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Proposing new variables for the identification of strategic groups in franchising

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Abstract The identification of strategic groups in the Spanish franchising area is the main aim of this study. The authors have added some new strategic variables (not used before) to the study and have classified franchisors between sectors and distribution strategy. The results reveal the existence of four perfectly differentiated strategic groups (types of franchisors). One of the major implications of this study is that the variables that build a strategic group vary depending on the respective sector the network operates in and its distribution strategy. This fact indicates that including sector and distribution strategy is absolutely necessary to achieve good classifications of franchisor types.

Keywords Franchising · Strategic groups · Franchisor strategies · Spain

Over the past three decades franchising has blossomed into a major business form (Tuunanen and Hyrsky 2001). The franchising system presents a series of typical features. First, its increasing importance in the area of commercial distribution. Secondly, the constant increase of franchisors and franchisees—this being valid for a wide spectrum of countries from those that are developing to the ones most advanced commercially. For example, in The United States at the end of the 1980s, the franchising system was valued as representing around 34% (Díez and Galán 1989) and at present it is thought to be over 50% of the retailer trade (Falbe et al. 1999).

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In Spain franchising initiated its takeoff in the 80s and its market share in the retailer trade was practically non-existent at that time. Yet, 742 franchisors and 52,346 franchisees were operating in 2004 (Tormo and Asociados 2005), according to the information of the 2005 yearbook of the AEF (Spanish Franchisors' Association). The participation of the franchising system in retailing is over 10% and with a high growth trend. What's more, franchising represents 8% of the whole of retailing outlets in Spain.

The franchising system, therefore, continues its high development by contributing importantly to the modernization of retailing. Nevertheless, the authors think that the research on franchising has not followed an advance parallel to the evolution of the sector. The reasons for this might be of a diverse nature (Díez and Rondán 2004). First, the scarce study of the institutions or distribution companies and the secretive clauses of the franchising that make it difficult to obtain answers from franchisors and franchisees. Secondly, the complexity of the treatment of franchising on the behalf of the researchers. Finally, franchising demands knowledge of whole areas of firms (organization, marketing, and financial economy and accounting) and juridical aspects (especially commercial law).

Nonetheless, the situation has currently experienced an important change and prestigious scientific journals are publishing research of a good scientific level.

Based on the work of Elango and Fried (1997), Díez et al. (2004) built a new classification of the research lines on franchising. They appointed topics where the research has been important and others where it was practically non-existent but interesting for future research. The main research streams on franchising are exposed in Table 1.

In Table 2 some of the most important research on franchisors are summarized. The main topics in this research stream are: reasons to franchise, own units versus franchised units, franchising internationalization, franchisees' choice, franchisees' units location and strategic groups. These research lines and the main articles related are shown in Table 2.

The present research can be included within the "strategic groups" research stream, inside of the research about franchisors, since the authors propose analyzing the different types of strategic groups that the franchisors develop in Spain. The exploratory nature of this study is due to the fact that new variables, not previously used in this context, have been included in the topic of franchising strategic groups.

In this context, what are the *aims of this research*?

1. To study the existence of "types of franchisors" from the configuration of strategic groups in the Spanish franchising system. This objective will allow us to characterize the different characteristics of the Spanish franchising chains.
2. To add new variables that are considered strategic to conform better-defined types of franchisors. Also, an explanation of groups by sectors should be made.

To achieve these objectives, the following structure has been proposed. After this introduction, different existing contributions to the study of strategic groups in the area of franchising have been analyzed. The third section is focused on the justification of new variables for the identification of strategic groups in franchising. Then, the methodology necessary to extract the results of the research from the

Table 1 Proposed classification of researches on franchising

The main research streams on franchising		
1. Social reasons for franchising	(a) Social balance of franchising	(e) Franchising favours competition
	(b) Franchising contract	(f) Social advantages
	(c) Social-economics advantages	(g) Social inconvenients
	(d) Ethic in franchising	
2. Franchisor	(a) Reasons to franchise	—Financial resources —Staff —Market knowledge —Others
	(b) Own units versus franchised units	
	(c) Franchising Internationalization	
	(d) Choice of franchisees	
	(e) Franchisees units location	
	(f) Strategic Groups	
3. Franchisee	(a) Reasons for integration in a franchise system (b) Choice of franchisor	—Independence of franchisee —Risk in franchising —Franchise system choice —Franchisor choice technics —Information provided by the franchisor
4. Franchisor/franchisee relationships	(a) Structure	—Power —Leadership —Dependence —Control
	(b) Behaviour	—Cooperation —Opportunism —Conflict —Trust
	(c) Economic performance	—Profit —Profitability —Market share
	(d) Not economic performance	—Commitment —Satisfaction —Loyalty

development of an empirical study is proposed. A database composed of 140 franchising chains from the information included in the Supplement of the National Magazine “Emprendedores” (no. 86, November 2004) is analyzed. Two analyses have been run, the first using the same variables as Carney and Gedajlovic (1991), and the second adding other important strategic variables. In “Discussion, implications for management, limitations and future research,” the main results are shown. Finally, the discussion and main implications for managers, the limitations of the study and the future research are presented.

Literature background on strategic groups in franchising

The term “strategic group” was introduced by Hunt (1972) in order to describe the structure of a sector in relation to the companies that compete in it. Since then, it has

Table 2 Research on franchisors

	Studies conducted on franchisors
	Reasons to franchise
Castrogiovanni and Justis (2002), Alon (2001)	They study the correlation between the growth, the size and age of the franchise system
Oxenfeldt and Kelly (1969), Alon (2001)	The main reason of growing in franchising is for financial resources
Alon (2001), Julian and Castrogiovanni (1995)	The main reason of growing in franchising is in the human resources: quality, motivation, opportunism, etc.
Norton (1988a), Dant (1994)	The reasons to franchise are financial resources and human capital
Kaufmann and Lafontaine (1994), Alon (2001)	Reasons of control of the sale units impel to franchising
López and Ventura (2002)	Franchising become cheaper the control when it is difficult to supervise to the contracting parties
	Own units versus franchised units
Bradach and Eccles (1989)	The own and franchised units have positive impacts of administration each one with others
Lafontaine and Kaufmann (1994)	When limited resources exist, during the first phases of growth of the chain, greater necessity of franchised units exists
Martin (1988), Dant et al. (1992)	They offer a relationship of advantages to maintain franchised units
Norton (1988b)	They show the conditions in which is more appropriate the own units in front of the franchised ones
Thompson (1992)	The own units are usually located in urban and/or high population density areas
Anderson (1984), Bracker and Pearson (1986)	Differences don't exist between the sales of own and franchised units
Shelton (1967)	The sales in franchised units overcome to the own ones
Thomas et al. (1990)	The transformation of franchised in own units is usually given when the first ones reach high sales
Calderón (1998)	She analyzes the explanatory variables that influence the choice between own and franchised units
Cliquet and Croizean (2002)	They offer advantages and inconveniences of maintaining own and franchised units
	Franchising Internationalization
Huszagh et al. (1992)	There are two reasons that impel to the internationalization: age of the chain and number of operative units
Kedia et al. (1994)	The managers impel internationalization by reasons of growth and benefits
Hackett (1976)	The reasons for the internationalization are to take advantages in markets of great potential and fame
Kedia et al. (1995), López and González (2001)	Market saturation, disposition of intangible resources and the experience in the control system are the main reasons for the internationalization
Aydin and Kacker (1990)	The reasons of the American managers that don't go abroad are: the perception of wide opportunities of growth in their country, lack of international experience and limited financial resources
Zietlow (1995)	The best form of consenting to the franchising internationalization is the master franchising
Chan and Justis (1993)	The great regulation of the franchising and high level of litigations in USA make more difficult the entrance that in Europe
Alon and Banai (2000)	Franchising in Russia is more appropriate for chains which have more resources with aspirations of growth and long term benefits
Welsh et al. (2006)	The authors develop a conceptual model relating international retail franchising to its stakeholders. A review of the research is divided into areas of the emerging world market: Central and Eastern Europe, Mexico and South America, Asia, and other areas that include India, Kuwait, and South Africa.

Table 2 (Continued)

	Studies conducted on franchisors
Quinn and Alexander (2002)	They conceptualize the adoption of franchising in the international retailer context
	Choice of franchisees
Fenwick and Strombon (1998)	Franchisees with little or any previous experience in the business management obtain better results
Shane (1998)	Franchisees with more rates of success are those that have previous experience
Morrison (1997)	Franchisees with high consent and low extroversion leads to develop good franchisor–franchisee relationships
	Franchisees units location
Gosh and Craig (1991)	They proposed the "Fransys" model for location of franchised units
Kaufmann and Rangan (1990)	The opening of new franchised units benefits to the existent ones
	Strategic groups
Carney and Gedajlovic (1991)	They found five franchisor types in Canada: "Rapid Growers," "Conservative Expensive," "Franchise Converts," "Mature Franchisors" and "Unsuccessful"
Castrogiovanni et al. (1995)	They looked for franchisor types in the USA confirming some of the groups of Carney and Gedajlovic (1991)
Castrogiovanni and Justis (1998)	Based on Mintzberg (1979) organizational typology, identified three franchising configurations: entrepreneurial, confederation, and Carbon-copy form.
López and Ventura (2001)	Detected the existence of five strategic groups in the Spanish franchising system: emergent, standardized, large internationals, traditional and unsatisfactory
Combs et al. (2004)	Based on the Agency Theory and the Resource Scarcity Theory and on a sample of 65 restaurant chains, they find three strategic groups: "agency franchisors," "agency franchise minimizers," "resource scarce franchisors"
Johnson and Alon (2006)	Confirms empirically the three configurations identified by Castrogiovanni and Justis (1998), showing three clusters roughly equivalent to the confederation form (cluster 1), carbon copy form (cluster 2), and entrepreneurial form (cluster 3) organizations.

been one of the basic supports upon which the development of Strategic Management has been sustained as a knowledge area.

A strategic group can be defined as a set of companies that, within a sector of activity or industry, develops a similar strategy from its strategic dimensions (Porter 1979). It does not mean that they should have identical performances (Combs et al. 2004), since they can differ with respect to their resources, skills or capacities (Thomas and Carroll 1994; McNamara et al. 2003).

The strategic groups allow the explanation of the competitive position of every company of the sector in relation to its competitors. Therefore, the study and analysis of the strategic groups in a managerial sector helps its structure to be understood, as well as the dynamics of the competition and the evolution of the sector itself (Barroso et al. 2001).

In any case, the identification of strategic groups needs the fulfillment of two necessary and complementary conditions (Nath and Gruca 1997):

- The variables or dimensions that define the strategy are really strategic and, therefore, they cannot be modified in the short term. Its modification would

suppose incurring high change costs, such as high investments in both tangible resources (monetary, human, etc.) and intangible (learning, know-how, etc.). When this condition is not complied with, the identification of strategic groups within a sector will be difficult, in spite of using appropriate statistical tools (factor analysis, cluster, etc.), as Nath and Sudharshan (1994) indicated.
- The difficulty of modifying the variables that define the managerial strategies in the short term should create barriers of mobility among the different strategic groups that prevent or impede the movement of companies from one group to others. Their main characteristic is that they last a long time. Therefore, mobility barriers are a source of competitive advantage for the members of the group that have them and cannot be rapidly obtained by the components of other groups (Barroso et al. 2001).

In consequence, the strategic groups can be considered as groups of firms that are separated from each other depending on the mobility barriers that determine their competitive behaviour. These mobility barriers are one of the reasons that explain the differences with regards to the performance of the different strategic groups (Lee et al. 2002).

The identification and analysis of strategic groups has been carried out in different contexts of activity: the pharmaceutical industry (Cool and Schendel 1987), the banking sector (Mas 1996; McNamara et al. 2003), retailing (Barroso et al. 2001), the hospital sector (Nath and Sudharshan 1994; Nath and Gruca 1997), the hotel sector (Baum and Mezias 1992), the insurance sector (Fiegenbaum and Thomas 1990), internationalization (Cooper and Kleinschmidt 1985), etc.

The relevance of this topic is that finding strategic groups is valuable for empirical research in franchising. Focusing on specific groups avoids heterogeneity in the sample, thereby making it more appropriate to draw general conclusions from any study's results. For this reason, these approaches have spread into franchising. With respect to this issue, a pioneering work in the scientific research on types of franchisors is that of Carney and Gedajlovic (1991). They worked with a Canadian sample of 128 franchising chains that operated in Quebec.

They used 13 measures, which are theoretically strategic variables, grouped into seven strategic dimensions: chain size, age, chain rate growth, cost of adhesion to the franchise chain, contractual preventions, dispersion of units and vertical integration. Based on the results obtained, they identified five types of strategies that franchisors were following in their business expansion (rapid growers, conservative expensive, franchise converts, mature franchisors, unsuccessful). Each strategy would be identified with a type of franchisor (strategic group). Carney and Gedajlovic (1991) insisted on the need to reply to their study, due to the importance of verifying and generalizing their results.

This challenge was taken on by Castrogiovanni et al. (1995), who developed a research using a sample of franchisors from The United States. Data were extracted from the magazine "Entrepreneur" in 1991, having 717 franchising chains belonging to 28 sectors. Castrogiovanni et al. (1995) confirm entirely the strategies of "rapid growth franchisors" and "reconverted" and partially "mature franchisors." Nevertheless, the "expensive conservative" and "not successful" strategic groups were identified by different variables to those of Carney and Gedajlovic (1991).

Also, Castrogiovanni and Justis (1998), based on Mintzberg's (1979) organizational typology, identified three franchising configurations (strategic group): entrepreneurial, confederation, and carbon-copy. The age and size of franchisors is an important variable in determining the most appropriate organizational configuration. The entrepreneurial form is associated with franchisors that are relatively young. This configuration tends to be transitory, since the franchisor typically switches to a more complex organizational form as it gains experience, and franchisors with a large number of outlets are associated with the confederation and carbon-copy forms. Confederation and carbon-copy forms of franchising are differentiated by the need for autonomy and loose coupling in the case of the former, and by the need for tight financial and operational controls in the latter. The carbon-copy form is associated with franchisors that have developed a highly repetitive, standardized product or service and seek economies of scale and scope by replicating franchise units in new markets (Castrogiovanni and Justis 1998). In order to minimize costs and capture economies of scale, they maintain tight control over all aspects of the operation from the selection of franchise locations to the design of facilities and training of staff. The business model has been tried and tested (Johnson and Alon 2006), so high start-up costs can be expected so that the franchisee can replicate every aspect of the business. In order to maximize growth in new markets, franchisors using this configuration are more likely to offer financial incentives to franchisees, such as preferential financing of the start-up costs.

Recently, Johnson and Alon (2006) empirically confirmed the three configurations identified by Castrogiovanni and Justis (1998), showing three clusters roughly equivalent to the confederation form (cluster 1), carbon-copy form (cluster 2), and entrepreneurial form (cluster 3). The confederation type is the most active in franchising (the outlets are 94% franchised) and it takes a short time to start franchising (5.6 years). The franchising start-up costs are slightly larger than for the entrepreneurial type, but significantly less than the carbon copy form. However, they are the ones most prepared to offer financing to franchisees, with most franchisors providing financing for equipment, the start-up fee, inventory, and the franchising fee. This result suggests that the confederation type need to offer greater financial incentives to prospective franchisees than the other categories of franchisors do. Furthermore, this is the configuration that employs master franchising most frequently in their international expansion strategies.

The carbon-copy franchising type is the oldest group and it is also the largest, and took the longest to become franchising-bound (17.1 years). It is the group with the highest total number of outlets. However, it represents the smallest number of franchisors who seek international franchisees. The carbon-copy franchisor is the least franchised with an average franchising rate among its outlets of 80.2%. It uses the company-owned outlets to test new concepts of markets, products and processes, rather than letting the franchisees experiment as in the case of the confederated form. The carbon-copy form is similar in organizational characteristics to the "mature franchisors" identified by Carney and Gedajlovic (1991).

Finally, the entrepreneurial franchising organizations are the youngest of the three clusters. They have the smallest number of outlets and on average they franchise

Table 3 Relevant literature of strategic groups in franchising

Carney and Gedajlovic (1991) (Québec; Canadá) Sample: 128 Method: factor analysis	Castrogiovanni et al. (1995) USA Sample: 717 Method: factor analysis	López and Ventura (2001) Spain Sample: 228 Method: factor analysis	Inma and Debowski (2006) Australia Sample: 91 Method: cluster analysis	Johnson and Alon (2006) USA Sample: 261 Method: cluster analysis
Group: Rapid growers	Group 1	Group 1: Standardizable	Group 1: Beginners	Group 1: Confederation
Franchise openings per year	Franchising growth Network growth	Average investment	Young and small franchisors and had the lowest number of franchise established outlets and the lowest entry fee	The minimum number of years before it began franchising
Outlet openings per year	Network size	Surface of the place		The most prepared to offer financing to franchisees
		% Initial franchise fee Over initial investment		It employs master franchising most frequently
Group: Conservatives expensive	Group 2	Group 2: Emergent	Group 2: Developers	Group 2: Carbon copy form is similar to mature franchisor of Carney and Gedajlovic
Average investment	Franchise fee	Initial franchise fee	Charged moderately high fees. Few had achieved a nation-wide expansion but they adopted early geographical expansion	
Initial franchise fee	Advertising royalty	Royalties		
Contract length	Geographic breadth			
Advertising fee				
Group: Converters	Group 3	Group 3: Traditional	Group 3: Growers	Group 3: The entrepreneurial franchising type is similar to Carney and Gedajlovic's Rapid Growers
No. of years between inception and establishment of first franchise	Pre-franchising interval	No. of years between inception and establishment of first franchise	They had more fully developed systems and could afford an expeditious growth. They were the largest franchise network. The profile of the growers closely matched that of the "rapid growers"	
No. of years since inception	Firm age	Firm age		
Group: Mature franchisors	Group 4	Group 4: International	Group 4: Matures	
No. of years since first franchise	Years franchising	Establishments in Spain with regard to the whole chain	Selling their new franchises at an extremely high price. They are costly and select the franchisee candidates who can make a substantial investment. This is reflected in the high percentage of company-owned outlets	
Number of outlets	Reliance on franchising	No. of outlets		
% of outlets in Quebec (negative sign)		% of outlets franchisees		

Table 3 (Continued)

Carney and Gedajlovic (1991) (Québec; Canadá) Sample: 128 Method: factor analysis	Castrogiovanni et al. (1995) USA Sample: 717 Method: factor analysis	López and Ventura (2001) Spain Sample: 228 Method: factor analysis	Inma and Debowski (2006) Australia Sample: 91 Method: cluster analysis	Johnson and Alon (2006) USA Sample: 261 Method: cluster analysis
Group: Unsuccessful	Group 5	Group 5: Unsatisfactory		
% of outlets franchises	Franchise start-up costs (negative sign)	Contract length		
Fees per year (% of sales) (negative sign)	Sales royalty			

about 88.6%. The entrepreneurial franchising type has the lowest operational costs, which include start-up cost, franchise fee, and royalties. In addition, the entrepreneurial franchising firm is the least likely to expand internationally only via master franchising. The entrepreneurial type is similar to Carney and Gedajlovic's (1991) "rapid growers" type.

Inma and Debowski (2006) have recently published an article describing the characteristics of 91 Australian franchise firms. They found four franchise groups using hierarchical cluster analysis. "The Beginners" were young and small franchisors and had the lowest number of franchise established outlets and the lowest entry fee. "The Developers" type charged moderately high fees. Few had achieved a nation-wide expansion but they adopted early geographical expansion reflecting their need to build up their system format. "The Growers" had spent a substantial time in the franchise business. They had more fully developed systems and could afford an expeditious growth. They were the largest franchise network. The profile of the growers closely matched that of the "rapid growers" identified by Carney and Gedajlovic (1991). Finally, "The Matures" attained a conservative value of retail expansion by selling their new franchises at an extremely high price. They are costly and select the franchisee candidates who can make a substantial investment and can contribute to the image of the chain. If that kind of investor is not available, the matures prefer to own and operate their retail outlets. This is reflected in the high percentage of company-owned outlets. The major innovation of this study is the incorporation of performance measures in the analysis. They suggested that the franchising industry is heterogeneous and its characteristics can be used to predict the levels of the group performance.

López and Ventura (2001) published another article continuing this research stream. Their database was made up from various Spanish Franchising Yearbooks, supported by surveys. The sample was formed by 228 franchisors operating in Spain in 1996. The results of López and Ventura's work (2001) detected the existence of five strategic groups that they called: emergent, standardized, large internationals, traditional and unsatisfactory. These authors affirm that, though they should use a different denomination: "globally, the identified groups are equivalent to those of Carney and Gedajlovic's study."

However, one of the most recent works published on strategic groups in the area of franchising is the article of Combs et al. (2004). Based on the agency theory and the resource scarcity theory and on a sample of 65 restaurant chains, they found three strategic groups, but they focused on one sector—restaurant chains—and this fact might distort their comparability.

In summary, Table 3 provides a comparison between the relevant articles that have focused on strategic groups in the context of franchising.

New variables for the identification of strategic groups in franchising

The variables analysed to study strategic groups are based on the theories that try to determine the reasons that lead firms to adopting the franchising. There are two theories that have received a major scientific support (Alon 2001; Combs and Ketchen 2003):

a. *Resource Scarcity Theory*. Oxenfeldt and Kelly (1969) proposed that firms franchise in order to access to scarce resources, particularly capital and managerial resources, their purpose being a quick expansion. Traditional measures of resources include size, age and rate of growth (Combs and Castrogiovanni 1994; Alon 2006). When firms are very young and small they have difficulties obtaining money through traditional financial markets or from existing operators, and, likewise, developing the indispensable managerial talent is difficult for young firms (Shane 1996). Nonetheless, rapid expansion may be essential in order to build the economies of scale in purchasing and advertising which are necessary to compete effectively against established firms (Combs and Castrogiovanni 1994). According to resource-scarcity theorists, the more resources a firm has, the less it needs franchising to expand and, therefore, a negative relation is expected between size, age, growth rate and the proportion of franchisees versus own units (Alon 2006). Some authors assert that firms develop franchising in their early years because of their lack of managerial expertise and capital needed to grow, and franchisees are able to provide them both (Combs and Ketchen 1999). Several studies have tried to explain franchising expansion based on Resource Scarcity Theory postulates (for example, Lafontaine and Kaufmann 1994; Norton 1995; Bradach 1998; Combs et al. 2004; Castrogiovanni et al. 2006).
b. *Agency Theory*. Agency contracts consist of a relationship in which one part (the principal) delegate authority to a second (the agent). Each part is assumed to be self-interested and to have independent goals, so the principal has to drive resources to ensure that the agent acts in the principal's best interest. With regard to franchising, franchisors act as principals delegating authority to other agents (either employees, managers or franchisees). The principals have two basic tools at their disposal to guarantee agent cooperation: monitoring agent behaviour and offering incentives tied to agent outputs. Franchising largely alleviates franchisors' need for costly monitoring of unit managers because franchisees are the ones most interested in improving their outlet's profits (Norton 1988a). Typically, franchisees make substantial investments in their outlets and the anticipated profit stream from these investments depends on the franchisees

> continuing their best effort (Klein 1995). Therefore, franchisees are highly motivated to maximize the performance of their outlets and, also, to reduce franchisors' need to monitor franchisees (Bradach 1998). Agency Theory claims that firms franchise when doing so minimizes agency cost via the best available alignment between outlet managers' incentives and firms' objectives. To sum up, the geographical scope of operation, investment and royalty hypotheses have all developed out of agency theory (Alon 2006). To minimize the amount of monitoring needed, geographically dispersed units have a greater tendency to be franchised as a further guarantor of investment and to train franchisees. This will require large royalties to capture the value of intangibles such as brand-name, trade-mark and know-how (Combs and Castrogiovanni 1994). The basic principles of Agency Theory have been followed by many articles about franchising (for example, Hunt 1973; Caves and Murphy 1976; Rubin 1978; Mathewson and Winter 1985; Brickley and Dark 1987; Martin 1988; Sen 1993; Norton 1988a, b; Brickley et al. 1991; Lafontaine 1992; Lafontaine and Shaw 1996; Shane 1996; Calderón 1998; López and Ventura 2002; Combs et al. 2004; Castrogiovanni et al. 2006).

Carney and Gedajlovic (1991) and Combs and Castrogiovanni (1994) demonstrated that both theories complement each other rather than being rivals and serve to explain the reasons why firms adopt franchising. To summarize, it can be affirmed that the main reasons that stimulate franchising are: scarcity of financial and human resources, motivation of the franchisees, market knowledge and control of the franchisees.

In the first step of the study, the same 13 variables (7 strategic dimensions) considered by Carney and Gedajlovic (1991) have been used in order to provide useful comparisons to previous articles. The strategic dimensions: size, age, contract length and rate of growth are supported by the resource scarcity theory. However, dispersion and adhesion cost (investment and royalty) have all been developed based on the agency theory (Combs and Castrogiovanni 1994). With regard to vertical integration, both theories can be applied to support its use.

Then, in the second step of the study, 18 variables have been analyzed. Five new variables that should be considered of great importance, from the strategic point of view, have been added. All 13 previous variables are kept without modifications with the exception of "Extension or geographical dispersion" that has been called "Internationalization," following López and Ventura (2001).

The five new variables are: "Minimum population required" (variable 14), "Total shops in Spain" (variable 15), "Minimum size of the place" (variable 16), "Sector of the company" (variable 17) and "Distribution strategy" (variable 18).

Variable 14 has been measured across the minimum population required to open a franchised unit. This variable has been considered to be a measurement of geographical dispersion (agency theory). It is evident that the less the required population is to make a shop profitable, the more likely the opening in urban zones of minor population and wide dispersion is. On the other hand, according to agency theory (Lafontaine 1992; Lafontaine and Shaw 1996; Shane 1996; Combs et al. 2004; Castrogiovanni et al. 2006) it is possible to open a larger number of establishments that also increases the costs of supervision and leads to a preference for franchising. Nevertheless, according to the resource scarcity theory (Bradach

1998; Combs et al. 2004; Castrogiovanni et al. 2006), this variable also might have been included in the dimension costs of adhesion, since requiring less population implies that the unit is going to have an area of exclusivity of less potential and, therefore, a lower cost of adhesion.

The total number of shops in Spain is included inside the dimension size and it is an indicator of the success of the chain in the country.

Variable 16, minimal surface required of the place, is fitted inside the dimension costs of adhesion, since a bigger surface always implies a higher expenditure from the franchisee side. This idea fits to the resource scarcity theory.

With regard to variable 17, sector or industry, is the most used classification and the one more suitable for the proposed purpose has been followed. Three big sectors or industries inside the franchising system are set up: sector 1: "Retailing," sector 2: "Services" and Sector 3: "Hotels and restaurants."

Finally, with regard to variable 18, distribution strategy, two alternatives have been considered: 1. Multi-channel strategy: the franchisor uses for its expansion both its own and franchised units. 2. The franchisor uses a mono-channel distribution strategy, that is to say, only franchised units.

In Table 4 all the variables analyzed are exposed.

Methodology

Database

The database used in this research is made up of 140 franchising chains included in the Supplement of the National Magazine "Emprendedores" (no. 86, November,

Table 4 Strategic dimensions and operative variables

Strategic dimensions	Operative variables
A. Size	01. Number of outlets of the chain in the world 15. Total shops in Spain
B. Dispersion	02. Internationalization 14. Minimum population required
C. Growth	03. Outlets opened per year 04. Outlets opened per year from the beginning of the franchise chain
D. Cost of adhesion (price of franchising)	05. Average investment that the candidate needs to be a franchisee 06. Entry Fee 07. Royalty (percentage of sales) 08. Advertising fee (percentage of sales) 16. Minimum surface of the place
E. Contract	09. Contract length (years)
F. Vertical integration	10. Percentage of franchised units (confidence in franchising)
G. Timing	11. Age of the company (years since inception) 12. Years franchising 13. Years not franchising (years between inception and firs franchise)
H. Sector	17. Sector (retailing, services and hotels and restaurants)
I. Distribution strategy	18. Distribution strategy (multi-channel, mono-channel)

2004). The 140 franchising chains that compose the sample (82% Spanish origin, 8% USA origin and the rest from various countries) include 19 different sectors and have been selected by the magazine with the collaboration of a group of independent experts from across the following criteria:

(a) Future.—Selection of firms that are likely to be successful.
(b) Franchisor chains.—The selected franchisor chains should have two own units and one franchised unit, as a minimum. In this way, it is possible to assure that the firm has developed its concept of business before.
(c) Age.—The selected companies have an experience of at least 3 years using franchising. In this case, the commitment of the firm with the franchising as a formula of expansion is guaranteed.
(d) Franchisor registration.—The companies included in the database are registered in the Spanish Registry of Franchisors, which, besides being a legal imperative, which many chains do not fulfill, supposes a new element of the commitment of franchisors.

The information included in the supplement mentioned was obtained via personal interviews with the general managers of the selected firms.

According to Alon (2001), databases from yearbooks and prestigious magazines are frequently used in research about franchising at national (Combs and Castrogiovanni 1994; Martin and Justis 1993) and international level (Alon 1999). Even though, collected data are provided by franchisors, some researchers have claimed that data from yearbooks do not suffer from severe biases because over 80% of data are validated (Shane 1996; Combs and Castrogiovanni 1994).

Data analysis

As Nath and Gruca (1997) indicate, the identification of strategic groups in any sector of activity can be done following three alternative and non-exclusive methods:

1. Factor Analysis and grouping information from archive data.
2. Construction of multidimensional scales (multidimensional scaling) from the managerial perceptions of a set of specific attributes of the industry.
3. Identification and direct classification of the different competitive companies from the analysis of executives of the sector.

The configuration of our database has been done from archive data. The first of the methodologies proposed by Nath and Gruca (1997) has, therefore, been chosen. This was also followed by Carney and Gedajlovic (1991), Castrogiovanni et al. (1995) and, López and Ventura (2001).

In this respect, an exploratory factor analysis was carried out, imputing the missing values with the average of every variable and applying rotation varimax (this is a kind of orthogonal rotation). From the rotated components matrix, the factors whose eigenvalues are over 1 have been retained. The classification of each firm, in each of the groups, has been done paying attention to the highest factor score reached by each of the franchising chains with regard to each of the resultant factors of the factor analysis. The companies that did not obtain a factor score over 0.1 in any factor were not classified, following the recommendations of Carney and Gedajlovic (1991) and López and Ventura (2001). Therefore, the grouped companies were 88.

A contrast of averages for groups, using Kruskal–Wallis' test, has been carried out in order to verify if the franchisor groups in every factor differ significantly from other groups. Then, the cluster analysis was used to generate alternative groups and to compare them with the group that arose from the factor analysis.

Results

The first factor analysis was applied to the first 13 variables. The factor rotated matrix (using an orthogonal rotation), after five iterations, reveals the existence of four factors, which are those which have eigenvalues over one (Table 5).

Component or factor one would be formed by: "total investment," "entry fee," "sales royalties" and "advertising fee," that is, the variables related to the investment necessary to adhere to the chain and the financial considerations that the franchisee must carry out. Component two includes: "age of the firm," "years franchising" and "years pre-franchising." Component 3 groups: "total outlets," "percent of outlets in Spain," "outlets opened per year" and, with a minor correlation, "percentage of franchisee units." Component 4 groups: "contract length" and, with a small correlation, "franchisee units opened per year." The variance explained by the four factors is slightly over 69%.

Only four groups emerge from the study (the unsuccessful franchisors group does not appear). At first, this can seem to be logical, given the characteristics of the database used, which was centered on successful franchising chains in Spain.

To study the differences between groups, the Kruskal–Wallis test was run. This is a non-parametric test, which is the equivalent of one-way ANOVA when the variables do not fulfill the requirements of normality. It has been verified that the four groups differ significantly in the 13 analyzed variables, all of them presenting a p-value equal to 0. That is to say, it can be affirmed that the groups of franchisors obtained are homogeneous within each type and heterogeneous between each other.

Furthermore, as with Castrogiovanni et al. (1995) and López and Ventura (2001), a cluster analysis has also been done to verify if the resultant groups of franchisors are similar to those that arise with factor analysis.

With cluster analysis, one application was obtained with four groups and another with five. Analyzing the four group cluster first, very different results come out from factor analysis. In this respect, only two groups are somewhat similar using both methodologies. Besides, a very big group appears with more than 60% of the sample of companies and a very small one with only two franchisors.

With regard to the five group cluster, the analysis is even more complicated and the convergence with the groups that appeared in other studies is not viable.

In view of these outcomes, the results coincide with Castrogiovanni et al. (1995) commentaries, in reference to the scarce convergence between the groups formed by cluster analysis compared to those that arise from factor analysis.

The second factor analysis was applied to the first 16 variables (listed in Table 4). In the second column of Table 6 the results obtained using the first 16 indexed

Table 5 Factor analysis with varimax rotation with 13 variables

Variables	Factor 1	Factor 2	Factor 3	Factor 4
05.Average investment	0.809			
06. Entry Fee	0.808			
07. Royalty (percentage of sales)	0.709			
08. Advertising fee (percentage of sales)	0.761			
11. Age of the company		0.990		
12. Years franchising		0.775		
13. Years not franchising		0.835		
01. Number of outlets			0.776	
02. Percentage of outlets located in Spain			−0.807	
03. Outlets opened per year			0.814	
10. Percentage of franchised units			0.467	
04. Outlets opened per year from the beginning of the franchise chain				0.610
09. Contract length (years)				0.903
Eigenvalues	3.11	2.51	2.27	1.08
Variance explained	23.96	19.35	17.43	8.29
Cumulative variance	23.96	43.31	60.74	69.03

variables are shown. The rotated factor matrix (using an orthogonal rotation), after six iterations, reveals the existence of four factors whose eigenvalues are over one.

The results of both analyses (considering 13 or 16 variables) are identical with the exception of the second one which includes three additional variables. The same four strategic groups are kept, though they change the order of the factors. The variance explained by all four factors is slightly over 66% in comparison with 69% obtained

Table 6 Factor analysis with varimax rotation. Comparing 16 vs. 13 variables

	Factor loadings (16 variables)	Factor loadings (13 variables)
Strategic group: "Conservative and expensive"		
05. Average investment	0.823	0.809
06. Entry Fee	0.834	0.808
07. Royalty (percentage of sales)	0.716	0.709
08. Advertising fee (percentage of sales)	0.659	0.761
16. Minimum surface of the place	0.605	Not included
14. Minimum population required	0.530	Not included
Strategic group: "Matures"		
01. Number of outlets of the chain in the world	0.710	0.776
02. Internationalization	−0.744	−0.807
03. Outlets opened per year	0.676	0.814
10. Percentage of franchised units	0.632	0.467
Strategic group: "Rapid Growers"		
04. Outlets opened per year from the beginning of the franchise chains	0.722	0.610
09. Contract length (years)	0.855	0.903
15. Total shops in Spain	0.839	Not included
Strategic group: "Re-converted"		
11. Age of the company	0.976	0.990
12. Years franchising	0.588	0.775
13. Years not franchising	0.857	0.835
Variance explained	66.15	69.03

using 13 variables. The variables “16. Minimum surface” and “14. Minimum population” positively load on the strategic factor called expensive and conservative. Logical results are provided since a major surface or population required for the opening of a unit needs a higher franchisee investment. The variable “15. Total shops in Spain” loads on the factor of rapid growers. This aspect also totally agrees with the sense that franchising provides a rapid growth to firms that adopt it.

The study has continued trying to include both remaining variables (sector or industry and distribution strategy) that should be considered of great importance for our purposes. To analyze if the groups obtained for the whole sample differ between each of three different sectors and if these sectors behave differently from one to the other is extremely important. Equally, two analyses for the distribution strategy considering the alternative of multi-channel in comparison with the alternative mono-channel (for companies that use only franchisee units) have been applied.

The results of these five analyses are summarized in Table 7 (columns 3–7) and they can be compared to the study of the whole sample gathered in the second column.

Some differences between sectors and distribution strategy can be appreciated from Table 7. Analysing the three columns of sectors five strategic groups come out, not four as in the case of the whole sample. Also, the variables included in each strategic group vary depending on the sector and the distribution strategy. This fact indicates that including both the aforementioned strategic variables, added to the other three, is absolutely necessary to achieve good classifications of franchisor types. As many previous studies have not taken them into account, their results might be confusing. Especially so, when firms of different sectors have been included in the samples.

As in the first study, the non-parametric test of Kruskal–Wallis was carried out. It has been verified that the four groups differ significantly in the 16 analyzed variables; all of them presenting a *p*-value lower than 0.05. That is to say, it can be affirmed that the groups of franchisors obtained are homogeneous within each type and heterogeneous with respect to the rest.

Discussion, implications for management, limitations and future research

Discussion

As previous studies showed, the existence of several strategic groups in the Spanish franchising system can be corroborated and, therefore, different types of franchisors. In this paper, four strategic groups have been identified, unlike the five that others authors proposed.

Nevertheless, the results are consistent since our sample is made up of franchisors with a high likelihood of future success. This would lessen the possibility of obtaining a strategic group composed of unsuccessful franchisors.

One of the major implications of this study is that the variables included in each strategic group vary depending on the sector and the distribution strategy. This fact indicates that including sector and distribution strategy is absolutely necessary to achieve good classifications of franchisor types. A description of them is offered in Table 8.

Table 7 Comparing strategic groups

	Whole sample	Retailing	Service	Hotels and restaurants	Multi-channel	Mono-channel
Strategic group: “Expensive and conservatives”						
05. Average investment	0.823	0.862	0.580	0.758	0.800	0.764
06. Entry Fee	0.834	0.607		0.766	0.825	0.824
07. Royalty	0.716	0.593		0.624	0.744	0.747
08. Advertising fee	0.659			0.614	0.706	0.795
16. Minimum surface	0.605	0.846	0.586	0.888		0.815
14. Minimum population	0.530	0.788			0.440	
10. Percentage of franchisees		−0.710				
12. Years franchising			0.909			
09. Contract length					0.729	
Strategic group: “Matures”						
01. Number of units	0.710		0.937	0.843	0.842	
02.Internationalization	−0.744	0.603	−0.671	−0.900	−0.861	−0515
03. Units per year	0.676		0.902	0.836	0.811	
10. Percentage of franchisees	0.632			0.462		0.747
12. Years franchising		0.794		0.670	0.603	
06. Entry Fee			0.609			
14. Minimum Population						0.617
Strategic group: “Rapid Growers”						
04.Franchisees per year	0.722	0.925	0.876	0.933	0.930	0.920
09. Contract length	0.855	0.684				0.655
15. Units in Spain	0.839	0.929	0.938	0.748	0.912	0.892
01. Number of units		0.962				0.553
03. Units per year		0.945				0.561
Strategic group: “Re-converted”						
11. Age of the company	0.976	0.951	0.881	0.878	0.965	0.975
12. Years franchising	0.588					0.720
13. Years not franchising	0.857	0.937	0.950	0.918	0.950	0.843
08. Advertising fee			0.526			
10. Percentage of franchisees			−0.806			
Strategic group: “Unknown”						
08. Advertising fee		0.898				
07. Royalty			0.577			
09. Contract length			−0.684	0.754		
14. Minimum Population			0.586	−0.813		
16. Minimum Surface					0.681	
10. Percentage of franchisees					−0.671	
Variance explained	66.15	80.89	74.70	80.44	74.77	72.98

In the following paragraphs the main characteristics of the groups are explained.

Group 1: “Expensive Franchisors.” This is the group that presents the highest costs of adhesion (investment). Besides, the financial investments demanded from the franchisees such as entry fee, sales royalties and advertising fee, minimum population and minimum size of the place present higher values than in any other group.

The difficulties of control of the franchisor, due to the geographical dispersion of the outlets, according to the agency theory, makes the franchisors demand a few high financial considerations from the franchisees in order to avoid opportunist behavior.

Table 8 Differences between types of franchisors in Spain

	Expensive (27)	Matures (21)	Rapid Growers (8)	Re-converted (16)	Mean
01. Number of outlets	959	2.210	2.215	490	1.359
02. Internationalization	85.09	26.66	69.71	76.94	64.53
03. Shops opened per year	30	223	235	12	105
04. Shops opened per year from the beginning of the franchise chains	4.3	8.2	70.5	2.5	12.4
05. Average investment	218.928	86.064	29.177	103.169	133.368
06. Entry Fee	24.772	14.238	751	11.097	15.992
07. Royalty (percentage of sales)	4.41	3.04	0.25	1.57	2.92
08. Advertising fee (percentage of sales)	2.46	2.04	0.00	1.18	1.78
09. Contract length (years)	9.41	6.52	17.00	7.31	8.94
10. Percentage of franchised units	74.05	89.57	96.58	68.72	79.09
11. Age of the company	12	13	11	34	17
12. Years franchising	9	10	8	13	10
13. Years not franchising	3	3	3	22	7
14. Minimum Population	63.963	33.143	7.063	38.313	42.951
15. Total shops in Spain	69.1	104.9	703.75	109	158.9
16. Minimum surface	183	75	26	87	113
Sector 1: Retailing (percentage)	11.1	33.3	62.5	68.8	
Sector 2: Hotel-restaurant (percentage)	18.5	47.6	37.5	18.8	
Sector 3: Services (percentage)	70.4	19	0	12.5	
Multi-channel strategy (percentage)	66.7	33.3	25	68.8	
Mono-channes strategy (percentage)	33.3	66.7	75	31.3	

With regards to their age, they are the third oldest companies (12 years). This justifies them being able to demand a higher entry fee in consideration of a better brand equity, know-how, etc. The duration of the contract (9 years) is also the second highest, justifying greater investment of adhesion requested from their franchisees. This group is very similar to the conservative expensives from the Carney and Gedajlovic (1991) article.

Group 2: “Re-converted.” They are franchisors that have been exercising their commercial activity for many years (34 years on average), turning them into the oldest group of the sample by far. They have not managed to get an important number of outlets, which leads to them being the group with a minor number of units. They present, moreover, a very limited growth. It is the group that has adopted franchising later (after 22 years). In spite of this, and given their age, they have been operating in franchising longer. This group is like the converters from the Carney and Gedajlovic (1991) study.

Group 3: “Mature.” This is the group that presents the second highest number of outlets, 2,210 units on average. They are international companies present in a wide number of countries. Their annual growth of outlets is good, which justifies the search for new markets to be able to support the rhythm of expansion. The annual growth of franchised units in Spain is high too. These are the franchising chains that provide the contracts of less duration (6 years). This group is very similar to the mature franchisors from Carney and Gedajlovic (1991) and carbon-copy from the Johnson and Alon (2006) articles.

Group 4: "Rapid Growers." These are the franchisors that have the lowest age (11 years), though they have adopted franchising almost immediately. Following the principles of franchising, they are the franchisors that offer a longest contract (17 years). In spite of their youth, they have a very high number of outlets and the highest number of shops in Spain.

The name "franchisors in rapid growth" justifies itself because the growth is very high. The franchised units opened per year (average 70.5) have the highest growth of all the groups. The growth of the total units is also very high. To be able to grow rapidly, they present the lowest cost of adhesion of all the groups regarding initial investment, entry fee, sales royalties and advertising fee. This group is like the equally named "rapid growers" from Carney and Gedajlovic (1991) and the "entrepreneurial" from Johnson and Alon's (2006) studies.

To conclude, the existence of strategic groups in the Spanish franchising is verified, coinciding with previous research (Carney and Gedajlovic 1991; Castrogiovanni et al. 1995; López and Ventura 2001; Combs et al. 2004).

The main contribution of this work is that the strategic groups vary depending on the sector and the distribution strategy. This fact indicates that including both the aforementioned strategic variables, added to the other three new variables included in the study, is absolutely necessary to achieve good classifications of franchisor types. Furthermore, these new variables should be taken into account in future research about strategic groups on franchising.

Managerial implications

The study of strategic groups is an essential tool to analyze the competitive structure of any sector of activity. In franchising, certain variables (investment, entry fee, royalties, geographical dispersion, etc.) are considered to be explanatory factors of managerial behavior. These variables, which sustain the creation of mobility barriers in the sector, are the origin of the strategic groups within franchising. These results lead us to affirm that franchising, more than a sector of activity, is a form of trade that can be used in any sector of activity as a strategy of growth. Also, it can differ depending on the supporting strategic variables.

We highlight the fact that the results obtained in the group of franchisors differ according to the applied methodology. Therefore, the groups that arise from the factor analysis present many differences from those originated by the cluster analysis. However, to look for strategic groups the utilization of the factor analysis is more advisable than the cluster analysis, as Nath and Gruca (1997) commented.

The important issue is not only the application of a certain methodology for the search of strategic groups, but to wonder if the variables that were chosen to carry out the abovementioned groups are really explanatory of the managerial behavior. That is to say, are they of a strategic nature? When this occurs, the different managerial behaviors of the companies included in the different strategic groups might explain the divergent results in terms of sales growth, profitability, market share, etc.

It is relevant to analyze the different groups conformed including the variables sector and distribution strategy because they may make up different groups of franchisors.

Limitations and future research

Like any research, this study contains limitations that can help us to orientate future research. The first limitation comes from the size and type of the sample, since it only includes franchising chains whose future seems to be successful. Furthermore, they have consolidated themselves in their competitive sector; they possess a wide experience, etc. This bias in the sample prevents generalizing the results completely, though the truth is that, in general, they are very similar to those obtained by previous studies. This limitation leads us to plan a new study using all the information of the franchising chains that operate in Spain. Also, to extend the study to other countries in order to generalize the results would be helpful.

The second limitation comes from the variables selected for the configuration of the strategic groups. Their strategic nature is not in doubt. Nonetheless, the likelihood of comparison to previous articles has led us to not include variables that might be of great importance in explaining the managerial behavior such as: the degree of internationalization, the risk associated with the franchising, etc. This constitutes a new challenge for future research.

A third limitation is caused by the database used in the research. The chains included in the Supplement of the National Magazine “Emprendedores” are selected by their likelihood to future excellence or success, and this aspect might provoke the “Unsuccessful” group not appearing in this study.

Finally, the results highlight that though the obtained groups are heterogeneous with respect to the rest and homogeneous within each type, this does not mean that within the groups companies partially different to others still continue existing. In this respect, it is necessary to carry out qualitative studies of the companies included in every group and to verify if some differences continue existing in their behavior and performance.

Appendix

Notes

1. Within every factor the variables whose absolute value is over 0.7 were supported, with the exception of those variables whose higher value does not reach the abovementioned figure. In this case, the variable in the factor that has a major load is showed.

2. The royalties and advertising fees that are fixed quantities have been transformed into percentages. How much this fixed fee, royalty or advertising means with regard to the first year’s foreseen sales volume has been calculated. This information of foreseen sales volume has been obtained from the 2004 Yearbook of ‘Tormo & Asociados.’ When this data has been missing, the procedure used was the following one: dividing the global volume of business by the number of outlets in Spain and calculating the percentage of this value.

3. When unlimited duration is indicated in the contracts, 25 years have been considered, compared with other studies that raise this figure to 100 years.

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