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Milica Stanković
Academy of Applied Technical and Preschool Studies
Vranje Division
Department for Economics and Management

THE IMPACT OF EXTERNAL FACTORS ON IMPLEMENTATION OF FRANCHISING AS A STRATEGY OF INTERNATIONALIZATION

Uticaj eksternih faktora na primenu franšizinga kao strategije internacionalizacije

Abstract

The aim of the paper is to emphasize the importance of franchising as a strategy of internationalization for SMEs and to identify external factors that can have an impact on the implementation of franchising as an internationalization strategy in the Republic of Serbia. The paper highlights the impact of external factors that are related to economic development and geographical and cultural distance between countries of origin of the franchisor and the franchisees on the implementation of franchising as an internationalization strategy. This paper is the first study on the impact of external factors on the implementation of franchising as a strategy of internationalization for SMEs from the Republic of Serbia. The findings show that external factors that are related to economic development and geographical and cultural distance between countries of origin of the franchisor and franchisees have an impact on the implementation of franchising as a strategy of internationalization. Franchise SMEs from the Republic of Serbia decide to implement franchising as an internationalization strategy in the markets of those countries that are at a similar level of economic development, which are geographically closer and that have a similar culture as the Republic of Serbia.

Keywords: *franchising, internationalization, SMEs, external factors, franchisee, franchisor.*

Sažetak

Cilj rada je da se naglasi značaj franšize kao strategije internacionalizacije za mala i srednja preduzeća i da se identifikuju eksterni faktori koji mogu uticati na primenu franšizinga kao strategije internacionalizacije u Republici Srbiji. U radu se ističe uticaj eksternih faktora iz domena ekonomskog razvoja i geografske i kulturne udaljenosti između zemalja iz kojih potiču davalac i korisnici franšize na implementaciju franšizinga kao strategije internacionalizacije. Ovaj rad je prva studija o uticaju eksternih faktora na implementaciju franšizinga kao strategije internacionalizacije za MSP iz Republike Srbije. Rezultati pokazuju da eksterni faktori iz domena ekonomskog razvoja i geografske i kulturne udaljenosti između zemalja iz kojih potiču davalac i korisnik franšize utiču na implementaciju franšizinga kao strategije internacionalizacije. Franšizna mala i srednja preduzeća iz Republike Srbije se odlučuju za implementaciju franšizinga kao strategije internacionalizacije na tržištima zemalja koje su na sličnom nivou ekonomskog razvoja, koje su geografski bliže i imaju sličnu kulturu kao Republika Srbija.

Ključne reči: *franšizing, internacionalizacija, MSP, eksterni faktori, korisnik franšize, davalac franšize.*

Introduction

Small and medium-sized enterprises (SMEs) are getting more and more attention, primarily because of their business flexibility and innovation in the face of a changing environment. An increasing number of SMEs decide to enter the foreign markets with the aim of expanding their business activities and achieving higher profits. Franchising is one of the strategies of internationalization that is especially suitable for SMEs, bearing in mind their limited financial and managerial resources. Most of the research in the field of franchising is related to the United States and large multinational companies, so it is important to pay attention to the analysis of the franchise business concept in less developed countries and to the implementation of franchising as an internationalization strategy by SMEs. Modern business conditions require that enterprises analyze foreign markets systematically and continuously in order to select the most favorable foreign market in which they will conduct their business activities. The implementation of franchising as an internationalization strategy for SMEs can be influenced by a number of external factors. This paper will pay particular attention to the following factors: economic development of the country and geographical and cultural distance between the countries of origin of the franchisor and the franchisees.

The aim of the paper is to emphasize the importance of franchising as a strategy of internationalization for SMEs and to identify external factors that can have an impact on the implementation of franchising as a strategy of internationalization in the Republic of Serbia. In the first part of the paper, the author provides an overview of the literature in order to obtain insight into the importance of franchising as a business concept and the selection of a foreign market in the internationalization of business activities. The second part of the paper introduces the hypotheses that will be tested and the methodology that will be used in the paper. The third part of the paper is devoted to empirical research, where the subjects of the research are franchise SMEs from the Republic of Serbia. The author analyzes the influence of external factors on the implementation of franchising as an internationalization strategy by using numerous statistical techniques. After summarizing the empirical results, the author makes relevant conclusions.

Brief theoretical review

Franchising can be seen as an opportunity for all those who want to become self-employed, since every franchise system consists of a franchisor who grants the right to use its brand and business concept to a network of franchisees, i.e., semiautonomous, usually small firms (Watson & Kirby, 2004). Franchising as a business concept improves efficiency and allows economies of scale to ensure cost minimization for both the franchisor and the franchisee (Bradach, 1997). Shane and Hoy (1996) point out that the creation of a franchise network is an entrepreneurial act. Over the past several decades, the number of franchises around the world has increased significantly, bearing in mind that franchising offers better financial results than alternative organizational forms (Nijmeijer, Fabbricotti & Huijsman, 2014).

The initial development of franchising is associated with the United States, after which the franchise business concept has experienced an expansion in Europe and the rest of the world (Price, 1997). Franchise research has a fairly short history, bearing in mind that the oldest known and most frequently quoted studies date back to the late 1960s (Grunhagen & Mittelstaedt, 2005). The largest number of studies in the field of franchising relates to the US, where quantitative research methods are dominant and are considered more valid than qualitative methods (Stanworth, 1999). It has been pointed out that quantitative methods provide a "scientific truth" and are preferred in academic circles because they are considered to lead to reliable and verifiable findings and conclusions (Schoenberger, 1991). In the field of franchising, there are also instances of qualitative research that most often involve individual case studies (Quinn & Doherty, 2000) or a comparison of several franchise systems (Merrilees & Frazer, 2006). Nevertheless, Shane (1998) emphasizes that qualitative methods are less accepted because they are considered inductive and subjective, while quantitative methods of research are considered deductive and objective. Combined research methods (combination of quantitative and qualitative research) were also used for analysis in the field of franchising (Morgan, 1997). The largest number of conducted franchise studies relates to the globally known multinational companies that use the franchise concept to expand their business, so the attention should also be paid to franchising as a strategy for the internationalization of SMEs.

Franchising has been used as a business concept in the Republic of Serbia since the mid-1970s, when the first American franchises entered the market: Coca-Cola, Avis, Diners Club International, Intercontinental, Hyatt, American Express, McDonald's and so forth. After that, domestic enterprises saw the benefits of the franchise business concept, and in the 1980s and 1990s, domestic franchise systems were developed: Montenegro Express, Tigar, Pekabeta, C Market, Yumco and so forth. The next phase in the development of franchising in the Republic of Serbia began at the end of the last decade. At the end of 2007, the Franchising Center as part of the Chamber of Commerce and Industry of Serbia was established as a central place where all interested parties could receive information about franchising in the Republic of Serbia (Chamber of Commerce and Industry of Serbia, 2008). Compared to the developed countries, citizens' awareness of the importance of franchising as a business concept is still at a low level in the Republic of Serbia, and it is necessary to make additional efforts to popularize the franchise business concept, bearing in mind the many benefits that it offers (Stefanović & Stanković, 2013).

How and why franchisees expand internationally is the focus of a large number of researchers (Alon, Madanoglu & Shoham, 2017; Madanoglu, Alon & Shoham, 2017). There is extensive literature on international franchising (e.g., Aliouche & Schlentrich, 2011; Altinay, Brookes, Madanoglu & Aktas, 2014; Dant et al., 2011; Elango, 2007; Grace & Weaven, 2011; Hoffman, Munemo & Watson, 2016; López-Bayón & López-Fernández, 2016; Rosado-Serrano & Paul, 2018; Wu, 2015). However, there are still few studies addressing the factors that influence the use of franchising as an internationalization strategy. Therefore, this study makes an exceptional contribution to complementing the existing research and is of great importance for future research in the field of international franchising.

The selection of the market is an integral part of the process of formulating the strategy of internationalization of SMEs (Đorđević, 2005, p. 84). In the literature, there are many approaches and models for the selection of foreign markets that are essentially similar, but with certain differences. Walvoord's (1980, p. 83) model consists of four stages of market research: research on a macro level, research of the market-product relationship, research on a micro level, and research of target markets by priority. Root (1989, p. 45) has defined a model for the selection of foreign markets that starts with all available countries, after which it narrows the focus to prospective countries, then to countries of high market potential, in order to finally select the most favorable countries for internationalization. In selecting a foreign market, enterprises need to answer two questions: whether to enter the market incrementally (the "waterfalls" approach) or simultaneously (the "splash" approach) and whether the entry will be concentrated or diversified to a number of international markets (Hollensen, 2007, p. 260). An incremental approach to enter a foreign market implies that the enterprise first enters a key market in order to gain experience in international business, and then gradually entering other foreign markets. Alternatively, an enterprise may decide to enter a large number of markets simultaneously in order to achieve rapid international expansion. An incremental entry, especially in small markets, is preferable when an enterprise lacks experience in foreign markets and wants to gradually engage in international business. If the enterprise is small and has limited resources or is inversely at risk, it will prefer to enter one or a limited number of markets and gradually expand internationally. Some enterprises prefer to quickly enter the global marketplace in order to take advantage of the growing chances and prevent competition. Simultaneous access to foreign markets allows the enterprise to achieve economies of scale in production and marketing through the integration and consolidation of operations in a large number of markets. However, this approach requires extensive financial and managerial resources and implies a high risk for the business (Hollensen, 2007, p. 262).

A modern business environment requires a systematic and continuous research of foreign markets. However, the largest number of enterprises are still holding onto an intuitive way of selecting international markets, which can cause many problems due to significant differences between countries (Hollensen, 2007, p. 83). When choosing a foreign market where they will conduct their business activities, franchise SMEs take into account a number of internal and external factors. The focus of the analysis of this paper will be on external factors that are most often mentioned in the literature: economic development of the country and geographical and cultural distance between the countries of origin of the franchisor and the franchisees. The assessment of a foreign market should begin with an analysis of economic factors that relate to the size and potential of the foreign market. In order to make a preliminary assessment of market potential, the initial screening of the market must be effective and effective (Czinkota & Ronkainen, 2001, p. 93). Gross domestic product (GDP) is most often used as an indicator of market potential. The primary indicator for purchasing power analysis in a respective market is GDP per capita (Czinkota & Ronkainen, 2001, p. 100).

Geographical distance was one of the first mentioned factors that influence the selection of the international market and the internationalization of SMEs that use franchising. In international terms, it is most often determined by the number of kilometers between the countries of origin of the franchisor and the franchisees. Since it is not possible to accurately determine the physical location of the franchise units, the geographical distance is determined as a kilometer distance from the capital city of the country of origin of the franchisor to the capital of the country where the franchise unit is located (Baena, 2012). Franchisees are more familiar with the geographically closer markets and will initially opt for international expansion into the markets of neighboring countries. For example, U.S. franchisors that plan to expand their business internationally most often choose Canada and Mexico as their primary foreign markets for doing business (Hollensen, 2004, p. 219). Franchise SMEs are often limited to neighboring countries, as they do not have sufficient human and financial resources needed for a comprehensive analysis and selection of target markets (Hollensen, 2004, p. 244). In addition to this, transaction costs, transport and delivery costs, partner selection costs and costs of technology and raw material transfers from the franchisors to the franchisees increase with greater geographic distance (Scarborough, 2012, p. 403; Baena, 2012). It can be concluded that smaller franchise enterprises will first opt for internationalization through franchising in the geographically closer markets. As they mature (in terms of the number of years of business) and gain international experience (in terms of the number of years in international business), franchise SMEs can make a decision to enter the geographically more distant markets (Buckley & Ghauri, 1999, p. 28).

Cultural distance is described as a difference in cultural values between countries (Anderson & Gatignon, 1986; Eroglu, 1992; Rothaermel, Kotha & Steensma, 2006). Fladmoe-Lindquist and Jacque (1995) point out that franchising as an internationalization strategy is used to enter markets with a greater cultural distance, since it allows franchisors to transfer the responsibility for managing local operations to the franchisees. Nevertheless, the literature is dominated by evidence suggesting that there is a negative correlation between the cultural distance and the use of franchising as an internationalization strategy (Baena, 2012). In fact, it is pointed out that franchisors generally prefer countries that are culturally and geographically closer to the country from which they come from (Alon, 2006). This is primarily because great cultural differences between the country of origin of the franchisor and the country of origin of the franchisee can bring internal uncertainty and business problems (Anderson & Gatigon, 1986), which is particularly evident if we observe the cultural gap between the Western and Eastern culture (Tes & Pan, 1997; Koch, 2001). As cultural distance increases, transaction costs and costs of adapting the franchise package to the local market conditions also increase (Eroglu, 1992). In addition, as there are greater differences in business ethics and practices between the countries of origin of the franchisor and the franchisees, costs of negotiating with potential customers, monitoring costs and communication costs will also be greater (Eroglu, 1992; Fladmoe-Lindquist, 1996; Alon & McKee, 1999; Burton, Cross & Rhodes, 2000; Huszagh, Huszagh & Mclntyre, 1992).

In order to define cultural distance, Geert Hofstede developed a model of intercultural dimensions. According to Hofstede's theory, several studies have confirmed that the culture of a domestic country has a major impact on the business activities of the enterprise abroad (Tes & Pan, 1997; Koch, 2001). Hofstede (1980, p. 25) points out that culture is a collective programming of consciousness that distinguishes members of one group of people from others. Culture includes value systems, and values are the building blocks of culture (Hofstede, 1980, p. 21). Culture is a very important factor in international markets. It is often quite difficult to communicate with business associates if they do not speak the same language, as well as to understand the attitudes and values of customers in the foreign market. Culture is not something that stays the same forever, but it changes over time (Hollensen, 2007, p. 217). Differences in culture can be viewed through the four key dimensions of culture (Hofstede, 1980; Hofstede & Bond, 1988): individualism versus collectivism ("I" instead of "We"), power distance (equality level in society), uncertainty avoidance (the need for formal rules and regulations), masculinity versus femininity (attitudes towards achievements, the role of men and women). Later, the fifth and sixth dimensions were added: long-term versus short-term orientation and indulgence versus restraint (Baena, 2012).

Hypotheses and methodology

In accordance with the defined research objective, theoretical and empirical research methods were used in the paper. The method of description was used to understand the state and dynamics of activities of franchise SMEs that implement franchising as an internationalization strategy. It is also important to apply analysis and synthesis of knowledge obtained by studying the scientific and professional literature of authors who have largely contributed to the research into the strategies for internationalization of SMEs and franchising. The following data sources were used for the application of the inductive-deductive method: the foreign and domestic literature in the relevant field, official reports of relevant national and international organizations and data collected via Internet and official websites of companies that are the subject of analysis. Data obtained through empirical research were of special relevance to the understanding of the importance of franchising as a strategy of internationalization for SMEs. Subjects of the research are franchise SMEs from the Republic of Serbia. The time frame for conducting the empirical research was May-July 2016.

The implementation of a certain internationalization strategy by franchise SMEs is influenced by a large number of internal and external factors. When it comes to the external factors, the following ones will be considered in the paper: economic development of the country, geographical distance and cultural distance between the countries of origin of the franchisor and the franchisees. The level of economic development will be monitored by GDP per capita, based on the World Bank data. The geographical distance will be calculated as the distance in kilometers from the capital city of the country of origin of the franchisor to the capital city of the country from which the franchisee originates. An indicator based on the differences in the dimensions of culture developed by Hofstede will be used to calculate the cultural distance.

H1: External factors that are related to economic development, geographical distance and cultural distance between the countries of origin of the franchisor and the franchisees have an impact on the implementation of franchising as a strategy of internationalization.

For the purposes of this research, a comparison will be made with the aim of determining the difference in the size and character of the impact of external factors between franchise SMEs that implement franchising as an internationalization strategy and franchise SMEs that implement other internationalization strategies.

H2: The size and character of the impact of external factors varies between franchise SMEs that implement franchising as an internationalization strategy and franchise SMEs that implement other internationalization strategies.

A number of statistical methods were used in order to analyze the empirical research results. During the statistical analysis of the collected data, the software package SPSS Statistics 20.0 was used. Before deciding on the application of an appropriate statistical technique, the normality of the distribution of variables was examined on the basis of the Shapiro-Wilk test and on the basis of histogram analysis, normal probability curve and rectangular diagram. In cases when the data had an asymmetric distribution (Shapiro-Wilk $p < 0.05$) and when it was determined that there were atypical and extreme values, non-parametric alternatives of statistical techniques were used for the statistical analysis. On the other hand, when the data showed a normal distribution, parametric statistical techniques were used. In order to analyze the impact of external factors on the implementation of franchising as an internationalization strategy, simple linear regression was used, followed by multiple linear regression.

For the purpose of performing the standard multiple regression, it was necessary to verify whether there was multicollinearity between the independent variables. Multicollinearity was assessed on the basis of tolerance and VIF values, with acceptable values that spoke in favor of the absence of multicollinearity tolerance>0.10 and VIF<10. The coefficient of determination was used to determine which part of the variance of the dependent variable explained the regression model. The beta coefficient was analyzed to determine the independent variable that contributes the most to the explanation of the dependent variable, while the semipartial correlation coefficient was used to analyze the unique contribution to the prediction of the dependent variable.

T-test of independent samples was applied in order to determine whether there was a difference in external factors between the two groups of SMEs, i.e., franchise SMEs that implement franchising as an internationalization strategy and franchise SMEs that use other strategies. Based on the Levene's test of equality of variance, it was determined whether the variance of results was equal in the two groups of franchise SMEs. When the significance level of the Levene's test was greater than 0.05, the results for the case of equal variances were used, and when the significance level of the Levene's test was less than 0.05, the observed results were calculated for the case when the variances were not equal. ANOVA was applied in order to verify whether there was a difference in external factors between three groups of SMEs, i.e., franchise SMEs that do not operate internationally, franchise SMEs that use franchising and franchise SMEs that implement other internationalization strategies.

Results and discussion

Based on the analysis of the sample, 50% of the analyzed franchise SMEs are small enterprises, 21.9% are micro enterprises and 28.1% are medium-sized enterprises. The results show that 62.5% of the franchise SMEs from the Republic of Serbia operate internationally, while 37.5% operate only in the domestic market. Out of the total number of the analyzed franchise SMEs, 34.4% use export, while 25% use franchising and 3.1% use licensing as an internationalization strategy. If we look only at international franchise SMEs, we can conclude that 40% of franchise SMEs use franchising as an internationalization strategy, while 60% of them opt for other internationalization strategies (export and licensing).

The paper will analyze the external factors that have an impact on the implementation of franchising as an internationalization strategy: economic development of the country, geographical distance and cultural distance. GDP per capita in the Republic of Serbia is lower than the average world GDP per capita and far lower than GDP per capita in OECD countries and EU Member States. In 2015, GDP per capita in the Republic of Serbia was US$ 5,144, which was almost twice less than the average GDP per capita at the global level (US$ 9,996) and about six times less than the GDP per capita in the EU Member States (US$ 31,843) and the OECD countries (US$ 35,783) (The World Bank, 2016).

Franchise SMEs from the Republic of Serbia that implement franchising as an internationalization strategy usually opt for entering the markets of former SFRY (Socialist Federal Republic of Yugoslavia) countries. In fact, as much as 85% of franchise SMEs from the Republic of Serbia have franchise units in one of the countries of the former SFRY. In addition, the majority of enterprises have franchise units in Montenegro and Bosnia and Herzegovina (25% of franchise SMEs from the sample), 20% of them have franchise units in Croatia, 10% in North Macedonia and 5% in Slovenia.

The correlation analysis shows that there is a statistically significant strong negative correlation between the level of economic development of the countries of origin of the franchisor and the franchisees and the implementation of franchising as an internationalization strategy ($r=-0.667$, $p<0.05$). In other words, franchise SMEs will decide to conduct their international franchise activities in countries that are at a similar level of economic development to the Republic of Serbia. The difference in the economic development of the countries of origin of the franchisor and the franchisees accounts for 44.5% of the variance in the responses concerning the implementation of franchising as an internationalization strategy. The regression model that relates to the impact of the economic development of the countries of origin of the franchisor and the franchisees on the implementation of franchising as an internationalization strategy is not statistically significant ($F=4.802$, $p=0.071$) (Table 1).

Based on the analysis of the geographical distance as an external factor, we can conclude that the nearest franchise units of the analyzed franchise SMEs are in Bosnia and Herzegovina (192 km), while the farthest are in Russia (1,718 km). The average distance between the franchisors from the Republic of Serbia and their international franchisee is 694 km. Correlation analysis shows that there is a moderate negative correlation between the geographical distance between the countries of origin of the franchisor and the franchisees and the implementation of franchising as an internationalization strategy, but that it is not statistically significant ($r=-0.355$, $p>0.05$). In other words, franchise SMEs will decide to conduct their international franchise activities in countries that are geographically closer to the Republic of Serbia. The regression model that explains the impact of the geographic distance on the use of franchising as a strategy of internationalization does not provide statistically significant results ($F=0.864$, $p=0.389$). The geographical distance accounts for 12.6% variance in responses related to the implementation of franchising as an internationalization strategy (Table 2).

Based on the cultural dimensions and using the procedures developed by Kogut and Singh (1988), the cultural distance will be calculated by using the following formula:

$$CDj = \Sigma_{i=1}^{6} \frac{\frac{(I_{ij} - I_{iRS})^2}{V_i}}{6}$$

where, Iij – index for the i^{th} cultural dimension and jth country, IiRS – index for the i^{th} cultural dimension for the Republic of Serbia, Vi – variance of the index of the i^{th} dimension, CDj – cultural distance of the j^{th} country from the Republic of Serbia.

Based on the cultural dimensions, the cultural distance index is calculated for each of the countries where franchise SMEs from the RS have franchise units. The index of cultural distance indicates that, according to the above-mentioned six dimensions of culture, the Republic of Serbia is most similar to Croatia ($CD=0.812$), Slovenia ($CD=1.537$) and Russia ($CD=1.548$), while there are significant differences when compared to France ($CD=2.548$) and the Czech Republic ($CD=3.437$). The correlation analysis shows that there is a strong negative correlation between the cultural distance between the countries of origin of the franchisor and the franchisees and the implementation of franchising as an internationalization strategy ($r=-0.674$, $p>0.05$), but it is not statistically significant. Therefore, franchise SMEs will decide to conduct their international franchise activities in countries that are similar to the Republic of Serbia in terms of cultural dimensions. Cultural distance accounts for 45.4% of the variance in responses related to the implementation of franchising as an internationalization strategy. The regression model that analyzes the impact of cultural distance on the implementation of franchising as an internationalization strategy does not provide statistically significant results ($F=2.493$, $p=0.212$) (Table 3).

Multiple linear regression was used to estimate the model that encompasses the level of economic development, geographical and cultural distance between countries of origin of the franchisor and the franchisees. The regression model is not statistically significant and accounts for 53.1% of the variance of the number of international franchise units ($F=0.377$, $p=0.798$). Out of the above external factors, cultural distance contributes the most to the explanation of the dependent variable.

This is supported by the fact that the cultural distance between the countries of origin of the franchisor and the franchisees uniquely accounts for 8.1% of the variance in the values of the dependent variable (Table 4).

The results of the study conducted in 2010 on 63 franchise enterprises in Spain are similar to the results of this study. In fact, it has been proven that there is a statistically significant negative correlation between geographical and cultural distance and the number of international franchisees. In other words, franchisors from Spain prefer

Table 1: The impact of economic development on the implementation of franchising as a strategy of internationalization

	R	R-squared	Adjusted R-squared	Std. error of the estimate	
1	0.667	0.445	0.352	5.741	
	Sum of squares	df	Mean square	F	Sig.
Regression	158.267	1	158.267	4.802	0.071
Residual	197.733	6	32.956		
Total	356.000	7			
	B	Std. error	Beta	t	Sig.
(Constant)	14.614	3.268		4.471	0.004
GDP per capita	-0.001	0.000	-0.667	-2.191	0.071

Table 2: The impact of geographical distance on the implementation of franchising as a strategy of internationalization

	R	R-squared	Adjusted R-squared	Std. error of the estimate	
1	0.355	0.126	-0.020	7.202	
	Sum of squares	df	Mean square	F	Sig.
Regression	44.799	1	44.799	0.864	0.389
Residual	311.201	6	51.867		
Total	356.000	7			
	B	Std. error	Beta	t	Sig.
(Constant)	12.041	4.146		2.904	0.027
Geographical distance	-0.004	0.005	-0.355	-0.929	0.389

Table 3: The impact of cultural distance on the implementation of franchising as a strategy of internationalization

	R	R-squared	Adjusted R-squared	Std. error of the estimate	
1	0.674	0.454	0.272	6.086	
	Sum of squares	df	Mean square	F	Sig.
Regression	92.319	1	92.319	2.493	0.212
Residual	111.110	3	37.037		
Total	203.429	4			
	B	Std. error	Beta	t	Sig.
(Constant)	18.274	6.474		2.823	0.067
Cultural distance	-4.693	2.972	-0.674	-1.579	0.212

Table 4: The impact of economic development, geographical and cultural distance on the implementation of franchising as a strategy of internationalization

	R	R-squared	Adjusted R-squared	Std. error of the estimate	
1	0.729	0.531	-0.877	9.770	
	Sum of squares	df	Mean square	F	Sig.
Regression	107.975	3	35.992	0.377	0.798
Residual	95.453	1	95.453		
Total	203.429	4			
	B	Std. error	Beta	t	Sig.
(Constant)	18.201	12.179		1.494	0.375
GDP per capita	0.000	0.001	-0.331	-0.259	0.839
Geographical distance	-0.001	0.012	-0.058	-0.062	0.961
Cultural distance	-2.995	7.195	-0.430	-0.416	0.749

to use franchising as a strategy of internationalization for entering the foreign markets that are less geographically distant from Spain and are more similar in terms of culture (Baena, 2012). Similar conclusions were drawn in a study conducted in China. It has been found that franchise enterprises are predecided to internationalize their business activities through franchising in countries that are geographically and culturally closer to the country of origin of the franchisor (Zhu et al., 2011).

The results of the t-test of the independent samples show that there is a statistically significant difference in the economic development between franchise SMEs that implement franchising as an internationalization strategy and franchise SMEs that implement other strategies (t=-3.147, p=0.002). When compared to the franchise SMEs that implement franchising as an internationalization strategy (M=6055.63, SD=6584.525), franchise SMEs that implement other internationalization strategies decide to operate in the markets that differ more in terms of economic development from the Republic of Serbia (M=14400.89, SD=15332.874) (Table 5).

The results of the t-test of the independent samples show that there is a statistically significant difference in terms of geographical distance between franchise SMEs that implement franchising as an internationalization strategy and those that implement other strategies (t=-2.911, p=0.006). Therefore, the conclusion is that, when compared to the franchise SMEs that implement other internationalization strategies (M=2178.36, SD=4029.589), franchise SMEs that implement franchising as an internationalization strategy (M=415.46, SD=380.432) decide to operate in geographically closer markets (Table 6).

T-test of the independent samples shows that there is a statistically significant difference in terms of cultural distance between franchise SMEs that implement franchising as an internationalization strategy and franchise SMEs that opt for other internationalization strategies (t=3.536, p=0.001).

When compared to the franchise SMEs that implement other internationalization strategies (M=1.90112, SD=1.369543), franchise SMEs that implement franchising as an internationalization strategy (M=0.66182, SD=0.709023) opt for markets that are more similar to the Republic of Serbia in terms of cultural dimensions (Table 7).

Conclusion

Small and medium-sized enterprises strive to internationalize their business activities, and franchising is considered a suitable internationalization strategy, bearing in mind

Table 5: Statistical significance of the difference in the level of economic development between the countries of origin of the franchisor and the franchisees

	Levene's test for equality of variances		T-test for equality of means				
	F	Sig.	t	df	Sig. (2-tailed)	Mean difference	Std. error difference
Equal variances assumed	21.163	0.000	-2.538	67	0.013	-8345.264	3288.590
Equal variances not assumed			-3.147	64.855	0.002	-8345.264	2651.580

Table 6: Statistical significance in geographical distance between the countries of origin of the franchisor and the franchisees

	Levene's test for equality of variances		T-test for equality of means				
	F	Sig.	t	df	Sig. (2-tailed)	Mean difference	Std. error difference
Equal variances assumed	18.155	0.000	-2.131	67	0.037	-1762.897	827.317
Equal variances not assumed			-2.911	45.459	0.006	-1762.897	605.694

Table 7: Statistical significance in cultural distance between the countries of origin of the franchisor and the franchisees

	Levene's test for equality of variances		T-test for equality of means				
	F	Sig.	t	df	Sig. (2-tailed)	Mean difference	Std. error difference
Equal variances assumed	9.371	0.004	-2.588	35	0.014	-1.239	0.479
Equal variances not assumed			-3.536	27.132	0.001	-1.239	0.350

the limited financial and managerial resources of SMEs. The number of franchises in the world is growing day by day, as an increasing number of enterprises see many advantages that the franchise business concept offers. When opting for a foreign market for conducting the business activities and selecting an internationalization strategy, franchise SMEs take into account a number of internal and external factors. The paper analyzes the impact of external factors that are related to economic development and the geographical and cultural distance between countries of origin of the franchisor and the franchisees on the implementation of franchising as an internationalization strategy. The results of the analysis show that 62.5% of franchise SMEs from the Republic of Serbia operate internationally, while 37.5% operate only in the domestic market. In addition, 40% of franchise SMEs use franchising as an internationalization strategy, while 60% of franchise SMEs opt for other internationalization strategies (export and licensing).

Franchise SMEs from the Republic of Serbia that implement franchising as an internationalization strategy usually decide to enter the markets of former SFRY countries (85% of the analyzed franchise SMEs). The correlation analysis shows that there is a statistically significant strong negative correlation between the level of economic development of the countries of origin of the franchisor and the franchisees and the implementation of franchising as an internationalization strategy. Correlation analysis shows that there is a moderate negative correlation between the geographical distance between the countries of origin of the franchisor and the franchisees and the implementation of franchising as an internationalization strategy, but that it is not statistically significant. The index of cultural distance indicates that, according to the six dimensions of culture, the Republic of Serbia is the most similar to Croatia, Slovenia and Russia, while there are significant differences when compared to France and the Czech Republic. The correlation analysis shows that there is a strong negative correlation between the cultural distance between the countries of origin of the franchisor and the franchisees and the implementation of franchising as an internationalization strategy. The results of the multiple linear regression show that, out of the analyzed external factors, cultural distance contributes the most to the explanation of the number of international franchise units as a dependent variable.

When compared to the franchise SMEs that implement franchising as an internationalization strategy, franchise SMEs that implement other internationalization strategies decide to operate in the markets that differ more from the Republic of Serbia in terms of economic development. In addition to that, franchise SMEs that implement franchising as an internationalization strategy decide to operate in geographically closer markets, as opposed to the franchise SMEs that implement other internationalization strategies. When compared to the franchise SMEs that implement other internationalization strategies, franchise SMEs that implement franchising as an internationalization strategy opt for markets that are more similar to the Republic of Serbia in terms of cultural dimensions.

Limitations and future research

There are a few limitations of this study. First, there is no official register of franchise companies in the Republic of Serbia. Based on the available literature and relevant online sources, the author created a database of domestic franchise companies from the Republic of Serbia, thus contributing to the further creation of an official franchise database at the national level. Insufficient information about the franchise business concept and the opportunities it offers for business expansion in both domestic and global markets is one of the major problems in the Republic of Serbia. Raising awareness about the benefits of franchising would motivate more companies to consider this business concept as their business opportunity. Therefore, greater promotion of franchising as a business concept is necessary. Franchise SMEs from the Republic of Serbia are still insufficiently informed about who they can contact for professional assistance. In order to provide greater institutional support to the existing franchise SMEs and companies that plan to develop their franchise system in the future, it is necessary to strengthen the system of consulting professional assistance and support for franchise companies. Very often franchise companies or companies that want to develop a franchise system are not sufficiently aware of the complexity of franchising as a business concept. In this regard, it is necessary to organize trainings and educational workshops for the existing and potential franchisors on how to develop and create a strong and stable franchise system. On the other hand, it is also necessary to educate potential franchisees about the franchise business.

Franchisors often face the same or similar problems during the establishment of the franchise system and the selection of franchisees. Therefore, an innovative idea that could help the existing and potential franchisors and users is to launch a website in the form of a social network that would also be a forum for exchanging experiences between franchisors and franchisees. The social network would not have to be limited to the Republic of Serbia alone, but could bring together franchise companies from all over the region. One of the key potentials of this social network would be that it could become a place of virtual meetings between franchisors and potential franchisees. Bearing in mind that the study is focused only on franchise systems from the Republic of Serbia, the recommendation for future research may be to expand the scope of research to other countries from the region in order to compare the results. A recommendation for future research is an analysis of internal factors that can significantly influence the implementation of franchising as an internationalization strategy.

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Milica Stanković

recieved a bachelor's and master's degree from the Faculty of Economics, University of Niš, Serbia. In 2017, she earned her PhD degree at the Faculty of Economics, University of Niš, Serbia, with a thesis titled "Franchising as a strategy of internationalization for small and medium enterprises". From 2012 to 2016, she worked as Teaching Assistant at the Novi Sad Business School. Since 2017, she has been employed as Professor of Applied Studies at the Academy of Applied Technical and Preschool Studies. Ms. Stanković is author and co-author of 50 scientific papers published in journals and presented at international conferences. Her current research interests include franchising, SME management, entrepreneurship, internationalization strategies and international management.