Internationalization of Brazilian Franchisors: A Psychic Distance Perspective

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Abstract

Franchising has emerged as an important retailing and entrepreneurial venture on a global scale and represents one of the key entry methods commonly used by the retail sector for international expansion. Both theoretical and empirical papers have been published on motives for international franchising and on the selection of the mode of entry. However, very few studies have attempted to fully address another important issue: the selection of the host countries by franchisors. Although recent research has been done on the expansion of developed countries franchisors to emerging markets, most studies on international franchising are based on cases and data from countries where this industry is in a more advanced stage as compared to emerging countries. During the 1980s, franchisors from developed countries entered the Brazilian market and in the last decade a growing number of Brazilian franchisors are expanding their operations abroad. Brazil is among the ten largest countries by number of franchised brands and units. Thus, the purpose of this study is to investigate if the selection of host countries by Brazilian franchisors can be explained as a function of lower measured psychic distance. This issue is addressed considering the Uppsala model as the theoretical framework as it has been developed and frequently applied to investigate the selection of target countries. One important aspect of this model is the psychic distance construct, which advocates that companies will first expand abroad to markets with lower psychic distance in relation to the home country. Psychic distance is defined as a function of similarities in language, political system and economic and educational levels as those of the company's country of origin. In this study, this construct is used to develop hypotheses regarding the countries and regions chosen by Brazilian franchisors. A log-linear model is estimated using secondary data of all 68 companies reported by the Brazilian Franchising Association (ABF) in October 2010 to have units in foreign countries. Ordinary least squares (OLS) multiple regression estimation method was used to estimate the parameters of the regression. The results reveal that: (1) psychic distance measures such as geographic distance, common language and market size are relevant factors to explain the number of franchisors found in a country; (2) the presence of a large Brazilian population presented a positive and significant coefficient signaling that these companies are following the path of their customers; (3) however, no relation was found with some frequently tested stimulus such as bordering countries, GDP per capita and Kogut and Singh's cultural index. Furthermore, Brazilian franchisors with international operations, on average, have larger networks, are older in years of operation and been franchising longer, than firms that are not internationalized.

Internationalization of Brazilian Franchisors:
A Psychic Distance Perspective

Franchising has emerged as an important retailing and entrepreneurial venture on a global scale. In 2007, franchising accounted for $1.3 trillion of economic activity in the U.S. (U.S. Census Bureau, 2010) and 40% of retail sales in Canada (Canadian Franchise Association, 2007). During the past decades, franchising has facilitated the expansion of retailing and services to new markets (Hoffman & Preble, 2004; Alon & Welsh, 2001). Growth of retail franchising has reached 200,000 units in China (U.S. Commercial Service, 2007) and approximately 80,0000 units in Brazil (ABF, 2010).

Franchising represents one of the key entry methods commonly used by the retail sector for international expansion (Hutchinson, Quinn, & Alexander, 2005). Therefore most of the international franchising studies have concentrated in two issues: the motives for expanding to other countries and the choice of franchising as an entry mode for internationalization (Picot-Coupey, 2006; Elango, 2007; Perrigot, 2008; Aliouche & Schlentrich, 2011). Recent studies have been published on the expansion to emerging economies, as franchisors from developed countries expand to new and less similar markets (Doherty, 2009; Alon, Welsh & Falbe, 2010). However, very few studies have attempted to fully address another important issue: the selection of the host countries (where to expand) (Aliouche & Schlentrich, 2011). Franchising research has focused mainly in single-country studies, primarily the United States, and prioritized a specific sector, food (Dant, 2008). Also most studies on international franchising are based on cases and data from countries where this industry is in a more advanced stage as compared to emerging countries.

One of the theoretical streams frequently used to investigate the selection of target countries has been the Uppsala model (Johanson & Vahlne, 1977). One important aspect of this model is the psychic distance construct, which advocates that companies will first expand abroad to markets with a smaller psychic distance in relation to the home country. Therefore this stream of the international business literature was chosen as a theoretical framework for this paper.

The purpose of this study is to investigate the selection of host countries by Brazilian franchisors based on psychic distance. Psychic distance construct is used to develop hypotheses regarding the countries and regions chosen by Brazilian franchisors. The results based on based on secondary data of all 68 companies reported by the Brazilian Franchising Association (ABF) reveal that: (1) psychic distance measures such as geographic distance, common language and market size are relevant factors to explain the number of franchisors found in a country; (2) the presence of a large Brazilian population presented a positive and significant coefficient signaling that these companies are following the path of their customers; (3) however, no relation was found with some frequently tested stimulus such as bordering countries, GDP per capita and cultural index (Kogut & Singh, 1988).

The analysis is complemented by an initial profile of the Brazilian franchisors that have international operations. When compared with franchising companies with only domestic operations the international franchising operators are: (1) larger in network size and older in years of experience with operation and franchising; (2) the majority of these companies had less than 20 years of experience with franchising systems; (3) Two-thirds of the franchisors adopted fully franchised networks to operate in foreign countries.

The remainder of this paper is organized in six sections. First a brief review of international business literature is presented, followed by a summary of franchising development in Brazil. The third section introduces hypotheses based on the psychic distance theory. The next section describes the data and a profile of international franchisors from Brazil. The results are presented in the following section and the paper is concluded with a brief discussion of the results and recommendations for future research.

International Business Literature

The neotechnological theories of internationalization developed during the last 40 years may be organized under two main approaches: economic and behavioral or organizational (Hemais & Hilal, 2004; Zen & Fensterseifer, 2008). Those which favor the economic approach analyze domestic and international macroeconomic trends and the competitiveness of the international industry. Within this group are the market power theory (Hymer, 1983), the product life-cycle theory – neotechnological (Vernon, 1966, 1979), the internalization theory (Buckley & Casson, 1976, 1998), and the eclectic paradigm (Dunning, 1988, 1995).

On the other hand, those which favor the organizational approach consider the "behavioral man" rather than the "economic man" (Hemais & Hilal, 2004, p. 18) and are concerned with the organization in itself – in this case, the multinational corporation. Within this group are the Uppsala Model and the standpoints followed by the Nordic School.

The Uppsala school of thought found inspiration in Penrose's (1959 apud Johanson & Vahlne, 2003) theory of company growth, which claimed that the company's collective knowledge limits its growth rate. For these scholars, knowledge of the international businesses may only be acquired through direct experience. Their second point of departure for was Cyert's and March's (1963) behavioral theory of the company, according to which the company is a group of coalitions with conflicting interests, which must be seen as a network of relationships; as well as Aharoni's (1966) theory, which situated Cyert's and March's thought in the field of the internationalization, when he asserted that the opportunistic behavior and the existence of a favorable moment are responsible for breaking out the internationalization process in the company.

The Uppsala School emphasized gradual commitment of resources as one of the appropriate strategies for the internationalization process of the companies (Johanson & Vahlne, 1977). According to this model, there is a scale of commitment among the modes of entry, starting with the one least with the least commitment towards the one the most commitment. The gradual process of internationalization follows, therefore, the following steps: export by third parties; direct export; licensing; association or strategic alliances with foreign companies; franchising; setting up of subsidiaries (first with its marketing offices and later with production units), and, finally, setting up of a research center. For such authors, the knowledge originating from experience is critical and must be acquired gradually, enabling the company to develop opportunities from the learning process.

Another important aspect of this model is the psychic distance, which advocates that the company chooses initially the markets abroad with a lower psychic distance in relation to the headquarters. As psychic distance, it shall be understood: "development level, education level, business language, cultural differences, everyday language, and the bonds existing between the country of origin and the foreign market" (Hemais & Hilal, 2002, p. 23).

Several were the criticisms with respect to the Uppsala model. Hemais and Hilal (2002) listed some of them: the model would be too deterministic and generic; it would fail for not considering new entrants which adopt faster and more direct forms of entry; neither would it consider the mode of production by licensing; it would not apply to the strategic alliances, to the franchises and to the management contracts; it would not pay attention to the option of entry by means of mergers and acquisitions; and it would not make clear the form by which the experimental knowledge affects the organizational behavior.

Such as Dunning (1995), Johanson and Vahlne (1990) deemed the interfirm relationship networks, so that, in addition to considering changes in the firms based on the internationalization process, they studied the changes in the relationship among firms and the form by which the connection among several relationship networks takes place, which they called international integration.

But the advancement of the Uppsala model occurred as Nordic School Andersson's (2000) highlighted the role of the entrepreneur. This may be either be technical who may be of three kinds: technical, that is, the one who inaugurates a new product or production method; marketing, that is, the one who opens new markets for the company; and structural, who is the one who modifies the industry organization. Under this aspect of the behavioral theory of internationalization, the individual – the executive – is the most important factor in the choice of the mode of entry.

The Firm Internationalization Process

The internationalization process of the firm needs to be thought through and planned in advance in order to minimize possible problems in its entry in a new cultural, social, political and economic reality. The entry process may present several possibilities of performance by the organizations. However, some aspects must be carefully analyzed – among which are the decisions that have led the organization to enter a certain country and the mode of entry chosen.

According to Buckley and Casson (1998), there are two interdependent decisions for the entry of the organization in another country: the location and the form of control. The first one refers to the choice of the country and, more specifically, of the region. In other words, it refers to the following questioning: Where to internationalize? There are two generic strategies: market diversification and market concentration (Bradley & Gannon, 2000). In diversifying, the purpose is to achieve high return with low compromising of resources in many markets. In concentrating, the company applies a high level of marketing efforts in each one of the few markets, in an attempt to obtain a significant participation in them; the company only enters other markets after having built a strong position in the initial market.

The decisions with respect to the form of control and the location eventually define the mode of entry of the organization abroad. The literature on this topic is extensive, so that one may assert that the decisions on the entry mode have already been analyzed under several perspectives. Kogut and Singh (1988) looked at cultural issues that influence this decision: the cultural distance among countries (Uppsala Model) and the firm's attitude towards risk. Anderson and Gatignon (1986), on the other hand, analyzed the matter under the point of view of the costs, and proposed that the most efficient entry mode is a function of the tradeoff between control and the cost of the commitment of resources. Factors that determine entry mode as presented by Agarwal and Ramaswamy (1992), should be the ownership advantages of the company, the location of a certain market, and the potential internalization of resources, similar to Dunning (1988).

International Franchising

The adoption of the franchising system is generally associated with the expansion of companies that operate with geographically spread units, where information asymmetry and monitoring costs are present (Lafontaine, 1992; Doherty & Quinn, 1999; Lafontaine & Slade, 2007). From a geographical expansion argument, the franchisor is deemed to have more incentives for operating a unit than a manager, since he is a residual claimant. The existence of control and monitoring costs favor the adoption of franchising, as moral-hazard problems associated with shirking tend to be reduced under this type of contract (Lafontaine, 1992; Scott, 1995; Lafontaine & Slade, 2007). In an international expansion context, information asymmetry and costs may be lowered further as the franchisor benefits from the franchisee's knowledge on the local context (Alon & Welsh, 2001). Franchising facilitates rapid expansion to other countries, as it requires fewer financial and human resources (Alon & Welsh, 2001; Picot-Coupey, 2006). From a psychic distance approach, the lack of information is an important obstacle and expansion is based on the perceived knowledge and on the psychic distance between the country of origin and that to which one wants to establish an operation.

The internationalization process faces various legal and governmental restrictions that depict the trade relations in the different target countries (Hackett, 1976; Walker & Etzel, 1973). Differences in institutions influence the governance structure adopted by franchisors (Silva & Azevedo, 2007). Overseas expansion is intricate due to challenges including cultural and regulatory differences. It is often necessary for a franchise to adapt to the local standards so its franchise model can be accepted in another country (Kaufmann & Leibenstein, 2001). For example, European franchisors benefited from the economic integration and homogenization of the European Union.

Hoffman and Preble (2004) note that franchising systems are an important fostering agent in gaining benefits from the globalization process. They identified 53 domestic franchising associations operating in the world, 40 of which were investigated by them, including Brazil. The United States was identified as the main importing country, as expected given that the franchising system emerged in that country and that it represents the largest franchising sector in the world. North-American franchisors have had the advantage of being the first to expand internationally. Their results indicated that franchisors would rather export their businesses to countries that are close to them both geographically and culturally, as asserted by the scholars of the Uppsala School (Johanson & Vahlne, 1977; Hemais & Hilal, 2002). Retailers and franchisors of European countries, such as Great Britain and France, also stood out in the quest for markets (Akehurst & Alexander, 1996; Perrigot, 2008). The main destinations included European countries and the United States (Dahab, 1996; Kaufmann & Leibenstein, 2001), signaling a preference to locations with similar cultural and institutional structures.

Franchising in Brazil

By 1985, franchising was still in its infancy in developing countries (Kaufmann, 2001). In Brazil, the popularity of the franchising system is fairly recent. It was only in the 1980's that the adoption of this format for distribution of goods and services began to expand in Brazil. In 1987, Associação Brasileira de Franchising, the Brazilian Franchising Association (ABF) was created (MDIC, 2005) and beginning in 1994, regulations were promulgated with Law No. 8.955/94 (Cherto, Campora, Garcia, Ribeiro, & Imperatore, 2006). The franchising law went into effect the same year as the landscape changing economic stability plan, the Real Plan, was introduced. These changes coupled with a more open economic environment contributed to brought Brazil into expansion plans of various international networks such as Arby's, Pizza Hut and Subway (Marques, Merlo, & Lucchesi, 2005).

Since 2001, the sector's gross profits grew 12.3% on average (ABF, 2010). The expansion of Brazilian born franchises continues. In 2009 it was estimated that Brazil had reached the fifth highest number of franchisors with 1,643 companies, with approximately 80,000 units, earning US$ 36 billion or 2.1% of Brazil's GDP (ABF, 2010).

On the international scene, every year a growing number of units are inaugurated abroad. Since the 1990s, the franchise sector has received support from the Brazilian government for its international expansion. Beginning in 2004, biannual agreements between the Export Promotion Agency (APEX) and ABF with the objectives of strengthening Brazil's image abroad and promoting international expansion of Brazilian franchises (APEX-Brasil, 2006). Leading markets for this expansion have been Latin America, Europe and Japan (Silva, 2004; Machado & Silva, 2005). In these regions, two countries seem to have received special attention from companies' expansion managers: Mexico and Portugal. As of the second semester of 2010, there were 68 Brazilian franchising companies with operations in 49 countries on five continents, representing 4.7% of national brands (ABF, 2010).

International expansion poses new challenges for franchising companies and especially for franchisors from an emerging country such as Brazil. According to Machado and Silva (2005), one of the major difficulties faced by Brazilian franchisors in the internationalization of their networks is the difference in countries' governing legislation. Other obstacles include competition from large international brands, limited or no recognition of Brazilian brands in international markets, brand and product registration fees in each countries, and the legal and bureaucratic aspects involved in the export of some types of products (Silva, 2004). Furthermore, managers from these companies are faced with challenges related to psychic and cultural differences between the home and the target country combined with the selection of prospective franchisees that adequately meet the profile set by the franchisor.

Hypotheses

In this study the main concern is with measures of distance between countries that might explain the choice of country made by managers from Brazilian franchising companies to select target countries. Psychic distance was first used in the work of Beckerman (1956) in which he investigated the role that the distance between the countries of Western Europe played shaping the pattern of trade. Three different dimensions of distance where found to be influencing the paths and volumes of trade in the region: physical distance, economic distance and a psychological dimension that congregated differences in language and other characteristics (Håkanson and Ambos, 2010).

In the 1970s, several researchers (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) adopted psychic distance to analyse internationalization patterns. Psychic distance was introduced as a set of factors that could hamper or prevent the flow of information between certain markets that include language, culture, political system, colonial ties, education and economic development (Brewer, 2007; Hakanson & Ambos, 2010). Lower psychic distance is a function of similarities in language, political system and economic and educational levels as those of the company's country of origin (Kogut & Singh, 1988; Johanson & Vahlne, 1990; Sousa & Bradley, 2005) and a closer geographical location (Hollensen, 2004). This construct has been applied to explain the preferred destinations for initial internationalization by North-American (Walker & Etzel, 1973; Hackett, 1976; Quinn, 1998), European (Quinn, 1998), Japanese (Preble & Hoffman, 1995) and Australian companies (Brewer, 2007). Although, psychic distance has been referred to explain the expansion of US and European franchisors, it has not been applied to investigate the international expansion of franchisors from emerging economies.

A short introduction to each of the hypotheses is presented below.

Geographic Distance

One of the first dimensions identified to explain the choice of a country in IB literature has been geographic distance. Lower geographic distance is associated with lower transportation and communication costs (Håkanson & Ambos, 2010), positively influencing the exchange of information and international trade (Johanson & Wiedersheim-Paul, 1975). Although advances in both transportation and communications technologies may have contributed to significantly reduce the influence of distance, absolute geographic distances still appear as one of the most relevant variables to explain the variance of the trade flows (Ghemawat, 2001; Dow & Karunaratna, 2006), country selection (Ojala & Tyrväinen, 2007) and psychic distance (Håkanson & Ambos, 2010). The greater the physical distance between countries, the higher is the expected cost of operation in the host country (Ojala & Tyrväinen, 2007).

Hypothesis 1: The lower the geographic distance between countries (i.e. Brazil vs. host country), the greater the number of Brazilian franchisors operating in it.

Common Language

Similarities in languages may facilitate communication, although few authors include it as a variable in their models (Dow & Karunaratna, 2006). The presence of a similar language is associated to lower cost of information and lower transaction costs. Common language may facilitate the management of operations in foreign countries. Furthermore, common language is linked to historical and colonial ties, representing a historical legacy that should contribute to lower psychic distance (Håkanson & Ambos, 2010). Therefore similar or common language is identified as a key component of psychic distance and has been included in recent empirical studies (Dow & Karunaratna, 2006; Brewer, 2007; Håkanson & Ambos, 2010).

Hypothesis 2: The lower the linguistic distance between countries (i.e. Brazil vs. host country), the greater the number of Brazilian franchisors operating in it.

Economic Development

The differences in the level of economic development may influence the decision to enter a country, as similarities among institutional, socio-economic and demographic factors may facilitate the flow of information (Johanson & Wiedersheim-Paul, 1975; Håkanson & Ambos, 2010). However, psychic distance is expected to be lower towards well developed countries, regardless of the state of the home country (Ghemawat, 2001). Hidden costs, such as corruption, tend to be lower in these countries (Brewer, 2007). As organized databases on economic and market information are usually available, information costs are reduced. (Brewer, 2007; Håkanson & Ambos, 2010). Development is associated with openness and mature institutions, making it easier to conduct business (Brewer, 2007).

Ojala and Tyrvainen (2007, p.129) state: “A firm’s major objective in expanding internationally is to gain access to markets that offer a large customer base for its products and services. Thus, firms tend to favor countries with attractive markets because these countries provide opportunities for greater returns.” A country’s wealth and size (GDP) are relevant and influence the amount of trade between countries (Ghemawat, 2001). Finally, results from empirical studies indicate a manager’s preference for larger markets when choosing countries for expansion (Brewer, 2007; Ojala & Tyrvainen, 2007). Therefore, well developed countries should attract more franchisors from an emerging economy (e.g., Brazil).

Hypothesis 3: The greater the economic development of a country, the greater the number of Brazilian franchisors operating in it.

Cultural Distance

Cultural distance is emphasized in the literature as the most acknowledged determinant of psychic distance (Boyacigiller, 1990; Evans, Treadgold & Mavondo, 2000; Johanson & Vahlne, 1977). Therefore Hofstede’s scores and the Kogut and Singh index have been frequently implemented to measure the cultural or the psychic distance among countries (Håkanson & Ambos, 2010). They are based on national means or averages and can be applied to studies where countries are defined as the unit of analysis (Leung & Bond, 1989; Schwartz, 1999; Sousa & Bradley, 2008).

Based on data collected from managers, Hofstede (1980) defined a model of four dimensions to measure de cultural distance among countries, inclunding: power distance, individualism (or collectivism), masculinity (or femininity), and uncertainty avoidance, to assess the distances among national cultures (Hofstede, 2003). These scores were combined into a single index by Kogut and Singh (1995), which has been widely used in IB empirical studies on both psychic distance and cultural distance (Sousa & Bradley, 2008; Håkanson & Ambos, 2010; Aliouche & Schlentrich, 2011).

Large cultural distances between the home and the host country will increase the cost of interpreting information about a foreign market and thus raise the risk of misinterpretation (Sousa & Bradley, 2008; Håkanson & Ambos, 2010). The greater the cultural distance, less knowledge about the environment is expected. Therefore greater dissimilarity among countries should hinder the interaction between people from those countries (Manev & Stevenson, 2001).

Hypothesis 4: The greater the cultural distance between countries (i.e. Brazil vs. host country), the lower the number of Brazilian franchisors operating in it.

Data and Results

This section is divided in two parts. First, a description of the sample and profile of Brazilian franchising companies is presented, followed by the description and the analysis results of the hypothesis testing.

Sample and profile of franchisors with international operations

The data consists of the most current secondary data from 630 of the 705 members Brazilian Franchising Assocation (ABF) for 2010. Altogether the sample represents 38% of the brands operating in Brasil and 49% of units in operation. Included in the data is the subset of 68 franchising companies reported by this association as having operations abroad. Data of foreign franchising companies such as McDonald's and Pizza Hut were excluded as the paper focus on the internationalization of Brazilian franchising companies.

In order to identify the profile of the 68 franchisors that have operations abroad, the data was compared to the consolidated data for ABF's members with only domestic operations as seen in Tables 1 and 2. The companies were divided into five segments: Apparel, Beauty and Health, Education, Food, and Other Products and Services. For the Apparel segment there were 21 brands and 246 units abroad distributed across five continents (Table 3). At least one third of these companies previously exported to multi-brand retailers or to specialty stores, before opening international units carrying their own brand.

The franchising companies with overseas operations have on average 28 years of operation and 13 years of experience with the franchising system (as show in Table 2). Franchisors with only domestic operations presented lower means: 16 years of business and 9 years of franchising experience. Furthermore, firms with operations abroad accounted for 31.8% of the units of Brazilian franchising companies associated with ABF. The comparison of median number of units by franchisor resulted in a difference of 50 units between both groups, indicating that companies that have operating units abroad, represent, in general, larger companies.

Table 1

Descriptive Statistics: ABF's Franchisor Members only with Domestic Operations

Segment	Number of Franchisors	Yrs Operation	Yrs Franchising	Number of Units		% Co-owned units
		Mean	Mean	Total	Mean	Mean
Apparel	100	18	6	2.421	24	43
Beauty/Health	92	15	8	5.785	63	30
Education	62	18	9	4.878	79	18
Food	148	15	7	5.734	39	36
Other Products and Services	160	15	6	8.106	51	30
Total	562	16	7	26.924	48	32
50th Percentile	314	12	4		16	18
75th Percentile	476	21	10		40	50

Note. Source: Associação Brasileira de Franchising (Brazilian Franchising Association – ABF) (2010). *Overview of Franchising in Brazil and the World*, presentation made to the Ministry of Development Industry and Commerce, - MDIC in October 2010.

Table 2

Brazilian franchisors with operations abroad (Descriptive Statistics)

Segment	Number of Franchisors	Yrs Operation	Yrs Franchising	Total Units		% Co-owned units
		Mean	Mean	Total	Mean	Mean
Apparel	21	36	11	1.948	93	23
Beauty/Health	14	18	12	4.421	316	5
Education	8	30	21	3.372	422	17
Food	13	24	15	1.710	132	10
Other Product and Services	12	27	11	1.126	94	19
Total	68	28	13	12.577	185	15
50th Percentile	35	22	12		66	4
75th Percentile	51	33	17		151	16

Note. Source: Associação Brasileira de Franchising (Brazilian Franchising Association – ABF) (2010). *Overview of Franchising in Brazil and the World*, presentation made to the Ministry of Development Industry and Commerce, - MDIC in October 2010.

On average, the 68 Brazilian franchisors have had international units for six years as seen in Table 3. Considering the 75th percentile, the first international unit of most of these companies was opened less than seven years, which coincides with the first agreement signed between the ABF and APEX for the promotion of Brazilian franchising brands abroad. Only ten companies have had a unit outside the country longer than ten years, the first being a Education (language school) in 1980. Although there were 691 units installed in other countries, half of the companies had three or less international units and operated in two countries. Four companies, all with more than 19 years of age, had more than 50 overseas units. Overseas units represent less than 12% of the units for three-fourths of the franchisors. However, four companies of Apparel have more than 50% of the units abroad. Simple t-tests were used to compare averages among samples and confirmed that the differences in age and size of the network were significant.

Table 3
International franchising operations of Brazilian franchisors

Segment	Number of Franchisors	Yrs Franchising Abroad	Units abroad		% Co-owned units abroad	Units abroad/ Total Units	Number of countries w/units
		Mean	Total	Mean	Mean		Mean
Apparel	21	4	246	12	17	.18	4
Beauty/Health	14	6	74	5	10	.04	2
Education	8	14	186	23	18	.09	3
Food	13	4	62	5	26	.07	2
Other Products and Services	12	5	123	10	15	.15	4
Total	68	6	691	10	17	.12	3
50th Percentile		5		3	0	.04	2
75th Percentile		6.75		8	10	.12	3

Note. Compiled by the author with data from Associação Brasileira de Franchising (Brazilian Franchising Association – ABF) (2010). *Overview of Franchising in Brazil and the World*, presentation made to the Ministry of Development Industry and Commerce, - MDIC in October 2010.

Finally, the modes of entry adopted by Brazilian franchisors to expand abroad were addressed, as they present different characteristics in terms of flexibility, resource commitment, dissemination of risk and control (Picot-Copey, 2006). Three modes of operation were identified: two pure modes (fully franchised operations or fully co-owned operations) and plural form (combining both contractual forms), all associated with different levels of control and monitoring costs (Lafontaine, 1992; Braddach & Eccles, 1989; Lafontaine & Shaw, 2005). When the ownership patterns were classified in bands, the fully franchised operations mode emerged as the most frequent form of operation. Over 60 percent of the Brazilian franchisors operate abroad only with franchised units (Table 4). At the other extreme, seven companies operated internationally only with company owned units. Five companies had only one unit abroad, all located in the U.S. One company, which operates in the clothing industry, has six own units spread across six countries on three different continents, including: Germany, Colombia, United Arab Emirates (UAE), United States, France and Italy. It is noteworthy that Brazilian franchisors that operate in other countries presented a lower percentage of company-owned units or a lower plural form rate than companies with only domestic operations. T-tests results confirmed that the differences were significant, in line with the results found by Perrigot (2008) when analyzing the plural form rate among French franchisors.

Table 4
Mode of Entry (Franchising vs. Co-owned units)

% Co_owned units	Number of Franchisors	% Franchisors
0 %	45	66%
>0 <= 5	2	3%
> 5 <= 15	4	6%
> 15 <= 50	8	12%
> 50% <= 100	2	3%
100%	7	10%
Total	68	100%

Note. Compiled by the author with data from Associação Brasileira de Franchising (Brazilian Franchising Association – ABF) (2010). *Overview of Franchising in Brazil and the World*, presentation made to the Ministry of Development Industry and Commerce, - MDIC in October 2010.

Measures

In order to investigate if the geographic international expansion of Brazilian franchisors could be explained by psychic distance measures, the dependent variable was defined as a specific country's percentage of the total Brazilian franchisors with international operations (ln_Franchisors). The main goal was to answer if psychic stimulus such as geographic distance, common language, differences in economic development, market size and cultural distance could explain the choice of countries made by Brazilian franchising countries. Could the choice of countries be explained as a function of lower perceived psychic distance?

Geographic distance. Two variables are used to measure geographic distance: the distance measured in latitudinal and longitudinal distances between the capital of the home and of the host country (distcapital) and a dummy for bordering countries with the franchisor's home country (bordering). This proxy takes the value of "1" for all countries bordering Brazil. Both measures were available in the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII)'s distance databases. As previous studies, a logarithm is applied to the absolute distance variable (Dow & Karunaratna, 2006; Ojala & Tyrväinen, 2007; Håkanson & Ambos, 2010).

Common Language. A dummy (comlanguage) was collected from CEPII's distance databases to represent common language, i.e., Portuguese, which include Portugal and its former colonies, such as Angola. This dummy variable is "1" when Portuguese is classified as the official or national language being spoken by a percentage of 20% or higher of the country's population (Mayer & Zingano, 2006). A common language dummy, as used by Håkanson and Ambos (2010), was preferred to a similar language dummy (Dow & Karunaratna, 2006), which would present a high overlap with the bordering countries dummy. Spanish, Italian and Portuguese are grouped in the same language sub-branch: Italo-Western

(Dow & Karunaratna, 2006).

Economic development. Two different measures of the level of development are included. A first variable was the gross domestic product (GDP) per capita (in USD) (CIA, 2010), adopted in many empirical studies to address differences in the economic development among countries (Evans et al., 2000; Dow & Karunaratna, 2006; Håkanson & Ambos, 2010). Second, the market size was assessed by a ratio calculated dividing the hosting country's gross domestic product (GDP in USD) by Brazil's GDP in 2009 (CIA, 2010), as market size should influence managers decisions (Ghemawat, 2001; Ojala & Tyrvainen, 2007; Aliouche & Schlentrich, 2011). These data were available for 43 of the 45 countries reported to have operations of Brazilian franchisors. As previous empirical studies, both measures were logarithmic transformed before they were included in the model.

Cultural distance. The widely adopted cultural distance proxy (Sousa & Bradley, 2008; Håkanson & Ambos, 2010), the Kogut and Singh Index based on Hofstede's scores was also included in the model despite Sousa and Bradley (2008) criticisms. However, since Hofstede's scores could only be collected for 32 of the 45 countries, the estimation did not consider Paraguay and Angola, where many Brazilian franchises are located.

The Kogut and Singh (1988) index computes the cultural distance (CDxy) between two countries x and y considering the squared differences of the scores for each of the four original Hofstede's dimensions (1980) divided by variance (vi) of the corresponding dimension:

$$CD_{xy} = \sum \left\{ \left(I_{ix} - I_{iy} \right)^2 / V_i \right\} / 4$$

where I_{ix} stands for the index for the ith cultural dimension for the host country x, Vi is the variance of the index of the ith dimension, the subscript y indicates the home country y.

Brazilian population. A control dummy variable, Brazilian population, Braz_pop, was introduced for ten countries with largest population of Brazilians, including 89.4% of estimated Brazilians living abroad in 2006 (Marinucci, 2008).

Regression Analysis

Multiple regression estimation was applied to analyse the influence of psychic distance measures on the choice of country. The ordinary least squares (OLS) method was used to estimate the parameters of the regression. Tests were conducted to verify the normality of residuals and the presence of both heteroscedasticity and multicollinearity. A log-linear model was defined including five psychic distance measures: geographic distance between capital (lndistcapital), dummy for bordering countries (bordering), common language (comlanguage), economic distance (ln_GDP_percapita), market size (ln_GDP) and cultural distance (ln_Cult_index). In order to control for the presence of Brazilian expatriates, a dummy was included in the model (Braz_pop).

The estimated model can be represented by the following equation:

$$\ln(Franchisors)_i = \beta_1 + \beta_2 \times Braz\_pop_i + \beta_3 \times \ln(distcapital)_i + \beta_4 \times bordering_i + \\ + \beta_5 \times comlanguage_i + \beta_6 \times \ln(GDP)_i + \beta_7 \times \ln(Cult\_index)_i + u_i$$

Table 5 summarizes the results of the analysis. Altogether, the regression models explained more than 40% (based on adjusted R^2) of the variance of the choice of host country of the sample. The regression estimation gradually includes the independent variables since three measures, representing economic development and cultural distances, were not available for the full sample. In the first model, surprisingly no significant coefficient was estimated for the geographic distance measures. However, the dummy representing the presence of Brazilian expatriates presented a significant coefficient at 1%, while common language was significant at 5%.

Three variables were not significant in any of the four estimated models: bordering countries (Bordering), economic level (GDP_percapita) and cultural distance (Cult_index). In three models, evidence was found signaling that the geographic distance stimulus influences the choice of country, especially after a variable for market size was added to the model. Between models 1 and 2, two countries were excluded from the estimation: Réunion and Guadeloupe, each with operations of a single Brazilian brand. For model 4 more observations had to be excluded since Hofstede's scores were not available for 13 countries, including two countries with operations of 10 or more franchisors: Paraguay and Angola.

Despite these limitations, common language (Comlanguage) was statistically significant predictor of the host country, supporting Hypothesis 2, signaling a positive influence of a common official language in the choice of country by Brazilian franchisors. In contrast, no support was found for Hypothesis 4, as the cultural measure (Cult_index) adopted presented no statistically significant coefficient. Hypothesis 1 was confirmed as a significant parameter was estimated for the geographic measure (distcapital). Therefore, a negative relation was identified between the geographic distance and the country chosen for international expansion. However, having borders with Brazil was not found to be a relevant predictor in any of the models tested. Partial support was found for the third hypothesis, as a statistically significant coefficient was obtained for market size, even though GDP_percapita was not found to be a good predictor of country choice. Finally, the presence of Brazilian expatriates revealed to have a positive and significant influence on the choice of the host country by franchisors (Models 2 and 3).

Table 5
OLS Results

Independent Variables	**OLS Model 1**	**OLS Model 2**	**OLS Model 3**	**OLS Model 4**
Bordering	.24	.13	.15	-.01
ln(distcapital)	-.17	-.42*	-.42*	-.52*
Comlanguage	.28*	.38**	.42**	.40*
Braz_pop	.50**	.32*	.28*	.27
ln(GDP)		.41**	.37*	.40†
ln(GDP_percapita)			.16	.15
ln(Cult_index)				-.09
N	45	43	43	32
R^2	.47	.56	.58	.55
R^2 Ajusted	.41	.50	.51	.41
F	8.76	9.55	8.27	4.12
Degrees of Freedom	(4.40)	(5.37)	(6.36)	(7.24)

Note. Dependent Variable: ln_Franchisors
*p-value<0.05 **p-value<0.01 †p-value<0.10

Discussion and Future Research

The findings provide some insight for future research on international expansion by comparing the results on psychic distance and symmetry. One criticism of previous studies has been the – usually implicit – treatment of cultural and psychic distances as symmetric (Shenkar, 2001), i.e. assuming that such distances (like geographic ones) are the same regardless of direction. O'Grady and Lane (1996) propose that the significant underperformance of Canadian businesses expanding into the U.S. market is at least partly due to their managers' tendency to underestimate the degree of adaptation needed when entering a market they perceive to be familiar and similar to the home market, a finding that has found its way into the literature as the "psychic distance paradox'. The authors note in their conclusion that the paradox does not seem to hold for U.S. firms expanding into Canada and suggest that this may reflect asymmetries in psychic distance perceptions.

The econometric analysis suggests the existence of asymmetry, as market size and Brazilian expatriates seems to be influencing the decision of target countries by Brazilian franchisors' managers. Although franchisors from developed countries first expanded to countries with lower psychic distance (economically and geographically), for emerging economies, market size seems to matter, more than economic similarities.

Geographic distance still influences country choice, even in a time of lower transportation and communication costs which reduce monitoring cost and information asymmetry. However, it is not enough to have lower geographic distance. In the results, Latin America and bordering countries were predicted to be higher percentage of franchisor brands but this was not significant. For example, Paraguay is a bordering country that also has a large Brazilian population. Therefore, geographic distance as well as other factors must considered in the current global market for franchise market selection.

The internationalization of franchisors from emerging and developing countries is a rather under researched area in a burgeoning marketplace of franchise growth. Although the study is based only in secondary data, it provides a contribution by extending the literature by evaluating the psychic distance approach to international franchise market selection. The findings indicate that Brazilian franchisors' country choice is made considering from a combination of factors geographically close countries, common language, larger markets and following their Brazilian expatriates.

For future research it is suggested that a broader focus on cross-cultural analysis of internationalization include multiple perspectives such as developed markets to emerging markets (Alon, Welsh, & Falbe, 2010), emerging markets to developed markets and emerging markets to emerging markets. This follows both the call by Dant (2008) for research but also is reflective of the globalization of franchising and franchise systems but also reflects the changing patterns of trade between emerging markets.

A psychic distance perspective was followed to analyze country selection but other issues such as the investigation of the entry mode choice needs to be further addressed. The selection of entry mode made by product-based and service-based franchisors are expected to be distinct, as the latter does not have the option of exporting in earlier stages of internationalization (Aliouche & Schlentrich, 2011). Agency theory or transaction cost economics may be timely and interesting to access this issue in international expansion? Will firms that adopt pure forms for initial expansion switch to plural forms in a later stage? What are performance implications of size and geography in an international setting? These are just a few questions that could be addressed in future research.

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