FORUM

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INTERNATIONALIZATION OF BRAZILIAN FRANCHISE CHAINS: A COMPARATIVE STUDY

Internacionalização das redes de franquias brasileiras: um estudo comparativo

Internacionalización de las redes de franquicias brasileñas: un estudio comparativo

ABSTRACT

The primary goal of this paper is to comprehend the fundamental organizational differences between Brazilian franchise chains that only operate in the home market and Brazilian franchise chains that operate internationally. The sample chosen for this study comprehends 96 Brazilian franchises operating in the home market and 67 franchises with international operations; logistic regression was used to analyze data obtained from these sources. Our findings suggest that the development of a brand in international operations can be strategic for certain Brazilian franchise chains; this seems to be, however, a scarce resource for many franchises and it could be developed through international operations. With regard to the fees charged, the outcomes demonstrate that Brazilian franchises with international operations tend to charge lower fees from its franchisees to install new units. Regarding the monitoring and control of franchises, there is evidence that the monitoring capability is one of the determining factors in the development of Brazilian franchises international operations.

KEYWORDS | Franchising, internationalization, emerging markets, small businesses, entrepreneurship.

RESUMO

O principal objetivo do artigo é compreender as diferenças organizacionais fundamentais entre redes de franquias brasileiras com apenas operações domésticas em comparação com as redes que têm operações internacionais. Como critério para seleção da amostra foram escolhidas 96 redes de franquias com operações domésticas e 67 redes de franquias brasileiras com operações internacionais. Nas análises de dados utilizou-se a regressão logística. Os resultados sugerem que é estratégico o desenvolvimento de uma marca nas operações internacionais. Parece ser um recurso escasso para muitas redes de franquias que podem ser desenvolvidas por meio de operações internacionais. Em relação às taxas cobradas, os resultados mostram que as cadeias brasileiras com operações internacionais cobram taxas mais baixas para seus franqueados para a instalação. Em relação ao monitoramento e controle de franquias verifica-se que a capacidade de monitoramento é um dos fatores determinantes para as franquias brasileiras com operações internacionais.

***PALAVRAS-CHAVE |** Redes de franquias, internacionalização, mercados emergentes, pequenas empresas, empreendedorismo.*

RESUMEN

El principal objetivo del artículo es comprender las diferencias organizacionales fundamentales entre redes de franquicias brasileñas solo con operaciones domésticas en comparación con las redes que tienen operaciones internacionales. Como criterio para la selección de la muestra fueron elegidas 96 redes de franquicias con operaciones domésticas y 67 redes de franquicias brasileñas con operaciones internacionales. En los análisis de datos se utilizó la regresión logística. Los resultados sugieren que es estratégico el desarrollo de una marca en las operaciones internacionales. Parece ser un recurso escaso para muchas redes de franquicias que pueden ser desarrolladas por medio de operaciones internacionales. Con relación a las tasas cobradas, los resultados muestran que las cadenas brasileñas con operaciones internacionales cobran tasas más bajas para sus franquiciados para la instalación. Con relación al monitoreo y control de franquicias se verifica que la capacidad de monitoreo es uno de los factores determinantes para las franquicias brasileñas con operaciones internacionales.

***PALABRAS CLAVE |** Cadenas de franquicias, internacionalización, mercados emergentes, pequeñas empresas, emprendedorismo.*

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INTRODUCTION

The Brazilian franchising market has established itself yearly among the most competitive world players. The figures in this sector are striking, given that Brazil currently ranks sixth in the number of franchised units (114,409 sub-franchisees), placed only behind the United States, China, South Korea, Japan and the Philippines; regarding the number of franchises in the country, one can find in Brazil nowadays around 2,703 franchise chains. The revenues for the sector amounted to R$ 115 billion in 2013, a 12% increase over 2012 (Associação Brasileira de Franchising, 2014).

This growth implies beneficial effects for the National Franchise Association, Associação Brasileira de Franchising (ABF), whose purpose is to represent the franchising sector as well as to reaffirm its relevance in the Brazilian economy. Thus, reaching broader goals becomes possible and more frequent in the institution's activities e.g. the internationalization of Brazilian franchises – currently 120 Brazilian franchises have operations abroad. When one considers that in the year 2000 there were only 15 Brazilian franchises operating abroad, then it becomes clearer how representative the 120 internationalized franchises are, since they represent a growth of 800% in 14 years. To support Brazilian franchises aiming the international market, some partnerships have been established with the Brazilian Trade and Investment Promotion Agency (APEX), which supports the development of Brazilian franchises abroad through some of its sectorial specific programs.

The bibliographic study accomplished by Prasad and Babbar (2000) reports all scientific publications involving international operations between the mid-1980s and 1990s. The authors analyze several aspects related to international operations, whose outcomes indicate a strong concentration of scientific publications in developed countries, and emphasize the need to study the processes of internationalization in emerging countries, since firms from emerging economies have their own needs and particularities that cannot be compared to countries with different institutional and organizational background.

Emerging markets, therefore, require specific research and study since they involve a group of countries that has gained a prominent role in the international economy, with heterogeneous backgrounds due to historical, cultural, political and ethnic characteristics (Cuervo-Cazurra, 2008; Alon, Liqiang & Wang, 2010). Emerging markets are characterized by the presence of infrastructure problems, restrictions to prepare human resources for international operations, and determined institutional and bureaucratic restrictions, which hampers the capacity to do business and to internationalize firms (Khanna, Palepu, & Bullock, 2010; Sull & Escobari, 2005). Brazilian franchise chains, more specifically, bring an additional challenge for internationalization due to the economic growth scenario experienced by the country over the last decade. In principle, there was a discouragement to investment abroad and the potential growth was focused on the domestic market. Additionally, the process of internationalization in the country can still be considered a recent phenomenon, on average, 5 years as indicated in an official study of the sector in partnership with ABF, which signals a stage of competence development for internationalization by the Brazilian franchise chains (Borini, Rocha, & Spers, 2012). Other relevant characteristic of Brazilian franchises is the lack of recognition of their brands internationally; this feature becomes, therefore, an impediment to expand businesses (Khauaja, 2009).

Despite the specifics of emerging markets (i.e. in the Brazilian context, there seems to be a lack of studies on franchising in emerging markets within top-tier management and marketing journals. One can notice that the behavior of franchise chains from BRIC countries (Brazil, Russia, India and China) is hardly addressed academically. In a 2011 special issue of the Journal of Retailing on franchising, for instance, there were no studies carried out by scholars from emerging markets; recently, there has been only a few studies addressing franchises from emerging economies. The work of Aliouche and Schlentrich (2011), for example, presents the creation of indexes of countries for investment and the performance of the macro-environment for American franchisors to operate in emerging markets.

Studies addressing the internationalization of Brazilian franchise chains are still concentrated in national publications (Melo & Andreassi, 2010) and they (Ribeiro & Melo, 2007; Khauaja, 2009; Borini, Souza, Biskamp, Coelho, & Sadzinski, 2013; Borini, Rocha, & Spears, 2012; Melo, Borini, Oliveira, & Parente, 2013) have limitations with regard to sample size and lack of particularization of variables that differentiate internationalized Brazilian franchises and franchises with only domestic operation. Therefore, further studies involving Brazilian franchises with international operations are necessary.

In sum, this paper brings significant contributions to the franchising literature by selecting a group of secondary data on relevant variables that may be determinant to promote international operations. This contributions are based on variables related to the capacity for growth; capacity for monitoring and control; chain reputation and investment rate – which directly support the researches accomplished by Shane (1996a); Elango (2007); Mariz-Pérez and García-Álvarez (2009).

In order to better understand the dynamics of the internationalization process adopted by Brazilian franchise chains, we proposed the following research question to guide our research: What are the fundamental organizational differences between Brazilian franchise chains with only domestic operations and their counterparts with international operations? Our main focus is on the examination of determined organizational characteristics that distinguish Brazilian franchise chains with domestic operations from Brazilian franchise chains with international operations.

We hope to contribute to the existing literature on franchising as well as to the international business literature by developing and testing a framework that considers the organizational variables related to franchise chain growth; the ability to monitor and control operations; the franchise chain reputation; and the investment rate in this sector. In addition, our research provides a significant managerial contribution to the franchising segment by drawing the managers' attention to franchise chains that are not yet internationalized regarding relevant aspects in international operations, thus providing them help to be better prepared for a potential internationalization process.

This paper is structured as follows: first, a review of the literature and the theoretical framework are presented, as well as the development of the study's hypotheses; hereupon we present the methodology, the analysis of the results, and, at last, the discussion of the findings and implications.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Theory of Resource Scarcity (TRS) and the Agency Theory (AT) are the two main theoretical approaches in franchinsing studies (Castrogiovanni, Combs, & Justis, 2006; Combs, Michael, & Castrogiovanni, 2004; Combs & Ketchen, 2003; Melo & Andreassi, 2010). These two theories have been used to analyze the influence of organizational aspects, such as franchise chain size (number of units), the chain geographical distribution, its age, growth rates and fee charges (Fladmoe-Lindquist, 1996; Shane, 1996a; Alon, 1999; Alon & McKee, 1999a). These two theoretical backgrounds were used to develop this theoretical framework because they play an important role in the internationalization process of franchise chains in emerging markets.

According to the Theory of Resource Scarcity, the franchising system is characterized by relationships that implicate scarcity of resources of the parties involved. One can argue that the franchisor needs to obtain financial resources from the franchisees to support their expansion. The franchisee, in turn, seeks to obtain expertise, brand recognition and human resources from the franchisors (Mathewson & Winter, 1985; Brickley & Dark, 1987). Franchise studies in developed markets show that internationalization occurs when franchisors manage to develop and accumulate sufficient resources in their operations in the domestic market. These resources include financial capital, human resources, brand recognition and know-how capabilities to operate the whole franchising system (Fladmoe-Lindquist, 1996; Shane, 1996a; Alon & McKee, 1999B; Delios & Beamish, 2001; Perrigot, Cliquet, & Mesbah, 2004).

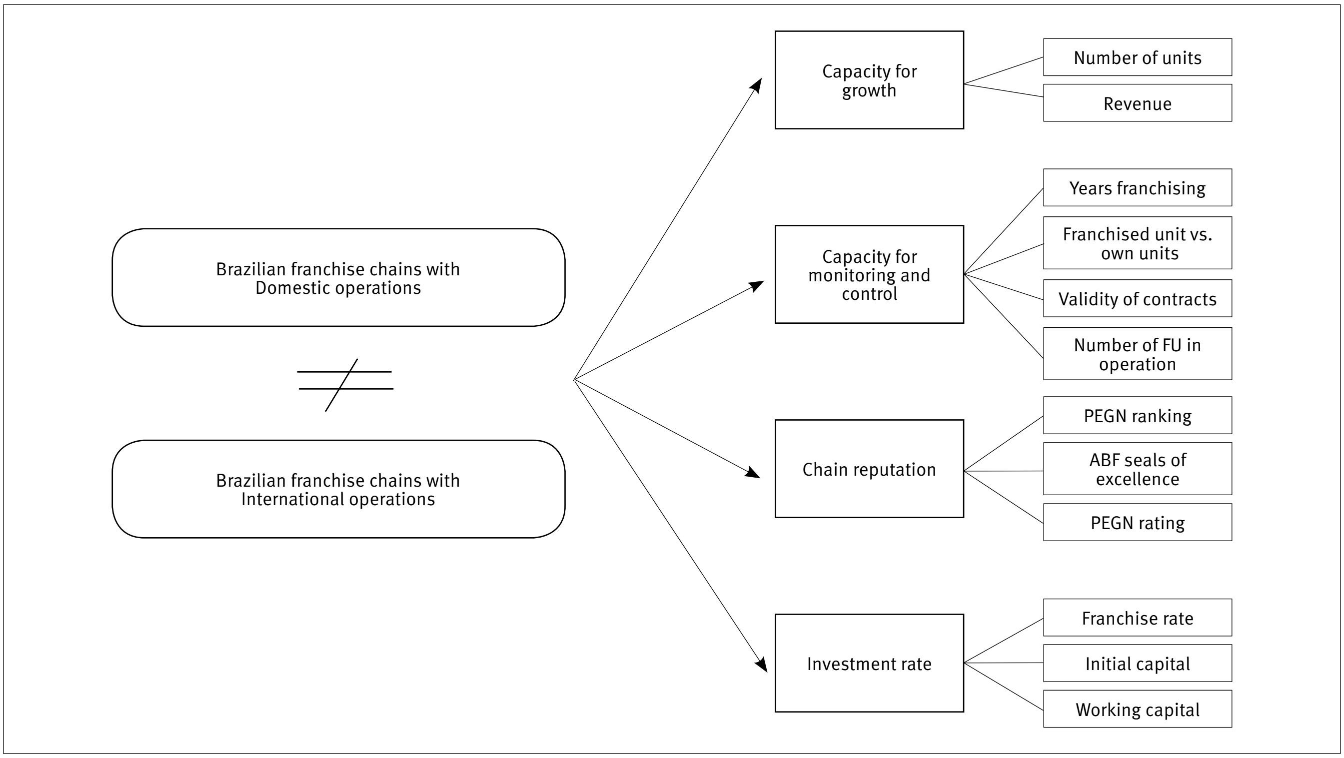
Moreover, the result of the relationship between the two parties (i.e., franchisee and franchisor), tends to create conflicts, which can be understood under the Agency Theory perspective (Baker & Dant, 2008). The parties involved, the franchisor (principal) and franchisee (agent) have divergent interests, which will generate opportunistic behaviors and increase agency costs. The franchisor, in order to reduce agency costs and the opportunism, needs to establish monitoring and control mechanisms, generating benefits to franchisees (Castrogiovanni et al., 2006; Chen, 2010; Chu & Sappington, 2009; Jensen & Meckling, 1976). As for franchise chains, one of the risks involved in international operations lies in the loss of standards by the franchisee, and this risk accentuates as the geographical and cultural distance to the countries of destination increases (Fladmoe-Linquist, 1996). Thus, the Agency Theory, when applied to franchising, suggests that the greater the capability for franchisors to monitor and control the franchisees, the greater the probability and capacity to look for international operations (Alon & McKee, 1999b).

Our research proposes a framework based on the Agency Theory and on the Theory of Resource Scarcity, which serve as means for analyzing variables that may be determinant when considering international operations.

Growth potential

There are many growth opportunities for franchise chains in emerging markets. A growing middle class, high level of urbanization, many large cities, still unsaturated markets and untapped demand characterize these countries. In addition, according to Welsh, Alon, and Falbe (2006), a legal system aims to protect the relationship between franchisors and franchisees. Nevertheless, in emerging markets, franchisors have the possibility to expand geographically without requiring large investments (Stanworth, Price, & Purdy, 2001; Welsh et al., 2006).

Figure 1. **The research framework**



Therefore, the firm's growth capacity in the domestic market can serve as an indicator of the restrictions and limitations for growth in the domestic market. In case there are growth obstacles in the domestic market, the search for international operations becomes an alternative to franchise chain growth (Hackett, 1976; Aydin & Kacker, 1990; Elango, 2007).

Based on the argument mentioned above, it is expected that franchise chains will seek for international operations when they encounter low growth rates, which may indicate saturation in their domestic markets. Thus, it is appropriate to take the risks associated with international operations given the growth difficulties in the home market (Hackett, 1976; Aydin & Kacker, 1990; Elango, 2007; Mariz-Pérez & García-Álvarez, 2009). Hence, we propose the following hypothesis:

> H1: The lower the growth rate of the franchise chain in the domestic market, the greater its presence in international markets.

Monitoring and control capacities

The franchising system involves intense relationships between franchisor and franchisees, where the franchisor has to deal with the dilemma of balancing the control of its franchised units while providing them a certain level of autonomy too. In international operations, the need to control franchised units intensifies, given the geographical distance and cultural, economic, political and social differences among the diverse markets. The greatest difficulty of controlling lies in the provision of services, which creates a dependency and constant interaction between employees and customers (Fladmoe-Lindquist, 1996; Chen, 2010).

The control exerted by franchisors occurs both formally and informally with regard to the franchisees. Formal control mechanisms include rules, regulations and penalties established by franchising agreements. On the other hand, informal control mechanisms depend on the sharing of beliefs and values between franchisors and franchisees (Felstead, 1991; Altinay, 2006; Clarkin & Swavely, 2006; Koza & Dant, 2007).

Franchises with international operations require monitoring skills for controlling patterns of their units and to ensure that the franchisees follow all the specific guidelines. The ability to monitor and control is essential to reduce moral risks, which can be responsible for the deterioration of the franchise chain's image among consumers and for the emergence of opportunistic actions among franchisees (Jensen and Meckling, 1976; Shane, 1996b; Fladmoe-Lindquist, 1996; Elango, 2007).

The asymmetry of information tends to be higher in international operations, given the need to adapt the business and its products to international markets (Chen, 2010; Petersen &

Welch, 2000; Pizanti & Lerner, 2003). Franchisors may have to deal with unwanted changes in the patterns of operation and perceptions of the brand due to the consumer market in the foreign country. Moreover, the partial information that reaches franchisors and the exclusive interests of certain franchisees require the intensification in the monitoring and control of international operations (Dant & Nasr, 1998; Quinn & Doherty, 2000; Chow & Frazer, 2003). Hence, we propose the following hypothesis:

> H2: The greater the monitoring and control capability of the franchise chain, the greater its presence in the international market.

Chain reputation

One of the strategies used by Brazilian franchise chains to increase their recognition in the domestic market is the internationalization of the brand. The presence in international markets shows how to add value in the domestic market by associating the international process to the development of skills and innovations that benefit not only the franchise chain, but also the consumers of the specific brand (Macedo, 2011). In addition, international operations tend to generate greater recognition for firms in the domestic market as well (Eren-Erdogmus, Cobanoglu, Yalcin, & Ghauri, 2010). The effort to develop the brand in international markets is a corporate strategy adopted by companies that constantly seek for a better quality perception of their brands. It is however important to point out that the international presence of a certain brand is strongly correlated to better quality products and higher reputation, which leads to a better sales performance (Steenkamp, Batra, & Alden, 2003; Holt, Quelch, & Taylor, 2004). Such correlations could be proved through a study involving American and Korean consumers (Steenkamp, Batra, & Alden, 2003).

There are records of American franchise chains, which did not have a strong reputation, entering international markets in the emerging countries in Asia. In some cases, these franchise chains could not provide the required support to their international franchisees. In these situations, the tendency for local franchisees is to develop the brand recognition themselves; this phenomenon happens due to the low consumer recognition regarding the foreign franchise chain and its limited capacity to deal with the cultural differences in international markets (Choo, Mazzarol, & Soutar, 2007).

Thus, the process of franchise chains internationalization involves not only large and consolidated brands; there are some cases of small and little-known internationalized British franchise chains that seeked for operations abroad (Hadjimarcou & Barnes, 1998). However, the brand may have little influence to attract potential franchisees in international markets in situations where the franchise chain does not have a known brand in its own domestic market (Choo et al., 2007). In turn, even though it is a strategy generating visibility to the franchise chain, the costs of these operations tend to be high when promoting an international status. Therefore, a plan is required in order to promote the expansion of the chain in international markets, reducing unit costs and generating the sustainability of international operations (Choo et al., 2007).

We argue that international operations of franchise chains require further analysis to ascertain the peculiarities of international markets. In international operations, there are frequent adjustments to the products and the business format, which requires from the franchisor a greater commitment to expand in the domestic market (Aydin & Kacker, 1990; Sadi, 1994; Choo et al., 2007). Thus, the expansion in domestic markets becomes interesting, especially due to the reduced complexity of the market. Specifically regarding the emerging markets, franchisors have favorable conditions to expand their business at lower risks and without an urgent need of larger investments (Stanworth et al., 2001; Welsh et al., 2006). In turn, these conditions can stimulate franchise chains with great reputation in the domestic market to intensify their expansion process aiming the domestic market, given the ease to attract new franchisees. Hence, we propose the following hypothesis:

> H3: The lower the reputation of the franchise chain in the domestic market, the greater its presence in the international market.

Investment rate

The initial investment rates required to open a franchise include the financial amount for concession, capital for initial installation and working capital. The franchise fee is paid upon the acquisition of the franchise; it corresponds to the amount required to join a franchise chain. The installation fee includes physical equipment, initial stock and training required to the establishment of the franchised unit. The working capital comprises the amount to support the operation (Bordonaba, Polo, & Lucia, 2005; Shane, Shankar, & Aravindakshan, 2006; Gigliotti, 2012). Investment rates, in turn, serve as a moderator during franchisees selection.

The franchisee's profile desired by the franchisor includes the financial requirements and financing terms accepted for joining the franchise chain. In addition, franchisors must adjust their investment rates to their level of service and reputation in order to attract franchisees (Shane et al., 2006; Flannery, 2007; Gigliotti, 2012). Franchise chains with no great reputation brands, can charge lower investment fees in order to attract other franchisees. The lower investment rates serves as a return to the franchisee for joining a franchise chain with lower market recognition. As the chain increases its reputation, the franchisor tends to increase the investment requirement necessary for joining its business (Shane et al., 2006). The collection of high investment rates may discourage individuals interested in acquiring franchises, who do not wish to spend large amounts of money on it (Gallini & Wright, 1990). Therefore, chains charging low investment rates tend to have larger number of parties interested in acquiring their franchises, given the lower financial requirement for this acquisition (Shane et al., 2006; Flannery, 2007; Gigliotti, 2012).

Shane (1996b) argues that the lower the investment required for opening a franchise, the greater the attraction of potential franchisees to expand the business abroad. For the franchisor interested in internationalizing its franchise chain, the level of initial investment required maybe limited. Therefore, charging high investment rates can be a discouraging factor, since the franchise chain tends to position itself as a new entrant and needs to become competitive when attracting franchisees abroad. Hence, we propose the following hypothesis:

H 4: The lower the investment rates required to opening a franchise, the greater its presence in the international markets.

METHODOLOGY

Criteria to select the sample among Brazilian franchise chains with domestic operations was the selection of indicators presented in the Franchise Guide (2011), which is very renowned among Brazilian academics and publishes data and indexes by Serasa Experian. The 2011 issue was used herein since it was the most current edition when this research started being conducted.

The criteria for selection the variables were based on the franchise chains with domestic operation that had the best scores in their respective segments, given that this classification is divided by sectors. Thus, we chose as criteria variables that qualify the best chains with domestic operations for this comparison. The variables “rating”, “ABF seal of excellence” and “final score” were selected. That way, we have disregarded franchise chains that were classified by revenue, number of units and age, since some internationalized chains with good scores demonstrated different scores regarding these three characteristics; e.g. young chains with low invoice and only a few units can still have operations abroad. Initially, 100 Brazilian franchise chains with domestic operations were selected (See Table 1).

Exhibit 1. **Sample selection criteria for domestic franchises**

Criteria	Composition index	Description	Criteria Author selection index
Rating	Reveals overall classification in annual ranking	5 stars – Excellent 4 stars – Great 3 stars – Good 2 stars – Regular	5 stars – 5 points 4 stars – 4 points 3 stars – 3 points 2 stars – 2 points
ABF Seal of Excellence	Seal of excellence granted by the association representing the sector	Yes or No	Yes – 1 point No – 0 point
Final score	Result of the weighted performance index (weight 0.30), quality (0.30) and satisfaction (0.40)	Chain performance - Based on revenue growth rates and no. of stores Chain quality - Based on three indicators: support to franchisee, brand strength, solidity and transparency Franchisee satisfaction - It is based on: quality of training, consultancy, operations manual and level of communication with franchisees	Score established by the guide – 0 to 10 points
Segment	Sector of operation	Category according to ABF	Proportional to the sample of internationalized per sector

Brazilian franchise chains with incomplete information and chains categorized as outliers were excluded from this selection; we have selected, therefore, 96 franchise chains with domestic operations. The second part of the sample regards the Brazilian franchise chains with international operations, obtained from the Official Franchise Guide (2011), an official annual publication issued by the ABF. On this list, there were initially 70 franchise chains with international operations and, after a statistic treatment in order to exclude the outliers with two or more standard deviations, the number of 67 Brazilian franchise chains with international operations was selected. The five main sectors in which Brazilian franchise chains operate abroad are to be seen in the table below. Additionally, the representativeness of each one of these sectors in terms of numbers of chains in the Brazilian franchise market is also indicated (Table 2).

Table 1. **Segments in which franchises operate**

Segment (ABF classification)	Internationalized franchises	Franchises in the domestic market	Proportion of internationalized franchise
Beauty, health and natural products	14	508	2.76%
Nourishment	13	637	2.04%
Clothing	10	311	3.22%
Personal accessories and footwear	9	191	4.71%
Education and training	9	284	3.17%
Other sectors	12		

In order to complement this study, the table below was created to present the main countries of destination chosen by the Brazilian franchises, in which a high concentration of Latin American countries can be observed.

Table 2. **Main countries operation by the Brazilian franchise chains**

Countries	Region	Number of chains
Portugal	Ibero Europe	20
United States	North America	20
Paraguay	Latin America	16
Angola	Lusophone Africa	9
Argentina	Latin America	9
Spain	Ibero Europe	9
Bolivia	Latin America	8
Venezuela	Latin America	7
Chile	Latin America	5
Colombia	Latin America	5
France	Europe	5
Japan	Asia	5
Mexico	Latin America	5
Australia	Oceania	4
Costa Rica	Latin America	4
South Africa	Africa	4

Operationalization of variables and measurement

The Exhibit 2 below presents the dependent, independent and control variables with their respective reference theories. Subsequently we describe how each construct was operationalized.

Exhibit 2. **Composition of dependent, independent and control variables and their theories**

Perspective	Variable	Type	Reference theory	Relationship with the reference theory
International operation	Internationalized	Dependent	Agency theory	The greater the capacity for monitoring and control the franchisees, the greater the capacity to seek international operations
			Resource scarcity	Internationalization occurs when chain accumulate sufficient resources in their operations in their domestic market
Particularities of the sector	Segment of operation	Control	----	----
Period in operation	Years	Control	Agency theory	The age of the company may be related to a greater know-how and the establishment of standards of operation
			Resource scarcity	The age of the company may be related to the accumulation of resources
Chain size	Total number of units	Control	Agency theory	The company size may be related to its capacity for monitoring and controlling the units
Capacity for growth (H1)	Variation in the number of units Variation in the revenue	Independent	Resource scarcity	The chain growth rate may be related to limitations in the domestic market, hence the need to seek international market
Capacity for monitoring and control (H2)	Years of operating through franchises Proportion of franchised units over the number of own units Validity of agreements Number of states in operation	Independent	Agency theory	The period of operation in franchising generates expertise in monitoring and control of their units Franchised units required a greater capacity for monitoring The duration of the contracts imposed acts as a form of control imposed on franchisees The number of states in operation demonstrates the capacity for monitoring and control of geographically dispersed franchises
Chain reputation (H3)	Ranking in Franchise Guide ABF Award Rating- chain performance	Independent	Resource scarcity	The brand is a rare resource, after this accumulation the chain may have to start international operation
Investment rate (H4)	Franchise fee Franchise installation Working capital	Independent	Agency theory	The financial resources act as a compensation to the franchise generated
			Resource scarcity	The financial resources required for capitalization of the franchise chain

Dependent variable: Our dependent variable is the existence or not of international operations accomplished by Brazilian franchises in 2011. It was operationalized as a dummy variable with the number (1) for internationalized and (0) for non-internationalized franchise.

Capacity for growth: The franchise chain's growth rate can be related to limitations in the domestic market (Theory of Resource Scarcity). We have considered: (i) the increase or decrease of annual units' number (%) and (ii) the increase or decrease of the chain's revenue (Shane, 1996a; Castrogiovanni & Justis, 2002; Elango, 2007; Mariz-Pérez & García-Álvarez, 2009).

Monitoring and control capacity: Operating in franchises generates expertise in monitoring and controlling units; franchised units require a greater capacity for monitoring and the contracts elaborated by franchisors are a form of control imposed on franchisees - the number of states in operation demonstrates the capacity for geographically monitoring and controlling dispersed franchises (Agency Theory). We have considered: (i) the number of years of operation; (ii) the proportion of franchised units over the total number of own units (%); (iii) the validity of agreements and; (iv) the number of states in operation - geographic dispersion. (Lafontaine, 1992; Shane, 1996a; Shane, 1998a; Shane, 1998b; Hoffman & Preble, 2003; Weaven & Frazer, 2003; Mariz-Pérez & García-Álvarez, 2009; Alon, Liqiang, & Wang, 2010).

Reputation of the chain: The franchise chain coming from an emerging market seeks international operations in order to obtain resources, which is, in this case, the valuation of its brand in the domestic market (Theory of Resource Scarcity). The (i) first indicator was based on the ranking "The Best Franchises in Brazil" (Franchise Guide - PEGN). According to studies conducted by other authors, we have credited the score 100 for one that ranks first, and for each position below, we discounted one point from this score (Castrogiovanni & Justis, 2002; Elango, 2007). The classification is done by market segment and there is not a general ranking comprising all segments. Another (ii) indicator is the seal of excellence granted by ABF. The franchise that had such award would receive an additional score (10 points). The (iii) other indicator, related to the franchise chain performance, classifies the chains between 5 (50 points) and 2 stars (20 points).

Investment rate: Financial resources are a sort of compensation for each franchise generated (Agency Theory) and represent the resources required for the franchise chain capitalization (Theory of Resource Scarcity). We have considered: (i) the fee for the concession of a unit; (ii) the capital required for the installation of the unit and; (iii) the working capital (Brickley & Dark, 1987; Lafontaine, 1992; Shane, 1996a; Alon, 2001; Dant & Kaufman, 2003; Elango, 2007; Alon et al., 2010).

Control variables: The size can be related to the capacity to monitor and control units (Agency Theory). We have considered: First, the company's age, considering know-how as a business and including the knowledge acquired before the franchise operation. The age may be related to a greater know-how, to the establishment of standards of operation (Agency Theory) and to the accumulation of resources (Theory of Resource Scarcity). Second, the sector in which the company operates, since different industries have their own particularities (Alon & McKee, 1999b; Elango, 2007). At last, we have considered the franchise size, which refers to the total number of units of a franchise chain, whether franchised or own units (Elango, 2007).

Statistical processing of data

In this study, the objective was to estimate the association between independent variables and the dependent variable (binary), in other words, if the franchise was internationalized (1) or domestic (0). Since the dependent variable in question is a dichotomous variable, the most appropriate regression model for this study is the logistic regression, which is specific to situations where the dependent variable is not rational, but binomial (Hair *et al.*, 2006).

The adjustment of the final model can be seen through the Hosmer and Lemeshow test, which was 2.524 and $p = 0.961$, Chi - square statistics was 117.71 with $p = 0.000$. The logarithmic likelihood function (- 2LL) indicated the decrease from the first model (initial and final = 196.89 and 85.355). One may verify in the table below the effectiveness of the model by checking the overall percentage and the percentage of correct classification (hit ratio), which was higher than 85%.

Table 3. **Classification**

Internationalization		Forecasting		
		no	**yes**	**Global %**
Observed	no	87	8	91.6
	yes	14	44	75.9
	Global %			85.6

It is possible to affirm that the model is effective, since the overall rating is high (85%) and the Hosmer and Lemeshow test rejects Ho (p>0.05). One may also infer that the Chi-Squase statistics was significant (p<0.05) and an expected decreased was observed in the -2LL function.

In Table 4 it is possible to verify the pseudo R^2. Instead of using the Cox & Snell test, we have decided to use the Nagelkerke test, since its maximum value is equal to 1, while the previous is variable (Hair et al, 2006). Therefore, Nagelkerke R was chosen to compare the five models proposed herein.

ANALYSIS OF RESULTS

Table 4 shows the correlation and table 5 the logistic regression coefficients for the five groups of independent variables analyzed herein.

Table 4. **Correlations**

		1	2	3	4	5	6	7	8	9	10	11	12
1	Variation in the revenue	1											
2	Variation in the number of units	0.191*	1										
3	Proportion of frunchised inits over the number of own units	0.017	-0.101	1									
4	Validity of the agreements	0.158	0.042	0.095	1								
5	Number of states in Operation	-0.079	-0.133	0.389**	0.018	1							
6	Period of operation through franchises	-0.299**	-0.350**	0.207*	-0.038	0.437**	1						
7	Reputation of the Chain (Franchise Guide Raking)	0.035	-0.082	-0.012	0.086	0.188*	0.11	1					
8	Reputation of the chain (ABF Award)	-0.178*	-0.124**	0.139	0.032	0.293**	0.0314**	0.231	1				
9	Reputation of the chain (ABF Award Reputation of the chain (Rating – chain performance)	0.031	0.029	0.09	0.07	0.109	-0.021	0.406	0.429**	1			
10	Franchise fee	-0.082	-0.074	-0.128	0.019	-0.181*	-0.027	0.047	0.136	0.084	1		
11	Franchise installation	-0.201*	-0.159*	-0.252**	-0.007	0.094	0.186*	-0.11	0.280**	0.129	0.489**	1	
12	Working capital	-0.156	-0.127	-0.104	-0.084	0.115	0.116	0.009	0.034	0.028	0.372**	0.425**	1

** $p < 0.01$; * $p < 0.05$

Table 5. **Logistic regression model**

	Model 1	Model 2	Model 3	Model 4	Model 5	Exp (b)
H1 – Variation in the revenue	-0.683				0.038	0.963
H1 – Variation in the number of units	-1.304				-0.006	0.994
H2 – Proportion of frunchised inits over the number of own units		-0.245			-0.315	0.729
H2 – Validity of the agreements		-0.049			0.383	1.466
H2 – Number of states in operation		0.373*			1.192**	3.293
H2 – Period of operation through franchises		0.071**			0.101**	1.106
H3 – Reputation of the Chain (Franchise Guide Raking)			0.61*		0.556	1.743
H3 – Reputation of the chain (ABF Award)			0.309		-0.288	0.75
H3 – Reputation of the chain (Rating – chain performance)			-2.507		-3.408**	0.033
H4 – Franchise fee				-0.86	-1.208!	0.299
H4 – Franchise installation				0.072	-1.114	0.121
H4 – Working capital				0.295	0.301	1.351
Constant	-0.69	-1.258	-0.38	-0.501	-1.538	
Nagelkerke R Square	0.054	0.156	0.527	0.077	0.73	

** $p < 0.01$; * $p < 0.05$; ! $p < 0.10$

The results indicate that there was no empirical support for Hypothesis 1 with regard to the capacity to grow. The theoretical model established that the lower the growth rate of the franchise chains in the domestic market, the greater their presence in international markets.

Hypothesis 2, stating that the greater the capacity for monitoring and controlling franchise chains, the greater their presence in the international market, supported by the variables (i) number of states in operation and (ii) franchises' period in operation. In turn, column "EXP (B)" indicates a high influence of these two variables in the model that involves characteristics related to the monitoring and controlling of franchises.

These results suggest that the franchises' operation experience and the geographical dispersion in the country of origin can contribute to increase the franchisors' confidence when operating internationally. The theoretical framework (Lafontaine, 1992; Shane, 1996a; Shane, 1998a; Shane, 1998b; Hoffman & Preble, 2003) indicates that companies, which are inserted in the franchising activity for a longer period, tend to have more experience operating in chains. It means they are able to accumulate the know-how which shall be the driver for working with geographically dispersed units. Such know-how accumulated by the franchisor provides greater certainty when one plans to start operating abroad. Brazil's geographic location, characterized by great continental and broad areas, leads the franchisors to develop capacities of monitoring and control, since these are critical success factors in the franchising model.

Regarding Hypothesis 3, two variables related to the company's reputation are significant, even though the measurement related to the ranking is marginally significant. Meanwhile, in the fifth model (final model), the variable "ranking" loses significance. Thus, it is only possible to state that the "rating - chain performance" variable is significant ($p < 0.05$). This variable has a negative signal, which means that the lower the reputation in the domestic market, the higher the association with internationalization. These results suggest that franchise chains with greater reputation in the domestic market have a higher focus on their domestic operations. On the other hand, chains with lower reputation in the domestic market can use international operations as strategy to improve their brand reputation internationally.

Hypothesis 4 states that the lower the investment rate required to opening a franchise, the greater its presence in the international market, only marginally supported ($p < 0,10$). This is the variable with the lowest influence among the variables analyzed in investment rate. The results suggest that franchises that charge lower investment rates have a greater presence in international markets, compared to those that charge higher investment rates. This outcome is relevant because internationalized franchise chains are mostly those with lower reputation in the domestic market and, therefore, try to establish more attractive investment rates in order to attract franchisees.

DISCUSSION AND IMPLICATIONS

This research deserves some particular considerations since it refers to the internationalization of franchises in an emerging market, with little experience in international business due to a late internationalization process.

The results indicate that Brazilian franchise chains with lower reputation in the domestic market seek for international operations more intensively than franchises with higher reputation in the domestic market. We believe this behavior can be explained by the media exposure in the domestic market accomplished by some chains that have international operations. These become recognized chains in official s franchising sector programs (e.g., ABF and the Brazilian Trade and Investment Promotion Agency - APEX), and newspaper articles subjects. In some cases, franchisors explore the international brand status with their franchisees. In turn, this status integrates the chain as it starts having a greater potential for attracting new franchisees and consumers to these brands. One notices, therefore, a greater recognition of the franchisor's effort to the existing franchisees and consumers. Thus, internationalization is an alternative to overcome resource scarcity and not a preliminary condition so that the internationalization occurs, as has been pointed out in some studies (Fladmoe-Lindquist, 1996; Shane, 1996a; Alon & McKee, 1999b; Delios & Beamish, 2001; Perrigot et al., 2004). The findings presented herein contradict the assumptions advocated by the Theory of Resource Scarcity (TRS), which postulates that the internationalization occurs after accumulation of sufficient resources in the domestic market.

Regarding the rates charged, Brazilian chains with international operations charge lower installation rates to their franchisees. Thus, the attraction of a greater number of franchisees is justified by the lower investment required. This observation is interesting and supported by the work of other researchers (Gallini & Wright, 1990; Shane, 1996a; Shane et al., 2006; Gigliotti, 2012) since it involves franchises from an emerging market, with population income limitations. However, in order to respond to the market, such restrictions make franchisors seek to adjust their business to obtain financial resources. In this situation, the logic of the Theory of Resource Scarcity is pondered as the franchise chain deals with the financial limitation of its operational market in order to overcome the financial resources restriction.

It seems reasonable to assume that franchises with lower reputation in their domestic market need to offer more attractive investment rates in order to develop a large pool of international franchisees. Our research supports the fact that franchises charging lower investment rates seem to have greater presence in international markets.

Our findings regarding the monitoring and control of franchises is in line with other international studies, especially with regard to the American franchise chains (Shane, 1996a; Elango, 2007). We have found that the capacity for monitoring is one of the determining factors for Brazilian franchises to have international operations. Our research shows that the prior experience with franchise operations and geographic dispersion in the country of origin contributes to the franchisors' confidence in operating in international markets. Because Brazil has a continental geographic structure, Brazilian franchise chains with operations in many regions need to develop technical skills and set technological resources to monitor and control their units. This aspect confirms the assumptions proposed by the Agency Theory, given the concern of franchisors to reduce moral risks resulting from a low technical capacity for monitoring and control .

Surprisingly, we did not find any statistical support regarding the growth rate in the domestic market of Brazilian franchise chains, which could increase the possibility of the franchise chain to seek for international markets due to saturation in the domestic market. Surprisingly, this hypothesis did not present enough statistic correlations to make of it a determining factor in Brazilian franchise chains internationalization. Thus, this hypothesis was not proposed by the Theory of Resource Scarcity, in which accumulation of resources precedes internationalization.

Our research contributes to the literatures on internationalization and franchising by pointing out some organizational particularities (growth, ability to monitor and control, reputation and investment rates) of Brazilian franchise chains with domestic and international operations. Therefore, this study adds value to the expertise of scholars interested in analyzing other emerging markets regarding franchise chains.

In terms of managerial contributions, our findings should help managers by selecting competencies to be developed in their franchise chains when they are willing to internationalize operations. Managers who intend to align Brazilian franchise chains with some international operation, in order to adjust some attributes in their operations and improve the performance in international operations.

The analysis of the franchises' operation areas may provide managers with an important contribution by revealing features of the internationalization process of these chains with regard to product and service customization and standardization in order to adapt to the international market. Proportionally to the number of chains in the domestic market, some other sectors related to e.g. clothing and personal accessories have demonstrated a stronger commitment internationally, especially when compared to the number of chains in the domestic market. From this, one can conclude that in this sort of market segment it becomes easier to internationalize franchises since the products offered demand regular updating. The dynamics of this sector is responsible for facilitating the internationalized franchises' adjustment to the international market since the product portfolio is more frequently updated in comparison to markets in which the need of standardization is more demanded and the need for innovation is not so urgent.

With regard to the Brazilian franchises' countries of destination, one can notice a process of incremental internationalization guided by cultural and geographic proximity (Johanson & Vahlne, 1977), considering the concentration in Iberian and Latin countries. The United States may be seen as a cultural reference country, which has a strong economic potential and an intense resident Latin population. These outcomes come forward to the internationalization process of Peruvian restaurants related by the study of Rivas and Mayorga (2011).

Regarding the managers responsible for the internationalization process of their franchise chains, choosing the destination country is useful to identify difficulties to be faced in an international expansion process. However, the analyses for these Brazilian chains shouldn't be guided only by the cultural and geographic proximity; institutional indicators such as level of bureaucracy, political stability and level of corruption should be taken into consideration (Melo et al., 2013).

One important limitation of this study is the use of secondary data. Since Brazilian franchises comprehend only a small number of companies (less than 80), the use of secondary databases can be justified, whereby the analysis of higher number of franchises was possible and common behaviors could be identified. The use of secondary databases in franchising studies has a certain tradition and is a method accepted among academics; the use of these database, on the other hand, limits the depth of the analyses when determining organizational factors for internationalizing.

As a suggestion for future studies, surveys with empirical data obtained from franchisors and franchisees may complement the limitations presented in this research regarding the use of secondary data. In future studies we recommend to deepen variables related to franchise chain growth, competence to monitor and control it, the relationship with customized products from franchise shops, chain reputation and investment rates required for opening a franchise. We suggest an analysis of these variables in Brazilian franchises operating in the domestic market, as well as internationalized franchises.

When elaborating a survey, we recommend investigation of internationalization strategies applied by franchises. Since franchise chains do not expand in uniform ways, one can find franchises working with a master franchisee, alliance partners, wholly owned outlets and other combining strategies. In these other strategies, points of sales are inserted through the conversion of non-franchised store or even franchises belonging to different chains. Along with this conversion, it is important to analyze the impact of these resources added to international operations (Hoffman & Preble, 2003). Does the strategy influence results? Another suggestion is to categorize Brazilian franchise chains according to their level of commitment abroad in order to verify differences in the degree of international development of Brazilian chains. Thus, future research should analyze the performance of comparative studies between emerging markets in order to understand the behavior of this group of countries and the differences among themselves and among developed markets, particularly the USA and Europe.

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