

ANALYZING THE DEGREE OF FREEDOM IN DECISION-MAKING IN THE MCDONALD'S FRANCHISE MODEL: THE PERSPECTIVE OF THE FRANCHISEE

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ABSTRACT

Objective: The main objective of this study is to analyze the degree of freedom that the franchisee has in making business decisions compared to the corporate unit or, in other words, the degree of freedom that the franchiser grants the franchised establishment in managing its business.

Methods: Franchising is one of the most widely used strategic alliances worldwide, mainly in two sectors: Retail and hospitality. This research is contextualized in the fast food industry, specifically in the McDonald's restaurant chain. In order to reach the objective, five in-depth interviews have been carried out with franchisees of the well-known American company located in Spain.

Results: The main findings show highly relevant information about the degree of freedom in the decision-making of McDonald's franchisees which is scarce and limited since the decisions about the company are made and executed mostly by the franchiser. While the franchisees have a certain autonomy to hire their employees (human resources) and determine the marketing strategies (marketing), the supplies are managed and controlled by the franchiser.

Conclusions: With regards to the results we can conclude that the corporate strategies are formulated and implemented by the franchiser itself due to its strategic nature. The competitive strategies are also the responsibility of the franchiser in the main, as he is in charge of building a certain competitive position. Nevertheless, it is the franchisees, encouraged by the franchisers, who incorporate technologies to their establishments to provide a better service. Finally, the functional strategies are those in which the franchisee has a greater degree of freedom. They focus on how to use and apply the resources and skills within each functional area.

Keywords: Strategic alliances, Decision-making, Case study, Franchisee, McDonald's.

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INTRODUCTION

The franchise, understood as a contractual relationship between the organizations involved, is a business model that enjoys a high degree of maturity worldwide [1]. The franchisor shares ownership, reputation, and know-how with the franchisee in exchange for a number of monetary rewards established through contractual agreements [2]. For this reason, it is attractive as a form of corporate organization, since organizations must make small capital investments to achieve adequate business development. In this sense, Erramilli *et al.* [3] highlighted the limited investment required by companies to develop their internationalization processes, while also being able to adequately control their international distribution processes.

Many of the organizations enjoying an adequate positioning in their environment and having certain growth perspectives, may consider franchising as one of the most profitable and efficient alternatives to access new markets [4]. From the academic literature, franchising is understood as a mode of contractual entry, which represents a hybrid system between ownership and cooperation agreements [5]. Thus, this kind of business structure is responsible for the creation of countless opportunities for small and medium enterprise (SME) owners, generating millions of jobs around the world. According to statistics published in 2019 by the International Franchise Association, in the United States, these establishments maintained almost 8.4 million direct jobs, 787.5 billion dollars of economic production and represented 3.0% of the total gross domestic product. With regard to the Spanish case, the 1980s saw the take-off of the franchise system [6]. Nowadays, the Spanish franchise system is made up of a total of 1381 brands (1120 of national origin and 261 of foreign origin), with a growing trend in terms of the number of businesses and the employment generated.

Hence, according to the Spanish Franchiser's Association (AEF), in 2019, the number of franchised establishments and the employment generated in these same establishments increased by 2.3% and 2.0%, respectively, with respect to the previous year.

Various theories have addressed the study of the relationship between the franchisor and the franchisee [1]. Among them, relational contracting theory, resource dependence theory, agency theory, institutional theory, and marketing channel theory stand out. The relational contracting theory is used to analyze the level of trust and commitment in the franchiser-franchisee relationship [7]. The resource dependence theory, on the other hand, is used to explain the interdependence between the franchisor and the franchisee [8]. Agency theory is used to understand how coercive sources of power act on the franchisees [9]. Institutional theory states that both the formal institutional context (regulations) and the informal one (organizational culture) can affect the franchisee-franchisee relationship [10]. Finally, marketing channel theory is used to study the franchisor's use of non-coercive mechanisms to influence franchisee behavior [8].

Recently, Alon *et al.* [1] have carried out a systematic review about the scientific literature on franchises, the authors found that "power, control, and autonomy" are one of the four main research fronts in the literature on international franchises. This research intends to contribute to this line of investigation and, specifically, to provide new knowledge about the degree of freedom in the decision-making from the franchisee's perspective. It is known that the franchise is a business model that requires a good relationship between its components, with communication and trust between the franchiser and the franchisee being very important to reduce conflicts and build a lasting

relationship [11]. One of the most relevant aspects in relation to this research topic has been the asymmetry of power between the franchiser and the franchisee, being the latter usually dominated by the former. Pizanti and Lerner [12], however, highlighted four factors that influence control and autonomy in the franchiser-franchisee relationship with domestic and international franchisees, these are the size of the chain, its age, the concept of the franchise, and the duration of the contract. For instance, Paik and Choi [8] examined differences between the degree of control and autonomy exerted by domestic and international franchisors, and they find franchisees in foreign markets which have more autonomy than those in domestic markets. They also determine that it is unlikely that experienced international franchisees will require autonomy, while experienced domestic franchisees tend to demand more autonomy.

Nowadays, franchises represent one of the most widely used business expansion systems in developed countries, mainly in two sectors: Retail, through the so-called distribution franchise, and the hospitality industry, through the so-called service franchise. That is the reason why this research is framed in the fast food industry, specifically in the McDonald's chain of fast food restaurants being a leading example of a global service franchise company. McDonald's is the most valuable fast food brand in the world, according to the Global BrandZ ranking prepared by WPP and Kantar in 2019, with a value of over 100,000 million dollars and 38,695 establishments distributed throughout the world.

The aim of the research is to analyze the degree of freedom that the franchisee has in making business decisions compared to the corporate unit or, in other words, the degree of freedom that the franchiser grants the franchised establishment in managing its business. For this purpose, in-depth interviews have been carried out with five franchisees of the well-known American company located in Spain.

This paper is structured as follows. After this introduction, section 2 contextualized the research through an overview of McDonald's in Spain. In section 3, the methodology used in the empirical part is explained to be able to address the different objectives set out. In section 4, the main results obtained from the research are presented. Finally, in section 5, the main conclusions are set out, arising the most relevant contributions of the research.

Research context: McDonald's Spain

McDonald's is a world renowned US food company based in Spain since 1981. The McDonald brothers opened the first McDonald's restaurant in California in 1948 and in 1954 ceded the rights to market the brand to Kroc who would lay the foundations for internationalizing the restaurant through the franchise system.

Soon after, its growth and expansion occurred exponentially. Its global presence led the British publication the economist to produce the Big Mac index, which consisted of comparing the price of a hamburger, the Big Mac, in all the countries where they sold it. In this way, it was possible to establish a common parameter of the cost of living in each country, as well as to know whether the currencies in use were overvalued with respect to the US dollar.

The McDonald's business model is characterized by being a three-legged stool as it is made up of franchisees, suppliers, and employees. For this reason, it is essential to find a balance between the three parties involved through its four organizational principles: Quality, service, cleanliness, and affordability.

According to official McDonald's Spain sources, in 2018, the company had 515 establishments spread over the 50 Spanish provinces and the two autonomous cities, with a turnover of 350 million euros and generating over 24,000 jobs. The predominant method of development in the American company is franchising, but not all the restaurants are under this business model since some of them belong to the corporation itself. Thus, of the 515 establishments, 462 belong to franchisees and 53 are managed directly by the company.

The American company is made up of more than 100 franchisees in Spain, each of which has an average of three restaurants. They must make an initial investment to acquire the equipment, furniture, and decoration of the restaurant, which can be around 900,000 euros. This investment can be financed, but a minimum of 400,000 euros must be contributed as capital (an amount that must not be reimbursed or returned to third parties). In addition, to guarantee the success of the franchisee at the head of the restaurant, the franchisee must carry out a comprehensive training program in the restaurants of the franchising company for a temporary period of 12 months.

MATERIALS AND METHODS

In this research, a qualitative methodological approach is adopted through the use of the case study as a research method, as its characteristics make it possible to get closer to the unit under analysis. According to Ruiz [13], a qualitative research strategy "imposes a context of discovery and exploration," which is in line with our research. In this same line of thought, Eisenhardt [14] describes the case study as "a research strategy that focuses on understanding the dynamics that occur in unique contexts," given that the author does not conceive of the case study as a mechanism for contrasting theory, but rather for constructing it (theory building).

According to Yin [15], the case study is a powerful research tool, and its greatest strength consists in the fact that through it is possible to measure and record the behavior of the people involved in the studied phenomenon, while quantitative methods only focus on verbal information obtained through surveys carried out through questionnaires. In addition, in the case study method, data can be obtained from a wide variety of sources, both qualitative and quantitative such as documents, records from archives, direct interviews, direct observation, observation of participants, and physical facilities or objects [16]. Whereas there are three categories of case studies: Descriptive, explanatory, and exploratory, the last approach was adopted in this study.

The population subject to analysis is made up of all the McDonald's establishments in Spain that operate under the franchise system. The sample of this research is composed of five restaurants of the American company located in Spain under the franchise business model. For the selection of the franchisees, a non-random sample was used, choosing those establishments that offered a greater learning opportunity.

Moreover, a semi-structured in-depth interview was used as a tool for data collection. To carry out the interview, a script was prepared based on six blocks of interest: Marketing, human resources, supply, facilities, location, and line of business. The questions included in each block were as follows:

1. Marketing. The selected franchisees were asked about the decision-making power they had to carry out advertising strategies, monitoring advertising, ownership of their own advertising programs, the type of publicity according to the restaurant, and the performance of market studies to know the consumer
2. Human resources. The questions are oriented to know the degree of freedom that the franchisee had to select the workforce, the guidelines or protocols when providing the service, the training of the employees, and the training offered by the company
3. Provisioning. The aim was to find out about the freedom to incorporate raw materials from other suppliers and the availability of information systems to undertake procurement tasks
4. Facilities. It was asked about the flexibility that the franchisees had for the equipment and decoration of the restaurants, as well as the existence of incentives to incorporate new technologies in the establishments
5. Location. There were questions about the decision-making power that the franchisees had in choosing the location of the establishments and the criteria for selecting the placement
6. Business area. It was asked about the requirements to become a franchisee, the development method that the franchisees have

followed and the advantages and disadvantages that the franchisees perceive with respect to the business model of the franchise.

The data collection process and the interviews with the franchisees started at the end of September 2020 and ended in December of the same year. The interviews were conducted using the Zoom application, given the social isolation caused by the COVID-19. It is important to highlight that we also obtained secondary information derived from observation (the mental models of the interviewees, the office where they were conducting the interviews, the duration of the interviews, etc.) which allowed us to complete the research.

RESULTS

This section shows the main results obtained through the five in-depth interviews performed. The results are presented following the same blocks that were used to structure the interviews to facilitate their accurate understanding.

Marketing

The McDonald's Spain Executive Committee is responsible for monitoring and managing the marketing budget, as well as the advertising and promotional activities carried out in the Iberian country. This committee is integrated by six franchisees and by the company itself, being the representative body of all the franchisees. Its members are elected by the franchisees themselves and they stay on the committee for a period of 2 years. In addition, it is important to highlight that two assemblies are held, one in spring and another in autumn, to define the marketing plan for the following year.

Once the marketing plan is approved by the Executive Committee, the franchiser's marketing department is responsible for contacting the advertising agencies to carry out the agreed campaigns. The objective of the American company is to achieve the maximum standardization of the existing restaurants in Spain and, as a consequence, that all of them have the same advertisement. For this purpose, all the establishments must pay 4% of their sales to the franchise company for marketing and advertising of the brand. It should be noted that not all the restaurants have the same sales channels, so there may be specific campaigns in certain establishments.

The marketing actions are focused on four lines of business: Families, premium burgers, basic products, and McCafé. In addition, to improve the level of knowledge of consumers and the market in which it operates, McDonald's undertakes various research studies.

Human resources

As far as the staff is concerned, the franchisee is free to hire the workers, as long as they fit the profile of the job required. The franchisee is free to decide the number of employees in the restaurant but must take into account the guides offered by the franchiser to know the necessary workforce based on a specific level of sales. In this way, McDonald's provides productivity ratios to its franchisees to know the optimum staff in each establishment.

The workplaces are clearly structured, with a high degree of horizontal and vertical specialization. The job structure is established by the franchiser who provides the franchisees with a manual description of each job. Therefore, if any operational changes occur with respect to the architecture of the jobs, it is the franchiser who provides the necessary instructions to implement the changes.

Provisioning

Franchisees are not allowed to choose the restaurant's raw materials, since the franchise company itself chooses the suppliers and inspects them, providing the necessary specifications for the products and demanding quality standards. Thus, some suppliers work exclusively for McDonald's and others also work for other corporations.

The purchasing department belonging to McDonald's is in responsible for managing all the orders placed in the franchise establishments.

To manage the supply information, the company has an integral management system with various functions, among which are the placing of orders according to the inventories carried out monthly. Once the inventory is made, it is possible to observe the sales that have been made for each product. In this way, the quantity to be supplied of each product is known, taking into account the minimum security stock and the estimated sales for the next order.

Facilities

McDonald's tries to ensure that all establishments have the same facilities, but this is not always possible, as these depend on their location. There are three types of restaurants: Freestander (chalet restaurant), in-store and mall, and the latter two having to be adapted to the premises where they are established. In addition, by incorporating new technologies in the restaurants, McDonald's offers incentives to franchisees of up to 40% of the investment made, thus encouraging the digitalization of the establishments. This type of investment is known as "Strategic Investments."

Location

The franchisee is not involved in the location process, as it is the development department of the franchise company that is responsible for establishing the location of each of the franchised restaurants. This department is subdivided into the real estate development department and the construction department.

The real estate department is responsible for identifying the best location for the establishments once an area with growth potential is detected. Subsequently, the construction and development department is responsible for managing the construction of the restaurant. Therefore, the franchisee cannot choose the restaurant he wants, but it is the franchiser himself who, once the training process is completed, makes an offer to the franchisee in a certain area.

Business area

To be able to become a franchisee, it is first necessary to pass a selection process. This process consists of agreeing whether the business model is appropriate for both partners. Once passed, the next step is the candidate training process, which lasts 1 year. This is a regulated training process in which the franchisee candidate learns all the details of each job, from the most basic position to that of restaurant manager.

The business development is implemented through the purchase of established restaurants or through the construction of new restaurants. The cost of a new restaurant is borne between McDonald's and the franchisee, with the latter having to pay out around 25-30% of the investment as equity. McDonald's, on the other hand, recovers the investment of the new establishment through the franchise fees to be paid by the franchisee, which amount to 45,000€ over 20 years, a percentage fee on sales, calculated for each restaurant according to its cost and sales potential, and a royalty of 5%.

Operations consultants are in charge of checking that processes, operations, and brand standards are carried out correctly, acting as a link between both parties and making unannounced visits to establishments to ensure that all activities are taking place as agreed. In addition, the franchiser keeps the franchisees informed with newsletters about relevant operational and strategic aspects.

Finally, we have also analyzed the advantages and disadvantages perceived by the franchisees with respect to the franchise business model. The security provided to the franchisee has been highlighted as the main advantage, due to the ongoing support and training, as well as a globally recognised brand name. As the main disadvantage, it has been pointed out the reduced degree of autonomy in the decision-making process since the great majority of decisions are taken by the franchiser.

In summary, the greater degree of autonomy in decision-making across the different areas studied can be seen in the marketing department

and in the human resources area. On the one hand, the franchisees, even though they must follow the guidelines offered by McDonald's, have autonomy to hire their employees. On the other hand, the franchisees have the power to determine the marketing strategies, as these are taken by the Executive Committee, which represents all the franchisees. On the other hand, the franchisee does not have the power to decide on the supply, installations, and location of the establishment.

However, regarding supply actions, choices about facilities, and decision location of the establishment, the franchisee does not hold a large degree of autonomy. The key aspect in which the franchisees allow a certain freedom is the one relevant to technology. In fact, he encourages the franchisers to digitize the establishments.

DISCUSSION AND CONCLUSION

This research has made an approach to the degree of freedom of McDonald's franchisees in decision-making through a case study. Its results are of special interest to the academic community, as well as to franchisers and franchisees in the hospitality sector, as it enables them to improve their knowledge of the asymmetry of franchiser-franchisee power in the hospitality sector in general and in the McDonald's company.

The franchisees are partners for the franchisers, as well as resource and personnel managers, whose main objective is to control the costs of the operations, and the service standards so that all the activities are carried out as established. However, it is necessary to emphasize that to ensure the proper functioning of this business model, there must be a good relationship between franchisees, suppliers, and employees, carefully selecting each of them so that the company guarantees its success overtime.

Based on the analysis performed, it is possible to say that the degree of freedom in the decision-making of McDonald's franchisees is scarce and limited, since the decisions about the company are made and executed mostly by the franchiser. Thus, the corporate strategies, such as the location decision, are formulated and implemented by the franchiser itself due to its strategic nature. Therefore, the search for opportunities to create value or the way in which the company wants to grow or develop in the future is strategic decisions made exclusively by McDonald's.

On the other hand, the competitive strategies, such as the decoration of the facilities or the setting of prices for the products, are also the responsibility of the franchiser in the main, as he is in charge of building a certain competitive position. Nevertheless, it is the franchisees, encouraged by the franchisers, who incorporate technologies to their establishments to provide a better service.

Finally, the functional strategies are those in which the franchisee has a greater degree of freedom. They focus on how to use and apply the resources and skills within each functional area. However, as explained in the previous section, there are power asymmetries between the franchiser and the franchisee depending on the departmental area analyzed. Thus, while the franchisees have a certain autonomy to hire their employees (human resources) and determine the marketing strategies (marketing), the supplies are managed and controlled by the franchiser.

The academic literature has made a distinction between the macro- and micro-levels regarding the advantages of the franchise system [17]. Under the first level, franchises offer a number of economic and social advantages [18]. On the one hand, the economic advantages derive from the effect of franchising on the overall growth of the economy by enabling SMEs to access economies of scale, encouraging the creation of new businesses, or modernizing a country's trading structures. On the

other hand, the social advantages are related to the generation of stable employment and the opportunities generated by these business models to enable people without experience, without training or at risk of social exclusion to access the labor market [17]. At the microeconomic level, the franchiser does not assume large investment risks, and the franchisee gets access to the franchiser's competitive advantages [19]. Our study has adopted an organizational scope, has let us realize that the advantages perceived by the franchisees with respect to the franchise business model are closely linked to academic literature. The main advantage pointed out is the security that the franchisee has, since he or she has assistance and continuous training, as well as a commercial brand that is recognized worldwide. However, through the five in-depth interviews, we have been able to detect some disadvantages from the franchisee point of view. The main disadvantage detected is the reduced degree of autonomy in decision-making, given that the vast majority of decisions are made by McDonald's.

Despite the contributions made in this research, it is also possible to highlight certain limitations. As a consequence of the mobility restrictions decreed by the Spanish government since March 2020 as a result of COVID-19, the five interviews were conducted through videoconferencing and not at the headquarters of the franchises, as recommended by the case study methodology. This fact also limited the number of franchisees interviewed. However, the results obtained with this methodology are intended to show an approach to reality which, in future research, will be complemented by a quantitative study.

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