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Regional Development and the Institutional Environment for Franchise Chains: Frontiers of Small and Medium-sized Cities

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Regional Development and the Institutional Environment for Franchise Chains: Frontiers of Small and Medium-sized Cities

Abstract

Purpose: The purpose of this research is to understand and identify the various characteristics of the institutional environment, and the factors that propitiate the attraction of franchise chains to cities in the interior.

Design/methodology/approach: Secondary data from the Brazilian Institute of Geography and Statistics. It comprised a sample of 1683 Brazilian cities with franchise outlets. It was limited to cities with populations of up to 100 thousand inhabitants. The statistical technique was multiple regression.

Findings: The results of explanatory power $R^2 = 36\%$ for the model. Such presence of franchise chains is based on institutional dimensions: (i) demographic (density); (ii) economic and financial (salary of workers and banking agencies); (iii) business (companies and shopping centers); and (iv) human resources (higher education units).

Originality/value: Knowledge is generated about the insertion of ventures based on the franchise business model in small- and medium-sized regional markets. A second feature involves the understanding of the insertion of enterprises in a large and heterogeneous emerging market.

Research implications: The article contributes to studies on regional development in particular, by punctuating the characteristics of the institutional environment of cities that are related to the existence of franchise chain brands.

Practical implications: Managers of expanding franchise chains, given the choice of locations that best enable the concept of their franchises. The fact that only 20% of franchises have a presence in these cities.

Social implications: This study is addressed to public managers, it is an important mechanism for attracting new businesses and creating a regional development.

Keywords: Franchise chains, Regional Development, Institutional Environment, Entrepreneurship.

Introduction

The attraction of business to larger cities, due to the presence of a consuming public, income for consumption, logistical infrastructure, availability of manpower, constituted for decades the priority for the growth of many enterprises (Meccheri & Pelloni, 2006). However, the saturation of large urban centers has led to the search for new markets for franchise chains (Brazilian Franchising Association - ABF, 2016, ABF, 2020). Specifically, cities of the interior, initially relegated to the background, have been gaining attention, mainly due to their limitations in the consumer and economic markets. In particular, cities with up to 100 thousand inhabitants have aroused the interest of franchise managers in Brazil (Olivette, 2018). According to data from ABF (2016), these cities represent less than 17% of the franchise chain locations in Brazil. However, even with a small concentration of franchise chains, for 70% of franchisors there are feasibility studies that attest to the capacity of installation in cities with up to 100 thousand inhabitants (ABF, 2019).

The theoretical framework for the identification of institutional characteristics related to regional development is found in the institutional perspective (Zhou, 2014; Matveev et al., 2018). Studies show that regional conditions are capable of influencing business creation rates and that social and economic environments are essential for fostering entrepreneurship (Baumgartner, Putz & Seidl, 2013; Sternberg, 2012; Trettin & Welter, 2011). In turn, these businesses have a positive impact on regional development by creating jobs and improving economic indicators (Dejardin & Fritsch, 2011; Muller, 2016). However, understanding the regional determinants associated with the activity that promotes entrepreneurship is not a simple matter, as there are multiple factors involved in creating this environment conducive to regional development and the attraction of business. In addition, the focus on smaller cities (less than 100 thousand inhabitants) requires a particular mindset, as the cities have limitations in their development for business (Melo et al., 2020).

Thus, it is important to identify and understand the institutional factors that favor the attraction of franchise chains to smaller interior cities. This article aims to show the prevalence of four institutional factors for attracting franchise chains, namely, demographic, economic and financial factors, the business environment, and human resources. The central premise is that there is a greater tendency for franchise chains to expand to smaller cities in the interior that bring these four factors together under better conditions than others. For this purpose, Brazil is used as an object of study. Through secondary data from the Brazilian Institute of Geography and Statistics of Brazil (IBGE Cities, 2020), 1683 cities with franchise brand outlets were analyzed. It was limited to cities with populations under 100 thousand inhabitants, not including metropolitan regions. Multiple regression analyses allowed not only to identify the association of the four factors and the attraction of the franchise chains, but also to consider the relative importance of each factor.

The main contribution of the article encompasses the call that regional institutional characteristics are part of knowledge guidelines to be explored in new studies (Zhai & Su, 2019) on regional development (Muller, 2016; Dan & Goia, 2018; Xavier et al., 2013; Melo et. Al. 2020) and institutional environments for entrepreneurship (Aidis, Estrin & Mickiewicz, 2008; Bruton, Ahlstrom & Li, 2010; Kalantaridis & Fletcher, 2012; Zhai & Su, 2019; Moirangthem & Nag, 2021).

In this sense, the article contributes to studies on regional development in particular, by punctuating the characteristics of the institutional environment of cities that are related to the existence of franchise chain brands. Thus, this study provides a specific analysis of the competitive conditions of regional markets, particularly, the largest emerging market in Latin America. This generates new knowledge in the face of studies that focus on understanding the competitiveness between countries, not specifying regional particularities (Farinha, Ferreira & Nunes, 2018; Medeiros, Marques, Galvão & Braga, 2020). At the same time, the article has implications for the management practices of franchises by directing the location choices that best enable the concept of their franchises. Finally, the results act as a guide to public managers' construction of institutional environments conducive to entrepreneurial activity, in this case by franchises.

The article is structured by a theoretical review related to the institutional environment for entrepreneurship and regional development; elaboration of four research hypotheses and the exposure of the research framework; description of the research methodology; analysis of the results; and final considerations.

2. Literature review

2.1. Institutional Environment for Entrepreneurship and Regional Development

Understanding the influence of institutions on the behavior of entrepreneurs has been presented as a relevant line of studies in entrepreneurship (Aidis, Estrin & Mickiewicz, 2008; Bruton, Ahlstrom & Li, 2010; Kalantaridis & Fletcher, 2012; Zhai & Su, 2019; Moirangthem & Nag, 2021). It is an emerging field of knowledge to be explored by researchers interested in understanding the relationship between institutional environments and entrepreneurship, given the relevance of the former for regional development (Zhai & Su, 2019). This knowledge of institutionalism in its sociological as well as economic currents helps us to understand the structure of governance, power and trust, transaction costs, and consumption and negotiation habits (Kalantaridis & Fletcher, 2012). It allows us to see how institutional theory can contribute at different levels of analysis—macro, meso and micro (Zhai & Su, 2019; Su, Zhai & Karlsson, 2017; Scott, 2008)—to understand the impact of entrepreneurial activity.

The focus of this article is on the level of macro analysis. At this level, it is possible to understand whether there are differences in the rates of starting a business due to the institutional environment conducive to entrepreneurship. This analysis deserves to be highlighted in emerging markets and economies in transition due to their institutional weaknesses, which are characterized by poor understanding of business rules, inadequate protection of property rights, and high levels of corruption (Lin & Lasserre, 2015; Xufang & Biliang, 2014). As it is recognized that institutions have the capacity to generate stability and opportunities for entrepreneurs to develop their businesses (Tracey & Phillips, 2008; Kalantaridis & Fletcher, 2012), this article opts to study the influence of institutions on entrepreneurial choices, specifically the choice of regional markets by entrepreneurs for the development of their franchises.

The strand of institutional economic theory makes it possible to identify potential institutional factors for regional development, as well as to understand obstacles that hinder the attraction and expansion of local businesses (Matveev et al., 2018). Regional institutions have social and economic particularities that impact the regional development process (Elsner, 2012). The strengthening of regional institutions depends on the review of legal systems and norms, both formal and informal, that influence negotiations and consumption by the population. The productive and logistical structure aims to improve the environment (Matveev et al., 2018). In turn, within government institutions, asymmetries occur that interfere in the institutional context for entrepreneurship.

Therefore, the investigation of the political contribution to the regional development of entrepreneurship is a topic under debate in emerging markets. The search to understand how formal institutions can shape business attraction has been a relevant issue for regional development. This goes beyond property rights, as it involves a system for understanding market mechanisms capable of attracting entrepreneurs. It is understood by the availability of workers, the development of different sectors of the economy, institutions that promote credit, etc (Zhou, 2014).

Therefore, it is inherent that regional development issues carry with them a complex analysis of social, cultural, educational, economic, and governance indicators. Regional development research has a multidisciplinary theoretical constitution (Muller, 2016). Despite this, the studies present the lack of explanation of how new businesses benefit from regional environmental structure as a limitation. In short, a more systemic view of the regional development process is recommended (Muller, 2016). Therefore, in the following section, the hypotheses present the following proposal for a regional environmental structure.

3. Hypothesis

The research hypotheses are based on four institutional dimensions: demographic, economic and financial, business, and human resources. Figure 1 presents the proposed framework.

-- Insert Figure 1 here --

3.1. Demographic Environment

Demographic density and its respective spatial distribution have been frequently analyzed in studies that sought to attest to the viability of shopping centers (Berry, Newing, Davies & Branch, 2016; Jia, Qiu & Gaughan, 2014). Demographic data are relevant to entrepreneurs, as they signal the profile of a regional population in terms of ethnicity, gender, age group, educational level, income, and other information that can be decisive for understanding the consumer market. This information, when analyzed in view of the demographic density and spatial occupation, allows better decisions about the enterprise to be installed in a given location (Hines, 2016). Retailers understand that a population's high demographic density and higher spatial concentration are necessary requirements for the flow of consumers through their ventures (Kwon, 2018; Yu, Zhang & Han, 2006; Zhang, 2004). The greater the spatial concentration, the greater the presence of consumers to drive the development of shopping centers (Shi, Yang & Shen, 2020).

It is known that there are particularities between the various retail segments, due to consumer behavior. These aspects are related to income and easy access to transportation. In this sense, the development of shopping centers tends to be more intense when there are articulations in collaboration and complementation networks between existing businesses. This can be understood by the fact that human activities are distributed in work, home, recreation, and consumption. Demographic density and spatial concentration are elements that stimulate the greater development of these enterprises, especially of local retail (Arai, Okamoto & Kamiya, 1996). Given these aspects, the influence of urban concentration is crucial to achieving greater optimization of the point of sale from the potential flow of local consumers (Berry et al., 2016).

H1: The attraction of franchise chains to regional markets is positively related to the demographic environment.

3.2. Economic and Financial Environment

The population's income level is one of the predictors used to analyze the creation of companies and the consequent regional development, being one of the economic components to be analyzed in view of the regional consumption potential. Studies show that income is one of the attractive factors for entrepreneurs to feel encouraged to make their businesses viable, as they believe in the consumption power of the local population (Mendoza-Abarca, Anokhin & Zarnudio, 2015). There is substantial study evidence that points to an increase in per capita income in OECD countries resulting from the intensification of local entrepreneurial activity (Balan, Ozekicioglu & Kilic, 2016). This is due to the increase in jobs and the consequent growth in local income. This economic aspect provides both an increase in consumption and the diversification and sophistication of local retail.

Furthermore, it is known that the income level of the economic classes has an impact on their consumption behavior. Higher income consumers are expected to be less sensitive to price elasticity, in addition to valuing attributes with higher added value, such as product quality, brand, and performance. In turn, lower income consumers have greater consumption retraction; that said, they can compensate for business viability due to consumption scale (Greenacre & Akbar, 2019). This signals that the income factor is linked to a higher average ticket for retail purchases (Isgor, Powell, Rimkus & Chaloupka, 2016).

In turn, financial institutions have their relevance as promoters of both entrepreneurial activity and stimulators of consumption, as credit supply is an essential function of banks for regional development. Even though there is an increasing use of multichannels to serve bank consumers, customers still depend on banks as reference points. Particularly in regional markets, there is a greater relevance of bank agencies, given the lower adherence to the digital channels of account holders (Kitali, Chepkulei & Shibairo 2015; Kilonzo, Ariemba & Migoshi, 2017). Unlike large companies, which manage to raise funds through the stock market, the reality of these entrepreneurs reverts to the banking relationship as the main access channel for credit for their businesses. It is understood that regional banking development has its relevance for understanding the particularities of local business activity (Palacín-Sánchez; Canto-Cuevas, & di-Pietro, 2019).

H2: The attraction of franchise chains to regional markets is positively related to the economic and financial environment.

3.3. Business environment

The business environment conducive to the development of regional businesses involves a multiplicity of indicators to be observed, highlighting the relevance of income-generating factors. Private companies are one of those elements, as they are a job-generating market sector capable of increasing the local population's income level, thus empowering the population to consume, generating benefits for the development of retail, and proving the viability of shopping centers (Wang, Fan & Wang, 2018).

Retail density is a positive factor in attracting consumers, given the capacity for greater social grouping in shopping centers. There is a higher level of consumer affiliation and supply of their needs in the face of greater diversification of retail. In addition, the retail density is correlated with higher added value consumption, providing products that exalt the image of consumers' social success. Thus, it is noted that the developed shopping centers are capable of promoting retail qualification (Rompay, Krooshoop, Verhoeven & Pruyn, 2012).

In addition, there are studies that focus on analyzing regional particularities for the selection of retail outlets. The understanding of socio-cultural characteristics is crucial to understanding consumer preferences and their consequent regional retail dynamics. In this, the presence of shopping malls is taken into account, given its higher level of formalization, organization, and retail development, by being a center that captures more qualified businesses for both traditional and contemporary retail models and formats (Wang, Fan & Wang, 2018).

H3: The attraction of franchise chains to regional markets is positively related to the business environment of the private sector.

3.4. Human Resources Environment

The characteristics of human resources are highlighted as one of the institutional factors that determine entrepreneurial performance. Entrepreneurs with higher levels of education have greater capacities for expanding their managerial skills, as well as greater competence in identifying business opportunities (Lafuente & Vaillant, 2013; Kato, Okamuro & Honjo, 2015). The benefits of sophisticated human resources training extends to employees, who start to behave better in their daily duties. Such skills can be translated into a more systemic view toward their work and broaden their understanding of customer demands (Vallabh & Mhlanga, 2015). These cognitive characteristics are linked to knowledge about managing teams, identifying opportunities, respond quickly to changes, and raising funds for their businesses (Farashah, 2015; Vallabh & Mhlanga, 2015; Lai, Saridakis & Johnstone, 2017).

It is known that large companies have greater application of techniques for recruiting, selecting, and developing human resources. These aspects, in turn, favor a greater performance of their professionals. On the other hand, small companies make more use of the multifunctional posture of their leaders, the owners (Wapshott & Mallett, 2015; Marlow, Taylor & Thompson, 2010). In particular, there are discussions about the relevance of formal education for the qualification of human resources in companies. Countries with high scores in educational systems tend to provide workforces that are more easily developed organizationally, more adaptable to training, and consequently more skilled (Lorenz, Lundvall, Kraemer-Mbula & Rasmussen, 2016). The increasingly intensive use of information and communication technologies has generated changes in the demand for workers with higher educational levels. This stems from the constant need to adapt and adjust these workers to new organizational layouts and information systems. These issues have been analyzed and demonstrate the deficit found in workers with lower education levels when they have greater difficulties adapting and updating in the face of transformational environments (Michaels, Natraj & Reenen, 2013; Arvanitis & Loukis, 2015).

Therefore, even with all the limitations for small businesses adopting human resource practices, it is understood that the selection of employees and franchisees trained in higher education comprises a qualifying element of the local workforce. Being able to reduce the deficit in human resource training common to small businesses is a major advantage.

H4: The attraction of franchise chains to regional markets is positively related to the human resources environment.

4. Methodology

4.1. Data collection

With the objective here to discuss and analyze regional development and the institutional environment for franchise chains, we are concentrating on cities with lower populations that are not part of metropolitan regions. Population size is crucial to cities in the interior with similar structures for the segment of franchise chains.

Specifically, Brazil is a continental country that occupies 47% of the geographical extension of South America, with 8.5 million km². It is the 5th largest country in the world in geographical extension, with 210 million inhabitants in 5570 cities. Cultural diversity between cities located in large urban centers and in interior regions make up a wide map of different social characteristics (Government of Brazil, 2019).

In this way, the sample cut considered cities with populations of up to 100 thousand inhabitants, outside the metropolitan regions comprising the state capitals. Conceptually, these are "small cities" (up to 50 thousand inhabitants) and "medium-small cities" (50 thousand to 100 thousand inhabitants) (Institute of Applied Economic Research - IPEA, 2008).

The secondary data collected and treated in this research are part of the collection available at the official statistical and geographic institute of Brazil (IBGE Cidades, 2020). These data comprise cities with franchise brand outlets, within the population limits and not constituting metropolitan regions. The list of cities with franchise chains was provided through a request to the Brazilian Franchising Association - ABF in June 2019. Thus, the sample of this research comprised 1683 cities.

In the last demographic survey of IBGE (2010), 34% of the Brazilian population lived in cities with up to 50 thousand inhabitants, with 12% in cities of 50 thousand to 100 thousand inhabitants. This comprises nearly half of the Brazilian population dispersed in small cities. However, these cities are still not representative of the franchise chain market, since they reach less than 20% of the country's franchise locations (ABF, 2016). For 70% of franchisors, however, their outlets have the capacity to be viable in cities with up to 100 thousand inhabitants, according to a survey conducted by ABF with its associates, called ABF Market Intelligence Management (ABF, 2019).

4.2. Definition of variables

The dependent variable is represented by the number of franchise brands in the city, this variable signals the attractiveness of the city to different franchise chains (Melo et al., 2020).

The independent variables were comprised of the following environments: demographic, economic and financial, business, and human resources. These are determinant environmental variables for the development of regional businesses and the institutional environment for entrepreneurship (Muller, 2016; Dan & Goia, 2018; Lee at. al., 2015; Xavier et al., 2013; Aidis, Estrin & Mickiewicz, 2008; Bruton, Ahlstrom & Li, 2010; Kalantaridis & Fletcher, 2012; Khoury & Prasad, 2015; Zhai & Su, 2019; Melo et al., 2020). Table 1 shows the description of the variables.

--- Insert Table 1 here ---

5. Results

Table 2 shows the correlations of the variables used in the model. It is possible to notice that among the dependent variables the correlation is weak, which denotes the absence of multicollinearity, confirmed posteriori by the VIF less than 5 in the regression model. Furthermore, note that the correlation with the dependent variable is significant for all variables, except GDP per capita. Beforehand, the result already indicated the association of demographic, economic and financial factors, the business environment, and human resources as significant for the attraction of franchise chains to the cities studied.

--- Insert Table 2 here ---

The results of the multiple regression (Table 3) confirm the explanatory power of R^2 = 36% for the model analyzed in view of the presence of franchise brands in an analysis of 1683 cities in the interior of Brazil with populations of up to 100 thousand inhabitants and not belonging to metropolitan regions. The following predictors are positively associated with the presence of franchise chains in cities with (i) higher demographic density (demographic), (ii) higher average wages among formal workers (economic and financial), (iii) greater numbers of bank agencies (economic and financial factor), (iv) the existence of shopping centers (business environment), (v) the largest number of companies operating in proportion to a city's population (business environment), and (vi) the highest number of higher education units (human resources). The only variable that did not show significance was GDP per capita. It is important to note that the variables that most contribute to explaining the attraction of franchises to the cities studied are related to demographics (higher population density) and financial economics (the largest number of bank agencies). Both have a coefficient more than twice as high as the other variables that showed significant association.

--- Insert Table 3 here ---

The result supports H1: The attraction of franchise chains to regional markets is positively related to the demographic environment. It is noted that the greater population density favors the development of regional retail, due to the greater concentration of consumers regionally (Hines, 2016; Berry et al., 2016; Jia, Qiu & Gaughan, 2014; Kwon, 2018; Yu, Zhang & Han, 2006; Zhang, 2004; Shi, Yang & Shen, 2020; Arai, Okamoto & Kamiya, 1996; Wilde, Llobrera & See Ploeg, 2014). The demographic concentration allows the existence of more structured shopping centers, which can present a greater variety of products and services to consumers.

The result supports H2: The attraction of franchise chains to regional markets is positively related to the economic and financial environment. Formal income (formal salary) can generate regular consumption, and thus the maintenance of regional retail (Mendoza-Abarca, Anokhin & Zarnudio, 2015; Greenacre & Akbar, 2019; Isgor et al., 2016). In turn, the banking structure demonstrates the regional attraction for the financial sector and, consequently, the chance to fine-tune the face-to-face service of this population. This translates into greater affinity in the relationship and maintenance ties of these bank customers, whether through these individuals or companies. Thus, the presence of banking institutions has its relevance for regional financial maintenance through the provision of credit, both for private consumption and for the expansion of business activities (Pereira & Coelho, 2019; Palacín-Sánchez; Canto-Cuevas, & di-Pietro, 2019).

The result also supports H3: The attraction of franchise chains to regional markets is positively related to the business environment of the private sector. In more advanced shopping centers, their presence represents a higher qualification in regional retail, being the habitat for adherence to franchise chains (Wang, Fan & Wang, 2018; Berry et al., 2016; Rompay et al, 2012). Meanwhile, the more companies operating in the region, the better, as they have the capacity to generate jobs and formal income, feeding the structure of regional consumption, in addition to demonstrating the attractiveness of the city for establishing private sector businesses (Valdez & Richardson, 2013; Farashah, 2015; Mendoza-Abarca, Anokhin & Zarnudio, 2015).

Finally, the result supports H4: The attraction of franchise chains to regional markets is positively related to the human resources environment. The training of labor is taken into account when analyzing the greatest attraction for cities with the presence of higher education institutions. This element can offer employees with better qualifications and an availability for qualifying entrepreneurs. In the face of environments with intense changes in the consumption pattern, especially in the retail sector, the qualification of the workforce to understand market trends becomes of substantial relevance (Farashah, 2015; Vallabh & Mhlanga, 2015; Lai, Saridakis & Johnstone, 2017; Wapshott & Mallett, 2015; Marlow, Taylor & Thompson, 2010; Lorenz et al., 2016; Michaels, Natraj & Reenen, 2013; Arvanitis & Loukis, 2015; Lafuente & Vaillant, 2013; Kato, Okamuro & Honjo, 2015).

In addition, a particular analysis of Hypothesis 2 is necessary, as there was no significant association between the variable GDP per capita and the establishment of franchise chains. Following the arguments presented in the development of this hypothesis, it was believed that the higher the per capita GDP, the greater the attraction of cities for franchise chains (Balan, Ozekicioglu & Kilic, 2016; Anokhin & Zarnudio, 2015; Kitali, Chepkulei & Shibairo, 2015; Kilonzo, Ariemba & Migoshi, 2017). However, recent studies argue that per capita GDP has been misinterpreted as a measure of household wealth and consumption potential. There is a distortion that results from the capture of government data on family income, subsequently generating the per capita indicator. This bias stems from the fact that there can be substantial differences in individual incomes in a family, not necessarily showing an equitable distribution in relation to consumption. In addition to differences between price deflators, there are differences between GDP per capita and income concentration, and medians and medians in income distribution (Nolan, Roser & Thewissen, 2019). It is possible to find several studies that do not reach a consensus regarding the use of GDP per capita to measure the consumption potential of families. In these studies, differences are noted both over time and due to the particularities of countries and family sizes (Endeweld & Alkemade, 2014; Pinkovskiy & Sala-i-Martin, 2016). Thus, there is an understanding of why GDP per capita may not have shown a significant association in this study.

6. Discussion

6.1. Theoretical contribution

The contribution to the literature lies in punctuating the attractiveness of franchise chains for regional markets in the following institutional environments and their environmental characteristics: (i) demographic (demographic density); (ii) economic and financial (average monthly salary of formal workers and number of bank agencies); (iii) business (number of active companies and presence of shopping centers); and (iv) human resources (presence of higher education units). This complements the research by Melo et al. (2020), when analyzing the attraction of Brazilian cities with franchise units and populations above 50 thousand inhabitants, in view of the socioeconomic, geographic, and human resources environments.

In this way, the results increase the findings of study currents related to regional development (Muller, 2016; Dan & Goia, 2018; Lee at. Al., 2015; Xavier et al., 2013) and institutional environment for entrepreneurship (Aidis, Estrin & Mickiewicz, 2008; Bruton, Ahlstrom & Li, 2010; Kalantaridis & Fletcher, 2012; Khoury & Prasad, 2015; Zhai & Su, 2019; Moiranghtem & Nag, 2021). Specifically, it generates knowledge about the insertion of enterprises based on the franchise model in regional markets of small and medium population. A second feature involves understanding the insertion of franchise in large and heterogeneous emerging markets, not being restricted to broad contexts involving several countries (Farinha, Ferreira & Nunes, 2018; Medeiros et al., 2020). In this way, we note that the research we conduct contributes to the theory of economic and geographic perspectives. This alignment is due to the identification of the institutional environment characteristics that favor regional entrepreneurship and the insertion of business networks for the development of these enterprises (Muller, 2016). Furthermore, the contribution to the institutional environment for entrepreneurship at the macro level stands out for its relevance to the level of analysis that ascertains the level of entrepreneurship and its institutional ecosystem over a wide territory (Zhai & Su, 2019; Su, Zhai & Karlsson, 2017; Scott, 2008).

6.2. Managerial implications

Practical and management contributions are addressed to managers of franchise chain expansion, given the choice of locations that best enable the concept of their franchises. We understand that this study has a relevant contribution to the management environment when we analyze the latest demographic sense in Brazil. The IBGE (2010) indicates that almost half of the Brazilian population lives in cities with less than 100 thousand inhabitants, whereas only 20% of franchises have outlets in those cities (ABF, 2016). Yet, it is admitted that 70% of those chain businesses have the capacity to make those locations viable (ABF, 2019).

6.3. Policy Makers implications

The social contribution, on the other hand, is addressed to public managers, represented by secretaries of municipal development, given the construction of an institutional environment conducive to entrepreneurial activity. An important mechanism for attracting new businesses and the creation of a virtuous cycle of regional development. The organization of clusters or even regions assisted with public assistance can make regional businesses more competitive. Especially in emerging markets, where there is a greater fragility and informality of enterprises (Resbeut, Gugler & Charoen, 2019). Thus, the promotion of public policies in partnership with the private sector is more likely to promote cooperative integration between economic sectors and technological modernization, especially for small businesses (Hervas-Oliver, Gonzalez-Alcaide, Rojas-Alvarado & Monto-Mompo, 2020). This can translate into greater competitiveness and attractiveness of franchises in markets that have demographic limitations.

7. Final considerations

The article has the merit of portraying the regional development and institutional environment for the expansion of franchise chains in Brazil in small and medium-sized cities. It is understood that the presence of franchise chains in those cities is based on four potentials: demographic, economic and financial, business, and human resources. These environments together are able to provide a greater attraction for the presence of franchise chains in regional markets.

The article has its *limitations*. The first limitation concerns the selection of cities with up to 100 thousand inhabitants, considering the exclusion of cities not belonging to metropolitan regions belonging to the state capitals. This is justified due to the purpose of this study to analyze regional markets in the interior. The second limitation concerns the use as a dependent variable the presence of franchise brands and not franchise units. Finally, the third limitation lies in the fact that there is no deepening of data on the informal economy, such as income of informal workers and percentage of families participating in social programs to increase income.

In this sense, we address suggestions for *future studies*. The first suggestion concerns the choice of the dependent variable, when verifying the attractiveness of the city according to the number of franchise units and not franchise brands. The second suggestion refers to the identification of regional hubs and their interconnections with satellite cities. For example, regional development clusters can also be investigated (Farashah, 2015). The third suggestion involves the selection of independent variables capable of capturing informal aspects, as well as the flow of people in a city: (i) logistics (road and road flow); (ii) intercity, urban, air, and port transit stations; (iii) hostels, hospitals and government agencies; (iv) and tourist, cultural attractions, parks and sports centers (Wang, Fan & Wang, 2018).

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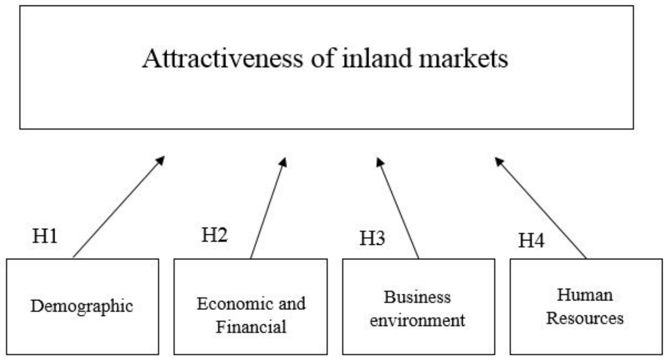
Figure 1: Research Framework



Source: Authors

Table 1: Description of Variables

ENVIRONMENT	VARIABLE	DESCRIPTION	AUTHORS
Demographic	Demographic density	Population concentration per square meter. It has its usefulness in the understanding of the population concentration. This aspect serves as a signal of the potential of the commercial point.	Hines (2016); Berry et al. (2016); Jia, Qiu & Gaughan (2014); Kwon (2018); Yu, Zhang & Han (2006); Zhang (2004); Shi, Yang & Shen (2020); Arai, Okamoto & Kamiya (1996); Wilde, Llobrera & Ver Ploeg (2014)
Economic and financial	GDP per capita	Gross domestic product of the city per capita. Per capita attribution serves the purpose of generating a balance between cities with population differences.	Balan, Ozekicioglu & Kilic (2016); Anokhin & Zarnudio (2015); Kitali, Chepkulei & Shibairo (2015); Kilonzo, Ariemba & Migoshi (2017)
	Average monthly wage of formal workers	Monthly salary of workers with formal contracts. Its purpose is to identify a mass of consumers with regular financial income for consumption.	Gnyawali & Fogel (1994); Mendoza-Abarca, Anokhin & Zarnudio (2015); Greenacre & Akbar (2019); Isgor et al. (2016)
	Bank agencies	Number of bank agencies in the city. Its usefulness refers to the number of bank customers. This can represent a credit-taking capacity both for household consumption and for legal entities.	Pereira & Coelho (2019); Palacín-Sánchez; Canto-Cuevas, & di-Pietro (2019)
Business environment	Number of active companies	Number of companies in a city proportional to population size. It signals the attractiveness of business to the private sector, which can translate into greater income potential and consequent consumption by the population.	Valdez & Richardson (2013); Farashah (2015); Mendoza-Abarca, Anokhin & Zarnudio (2015)
	Shopping center	Existence of shopping centers in a city. This variable signals the presence of a qualified retailer, being able to represent cities of greater income, and consumption potential of the population.	Wang, Fan & Wang (2018); Berry et al. (2016); Rompay et al. (2012)
Human resource	Higher education units	Existence of higher education units. It can indicate teaching centers that enable better training for both employees and entrepreneurs.	Farashah (2015); Vallabh & Mhlanga (2015); Lai, Saridakis & Johnstone (2017); Wapshott & Mallett (2015); Marlow, Taylor & Thompson (2010); Lorenz et al. (2016); Michaels, Natraj & Reenen (2013); Arvanitis & Loukis (2015); Lafuente & Vaillant (2013); Kato, Okamuro & Honjo (2015)

Fonte: Authors (2020)

Table 2: Correlations

		1	2	3	4	5	6	7	8
1	Franchise brands	1							
2	Demographic density	.449**	1						
3	GDP per capita	.006	.000	1					
4	Average salary	.208**	.104**	.022	1				
5	Bank agencies	.385**	.140**	-.001	.085**	1			
6	Shopping center	.275**	.224**	-.002	.159**	.110**	1		
7	Number of active companies	.137**	.126**	.030	.048*	.005	.084**	1	
8	Higher education unit	.210**	.087**	-.019	.067**	.071**	.207**	-,010	1

**. The correlation is significant at the 0.01 level

*. The correlation is significant at the 0.05 level

Source: Authors

Table 3: Regression model

	standardized coefficients	t	Sig.	VIF
Demographic density	.350	17.242	.000	1.085
GDP per capita	.004	.187	.852	1.002
Average salary	.111	5.604	.000	1.037
Bank agencies	.305	15.395	.000	1.033
Shopping center	.116	5.638	.000	1.119
Number of active companies	.077	3.924	.000	1.022
Higher education unit	.118	5.923	.000	1.046

F = 136.041 ($p < 0.01$)

R2 adjusted = 0.360 n = 1683

Source: Authors