agents are able to provide at less cost than if performed in-house. This perspective has been used on numerous occasions to analyze franchising and, more specifically, the reasons for both its international expansion (Elango, 2007; Michael, 2003; Sashi & Karuppur, 2002), and new-market entry mode selection (Burton et al., 2000). That is, while Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) is generally applied to explain the relation between franchisor and franchisees, Transaction Cost theory is the framework most commonly used to explain the international franchise expansion phenomenon (Hennart, 2010; Sharma & Erramilli, 2004).

Moreover, Transaction Cost theory offers a rich framework for examining the efficiency of franchising. In particular, it posits that firms choose to internalize or externalize exchange relationships based primarily on costs

incurred during the exchange process (Liang, Musteen, & Datta, 2009). This framework asserts that franchising is a hybrid organizational form, located somewhere between the extremes of vertical integration on the one hand, and completely independent operations on the other. For the franchisor, this agent-principal relation will appreciably impact the success or failure of foreign market entry by using a particular organizational form (Burton et al., 2000). Therefore, a set of interdependent transaction costs associated with franchising-out into host markets can be envisaged:

- uncertainty about the future state of the environment coupled with the limited ability of decision makers to process information;
- bounded rationality—the rationality of individuals is limited by the information they have, their cognitive limitations, and the finite amount of time they have to make decisions; and
- a small number of buyers or suppliers prone to opportunistic behavior.

In this sense, it is worth mentioning that uncertainty or bounded rationality taken by themselves are not a problem, but in conjunction they make it impossible or costly to identify future contingencies and specify, *ex ante*, appropriate ways to solve these contingencies. This problem is even worse if agents are willing to act opportunistically when given the chance. All these issues give rise to transactions costs (Zou, Taylor, & Cavusgil, 2005). Consequently, as stated in Williamson (1975), an interdependent set of transaction costs associated with franchising-out into host markets can be defined as (i) monitoring costs; (ii) researching costs to identify and evaluate potential franchise buyers in the target market; (iii) property right protection costs to forbid contracted parties from operating a similar business in a given territory and/or time once the agreement finishes; and (iv) servicing costs to transfer the franchisor's technology and know-how to franchisees.

Based on the previous discussion, we develop a framework based on Transaction Cost Analysis (TCA) to infer the variables constraining international franchising expansion, and apply them to Latin American markets on a country level perspective.

Geographical Distance

Multinational companies tend to internationalize through country markets that are more easily understood by managers (Rahman, 2003). According to this point, Fladmoe-Lindquist (1996) posed the problem of geographical distance from the standpoint of efficiency by showing that under geographical distance monitoring activities are more difficult and expensive. In other words, the cost of monitoring is likely to be high when the unit is physically removed from the franchisor (Rubin, 1978). Furthermore, geographical distance makes logistical support more difficult, especially when inputs have to be imported from the home country.

The previously mentioned costs are substantially higher in foreign markets that span continents and time zones, despite recent improvements in transportation and communication technology. Under these conditions, franchising may help to prevent moral hazard and adverse selection¹ without requiring site visits and their accompanying travel difficulties, as well as the need for regional monitoring facilities in global markets (Sashi & Karuppur, 2002). Firms can then reduce monitoring costs by involving local partners as franchisees in distant markets. Nevertheless we can also argue the opposite effect. This is because as spatial distance increases, however, so will transaction costs. Search costs may increase because franchisors need to expend greater resources to identify and contract with acceptable candidates for franchisees. Moreover, servicing costs may increase if elements of the franchise package need to be transported from the home country to the host country (Burton et al., 2000). Following the previous discussion, we propose the following:

Hypothesis 1^a: The expansion of franchising across Latin American nations will be positively associated with greater geographical distance between the home and the host country.

Hypothesis 1^b: The expansion of franchising across nations will be negatively associated with greater geographical distance between the home and the host country.

Cultural Distance

A key issue in internationalization is the need to adapt to cultural characteristics (Sakarya, Eckman, & Hyllegard, 2007). Culture, defined as the standards of beliefs, perceptions, evaluation, and behavior shared by the members of a social group, strongly influences the behavior of firm's consumers (Rahman, 2006). Traditionally, this variable has been addressed by the literature given that it is well known that differences between markets in cultural values hinder the transfer of management skills and a company's products and services, This leads to higher transaction costs within an organization (Anderson & Gatignon, 1986).

As reported in Fladmoe-Lindquist and Jacque (1995), franchising is more likely in countries that are culturally distant from the home country. Consequently, when cultural distances are small, firms may adopt the same mode of operation as in domestic markets, and only firms that franchise in the domestic market may prefer to do the same in the global market. In contrast, when cultural distances are significant even firms that favor high ownership arrangements in domestic markets may prefer adopting low ownership agreements in global markets (Alon & McKee, 1999). Furthermore, companies operating globally will have to understand the complexity of different cultures in order to set standards for control and evaluation. Otherwise,

firms would transfer the responsibility for such decisions to local partners, who will be able to set standards based on local practices and regulations to evaluate the performance of the business and its employees (Sashi & Karuppur, 2002).

On the basis of the preceding arguments, we can argue that franchising may be chosen when cultural distance is significant as it allows franchisors to transfer responsibility for managing local operations to franchisees. However, we can also postulate the opposite effect because as cultural distance increases, transaction costs may increase if elements of the franchise package need tailoring to accommodate local market conditions (Eroglu, 1992). Furthermore, monitoring costs are likely to increase if differences in business ethics and practices between the franchisor and franchisee become more pronounced, rendering it less easy (or more costly) to ensure the satisfactory performance of the latter (Burton et al., 2000). In relation to Latin America, one might argue that countries are in the same or a similar cultural cluster. However, following Hofstede (1980, 2001), it is clear that there are still major cultural differences among Latin American countries that can be analyzed and compared among themselves and to other third-world countries. Therefore, we propose the following:

Hypothesis 2_a: The expansion of franchising across nations will be positively associated with greater cultural distance between the home and the host country.

Hypothesis 2_b: The expansion of franchising across nations will be negatively associated with greater cultural distance between the home and the host country.

Uncertainty Avoidance and Individualism

Hofstede's research (1991) has revealed that cultures differ on four different dimensions: (1) tolerance for ambiguity or uncertainty avoidance; (2) power distance; (3) individualism/collectivism; and (4) masculinity. All of them were calculated for different countries and have been amply cited in the literature (Mitra & Golder, 2002).²

Related to the previous descriptions, entrepreneurs from cultures high in uncertainty avoidance (low tolerance for ambiguity) might be more likely to adopt franchising because of their lack of willingness to take calculated risks. Specifically, franchising has been traditionally considered as a method of economic development that reduces entrepreneurial risk by transferring a proven retail concept as well as management and marketing expertise (Michael, 2003). Nevertheless, franchising does not eliminate all business risks. In addition, people that scored high in uncertainty avoidance may prefer rules and structured circumstances rather than emotions and innovation. Consequently, it could be argued that local agents showing high uncertainty

avoidance prefer being employees rather than franchisees, which would hinder the expansion of franchising across nations.

Related to individualism, cultures that favor individual achievement tend to reward competition. Specifically, people with individualistic values are more likely to develop organizational strategies based on entrepreneurship, such as franchising (Hoffman & Preble, 2001). That is, instead of being hired as an employee, an individualistic agent may opt for buying a franchise as this format allows the franchisee to manage his or her own business in a specified manner for a certain period of time by paying an initial fee and periodical royalties (Brookes & Altinay, 2011). This would increase the expansion of franchising across nations with highly individualistic national cultures. However, although franchising provides flexibility to franchisees, some elements of the marketing mix (i.e., brand name, products, and business system) are standardized by the franchisor across global markets (Sashi & Karuppur, 2002). Therefore, we could also argue that individualist people may prefer opening their own business from scratch rather than becoming a franchisee and being subjected to the franchisor's rules. Hence, based on the previous discussion we make the following propositions:

Hypothesis 3_a: The expansion of franchising across nations will be positively associated with national cultures high in uncertainty avoidance.

Hypothesis 3_b: The expansion of franchising across nations will be positively associated with national cultures low in individualism.

Hypothesis 4_a: The expansion of franchising across nations will be positively associated with national cultures high in individualism.

Hypothesis 4_b: The expansion of franchising across nations will be positively associated with national cultures low in individualism.

Political Stability

Political uncertainty can lead to frequent changes in industrial and economic policies and can increase the risk of performing business operations in a country. In particular, different organizational forms may be employed depending on the degree of political uncertainty (Alon & McKee, 1999).

Frequent changes in government policies may require firms to frequently alter their practices. For instance, policies relating to the use and legal protection of foreign brand names or imported raw materials may be changed. The modifications required as a consequence of complying with local regulations may be affected easily by involving local franchisees. Therefore, when the degree of political instability is high, many studies emphasize franchising as the optimal choice for international expansion because it requires a more limited resource commitment and allows firms to reduce the uncertainty exposure of the foreign-bound firm. The change of ownership of Zara Venezuela (Inditex Group) is a clear example. Zara

entered Venezuela in 1998 and by the end of 2007 had 21 wholly owned stores. Increasing political instability in the country combined with a growing aversion to Spanish interest on behalf of the government—especially following King Juan Carlos I of Spain’s “Why don’t you shut up!” to President Hugo Chavez during the closing session of the Ibero-American summit in Chile 2007—encouraged Zara to sell its 21 stores to a local company and to establish a master franchise agreement.

Nevertheless, we can also argue the opposite effect. This is because political instability may affect import restrictions or the remittance of royalties to the home country, significantly influencing the profitability of the foreign operation (Fladmoe-Lindquist, 1996). As a consequence, franchisors may avoid expanding their business to foreign nations suffering from political instability. Colombia must be considered as a case in this respect. Years of violence and political instability had severely affected the growth of foreign investment and the development of modern retailing. However, Colombia has witnessed a remarkable turnaround since 2002 by significantly decreasing the levels of violence and political risk—so much so that tourism is now a flourishing industry and foreign direct investment is once again growing. This new and promising situation is motivating franchise retail chains that once left the country to come back, as was the case of Office Depot which reentered the country in 2009. In addition, new businesses are establishing new operations, such as the new Marriott hotel in Bogota, owned by an El Salvador-based firm and managed under a franchise agreement. During these past few years, major Spanish franchisors entered the country, such as Retoucherie de Manuela, Artesanos Camiseros, Pressto, Mango, and Imaginarium. Zara opened its first store at the end of 2008 as a wholly owned operation, opening two new stores in 2009 under the Massimo Dutti and Bershka brand names. Thus, we propose the following:

Hypothesis 5_a: The expansion of franchising across nations will be positively associated with countries high in political stability.

Hypothesis 5_b: The expansion of franchising across nations will be positively associated with countries low in political stability.

Unemployment Rate

Among economic factors, we assume potential entrepreneurs attempt to maximize net benefits regarding their livelihoods. Individuals become entrepreneurs and franchisees when their utility (including but not limited to monetary rewards) is maximized. That is, the greater the expected utility of being a franchisee, the more individuals will be attracted to franchising (Alon & McKee, 1999).

More specifically, as the opportunity cost gets higher, the attractiveness of being a franchisee declines. On the contrary, as the opportunity cost falls,

the attractiveness of being a franchisee rises (Michael, 2003). For this decision, opportunity cost means the wages and other benefits associated with alternative forms of employment, where alternatives to being a franchisee may be working for a wage, or being self-employed in an independent business. As a consequence, franchising may be considered as an alternative to other employment because, as remarked in previous literature, individuals may be “pulled” or “pushed” out of wage labor and into entrepreneurship (see, e.g., Cooper & Gimeno, 1992).

Nevertheless, we could also predict the opposite effect. This is because unemployed people may not be willing to spend their savings in order to be self-employed in an independent business that, as with all types of investment, carries some level of risk. Furthermore, the unemployed may find more difficulties in finding the necessary resources to start up the new business, especially if they require medium- or long-term financing. As a result, it could be argued that unemployed people prefer looking for a new job rather than being a franchisee. So, based on the previous discussion we propose:

Hypothesis 6_a: The expansion of franchising across nations will be positively associated with countries that have high unemployment rates.

Hypothesis 6_b: The expansion of franchising across nations will be positively associated with countries that have low unemployment rates.

Economic Development

Host market economies may be one of the most important explanatory factors in a country's attractiveness and in market selection. It also constitutes a primary driver for company expansion into foreign markets (Sakarya et al., 2007).

The importance and the need for systematically evaluating and selecting foreign markets' economic development has been stressed by many researchers as it is critical for the future success of a business (Rahman, 2006). In particular, since franchising is dominated by services or products associated with branding and services, the importance of a viable host economy to pay for services or differentiated products is crucial to the growth of business activity via franchising (Baena, 2009). Additionally, greater market potential is associated with business growth, given that consumers living in those markets can generally afford to pay for services or products rather than perform them themselves (Rahman, 2003).

In short, as economies become more affluent, there is a greater shift to services, which, as shown by Hoffman and Preble (2001), provide more opportunities for firms to expand. Moreover, countries high in economic development usually present less exposure to political and economic risk (Herrmann & Datta, 2002) and thus the number of franchisors willing to enter them increases (Alon, 2010). Peru may be a good example of this situation.

Although the concept of franchising started in Peru in 1979, with the opening of the first Kentucky Fried Chicken in Lima, the economic circumstances during the 1980s and 1990s did not favor the development of franchising in the country. Compared to other countries in the region, Peru has a very low relative percentage of franchise stores in its market. Since the middle of the last decade, the country has experienced unprecedented economic growth and political stability. The franchise business has also enjoyed rapid and significant growth over the past few years. Leading Spanish brands such as Mango, Women's Secret, Springfield, Imaginarium, and Sun Planet have recently established themselves in the country through local franchisees.

Nevertheless, we could also predict the opposite effect. This is because expanding across foreign countries via franchising entails several advantages for the franchisor as fewer financial resources are required and susceptibility to political, economic, and other risks are reduced (Quinn & Doherty, 2000; Welsh, Alon, & Falbe, 2006). However, profits are shared with the local agent—franchisee. As a result, companies entering into markets showing greater market potential and business growth may be willing to expand their business abroad by using their own resources (joint venture or 100% direct investment) and ultimately claim all of the profits. For instance, many Spanish franchisors entered Chile, Argentina, and México during the middle of the 1990s via wholly owned operations instead of franchising agreements. Based on the previous arguments we make the following propositions:

Hypothesis 7^a: The expansion of franchising across nations will be positively associated with countries high in economic development.

Hypothesis 7^b: The expansion of franchising across nations will be positively associated with countries low in economic development.

As a result, it consists of a set of country variables that are supposed to constrain franchisors seeking to target their franchises internationally. Figure 1 summarizes the proposed model.

METHODOLOGY

Sample and Data Collection

Data on international franchising activity were obtained from the Spanish franchise system, which as of 2008 ranked fifth worldwide in terms of both the number of franchisors and the quantity of franchisee outlets. To test the hypotheses, information about Spanish franchising in Latin America was obtained by contacting the Spanish Franchise Association, and the main Spanish franchising Consultant Group: *Tormo & Asociados*. We also considered several studies published in the press as well as the webpages of the main Spanish franchise chains and the most important international franchising

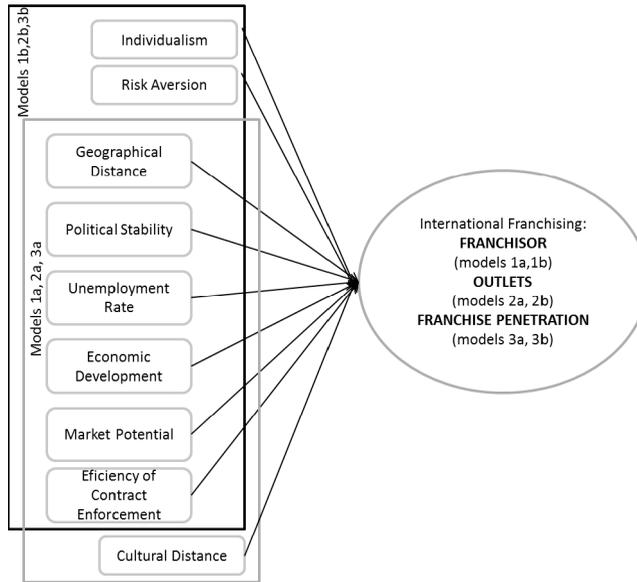


FIGURE 1 The proposed model of international franchising.

associations (*International Franchise Association*, *Global Franchise Network*, etc.). We finally obtained data on 2321 outlets established by 63 Spanish franchise chains doing business across 20 Latin American nations³ in early 2011. Moreover, instead of focusing on a single sector of activity as in previous studies (Alon, 2001; Doherty, 2007), the present study focuses on the entire Spanish franchise system, which includes 52 business sectors (see Appendix).

In this sense, it is important to point out that databases created with information from secondary sources have previously been used in studies on franchising (Alon, 2001; Baena, 2009). Even though the collected data were provided by franchisors, the literature demonstrates that annual reports validate more than 80% of the data. Therefore, no significant bias appears to exist in this data (Shane, 1996).

Dependent Variables

International diffusion of franchising is defined as the geographical spread of franchising within a foreign country (Hoffman & Preble, 2001). We assessed this variable by considering the number of Spanish franchisee outlets (OUTLETS) located in Latin American countries. This variable ranges from 1 franchisee outlet in a specific country (Haiti) to 498 (Mexico). As stated before, a total of 2321 outlets were taken into account. However, this measure does not always reveal the degree of international expansion. Specifically, it is possible that some franchisors have different franchisee

outlets located abroad but that all of them were established in the same foreign country. In this case, the international expansion of such a company would be very limited. In order to deal with this problem, we have created a second dependent variable that defines the number of Spanish franchisor companies (FRANCHISOR) doing business in each Latin American country. This variable spans from 1 (Haiti) to 63 (Mexico). The international diffusion of foreign franchisors across Latin America was also assessed by considering the franchising penetration among those markets (FRPENETR); that is, the number of Spanish franchisors in each Latin American nation divided by the number of franchisee outlets established by Spanish franchise chains in that country. It ranks from 1 (Haiti and Paraguay) to 29 (Argentina).

Independent Variables

The geographical distance (GEODIST) was determined by computing the kilometer distance between Spain (the home country of franchisors considered in this study) and the Latin American country (host country). In some cases, we were not able to know the exact physical location of the franchisee outlets considered in this work. Thus, geographical distance was drawn from the kilometer distance between the capital of the franchisor's home country (Madrid, by default), and the capital of the nation where the franchisee outlet is located.

Cultural distance (CULTDIST) was assessed by using Hofstede's (2001) work, which updates Hofstede's (1980) study. This manuscript uses Kogut and Singh's (1988) index for each of the four Hofstede dimensions, an approach that has been used very often in both traditional literature as well as in recent research (see, e.g., Sakarya et al., 2007; Slangen & van Tulder, 2009; Yamin & Golesorkhi, 2010). Therefore, a cultural index was created as follows:

$$\text{CULTURAL DISTANCE} = \frac{\frac{(I_{hi} - I_{hj})^2}{V_h}}{4},$$

where I_h , with $h = 1, 2, 3,$ and 4 , refers to each of the four cultural dimensions identified by Hofstede (2001), and V_h represents the variance of each dimension. In this data set the cultural distance index varies from 0 (for Spain, by construction) to 6.69 (Venezuela). Data on uncertainty avoidance (UNCERAVOID) and individualism (INDIVIDUA) were also obtained from Hofstede's (2001) paper. Additionally, the level of political stability (POLITSTAB) was assessed by using data published separately in 2010 by the International Monetary Fund. The lowest values correspond to nations showing high political stability (in the data set 1.5 corresponds to Costa Rica) and the highest value (44.60) is associated with Haiti. The 2010

World Bank Report was used to measure the unemployment rates of each nation (UNEMPLOY), as done in previous literature (Baena, 2009; Habib & Zurawicki, 2002).

Concerning the level of economic development (ECODEV), we followed Alon's (2010) example. It then was measured in terms of gross domestic product per capita, because of its association with the population's wealth, the size of the middle class, and the level of development of the industrial and service sectors (Alon & McKee, 1999). In this sense, data published by the International Monetary Fund in 2010 were considered.

Control Variables

Finally, in conjunction with the previously mentioned independent variables, this article analyzes the effect of the host country's market potential on international franchise diffusion. This variable was measured by using data published by the International Monetary Fund in late 2009 on country population indicators (POPULATION), as suggested in recent literature (see, e.g., Rahman, 2003; Sakarya et al., 2007). In the data set, Panama ranks lowest (3,322,000) while Brazil ranks highest (193,024,000). We also controlled for a country's efficiency of contract enforcement by following the evolution of a disputed sale of goods, tracking the time, cost, and number of procedures involved from the moment the plaintiff files the lawsuit until actual payment. Specifically, as suggested in Djankov and colleagues (2003), this work uses the three indicators developed by the Doing Business Index published in late 2010 by the World Bank Group:

- number of procedures from the moment the plaintiff files a lawsuit in court until the moment of payment (PROCEDURE);
- time elapsed (calendar days) in resolving the dispute (DURATION); and
- cost in court fees and attorney fees, where the use of attorneys is mandatory or common, expressed as a percentage of the debt value (COST).

Data Analysis

The analysis of the hypotheses proposed in this study was conducted by first calculating the simple correlations. Subsequently, hypotheses were tested by using ordinary least squares regression analysis as done in recent literature on international franchising (Alon, 2010; Baena, 2012). Specifically, in order to assess the market conditions that may drive international diffusion of franchising into Latin America, six different regression analyses were conducted. In this sense, it should be pointed out that those variables that were not normally distributed entered the model in logarithmic form.

Also, to test the existence of collinearity among the variables, the *Variance Inflation Factor* (VIF) *Tolerance*, and *Mean VIF* were computed in

the regression analyses. None were statistically significant, suggesting that collinearity was not a problem in our regression models. For additional confirmation of these results, we calculated the determinant of the correlation matrix, finding a value of 1, and were thus able to rule out problems of multicollinearity.

RESULTS

Figures 2 and 3 show the physical distribution of Spanish franchisee outlets across the Latin American markets. In particular, it is shown that Mexico, Argentina, Venezuela, Brazil, and Chile occupy the top five positions and

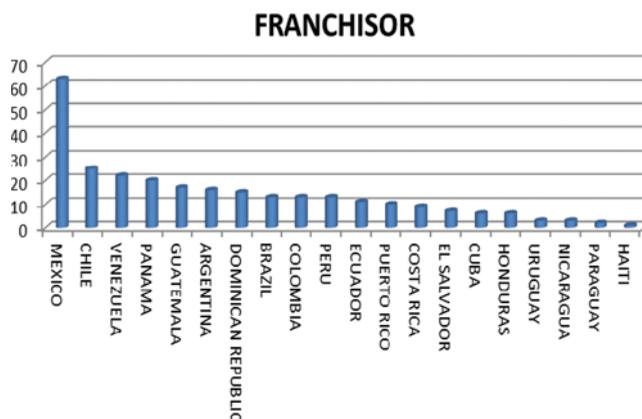


FIGURE 2 Physical distribution of Spanish franchise systems across Latin America: Franchisor. (color figure available online)

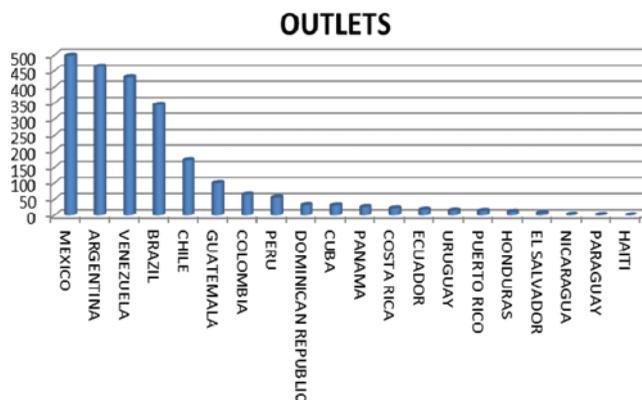


FIGURE 3 Physical distribution of Spanish franchise systems across Latin America: Outlets. (color figure available online)

jointly possess 82% of the Spanish franchisee outlets established in Latin American markets. In contrast, Honduras, El Salvador, Nicaragua, Paraguay, and Haiti are the five Latin American countries with the lowest number of Spanish franchisee outlets in their territory. Similarly, regarding the distribution of Spanish franchisors across Latin America, data reveal that Mexico, Chile, Venezuela, Panama, and Guatemala occupy the top five positions. Conversely, Honduras, Uruguay, Nicaragua, Panama, and Haiti are the Latin American countries with the lowest number of Spanish franchisors.

As means of comparison, it is worth mentioning that eight Latin American countries are among the 25 nations that show the highest number of Spanish franchisee outlets. Specifically, these are Mexico, Argentina, Venezuela, Brazil, Chile, Guatemala, Colombia, and Peru. Moreover, Mexico, Chile, Venezuela, Guatemala, Argentina, Dominican Republic, and Brazil rank second, eight, twelfth, seventeenth, eighteenth, twenty first and twenty fifth, respectively.

The descriptive statistics are reported in Table 1. Additionally, Tables 2 and 3 show the correlation matrix among variables and the results obtained from the regression analyses, respectively.

As shown in Table 3, Models 1a and 2a consider the number of Spanish franchisors (FRANCHISOR) in Latin American markets as a dependent variable. In contrast, in Models 2a and 2b the dependent variable is measured by using the number of Spanish franchisee outlets (OUTLETS). Finally, Models 3a and 3b assessed the dependent variable by considering the Spanish franchise penetration among Latin American markets (FRPENETR). Furthermore, Models 1a, 2a, and 3a test whether cultural distance (CULTDIST) is one of the factors capable of constraining the spread of international franchising across Latin America. However, this study argues that the predicted effect of cultural distance may be only applicable to two of the five Hofstede cultural dimensions:

TABLE 1 Descriptive Statistics

Variables	Minimum	Maximum	Mean	Standard Deviation
FRANCHISOR	1.000	63.000	13.750	13.416
OUTLETS	1.000	498.000	116.050	170.024
FRPENETR	1.000	29.000	6.560	8.392
GEODIST	6,383.000	10,039.000	8,337.800	1,018.069
CULTDIST	0.720	6.880	3.618	2.175
RISKAVER	11.000	101.000	78.722	24.876
INDIVIDUA	6.000	46.000	20.318	12.405
POLITSTAB	1.500	42.600	7.458	9.228
ECODEV	2.650	22.120	10.275	4.742
UNEMPLOY	1.340	27.800	8.453	6.062
POPULATION	3,322,000.000	193,024,000.000	30,305,896.500	47,746,371.689
DURATION	0.880	45.000	33.309	12.188
PROCED	30.000	1,459.000	627.947	350.439

TABLE 2 Correlation Matrix

Variables	FRANCHISOR	OUTLETS	FRPENETR	GEODIST	CULTDIST	RISKAVER	INDIVIDUA	UNEMPLOY	ECODEV	POPULATION	POLITSTAB	DURATION	PROCED	COST
FRANCHISOR	1.000													
OUTLETS	0.701	1.000												
FRPENETR	0.242	0.833	1.000											
GEODIST	0.083	0.175	0.208	1.000										
CULTDIST	0.265	-0.045	-0.253	0.658	1.000									
RISKAVER	0.145	0.099	0.109	0.387	-0.175	1.000								
INDIVIDUA	-0.072	-0.473	-0.576	0.549	-0.745	0.342	1.000							
UNEMPLOY	-0.138	-0.100	-0.123	0.238	-0.085	0.068	0.432	1.000						
ECODEV	0.280	0.288	0.219	-0.053	-0.116	-0.401	-0.380	-0.011	1.000					
POPULATION	0.424	0.643	0.643	0.128	-0.263	-0.431	-0.136	0.177	0.054	1.000				
POLITSTAB	-0.237	-0.214	-0.220	-0.348	0.185	-0.872	-0.380	-0.234	0.218	0.218	1.000			
DURATION	-0.022	-0.076	0.023	0.203	0.156	0.641	-0.149	0.223	-0.410	-0.128	-0.533	1.000		
PROCED	0.174	0.177	0.218	-0.262	0.290	-0.262	0.290	0.371	-0.299	0.371	0.512	-0.572	1.000	
COST	-0.229	-0.242	-0.246	-0.163	0.009	-0.895	-0.331	-0.201	0.408	-0.214	-0.919	1.000	-0.919	1.000

TABLE 3 Regression Analyses

Variables	Model 1a				Model 2a				Model 3a			
	Regression Coefficient	P-value	Tolerance	VIF	Regression Coefficient	P-Value	Tolerance	VIF	Regression Coefficient	P-Value	Tolerance	VIF
CONSTANT	-77.706	0.240			736.527	0.115			80.508	0.032		
GEODIST	0.019	0.040	0.183	5.456	0.153	0.018	0.283	5.456	-0.001	0.886	0.183	5.456
CULDIST	7.125	0.034	0.218	4.585	46.472	0.038	0.218	4.585	-0.615	0.646	0.218	4.585
RISKAVER												
INDIVIDUA												
POLITSTAB	-5.047	0.185	0.401	2.493	-73.298	0.018	0.401	2.493	-1.054	0.545	0.401	2.493
UNEMPLOY	1.355	0.149	0.306	3.271	23.372	0.005	0.306	3.271	0.725	0.119	0.306	3.271
ECODEV	0.656	0.614	0.335	2.986	-8.595	0.339	0.335	2.986	0.342	0.591	0.335	2.986
POPULATION	0.000	0.025	0.279	3.581	0.000	0.001	0.279	3.581	0.000	0.027	0.279	3.581
DURATION	-0.034	0.055	0.390	2.566	-0.334	0.013	0.390	2.566	0.000	0.997	0.390	2.566
PROCED	-1.853	0.177	0.228	4.377	-43.824	0.002	0.228	4.377	-1.637	0.032	0.228	4.377
COST	0.324	0.359	0.427	2.344	-4.879	0.067	0.427	2.344	-0.499	0.020	0.427	2.344
	Dependent Variable: Franchisor				Dependent Variable: Outlets				Dependent Variable: Frpenetr			
	R ² : 0.786				R ² : 0.970				R ² : 0.873			
	Adj. R ² : 0.465				Adj. R ² : 0.851				Adj. R ² : 0.683			
	F = 2.488	p = 0.144			F = 10.483	p = 0.005			F = 4.585	p = 0.039		
	Mean VIF: 3.957				Mean VIF: 3.957				Mean VIF: 3.957			

(Continued)

TABLE 3 Continued

Variables	Model 1b				Model 2b				Model 3b			
	Regression Coefficient	P-value	Tolerance	VIF	Regression Coefficient	P-Value	Tolerance	VIF	Regression Coefficient	P-Value	Tolerance	VIF
CONSTANT	-23.214	0.800			1.573,220	0.035			98.395	0.029		
GEODIST	0.017	0.147	0.150	6.658	0.159	0.052	0.150	6.658	0.001	0.836	0.150	6.658
GULDIST												
RISKAVER	0.576	0.371	0.383	2.611	1.158	0.767	0.383	2.611	0.266	0.280	0.383	2.611
INDIVIDUA	-1.462	0.132	0.119	8.393	-8.618	0.153	0.268	3.725	-0.114	0.723	0.119	8.393
POLITSTAB	-5.671	0.330	0.268	3.725	-89.490	0.042	0.268	3.725	-1.805	0.402	0.268	3.725
UNEMPLOY	1.536	0.252	0.237	4.223	25.194	0.020	0.237	4.223	0.791	0.135	0.237	4.223
ECODEV	0.857	0.599	0.354	2.821	4.742	0.643	0.354	2.821	0.094	0.876	0.354	2.821
POPULATION	0.001	0.073	0.137	7.309	0.000	0.007	0.137	7.309	0.000	0.111	0.137	7.309
DURATION	-0.038	0.131	0.285	3.510	-0.348	0.047	0.285	3.510	0.000	0.990	0.285	3.510
PROCED	-3.024	0.172	0.151	6.635	-54.035	0.006	0.151	6.635	-1.731	0.059	0.151	6.635
COST	0.122	0.795	0.371	2.695	-6.322	0.074	0.371	2.695	-0.499	0.031	0.371	2.695
Dependent Variable: Franchisor												
R ² : 0.711												
Adj. R ² : 0.132												
F = 1.228 p = 0.434												
Mean VIF: 4.858												
Dependent Variable: Outlets												
R ² : 0.929												
Adj. R ² : 0.787												
F = 6.539 p = 0.026												
Mean VIF: 4.858												
Dependent Variable: Frpener												
R ² : 0.898												
Adj. R ² : 0.695												
F = 4.422 p = 0.057												
Mean VIF: 4.858												

uncertainty avoidance and individualism. As a result, in order to avoid heteroskedasticity, Models 1b, 2b, and 3b examine the effect of these dimensions (RISKAVER and INDIVIDUA) by omitting the cultural distance variable.

Regarding the obtained results, it is worth mentioning that with the exception of Models 1a and 1b, all of these were statistically significant. This suggests that collectively, the different variables tested in this manuscript help to explain the diffusion of the Spanish franchise system across Latin America when the number of Spanish franchisee outlets located in Latin American countries (OUTLETS) and the franchising penetration among those markets (FRPENETR) are considered as dependent variables.

Findings also illustrate that the Latin American countries that attract more Spanish franchise chains (FRANCHISOR) are characterized by high market potential (POPULATION), efficiency of contract enforcement (DURATION), as well as geographical and cultural distance (GEODIST and CULTDIST). Thus, hypotheses H1a and H2a were supported at the 0.05 level.

As mentioned, the international expansion of franchising across Latin American markets has been analyzed not only through the number of franchisors (FRANCHISOR) but also by considering the number of franchisee outlets located in those countries (OUTLETS). Results are shown in Models 2a and 2b. The difference between these models is that the former uses cultural distance (CULTDIST) as an independent variable whereas this variable is substituted by individualism (INDIVIDUA) and uncertainty avoidance (RISKAVER) in Model 2b. As expected, the geographical and cultural distance (GEODIST and CULTDIST) in conjunction with the host country's market potential (POPULATION), efficiency of contract enforcement (DURATION, PROCEDURE, and COST), unemployment rate (UNEMPLOY), and political stability (POLITSTAB) were significant and positively associated with the dependent variable. Hence, hypotheses H1a, H2a, H5a, and H6a were supported at the 0.05 level.

Finally, concerning the third dependent variable considered in this manuscript—the number of Spanish franchisors in each Latin American nation divided by the number of franchisee outlets established by Spanish franchise chains in that country (FRPENETR)—Models 3a and 3b show that Latin American nations characterized by largest levels of market potential (POPULATION) and efficiency of contract enforcement (PROCED and COST) are preferred. Figure 4 summarizes the obtained results.

DISCUSSION AND CONCLUSIONS

International market selection is a critical component in the success or failure of multinational firms. Thus, one of the key decisions in the internationalization of a firm is the selection of the right country (Baena, 2012; Thompson & Stanton, 2010).

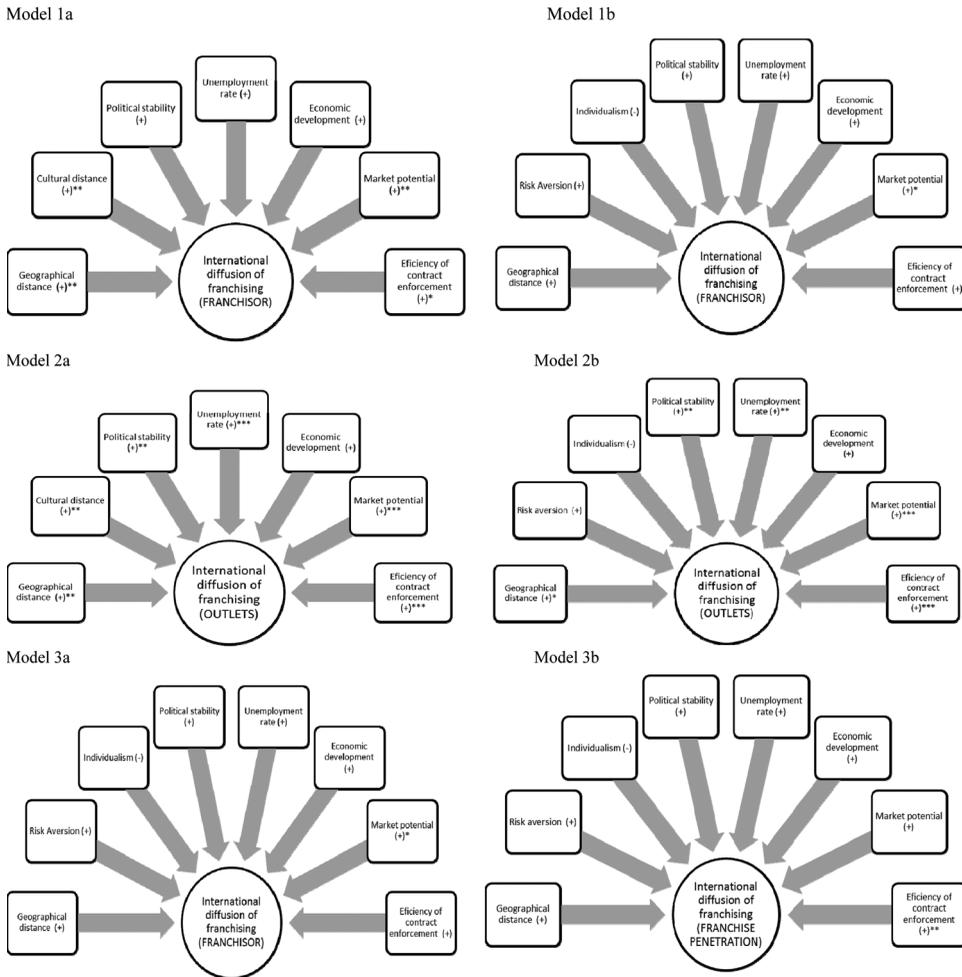


FIGURE 4 International franchising variables for country choice. * Significant at 10% level of significance. ** Significant at 5% level of significance. *** Significant at 1% level of significance.

While it may be more reassuring for investors to presume that firms select markets on a rational basis, it is undoubtedly more realistic to admit that a nonsystematic, strongly personalized, and essentially belief driven market selection process is often characteristic of market selection decisions (Alexander, Rhodes, & Myers, 2006). In an attempt to shed light on this topic, this article lies in the realm of explaining franchising diffusion at a country level perspective. In particular, based on an analysis of previous research we propose a set of variables (geographical distance, cultural distance, uncertainty avoidance, individualism, political stability, unemployment rate, and economic development) as capable of driving international franchising expansion. The effect of the host market's potential and efficiency of contract enforcement on international franchise expansion was also explored. To the

authors' knowledge, no empirical study exists that tests the influence of all these variables in the international franchising context, although previous literature has suggested its analysis (Alexander et al., 2006; Alon, 2010, Baena, 2012; Sashi & Karuppur, 2002, among others).

Moreover, the U.S. and British franchise business has attracted much research interest. As a result, recent literature has encouraged researchers to address the international diffusion via franchising by focusing on franchise systems other than those from the United States and Great Britain. The present work advances understanding by focusing on the entire Spanish franchise system as opposed to a single sector as is the case in previous works on this issue (Aliouche & Schlenrich, 2011; Alon & McKee, 1999; Doherty, 2007; Elango, 2007; Moore et al., 2010). Specifically, the 52 Spanish franchise business sectors have been considered. The focus of this research on Spanish franchise chains is quite relevant from an academic and practitioner point of view. For instance, since the mid-1990s Spain has been the second biggest country of origin for investment in Latin America, the number one country was the United States (Toral, 2008). However, scant literature has addressed the spread of international franchising in this region and the few studies that have focused on it have been case studies (Baena, 2013). The present study attempts to cover these research gaps.

Our results offer firm conclusions regarding which factors characterize those Latin American countries that are more likely to be the target of franchising. In particular, results show that Latin American nations characterized by political instability generate uncertainty and arbitrariness, which involves higher transaction costs and reduces the willingness to enter these markets. This contradicts prior literature where franchising was presented as an appropriate mode for entering markets with significant political instability. Specifically, some studies argued that companies investing in countries characterized by high political instability may look for a local partner with whom to share costs and to reduce the uncertainty associated with foreign investment (Blomstermo, Sharma, & Sallis, 2005; Sashi & Karuppur, 2002). This would increase the likelihood of entering those markets via franchising (Baena, 2009). Nevertheless, our findings confirm that political instability may lead to frequent changes in industrial and economic policies. This generates uncertainty and arbitrariness, involves higher transaction costs, and increases the risk of business operations in a country (Fladmoe-Lindquist, 1996). In consequence, franchisors may avoid expanding their business into those nations.

Furthermore, our findings reveal a positive association between unemployment and international franchising. This result is consistent with prior literature (Baena, 2009) and allows franchising to be considered as an alternative to other employment (Cooper & Gimeno, 1992) that involves less risk than traditional entrepreneurship (Michael, 2003). Similarly, the diffusion of international franchises is higher in nations where the time elapsed

in resolving disputes, costs, and number of procedures involved from the moment the plaintiff files the lawsuit until actual payment is lower. This confirms prior literature and reveals the efficiency of contract enforcement as an indicator of business risk (Baena, 2012).

Our findings also show that nations with a viable economy and significant market potential attract foreign franchisors, as those countries are associated with business growth and opportunities (Herrmann & Datta, 2002; Rahman, 2006). Specifically, local agents find less difficulty in finding the necessary resources to start up a new business when the region is characterized by high market potential. This increases the number of candidates to become franchisees and reduces the risk of selecting the wrong sort of franchisee, who might engage in opportunistic behavior against the franchisor's interests, thus reducing transaction costs (Alon, 2010).

We think another contribution of this article is that it reveals that when cultural distance increases, firms operating globally will have to understand the complexity of different cultures in order to set standards for evaluation and monitoring local agents (Alon & McKee, 1999; Sashi & Karuppur, 2002). According to the positive association found between aggregate cultural distance and franchise diffusion, we can argue that foreign investors prefer adopting low ownership agreements, like franchising, to transfer the responsibility of business management to local partners, who will be able to set standards based on local practices and regulations to evaluate the performance of local employees. This is because the transfer of management skills to countries that are culturally dissimilar involves higher transaction costs (Alon, 2010). Furthermore, selection and supervision costs are higher in culturally distant markets, as the information asymmetries and the likelihood of opportunistic behavior increases (Burton et al., 2000; Kogut & Singh, 1988).

Regarding the two other cultural hypotheses, results illustrate that the expansion of franchising across Latin American nations is positively associated with cultures low in individualism and high in uncertainty avoidance. This indicates that local agents view franchising as a method for minimizing business risk (transferring a proven successful business concept) as suggested in literature (Michael, 2003). Thus, agents with high uncertainty avoidance may opt for buying a franchise instead of opening a new business from scratch. Nevertheless, the fact that franchisees have to adopt the franchisor's rules and decisions can help explain why franchising shows higher presence in countries characterized by low individualism. Nonetheless, we need to treat these claims with some caution, since they did not prove to be statistically significant. Likewise, no significant evidence was found between the host nation's economic development and international franchise expansion.

In sum, the present study provides insights that prove that international franchising expansion depends on various country variables that franchisors may evaluate before selecting suitable foreign markets to enter.

Theoretical Implications

Results obtained in this study can be interpreted as characterizing the demand for franchising across Latin America nations. In most cases, literature has explored why franchisors go abroad as well as the optimal foreign entry mode choice (Alon & McKee, 1999; Baena, 2009; Burton et al., 2000; Elango, 2007; Hoffman & Preble, 2004; Michael, 2003; Sashi & Karuppur, 2002; Quinn & Doherty, 2000; Welsh, Alon & Falbe, 2006). Nevertheless, research is needed in country choice (Thompson & Stanton, 2010). Given the important fact that franchisors must find local partners to become franchisees, our findings show the importance of adopting a host country perspective when exploring the franchise diffusion across foreign nations. Moreover, this study provides readers with an overview of the current literature on global franchising diffusion. We hope it serves as a useful starting point for future researchers interested in studying international expansion via franchising.

Practitioner Implications

Most economic reports argue that by 2050 the largest economies in the world will be China, United States, India, Brazil, and Mexico. This fact highlights the substantive importance of Latin America for foreign investors willing to expand their business abroad. Moreover, a new group of countries in the region is emerging as a viable alternative (the so-called new tigers). Characterized by youthful populations, growing middle classes, relatively low debt, and dynamic economic expansion, countries such as Colombia and Peru are poised to grab a bigger share of the region's growth and attract more money from international investors.

In an attempt to give insights from the Latin American context, the present article develops and tests a model that can be useful not only to academics wishing to enhance their knowledge about country choice via franchising but also to franchisors willing to establish new outlets in Latin America. In addition, our findings offer guidance to firm managers seeking to target their franchises in these markets. Franchisors may then use the results of this study as a starting point for identifying such regions whose characteristics best meet their needs of expansion. As a consequence, using our results along with political forecasts from sources such as Euromoney, franchise chains with little experience might do well to expand into Latin American markets showing high levels of economic development and market potential.

Limitations and Directions for Future Research

Our results offer several firm conclusions regarding the factors that constrain global franchising in Latin America. However, this study has certain

limitations that need to be dealt with by future research. First, our study only refers to Spanish franchisor companies. The literature has emphasized there is a great need for deeper explanatory models of international diffusion via franchising, one that can explore this issue by focusing on franchising systems other than the British and U.S. models (Alon, 2010). However, it would be valuable for a future study to analyze franchisors coming from other nations to test whether it is possible to generalize the results obtained in this study.

Second, information about the Spanish franchise system was gathered by accessing multiple secondary data sources, and while this methodology has been used previously in studies on franchising (Alon, 2001; Baena, 2009), we encourage further researchers to compile information by using primary sources to whether differences exist.

Third, the present study implicitly assumes that franchisors have made an equal effort to “sell” franchises within each nation in the sample and that franchisors use similar policies across nations. This may or not may be true, as Spanish franchisors in general may target the Latin American nations more aggressively than other countries located in Africa or Australia, for instance. Further research should examine this point in more detail, which would provide interesting findings to complement our current understanding on this topic. Additionally, the findings of this work are encouraging for developing further research on the driving variables in the international spread of franchising across countries. However, conceptually and empirically more work is necessary to refine the model.

Finally, one interesting issue would be to study the internationalization process of the growing Latin American franchisors. For instance, according to the Iberoamerican Federation of Franchising Report published in 2012, the number of franchise brands in Latin America and the percentage of national versus foreign franchises are notably increasing. Many of these Latin American chains are developing internationalization projects either in other Latin American countries or third-world countries. So, a possible line of research would be the analysis of how these growing and emerging franchise chains select their potential foreign market and test the results with prior research.

In sum, we hope that our findings contribute to the development of a robust research agenda and advance the literature in providing enlightenment on this topic; particularly in Latin America, which despite its substantive worldwide economic importance has received very limited attention.

NOTES

1. Economists explain moral hazard as a special case of information asymmetry. In particular, moral hazard occurs when the party with more information about a certain issue has a tendency or incentive to

behave inappropriately from the perspective of the party with less information. In contrast, the adverse selection refers to a market process in which the “bad” products or services are more likely to be selected when buyers and sellers have asymmetric information. These problems were firstly presented by Akerlof (1970).

2. In 2005, Hofstede developed a fifth dimension: long-term orientation, based on the research of Michael Harris Bond, and published in the 2nd edition of *Cultures and Organizations, Software of the Mind* (2005). More recently, a new 6th dimension: indulgence versus restraint, has been added. However, scores of these two new dimensions are only available for some but not all Latin American countries.

3. The list of Latin American countries comprises the following nations: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belice, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela. In early 2011, Spanish franchisors were doing business in 20 of them: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Uruguay, and Venezuela.

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APPENDIX
BUSINESS SECTORS IN THE SPANISH FRANCHISE SYSTEM

1 Real state agencies	27 Kids wear and youth fashion
2 Food chains	28 Fashion lingerie
3 Beauty and personal care products	29 Fashion various
4 Aesthetic and beauty centers	30 Entertainment and leisure
5 Dental clinics	31 Stationery and office supplies
6 Second hand products: selling and buying	32 Optical
7 Communications, internet and telephony	33 Bakery and pastry
8 Business advice and consulting	34 Drug store
9 Cosmetics	35 Hair dressing
10 Dietary and herbal remedies	36 Specialized products
11 Education and training	37 Advertising and communications
12 Photography	38 Consumables and recycling
13 Hotel and restaurant: coffee shops	39 Personal relations
14 Hotel and restaurant: beer and brewery	40 Home services
15 Hotel and restaurant: fast food	41 Car services
16 Hotel and restaurant: ice cream	42 Transportation services
17 Hotel and restaurant: tapas Bar	43 Specialized services
18 Hotel and restaurant: thematic	44 Financial services
19 Hotel and restaurant: other various	45 Home textile and decoration
20 Hardware and software	46 Wine shops and bars
21 Jewelry and fashion jewelry	47 Sport outlet
22 Toys	48 Specialized shop
23 Furniture	49 Dry cleaning
24 Men's fashion and shirts	50 Vending
25 Fashion complements	51 Travel services
26 Women's fashion	52 ATM video and video clubs
