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International or National Orientation: A Comparative Study of Mexican Franchisors

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ABSTRACT

Despite the importance of the franchise system in Latin American countries, few academic studies address the issue of internationalization. To contribute to filling this knowledge gap, this study evaluates the factors that differentiate Mexican franchisor with international orientation from those that only operate in the domestic market. This research was carried out on a sample of 249 franchises operating in the Mexican market in 2016. The research hypotheses are supported in the theoretical approaches of the Agency Theory and the Resource-based Theory. The results reveal that the experience, the size, the monitoring capacity, and the franchise fee significantly predict the adoption of internationalization.

KEYWORDS

internationalization, Mexican franchising, agency theory, resource-based theory

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1. INTRODUCTION

For Hymer (1976), companies that have a competitive advantage can compete with foreign companies in their own markets, implementing strategies that exploit their inner strengths to take advantage of the opportunities offered by external markets (Barney, 1991). Franchising bases its competitive advantage on intangible assets such as the brand, patents, business concept, its level of intellectual capital, and technology. Franchising is a way of transmitting these intangible resources abroad with low capital risk (Alon, Ni & Wang, 2011; Baena & Cerviño, 2008; Welch, Alon, & Fable, 2006). The franchisors form heterogeneous groups of companies that operate in different industrial sectors where chains of different sizes, ages, and levels of investment compete with different levels of recognition and acceptance. Currently, small and medium franchises can overcome the disadvantages that for them represent economies of scale in their internationalization process, because they can take advantage of the advance of new technologies and telecommunications (Ni, Alon, & Dant, 2009), in this way the franchise represents an alternative model of international expansion (Baena & Cerviño, 2008; Welch, Alon, & Fable, 2006).

The process of involvement in the internationalization of this business format has experience continuous growth. For example, according to a survey from the members of the International Franchise Association, in 2006, 52% of American franchisors had units abroad compared to 34% in 1989 (Aliouche & Schlentrich, 2011); in Spain, Baena (2018a) reported 304 international franchisors from 1232 chains operating in the country, that means 24.5% are international chains. Previously, Navarro (2012) reported that 15% of Spanish chains had a presence abroad; the 28% of Australian franchisors operate internationally (Frazer, Weaven, & Bodey, 2012). In the case of developing economies, the Brazilian Franchise Association reported that in 2009 a total of 59 franchising companies had internationalized (Khauaja & Toledo, 2011). Another study revealed that 69 Brazilian franchises had operations abroad and represented 4.7% of Brazilian national brands (Sallles, Brashear, & Motta, 2011). This data reflects that the process of internationalization through the franchise model is growing; however, its degree of internationalization presents different behaviors between developed and developing economies.

Internationalization, through franchising, is a complex process affected by internal and external factors. An organization internal forces have been evaluated the experience and size of the chain, the plural form, financial resources, management capacity and international orientation. Within market forces, economic, social, and political factors of the country of destination have been studied (Alon, Ni, & Wang, 2011; Elango, 2007; Evans et al., 2008; Perrigot, 2008).

Different theoretical approaches have been addressed for the study of the internationalization of franchising for example: An approach based on the organizational factors that allow for the internationalization of the franchise (Alon, Ni, & Wang, 2011; Gillis, Combs, & Ketchen, 2014; Mariz-Pérez & García-Álvarez, 2009; Ni, Alon, & Dant, 2009); external factors at the country level that explain the selection of markets for expansion (Baena, 2012; Baena, 2015; Baena, 2018a; Fladmoe-Lindquist & Jacque, 1995; Madanoglu, Alon, & Shoham, 2017; Melo et al., 2015a; Ramírez-Hurtado, Berbel-Pineda, & Palacios-Florencio, 2018); modes of entry used in its internationalization process (Baena & Cerviño, 2009; Baena & Cerviño, 2014; Baena, 2018a); selection of franchisees abroad (Doherty, 2009; Kedia, Ackerman, & Justis, 1995); influence of the plural form on internationalization (Perrigot, 2008); intention of the franchisors to go abroad (Kedia, Ackerman, & Justis, 1995; Pedro, 2009); franchisors with orientation to the domestic vs. international market (Baena, 2018a; Elango, 2007; Ragazzi Isaac, et al., 2018; Melo et al., 2015b; McIntyre & Young, 2009), typology of international franchises (Navarro García, Rondán Cataluña, & Rodríguez Rad, 2014).

The growth, the performance, and the greater penetration are the main reasons that the US franchisors give for their international expansion. They mention that the external factors that drive this expansion to certain countries are: growth of the middle class, growth of the business sector, and the demand for brands in these countries (Hoffman, Watson, & Preble, 2016). Ramírez-Hurtado et al. (2018) evaluated the different destination countries Spanish franchisors that want to internationalize toward Latin American markets. They reported that per capita income and market potential imply greater presence of Spanish franchises in those markets. A strong brand is a powerful ally to expand abroad (Baena, 2018b). Despite the opportunities and advantages that internationalization presents for franchisors, not all has been internationalized. For Kedia, Ackerman and Justis (1995), the main inhibitors for its internationalization are related to the location of reliable franchisees abroad, the lack of knowledge to franchise abroad and the protection of intellectual property.

Most of the research on franchising internationalization has been generated mainly in developed countries. Conducting internationalization studies in emerging economies helps to understand if the theories and models evaluated in developed economies are applicable in these economies (Gaur & Kumar, 2010). In the case of Latin American countries, some empirical studies on franchising have been addressed, for example, in Brazil (Khauaja & Toledo, 2011; Melo et al., 2015a; Salles, Brashear, & Motta, 2011) and in Mexico (Alba, 2010; Ayup-González & Calderon-Monge, 2014; Flores & Gaytán, 2018); however, there is a gap in their internationalization processes. This work, applied in an emerging economy, seeks to increase this knowledge.

The objective of this research is to know the effect of the variables and characteristics that influence the internationalization of Mexican franchisors with respect to franchisors that focus exclusively on the domestic market. For this purpose, this study considers the experience, size, monitoring, and entry fees, which are four variables widely used in the study of franchise internationalization (Alon, Ni, & Wang, 2011; Elango, 2007; Mariz-Pérez & García-Álvarez, 2009; Perrigot, López Fernández, & Eroglu, 2013). In order to achieve this objective, the T-test was first carried out to assess if there are differences in study variables between the two types of franchisors. Additionally, the significant influence of the variables on the internationalization of the franchisors was evaluated by means of the logistic regression test.

In order to carry out this project, a sample of 249 franchising operating in the Mexican market in 2016 was obtained. The research hypotheses are supported in the theoretical approaches of the agency theory and the resource-based theory. This work is structured as follows: after the introduction, a description of the Mexican franchising sector is made; later, the research hypothesis and the theoretical supports are presented, followed by the methodology, results, discussion, and future research lines.

2. FRANCHISING BUSINESS MODEL IN MEXICO

It is considered that the arrival of the McDonald's franchise in 1985 initiated the development of this sector in Mexico. At the end of the 1980s, the first totally Mexican franchises emerged, such as Helados Bing, El Fogoncito, Hawaiian Paradise and Steren Electronics, among others. Different factors have influenced the promotion of this sector: the recognition of the franchise contract in the Mexican legislation in the industrial property law since 1991 (Arce Gargollo, 2009), the integration of Mexico into NAFTA, which caused the reduction of tariff barriers and reformed foreign investment and industrial property law; and finally, the creation in 1989 of the Mexican Franchise Association, whose function is to spread the culture of franchising.

The "*Entrepreneur 500 Franquicias*" magazine (2013) reported that Mexico ranked fifth in the world in the number of brands with 1200 to the year 2011. In 2016, the *Entrepreneur 500 Franquicias* magazine that annually reports the figures of franchises in Mexico, reported a list of 1050 brands. Of this figure, 899 are of Mexican origin and 120 foreign, that is, 85.6% of the brands are of national origin. Franchising in Mexico operates in 13 different areas: food, with 31 percent, specialized services, with 13 percent, and specialized trades, with 10 percent, are the most important. The importance of the franchising sector to Mexico is manifested by the contribution of 6.5% of GDP and the generation of 700,000 jobs, according to the Mexican Franchise Association.

3. THEORETICAL FOUNDATION

3.1. Concept of Franchising

Under a franchise agreement, both parties are legally independent. However, in this relation, the objective of the franchisee is to maximize the utilities of its outlet, and therefore, needs advice and support from the franchiser; in change, the franchiser will improve the reputation of its brand. A franchiser-franchisee economic dependency is established in this way (Grewal et al., 2011; Michael, 2003). A franchise chain involves the use of multiple outlets under one brand and a common production system, which allows for a common consumption experience at different times and places (Michael, 2014).

3.2. Agency Theory

The franchisor-franchisee relationship under the franchise contract is the objective of agency theory (Caves & Murphy, 1976; Jensen & Meckling, 1976). This theory argues that managers of chain-owned units may not perform efficiently, since their incomes are mainly fixed and not dependent on the performance of the unit, so they do not have enough incentives to do their best work (Carney & Gedajlovic, 1991). This behavior forces the franchisor to raise the monitoring costs, since he needs to continuously supervise the performance of the managers of his units. (Fladmoe-Lindquist & Jacque, 1995. In this model, the income of the franchisees who adhere to a system will depend solely on the performance of the franchised point of sale. Consequently, the franchisee will be motivated to make his maximum effort and achieve an efficient administration of the establishment. This argument presents franchising as an option to reduce monitoring costs. (Fladmoe-Lindquist & Jacque, 1995). For Doherty & Quinn (1999), the agency theory explains the activity, organization and process of internationalization of franchises since it includes the main elements of the franchisor-franchisee relationship such as opportunism, economic motivations, asymmetry of information, and monitoring costs. In foreign markets, the risks of opportunism increase, due to greater geographical and cultural distances, which hinder the firm's ability to control the agent's performance. Consequently, the monitoring ability of the international franchisor is key to reducing both opportunism and moral hazard (Shane, 1996). Therefore, in the process of internationalization, it is important to assess a franchisor monitoring capacity.

3.3. Resource-Based Theory

The involvement of firms in international operations can be addressed through the resource-based theory (Barney, 1991; Penrose, 1959). This theory affirms that companies have valuable capacities and resources that are very difficult to imitate by their competitors. These so-called strategic assets that can constitute the source for a sustainable competitive advantage in the long term. This competitive advantage in domestic markets enables companies to become involved in international operations. The resources are divided into two fundamental categories: (1) tangible resources and (2) intangible resources. Tangible resources can be acquired in the market and can easily be imitated by competitors. Intangible assets such as copyrights, experience, patents, designs, trademarks and the organizational structure are valuable and difficult to imitate (Galbreath, 2005). Franchisors base their competitive advantage on the creation of these intangible assets, mainly the reputation of the brand, licenses, patents, a proven model of business, operation, and training programs, which are transferred to the franchisee. However, these resources need time and experience to be developed (Mariz-Pérez & García-Álvarez, 2009).

In the market, there are strategic differences between franchisors that expand internationally and those that focus on domestic environments (Huszagh, Huszagh, & McIntyre, 1992), because international franchisors have the financial resources and trained management teams with a clear international attitude (Baena, 2010). In summary, international franchisors need to generate a significant amount of monetary and human resources before they become internationalized, and these resources may be related to size, age, growth, and management capacity, among others (Pedro, Filipe, & Ferreira, 2011). Experience, size, and entry fees, are among the main indicators that reflect the intangible capabilities and resources of a franchise chain that have been used in the literature to understand internationalization processes (Alon, Ni, & Wang, 2011; Elango, 2007; Mariz-Pérez & García-Álvarez, 2009; Perrigot et al., 2013; Shane, 1996). Castrogiovanni, Combs and Justis (2006) highlight the importance of the theoretical approach based on resources as a means to improve the understanding of franchising, since it helps to evaluate the performance and strategic decisions of franchisors that are involved in international operations. Therefore, this is a complex process associated with a series of organizational and market forces (Alon, Ni, & Wang, 2011).

3.4. Research Hypothesis

The experience gained through years of operating the franchise model allows the franchisor to develop the management and coordination capabilities to facilitate its national and international expansion (Alon & McKee, 1999; Shane, 1996). The experience gives the franchisors the intellectual capital, which allows developing lasting relationships with clients and franchisees, knowledge translated into manuals and operating routines, and the skills and competencies of its personnel (Perrigot et al., 2013), and, in this way, franchisors achieve a sufficient level of tangible and intangible resources in the domestic market that support its international expansion (Penrose, 1959).

By increasing its experience, the franchisor develops organizational and management skills to adapt to different cultural environments (Castrogiovanni, Combs, & Justis, 2006). The experience is a capacity that represent one of a company's intangible resources (Galbreath, 2005). Kedia, Ackerman and Justis (1995) found that the location of good partners abroad, and how to implement the franchising business model in external markets are perceived by franchisors as critical factors in the internationalization process. In this way the most mature companies develop the necessary skills for their expansion abroad. In addition, they will develop the supply and management policies for their operation in this market (Huszagh, Huszagh, & McIntyre, 1992). Age is a useful indicator for measuring experience (Baena, 2018a; Elango, 2007; Shane, 1996).

H1. *The experience of the franchisor has a positive influence on its internationalization*

Size is positively related to the company's financial and non-financial resources (Alon, 2000). The size of the chain is related to a large number of outlets that allow the franchisor to experience a positive cash flow, endowing it with greater resources, greater experience, and is a measure of its success (Carney & Gedajlovic, 1991; Shane, 1996). Additionally, the size is associated with the reputation of the brand, that is, the larger the franchise the greater the reputation of the brand (Mariz-Pérez & García-Álvarez, 2009; Perrigot et al., 2013); in this way, a well-positioned brand is a valuable resource and an intangible asset to develop an internationalization strategy (Baena, 2018b). A chain with many outlets in different places will be more attractive to foreign investors (Welch, 1989), and shows that the franchisor, who is successful in domestic markets, can be involved in a global environment (Alon, Ni, & Wang, 2011). In summary, a greater number of outlets in the chain imply generating enough tangible and intangible assets to develop the internationalization process (Perrigot, 2008).

H2. *The size of the franchisor has a positive influence on its internationalization*

The franchisors need to continuously monitor the franchisees to prevent opportunistic practices (Elango, 2007). The risks of opportunism are greater in international markets compared to domestic markets, therefore international franchisors need to develop superior monitoring capabilities (Shane, 1996). Huszagh, Huszagh and McIntyre (1992) found that the chains with the highest proportion of franchised outlets were more likely to operate internationally, as a result of the development of monitoring and collaboration capabilities with their franchisees. The type of skills to monitor franchisees, as independent entrepreneurs are very different from those used to monitor the employees of the units themselves (Shane, 1996), therefore, the franchisor that maintain a higher proportion of franchised outlets will develop enough monitoring skills for its internationalization. Monitoring capabilities are a critical specialty for the success of the international franchisor (Fladmoe-Lindquist & Jacque, 1995); given that, the dispersion of the franchised outlets in the domestic market forces the franchisor to establish a monitoring capacity throughout the national territory, instead of monitoring at the local or regional level, and this capacity will allow it to adapt better to the foreign markets.

Alon, Ni, & Wang (2011), in their work on the US hotel industry, reported that the proportion of franchised outlets is positively related to the decision to internationalize. Therefore, chains with a structure formed with a greater proportion of franchised outlets will present a better management in their system and better operating efficiencies to face the internationalization. The proportion of franchised outlets in the chain is a measure of the franchisor's monitoring capacity (Elango, 2007; Shane, 1996).

H3. *The monitoring capacity measured through the proportion of franchised outlets of the chain positively influences the internationalization of the franchisors*

The risk of opportunism is greater in foreign markets than in the domestic market, due to geographic distances, cultural differences, and legal and tax systems, therefore, the foreign company is less able to monitor the performance and behavior of its local partners (Dow, Baack, & Parente, 2018; Shane, 1996). For example, a franchisee abroad can offer inferior quality in the product or service damaging the reputation of the franchisor's brand detriment the entire chain (Combs, Ketchen, & Short, 2011; Michael, 2003). Shane (1996) states that this opportunism can be reduced with a high cost of adhesion to the chain, from the perspective of the agency theory, the high franchise fee inhibits opportunistic behavior. The franchisee pays an initial franchise fee to acquire knowledge to operate a successful business model in a new market. This fee represents the value of investments made by the franchisor to develop the business model. Its cost is determined by factors such as: the brand, successful franchise concept, experience, the amount of training and support. From the perspective of the franchisee a high franchise fee is a valuable commitment to the future with the franchisor to support the brand in its territory, via advertising and promotions(Combs & Ketchen, 2003). The franchise fee is paid by the franchisee only at the beginning of the contract. This payment allows the franchisor to recover the costs of selection and training for the new franchisees (Scott, 1995). On the other hand, when the franchisor considers that its intangible assets (brand, know-how, experience) are very valuable, it will require a higher entry fee that reflects the value of these assets (Combs & Castrogiovanni, 1994; Diez de Castro & Rondán-Cataluña, 2004). The franchises that have valuable brands and successful concepts, based on their know how, developed in their domestic markets, will be able to use these resources to expand abroad.

H4. *The International franchisor has a higher franchise fee compared to franchisor with only domestic operations*

4. METHODOLOGY

4.1. Sample

The sample was constructed November 2016, using as main source of data the *Entrepreneur 500 franquicias* magazine of the year 2016. The usefulness of this magazine is that it annually reports data on the brands that operate in Mexico and has been used as a secondary source by other authors (Fable & Welch, 1998; Alba, 2010; Lafontaine & Oxley, 2001). These sources of information have also been used as reference data for research in other countries (Alon & Mckee, 1999; Baena, 2010; Shane, 1996). Since the information reported in Entrepreneur 500 franchises (Entrepreneur, 2016) did not include complete data, mainly on franchised units, it was necessary to obtain these values by consulting the website of the Mexican Franchise Association and the website of each franchisor.

The information on the international operations of the Mexican franchisors was obtained directly from their web pages. In addition, national and specialized press releases in business and economics were consulted. Calls were only made to the franchisors when it did not report its operations abroad on its website or when the information reported was incomplete or confusing. This task of working with several sources allowed us to debug discordant data before including them in the database. As a result, a sample of 249 franchises was obtained with complete information on franchise age, pre- franchise age, size, proportion of franchised outlets in the chain, royalties, franchise fee, contract duration, and industrial sector. Table 1 shows the franchise chains by sector included in the sample.

Table 1
Franchising Distribution by Type of Industrial Sector in the Study

Sector	Brands by sector	% by sector	International brands	% International brands
Food	88	35.34%	23	9.23%
Retail trade	41	16.46%	7	2.81%
Wellness & health	37	14.85%	9	3.61%
Specialized services	37	14.85%	7	2.81%
Education	11	4.41%	5	2.00%
Others	35	14.05%	6	2.40%
Total	249	100%	57	22.86%

Source: elaborated by the authors.

4.2. Statistic Analysis

In order to meet the study objectives, firstly the T-test was used to evaluate the significant differences of the study variables between the franchisors with international operations and the franchisors that only operate the domestic market. Logistic regression was then used to meet the second objective. The logistic regression is appropriate since the effect of the following variables is evaluated: franchise age, pre franchise, size, franchise fee, royalties, advertising, contract and industrial sector, to predict the internationalization of the franchisors. The logistic regression evaluates the explanatory effect of the variables that best predict whether a franchise network is international or not (Perrigot et al., 2013).

Given that, there were some lost values and in order to take advantage of the largest number of study variables, we proceeded to the imputation of these few lost values through the mean.

4.3. Independent Variables

The age of the franchise is a useful indicator to measure the franchise experience. The age of the franchise represents the number of years that the company has been operating as a franchise model (Baena, 2018a; Elango, 2007; Shane, 1996). The size of the franchise represents the total number of outlets of the chain (owned and franchised) operating in Mexico (Alon, 2000; Elango, 2007; Mariz-Pérez & García-Álvarez, 2009). Monitoring capacity is measured through the proportion of franchised outlets in the chain (PFOC) (Mariz-Pérez & García-Álvarez, 2009). The franchise fee is measured in Mexican pesos and represents the initial fee charged by the franchisor when a new franchisee joins the franchise model (Elango, 2007; Mariz-Pérez & García-Álvarez, 2009).

4.4. Dependent Variable

The dependent variable internationalization reflects the existence of international operations by Mexican franchisors. This variable was operationalized as a dummy variable, the number “1” was noted if the franchise reported operations abroad and “0” if it did not report them.

4.5. Control Variables

A total of six control variables were used to represent the industrial sector. Rondán Cataluña, Navarro García, Diez de Castro and Rodríguez Rad (2012) analyzed the reasons behind the intensive use of franchising in Spanish chains, their results report that the chains form four differentiated groups and that the sector has a differentiated influence on each group. On the other hand, Navarro García, Rondán Cataluña and Rodríguez Rad (2014) confirmed, using cluster analysis, that Spanish international franchisors are grouped into four latent classes and that their international performance is conditioned by the industrial sector in which they operate. Therefore, the potential to internationalize varies according to the industrial sector in which the franchise operates (Elango, 2007; Perrigot, 2008; Shane, 1996).

The category of the industrial sectors was selected according to the classification of the *Entrepreneur 500 franquicias magazine* of the year 2012 and represents the most important sectors of the industry in Mexico. The sectors are: food, retail trade, welfare and health, specialized services, education and others. If the franchises belonged to a certain sector, they were coded with 1 (one) or 0 (zero) if they did not belong to the category. The variable "contract" was used as a control variable, since its duration could be positively related to the experience of the franchisor, that is, the more mature franchisors established longer contracts with their franchisees (Perrigot & Pénard, 2013). The control variable "pre franchise" represents the years between the birth of the company and the adoption of the franchising model. It is expected that a greater pre-franchise value will influence the experience and franchise units of the chain (Shane, 1998). The variables "royalties" and "advertising" that represent the percentage of sales received by the franchisor of the franchisee as a continuous payment were controlled, since they are part of the pricing strategy used by the franchisor.

5. RESULTS

Table 2 shows the results of the T-test between both groups of franchisors. This analysis makes it possible to evaluate the differences in the study variables between groups. The results reveal that 192 (77.1%) franchisors have only domestic operations and 57 (22.9%) maintain international operations. These results show that there are significant differences in some variables between international and domestic franchises. The age of the franchise is significantly different (p = 0.00), since the international franchisors show higher age than the domestic ones (14.1 vs. 9.8). In size, there is a significant difference (p = 0.025) and it shows that the internationals have more units in their chain than the national ones (329.2 vs. 46.4). The proportion of franchised outlets in the chain is significantly different at 10% (p = 0.085) and shows that international chains have more franchised units in their chain (74.2% vs. 67.5%). The contract is significantly different (p = .037), this result shows that international chains have long-term contracts. The franchise fee does not show significant differences between the two groups of franchisors. The other variables do not show significant differences. Since the size of the sample of the two groups is larger than 30, the normality test in T-test can be dispensed with (Velasco, 2005, p. 335). To confirm the T-test results, the authors, additionally, made the non-parametric test of Mann-Whitney and Kolmogorov-Smirnov of two samples; the significant differences are confirmed in the study variables: franchise age, size and PFOC.

Table 2
Results of the T-test and Levene Statistics

	Total	National	International		
Number of Franchises	249	192	57		
Percentage	100	77.1	22.9		
Variable		Mean	Mean	F (sig.)	T (sig.)
Franchise Age		9.84	14.10	15.7 (0.000)	-3.64 (0.000)
PREFRAN		10.58	11.22	0.721 (0.397)	-0.29 (0.765)
SIZE		46.41	329.26	40.55 (0.000)	-2.29 (0.025)
PFOC*		67.57	74.22	0.333 (0.564)	-1.72 (0.085)
Franchise Fee		254058.54	382427.94	6.205 (0.013)	-1.31 (0.195)
Royalty		2.94	3.01	0.156 (0.693)	-0.128 (898)
Contract		6.25	7.1	0.015 (0.904)	-2.092 (0.037)
Advertising		1.14	1.06	0.665 (0.416)	0.379 (0.705)

Note. * PFOC: Proportion of franchised outlets in the chain.
Source: elaborated by the authors.

Table 3 shows the descriptive statistics of the variables. The results of the correlation values between the independent variables indicate that there are no correlation problems and therefore, the results of these analyses are valid.

Table 3
Descriptive Statistics

	Mean	St. Dev.	Age	PREFRAN	SIZE	PFOC	FEE	ROY	CON	ADV
FRANAGE	10.8233	6.68599	1							
PREFRAN	10.7298	14.27677	.226***	1						
SIZE	111.1647	465.19246	.127**	-.016	1					
PFOC	69.0977	25.60495	.124	-.163**	.021	1				
FEE	283444.3	408947.2	.062	.028	-.058	-151**	1			
ROY	2.9613	3.25619	.195***	.033	-.043	.009	.156**	1		
CON	6.4744	2.98946	.226***	.081	.004	-.002	.094	.082	1	
ADV	1.1294	1.40030	.169***	.086	-.048	.012	.105	.406***	.138**	1

Note. ** Significant at the 0.05 level. *** Significant at the 0.01 level. St. dev.: Standard deviation; FRANAGE: Franchise age; PREFRAN: Prefranchise; SIZE: Franchise size; PFOC: Proportion of franchised outlets in the chain; FEE: franchise fee; ROY: Royalties; CON: Contract duration; ADV: Advertising.
Source: elaborated by the authors.

The results of the logistic regression are shown in Table 4. Model 1 includes only the control variables. Models 2, 3 and 4 show the results by adding respectively franchise fee, size and proportion of franchised outlets in the chain. Model 5 reflects the results considering all variables. The results show that Nagelkerke's R = 0.277. According to this result, the percentage of well classified franchises is 79.9%. The Hosmer and Lemeshow test shows that the model has a good fit (Chi square= 10.08; p value= 0.259). Hypothesis 1 is supported because the age of the franchise has a significant impact on internationalization (b= 0.061; p= .034). The size of the franchise shows a significant impact on the internationalization of the franchises (b = 0.004; p = .002), hypothesis 2 is supported. The age and size variables are significant in all models.

The proportion of franchised outlets in the chain has a positive influence on internationalization (b= 0.013, p= .087), then hypothesis 3 is fulfilled. The franchise fee influences the internationalization (b= 0.211; p= .064) supporting hypothesis 4.

Table 5 shows the final state of the study hypotheses. All hypotheses have been accepted.

Table 4

Results of Logistic Regression Models

	Model 1	Model 2	Model 3	Model 4	Model 5
FEE					0.211*
PFOC				0.011	0.013*
SIZE			0.004***	0.004***	0.004***
FRANAGE		0.103***	0.066**	0.059**	0.061**
PREFRAN	0.001	-0.009	-0.007	-0.004	-0.004
ROY	-0.011	-0.046	-0.034	-0.022	-0.04
CON	0.119**	0.084	0.093*	0.094*	0.091
ADV	-0.099	-0.172	-0.113	-0.119	-0.153
FOOD	-.293	0.03	-0.022	-0.124	-0.136
ESPTRADE	.142	0.366	0.598	0.479	0.433
WELL&HEALTH	-.216	-0.258	-0.156	-0.337	-0.308
ESPSERV	.385	0.637	0.648	0.653	0.651
EDU	-1.306	-1.329	-1.433	-1.426	-1.363
Constant	-0.728	-1.969	-2.226	-2.738	-5.336
R^2	.060	.156	.242	.255	.279
Correctly classified	78.3	77.1	81.1	80.7	79.9
Chi square	5.971	4.860	15.054	9.599	10.324
Sample	249	249	249	249	249

Note. *** Significant at .005. ** Significant at .05. * Significant at .1. FRANAGE: Franchise age; PREFRAN: Prefranchise; SIZE: Franchise size; PFOC: Proportion of franchised outlets in the chain; FEE: franchise fee; ROY: Royalties; CON: Contract duration; ADV: Advertising.
Source: elaborated by the authors.

Table 5

Hypothesis Proposed and State

	Hypothesis	State
H1	*The experience of the franchisor has a positive influence on its internationalization*	Accepted
H2	*The size of the franchisor has a positive influence on its internationalization*	Accepted
H3	*The monitoring capacity measured through the proportion of franchised outlets of the chain positively influences the internationalization of the franchisors*	Accepted
H4	*The International franchisor has a higher franchise fee compared to franchisor with only domestic operations*	Accepted

Source: elaborated by the authors.

6. DISCUSSION

The results show that only 57 franchises (6. 3%) of the 899 brands of national origin maintain operations abroad. This behavior reveals that the level of internationalization of franchises of emerging economies such as Mexico (6. 3%) and Brazil (4. 7%) is lower than the level presented in developed economies such as in United States (52%) (Aliouche & Schlentrich, 2011) and Spain (24. 5%) (Baena, 2018a).

For the Mexican franchisors, there are two natural markets to start their international expansion – The United States and Central America. The United States, as its geographical proximity, economic potential, and access to the Mexican diaspora is a very attractive country for the expansion of the Mexican franchises. On the other hand, the Central American market – for its cultural affinity as well as geographical proximity. It is important to mention that due, to cultural ties and language among other factors, the South American market is positioned as a very important destination for its subsequent international expansion. For example, looking at graph 1, it is shown that 23 (40. 3%) of the 57 international franchises in our sample are in the food sector. Mexican food is an intangible active which is well positioned abroad, Mexican chains with this business concept may take advantage to export their business. Franchise magazines highlight that several Mexican franchises have been exported due to offers received from abroad, mainly from the United States and Central America, that is, their expansion strategy is passive. However, the vast majority adopt a proactive strategy, seeking internationalization as a well-planned goal. , despite the advantages that these markets represent for Mexican franchisors, it is necessary for franchisors to develop a series of resources and capabilities to support their internationalization regardless of the strategy they adopt.

Ghemawat (2001) points out that the desire to internationalize often leads to resounding failures due to poor analysis of the factors that impact internationalization. One contribution of this research is to evaluate, by means of the foundation of the theory of resources and the theory of the agency, the determining factors that differentiate international franchises from those that only operate in the domestic market.

The results of this research reveal that older and larger franchises are more likely to be international and younger and smaller franchises will be focused on the domestic market. This behavior could be explained by the theory of resources, as valuable intangible activities and capabilities are obtained with age. Some of these assets would include experience, monitoring capacity, management capacity, and long-term relationships with its franchisees that influence Mexican franchisors to adopt internationalization. It is evident that, for Mexican franchisors, a larger size implies greater exposure of the chain within the national territory, and therefore, a greater recognition of the brand becomes a valuable resource to create confidence in foreign investors. In addition, a larger size increases the financial resources arising from royalties received from more franchised units. Perrigot et al. (2013) and Mariz-Pérez and García-Álvarez (2009) found support for these results by pointing out that the intention of internationalization increases with age and the size of the chain, since they are associated with a series of tangible and intangible resources that prepare them for this process.

One of the most challenging capacities for chains that decide to internationalize is the possible opportunism in foreign markets. The agency theory points out that opportunism increases in foreign markets due to cultural and legislative differences between countries. In order to face this challenge and reduce the risks of opportunism, Mexican franchisors need to develop their monitoring capacity through their management in the franchised units in the national territory before beginning their internationalization process. These results also reveal that the systems with a higher proportion of franchised units show a greater intention for their internationalization. Perrigot (2008) points out that a franchise oriented to grow through its own units will use its human and financial resources to grow in the domestic market and reduce the possibilities of exploring foreign markets. Entering foreign markets involves risks, resources, and knowledge due to cultural differences, and different legal and tax systems within other countries, and only developing the monitoring capacity obtained in the domestic market through the supervision of franchised units, allows the Mexican franchisor to get close to international expansion.

Another way to inhibit this opportunism is through a high entry fee and initial investment, our results indicate that the entry fee is used by Mexican franchisors as a signal sent to the foreign investor that they have a successful business concept and a valuable brand. In other words, their strategy is based on using the entry fee, as the theory of resources explains, to exploit their valuable assets abroad and not so much to avoid opportunism. This strategy could explain that Mexican chains perceive that their business concepts are well valued by their main markets and consider a low risk of opportunism due to the geographical and cultural proximity with Central America and the U. S. Hispanic market.

Galbreath (2005) points out that the reputation of the brand, knowledge, and intellectual property are valuable intangible resources that are the basis of competitive advantages. These competitive advantages can be exploited abroad by Mexican franchisors. The results of this research imply some conclusions that should be considered by managers of Mexican chains and government agencies that support the international expansion of Mexican companies. Managers should be aware that internationalization poses challenges, and that to overcome them, franchise systems must be old enough to gain experience and demonstrate that their business model is successful. In addition, they must have a recognized brand with enough financial and human resources to address this expansion, which can be achieved in larger franchises. Another contribution of this study is that Mexican chains that establish an internationalization strategy must develop monitoring capabilities through a greater proportion of franchised units in their chain. Governmental agencies should devote promotion and export strategies of Mexican franchise models that prove to have tangible and intangible resources such as: a successful concept, a recognized brand, market experience, monitoring capacity, and the support of financial and management resources that increase the chances of success abroad.

7. CONCLUSIONS

This research reveals that there are significant differences between Mexican franchises with international operations and those that only focus on the domestic market. It is proven that the theory of resources and the theory of agency provide the theoretical foundation that can be applied to the process of internationalization in an emerging economy. The resources and capacities that Mexican franchises have to adopt their internationalization are determined by a greater experience, size, greater entry fee and monitoring ability. It is concluded that the food sector is the one that contributes most to the internationalization of Mexican franchises, which could mean that chains take advantage of the competitive advantage offered by the prestige of Mexican food for its expansion.

To achieve their internationalization, franchisors must recognize that they first need to develop their resources and capabilities in the domestic market. This research confirms that valuable, tangible, and intangible assets such as a proven concept in the domestic market, a recognized brand, long-term relationships with its franchisees, and financial and management capacity, increase the internationalization possibilities of Mexican franchises.

It is important to note that internationalization offers an excellent opportunity for the growth of Mexican franchises, so managers and public agencies should implement a growing promotion for successful Mexican concepts, which demonstrate the resources and capabilities to achieve it. This opportunity could position Mexico as a successful export model for Latin America.

Finally, this research contributes to the knowledge of the internationalization processes of Latin American countries.

8. FUTURE LINES OF RESEARCH

The present research naturally contains some limitations. First, the empirical study has been confined to just a single country, Mexico. Future research could conduct surveys with franchisors to see their point of view. This would give more information about it from the source. In addition, a comparative study between countries with developing economies is desirable in order to broaden the knowledge of the internationalization processes of franchise systems.

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