# The effects of franchisee gender on consumer perceptions of performance and financial performance in quick service restaurants

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#### **ABSTRACT**

By 2015 restaurant revenues are to reach \$2.2 trillion (GIA, 2009). Despite the revenues that foodservice generates, one factor remains missing in the restaurant community: women franchisees. In the most recently published report by International Franchise Association (2002), women ownership constituted 13.2% of franchised restaurants. The purpose of this paper is to explore how women franchisees perform in critical restaurant operations including cleanliness, friendliness, service failure and recovery. Using a nationally franchised restaurant, this study finds that franchise gender plays a critical factor in customer perceptions of a restaurant. Moreover, the main and interaction effects between each of the four variables of service failure, recovery, friendliness and cleanliness are tested against overall restaurant revenues. Practical and theoretical implications, and future research is discussed.

**Keywords:** Franchising, restaurants, quick service, gender, cleanliness, service, friendliness, performance

# INTRODUCTION

The earliest recognized form of franchising was German brewers providing beverages to taverns in the 1840's (IFG, 2009). Not soon after in 1851, the Singer Sewing Machine Company became the first officially recognized franchise group in the United States. Isaac Singer used franchising to widen the distribution of his product while also providing the training necessary to customers needing assistance with the operations of their machines (FCG, 2008). Today, franchises in almost every industry are available to interested entrepreneurs at a cost. In particular, restaurant franchising has remained a popular choice based on the structure and operational ease required to open a franchise (Shane, 2005). Global Foodservice Industry estimates that by 2015 revenues are to reach \$2.2 trillion (GIA, 2009). Despite the large revenues that foodservice can generate, quick service restaurant companies are missing a piece to the franchise puzzle: women franchisees. In fact, women franchisees in this industry are trailing male owned and joint male and female owned ventures by 50% (IFA, 2002).

Many companies in industries such as quick service restaurants are making an effort at gaining women and minority franchisees. Burger King recently met to discuss the potential of reaching out to women and minorities for their 200 franchised units they sell annually (Farkas, 2009). Burger King claims that they are "committed to increasing the number of minority and women female franchisees" in an attempt to diversify their ownership base (Burger King, 2009). McDonald's makes a similar claim about seeking franchise owner/operators that are women. "McDonalds is committed to increasing the number of minority and women operators and to the best of our knowledge has the single largest group of minority and women operators in our industry" (McDonalds, 2009). The shortage of women franchisees and the increased focus on gaining the underrepresented group begs the question, how do women franchisees perform on key aspects of restaurant operations? The structure of the paper is as follows. First, the author(s)

will describe the differences in how women franchisees may operate a restaurant that create different levels of performance relative to the male counterparts. Then, this study will test multiple consumer rated subjective dependent variables relative to gender performance in a quick service restaurant franchise. Following the test of differences between groups, the author(s) will test if the subjective performance indicators help to explain financial performance, moderated by gender. The study concludes with practical and theoretical implications relating to women restaurant franchising.

#### THEORETICAL BACKGROUND

The study of franchising has remained popular in hospitality research in the past decade. The theoretical study of the franchising first emerged in the business literature in the 1970's. Essentially, franchisees buy into a parent company by paying in a franchise fee and other start up costs for the opportunity to sell a product or service with certain restrictions imposed on operating the business as to align with the brand standards and image. So while the franchisee acts as an independent operation and as the executive of their own franchised units, the franchisee has certain rules to follow as put forth by the parent organization. There is no exact set form or structure to franchising but the parent company traditionally offers a host of training programs and provides information and decision making power to the franchise community for strategic directions of the organization.

While the study of franchising has remained popular throughout hospitality research, the study of women as business owners or franchisees in hospitality has remained sparse. This is likely due to the fact that women franchisees are rare in the industry. In the most recently published report, women ownership constituted 13.2% of franchised restaurants. This is compared to 25.8% of female owned nonfranchised restaurants. Male owned franchised businesses totaled to 61.4% and non-franchised businesses were 50.6% male owned. Equally male and female owned franchised and non-franchised restaurants were both around 20% each (IFA, 2002).

Reasons underlying the lack of female franchisees may be attributed to three broad categories (Mathe, 2010a) including the functional background, financial backing and psychological restraints of women. In terms of a functional background, to obtain a franchise in quick service restaurants, most if not all will require some experience in the field of food service. Joy (2000) explored the majors that women are pursuing in their undergraduate studies that may constitute a reason why women are ill prepared for the operational aspects of owning a restaurant. Majors such as Sociology, Education, and Social Work all compromised at least 70% women. Business majored totaled 48% women while Economics was 39% composed of women. Women engineers were the lowest percentage totaling only 11%. The reasons behind the lack of functional background experience can be attributed to the environment, culture, and traditions with which a woman is raised. "Many researchers have observed, for example, that the relative traditionality of gender role attitudes and occupational plans may limit the level of women's vocational and educational aspirations" (Phillips & Imhoff, 1997, p. 34). In other words women may not be preparing themselves for a career as a restaurant franchisee based on the formal and informal education they purpose.

Psychological factors that may effect a woman's decision to franchise may also help to explain the differences in entrance and performance relative to male franchisees. Brush (1992)

states "differences between male and female business owners have been found in educational and occupational background, motivations for business ownership, business goals, business growth and approaches to business creation" (p.6). However, the same study also states that in terms of dispositional characteristics women are more often than not similar to males. This leaves the question, how would being female change performance in franchised restaurants? The following section explores and proposes hypotheses related to how female franchisees may affect certain variables of performance.

#### LITERATURE REVIEW AND HYPOTHESES

A number of indicators can be used to measure a restaurant's performance be it sales revenues, profits or income. In the hospitality industry other performance indices are of critical importance including consumer loyalty, return, and satisfaction. Those restaurants that leave customers dissatisfied risk losing the customers and possibly encounter negative word of mouth (Barber & Scarcelli, 2009). The present study examines key customer satisfaction measures in determining whether female franchising has an impact in quick service restaurants. In particular, the author(s) will examine how service failures, recoveries, cleanliness and friendliness may differ in female franchised restaurants as explained by Social Learning Theory. Then the author(s) will examine how these subjective indicators relate to the revenues, or objective indicators, of quick service restaurant units. There is little to no research to date that has directly tested how certain customer perceptions affect gross sales and gross profit.

# **Social Learning Theory**

The basis for the following arguments rests on the fact that the female franchisor will 'pass down' the attitudes that create success in quick service restaurants. Social Learning Theory (SLT) helps to explain how and why the following four performance indicators will favor be passed down by each gender. To put it simply, SLT is observing the behavior of others (particularly a role model), and in turn modeling those behaviors in future tasks or work. Additionally, SLT involves learning through rewards and punishment (Bandura, 1977; Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009). So as lower level employees imitate the behaviors of their superiors, they will likely be rewarded and will continue to engage in these actions. Previous research has supported the SLT and ethical leadership relationship as it moves from one level of an organization to the next (Mayer, et al. 2008). Kreiner, Ashforth & Sluss (2006), summarize this notion:

"Occupational ideologies, social weighting practices, and behavioral or cognitive tactics may become shared and normative in the wider organization... As members see the practices used by some individuals, along with associated positive outcomes, the practice gains acceptance as viable responses, and thus spread" (p.631).

As the owner of the franchised units, or the leader of the organization to those employed in the unit, these passed along outcomes will gain acceptance and the ideologies of cleanliness, friendliness, service recovery and avoiding service failure should be greater than others.

# **Service Failures and Service Recovery**

Service failure can be defined as "service performance that falls below a customer's expectations" (Hess, Ganesan, & Klein, 2003, p.129) and it is plausible to assume that all

restaurants will experience a service failure at some point during operation. Consequently, common quick service restaurant service failures are likely a result from human error. Popular mistakes may include entering an order wrong on a point of sale system, filling an inaccurate order, and other general mistakes that will leave consumers with negative feelings toward the service encounter. Theoretically, service failures can occur in three different categories within restaurant operations, when the service delivery system fails, employees do not respond to consumers, or when employees show "unprompted and unsolicited actions" (Leong, & Kim, 2002, p. 67). These problems that occur can leave customers dissatisfied with the experience and sequentially may not return for repeat patronage. The loss of repeat patronage is due in large part to these service failures of poor service (Leong & Kim, 2002). While managers should attempt to avoid service failures, service recovery can salvage a possible lost of customers and spread of negative word of mouth.

Repeat customers have been shown to be of more value than attracting new customers (Sibler, Israeli, Bustin, & Zvi, 2009). By resolving service failures, restaurants have a better chance to retain these customers that have been shown to increase restaurant profits (Kotler, Bowen, & Makens, 2006). The "service recovery paradox" suggests that a successful recovery is more powerful in retaining customers than those who had not experienced a problem in the service interaction (Hart, Heskett & Sasser, 1990). Possible resolutions to a service failure in restaurants include: free food, discounts, coupons, management intervention, replacement, correction and an apology (Warden, Huang, & Wu, 2008). A simple and casual explanation of why the problem occurred aids in improving customer impressions of the service. In the quick service restaurant industry, service recovery may be more difficult in the fact that workers are typically younger and less experienced.

How a female franchisor may affect the service failure and service recovery process is due in part to stereotypes or ingrained traits that society has accepted. In a study of stereotypes of women, Oswaldt and Lindstedt (2006) suggest that women are often perceived as emotional and caring. Conversely, males are often stereotyped as aggressive and insensitive. The differences between these two gender groups may have a significant impact on how service failures and recoveries occur in female franchised restaurants. Specifically, the author theorizes that because women tend to be perceived as more 'emotional' and 'caring' the problems experienced in restaurants are less likely to occur based on the service aspect of the operation. The managerial attitude passed down by the franchisee should lead to a culture of caring and emotion towards the customers. On the other hand, male franchisees may be more aggressive an insensitive toward customer problems and in turn resolution.

In quick service restaurants, the employment base is quite different than in fine dining and other industries. High turnover coupled with typically young and inexperienced workers will likely make the service recovery process less successful be it from not enough clock hours, training, or overall lack of maturity to care and empathize with a consumer. This notion that younger employees tend to have more service failures and fewer service recoveries was validated through a qualitative analysis discussed in the appendices. Therefore, the empathizing attitude shown by the female franchisor is likely to set the tone for the restaurant's employees, regardless of the age and experience.

Hypothesis 1a: Female franchised restaurants will experience fewer problems experienced than male franchisees

Hypothesis 1b: Female franchised restaurants will experience greater problem resolution than male franchisees.

# **Restaurant Cleanliness**

The appearance of a restaurant can be the first aspect of the service experience a customer encounters. Unlike the saying "don't judge a book by its cover" consumers find restaurant cleanliness of critical importance (Barber & Scarcelli, 2009). Many studies have shown how restaurant cleanliness can affect the perception of the quality of the restaurant. Specifically, it has been shown that customers perceive the safety of the food as reflected by the restaurant appearance. (Macaskill, et al, 2000; Scarcelli, 2007). Additionally, an unkempt restaurant restroom has been shown to decrease consumer return to the establishment (Barber & Scarcelli, 2009; Scarcelli, 2007). In fact, a study by Blackiston and Evans (2004) 78% of consumers suggested a clean restroom also meant a clean kitchen, a cornerstone of food safety and cleanliness in restaurants. In terms of the perceptions of facility appearance, cigarette butts on the ground, cleanliness of the trash area and trash cans, and personal hygiene and appearance of the staff are common areas in which consumers notice during service (Bigger & Bigger, 2003) that can leave the customer dissatisfied.

From childhood, women are more prone to be concerned with cleanliness and neatness; it has been suggested that this also translates to the workplace (Corney & Richards, 2005). Other cleanliness behaviors women have been found to engage in more so than men include hand washing (Stender & Rosenberg, 1998) a critical component to safe food practices. Based on the notion that women tend to be more clean and kept than their male counterparts, it can also be assumed that female ran restaurants will likely be cleaner as a result of ingrained behavior and disposition women tend to naturally uphold. Therefore the author(s) propose the following hypothesis:

Hypothesis 2: Female franchised restaurants will be perceived as cleaner than male franchised restaurants.

# Friendly service

Women in the workplace are often viewed as warm and likable and less authoritative relative to their male counterparts who are often thought to be controlling and achievement-oriented (Burgess & Borgida, 1999). It has also been suggested that women are seen as "nice but not competent; while men are seen as "competent but maybe not so nice" (Fiske, 1998: 377). Women have a particularly hard time in finding the optimal balance between taking a firm stance on business all while continuing to be friendly to the subordinates (Astley & Stater, 2007). However, in the case of service organizations a friendly supervisor should foster an environment similar to the attitude he or she portrays.

Employee rudeness has consequences affecting both loyalty and profitability to the servicing organization. If rudeness occurs, 58% of consumers stated they would take their business elsewhere (Humphries, 2000). Some specific rude behaviors that occur in the work place include ignoring the consumer, not paying attention to or showing an indifferent attitude toward the consumer, slow response, interruptions, voice tone and language use, and lack of

appreciation. Conversely, behaviors that are appreciated by consumers include a friendly, quick greeting, helpfulness, appreciation, honesty, short waits, and respect (Humphries, 2000).

Continuing this logic, unfriendly service has been shown to lead to customer complaining behavior, a detrimental influence on the performance of a restaurant (Wildes & Seo, 2001). The determinants of poor service can be traced back to the supervisor, or in the present case, the franchisee influence on the restaurant. Mathe (2010b) showed that supervisor undermining had a negative effect on overall consumer perceptions of service. In cases where supervisor undermining was low, customer perceptions of service were higher. Conversely when supervisor undermining was high, consumer perceptions of service were low. As discussed in the next section, as employees observe the supervisor engaging in these negative behaviors, they are likely to imitate and carry on these detrimental actions. This logic leads to the following hypothesis:

Hypothesis 3: Female franchised restaurants will be perceived as friendlier than male franchised restaurants.

# **Financial Performance**

The ultimate goal of franchising is to build a business based on a trusted, mature, and successful concept. As mentioned previously, franchisors are essentially their own bosses within certain limits put forth by the corporation. Because the fate of the restaurant rests upon the franchisors translation of the operations, policies and other aspects disseminated from the corporate office, the resulting restaurant's success rests in the hands of the franchisor. To ensure consistency across large restaurant chains many restaurants put forth certain standards of which all restaurants are expected to meet. This may be measured through third party mystery shops or in a method similar to that utilized in this study, a call-in survey. But while companies strive to upkeep these standards, it is of practical importance to understand how customer perceptions truly affect the bottom line.

Service failures, recoveries, friendliness and cleanliness, are all subjective measures of performance. To truly understand how theorized differences occur between male and female franchisors it is necessary to test if these consumer perceptions make a difference on the objective performance, or financial performance, in quick service restaurants. In terms of cleanliness, or all visible aspects of a restaurant, the restaurant communicates a message of service quality to the consumer by maintaining and improving the appearance of the facility and appearance of employees (Berry, Wall, & Carbone, 2006). Similarly, an encounter with a rude employee will diminish likelihood to return, a construct shown to be related to financial success (Dube, Renaghan, & Miller, 1994). Service recovery and failure are related to the notion that when reconciling or correcting a poor service encounter with a customer the impact of recovery affects loyalty, delight and profit (Johnston & Michel, 2008). Tax and Brown (1998) claim, "the relationship between service recovery and profit can be clearly seen by examining the profit chain" (p.86). So while recovery is essential in gaining lost ground, experiencing a failure or a problem will likely be negatively related to financial performance because more than 50% of attempted recovery situations result in continued dissatisfaction (Johnston & Michel, 2008; Hart, Heskett, & Sasser, 1990). The following hypotheses are proposed based on the previous reasoning:

Hypothesis 4a: Percentage of service failures will be negatively related to unit revenues Hypothesis 4b: Percentage of service recoveries will be positively related to unit revenues Hypothesis 4c: Consumer reported restaurant cleanliness will be positively related to unit revenues

Hypothesis 4d: Consumer reported employee friendliness will be positively related to unit revenues.

Hypothesis 4e: When service failures, service recoveries, friendliness and cleanliness are high, revenues will be greater when the franchisee is female than male.

#### **METHODS**

The organization sampled for the present study is a national quick service chain located throughout the United States. A list of franchisors from within the company was obtained as well as the corresponding profit and loss statements for each franchisor and the stores he or she owns. Key performance indicators were measured using a proprietary database in which a customer is randomly chosen to complete a survey with purchase. Each hypothesized item was measured using a single variable.

All items were measured using a 5-point Likert scale with 1= highly dissatisfied and 5= highly satisfied. Cleanliness was stated as "Please rate your satisfaction with the cleanliness of the location." Similarly friendliness as "Please rate your satisfaction with the friendliness of the employees." Problem experienced and problem resolution was measured in a different method in which the consumer calls a third party number to voice a complaint. The number of calls per unit was used as the measure of problems experienced. When a consumer called problem resolution was stated as "Please rate your satisfaction with how well the problem was resolved," also using a 5-point Likert scale with the same anchors. The reporting format supplied by the organization was in a percentage style format.

The total number of restaurants used in the analysis was 1,521. Complete data was available for 1293, 1457, 1457, and 1459 for service recovery, cleanliness, friendliness and service failures respectively. Service recovery was lower due to the fact that it was a follow up question and despite a failure, may not have warranted a recovery. The total number of restaurants excluded franchise groups in which one or more owners may be male or female. In other words, only 'male' owned and 'female' owned franchise groups were analyzed and dummy coded accordingly. The number of customer evaluations total 672, 840 over the past 12 months. Each unit was guaranteed to have at least 30 responses per month to be included.

# **RESULTS**

One-way ANOVA results are shown in Figure 1. Hypothesis 1 a that female franchised restaurants will experience fewer problems experienced than male franchisees was non-significant ( $F_{1,1458}$ =.527, p=.468) and therefore, not supported. However, it should be noted that female franchised stores on average received more complaint calls than male owned stores. Hypothesis 1b that Female franchised restaurants will experience greater problem resolution than male franchisees was significant ( $F_{1,1292}$ =17.802, p<.000), however was in the opposite of what was hypothesized. The means for males owned stores had greater recovery than female owned stores at 36% versus 26% respectively. Hypothesis 2, Female franchised restaurants will be perceived as cleaner than male franchised restaurants was supported ( $F_{1,1456}$ =10.233, p=.001).

Similarly hypothesis 3, female franchised restaurants will be perceived as friendlier than male franchised restaurants was supported ( $F_{1,1456}$ =4.099, p=.043). Additionally, a one-way ANOVA was executed for the difference in total revenues and gender. Male franchised stores had significantly higher revenues than female franchised stores ( $F_{1,1464}$ =6.537, p=.011).

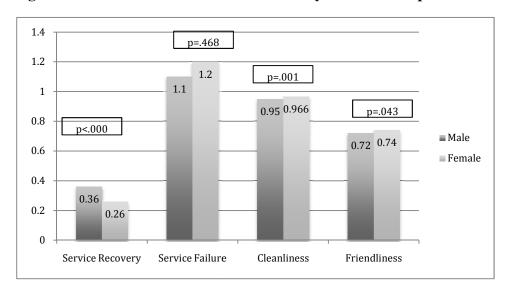


Figure 1: Gender and Performance One Way ANOVA Graph

**Table 1: Means, Standard Deviations and Correlations** 

	Mean	Std Dev	Service Recovery	Service Failure	Cleanliness	Friendliness	Revenues
Servie Failure	0.35	0.18	1				
Service Recover	111.42	120.62	201**	1			
Cleanliness	0.68	0.09	.327**	191**	1		
Friendliness	0.74	0.08	.408**	244**	.818**	1	
Revenues	968438	41566	.055*	172**	.159**	0.023	1

To test hypotheses 4a-4e, that the performance indicators would be related to overall revenues, the author(s) conducted a two-step regression. Step 1 included all performance variables including service failure, recovery, cleanliness and friendliness. All variables were significant at the p<.01 level supporting hypotheses 4a-4d. Hypothesis 4e tested the interaction effects of the four performance variables and the effect of gender on overall revenues. The interaction between cleanliness and gender and friendliness and gender were significant at the p<.05, p<.10 levels respectively. Both service failure and service recovery yielded non-significant interactions as shown in Table 2. To ensure no multicollinearity, VIFs in step 1 were ran and were all under the threshold value of 10.

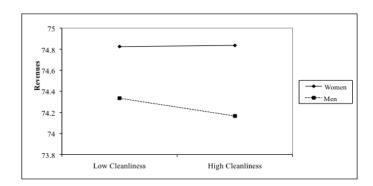
Table 2: Moderated Multiple Regression of Revenues on Performance Indicies and Gender.

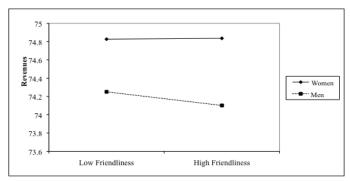
<u>Variables</u>	β	$R^2$	$\Delta R^2$	F
Step 1 (n=92)				
Service Failure	.179**			
Service Recovery	.076**			
Cleanliness	.409**			
Friendliness	.321**	0.096		27.173**
Gender	.043			

Step 2 (n=92)				
Gender	.084			
Service Failure	.116			
Service Recovery	.044			
Cleanliness	.060			
Friendliness	.056			
Service Failure X Gender	.061			
Service Recovery X Gender	.035	,		
Cleanliness X Gender	981*			
Friendliness X Gender	982†	.099	0.003	15.660**

<sup>\*\*</sup>p<.01 \*p<.05 †p<.10

Figure 2 and 3: Interaction Graphs Between Gender and Cleanliness, Friendliness on Revenues





#### **DISCUSSION**

This study shows how the gender of quick service restaurant franchisees can affect different elements of store operational performance including service failure, recovery, cleanliness and friendliness, and in turn the effect on the bottom line of overall store revenues. Gender made a significant difference for the variables service recovery, friendliness and cleanliness. However, different that what was hypothesized male franchisees had higher average service recovery and a lower number of average complaints than female franchised quick service restaurants. Then, the author(s) tested all of the performance indices and the effect on restaurant revenues and found that each variable made a significant impact in predicting financial performance. Last, the author(s) showed that a significant interaction exists between cleanliness, friendliness and gender and the effect on restaurant revenues. The interactions in figure 2 and 3 show a significant difference in the slopes between men and women and their combined effect with friendliness and cleanliness on revenue respectively.

### Limitations and Future Studies

The present study is not without limitation. First, is the imbalance of female to male franchisee data available for analysis. While mentioned previously, the sheer lack of female franchisees serves as a limitation to this study, having a greater number of female owned stores

would add more reliability to the study. Additionally, control variables such as the age of the store and the location of the store would help to control for external variables that could affect the results. Future studies should further explore different variables in which gender may make an effect on in quick service restaurants, namely differences in customer orientation and the likelihood of customer return would add additional texture to the franchising literature. A study that would help validate these findings is to show how a store that changes gender ownership in turn affects the variables included in this study.

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