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FRANCHISOR TYPES IN PORTUGUESE FRANCHISING

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Abstract

The identification of the existence of strategic groups within Portuguese franchising constitutes the main aim of the present paper. An empirical study starting from 128 franchising chains operating in Portugal was carried out. The results reveal the existence of five perfectly differentiated strategic groups (franchisor types), which are described starting from the strategic variables that define them. Our main contribution is that the results obtained in the Portuguese franchising system are similar to precedent studies in Canada, USA and Spain. That result suggests a tendency toward the globalization of franchisor types.

Key words: strategic groups, franchising, factor analysis.

TIPOS DE EXPLORAÇÃO NO *FRANCHISING* PORTUGUÊS

Resumo

A identificação da existência de grupos estratégicos no âmbito do *franchising* português constitui o aspecto central deste artigo. O presente estudo empírico realizado tem como enfoque as 128 correntes de *franchising* que operam em Portugal.

Os resultados revelam a existência de 5 grupos estratégicos que são diferenciados a partir das variáveis estratégicas que os definem. Neste estudo podemos concluir que os resultados obtidos no sistema português de *franchising* são similares aos estudos precedentes no Canadá, EUA e Espanha, verificando-se assim uma tendência para a globalização nos tipos de exploração.

Palavras Chave: grupos estratégicos, franchising, análise factorial.

1. INTRODUCTION

The franchising system presents a series of typical features. Firstly, its increasing importance in the area of commercial distribution must be emphasized. Secondly, the number of franchisors and franchisees is increasing regularly. This idea is valid for a wide spectrum of countries from those that are developing to the most commercially advanced. For example, in The United States at the end of the 80s the franchising system was valued as representing around 34 % of the retail market share (Díez and Galán, 1989) and at present it is estimated at over 50 % of the retail market share (Falbe, Dandridge and Kumar, 1999).

Portugal is no exception, and franchising is a growing business although it has suffered a certain delay compared to other countries of the European Union (EU). A high number of international franchising chains arrived at Portugal the second half of the 80s, at the same time that Portugal became member of the EU.

Table 1 shows the evolution of franchisors in Portugal since 1990. The number of franchisors has grown from 31 in 1990 to 390 in 2004. Also, the number of franchisees has increased from 2634 in 1997 to 9160 in 2004.

TABLE 1

Evolution of franchisors in Portugal

Years	1990	1995	1996	1197	1998	1999	2000	2001	2002	2003	2004
Franchisors	31	119	178	236	303	357	360	363	354	374	390

Source: Census 'O Franchising em Portugal', do IIF – Inst. de Informaçao en Franchising.

The franchising system has definitely won over Portuguese managers, who have started to use this business format in their commercial development, independently of the size of firms. This fact has produced an amazing number of new franchisors of Portuguese origin, in fact reaching 44% of all franchisors established in Portugal (see table 2).

TABLE 2

Evolution of Portuguese franchisors

Years	1995	1996	1197	1998	1999	2000	2001	2002	2003	2004
Portuguese Franchisors	19	31	47	78	123	120	135	135	154	173

Source: Census 'O Franchising em Portugal', do IIF – Inst. de Informaçao en Franchising.

As such, the franchise system continues its high development and contributes importantly to the modernization of retailing. Nevertheless, research on franchising has not developed in parallel with the evolution of the sector. The reasons for this are diverse (Díez and Rondán, 2004): ignorance of franchising at an academic level, scarce study of the institutions or distribution companies, secretive clauses in franchising contracts that prevent franchisors and franchisees from revealing information, and, finally, the need for comprehensive knowledge of all the firm's component areas (Organization, Marketing, Financial Economy and Accounting) as well as legal aspects (especially commercial law).

2. SCHEME OF RESEARCH ON FRANCHISING

Elango and Fried (1997) published an important contribution on franchising research. These authors carried out a wide and relevant review of the scientific research on franchising for the scientific community, and it provides a good starting point for the consolidation of franchising as a research stream. Based on the work of Elango and Fried (1997), a classification of the research lines on franchising was proposed (table 3). Later, sections where research has been important and others where it was practically non-existent were revealed (Díez, Rondán and Navarro, 2004). Our scheme is different from that of Elango and Fried (1997) in some ways, such as, it has a higher number of research lines, and updated bibliographic revision has been made, and this classification proposes research lines independently of the existence of articles published in each topic. In this context, four lines of research were established:

1. Social Reasons of franchising.
2. Research about the franchisor.
3. Research about the franchisee.
4. Franchisor-franchisee relationship.

Related to research on franchisors, one of the most commonly studied topics is the definition of the reasons that managers think about in order to grow through franchising instead of using other alternatives (own units). Of the theories that explain the reasons for franchising expansion, basically two have received more scientific support by researchers (Alon, 2001; Combs y 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, in order to attain a quick expansion. When firms are very young and small, have difficulties in obtaining money through traditional financial markets or from existing operators, and likewise, they find it difficult to develop the necessary managerial talent (Shane, 1996). Nevertheless, rapid expansion may be essential in order to build the economies of scale in

TABLE 3

Proposed classification of research about franchising

1. Social reasons for franchising	a) Social advantages b) Social-economics advantages c) Social inconvenients d) Social balance of franchising e) Franchising contract f) Ethic in franchising e) Franchising favours competition	
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) Franchisee unit locations	
3. Franchisee	a) Reasons for integration in a franchise system	- Independence of franchisee - Risk in franchising
	b) Choice of franchisor	- 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) Non Economic Performance	- Commitment - Satisfaction - Loyalty

Source: Díez de Castro, Rondán and Navarro (2004)

purchasing and advertising which are necessary to compete effectively against established firms (Combs and Castrogiovanni, 1994). 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 (Lafontaine and Kaufmann, 1994; Norton, 1995; Bradach, 1998; Combs, Ketchen, and Hoover, 2004; Castrogiovanni, Combs and Justis, 2006).

b. *Agency Theory*. Agency contracts consist on a relationship in which one part (the principal) delegates authority to a second (the agent). Each part is assumed to be self-interested and to possess 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 principal has two basic tools at his/her disposal to guarantee agent cooperation: monitoring agent behaviour and offering incentives tied to agent outputs. Franchising largely alleviates the franchisor's need for costly monitoring of unit managers because franchisees are the 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 franchisees' continued 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, 1997). Agency Theory claims that firms franchise when doing so minimizes agency cost via the best available alignment between outlet managers' incentives and the firms' objectives. The basic principles of Agency Theory have underpinned many articles about franchising (Hunt, 1973; Caves and Murphy, 1976; Rubin, 1978; Mathewson and Winter, 1985; Brickley and Dark, 1987; Martin, 1988 and 1993; Norton, 1988a and 1988b; Brickley, Dark and Weisbach, 1991; Krueger, 1991; Lafontaine, 1992; Lafontaine and Shaw, 1996; Shane, 1996; Calderón, 1998; Moro, 2002; López and Ventura, 2002; Combs, Ketchen and Hoover, 2004; Castrogiovanni, Combs and Justis, 2006.).

Carney and Gedajlovic (1991) and Combs and Castrogiovanni (1994) demonstrated that both theories are more complementary than rival, and they jointly serve to explain the reasons why firms adopt the franchising system. 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. However, according to these authors the main contributions of their works are not the aforementioned ones, but the discovery of the existence of five groups of franchisors (strategic groups) in the franchise system. Furthermore, they pointed out the need for repeating their study in other countries in order to confirm and generalize their results. Some articles related to the identification of strategic groups have been published since then, which led us to introduce a new research stream inside studies about franchisors, and this is the focus of our study.

3. OBJECTIVES

As just stated, this work can be located inside the research stream about franchisors. In light of this background, the identification of strategic groups in the

Portuguese franchising is the main goal of this study. Concretely, the **research objectives** are as follows:

1. To identify the existence of 'franchisor types' based on the configuration of strategic groups in the Portuguese franchise system.
2. Subject to confirmation of the previous objective, to analyse and feature the strategic groups found.

As a means to achieve these goals some steps have been developed. Firstly, a literature review identifying the antecedents of strategic groups in franchising to support two hypotheses was performed. Secondly, a methodology to contrast the hypotheses is proposed. Finally, the most important results, conclusions, limitations and future research are presented.

4. LITERATURE BACKGROUND AND HYPOTHESES

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 become one of the basic props on 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 performance (Combs, et al. 2004), since they can differ with respect to the resources, skills or capacities possessed (Thomas and Carroll, 1994, Mcnamara et al. 2003).

Through strategic groups it is possible to explain the competitive position of every company of the sector in relation to its competitors. Therefore, the study and analysis of strategic groups in a managerial sector helps us to understand its structure, 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 requires the fulfilment 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. Modification would entail incurring high change costs, such as high investments in both tangible (monetary, human, etc.) and intangible resources (learning, know-how, etc.). If this condition is not supported, identifying strategic groups within a sector is very difficult, despite application of certain statistical tools (factor analysis, cluster analysis, etc.), as Nath and Sudharshan, 1994, indicated.

- The difficulty of modifying the variables that define the managerial strategies in a short timespan must create barriers of mobility among the different strategic groups. And, this fact prevents or impedes the movement of companies from one group to another. That is to say, they are a source of competitive advantage for the members of the group that possesses 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 barriers of mobility that determine their competitive behavior. Barriers of mobility are some 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 building sector (Molina and Quer, 2003), the pharmaceutical industry (Cool and Schendel, 1987), the bank sector (Mas, 1996; Mcnamara et al. 2003), retailing (Barroso et al. 2001), the hospitals sector (Nath and Sudharshan, 1994; Nath and Gruca, 1997), the hotel sector (Baum and Mezias, 1992), the insurance sector (Fiegenbaum and Thomas, 1990; 1993), and internationalization (Cooper and Kleinschmidt, 1985), among others.

In addition, these approaches have spread into franchising. A pioneering work in the scientific research on types of franchisors is that of Carney and Gedajlovic (1991). Carney and Gedajlovic (1991) worked with a Canadian sample of 128 franchising chains that operated in Quebec in 1988. They use 13 measures, grouped into 7 strategic dimensions (table 4). Based on the results obtained, they identified five strategic groups in franchising (table 5).

A second interesting article about strategic groups in franchising in the USA was published by Castrogiovanni et al. (1995). Data were extracted from the magazine 'Entrepreneur' in 1991, comprising 717 franchising chains belonging to 28 sectors. The variables considered as strategic in this study were very similar to those used by Carney and Gedajlovic (1991). The results of Castrogiovanni et al. (1995) using the same procedure as Carney and Gedajlovic (1991) confirm the strategies of 'rapid growth franchisors' and 'reconverted' entirely and 'mature franchisors' partially. Nevertheless, the 'expensive conservative' and 'not successful' strategic groups were identified by variables of a different nature from those of Carney and Gedajlovic (1991).

Lopez and Ventura (2001) presented a third article continuing this research stream. Their database was built from various Spanish Franchising Yearbooks, supported by surveys. The sample was 228 franchisors operating in Spain in 1996. They employed 12 variables, of which 8 were the same as the study of Carney and Gedajlovic (1991). Furthermore, they detected the existence of five

TABLE 4

Variables and strategic dimensions of Carney and Gedajlovic (1991)

Strategic dimensions	Operative Variables
A. Size	01. Number of outlets
B. Dispersion	02. % of outlets located in Quebec
C. Growth	03. Outlets opened per year from the birth of the firm
	04. Franchise opened per year from the beginning of the franchising system
D. Cost of adhesion (price of franchising)	05. Average investment that is necessary for the franchisee candidate
	06. Entry Fee
	07. Royalty (% of sales)
	08. Advertising fee (% of sales)
E. Contract	09. Contract length (years)
F. Vertical integration	10. % of outlets franchised (confidence in franchising)
G. Timing	11. Age of the company (years since inception)
	12. Years franchising
	13. Years pre-franchising (years between inception and firs franchise)

Source: Carney and Gedajlovic (1991)

TABLE 5

Franchisor strategies according to Carney and Gedajlovic (1991)

Strategy	Features
Rapid Growers	• Characterized by the search for rapid growth, with a high number of annual openings both of franchised units and own outlets. • Young franchising chains (limited age). • They adopted the franchising system immediately.
Conservative expensive	• High cost of adhesion. • They are expensive since initial investment, entry fee and advertising fee demanded have the highest values in the resulting groups. • They are conservative due to the fact that the duration of the contract is the longest of the groups studied.
Franchise converts	• The companies included in this group are the oldest. • They have developed a strategy of own units for a long time and recently they have adopted franchising as a growth strategy. • They have grown slowly during the own units stage and much more rapidly from their expansion into franchising.
Mature franchisers	• This is the group of franchisors that have been in franchising the longest. • Their age is high, though a few years passed from their start in the sector to when they adopted the franchising formula. • They are the franchising chains that present a greater number of outlets.
Unsuccessful	• This is the second youngest group. • They adopt quickly the franchising system as growth strategy. • Few own outlets. Their expansion is mainly via franchising, the percentage of franchised units is the highest of the groups considered. • This is the group that required the lowest fees, presenting few requirements of adhesion. Nevertheless, their growth is limited.

Source: Carney y Gedajlovic (1991)

strategic groups, which they called: Emergents, Standardizables, Large Internationals, Traditional and Unsatisfactory. These authors affirm that, though they used a different denomination: 'globally, the identified groups are equivalent to those of Carney and Gedajlovic's study '.

Finally, a recent study from Rondan et al. (2006) about franchising in Spain should be mentioned. They collected data from 699 franchising chains included in various Spanish Franchising Yearbooks in 2004. The results confirmed the existence of five strategic groups in the Spanish franchise system: 'expensive franchisors', 'convert franchisors', 'mature franchisors', 'rapid growers franchisors' and 'unsuccessful'. The first three types are identified completely with Carney y Gedajlovic' ones, but the other two are only partially associated.

The hypotheses to contrast in the study that arise from the literature review are:

H_1: In Portuguese franchise system types of franchisors can be identified.
H_2: In Portuguese franchise system five types of franchisors can be identified (*rapid growers, conservatives, re-converted, matures and unsuccessful*).

5. METHODOLOGY

5.1. VARIABLES AND DATA ANALYSIS

Given that one of the goals of this work is to study franchising globalization, the same 13 variables considered in the work of Carney and Gedajlovic (1991) have been analysed in order to enable a comparison with their study.

The database includes information from 128 franchising chains from diverse sources in Portugal for years 2004 and 2005. Concretely, data sources were the following:

- Journal: Franchising - Directório de Oportunidades 2005, Instituto de Informação em Franchising.
- Journal: Negócios e Franchising - special 2004, Instituto de Informação em Franchising.
- Journal: Negócios e Franchising, May-June 2005, Instituto de Informação em Franchising.
- Website from Instituto de Informação em Franchising – www.infofranchising.pt.
- Website from Franchising Portugal - www.franchising.pt.
- Website from Portuguese Franchising Association - www.apfranchise.org

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

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 was derived from archive data, therefore, the first of the methodologies proposed by Nath and Gruca (1997) was chosen, this also being followed by Carney and Gedajlovic (1991), Castrogiovanni et al. (1995), Lopez and Ventura (2001) and Rondán et al (2006).

In this respect, to contrast H_2, an exploratory factor analysis was carried out, imputing the missing values with the average of every variable and applying rotation varimax. From the rotated components matrix, we retain the factors whose eigenvalues are over 1. The classification of each firm, in each group, was carried out paying attention to the higher factorial 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 factorial score over 0.1 in any factor were not classified, following the recommendations of Carney and Gedajlovic (1991) and Lopez and Ventura (2001). As a result, the grouped companies were 88.

The Hypothesis H_1 was tested using a two-stage procedure. First, a contrast of averages comparison for groups was carried out, using Kruskal-Wallis's test, in order to verify if the franchisor groups in every factor differ significantly from other groups. Secondly, cluster analysis was used to generate alternative groups and to compare them with the groups derived from the factorial analysis.

6. RESULTS

The factor rotated matrix, after eight iterations, reveals the existence of five factors, which are those which have eigenvalues over 1 (table 6).

Factor 1 joins some variables related to the cost of adhesion of the chain, such as 'average investment', 'entry fee' and 'advertising fee', and other variables: 'contract length' and 'number of outlets'. Factor 2 includes: 'age of the company', 'years pre-franchising' and 'years franchising'. Factor 3 combines: 'geographical dispersion' (negative sign) and 'Outlets opened per year'. Factor 4 comprises the growth variable: 'franchises opened per year' and '% of outlets franchised'. Factor

TABLE 6

Factor analysis with varimax rotation

Factor 1	Factor loadings
05. Average investment	0.702
06. Entry Fee	0.806
08. Advertising fee	0.403
09. Contract length	0.719
01. Number of outlets	0.665
Factor 2	
11. Age of the company	0.810
12. Years franchising	0.815
13. Years pre-franchising	0.671
Factor 3	
02. Geographical dispersion	-0.847
03. Outlets opened per year	0.685
Factor 4	
04. Franchise opened per year	0.844
10. % of outlets franchised	0.724
Factor 5	
07. Royalty (% of sales)	0.899

5 is only embodied by 'royalty (% of sales)'. The variance explained by the five factors is slightly over 69 %.

As previously explained, two tools were used to contrast H_2. First, the non-parametric test of Kruskal-Wallis, which is the equivalent one-way ANOVA when the variables do not fulfil the requirements of normality, was used. It was verified that the five groups differ significantly in 12 of the 13 analyzed variables. All of them present a p-value equal to or under 0.05, except for the variable 'advertising fee'. These results confirm H_1.

Nevertheless, as did Castrogiavani et al. (1995) and Lopez and Ventura (2001) , we also ran a cluster analysis, trying to verify if the resultant groups of franchisors are similar to those arising from the factorial analysis. When applying K-means cluster analysis, similarities with other studies or the groups resulting from the factor analysis do not appear, thus, creating 5 groups. In view of these results, we coincide with Castrogiavanni's et al. (1995) commentaries, with regard to the scarce convergence between the groups formed by the cluster analysis compared to those that arose from the factorial analysis.

Five strategic groups were obtained according to their features and their fit for the proposed names. In table 7, a comparison between the results of this study and those of Carney and Gedajlovic is presented. Some aspects are worth noting.

- In strategic group nº 2, called ' *conservative and expensive franchisors'* four variables load together in both researches: 'average investment', 'entry fee', 'advertising fee' and 'contract length'.
- In strategic group nº 3, called ' *franchisors re-converted* ' two variables load together: 'age of the company' and 'years pre-franchising'.

Both types are very similar in both works.

- In strategic group n º 1, 'rapid growers', only the variable 'franchises opened per year' loads together in both studies.
- In the strategic group nº 4, 'mature franchisors', only the variable 'geographical dispersion' loads together in both studies.
- Finally, in the strategic group nº 5, 'unsuccessful', only the variable 'royalty (% fee of sales)' loads together in both studies.

The last three types of franchisors are only partially identified in the aforementioned studies.

Hypothesis 2 is partially confirmed based on these results, although some variables do not match exactly in both studies.

7. DISCUSSION AND IMPLICATIONS FOR MANAGERS

7.1. Discussion

It can be corroborated that in the Portuguese franchising system, several strategic groups exist and, therefore, different types of franchisors. In this case, five strategic groups were identified. The groups found are very logical, real and close to other studies carried out in Canada, USA, and Spain (Carney and Gedajlovic, 1991; Catrogiovanni et al, 1995; Rondán et al., 2006) so the globalization of the franchising strategic groups is starting to become a reality. A description of them is given in table 8.

Group 1: 'Expensive Franchisors'. This is the group that presents the highest costs of adhesion (investment). The financial investments demanded from the franchisees - such as entry fee, royalty of sales and advertising fee - present a higher value than in any other group. Also, they offer the longest contracts. The control difficulties of franchisors, due to the geographical dispersion of the outlets, make them demand a few high financial considerations from the franchisees, in order to avoid opportunist behavior. They are in second place in total number of units; they adopted franchising as a growth mechanism after eight years on average. Their higher brand equity,

TABLE 7

Similarities or differences with Carney and Gedalojvic (1991)

	Carney	Portugal
Strategic group 1: 'Rapid Growers'	Factor 1	Factor 4
03. Outlets opened per year	0.916	
04. Franchises opened per year	0.962	0.844
10. % of outlets franchised		0.724
;trategic group 2: 'Conservatives and expensive'	Factor 2	Factor 1
05. Average investment	0.783	0.702
06. Entry Fee	0.760	0.806
08. Advertising fee	0.607	0.403
09. Contract length	0.625	0.719
01. Number of outlets		0.665
Strategic group 3: 'Re-converted"	Factor 3	Factor 2
11. Age of the company	0.932	0.810
13. Years pre-franchising	0.980	0.671
12. Years franchising		0.815
Strategic group 4: 'Matures'	Factor 4	Factor 3
01. Number of outlets	0.708	
02. Geographical dispersion	- 0.604	-0.847
12. Years franchising	0.878	
03. Outlets opened per year		0.685
Strategic group 5: 'Unsuccessful'	Factor 5	Factor 5
07. Royalty (% of sales)	- 0.737	0.899
10. % of outlets franchised	0.791	

TABLE 8

Differences between types of franchisors in Portugal

	Conservative and expensive	Reconverted	Mature	Rapid Growers	Unsuccessful	Mean
01. Number of outlets	529.4545	456.5263	696.9231	51.4444	68.6000	347.2017
02. Geographical dispersion	63.1314	37.5753	11.1246	85.7285	41.4742	49.4320
03. Outlets opened per year	17.2611	13.8503	44.3062	19.8107	7.7700	21.3934
04. Franchises opened per year	2.1987	4.3750	4.6729	14.5196	3.1609	5.3581
05. Average investment	142447.95	74155.67	40603.54	38380.43	64745.00	68822.44
06. Entry Fee	23076.92	11025.08	10055.86	8469.23	14233.75	12923.38
07. Royalty (% of sales)	2.808	2.155	2.772	2.331	7.368	3.655
08. Advertising fee (% of sales)	1.472	1.955	1.325	1.483	1.789	1.534
09. Contract length (years)	6.80	6.40	4.63	5.00	5.56	5.52
10. % of outlets franchised	46.7826	84.0886	64.9858	86.2707	79.2669	70.6652
11. Age of the company	11.3750	33.6316	12.9615	4.8667	8.8500	14.3235
12. Years franchising	2.7333	8.6667	3.3077	3.1429	3.6842	4.1505
13. Years pre-franchising	8.5333	19.2667	9.6538	1.7692	4.5789	8.5978

Know How, etc., justify the higher fees that franchisees have to pay to the franchisors included in this strategic group.

Group 2: 'Re-converted'. They are franchisors that have been exercising their commercial activity for many years (33 years on average), which makes them the oldest group of the sample. This group adopted franchising later (after 19 years), although they have been operating longest in franchising in Portugal (8 years on average). Moreover, they present a very limited growth rate.

Group 3: 'Mature'. This is the group that presents the greatest number of outlets, 697 units on average. Their annual growth of outlets is the highest, which justifies the search for new markets to be able to support the rhythm of expansion. The annual growth of franchised units in Portugal is high too, the second of all the groups. However, they suffer the lowest lowest rate of internationalization.

Group 4: 'Rapid growers'. These are the franchisors that are the youngest (5 years). The name 'franchisors in rapid growth' justifies itself because the growth rate is very high. The franchised units opened per year (an average of 14.5) display the highest growth of all the groups. Furthermore, they are very confident in franchising because 86.27% are franchised units. In spite of their youth, they show a very high number of outlets (second to the mature group). In order to be able to grow rapidly, they present the lowest conditions of adhesion (costs) of all the groups regarding initial investment and entry fee.

Group 5: 'Unsuccessful franchisors'. This group includes the franchisors with the second worst growth ratio and the lowest total units. In addition, they demand the highest royalties and the second most expensive advertising fees.

To sum up, the existence of strategic groups in the Portuguese franchising system is verified. Another important conclusion that is a novel result of this work is the coincidence among the features of Portuguese franchising strategic groups and other franchisor types analysed in other countries. This fact means that the strategies of franchising cross national borders and tend towards globalization.

7.2. Implications for managers

The study of strategic groups is an essential tool to analyze the competitive structure of any sector of activity. The existence of franchisor types is very useful for the knowledge of the prior elements of the franchising system (franchisors and franchisees).

In franchising, certain variables (investment, entry fee, royalties, geographical dispersion, etc.) operate as explanatory factors of the managerial behavior and, in consequence, of the strategy used to compete in a certain combination of product-markets. 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 for growth. Moreover, 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. This way, the groups that arise from factor analysis present many differences from those originating from cluster analysis. However, it seems that when looking for strategic groups, it is better to use factor analysis than cluster analysis, as Nath and Gruca (1997) noted.

It is important not only to weigh the application of a certain methodology for the search of strategic groups, but to question if the variables chosen are really explanatory of the managerial behavior, that is to say, if they have a strategic nature. When this occurs, the different managerial behaviors might explain the different results in terms of growth of sales, profitability, market share, etc., of the companies included in the different strategic groups.

8. LIMITATIONS AND DIRECTIONS FOR FURTHER RESEARCH

Like every research project, this study contains limitations that can help academics to orientate future research.

The first limitation comes from the variables selected for the configuration of the strategic groups. Their strategic nature is not doubted. Nevertheless, comparison with previous articles led us to exclude variables that might be considered of great importance in explaining the managerial behavior such as: the competitive sector, the degree of internationalization, the risk associated with the franchising, etc. This constitutes a new challenge that we expect to be able to solve in future research.

A second limitation of this work relates to the lack of a temporal perspective. According to Flavián and Polo (1999) as a previous step for identifying strategic groups, it is necessary to fix if the study is going to be longitudinal or related to a unique point in time. This is a challenge for future research.

Thirdly, till now only strategic groups for franchising of four countries are coincident. Contrasting globalization of this phenomenon requires the extension of the study to other countries.

Finally, we highlight that the groups obtained are heterogeneous amongst each other and homogeneous within each type. However, this fact does not mean that inside the groups companies present differences. In this respect, it is necessary to carry out qualitative studies on the companies included in each group and verify if differences continue to exist in their behavior and performance.

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