

# Psycho-Social Predictors of Franchisee Success and Implications for Selection

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## Abstract

*This empirical study sought to investigate whether psycho-social attributes of franchisees could predict successful franchisee performance, as measured by both franchisor and self-ratings of performance. A total of 802 franchisees from 32 franchise systems completed a questionnaire measuring background variables and 19 psycho-social scales constructed specifically for the franchising small business context. Franchisor ratings of performance were obtained for 411 of these franchisees. Results consistently showed that 14 of the psycho-social scales were predictive of franchisee success, especially Family and Social Support, Optimism and Communication Skills. A high desire for personal challenge and control also correlated with franchisor ratings of franchisee performance with female franchisees more likely to be motivated by personal challenge and males more likely to be motivated by control. Female franchisees also performed significantly better on measures of customer service and constructive participation in the franchise network. Implications for franchisee recruitment are discussed.*

## Introduction<sup>2</sup>

This paper contains findings from an empirical study using objective franchisor ratings of franchisee performance to better understand the psychological and social or “psycho-social” factors that impact on franchisee success. The aim of the study has been to develop a relevant, valid and reliable assessment instrument to assist franchisors reduce the risks, to themselves and their franchisees, of unscientific franchisee selection practices. We will start with a review of some of the key issues associated with the recruitment of franchisees and their subsequent performance.

An examination of the marketing processes and materials used by franchisors and franchising trade associations around the world confirms that franchising continues to be promoted as a comparatively safe method for entry into business despite a lack of sound research evidence to this effect (Bates 1995; LaFontaine & Shaw 1998; Scott 1996, Stanworth & Purdy 1998). While the International Franchise Association has been discouraging its members from quoting uncorroborated research claims that suggest franchises are more successful than independent

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<sup>2</sup> Material for this introduction has been partly drawn from ethnographic research by the principal author in his work with over 200 franchise networks. Ethnographic research, also known as participant observation, requires the researcher to spend time observing and talking with people in their place of work and is particularly suited to the study of franchise systems (Frazer, Merrilees and Nathan, 2006).

small businesses (Shay 2005), franchisors on the whole appear to be in a state of denial over the inability of many of their franchisees to achieve their financial goals. For instance while it is common for franchisor advertisements and public relations articles to refer to the financial rewards of running a franchised business, according to survey data collected by the Franchise Relationships Institute on over 4,000 franchisees, 43% of franchisees disagree or strongly disagree with the statement “I do not consider my business to be a financial success” (Nathan 2007a). Trends in the USA are similar with one popular franchise industry survey of over 14,000 franchisees reporting that 47% of franchisees rate the current financial picture of their business as slightly or significantly below their expectations (Stites 2007).

We certainly do not suggest that the inability of many franchisees to satisfy their financial goals is the fault of franchisors or the franchising model. Franchisee expectations in relation to their financial performance may be unrealistic. Furthermore there is both idiosyncratic and empirical evidence that franchisees would generally be worse off if they were running independent businesses. For instance, most established franchisors are quick to provide examples of franchisees that have tried to operate outside their franchise system and failed. However a more reliable explanation as to why many franchisees do not achieve their financial goals is cited by Williams (1998) who analysed the financial performance as well as the educational and career profiles of 14,550 franchised and independent business owners in the USA. Based on this data and economic modelling equations Williams concluded that, on average, franchisees would be earning substantially lower profits if they were independent business operators and that one reason for this is that “...franchisees possess fewer or lower quality skills than independent business owners.” (Williams 1998 pg 121).

Of course just attributing the low levels of financial performance of some franchisees to a lack of competence is simplistic and naive. Performance in any field of endeavour is driven by a complex array of psychological, environmental and interpersonal factors (Biswas-Diener and Dean 2007; Rock, 2006). For instance Michael and Combs (2008) found the quality and quantity of franchisor support, as well as a franchisor’s contractual policies such as franchisee establishment costs, territorial rights and royalty fee levels, also play a key role in franchisee business survival rates. However despite these findings Michael and Combs also recommend that “...franchisors must still screen their potential franchisees to ensure that those selected will have a baseline of human capital necessary to perform.” (pg 76)

### **Poor selection as a cause of franchisee failure**

While there is no single cause that explains franchisee underperformance or failure, a lack of rigour in franchisee recruitment practices is clearly a major contributor (Bates 1995; Cross 1994; Frazer 2002; Jambulingam and Nevin 1999). The inadequate screening of prospective franchisees for suitability is unfortunately common practice (MacMillan 1996). Indeed it is our experience that, while franchisor executives and consultants talk passionately in franchise industry conferences and publications about the importance of choosing franchisees carefully, the use of empirically tested franchisee selection systems is definitely the exception rather than the norm. As Williams (1998: pg 110) observes: “The typical franchise company does not turn away potential franchisees.”

There appears to be three factors driving these inadequate selection practices.

The first is the confusion in the franchising sector generally as to whether the franchisee recruitment process is about selling a business opportunity or selecting a suitable franchisee. While sales and selection both clearly play a part in the franchisee recruitment process, an emphasis on selling over selection appears to be the norm, particularly in the North American market where there is an extensive use of franchise brokers who survive on sales commissions,

as well as high competitive pressure on franchise sales departments to meet short-term market expansion targets (Nathan 2005; Nathan 2007a).

The second reason for a lack of a focus on franchisee selection is the shortage of prospective franchisees in most developed countries, with franchisors in Australia reporting this to be the number one hindrance to their growth (Frazer, Weavan and Wright 2006; Bennet, 2006).

The third reason is a dearth of carefully designed and scientifically rigorous selection tools for use in the franchising environment. While the use of psychological tests in the selection of employees is common, these tools are not designed for the unique blend of entrepreneurial and cultural attributes that franchisees need to succeed (Caird 1993; Jambulingam and Nevin 1999).

As a result of these three factors the franchisee selection process for most franchisors consists largely of unstructured discussions between candidates and franchisor personnel, and/or polished sales presentations. Our informal research on over 100 franchisors indicates that valid assessment processes such as behavioural interviewing, structured reference checking or on the job assessment systems are rare.

Possibly of equal concern is that in a recent study of 72 Australian franchisors 55% reported they use personality profiling to test the suitability of new franchisees (10 Thousand Feet, 2007). It is our experience that many of the tools being used by franchisors are not only unsuitable for the franchising or business environment, they have also not been validated and could thus be providing misleading or confusing information to both franchisors and franchisees.

That being said, one attribute that *is* commonly quite rigorously assessed by franchisors is access to adequate capital. This is driven by the necessity of the franchisee to pay the business establishment costs. In fact many franchisors regard this as the most important attribute (Bennett 2006). While undercapitalisation has been identified as one cause of failure (Frazer 2002) this is just one of many factors known to impact on the performance of franchisees and small business operators (Michael and Combs 2008; Morrison 1997). Psychological and social factors such as background experience (Dyke, Fischer & Reuber 1992; Sandberg & Hofer 1987), expectations (Frazer 2002; Nathan 2002), personality (Robinson 1991; Caird 1993; Crant 1996), attitude toward the business (Bennett 2006; Jambulingam and Nevin 1999) and family support (Nathan, 2007b) have also emerged as being significant.

However the findings on the importance of these psycho-social factors have also been inconsistent due to methodological problems and a lack of validation. For example Caird (1991) developed the General Enterprising Tendency (GET) Test to assess entrepreneurial tendencies, but this has since failed to show adequate validity, internal consistency and test-retest reliability (Stormer, Kline and Goldenberg, 1999). And while Stanworth (1995) developed the Diagnostic Franchisee Questionnaire as an aid to franchisee selection no validation studies have been reported.

## **Psycho-social attributes as predictors of franchisee performance**

Franchisee recruitment is a two way process with the franchisee also in search of a suitable franchisor that can offer them a franchise opportunity that will satisfy their expectations and goals (Stanworth and Kaufmann 1996). Because of the tendency of franchisors to sell their franchise opportunity rather than select their franchisees, the franchisee potentially has most of the power in the recruitment process. However naivety and inexperience in business, and sophisticated sales techniques used by franchisors and brokers, will often mean franchisees do not recognise their power. Moreover it seems possible that the decision to invest in a franchise is commonly dominated by emotional rather than business factors.

Whatever the process, the final decision by a franchisee to join a franchise system is a significant one because the franchisee will often invest all their available capital in the venture as well as borrowing against their assets.

In addition to the financial investment there is the psychological and social investment by the franchisee and their family whose social status, self-esteem and emotional well being will be intricately connected to the performance of the business (Nathan, 2002). Indeed this psychological and social investment, sometimes referred to as “skin in the game”, is attractive to franchisors because it motivates franchisees to commit higher levels of time, energy and attention to their business than might be expected from salaried employees.

Despite the importance of these “psycho-social” attributes to motivation and performance, there has been little empirical research into their impact on franchisee success using objective performance ratings.

Before describing the research questions and methodology behind the current study it is important we clarify our definitions of three fundamental constructs – “franchisee”, “franchisee success” and “psycho-social attributes”.

## **Clarifying definitions**

### **Defining a franchisee**

We define a franchisee as a person or business entity that has signed a commercial agreement with a franchisor prescribing that the franchisee will:

1. operate and promote their business under the brand of the franchisor;
2. make and/or sell products or services according to the franchisor’s written operational systems;
3. collaborate with the franchisor and its staff in their delivery of support resources to the franchisee; and
4. provide the franchisor with compensation for the use of their brand, operational systems and business resources.

Point three above, which includes collaboration of the franchisee with the franchisor and its staff, reflects the interdependent nature of the franchise relationship (Nathan, 2002). While this third dimension can have a significant impact on the success of franchisees and franchisors it is often overlooked in the franchising literature, possibly because it is the most difficult of the four to measure and manage.

In the real world a franchisee can be an entity rather than a person, but for the purpose of this study, franchisees will refer to the principal operator of the franchised business.

### **Defining franchisee success**

Failure and success are relative terms. In the extreme franchisee failure can mean the franchisee has to walk away from a business without recouping any of their investment costs. A less extreme form of failure may be having to sell the business at a loss or a failure of the franchisee to generate an adequate revenue stream and thus having to seek other sources of supplementary income outside the business. Failure can also mean a failure in the franchise relationship resulting in an inability of the franchisee to continue to work with their franchisor.

This raises the problem of defining “success” which will always partly be in the eye of the beholder. For example despite the relatively low level of financial satisfaction of franchisees identified above, around two thirds of franchisees in Australia and the USA report they would buy their franchise again if they had the choice (Stites 2007; Nathan 2007a) and 93 percent of

Australian franchisees report enjoying their work (Nathan 2007a). Clearly franchisees are motivated by more than just money. Investing in a franchise is part of a complex decision making process which includes a range of psychological and social factors such as a desire for independence, a reduction of work/family stress and the attraction of having ongoing support (Kaufmann 1999; Kauffman and Stanworth 1995; Guilloux et al 2004; Nathan 2007a). The relationship that has been established with the franchise sales person is also a significant factor that is often overlooked in research studies but is often reported as being a significant factor by franchisees and franchisor sales executives (Weaven 2007).

Also success from a franchisee's perspective may be different to success from a franchisor's perspective. Franchisees might measure their success in terms of the profitability of their businesses, their standard of living or the level of independence they feel they have, while franchisors may measure success based on the sales performance of their franchisees (as distinct from profitability), how easy franchisees are to deal with or how well they comply with operational standards. These differences in definitions of success can be problematic for applied research. For example, Morrison (1997) found that Type A behaviour (involved, ambitious, hard-driving and competitive) was a strong positive predictor of franchisee performance in terms of sales, profit and job involvement, but a strong negative predictor of congenial franchisor relations.

Indeed we frequently hear franchisors complain of franchisees who, despite strong sales, are damaging the reputation of the franchisor's brand with poor customer service, and/or are hostile and difficult to deal with. As a result, it seems likely that sales competence and high levels of personal drive in themselves are inadequate predictors of franchisee suitability.

For these reasons, we define franchisee success as the ability of a franchisee to demonstrate competence in three areas.

1. Optimising the profit potential of their business. This requires building strong sales while also controlling costs.
2. Ensuring high levels of customer satisfaction. The long-term profitability of the franchisee's business and the goodwill of the franchise brand depend on the franchisee building a base of loyal, satisfied customers.
3. Engaging constructively with the franchise culture. The franchisee needs to be prepared to participate constructively in the franchise program, attend meetings and behave consistently with the brand and culture. In other words to be or have a good "cultural fit".

### **Defining a psycho-social attribute**

We have deliberately used the term "psycho-social attributes" and steered away from using the term "personality" or "attitudes" to avoid confusion in definition and scope. For instance after decades of debate about the nature of personality there is still disagreement amongst psychologists about how to define it, what it does and does not include, valid methods of measuring it and indeed, the extent to which it can reliably predict performance (Boyle, 1995; Burger, 2004; Hogan, 2007). In light of this it is not surprising that, in their review of the franchisee selection criteria literature, Jambulingam and Nevin (1999 pg 367) conclude:

"...though the attitudes/personality category is considered important, no clear useful definition or domain of these variables emerged from a review of the literature. The definitions of appropriate attitudes differed considerably among the various writers.... Similarly the domain of personality traits was also not clearly defined in the literature. Some of the personality traits suggested were motivation, aggressiveness, promotability, and people skills. Lack of a clear definition and domain of the constructs makes it extremely difficult to measure and assess them."

Relevant to the current study Jambulingam and Nevin (1999 pg 367) also conclude:

“There seems to be no published empirical support for the contention that these proposed selection criteria are actually successful in selecting the potentially better performing franchisee.”

Another limitation of past studies based on personality constructs is that they have tended to use existing questionnaires that are readily available such as the five factor model (Costa & McCrae, 1985). While two commonly measured personality constructs, extroversion and optimism, have been shown to have a strong positive correlation with work performance where social skills and sales ability are assets (Barrick & Mount 1991, 1993; Morrison 1997; Seligman & Schulman 1986), the constructs measured by most readily available personality questionnaires lack validity and relevance to the business context of franchisee selection.

Finally our preliminary research has found personality is just one dimension that influences behaviour in the business context and factors beyond this such as a person’s health, their level of interest in financial affairs and their social support networks will also have a significant impact on their success. And then of course there are the financial considerations, discussed above, as well as the expectations a franchisee brings to the recruitment process.

For practical purposes in developing a tool to predict franchisee performance, our definition of a psycho-social attribute is thus quite broad and includes habits, interests, values, attitudes, drives, skills, physical or emotional factors, and interpersonal relationships, indeed any personal or interpersonal resource that has been found through prior research as being likely to significantly impact on a franchisee’s success. The closest concept to this is a “management competency” (Boyatzis 1982) although competencies focus on knowledge and skills and do not include physical, emotional or interpersonal factors.

### **Implications for the current study**

In summary there is evidence of a relatively high rate of franchisee failure and financial dissatisfaction as well as evidence of links between failure and a lack of rigour in franchisee recruitment practices. This lack of rigour appears to be driven by both an emphasis on selling over selection by franchisors, and a lack of validated selection tools designed for the unique franchising environment. Furthermore there is evidence that psychological and social factors play a significant role in the success of franchisees although empirical research in this area has been sparse and has delivered inconsistent results. Finally because of the unique nature of the franchise relationship there is a need to define franchisee success more broadly than just financial performance, to include also factors impacting on brand consistency and cultural fit.

The evidence suggests that franchisors can significantly reduce the risks of unwittingly recruiting unsuitable candidates by incorporating sound selection practices into their franchisee recruitment programs. Furthermore we suspect that some franchisees, who could potentially be satisfactory candidates, become disillusioned and fail to achieve success because they were inadequately prepared for their franchising career, perhaps due to a recruitment process overly biased toward selling over selection. Indeed most franchise relationship breakdowns can be traced to some aspect of the recruitment process (Nathan, 2002). On the other hand, the upside for both franchisors and franchisees of using effective selection practices would appear to be significant.

# Research questions

## Aim of the study

The current study sought to use objective performance data from a relatively large sample of franchisees to assess the predictive validity of specific psycho-social attributes shown by prior research to be related to franchisee success. The ultimate aim of the study was to develop a relevant, valid and reliable instrument to assist franchisors in the responsible selection of their franchisees.

## Specific research questions

### 1. Do different types of franchisee motivations to purchase a franchise impact on later franchisee success?

While there have been several studies examining franchisee motivation and decision making processes, both in the pre-purchase and post purchase stages many of these studies have suffered from relatively low sample sizes and none have examined the link between franchisee motivations and later performance. The current study sought to rectify this using a larger sample of franchisees and looking for meaningful links between franchisee motivations and actual business performance.

### 2. Does sex, age, prior experience or tenure impact on franchisee success?

Research findings on the influence of franchisee background characteristics and prior experience on performance have been inconsistent. A lack of access to detailed and objective franchisee performance data has probably contributed to these contradictory findings. The current study has thus examined these variables using objective franchisee performance data from several sources. As “Baby Boomer” franchisees move towards retirement, franchisors are targeting “Generation X” franchisees (10 Thousand Feet 2007). Similarly “Generation Y” franchisees will soon be increasingly taking up franchise opportunities. There is also a growing trend in the franchising sector to encourage greater female participation in franchising. For these reasons increasing franchisor attention is being focused on attracting greater numbers of female and younger franchisees, making age and sex worthy variables to explore in the current study.

Franchisors frequently report that franchisees become more of a challenge to work with as they gain greater experience in operating their franchise (Nathan, 2004). Similarly franchisors commonly report compliance problems with franchisees who have run their own business prior to joining the franchise, especially if this has been from a similar industry. We thus decided to investigate the impact of prior business ownership on performance, especially cultural fit.

### 3. Can psycho-social attributes thought to be relevant to franchising be reliably measured?

Research into the impact of franchisee attitudes, personality and social characteristics on performance have suffered from confusion in definitions, inappropriate or unreliable measurement instruments and a lack of objective performance data. The current study thus sought to create a reliable assessment tool capable of measuring relevant franchisee psycho-social attributes.

### 4. Which psycho-social attributes are likely to be the best predictors of franchisee success?

Previous research looking at the relationship between psycho-social constructs (inputs) and franchisee performance (outputs) has relied on restricted or questionable input measures

lacking reliability or validity. These have also been compared with franchisee self ratings of outputs which also tend to be unreliable when compared with objective performance data and third party ratings. The current study thus sought to use valid and reliable input and output measures to investigate the relationship between psycho-social attributes and performance.

**5. To what extent does franchisee satisfaction impact on franchisee success?**

Because our definition of franchisee success includes a “cultural fit” component, the current study sought to investigate any links between franchisee success ratings and their satisfaction with their relationship with their franchisor, the support they receive and being part of the franchise system.

## Research methodology

### Participants

The current study included 802 franchisees from 32 Australian and New Zealand franchisor companies that had been operating for at least five years and had a network of at least 40 franchisees. The breakdown of franchisor types is shown in Table 1. Table 2 contains the basic descriptive statistics of the franchisee sample.

**Table 1 – Types of franchisor companies in the sample**

Category	Number of companies
Retail food (e.g. icecream, fast food, coffee, bakery)	7
Retail homewares (e.g. furnishings, floor coverings, bedding)	5
Home services (e.g. lawn care, cleaning, dog washing, handyman services)	9
Business to business (e.g. real estate, printing, financial services, building, hospitality)	7
Personal services (e.g. fitness and health)	4
<b>Total</b>	<b>32</b>

**Table 2 – Descriptive statistics of franchisee sample (n = 802)**

	Mean	SD
Age (years)	43.73	9.46
Tenure (years)	4.08	3.90
Number of units	1.96	8.49
Number of staff	14.16	29.90
<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	605	75.4
Female	197	24.6
<b>Involvement in the business</b>	<b>Frequency</b>	<b>Percent</b>
Full time running the day to day business	662	82.5
Full time but mainly overseeing the business	83	10.3
Part time involved in various aspects of business	53	6.6
No hands on involvement - more of a passive investor	4	.5
<b>Does spouse work in business?</b>	<b>Frequency</b>	<b>Percent</b>
yes	380	47.4
no	422	52.6
<b>Has run their own business prior to the franchise</b>	<b>Frequency</b>	<b>Percent</b>
yes	299	37.3
no	503	62.7
<b>Type of business</b>	<b>Frequency</b>	<b>Percent</b>
Operate from premises and employ staff	370	46.1
Deliver services to customers from a van	432	53.9

## Procedure

Franchisees were invited to take part in the study through an email prepared by the Franchise Relationships Institute (FRI) but delivered from their franchisor, providing an explanation of the study and a link to the research questionnaire which was delivered on-line. In return for completing the questionnaire they were given the opportunity to go in the draw for a \$1,000 department store gift voucher. They could also choose to receive a free confidential feedback report based on their responses. A cut of date for the submission of data was provided in the email to the franchisees. Data from the first 802 franchisees that fully completed the questionnaire was used in the analysis.

All data was handled confidentially and securely according to research protocols as recommended by the Australian Psychological Society.

## Research questionnaire

The full research questionnaire (see Appendix A) consisted of 165 questions exploring background information such as the franchisee's age, previous work history, reasons for buying the franchise, level of involvement in the business and satisfaction with aspects of their business.

The research questionnaire included a "psycho-social profile"<sup>3</sup> requiring franchisees to respond to 136 statements using a five point Likert scale - *Definitely Like Me, Like Me, Uncertain, Not Like Me* or *Definitely Not Like Me*. These statements combined into scales which had been developed through prior research and were hypothesised to correlate with franchisee success. This prior research included:

- Participant observation and structured interviews with 30 successful franchisees of five franchise systems conducted by the principal author in 1994.
- Case studies and critical incident analysis of unsuccessful franchisees conducted by the principal author over the past 13 years.
- Structured focus groups with the management teams of 25 franchise systems from 1994 to 1996 using the repertory grid methodology pioneered by Kelly (1955) to elicit the constructs that differentiated their best and worst performing franchisees.
- A quantitative study of 300 people to test the internal reliability of six personality scales thought to be related to franchisee success, undertaken as a Masters of Psychology dissertation (Hunter, 2004).
- Detailed competency assessments on 70 finalists for the 2006 and 2007 Australian Franchisee of the Year Awards conducted by the principal author on behalf of the Franchise Council of Australia.

Once compiled, the items were reviewed and discussed in a focus group consisting of the researchers and four small business people.

To avoid response bias 44 items were reverse worded.

Franchisees were also asked to rate the success of their current business and any prior businesses they had owned, as well as their current satisfaction ratings with aspects of their franchise system.

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<sup>3</sup> This psycho-social profile has since been refined into a 110 item Self-Assessment Profile and is part of a franchisee selection system known as the Nathan Profiler (Franchise Relationships Institute 2007)

## Franchisor ratings of franchisees' success

The franchisors of the franchisees that completed the research questionnaire were then independently invited to have a person with relevant knowledge of each franchisee complete a separate questionnaire. This rated each franchisee on 10 specific variables relating to our previous definition of franchisee success (optimising the profit potential of the business, ensuring high levels of customer satisfaction and engaging constructively with the franchise culture).

Franchisors did not have access to franchisee responses to the franchisee questionnaire – just their names. This enabled us to gain independent and relatively objective performance data on the franchisees in the sample as well as self reported success ratings by the franchisees themselves.

Of the 32 franchise companies that participated in the study, 22 franchisors provided objective performance data on 411 of the franchisees, 122 females and 291 males.

The questions used for franchisor ratings of performance are shown below in Table 3. Rating scales were anchored to make franchisor responses as objective and specific as possible (See Appendix B for the rating scales).

**Table 3 – Items used to assess franchisor ratings of franchisee performance**

1. Considering this franchisee's site or territory and how long they have been operating the business how would you rate their sales figures?
2. How would you rate this franchisee's business in terms of sales performance when compared to the other franchisees in your system?
3. How would you rate their profit performance compared with group benchmarks?
4. What level of customer service have they been delivering?
5. How compliant has their business been to the franchise systems operating standards?
6. How actively have they promoted their business in the local area?
7. How constructively have they participated in franchise system activities?
8. How would you rate their grasp of business and financial issues?
9. How trustworthy have they been in providing accurate and reliable information?
10. Knowing what you know now, if you had your time over would you select this franchisee into your franchise system?

The first 9 items in Table 3 were clustered into three performance scales corresponding to our previous definition of franchisee success. These were financial performance, customer service and constructive participation. These three scales also had acceptable internal reliabilities as shown in Table 4. An overall performance rating combining the ratings on all performance items 1 to 9 (see Table 3) was also calculated.

**Table 4 – Franchisor scales used to assess franchisee performance**

- Financial Performance scale** ( $\alpha = .91$ ) includes franchisor questions 1, 2, 3 and 8
- Customer Service scale** ( $\alpha = .85$ ) includes franchisor questions 4 and 6
- Constructive Participation scale** ( $\alpha = .82$ ) includes franchisor questions 5, 7 and 9
- Overall Performance scale** ( $\alpha = .93$ ) includes franchisor questions 1 to 9

Franchisors were also asked to rate how likely they would be to select each franchisee into their franchise system again and responded according to five categories - *Definitely not*, *Possibly not*, *Unsure*, *Yes*, and *Definitely yes*.

This will be referred to in the Results section below as “Intention to Select Again”.

Thus there were two sets of data in the study:

1. Self report questionnaire data from 802 franchisees, and
2. Independent ratings on the performance of 411 franchisees, completed by franchisors.

## Results

### Do different types of franchisee motivations to purchase a franchise impact on later franchisee success?

In the research questionnaire franchisees were asked to rank, in order of importance to them, six possible reasons why they originally chose franchising as a career option. These six options, developed from pilot research, were then analysed according to first preference rankings. The percentages ranked as a first option are shown in Table 5.

**Table 5 – Percentages of first option rankings on why choose franchising (n = 802)**

Have more flexibility and life balance	31%
Build more personal wealth	22%
Have greater control on how I do things	15%
Have more security and stability	14%
Achieve a personal challenge	13%
Be able to work with my family	5%

As can be seen, *flexibility and life balance* was clearly the strongest motivator followed by *building more personal wealth*.

As we were interested in significant statistical relationships between a franchisee's primary motivation to choose franchising and their actual performance as rated by their franchisors, a correlation analysis was conducted on these two variables. This revealed significant positive relationships between franchisor ratings on the *Overall Performance* scale and the two franchisee motivations to *Have greater control on how I do things* ( $r = 0.122, p < .05$ ) and *Achieve a personal challenge* ( $r = 0.100, p < .05$ ).

A significant relationship also emerged between franchisee motivation to *Have greater control on how I do things* and franchisor ratings on the *Financial Performance* scale ( $r = 0.139, p < .01$ ).

On the other hand a significant negative relationship was found between the franchisor *Overall Performance* scale and the two franchisee motivations to *Have more security and stability* ( $r = -0.118, p < .05$ ) and *Be able to work with my family* ( $r = -0.111, p < .05$ ).

There were no performance relationships found between the motivations to *Build more personal wealth* and *Have more flexibility and life balance*.

### Does sex, age, prior experience or tenure impact on franchisee success?

#### Impact of gender on franchisee success

Gender differences were analysed using two tailed t-tests. These showed statistically significant differences in the motivation to buy a franchise and the impact of these motivations on performance.

Table 6 below shows the male-female split in percentages of respondents' primary motivation to choose franchising as a career option.

**Table 6 - Sex differences in primary motivation to choose franchising (n = 802)**

Male franchisees (n = 605)	Female franchisees (n = 197)	Motivation to choose franchising
17%	8%	Have greater control on how I do things
4%	8%	Be able to work with my family
31%	30%	Have more flexibility and life balance
22%	23%	Build more personal wealth
14%	14%	Have more security and stability
12%	17%	Achieve a personal challenge

A significantly higher percentage of men ( $p < 0.01$ ) indicated to *Have greater control on how I do things* was the most important reason for buying a franchise.

The negative relationship observed earlier between franchisor ratings of franchisee performance and the primary motivations to *Have more security and stability* and *Be able to work with my family* was found to be attributable to female but not male respondents.

The positive relationship between ratings on the franchisor *Overall Performance* scale and being able to *Achieve a personal challenge* was also attributable to female respondents but not males. On the other hand the positive relationship between ratings on the franchisor *Overall Performance* scale and *Have greater control on how I do things* was attributable to the male respondents but not the females.

In summary females were more likely to be motivated by achieving a personal challenge and males more likely to be motivated by having more control on how they do things. Both these motivations appear to have had a significant positive impact on their performance.

We then looked at how the women in the sample performed on franchisor ratings of performance compared with the men. A two tailed t-test revealed that females performed significantly better than men on the *Customer Service* scale ( $p < .01$ ) and the *Constructive Participation* scale ( $p < .01$ ). While there was a slight trend toward men performing better on the *Financial Performance* scale, this was not statistically significant.

### **Impact of prior work experience on franchisee success**

To identify significant relationships between franchisees' work backgrounds and their performance in the business they were thus asked to select from the following list, the type(s) of work they were mainly involved in just prior to choosing their franchise:

- Teaching
- Customer service
- Administration
- Selling
- Managing people
- Skilled manual work
- Unskilled manual work
- Professional analytical work
- Emergency services, nursing or the military
- Student
- Other

An analysis of variance was conducted to see if these backgrounds showed significant differences in franchisor ratings of franchisee performance.

Franchisees who indicated a major part of their previous work had involved *Managing people*, performed significantly better on the franchisor *Overall Performance* scale ( $p < 0.01$ ). They were also rated significantly higher on franchisor *Intention to Select Again* ( $p < 0.01$ ).

Franchisees who indicated that a major part of their previous work had been in *Skilled manual labour* performed significantly worse on the franchisor *Customer Service* scale ( $p < 0.05$ ).

### **Impact of age on franchisee success**

A correlation analysis of age against franchisor ratings of franchisee performance revealed that younger franchisees were rated higher on the franchisor *Overall Performance* scale ( $r = 0.154$ ,  $p < 0.01$ ). Younger franchisees were also rated higher on the franchisor *Constructive Participation* scale ( $r = 0.179$ ,  $p < 0.01$ ) and the franchisor *Customer Service* scale ( $r = 0.164$ ,  $p < 0.01$ ).

There was no relationship however between age and the franchisor *Financial Performance* scale.

### **Impact of tenure on franchisee success**

Mirroring the above trend, franchisees that had been longer in the business were rated on most of the franchisor ratings of franchisee performance significantly lower than “newer” franchisees. More specifically newer franchisees were rated higher on both the *Constructive Participation* scale ( $r = 0.146$ ,  $p < 0.05$ ); and the *Customer Service* scale ( $r = 0.125$ ,  $p < 0.05$ ). However longer tenure franchisees were rated significantly higher by franchisors on the *Financial Performance* scale ( $r = 0.103$ ,  $p < 0.05$ ), especially with regard to the sales performance of their business.

### **Impact of prior business ownership on franchisee success**

Of the 802 franchisees in the study, 23 percent indicated that they had previously run their own business. Table 7 below shows franchisor ratings of franchisee performance converted into percentages. A two tailed t-test revealed a number of significant differences between franchisees that had or had not previously run their own business. Shaded rows indicate significant differences between the two groups.

**Table 7 – Franchisor performance ratings on franchisees that have and have not had previous business ownership**

Franchisor Performance Ratings	Has had previous business ownership	No previous business ownership
Sales figures	60.77	63.65
Sales performance	58.65	63.14
Profit performance	61.98	65.24
<b>Customer service</b>	<b>71.16</b>	<b>75.30</b>
<b>Compliance</b>	<b>70.50</b>	<b>74.09</b>
<b>Actively promoted</b>	<b>64.86</b>	<b>69.22</b>
Constructive participation	68.29	71.22
Grasp of business and financial issues	68.62	70.04
<b>Trustworthiness</b>	<b>71.60</b>	<b>77.13</b>
<b>Customer Service scale</b>	<b>68.84</b>	<b>72.87</b>
<b>Constructive Participation scale</b>	<b>69.94</b>	<b>74.17</b>
Financial Performance scale	62.54	65.50
<b>Overall Performance scale</b>	<b>66.90</b>	<b>70.53</b>
<b>Intention to Select Again</b>	<b>71.16</b>	<b>76.24</b>

Franchisees who had previously run their own business were rated by franchisors significantly lower on 8 of the 14 measures.

However franchisee responses to the question “*How would you rate the success of your business?*” indicates that these franchisees with prior business experience rate the success of their current franchise significantly higher than those who had not been in business before.

Ironically, the more successful these franchisees rated their previous business, the worse they were rated by their franchisors on the *Constructive Participation* scale and the more likely they were to be dissatisfied with their relationships with other franchisees.

There were no significant relationships between previous business experience and franchisor ratings of financial performance.

### Can psycho-social attributes thought to be relevant to franchising be reliably measured?

Within the research questionnaire was a 136 item “psycho-social profile” measuring attributes identified through prior research as being related to success. Based on our pilot research we predicted that the 134 items would cluster into 19 scales.

Results from the first 802 franchisees to fully complete the questionnaire were analysed for internal reliability using Cronbach’s Alpha ( $\alpha$ ), a test which assesses how well the items in a psychometric scale consistently measure a cohesive construct. Two scales did not meet the accepted alpha coefficient benchmark of 0.7 (Guilford and Fruchter, 1978). Some items from these scales were merged into the other scales leaving us with 110 items clustering into 17 reliable scales. Table 8 below contains details of the 17 psycho-social scales including scale definitions, the number of items in each scale, a sample item and each scale’s internal reliability coefficient<sup>4</sup>.

<sup>4</sup> Personal Presentation did not quite meet the 0.7 benchmark but was included because it was so close at 0.69.

**Table 8 - Scales used to assess psycho-social attributes of franchisees**

<p><b>Business Acumen</b> (6 items <math>\alpha = .79</math>) measures interest in the world of business, understanding of financial issues and being comfortable managing money. Sample item - <i>I keep up with business news and information</i></p> <p><b>Computer Literacy</b> (3 items <math>\alpha = .83</math>) measures comfort in working with computers and technology. Sample item- <i>When I use computers I am scared I might mess things up</i></p> <p><b>Personal Organisation</b> (6 items <math>\alpha = .74</math>) measures the ability to be well organised, maintain a tidy work environment and plan tasks to ensure their success. Sample item - <i>I like to tidy up</i></p> <p><b>Personal Presentation</b> (4 items <math>\alpha = .69</math>) measures personal pride in appearance, grooming and looking after one's belongings. Sample item - <i>I believe that appearances are not all that important</i></p> <p><b>Family and Social Support</b> (7 items <math>\alpha = .72</math>) measures emotional support provided by friends and family and the extent to which there is a stable family environment. Sample item - <i>There are people in my life who care about me</i></p> <p><b>Co-operation</b> (12 items <math>\alpha = .71</math>) measures compliance with policies and procedures and the ability to tolerate and work with other people for the good of the group. Sample item - <i>I disregard rules that hamper my personal freedom</i></p> <p><b>Practical Intelligence</b> (6 items <math>\alpha = .73</math>) measures the ability to do the right tasks quickly, manage several things at once and follow tasks through from initiation to completion. Sample item - <i>I find it easy to manage many things at the same time</i></p> <p><b>Communication Skills</b> (8 items <math>\alpha = .79</math>) measures the ability to communicate clearly and be comfortable mixing and networking with other people. Sample item - <i>I feel at ease around people</i></p> <p><b>Stamina</b> (8 items <math>\alpha = .72</math>) measures energy levels, health and persistence in the face of set backs. Sample item - <i>I find it easy to work long hours without a break</i></p> <p><b>Emotional Resilience</b> (4 items <math>\alpha = .71</math>) measures emotional stability and the ability to cope with stress, frustration and disappointment. Sample item - <i>I am easily discouraged</i></p> <p><b>Service Orientation</b> (6 items <math>\alpha = .71</math>) measures the capacity to be pleasant and helpful and create an enjoyable work environment. Sample item - <i>I enjoy responding to other people's needs</i></p> <p><b>Team Leadership</b> (7 items <math>\alpha = .74</math>) measures the ability to lead and manage groups of people so that work is effectively completed. Sample item - <i>I can get people to achieve things together without nagging them</i></p> <p><b>Integrity</b> (10 items <math>\alpha = .72</math>) measures the extent to which a person is straightforward, presents information accurately and does not take liberties. Sample item - <i>I take pride in not exaggerating who or what I am</i></p> <p><b>Sales Orientation</b> (6 items <math>\alpha = .82</math>) measures the ability to sell and promote products and services. Sample item - <i>I am good at presenting ideas in their best possible light</i></p> <p><b>Drive for Success</b> (5 items <math>\alpha = .74</math>) measures the need to win and create success through one's own efforts. Sample item - <i>I plunge into tasks with all my heart</i></p> <p><b>Optimism</b> (6 items <math>\alpha = .73</math>) measures the tendency to maintain a positive outlook and expect the best. Sample item - <i>I rarely count on good things happening to me</i></p> <p><b>Openness to Growth</b> (6 items <math>\alpha = .72</math>) measures the tendency to look for new ways to grow personally and financially. Sample item - <i>I am always curious about how other people achieved success</i></p>
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## Which psycho-social attributes are likely to be the best predictors of franchisee success?

A correlation analysis revealed a number of significant relationships between franchisee scores on the 17 psycho-social attribute scales in Table 8 and the independent franchisor performance ratings. A full breakdown of these correlations is provided in Table 9. The shaded boxes represent statistically significant relationships between the data. The last four columns on the right represent the four franchisor rating scales which consist of the ratings from the other columns.

The franchisee self-assessment attribute of *Family and Social Support* showed the strongest statistical relationships with all the independent franchisor performance ratings, including the *Financial Performance* scale ( $r = 0.316, p < 0.001$ ); the *Customer Service* scale ( $r = 0.302, p < 0.001$ ); the *Constructive Participation* scale ( $r = 0.273, p < 0.001$ ); and the *Overall Performance* scale ( $r = 0.337, p < 0.001$ ).

The franchisee self-assessment attribute of *Optimism* was also significantly related to all the independent franchisor rating scales including the *Financial Performance* scale ( $r = 0.221, p < 0.001$ ); the *Customer Service* scale ( $r = 0.213, p < 0.001$ ); the *Constructive Participation* scale ( $r = 0.177, p < 0.001$ ); and the *Overall Performance* scale ( $r = 0.234, p < 0.001$ ).

The franchisee self-assessment attribute of *Communication Skills* was significantly related to the independent franchisor ratings on the *Financial Performance* scale ( $r = 0.181, p < 0.001$ ); the *Customer Service* scale ( $r = 0.175, p < 0.001$ ); and the *Overall Performance* scale ( $r = 0.157, p < 0.01$ ).

The self-assessment attribute of *Stamina* had moderately strong statistical relationships with the *Financial Performance* scale ( $r = 0.126, p < 0.01$ ); the *Customer Service* scale ( $r = 0.105, p < 0.05$ ); and the *Overall Performance* scale ( $r = 0.115, p < 0.05$ ).

Keeping in mind that one aim of the study was to develop a valid and reliable predictive instrument to assist franchisors in the selection of their franchisees, the data in Table 9 are encouraging. Indeed most of the psycho-social attribute scales correlated significantly with relevant franchisor performance ratings, supporting their validity. For instance:

*Business Acumen* correlated with sales, profitability, financial literacy as well as the *Financial Performance* scale.

*Computer Literacy* correlated with financial literacy and the *Financial Performance* scale.

*Personal Organisation* correlated with compliance and customer service.

*Cooperation* correlated with constructive participation and *Intention to Select Again*

*Communication Skills* correlated with sales, customer service and local area marketing.

*Service Orientation* correlated with constructive participation and the *Customer Service* scale.

*Reliability* correlated with trustworthiness.

*Sales Potential* correlated with sales performance and local area marketing.

*Drive for Success* correlated with sales performance and local area marketing.

Interestingly *Openness to Growth* did not significantly correlate with any performance ratings and in some cases showed a slight negative correlation.

**Table 9 – Correlations between psycho-social attributes and franchisor ratings of franchisee performance (shaded green is significant)**

		Adjusted Sales 1	Sales 2	Profit 3	Cust service 4	Comp- liance 5	Local market'g 6	Particip'n 7	Finance literacy 8	Trust- worthy 9	Cust Service scale 4, 6	Constr Partic scale 5, 7, 9	Financial Perform scale 1, 2, 3, 8	Overall Perform scale
<b>Business</b>	Correlation	0.089	<b>0.107</b>	<b>0.125</b>	0.013	0.053	0.066	0.058	<b>0.272</b>	-0.008	0.052	0.027	<b>0.165</b>	<b>0.109</b>
<b>Acumen</b>	Sig. (2-tail)	0.073	0.032	0.011	0.786	0.284	0.182	0.244	0.000	0.866	0.295	0.579	0.001	0.026
<b>Computer</b>	Correlation	0.086	0.053	0.075	<b>0.104</b>	0.062	0.082	<b>0.117</b>	<b>0.168</b>	0.072	0.094	<b>0.103</b>	<b>0.105</b>	<b>0.113</b>
<b>Literacy</b>	Sig. (2-tail)	0.083	0.290	0.128	0.035	0.211	0.098	0.018	0.001	0.147	0.058	0.037	0.033	0.021
<b>Personal</b>	Correlation	0.019	0.085	0.039	0.043	0.048	0.074	0.049	0.032	0.090	0.064	0.075	0.054	0.062
<b>Presentation</b>	Sig. (2-tail)	0.700	0.086	0.426	0.383	0.331	0.134	0.324	0.516	0.069	0.197	0.129	0.272	0.208
<b>Personal</b>	Correlation	0.050	0.036	0.012	0.054	<b>0.098</b>	<b>0.106</b>	0.093	0.084	0.080	<b>0.099</b>	0.095	0.050	0.083
<b>Organisation</b>	Sig. (2-tail)	0.317	0.475	0.805	0.273	0.047	0.032	0.059	0.088	0.104	0.044	0.055	0.308	0.091
<b>Family and</b>	Correlation	<b>0.332</b>	<b>0.227</b>	<b>0.249</b>	<b>0.251</b>	<b>0.230</b>	<b>0.309</b>	<b>0.259</b>	<b>0.304</b>	<b>0.243</b>	<b>0.302</b>	<b>0.273</b>	<b>0.316</b>	<b>0.337</b>
<b>Social Support</b>	Sig. (2-tail)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Cooperation</b>	Correlation	0.048	0.003	-0.051	0.061	0.078	<b>0.114</b>	<b>0.199</b>	0.028	<b>0.152</b>	<b>0.098</b>	<b>0.191</b>	0.005	0.093
	Sig. (2-tail)	0.333	0.946	0.304	0.215	0.115	0.020	0.000	0.571	0.002	0.047	0.000	0.925	0.059
<b>Practical</b>	Correlation	0.085	0.065	0.047	0.016	-0.012	0.066	-0.039	0.067	-0.044	0.029	-0.045	0.077	0.028
<b>Intelligence</b>	Sig. (2-tail)	0.087	0.188	0.337	0.739	0.802	0.182	0.428	0.175	0.371	0.558	0.359	0.120	0.571
<b>Communication</b>	Correlation	<b>0.179</b>	<b>0.159</b>	<b>0.124</b>	<b>0.143</b>	0.070	<b>0.235</b>	0.084	<b>0.162</b>	0.026	<b>0.175</b>	0.060	<b>0.181</b>	<b>0.157</b>
<b>Skills</b>	Sig. (2-tail)	0.000	0.001	0.012	0.004	0.154	0.000	0.090	0.001	0.602	0.000	0.224	0.000	0.001
<b>Stamina</b>	Correlation	<b>0.173</b>	<b>0.118</b>	0.061	0.063	0.071	<b>0.135</b>	0.085	0.079	0.044	<b>0.105</b>	0.070	<b>0.126</b>	<b>0.115</b>
	Sig. (2-tail)	0.000	0.017	0.222	0.204	0.150	0.006	0.085	0.112	0.374	0.034	0.154	0.010	0.019

**Table 9 (continued) – Correlations between psycho-social attributes and franchisor ratings of franchisee performance (green is significant)**

		Adjusted Sales	Sales	Profit	Cust service	Compliance	Local market'g	Particip'n	Finance literacy	Trust-worthy	Cust Service scale	Constr Partic scale	Financial Perform scale	Overall Perform scale
<b>Emotional</b>	Correlation	<b>0.098</b>	0.045	0.039	0.049	0.029	0.090	<b>0.124</b>	<b>0.135</b>	0.048	0.066	0.094	0.087	0.093
<b>Resilience</b>	Sig. (2-tail)	0.047	0.362	0.429	0.322	0.559	0.068	0.012	0.006	0.333	0.184	0.057	0.078	0.060
<b>Service</b>	Correlation	0.056	0.007	-0.038	0.083	0.086	<b>0.117</b>	<b>0.138</b>	-0.017	0.090	<b>0.110</b>	<b>0.124</b>	0.003	0.070
<b>Orientation</b>	Sig. (2-tail)	0.257	0.892	0.447	0.094	0.081	0.018	0.005	0.738	0.069	0.026	0.012	0.944	0.155
<b>Leadership</b>	Correlation	0.081	0.097	0.015	0.048	0.051	<b>0.103</b>	0.045	0.032	-0.034	0.079	0.007	0.069	0.057
	Sig. (2-tail)	0.099	0.050	0.766	0.331	0.302	0.037	0.362	0.517	0.486	0.111	0.895	0.161	0.247
<b>Reliability</b>	Correlation	<b>0.131</b>	0.070	0.067	<b>0.104</b>	0.094	<b>0.146</b>	<b>0.114</b>	0.036	<b>0.155</b>	<b>0.132</b>	<b>0.146</b>	0.090	<b>0.124</b>
	Sig. (2-tail)	0.008	0.160	0.173	0.035	0.056	0.003	0.021	0.470	0.002	0.007	0.003	0.067	0.012
<b>Sales</b>	Correlation	<b>0.137</b>	<b>0.133</b>	0.068	0.046	-0.011	<b>0.150</b>	-0.006	0.068	-0.093	0.075	-0.053	<b>0.121</b>	0.066
<b>Potential</b>	Sig. (2-tail)	0.005	0.007	0.167	0.351	0.824	0.002	0.911	0.172	0.060	0.127	0.287	0.014	0.178
<b>Drive for</b>	Correlation	<b>0.133</b>	0.070	0.068	0.061	0.025	<b>0.136</b>	0.036	0.028	-0.002	0.088	0.019	0.091	0.066
<b>Success</b>	Sig. (2-tail)	0.007	0.157	0.170	0.219	0.607	0.006	0.466	0.571	0.975	0.075	0.699	0.065	0.180
<b>Optimism</b>	Correlation	<b>0.231</b>	<b>0.174</b>	<b>0.152</b>	<b>0.167</b>	<b>0.155</b>	<b>0.232</b>	<b>0.186</b>	<b>0.220</b>	<b>0.139</b>	<b>0.213</b>	<b>0.177</b>	<b>0.221</b>	<b>0.234</b>
	Sig. (2-tail)	0.000	0.000	0.002	0.001	0.002	0.000	0.000	0.000	0.005	0.000	0.000	0.000	0.000
<b>Openness to</b>	Correlation	0.057	0.042	0.025	0.072	0.042	0.095	0.086	0.069	-0.042	0.081	0.025	0.055	0.050
<b>Growth</b>	Sig. (2-tail)	0.250	0.400	0.616	0.145	0.395	0.054	0.081	0.160	0.396	0.103	0.611	0.267	0.306

In summary the psycho-social attribute scales with the highest general predictive ability appear to be:

**Family and Social Support** - emotional support provided by friends and family and the extent to which there is a stable family environment.

**Optimism** - the tendency to maintain a positive outlook and expect the best.

**Communication Skills** - the ability to communicate clearly and be comfortable mixing and networking with others.

**Stamina** - energy levels, health and persistence in the face of set backs

**Emotional Resilience** - emotional stability and the ability to cope with stress, frustration and disappointment.

**Reliability** - the extent to which a person is straightforward, presents information accurately and does not take liberties.

**Co-operation** - the ability to tolerate and work with other people for the good of the group and be willing to comply with policies and procedures.

**Business Acumen** – having an interest in the world of business and being comfortable working with financial information.

The other scales except for *Openness to Growth* also showed some predictive ability in specific areas but not as strongly.

A separate analysis of the data for different business types indicates that some scales are more predictive of performance in different franchise systems depending on the nature of the business and the franchisee's work. For instance in franchise systems requiring face to face sales such as financial services, *Sales Potential* and *Drive for Success* were significant predictors of performance.

### **Predictors of franchisor *Intention to Select Again***

One of the rating scales for franchisors was, "Knowing what you know now if you had your time over would you select this franchisee into your franchise system?" *Definitely Not*; *Possibly Not*; *Unsure*; *Yes* or *Definitely Yes*

This is an important rating because it pulls together a number of factors into an intuitive rating of success and compatibility.

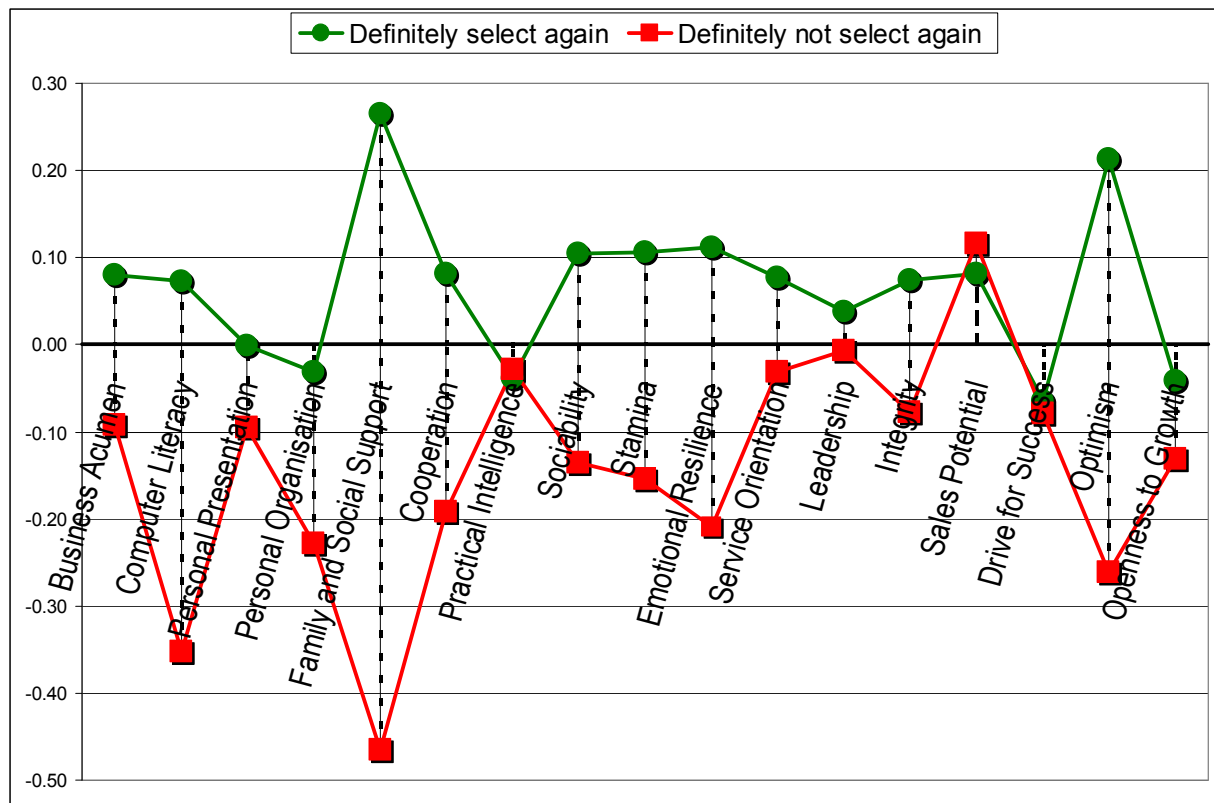
This data was analysed by separating franchisees into two groups – a *Definitely Yes* select again group, and a *Definitely Not* select again group. These groups were then compared with the rest of the sample.

Figure 1 below shows a summary of this analysis. The green line at the top was calculated by subtracting the mean score of the *Definitely Yes* group (n =120) from the mean of the rest of the sample. Similarly the red bottom line representing the *Definitely Not* group (n =36) was calculated in the same way.

Scores on *Family and Social Support* show the most salient difference between the two groups. The *Definitely Yes* select-again group had much higher than average scores on this scale while the *Definitely Not* select-again group had much lower than average scores. While most scales differentiated between the two groups, highly significant differences were also found on *Optimism*, *Emotional Resilience*, *Stamina*, *Computer Literacy* and *Communication Skills* (sociability)

Although *Sales Potential* and *Drive for Success* were not good differentiators for the combined sample, which covers 32 companies, we have noticed different patterns regarding the importance of specific attributes for different types of franchise systems.

**Figure 1 - Psycho-social attribute scores on Intention to Selection Again**



**Franchisee attributions of what drives success**

The previous analyses used independent franchisor ratings of franchisee success. Are these consistent with franchisee self-ratings of their own performance and success? To determine this, a correlation analysis was first conducted between the independent franchisor ratings of franchisee success and franchisees self-ratings of success, as measured by the question, “How successful would you rate your franchise?” Rating options were *Very successful*; *Quite successful*; *Just moderately successful*; *Not very successful*; *A flop*.

Results in Table 10 show that all scales were significantly correlated at the 0.001 level, ranging from  $r = 0.586$  for profit performance to  $r = 0.296$  for constructive participation. The sample size for this analysis was 411. The shaded boxes represent statistically significant relationships between the data.

**Table 10 – Correlations between franchisor ratings of performance & franchisee ratings of success**

Franchisor Performance Ratings		Franchisee success ratings
Sales figures considering site, territory & tenure	Pearson Correlation	<b>0.549</b>
	Sig. (2-tailed)	0.000
Sales figures compared to group benchmarks	Pearson Correlation	<b>0.566</b>
	Sig. (2-tailed)	0.000
Profit performance compared to group benchmarks	Pearson Correlation	<b>0.586</b>
	Sig. (2-tailed)	0.000
Customer service delivery	Pearson Correlation	<b>0.424</b>
	Sig. (2-tailed)	0.000
Compliant to operating standards	Pearson Correlation	<b>0.301</b>
	Sig. (2-tailed)	0.000
Promotion of business in local area	Pearson Correlation	<b>0.419</b>
	Sig. (2-tailed)	0.000
Constructive participation in system activities	Pearson Correlation	<b>0.296</b>
	Sig. (2-tailed)	0.000
Grasp of business and financial issues	Pearson Correlation	<b>0.397</b>
	Sig. (2-tailed)	0.000
Trustworthy in providing accurate information	Pearson Correlation	<b>0.314</b>
	Sig. (2-tailed)	0.000
Customer Service scale	Pearson Correlation	<b>0.436</b>
	Sig. (2-tailed)	0.000
Constructive Participation scale	Pearson Correlation	<b>0.332</b>
	Sig. (2-tailed)	0.000
Financial Performance scale	Pearson Correlation	<b>0.616</b>
	Sig. (2-tailed)	0.000
Overall Franchisor Ratings	Pearson Correlation	<b>0.548</b>
	Sig. (2-tailed)	0.000
Intention to Selection Again	Pearson Correlation	<b>0.410</b>
	Sig. (2-tailed)	0.000

These high correlations between franchisor and franchisee ratings have enabled us to look with some confidence at the franchisee self-rating data.

Table 11 provides correlations between scores on the psycho-social attributes profile and franchisee self ratings of success. Shaded boxes represent statistically significant relationships between the data. The full sample of 802 franchisees was used for this analysis as no franchisor ratings were required.

**Table 11 - Correlations between psycho-social attribute scores and franchisee self-ratings of success**

Psycho-social profile scores		Franchisee success ratings n= 802
Business Acumen	Pearson Correlation	<b>0.185</b>
	Sig. (2-tailed)	0.000
Computer Literacy	Pearson Correlation	-0.027
	Sig. (2-tailed)	0.454
Personal Presentation	Pearson Correlation	<b>0.143</b>
	Sig. (2-tailed)	0.000
Personal Organisation	Pearson Correlation	<b>0.149</b>
	Sig. (2-tailed)	0.000
Family and Social Support	Pearson Correlation	<b>0.419</b>
	Sig. (2-tailed)	0.000
Cooperation	Pearson Correlation	<b>0.173</b>
	Sig. (2-tailed)	0.000
Practical Intelligence	Pearson Correlation	<b>0.176</b>
	Sig. (2-tailed)	0.000
Communication Skills	Pearson Correlation	<b>0.216</b>
	Sig. (2-tailed)	0.000
Stamina	Pearson Correlation	<b>0.183</b>
	Sig. (2-tailed)	0.000
Emotional Resilience	Pearson Correlation	<b>0.179</b>
	Sig. (2-tailed)	0.000
Service Orientation	Pearson Correlation	<b>0.161</b>
	Sig. (2-tailed)	0.000
Leadership	Pearson Correlation	<b>0.206</b>
	Sig. (2-tailed)	0.000
Reliability	Pearson Correlation	<b>0.226</b>
	Sig. (2-tailed)	0.000
Sales Potential	Pearson Correlation	<b>0.222</b>
	Sig. (2-tailed)	0.000
Drive for Success	Pearson Correlation	<b>0.226</b>
	Sig. (2-tailed)	0.000
Optimism	Pearson Correlation	<b>0.325</b>
	Sig. (2-tailed)	0.000
Openness to Growth	Pearson Correlation	<b>0.108</b>
	Sig. (2-tailed)	0.002

All attribute scores except *Computer Literacy* correlated significantly with franchisee self-ratings of success, more so than the franchisor performance ratings.

While franchisee self-ratings of success are encouraging in terms of validation for the attributes profile, the franchisor ratings are more valid predictors of franchisee success because of their greater objectivity.

Note that *Family Support*, *Optimism* and *Communication Skills* show a significant relationship with success on both franchisee and franchisor measures.

### To what extent does franchisee satisfaction impact on franchisee success?

Franchisees were asked to rate on a five point Likert scale their level of satisfaction with their relationship with their franchisor, the support they receive from their franchisor and their satisfaction with being part of the franchise system. Results are shown in Table 12.

**Table 12 - Satisfaction ratings by percentage**

Level of satisfaction	Satisfaction with relationship with franchisor	Satisfaction with support from franchisor	Satisfaction with being part of the franchise system
Strongly Satisfied	29.7	30.5	36.2
Somewhat Satisfied	37.0	39.8	43.9
Unsure	8.6	8.0	7.6
Somewhat Dissatisfied	16.1	14.3	8.5
Strongly Dissatisfied	8.6	7.4	3.9
Total	100.0	100.0	100.0

Franchisor ratings on the franchisee *Overall Performance* scale correlated strongly with all franchisee satisfaction scores, namely, *Franchisee satisfaction with their franchise relationship* ( $r = 0.500, p < 0.001$ ); *Franchisee satisfaction with the support they receive from their franchisor* ( $r = 0.473, p < 0.001$ ); and *Franchisee satisfaction with being part of the franchise system* ( $r = 0.415, p < 0.001$ ).

Franchisee satisfaction with being part of the franchise system was also linked to higher franchisee scores on the following psycho-social attributes:

Personal Organisation

Personal Presentation

Family and Social Support.

Co-operation.

Communication Skills

Stamina

Emotional Resilience

Service Orientation

Team Leadership

Integrity

Optimism

Openness to Growth

Drive for Success

On the other hand attributes which did not correlate with franchisee satisfaction included:

Business Acumen

Computer Literacy

Practical Intelligence

Sales Potential

## Discussion and recommendations

### **Do different types of franchisee motivations to purchase a franchise impact on later franchisee success?**

While acknowledging the possible bias in retrospective attributions by franchisees on why they purchased their franchise, the majority of respondents in this study were primarily motivated by flexibility and life balance (31%). Building more personal wealth (22%) was the next strongest motivation. Interestingly no connections were found between these motivations and franchisee performance.

While less franchisees were primarily motivated by having greater control on how they do things (15%) and achieving a personal challenge (17%) these motivations were significantly related to better franchisee performance as measured by independent franchisor ratings.

On the other hand franchisees who were primarily motivated by having more security and stability (14%) or being able to work with their family (5%) performed worse on independent franchisor ratings.

With the majority of franchisees looking for flexibility and life balance, franchisors should be careful not to underplay the realities of long hours and hard work when building a business as this may lead to later disappointment and resentment, factors that can only demoralise franchisees and undermine their performance.

It would make sense for franchisors to incorporate questions about a franchisee's primary motivations into their franchisee selection processes as this is likely to impact on later performance.

Franchisors should encourage franchisees to take a business minded approach to their decision to invest in the franchise, especially those who appear to be motivated by needs that are unlikely to be met.

### **Does sex, age, prior experience or tenure impact on franchisee success?**

Significant sex differences emerged in the reasons why franchisees choose a career in franchising with females being more likely to be motivated by achieving a personal challenge and males more likely to be motivated by having more control on how they do things.

It would appear that male franchisees primarily motivated by having more control over the way they do things are more likely to perform better in a franchised business while female franchisees primarily motivated to achieve a personal challenge will also be more likely to succeed. On the other hand female franchisees who say they are primarily motivated to have more security and stability or to work with their family are more likely to be worse performers.

Generally speaking female franchisees performed significantly better than males, especially on measures of customer service and constructive participation in the franchise network. This supports previous findings by Jambulingam and Nevin (1999) that male franchisees are more opportunistic than females with greater tendencies towards individualism and violation of their agreements.

Franchisors should thus consider strategies to attract more female franchisees and tailor their recruitment process to meet the unique needs of women. A recent recruitment study identified that only 15% of franchisors currently do this (10 Thousand Feet, 2007).

Franchisees who indicated a major part of their previous work had involved managing people, performed significantly better on the overall performance scale. They were also rated significantly higher on the *Intention to Select Again* scale. It would thus make sense for

franchisors to investigate this area thoroughly with prospective franchisees, especially if the business involves managing people.

Franchisees who indicated that a major part of their previous work had been in skilled manual labour, performed significantly worse on the *Customer Service* scale.

Younger franchisees received higher franchisor ratings on constructive participation, customer service and overall performance (although there was no relationship between age and financial performance). This indicates that younger people are likely to have the skills, passion and cultural fit for the business. Franchisors would be wise to be actively identifying high potential young operators to groom as future franchisees.

Similarly newer franchisees performed better in most areas except for sales. This is likely to be because newer franchisees will not yet have had a chance to build a base of repeat customers.

Interestingly franchisees who had previously run a separate business were more likely to believe their current franchised business was successful even though objective performance ratings by franchisors did not support this. While the financial performance of this group was slightly but not significantly inferior, they were more likely to have relationship problems with their fellow franchisees and were rated significantly lower by their franchisors on customer service and cultural fit measures. These findings are in contrast to those of Jambulingam and Nevin (1999) who found that franchisees who had prior experience in a similar business viewed their relationships with their franchisor as more cooperative. Our only explanation for this difference is that they used self-ratings of cooperative relations whereas we used objective franchisor ratings.

In light of our findings we recommend that franchisors be carefully measuring cultural fit with people who have run their own business. This would especially include cases where independent operators are converting to a franchise.

### **Can “psycho-social” attributes thought to be relevant to franchising be reliably measured?**

The psycho-social measures that were developed for this study all showed satisfactory internal reliability. Furthermore correlations of these scales with relevant franchisor ratings of performance indicate that most of the scales appear to measure what they were designed to measure and provide a basis for a convenient, reliable and valid franchisee selection tool.

For instance the *Business Acumen* scale correlated with financial performance measures; the *Cooperation* scale correlated with constructive participation; the *Communication Skills* scale correlated with local area marketing; the *Service Orientation* scale correlated with customer service; the *Reliability* scale correlated with franchisor ratings of trustworthiness; and the *Sales Potential* scale correlated with sales performance.

### **Which psycho-social attributes are likely to be the best predictors of franchisee success?**

Attributes that clearly have the strongest predictive ability when correlated with both franchisor and franchisee success measures were *Family and Social Support*, *Optimism*, *Communication Skills*, *Stamina*, *Emotional Resilience*, *Reliability*, *Co-operation* and *Business Acumen*. While these appeared as generic predictors across all franchise types we have noticed that some attributes appear to be more or less relevant to different types of franchise systems.

Given the significance of *Family and Social Support*, which was three times stronger a predictor of performance than any other variable, we strongly recommend that franchisors include an assessment of this into their selection processes. For instance, where relevant, meeting the franchisee's partner and finding out how they feel about the proposed business. In the past family issues have mainly been considered in relation to work/family conflict and how this may impact on a person's decision to purchase of franchise (Kaufmann 1999). The area of family and social support before and after the purchase of a franchise would appear to be a

particularly critical success factor and one deserving more in-depth attention from future research.

Interestingly *Openness to Growth* did not correlate with any franchisor ratings of performance and in some cases had a slight negative correlation. This is consistent with previous findings of the personality characteristic of “openness to learning” being negatively associated with franchise relationships and performance (Morrison 1977). Jambulingam and Nevin (1999) also failed to find a relationship between franchisee levels of education and performance outcomes. Perhaps people who are too inquisitive do not make good franchisees. Indeed there are many urban myths in franchising circles about how teachers make bad franchisees as they like to question everything! (We found no evidence for this in this study).

### **To what extent does franchise satisfaction impact on franchisee success?**

A strong statistical relationship was identified between franchisee satisfaction with being part of the franchise group and their performance as rated by their franchisor. Franchisees with higher satisfaction levels also scored significantly higher on 14 of the 17 psycho-social attribute scales.

It would appear that successful franchisees are caught in a virtuous cycle where success encourages greater levels of satisfaction and an improved relationship with their franchisor, which in turn promote greater sharing of knowledge and resources, essential for success in a franchise network (Nathan 2002).

This highlights the importance of cultural fit, given the close interdependent nature of the franchise relationship and the need for franchisees and franchisors to collaborate in the delivery of products and services to the end customer.

## **Conclusion**

The findings reported in this paper have significant implications for franchisee recruitment and provide clues on what franchisors should be assessing as part of their franchisee selection programs.

In particular the 17 psycho-social scales used to assess franchisee attributes appear to have satisfactory reliability and encouraging validity based on significant correlations with franchisors’ ratings of franchisee performance, as well as franchisee self ratings of performance and satisfaction. While some of these attributes are more important than others, they all appear to contribute to a franchisee's overall performance and thus their ultimate level of success or failure. It seems therefore that the psycho-social profile used in this study could be a particularly useful tool for franchisors wanting to invest more rigour into their selection processes.

Of course success in franchising depends on many factors which include luck, territory, financial or market forces as well as a franchisor's own training and business systems. However given the financial, social and emotional investment being made by franchisees and their families there would appear to be a real need for franchisors to embrace a more scientific approach to franchisee recruitment.

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## Appendix A – Franchisee Research Questionnaire

Are you: Male  Female

How old are you \_\_\_\_\_ Years

Do you currently own or operate a franchise? Yes  No

If yes what is the brand name of your franchise system?

How long have you operated this franchise?

How many franchise units or territories do you operate?

Which of the following best describes your involvement in the business?

- I am full-time, hands on running the day to day business
- I am full time, some hands and some overseeing the business
- I work part time in the business – some hands on and some overseeing
- I have no direct hands on involvement - I am more of a passive investor

Does your spouse/life partner work in the business? Yes  No

If yes, is this full-time or part time? Full time  Part Time

Do you currently employ staff? Yes  No  If yes, how many?

Have you run your own business prior to this franchise? Yes  No

If yes, how successful have your previous business interests been?

- Very successful
- Quite successful
- Just moderately successful
- Not very successful
- A flop

Please select the type(s) of work you mainly focused on, just prior to choosing your latest franchise (you can select more than one):

- Teaching
- Customer service
- Administration
- Selling
- Managing people
- Skilled manual work
- Unskilled manual work
- Professional analytical work
- Emergency services, nursing or military work
- Student
- Other (please specify)

Please rank the following from 1 to 6 in order of importance, as reasons you originally chose franchising as a career option (1 is the most important and 6 is the least important):

- To have more flexibility and life balance
- To have more control over the way I do things
- To be able to work with my family
- To build personal wealth
- To have more security and stability
- To achieve a personal challenge

The following sections contain a number of short statements. Read each one and select whether it is more like you or less like you. Respond as you generally are now (not as you wish to be). Be honest. Your initial reaction will usually be the most accurate.

(Note: Only a sample of the 136 items is provided below)

Respond to each statement as you generally are now	Not Like me	Less Like Me	Unsure	More Like Me	Definitely Like Me
1. I keep myself well groomed	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. I find it easy to work long hours without a break	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. I have a natural talent for influencing people	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. I often feel down in the dumps	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. I like to go to events and meetings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. If needed I can make tough business decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7. I am confident with computers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8. My home or family situation is unstable at the moment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9. I get anxious when I am forced to make a decision	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10. I have difficulty making myself understood	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
11. I have a health problem that can take the edge off my performance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12. I feel at ease around people	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
13. I have always had the goal to make more money	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
14. There are people in my life who care about me	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
15. I know how to interpret financial information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
16. I can manage many things at the same time	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
17. I like to push myself to improve my past performance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
18. I am easily bothered by things	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
19. If I really believe in something I will make sure it happens	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
20. My health is better than most people	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Have you ever been told that you are a natural salesperson?

- Yes on a regular basis
- Yes occasionally
- Yes but rarely
- No never

Do you now, or have you ever, had a job in sales? Yes  No

If you answered yes to the above question, how effective are/were you?

- Outstanding – top performer
- Very good
- Adequate
- Had difficulty
- Was a flop

Do you now, or have you ever, held a leadership position? Yes  No

If you answered yes to the above question, how effective are/were you?

- Outstanding
- Very good
- Adequate
- Had difficulty
- Was a flop

Your co-workers would say that you are:

- A clear cut leader
- Leadership material
- Potential leader if no-one else is available
- A follower
- A clear cut follower

All things considered how would you describe your current level of satisfaction with the following	Strongly Satisfied	Somewhat Satisfied	Unsure	Somewhat Dissatisfied	Strongly Dissatisfied
21. The sales performance of your franchise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
22. The profit performance of your franchise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
23. Your relationship with your franchisor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
24. Your confidence in the leadership of the franchisor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
25. Your relationship with other franchisees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
26. Being a part of the franchise system	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
27. The support you receive from your franchisor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

How successful would you rate your franchise?

- Very successful
- Quite successful
- Just moderately successful
- Not very successful
- A flop

Finally, when considering your performance as an operator of this business, what three attributes do you believe are most important to your success?

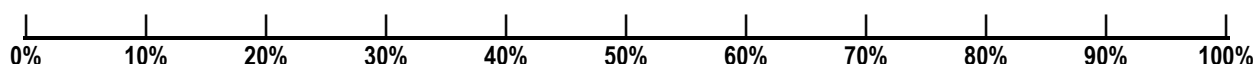
This research questionnaire can only provide a general guide to your strengths and areas for development and we make no claims about its accuracy or predictive ability. We thus advise that the feedback should not be used in isolation for making any business decisions. If you accept this, click "compute my findings".

## Appendix B – Franchisor Rating Sheet

**Instructions:** This sheet should be completed by a franchisor executive with relevant knowledge on this franchisee. Please rate the franchisee on the 10 questions below. Where possible refer to data or objective criteria to guide your ratings. Please do not consult the franchisee on your ratings as they have already completed their own questionnaire.

1. Considering this franchisee's site or territory, and how long they have been operating the business, how would you rate their sales figures?	Well below expectations <input type="radio"/>	Below expectations <input type="radio"/>	As expected <input type="radio"/>	Above expectations <input type="radio"/>	Well above expectations <input type="radio"/>
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2. Please draw an **X** on the line below to show where this franchisee's business would sit in terms of sales performance when compared to the other franchisees in your system?



3. How would you rate their <b>profit performance</b> compared with group benchmarks? (please use whatever profit measures you have)	In the bottom 20% <input type="radio"/>	Below average <input type="radio"/>	Around average <input type="radio"/>	Above average <input type="radio"/>	In the top 20% <input type="radio"/>
4. What level of <b>customer service</b> have they been delivering? (e.g. consider mystery shopper results, customer feedback, customer growth)	Poor reputation <input type="radio"/>	Below acceptable <input type="radio"/>	Just okay <input type="radio"/>	Very good <input type="radio"/>	Exceptional reputation <input type="radio"/>
5. How <b>compliant</b> has their business been to the franchise system's operating standards? (e.g. consider compliance scores, breach notices)	Poor compliance <input type="radio"/>	Below acceptable <input type="radio"/>	Just acceptable <input type="radio"/>	Very good <input type="radio"/>	Exceptional compliance <input type="radio"/>
6. How actively have they <b>promoted their business</b> in the local area? (e.g. consider sponsorships, advertising, networking, local marketing)	No effort <input type="radio"/>	Minor effort <input type="radio"/>	Moderate effort <input type="radio"/>	Very active <input type="radio"/>	Extremely active <input type="radio"/>
7. How <b>constructively</b> have they participated in franchise system activities? (e.g. consider area meetings, field visits, conferences, committees)	Very negative <input type="radio"/>	At odds or absent <input type="radio"/>	Moderately positive <input type="radio"/>	Very positive <input type="radio"/>	Extremely positive <input type="radio"/>
8. How would you rate their grasp of <b>business and financial</b> issues? (e.g. consider their ability to work with KPIs)	Very negative <input type="radio"/>	At odds or absent <input type="radio"/>	Average <input type="radio"/>	Very positive <input type="radio"/>	Very strong <input type="radio"/>
9. To your knowledge how <b>trustworthy</b> have they been in providing accurate and reliable information?	Problematic <input type="radio"/>	Somewhat unreliable <input type="radio"/>	Seems satisfactory <input type="radio"/>	Reliable <input type="radio"/>	Outstanding <input type="radio"/>
10. Knowing what you know now, if you had your time over would you select this franchisee into your franchise system?	Definitely not <input type="radio"/>	Possibly not <input type="radio"/>	Unsure <input type="radio"/>	Yes <input type="radio"/>	Definitely yes <input type="radio"/>