“Personality traits of Franchisees - McDonalds restaurants in Australia”

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Personality traits of franchisees – McDonald's restaurants in Australia

Abstract

Over the past few years franchising has emerged as a preferred option for expanding and growing business ventures. As successful franchising requires a synergy between franchisor, franchisee and the franchise system, this paper considers the notion of personality characteristics of franchisees against the backdrop of achievement. At the outset both the nature of, and performance concepts are clarified before considering the importance and dynamics of franchise selection. The establishment of personality traits and performance links sets the scene for data analysis. The paper finds that franchisees in the McDonald's franchise system in Australia do have some outstanding personal traits compared to the average person, notably more conscientious, more extravert and less neurotic. These traits arguably contribute to a stronger franchisee performance and the overall success of the franchise system.

Keywords: personality, franchising, business management.
JEL Classification: M50.

Introduction

Franchising is a business format pivoting on a franchisor owning a market-tested business product or service, and a franchisee operating according to a specified agreement (Stanworth & Curran, 1999). The development of a thriving franchise network is largely dependent on the selection of franchisees who will perform well in the franchise system. Ideally, the franchisor should be equipped with appropriate selection criteria to identify suitable franchisees. The well-being of the franchisee, the franchisor and the franchise system requires a potential franchisee evaluation process that is effectively and reliably linked to franchisee performance.

The franchisor is able to exercise a considerable degree of control over the recruitment and selection process before a franchisee is awarded the franchise. Franchisee selection criteria may be used as a key input control strategy by the franchisor to enhance the outcomes of future franchisees (Jambulingam & Nevin, 1999). Morrison (1997) suggests that personality-based tests provide franchise organizations with a valuable selection tool. Although Morrison's study is largely inconclusive, partly due to an overgeneralization across industries and the use of ambiguous measures of franchisee performance, the basic hypothesis on the impact of personality traits on franchisee performance remains plausible.

1. Franchisee performance and personality

There have been previous efforts to analyze franchisee performance and selection while linking these to personality. However, despite the emergence of franchising as a topic of research over the last ten years or so, franchising literature on the use of personality tests is in an emerging phase. As there seems to be only one single study analyzing the relationship between personality traits and franchisee performance, there is a clear need for further research examining the impact of personality on franchisee performance.

1.1. Nature of franchising. Over the last decade or two franchising has proven to be extremely popular and widespread in all parts of the world (Preble & Hoffman, 1995). Expanding a business via franchising, rather than company-owned outlets, reduces unit-monitoring costs and taps into third party financial capital and human resources required for business growth (Hoover, Ketchen & Combs, 2003). In Australia, the importance of franchising is reflected in the 1,100 business franchise systems with an estimated 71,400 operational franchise units which represents an increase of about 15 per cent between 2006 and 2008 (Frazer, Weaven & Wright, 2008). In total the franchising industry creates more than 400,000 employment opportunities with an estimated turnover of $67 billion in 2005, representing 7.7 per cent of the Australia's Gross Domestic Product (GDP) (International Monetary Fund, 2006).

A franchise system permits franchisees to operate a business developed by the franchisor, including the use of its intellectual property such as the brand name, trademark and proprietary systems (Coughlan et al., 2001). Generally, the franchisor provides franchisees with the requisite managerial support, industry experience and the business know-how in setting up and operating a franchise unit. In return, franchisees assume varying degrees of financial risk by providing a portion or all of the required capital to join the franchise system. Franchisees pay various fees to the franchisor, ranging from rent, service fees, advertising levies to royalties, that are generally based on a percentage of gross sales. In addition, they agree to conduct the business in accordance with conditions stipulated within the franchise contract (Justis & Judd, 1998). These differ from franchise agreement to franchise agreement and have become a significant part of the development of franchising systems over the past decade. Considering the interdependent nature of the relationship between franchisee and franchisor it is

likely that ultimate business performance of both is subject to how well they cooperate.

1.2. Franchisee performance. A number of financial measures of franchisee performance has been developed over time. Chandler and Hanks (1994), and Fenwick and Strombom (1998) propose that performance can be measured by quantifying franchise profitability. Traditionally, annual sales and sales growth are suitable measures of franchisee performance. Sales growth enhances financial security and the profit performance of the franchisee system and growth performance is generally the primary criterion for assessing franchise success (Banker et al., 1996). Sales growth is normally measured on a per annum comparison (Inma, 2002).

For retail franchises, location is an important determinant of performance. Brown (1994) and Timor and Sipahi (2005) cite the retail outlet location to be a crucial component of the retailing mix and a success-driver for retail business. Fenwick and Strombom (1998) determine that retail franchise outlets located within the metropolitan area had higher sales and higher mean annual increases in sales than those located outside the metropolitan area. In addition to a store's location, franchisee network satisfaction is claimed as an important predictor of franchisee performance, and of a franchisee's intention or 'right attitude' to remain within a franchise system (Morrison, 1997; Abdullah et al., 2008). This points towards the importance of understanding and managing franchisee selection.

1.3. Franchisee selection. The success of franchisors and franchisees is inter dependent and it is imperative that both give a thorough consideration to the selection of future partners in business (Tatham, Douglass & Bush, 1972). The selection of suitable franchisees is considered to be the franchisor's single most important operating challenge. While appropriate franchisee selection can produce outstanding results, poor choices can result in endless problems for the franchise system (Justis & Judd, 1989). The success of a franchise system depends to a large degree on a methodical screening process being used to ensure prudent selection of appropriate prospective franchisees (Poe, 1990).

According to Jambulingam and Nevin (1999), specific franchise systems may suit the requirements of some prospective franchisees more than others. Some franchisees thrive, stay within the chosen system and make valuable contributions to the success of individual businesses and the total system while others fail in many or all of these areas. Forward and Fulop (1993) found that franchisors ascribed the weak performance of particular outlets to the individuals operating them, and concluded that it is not unusual for poor performance to lead to the cancellation of the franchisee agreement.

Stanworth (1995) concludes that selecting successful franchisees is not a simple task. While franchisors repeatedly struggle to clearly identify the attributes of suitable franchisees during the recruitment process (Fenwick & Strombom, 1998), defining the ideal franchisee profile remains a contentious topic (Bergen, Dutta & Walker, 1992). Jambulingam and Nevin (1999) suggest that a thorough screening and selection method, based on a prospective franchisee's expected future performance, would be ideal in developing and maintaining a quality network of successful franchisees.

1.3.1. Control and influence. Before awarding a franchise contract, the franchisor is able to exercise a level of control through recruitment and selection procedures. This is possible primarily through precise franchisee selection criteria to enhance the performance of the system, decrease long-term monitoring costs and reduce opportunistic – behavior which negatively affects performance. Ideally franchisee selection criteria serve as input control measures to ensure performance of future franchisees (Jambulingam & Nevin, 1999). Recruiting a franchisee with the right attributes can reduce potential conflicts during the relationship.

Choo (2005) suggests that the capability of the franchisor in selecting the right franchisee has considerable influence on the effectiveness of a range of mechanisms to prevent franchisee opportunism. These control mechanisms include performance schedules, formal controls in brand management and up-front fees.

1.3.2. Demographics, personality and franchisee selection. Jambulingam and Nevin (1999) found insufficient empirical support to suggest that proposed selection criteria are in fact successful in selecting potentially superior performing franchisees. Axelrad and Rudnick (1987) conclude that franchisee selection is mostly a matter of subjective judgment and that no reliable screening and selection system exists.

Literature and research on franchisee selection criteria suggest that relevant selection criteria can be clustered in four categories: (i) experience and skills; (ii) financials; (iii) demographics; and (iv) personal characteristics. Axelrad & Rudnick (1987) established that franchisors commonly favor younger individuals over older ones, as it is believed that the former are more able to meet the physical demands of a franchise business over the long term. While Morrison (1997) established a significant positive correlation between franchisee satisfaction and franchisee performance, Jambulingam and

Nevin (1999) ascertained that men are more satisfied than women with the decision to become a franchisee. In addition, education has been presented as a possible selection criterion for potential franchisees (Olm, Eddy & Adaniya, 1988).

Amongst the various studies personal characteristics and/or personality are the most frequently mentioned franchisee selection criteria. Tatham, Douglass and Bush (1972) confirm that personality is an important factor that should be taken into account when selecting franchisees. Although personality tests have been used by many employers for recruiting and selecting personnel (Hermelin & Robertson, 2001), there appears to be a considerable gap in research on using personality tests in franchisee selection. Morrison (1997) in turn suggests that personality-based tests may provide franchisors with a valuable selection tool. Unfortunately the notion of personality is not uniformly defined, which makes it extremely difficult to measure and assess this construct. Personality is a broad concept and precise definition and measurement in this selection context is essential (Jambulingam & Nevin, 1999).

1.4. The Five-Factor Model of personality. Efforts by trait researchers to identify and describe the key dimensions of personality have been an enduring issue since the emergence of Cattell's original model (Friedman & Schustack, 2005). Different researchers, using various types of personality data, and employing factor analysis, have consistently found strong evidence in support of five basic dimensions of personality (Costa & McCrae, 1988, 1990; Digman, 1990; Goldberg, 1990; Tupes & Christal, 1992). These dimensions, popularly captured in the Five-Factor Model (FFM) summarize much of what psychologists mean by the term personality (McCrae & Costa, 1999). Although the five basic factors are labelled differently by different researchers, the labelling system for the FFM is as follows: (i) openness; (ii) conscientiousness; (iii) extraversion; (iv) agreeableness; and (v) neuroticism (Costa & McCrae, 1995). John (1990) points out that a suitable acronym OCEAN provides a simple way of remembering them. The Five Factors are listed in Table 1.

Table 1. Personality – The Five-Factor Model

Factor	Characteristics	
	High	Low
Openness	Independent Variety, imaginative Unconventional	Conforming Traditional, familiarity Conservative
Conscientiousness	Careful Focused, organized Self-disciplined, determined	Careless Distracted, disorganized Weak-willed, dependable
Extraversion	Sociable, affectionate Fun-loving Assertive, energetic	Private, Reserved Sober Independent, even paced
Agreeableness	Trusting Soft-hearted Cooperative, sympathetic	Sceptical Strong-willed Competitive, quarrelsome
Neuroticism	Distressed Insecure Self-pitying	Calm Secure Self-satisfied

Source: Adapted from McCrae and Costa (1986).

1.5. Personality and franchisee performance. Personality measures are deemed valid predictors of job performance for a variety of occupational groups (Barrick, Mount & Judge, 2001; Borman et al., 2001; Salgado, 2002). For many years employers have used scores from personality tests to determine employment and make decisions concerning promotion (Hogan, 1991).

According to Morrison (1997), it is valuable to both the franchisor and the franchisee, to identify factors that influence franchisee performance. The following section considers, in some detail, the link between personality characteristics and performance.

1.5.1. Openness and performance. Openness has been consistently associated with training proficiency (Salgado, 2002). Employees high in openness are imaginative, curious, intellectual, and have a broad range of interests. They are likely to be more willing to engage in learning experiences, and therefore benefit from training (Barrick, Mount & Judge, 2001). Bing and Lounsbury (2000) claim that openness predicts job performance for employees in U.S. based manufacturing companies. Higher levels of openness are required where an individual must adapt to new ideas and behaviors in order to achieve high levels of job performance. However, Morrison (1997) found no evidence of a relationship between franchisee performance and openness.

1.5.2. Conscientiousness and performance. Of the five personality factors, conscientiousness may be the greatest predictor of job performance (Anderson & Viswesvaran, 1998; Hurtz & Donovan 2000). According to Barrick and Mount (1991), it would be difficult to conceive an occupation in which the trait of conscientiousness would not add to job success. Individuals high in conscientiousness are found to be thorough, careful and dependable. They are likely to take the necessary time to ensure that a job is completed correctly. Highly conscientious people also tend to be well-organized, and plan thoroughly before starting a project (Burger, 2004). Barrick, Mount and Strauss (1993) found a strong correlation between conscientiousness and higher levels of sales by employees. Conscientious employees set higher goals for themselves and are also more persevering than other workers (Barrick, Mount & Strauss, 1993). While Stewart and Carson (1995) establish that conscientiousness is also positively correlated with service performance, employees who approach training in a thorough, persistent, and careful manner (high in conscientiousness) are likely to benefit more from training (Barrick & Mount, 1991). Judge

et al. (1999) establish that conscientious people are more successful in their careers, and Barrick, Mount & Strauss (1993) argue that highly conscientious employees typically obtain higher evaluations from supervisors and are at a lower risk of losing their jobs. Surprisingly, Morrison (1997) found no support for any relationship between conscientiousness and franchisee performance.

1.5.3. Extraversion and performance. Extraverts are argued to have a distinct edge over introverts in the business world (Cardwell & Burger, 1998; Tett, Jackson & Rothstein, 1991). Barrick and Mount (1991) postulate extraversion to be related to performance in managerial and sales positions, where interaction with others is important and good social skills are required. Hough (1992) confirms that higher scores on extraversion are linked to greater training proficiency. Although Morrison (1997) found extraversion to be significantly correlated to franchisee performance, it only explained a relatively small part of total franchisee performance.

1.5.4. Agreeableness and performance. In analyzing predictors of job performance, Tett, Jackson & Rothstein (1991) conclude a strong case for employing people high in agreeableness. Indeed, in situations that involve significant interpersonal interaction, agreeableness is likely to be the best personality predictor (Mount, Barrick & Stewart, 1998) and an important predictor of team performance and effectiveness (Barrick et al. 1998). Morrison (1997) found no support for any relationship between franchisee performance and agreeableness.

1.5.5. Neuroticism and performance. In addition to conscientiousness, neuroticism is also correlated with job performance in almost all occupations (Anderson & Viswesvaran, 1998; Mount, Barrick & Stewart, 1998). Perone, DeWaard and Baron (1979) established that individuals high in neuroticism are likely to be dissatisfied with whatever job they perform. Barrick and Mount (1991) suggested that jobs involving substantial interaction with colleagues and customers require employees to be calm, secure and emotionally stable, in other words low in neuroticism. Morrison (1997) reported a significant negative relationship between franchisee performance and neuroticism. In this case, neuroticism explained a small part of the total variation in franchisee performance and the practical significance of its contribution is unclear.

2. Methodology

2.1. Participants. As a well-established international food service franchise organization, McDonalds was targeted for this study. McDonald's is considered to be a model of best practice in franchising (Lafontaine & Kaufmann, 1994; Capaldo et al., 2004) and was deemed suitable due to its extensive experience and size, which offered the prospect of a significant sample. Further, popular data regarding this franchise network are published in business publications and media. To ensure consistent performance measurement of sales and profit over time, only franchisees who had been operating for at least two full financial years were included. The study was conducted independently of the franchisor to minimize possible response bias. However, a chartered accountant employed by the franchisor was consulted at various stages of the study to clarify and validate information related to performance measures.

2.2. Questionnaires. Data reported in this paper were captured by means of the NEO Five-Factor Inventory and the self-developed franchisee performance questionnaire. The 60-item NEO-FFI provides a concise, yet comprehensive self-reporting measure of each of the five factors of personality. The NEO-FFI consists of five 12-item scales that measure each personality factor on a 5-point Likert scale. It is valuable when there is limited time available for testing and general information on each personality factor is considered adequate (Costa & McCrae, 1992). Engler (2005) confirms that trait researchers normally rely on self-reporting assessment procedures to identify dimensions of personality. While a mean derived from the total raw score from responses (12 questions) indicates the intensity of individual traits, the standard deviation reflects on the spread of responses.

2.3. Shortcomings. The study focuses solely on the McDonald's franchising system implying a possible shortcoming in that results and findings may not be relevant to other franchising systems as it is generally accepted that the McDonald's system is the industry benchmark for franchising (Capaldo et al., 2004). In addition, the study did not differentiate between short-term licensees nor single or multi unit franchisees which constitutes another potential limitation.

2.4. Procedure. The data were collected in five distinct phases as indicated in Table 2.

Table 2. Phases of data collection

Phaze	Activity
Telephone call	Introduce the study, provide assurance of anonymity, guarantee confidentiality, offer a summary of results and invite franchisees to participate. Total sample of 730 outlets, 500 of which are owned by 297 franchisees. Of these, 16 had less than 2 years activity, and 77 declined to participate.
Pilot test	Clarify instructions and questions prior to the full-scale survey, determine face validity – 10 respondents.
Mail questionnaire	Mail to 194 remaining respondents.
Follow up (three rounds)	Follow-up telephone call to establish the progress of responses. Franchisees who indicated that they had responded were thanked and listed, while non-respondents were noted and encouraged to respond.
Conclusion	161 valid responses received (57%).

The two major reasons for non-participation include an unwillingness to provide financial data (42%) and busyness (26%). Basic analysis revealed no significant difference between participants and non-participants in terms of gender, geographic location, or franchise ownership suggesting the representa-

tiveness of the sample and the likely absence of any non-response bias.

3. Results and discussion

As the study was focused on the McDonald's franchising environment in Australia it is important to note that results cannot be generalized across other franchises or to other countries without further empirical work. Geographically respondents were concentrated in New South Wales (30%), Victoria (26%) and Queensland (21%). Other states and territories in Australia contributed less than 10% of respondents each.

The group mean scores for each of the five factors of personality were compared with the published means for the general population based on the study by Costa and McCrae (1992) using one-sample *t*-tests. The purpose of this comparison was to establish whether there were similarities or differences between the personality profiles of respondents and the "average person" on each of the personality items. These comparisons are summarized in Table 3 below, along with the standard deviations.

The difference between the mean of franchisees and the general population for Openness and Agreeableness is found to be non significant. Openness suggests that the franchisees are "practical, willing to consider new ways of doing things and seek a balance between the new and the old" – similar to the general population. In the case of Agreeableness, franchisees are expected to be "generally trusting, agreeable and warm, but sometimes competitive and stubborn" as is the average person (Costa & McCrae, 1992, p. 9).

Table 3. Personality descriptive: franchisees vs. general population

Five factors of personality					
Personality factor	Franchisees (n = 161)		General population		t-test significance
	Mean	Std. dev.	Mean	Std. dev.	
Openness	26.47	5.60	27.09	5.82	-
Conscientiousness	37.87	5.70	34.10	5.95	***
Extraversion	33.02	5.60	27.22	5.85	***
Agreeableness	31.60	5.90	31.93	5.03	-
Neuroticism	12.78	6.38	17.60	7.46	***

Note: t-test significance – marginal: * $p < 0.05$; moderate: ** $p < 0.01$; large: *** $p < 0.001$.

The differences between the franchisee mean and the general population's mean for Conscientiousness, Extraversion and Neuroticism are all significant. This suggests that, respectively, franchisees tend to be "more organized and conscientious than the average person". In addition they are "more outgoing, active, extraverted, and high spirited than the average person". They are also "more hardy, secure, and generally relaxed, even under stressful conditions, than the average person" (Costa & McCrae, 1992, p. 9).

From a personality perspective, individuals high in Neuroticism are likely to be dissatisfied with whatever job they perform (Perone, DeWaard and Baron, 1979). Since the franchisees in the study were found to be significantly lower in Neuroticism than the average person, they are therefore more likely to be satisfied and remain in a franchisee for longer. It can be argued that promoting the factors that are conducive to the tenure of a franchise relationship is likely to be beneficial to franchisee performance and vice versa.

As franchisor, McDonald's is well renowned and generally considered to be an exemplar of what an effective franchise system delivers (Capaldo et al., 2004), which is a standardization of its product and service offerings. The company has a strategy of granting franchises only to highly motivated individuals with business experience and training them to become active, full-time and on-premise owners (McDonald's Corporation 2006). It is likely that the McDonald's franchisee selection and training strategy leads to an identification of candidates who are highly conscientious, extraverted franchisees who, according to Costa & McCrae (1992), are likely to remain calm under stressful conditions.

Historically, the selection strategy has arguably led to the McDonald's global growth over the past 30 years. The franchise system is renowned for consistency of its customer service and product quality around the world, translating, in some instances, to an international measure of the relative standards of living across countries. This suggests that it is critical for McDonald's to maintain its strong corporate culture of product and service uniformity with each individual franchisee adhering to and reinforcing its franchise system and values.

Conclusion

The ongoing success of a franchise system is heavily dependent on the performance of its franchisees. McDonald's franchisees appear to be similar to the general population in the personality factors of Openness and Agreeableness. Findings in this paper suggest, however, that McDonald's franchisees as a group, tend to be higher than average in the personality factors of Conscientiousness and Extraversion, and lower in Neuroticism. This appears to be the result of the existing franchisee selection and training process and implies that this process seems to have a 'built-in' capacity to identify and/or develop suitable or desirable personality traits. The use of personality measures to determine suitable franchisees is likely to remain a contentious matter as the complexity of the role stretches far beyond personality traits. In all, it may be concluded that the use of personality measures would be a suitable criterion, amongst a set of others, to identify suitable franchisees.

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