Abstract
Research on franchising has increased considerably in recent years. However, there is a subject where knowledge in franchise remains very low; this is the study of the factors driving franchisors to expand their business in international markets. Attempting to fill this gap, this research analyzes the influence of experience (general, pre-franchise and international), internationalization speed and the sector of the firm on international franchisors’ expansion strategy. A database of 151 Spanish franchisors present in foreign markets in 2010 was studied. Results show that international experience and internationalization speed determine positively the trend to diversify country markets. In addition, firms’ sector generates significant differences in strategic behaviour when franchisor expands internationally. Concretely, franchise chains from retailing sector are the most likely to diversify their risks in a larger number of country markets. Based on the sector, this study offers important contributions from multi-group analysis. The paper ends with the main findings, limitations and future research.

Key words: Franchise, international expansion strategy, experience, internationalization speed, sector, multi-group analysis.

JEL codes: F20, M16, M31.

1. Introduction
Franchise is considered one of the most dynamic and innovative retail formats in the landscape of commercial distribution of whatever country. This is a business mod-

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el that has a large expansion at a worldwide level and it has helped to modernize country’s trade structures (Díez, Navarro and Rondán, 2005), being one of the pillars for the creation and development of enterprise network structures (Alon, 2009).

In Spain, franchise starts to become relevant since 1980, at that time, its market share in retail trade was practically nonexistent (Díez and Galan, 1989). Franchise has had a spectacular development in this country in the past two decades, placing this nation at the top world ranking both in terms of number of franchisors as franchisees. The success of the franchise is justified by the benefits provided by the adoption of this commercial formula for both franchisors and franchisees (Caves and Murphy, 1976, Lafontaine and Kaufmann, 1994; Rondán, et al., 2012), be a major source of self-employment in any country (Calderon-Monge and Huerta-Zabala, 2011).

Franchise is a retailing format that is supporting relatively well the vicissitudes of the economic crisis in Spain, and it is a business formula that maintains its positive growth, although at a slower growth rate. Thus, the number of franchise chains has increased a 3.3% and the number of franchisees a 1.2%, in 2011. This positive net growth of 34 franchisors is caused because 87 new chains have started to franchise, and only 53 have finished their activity.

Moreover, the presence of Spanish franchises in the five continents is a reality nowadays. For several years, Spanish franchises have used internationalization as a strategic option for growth and as one of the best ways to increase their brand equity and image. In this context, the entry mode into new markets (countries) is one of the most important decisions to be taken by franchisors (Mitra and Golder, 2001), because it determines the degree of control and risk to be tolerated (Shrader, 2001).

The 15% of Spanish franchises are operating abroad. This approach, now conceived as something natural in the expansion of Spanish franchise chains, is essential to continue increasing sales rates, especially when the domestic market is suffering an economic recession. In this context, chains’ international orientation has shown their interest of achieving the opportunities that globalization offers. This fact has been understood by the 148 Spanish chains that operate in any of the 113 country markets along the five continents. These factors have placed the number of franchisees abroad in 15,194 in 2011, representing a growth of 21.7% in comparison to 2010 (table 1).

The progressive consolidation of Spanish franchises in foreign markets is a proven reality. This is shown by the fact that the ratio of establishments per chain is 103 in 2011, up to 24% over 2010’s ratio. In addition, the proportional relation of establishments per country has grown by 18.6%, reaching the score of 134. Therefore, the internationalization of Spanish franchises and its gradual consolidation in foreign markets is now an irreversible trend. But, what are the factors that determine the mode of entry of Spanish franchises in international markets? This question, which marketing literature has not responded so far, is the goal of this research. More specifically, we want to know what variables or factors determine the type of market expansion strategy (concentration vs. diversification) of international Spanish franchisors.
To achieve this objective, this research begins with a literature review in order to define the international expansion strategies that franchisors can follow, and the determinants that may influence this strategic decision. After defining concepts, research hypotheses based on the relationship between the studied variables are proposed, establishing a conceptual model. The research hypotheses will be contrasted using structural equation modelling, and also a multi-group analysis will be developed in order to study the heterogeneity in franchisors’ strategic behaviour in their international expansion. The sector or industry is used as a control variable. The findings and contributions of the research are exposed based on the results, and finally, limitations and future research are described.

2. Franchising and international expansion strategies

The internationalization process of any franchise chain will force managers to take decisions about the number of country markets to operate in, and the marketing effort to share between them. Such decisions related to the international expansion strategy of an organization require (Navarro, 2002):

1. To analyze country markets where the company could operate, examining their attractiveness in terms of economic potential, barriers of entry, potential reactions of local competitors, etc.
2. To set the order and speed of entry.
3. To define the objectives to be achieved with the process of foreign expansion, that could be individualized for each country market.
4. To determine marketing efforts that the company may engage in the internationalization process.
5. To select the temporary grade of expansion.
6. To distribute marketing efforts across country markets.

Traditionally, two alternative strategies have been considered for the definition of international expansion strategy: 1. - Concentration of markets, 2. - Diversification of markets.

Table 1. Evolution of Spanish franchises in international markets

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chains</td>
<td>142</td>
<td>132</td>
<td>143</td>
<td>168</td>
<td>151</td>
<td>151</td>
<td>148</td>
</tr>
<tr>
<td>Units</td>
<td>7775</td>
<td>7130</td>
<td>7763</td>
<td>10665</td>
<td>12264</td>
<td>12484</td>
<td>15194</td>
</tr>
<tr>
<td>Units/Chains</td>
<td>55</td>
<td>54</td>
<td>54</td>
<td>63</td>
<td>81</td>
<td>83</td>
<td>103</td>
</tr>
<tr>
<td>Countries</td>
<td>91</td>
<td>98</td>
<td>103</td>
<td>102</td>
<td>105</td>
<td>110</td>
<td>113</td>
</tr>
<tr>
<td>Units/Countries</td>
<td>85</td>
<td>73</td>
<td>75</td>
<td>105</td>
<td>117</td>
<td>113</td>
<td>134</td>
</tr>
</tbody>
</table>

Source: Tormo & Asociados.
2.1. Concentration of country markets

This alternative consists of focusing the marketing efforts on a limited number of country markets, typically closed physical and/or culturally to domestic market, so that once consolidated the presence in them the extension to more distant country markets occurs gradually. From this perspective, market concentration implies a slow but growing overseas expansion over time (Alonso and Donoso, 1994). The basis of this strategy is that achieving a high penetration in a few markets leads to higher long-term benefits (Papadopoulos and Martin, 2011).

Several advantages are attributed to market concentration (Alonso and Donoso, 1994; García Cruz, 1998). First, it is possible to exercise extensive control over the resources committed in the markets where the company has decided to operate, assigning them efficiently. Second, it reduces transaction and coordination costs in the development of different managing roles. Thirdly, it facilitates knowledge of foreign markets as well as the characteristics and needs of foreign consumers, encouraging the design and implementation of effective marketing mix strategies. Finally, decreases the vulnerability of the company in country markets which it operates. A drawback should be noted, the high risk taken by the company that makes dependent their international sales by a limited number of markets, especially if these markets are in a situation of instability.

In the case of franchising, along with geographical and cultural reasons, one of the main factors that encourage firms to concentration on a small number of country markets refer to issues of control (Agency theory) (Rondán, Navarro and Díez, 2007).

2.2. Diversification of country markets

The strategy of market diversification implies that franchisor decides to enter simultaneously in a large number of countries, distributing marketing efforts among them. Initially, the degree of market penetration in each country tends to be low, and the growth rate tend to be high, although this fades away as firm consolidates its presence in preferred markets and abandon those scarcely promising. This strategy is based on the premise that low presence in many markets may allow the international growth desired by the organization (Jung, 1984, Sheng and Mullen, 2011), increasing the likelihood of achieving a high overall rate of return (Jiménez-Palmero and Benito-Osorio, 2011).

For internationalized companies, the main benefits of using a strategy of market diversification are the next five (Aulakh, Kotabe and Teegen, 2000): (1) minimizing the risks associated with business transactions operating in multiple segments and/or countries, (2) increasing market share of products and services of the company, facilitating the implementation of marketing-mix strategy in similar customer segments, (3) accessing to higher economies of scale derived from higher production volumes;
(4) availability of a greater number of accumulated knowledge about foreign markets, this allow firms to take similar decisions in other markets with comparable economic and/or cultural conditions; (5) high profitability of any competitive advantage that could have the organization, particularly when it is perishable.

However, market diversification increases transaction and coordination costs associated with managing international sales. It also increases the information needs to address the entry in different potential country markets.

The dilemma of concentration vs. diversification, although it has been studied on a general level (Navarro, 2002; Losada et al., 2007), it has not been addressed so far in the context of the franchise. Knowing what type of international expansion strategy developed Spanish franchisors present in foreign markets, and what are some determinants of this strategic choice, are the major contributions of this work. In this context, to determine the type of international expansion developed by franchisors, the number of country markets in which they operate has been considered (Navarro, 2002; Sheng and Mullen, 2011). The three options are: (a) market concentration, franchisors operate in 5 or less, (b) concentration-diversification, franchisors operate in more than 6 and 10, (c) markets diversification, franchisors operates in more than 10 country markets.

3. Determinants of growth strategy of spanish international franchise

In the international marketing literature, it is widely accepted that the strategy of expansion into foreign markets is conditioned by several business, market and product factors, (Bradley and O´Reagain, 1998, Nicolau et al, 2000; Ruzo et al., 2011). From this perspective, there is no single international expansion strategy applicable to any situation (Lee and Yang, 1990; Navarro, 2002). From this basic premise, this paper considers five possible determinants of international expansion strategy of the Spanish franchisors. Three of them (general experience, pre-franchise experience and international experience) are associated with the feature “experience of franchisor”. The fourth factor is associated with a strategic decision such as the internationalization speed that reflects the international focus (traditional view vs. born global) of franchisor. Finally, the fifth factor is the sector of activity, as some authors (Rondán, Navarro and Díez, 2007) have demonstrated significant impact on franchisors’ strategic decisions.

3.1. Experience of franchisor

Overall, the experience is considered a firm resource that can influence strategic decision making by the company (Ruzo et al., 2011). In the context of franchising, previous research has shown that “timing” or franchisor’s experience plays an essential role in its strategic behaviour (Rondán, et al., 2010, 2012). In this context, the
accumulated experience of franchisor –defined as the number of years the chain has been franchising–, can explain the decisions on how to enter new markets (Baena and Cerviño, 2009). Because franchising experience positively influences the development of coordination and control capabilities in new markets, facilitating the international expansion of the chain (Eroglu, 1992; Shane, 1996). Thus, more experienced firms using franchising will be able to develop a better selection of international franchisees (Elango, 2007), decreasing the likelihood of failure (Sashi and Karappur, 2002). This general experience of franchisor also tends to reduce the levels of perceived risk to operate in other market countries than those already performed by increasing levels of international propensity and the likelihood of diversifying the company’s international growth (Burton, Cross and Rhodes, 2000). Based on these arguments we propose the following hypothesis:

**H1:** There is a positive relationship between the overall experience of franchisor and the development of an international expansion strategy based on market diversification.

Moreover, pre-franchise experience –defined as the number of years between the birth of the company and the date which began to franchise–, is considered an essential factor in order to develop a good definition of business and know-how (Diez, Navarro and Rondán, 2005). This fact may be essential to successfully expand the business beyond the franchisors’ domestic market, affecting the international expansion of franchisors. In this sense, an adequate definition of the business concept will feel more confident to franchisors with regard to their possible success in dealing with entry into new foreign markets, increasing the likelihood of diversifying international markets. We therefore propose the following research hypothesis:

**H2:** The experience pre-franchise of franchisors positively affects the development of an international expansion strategy based on diversification of markets.

Finally, also associated with the timing of franchisors, the international experience –measured as the number of years franchisors have been present in international markets–, can play a key role in the knowledge of the uses and customs of agents or franchisees to develop the business concept in the foreign markets, while facilitating the understanding of local consumer tastes. Thus, internationally inexperienced chains tend to focus their efforts on a few markets, probably the closest geographically and culturally (Luo, 2001; Ruzo et al., 2011). By contrast, those internationally experienced franchise chains possess greater knowledge of how to act in foreign markets and make decisions opportunely. Furthermore, they have developed more and better mechanisms of control, coordination and market analysis, and they are more likely to diversify its marketing effort over a larger number of country markets (Sashi and Karuppur, 2002). Associated with the above arguments, we propose the following research hypothesis:
The international experience of franchisors has a positive influence on the development of an international expansion strategy based on market diversification.

3.2. Internationalization speed of franchisor

In the internationalization literature, it is considered that the speed of entry into foreign markets is associated with the approach or vision that the company has about international business (Acedo and Jones, 2007). In this sense, companies quickly address the entry into foreign markets usually have a more holistic approach to internationalization (Autio, et al. 2000). These companies have received the name of global firms or new international firms, defined as those which from the beginning trying to position themselves advantageously in international markets, expanding rapidly their products or services to multiple country markets (Oviatt and McDougall, 1994, McDougall et al. 1994). These companies are created with a commercial and business projection not limited by local or national borders, taking its product / market an international dimension since the beginning (Ripollés et al. 2002).

In this context, since the approach of internationalization based on knowledge, the key question in understanding the competitiveness of internationalized companies is to analyze the mode and speed with which these companies acquire and interpret the knowledge of foreign markets to achieve sustainable competitive advantages in international markets (Autio et al. 2005). Thus, it is considered that internationalization speed can create important competitive advantages over competitors who develop internationalization processes more slowly, impacting positively on the ability of international growth of the organization (Knight and Cavusgil, 2004).

The aforementioned arguments are perfectly applicable to the scope of franchising, as franchisors may have and develop different approaches to the international expansion of their business. In this sense, a high speed entry into foreign markets, reflecting a more global approach of franchisors, should provide a greater international presence of the chain. This fact should extend their sales to a larger number of country markets simultaneously than if the companies operate internationally more slowly. These arguments lead us to propose the following research hypothesis:

H4: The internationalization speed of franchisors will positively influence the development of an international expansion strategy based on market diversification.

3.3. The business sector of the franchisor

A simple descriptive analysis by sectors of the international Spanish franchisors reflects some interesting questions. A strong international propensity exists in the
international fashion industry that is leading the great expansion of Spanish franchises in foreign markets. In this regard, 40% of the international Spanish franchisors comes from this sector. In fact, there are 58 fashion retail companies implanted in more than one hundred countries, with 6241 establishments. Following the fashion retailing industry, the sectors that have more presence abroad are hospitality, with 40 chains in 48 markets and 1161 units. The third position is for specialty retailers, with 31 franchises in 35 countries. Behind them lies the beauty and cosmetic industry, which has experienced significant growth: 24 chains, seven more than in 2010, spread over 24 markets, five more than in 2010. Meanwhile, food retailing represented almost exclusively by DIA (Spanish discount stores from Carrefour Group) has 3607 establishments abroad, although its strategy continues to focus its marketing efforts in a few markets, usually those closest geographically or culturally.

Rondán, Navarro and Díez (2007) note that research in franchising should take into account the sector in which the franchisor operates. This is because industry affects strategic behaviour developed by firms and can be an identifier of different groups or clusters. For example, in the service sector is more difficult to standardize the business concept and transmit know-how to franchisees than in franchise chains based on selling products (Combs and Ketchen, 1999). Also, control processes tend to be more formalized in product franchisors than in service franchisors (Sanchez and Pla, 2004).

Internationally, Baena and Cerviño (2009) have demonstrated the impact of the sector of franchisor in the mode of penetration in foreign markets, avoiding in the service sector entry forms involving some type of direct investment by the franchisor, preferring the development of master-franchise or joint ventures.

From the above arguments, the present study advances the following hypothesis:

\[ H5: \text{There are significant differences in the international expansion strategy developed by franchisors in terms of industry.} \]

In this paper, following the guidelines established by Rondán, Navarro and Díez (2007) three main industrial groupings from the 18 sectors of the internationalized Spanish franchises have been established. These three groups are Services, Hospitality and Restaurant, and Retailing.

The hypotheses are shown in Figure 1.
4. Research methodology

To test the propose hypotheses an empirical study was developed from a database with the 151 Spanish franchises that were present in international markets in 2010, according to the number 7, FRQ journal published by Tormo & Asociados. Some data had to be supplemented with information available on the websites of franchisors.

After completing database, we proceeded to data analysis. Structural equation modelling with PLS (Partial Least Squares) was used. The reasons for using PLS instead of other types of structural equation modelling tools are (Diamantopoulos, 1999; Diamantopoulos and Winklhofer, 2001): (1) the exploratory nature of this work, (2) PLS does not require large samples compared to other techniques (AMOS, EQS, etc..) to obtain results, as in our case (151 cases), (3) PLS is a nonparametric model, so it is not necessary to assure normality of data. It has been used the statistical package Smart-PLS 2.0 M3 (Ringle, Wende and Will 2005).

Besides the structural equation analysis, a multi-group analysis was performed according to franchisor sector, following the guidelines established by Chin (2000) and Navarro et al. (2011). The sample was divided into three subsamples of franchisors, one for each sector considered in the study. The parameters taken into account to contrast the differences in each group (sector) are: the variance explained ($R^2$), the structural coefficients ($\beta$), and standard errors (SE). The significance of explained variance between each pair of models is made from the comparison of the structural coefficients associated with each relationship and the corresponding standard errors. A value of
Student’s t₁ test is calculated to be significant for a given level of confidence (e.g. \( t \geq 1.64, p = 0.05 \)) (Chin, 2000). The formula for calculating the value \( t \) is:

\[
 t = \frac{\beta_{\text{Group}.1} - \beta_{\text{Group}.2}}{\sqrt{\frac{m-1}{m} SE^2_{\text{Group}.1} + \frac{n-1}{n} SE^2_{\text{Group}.2}}} \\
 m = \text{sample size of first group} \\
 n = \text{sample size of second group} \\
 \beta = \text{structural coefficients of each relationship in each group} \\
 SE = \text{standard error associated with each relationship in each group}
\]

5. Results and research contributions

Given that each variable included in the model is evaluated by a single objective indicator (e.g., number of years operating, number of country markets, etc.), the validity and reliability of measurement scales seems guaranteed. In this context, we proceeded to test the relationships between different variables, starting by getting the various statistical parameters (table 2) through the bootstrap² method (1000 sub-samples). The support of the hypotheses was made from sign and significance of \( t \)-values in each one of the analyzed relations (\( \beta \)). From the five hypotheses, the first two were not corroborated, since the variables “overall experience” and “pre-franchise experience” did not exert a significant influence on international expansion strategy developed by the franchisor, which explained variance is 35.5% \( (R^2 = 0.355) \).

(1) If there are no differences in variances explained between each pair of models, degrees of freedom would be \( m + n - 2 \) (Chin, 2000). In the case that such differences exist, the degrees of freedom are calculated:

\[
df = \frac{(m-1)SE^2_{\text{Group}.1} + (n-1)SE^2_{\text{Group}.2})^2}{(m-1)SE^2_{\text{Group}.1} + (n-1)SE^2_{\text{Group}.2}^2 - 2} - 2
\]

(2) The Bootstrap method is framed by re-sampling procedures, consisting of generating a high number of samples as a basis for studying the behavior of certain statistics. In this work, these statistics are associated with contrasts of hypotheses in the conceptual model.
Specifically, results allow us to make the following considerations:

- The experience factor is only a determinant of international expansion strategy of franchisors when dealing with specific expertise in internationalization processes. The progressive increase of international experience of franchisors will result in a greater tendency to design and implement diversification strategies of country markets in their international expansion. This supports hypothesis H3 ($\beta_3 = 0.505$, t-value = 5.625). This experience can be conceived as a resource associated with organizational learning in the development of foreign trade (Ruzo et al., 2011). In this sense, it is recommended that franchisors acquire international experience as soon as possible, by designing the entry into foreign markets as a strategic option for natural expansion of their businesses. However, the overall experience of franchisors and pre-franchise experience may be determinants of successful business concept definition and of know-how standardization of franchisors, as previous studies have shown (Rondán, and Diez Navarro, 2007). But these variables are not revealed as elements conditioning the international expansion strategy developed by franchisors. For this reason, hypothesis H1 ($\beta_1 = 0.077$, t-value = 0.458) and H2 ($\beta_2 = 0.088$, t-value = 0.574) are not corroborated.

- The internationalization speed affects decisively the type of international expansion strategy to develop. Consequently, there is a positive relationship between the internationalization speed and the presence of franchisors products and/or services in a large number of country markets simultaneously, confirming H4 ($\beta_4 = 0.259$, t-value = 2.917). In this sense, the development of a diversification strategy of country markets to achieve international sales is usually associated with a more comprehensive and innovative processes of internationalization (Autio et al. 2000) and may impact positively the levels of market orientation and international growth of the organization (Knight...
This fact will condition positively the probability of the company of achieving competitive advantages in country markets where it operates (Autio et al. 2005). Therefore, we dare to recommend the development of diversification strategies of country markets for franchisors, although always on the basis of a proper definition and standardization of the business concept and know-how, and keeping track of learning processes that will occur as the franchisor gain experience in the international arena.

- As it has been noted previously, sector plays a key role in the strategic behaviour that the franchisor can develop (Rondán et al., 2007, 2012, Baena and Cerviño, 2009). In fact, the inclusion of sector (services, hotels and restaurants, and retailing) creates differences in the explained variance of the expansion strategy in country markets by franchisors. The explained variance ranges from 33.2% ($R^2 = 0.332$), excluding the sector to 35.5% ($R^2 = 0.355$) including it. This confirms H5. More specifically, franchise chains based on selling products, and therefore belonging to the retailing sector, are more prone to the development of strategies aimed at the diversification of country markets. They adopt a more global internationalization processes than service or hotel/restaurant franchising chains which usually centre their international expansion in a few country markets, frequently those closest geographically and culturally (Baena and Cerviño, 2010). This fact may be due to a greater difficulty to standardize and extend the business concept, as well as the increased costs of supervision and control of franchisees in service and hotel/restaurant sectors than in retailing (Rondán et al. 2007, 2012).

- Although is not among the objectives of this research, we anticipate that the industry also affects the internationalization speed. So, if this relationship were included in the proposed conceptual model, retailing franchise chains would tend to rapidly internationalize, and the service and hospitality franchises would develop slower internationalization processes ($\beta_6 = 0.171$, t-value = 2.09). In this sense, in the retailing sector is where franchise chains tend to internationalize more rapidly. Furthermore, these firms show a greater tendency to diversify country markets in their international expansion. Undoubtedly, in the retail sector is where there is most likely to find franchise chains predominating a global approach to internationalization. In this group are included some of the so-called new Spanish international businesses (franchises). For example, Spanish retail fashion firms are a benchmark in this regard.

Taking into account the importance of sector in strategic behaviour of franchisors, following the guidelines established by Sarstedt (2008) and Navarro et al. (2011), a multi-group analysis based on the three sectors considered in this research was run. This fact involved dividing the sample into three subsamples and re-analyzes the proposed model in each group, excluding the variable sector. Results obtained are shown in Table 3.
From multigroup analysis the following considerations can be made:

- Results confirm that business sector generates significant differences in the strategic decisions taken by franchisors with regard to international policies. This confirms H5. These decisions are associated with the franchisor’s experience (general and international) and, mainly, with internationalization speed. More specifically, in the retailing sector, internationalization speed and international experience are the two essential variables of the international expansion strategy developed by franchisors. In the service sector also acts as a determinant the overall experience. Finally, in the case of hospitality franchises, only international experience exerts some influence on the decisions taken by franchisors with regard to the number of country markets to be marketed.

- The average number of countries where Spanish franchises operate is 11 in retailing sector (76 franchisors), with an average number of franchisees per country of 140. It is the sector where the rate of entry into foreign markets plays a larger role in the type of international expansion strategy chosen by the franchisor. There is a strong positive relationship ($\beta_{11} = 0.518$, t-value =

### Table 3. Multigroup analysis parameters

<table>
<thead>
<tr>
<th>Sector</th>
<th>Retailing n = 76</th>
<th>Services n = 52</th>
<th>Hotels and Restaurants n = 23</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$R^2 = 0.357$</td>
<td>$R^2 = 0.313$</td>
<td>$R^2 = 0.321$</td>
</tr>
<tr>
<td>$H_1$: Overall experience of franchisor- diversification of country markets strategy</td>
<td>$\beta_{11}$ = -0.0709, SE = 0.0594</td>
<td>$\beta_{12}$ = 0.28881, SE = 0.0868</td>
<td>$\beta_{11}$ = -0.06844, SE = 0.08452</td>
</tr>
<tr>
<td>Differences structural coefficients and T values</td>
<td>$\beta_{11} - \beta_{12} = -0.3598$</td>
<td>$T_1$ (retail-services) = 3.7023***</td>
<td>$T_1$ (retail-hospitality) = 0.0218**</td>
</tr>
<tr>
<td></td>
<td>$\beta_{11} - \beta_{13} = 0.35725$</td>
<td>$T_1$ (service-hospitality) = 2.537***</td>
<td></td>
</tr>
<tr>
<td>$H_2$: Experience pre-franchise of franchisor- diversification of country markets strategy</td>
<td>$\beta_{11}$ = -0.00915, SE = 0.0886</td>
<td>$\beta_{12}$ = 0.17245, SE = 0.08056</td>
<td>$\beta_{12}$ = 0.01562, SE = 0.09909</td>
</tr>
<tr>
<td>Differences structural coefficients and T values</td>
<td>$\beta_{11} - \beta_{12} = -0.16330$</td>
<td>$T_1$ (retail-services) = 1.274**</td>
<td>$T_1$ (retail-restaurants) = 0.0382**</td>
</tr>
<tr>
<td></td>
<td>$\beta_{11} - \beta_{13} = 0.15683$</td>
<td>$T_1$ (service-hospitality) = 1.1504**</td>
<td></td>
</tr>
<tr>
<td>$H_3$: International experience of franchisor- diversification of country markets strategy</td>
<td>$\beta_{11}$ = 0.47029, SE = 0.0870</td>
<td>$\beta_{12}$ = 0.37084, SE = 0.11303</td>
<td>$\beta_{13}$ = 0.09987</td>
</tr>
<tr>
<td>Differences structural coefficients and T values</td>
<td>$\beta_{11} - \beta_{12} = 0.09944$</td>
<td>$T_1$ (retail-services) = 0.7123**</td>
<td>$T_1$ (retail-restaurants) = 1.08732**</td>
</tr>
<tr>
<td></td>
<td>$\beta_{11} - \beta_{13} = -0.18076$</td>
<td>$T_1$ (service-hospitality) = 1.531*</td>
<td></td>
</tr>
<tr>
<td>$H_4$: Internationalization speed of franchisor- diversification of country markets strategy</td>
<td>$\beta_{11}$ = 0.51852, SE = 0.0932</td>
<td>$\beta_{12}$ = 0.28253, SE = 0.112593</td>
<td>$\beta_{13}$ = -0.12742, SE = 0.09897</td>
</tr>
<tr>
<td>Differences structural coefficients and T values</td>
<td>$\beta_{11} - \beta_{12} = 0.23600$</td>
<td>$T_1$ (retail-services) = 1.626*</td>
<td>$T_1$ (retail-restaurants) = 3.536***</td>
</tr>
<tr>
<td></td>
<td>$\beta_{11} - \beta_{13} = 0.64594$</td>
<td>$T_1$ (service-hospitality) = 2.292***</td>
<td></td>
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*** p < 0.01, ** p < 0.05; * p < 0.1, ns: not significant (based on t (999), one-tailed test).
4.605) between internationalization speed and strategic decisions related to diversification of country markets. In addition, international experience, which often leads to learning processes in the international expansion of chains, influences positively the tendency of franchisors to sell their products simultaneously in a greater number of country markets (β41 = 0.470; t-value = 5.405). In any case, differences in strategic behaviour of franchisors in their international expansion are significant with respect to service sectors (β41 - β42 = 0.236, T4 (retail, services) = 1.626*) and hospitality (β41 - β43 = 0.645, T4 (retail, restaurants) = 3.536***) only in the case of rapid diversification.

- In the service sector (52 franchisors), firms operate in 4 countries on average. Therefore, these chains tend to develop a strategy of concentration of country markets. The average coverage by country is 50 franchisees. International experience is the main factor in the franchisor’s strategic choice to address the entry into foreign markets. The low average (5.6 years) of international experience in the service sector makes franchisors to concentrate their activities in a few country markets, usually the closest geographical (European Union context) or culturally (Latin American countries). As franchisors achieve international experience, they tend to diversify their operations internationally, marketing their services in a larger number of countries simultaneously (β32 = 0.282, t-value = 3.280). The experience of franchisors (β12 = 0.288, t-value = 3.326) will contribute to diversification, given its importance to the standardization of the business concept and appropriate definition of know-how. These elements are vital to the successful commercialization of the service in foreign markets (Baena and Cerviño, 2009) and to reduce perceived risk (Ronadan et al., 2012). In any case, there are franchises of services rather than following the traditional or sequential approach in their internationalization process –the average number of years they take to internationalize is 11–, they tend to develop a more global approach, faster internationalization, and increasing/diversifying their international presence. This fact may be the cause of the existence of a positive relationship between internationalization and rapid adoption of a diversification strategy of country markets (β42 = 0.282, t-value = 3.303). General experience generated significant differences in the franchisor’s international behaviour compared to the retail sector (β11 - β12 = -0.3598; T1 (retail, services) = 3.702***) and franchises belonging to the hospitality industry (β12 - β13 = 0.357, T1 (services, hospitality) = 2.537***). These differences are also significant compared with the hotel and restaurant industry when the speed of internationalization is analyzed (β42 - β43 = 0.409, T4 (services, hospitality) = 2.292***).

- The hotel and restaurant chains (23 franchises) operate on average in fewer country markets (only 3 countries) and they get internationalized more slowly (13 years). The strategic behaviour of franchisors in their international expansion is driven only by international experience, there is a positive relationship between both factors (β33 = 0.651, t-value = 6.570). Furthermore, in
comparison to retail and service industries, for hotels and restaurants chains is where international experience is more critical in order to consider the diversification of country markets as internationalization strategy. Although the differences are significant only in relation to the services sector ($\beta_{32} - \beta_{33} = -0.28021$, T3 (service, hospitality) = 1.551*).

6. Conclusions, limitations and future research

The results obtained confirm the proposed conceptual framework and support the contingent approach of internationalization processes (Bradley and O’Reagain, 1998, Nicolau et al, 2000; Navarro, 2002; Ruzo et al., 2011). This approach considers that a company foreign expansion strategy depends on the characteristics of the organization, the products and/or services sold and the sector or industry. In this context, international experience variables (number of years franchising internationally), speed of internationalization (number of years since the beginning of the chain until it expands internationally) and sector in which the franchisor operates, affect the strategy developed by franchisors to compete in various country markets simultaneously. From this perspective, the tendency to develop a strategy of diversification of country markets increases when franchisors: (1) have developed learning processes associated with their higher level of international experience; (2) when the processes of internationalization are addressed as a strategic option from the beginning with a quick internationalization; and (3) when franchisors market mainly products vs. services. In any case, sector should be taken into account to adequately explain franchisors behaviour in their international expansion strategy. Therefore, in retailing sector, the speed of internationalization and international experience are more important as explanatory factors than in the other two sectors. The same occurs to the general experience, which in the general model did not determine the international expansion strategy chosen by franchisors, but it determines a significant different behaviour in the service sector compared to the other two sectors.

As research limitations, we can say that this is a cross-sectional study, conducted with data only for 2010 and therefore we must be cautious in generalizing the results and conclusions. In this sense, to develop a longitudinal study to analyze temporarily how franchisors’ characteristics, internationalization speed or industry condition the internationalization processes developed by franchisors would be advisable. Moreover, to include new variables as determinants of international expansion strategy of franchisors, as other studies mention (Baena and Cerviño, 2009, 2010) would be desirable. The inclusion of these new variables is a new challenge we are willing to assume. Finally, another future research line may be including in the development of conceptual models, not only the determinants of international expansion strategy, but also the effects or consequences of strategic behaviour at the international level and its impact on franchisors’ results.
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7. References


Determinants of international expansion strategy for Spanish franchises


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