

“Investigating Industrial Relations in Franchise Firms”

Abstract

In line with Track 1, this paper will explore industrial relations in a globalising Asia. A key driver of globalisation is the growing domination of franchising as a form of international retailing. Franchising has seen huge success over the last few decades, approaching saturation point in many developed nations such as the USA and Australia, and spreading at an increasing rate in developing nations including parts of Asia and South America (Elango & Fried, 1997; Inma, 2005). The economic impact of franchising is growing internationally and this is reflected by scholarly research in fields such as marketing, law and finance. However, investigation of the management of employment in franchises has garnered far less academic interest. In response, this study has been conducted to explore the factors that influence franchise organisations in their approach to managing people.

The term ‘franchise’ refers to a distinct organisational form based on the business relationship between two key parties: the ‘franchisor’ who is the developer of the franchised product or service, and the ‘franchisee’ who purchases the rights to trade under the franchise name and operate a business unit (Elango & Fried, 1997; Shane & Hoy, 1996). The most common ‘business format’ form of franchising provides franchisees with a full system for business operation, often including support in arranging finance, site selection, delivering training and opening the store (Felstead, 1993). This system is devised to control, monitor and support franchisees, ensuring a consistent product or service in every unit (Baucus, Baucus, & Human, 1993). It is this degree of operational control in business format franchises that makes this type of franchise appropriate to examine the extent to which support is also provided in the management of people.

This paper presents the franchise concept, locating it in the limited body of research that considers employment relations (ER) in these organisations. In this paper, the term employment relations is used broadly to describe all of the activities associated with the management of people, which are often considered independently as industrial relations (IR) and human resources (HR). The paper asks two research questions; do franchisors offer support to franchisees in managing employment relations, and what factors

influence this support? In order to answer these questions a purposeful sampling method was used to determine a mix of six firms in industry sub-sectors that would not ordinarily be comparable. Interviews were conducted with fourteen corporate office representatives deemed appropriate or knowledgeable of the firm's ER approach. Data collected through interviews, observation and documentary evidence was later transcribed and analysed using a qualitative analysis software package.

The findings of the study showed that the six case organisations varied significantly in the level and focus of support provided to franchisees. For instance, while one firm did not have an ER department or offer any support beyond monitoring employee turnover, another firm staffed an ER department of ten people and provided services including employee inductions, recruitment and a phone support-line for franchisees. Furthermore, while the focus of support in some firms was purely on typical HR activities such as training and recruitment, other firms also provided support in complex IR matters.

The delineation between the firms appeared to be related to their perception of the risk of liability and brand damage. Some firms explained that offering ER support carries the risk of liability for providing incorrect information to franchisees, therefore they chose to offer little support. Meanwhile, other firms acknowledged that by not providing support their franchisees may commit misconduct (such as under-paying employees or hiring underage workers) which could damage the brand. In order to protect the brand, these firms managed the risk of liability and provided a higher level of support to franchisees. It was perhaps the franchisors' perception of which risk is greater – damage to the brand or liability- that determined their approach to managing ER.

These findings suggest that despite franchises representing a highly controlled and monitored business environment, this does not necessarily extend to their approach to managing people. Furthermore, the research suggests that franchises cannot be assumed to replicate the ER approach of other organisational forms. It is the distinctive structure of franchise firms, and the particular forces that influence them, which create a new and interesting environment in which to explore how people are managed. The continued growth and success of franchising on an international scale, combined with the limitations of existing scholarly studies, presents a great opportunity for further research into employment in franchise organisations.

Investigating Industrial Relations in Franchise Firms

Miss Ashlea Kellner*, Dr Keith Townsend and Prof Adrian Wilkinson

Franchising has changed the shape of business across the world, in industries as diverse as real estate, banking and fast food. Emerging from the success of iconic North American businesses such as McDonalds and KFC, the franchise approach has allowed many businesses to experience rapid growth over the last few decades. Nowadays, franchising has become the world's fastest growing form of retailing (Dant, 2008), approaching saturation in most Western countries and spreading at an increasing rate in developing nations (Elango & Fried, 1997; Inma, 2005). Although the economic role of franchises is becoming increasingly significant, little is known about how people are managed in these organisations.

Research on franchising abounds in fields such as marketing, law and finance, however investigation of the management of employment in franchises has garnered far less academic interest. In response, this study has been conducted to explore employment relations (ER) in the franchise relationship and the factors that influence the firm's approach to managing people. In this paper, the term employment relations is used broadly to describe all of the activities associated with the management of people, which are often considered independently as industrial relations (IR) and human resources (HR). The paper will begin by discussing the franchise concept and the limited academic literature on ER in franchises, taking into consideration other employment research which may lend perspective to this study. After presenting the two research questions, the qualitative multiple case study methodology and the six case firms will be detailed. The findings for each case will be discussed and a possible rationale suggested for the varied approaches to ER adopted by the six franchise firms.

Franchising in Context

The term 'franchise' can be viewed from a number of perspectives. To some it may represent a unique marketing approach, a legally binding business contract or a distinct organisational form. A franchise incorporates all of these elements and is based on a business relationship between two key parties: the franchisor who is the developer of the franchised product or service, and the franchisee who purchases the rights to trade under the franchise name and operate a business unit (Elango & Fried, 1997; Shane & Hoy, 1996). A franchisee may own only one store or 'unit' (single-unit franchisees) or more than one unit (multi-unit franchisees). In addition to franchised units, the firm may also operate a number of corporate owned and managed units. Franchisees typically sign a long term contract with the franchisor and pay an upfront establishment amount combined with ongoing fees for business services such as marketing and advertising (Felstead, 1993; Spinelli & Birley, 1996). The key to the success of franchising is seen as the adoption of a market-tested business formula across all units to ensure that the customer has a consistent experience in dealing with the brand.

Prior to the advent of modern franchising, the approach was common only in a few industries such as car and truck dealerships, petrol service stations and soft drink bottlers (Felstead, 1993; Justis & Judd, 2003). These franchises were based on a simple model called 'product franchising' where only base level support was provided to the franchisee. Today, franchising has evolved significantly. 'Business format franchising' has developed from its beginnings in the fast food industry and is now the model of choice for the majority of franchise firms. According to the 2008 edition of the Franchising Australia report, there exists approximately 80,000 domestic franchise units, 87% of which are business format franchises (Frazer, Weaven, & Wright, 2008). This type of franchising provides franchisees with a full system for business operation, often including support in arranging finance, site selection, delivering training and opening the store (Felstead, 1993). This system is devised to control, monitor and support franchisees, ensuring a consistent product or service in every unit (Baucus, Baucus, & Human, 1993). It is this degree of operational control in business format franchises that makes this type of organisation appropriate to examine the extent to which support is also provided in the management of ER.

However, there is only a small body of literature exploring the management of ER in franchise firms. Although there has been limited focus on how ER activities are managed in franchises, there has been some discussion on the quality of employment that these firms provide. Much of this literature is based in the fast food sector, where authors suggest employment can be characterized by young and unskilled workers, poor remuneration, low unionization, limited employee benefits, casual contracts and shift work (Krueger, 1991; Royle, 1995; Schlosser, 2002). Conversely, others argue that employment conditions are quite acceptable, and that these fast food jobs provide valuable employment opportunities to people without prior experience or qualifications, offering flexible work hours and contracts (Allan, Bamber, Gould, & Timo, 2001; Cappelli & Hamori, 2008). In fact, research by Cappelli and Hamori (2008) suggested that franchise firms adopted more sophisticated management practices and invested more on their staff than independent organisations. Although there is some understanding of the conditions of employment in franchises, the context in which they occur is not established. This research neglects the potential effect of the roles of franchisor and franchisee in determining and implementing a specific approach to ER.

Franchise units are bound to the franchisor, who may provide advice, policies or a HR strategy to guide the franchisees in managing ER. Although there is limited research investigating how this relationship may operate, there is a study which found that small businesses belonging to larger parent companies (such as franchises) have a higher use of formal HR procedures than independent small businesses (Cully, Woodland, O'Reilly, & Dix, 1998). Therefore, it is possible that franchise units do not operate entirely like other small businesses, but are influenced or supported by the franchisor (also referred to as the 'corporate office'). Taking the existing research into consideration, combined with the notion that offering support to franchisees is a primary tenet of business format franchising, we will ask:

1. Do franchisors offer support to franchisees in managing employment relations?
If so, what is the focus of this support?

2. What factors influence the level and focus of ER support provided to franchisees?

Research Methodology

A purposeful sampling method was used to determine a mix of six firms in industry sub-sectors that would not ordinarily be comparable. The study focuses on the support provided by the franchisor (via the corporate office) to the franchised units and therefore franchisees were not interviewed in this study. Interviews were conducted with corporate office employees who were deemed most appropriate or knowledgeable of the firm's ER approach. Where the firm had a department dedicated to managing ER, the manager and team members were interviewed. Where a department did not exist (as was the case with two firms), an appropriate senior manager or managing director participated in the interview. Fourteen interviewees participated in the study and in some cases multiple interviews were conducted with the same participants. Interviews lasted around one hour and followed a semi-structured format. Interview data was analysed using the NVIVO qualitative data analysis software

Case Organisations

This paper reports on data collected about six franchise firms. The case organisations are referred to as 'Banking', 'Cake Store', 'Pizza', 'Real Estate', 'Restaurant' and 'Take-away Coffee', reflecting their respective businesses.

- *Real Estate* is an established franchise that provides typical real estate services such as management of property rentals, sales and purchases.
- *Take-away Coffee* is a mature business, focusing on coffee, cold beverages, and light snacks made to go. The firm operates small establishments with counter service.
- *Pizza* is a large and established franchise firm that offers pizza and a range of other fast food variations including deserts and beverages available for pick up or home delivery.
- *Cake Shop* is a young franchise which is managed by an established parent company that also operates two other franchises. The business sells sweet treats and beverages at small counter service stalls.
- *Banking* is mature regional bank offering a range of retail and business banking products and services through a network of branches, agencies and electronic banking outlets.
- *Restaurant* is a growing chain of casual dining restaurants with a mixture of table and counter service units, which serve hot and cold meals, alcohol, coffee and other beverages.

Employment Relations Support in Franchise Firms

The six case organisations vary in size and operate across multiple industries. While four of these firms can be broadly categorised as operating in the food industry, one firm operates in finance and another in real estate.

Real Estate

Despite their dominance in the Australian marketplace, the regional head office for *Real Estate* operates with less than 20 employees. The firm does not operate a specialist ER department, although two of the employees assist with generalist employment activities and administration (such as tracking turnover and employee transfers). The franchisee induction is conducted over just two days, briefly covering some aspects of people management and preparing franchisees with a 'tool box of policies and procedure manuals'. Aside from this, training is very limited although some franchisees opt to attend international conventions where they can meet and discuss common issues. The franchisees are responsible for inducting and training employees, as these activities have had limited success when managed by the franchisor.

'For most real estate employees, you come and join a real estate office, there's your phone, there's your desk, there's your stock list, good luck... People say they don't want to go to training... Despite massive amounts of communication, education and training, people do one of two things... they don't come - they don't show up, or they do come and then they do nothing with it.'

Regional Manager, Real Estate, 01/04/2010

The key area where advice is given to franchisees is in the process of employment, in order to avoid 'tax implications and payroll issues that can be very, very extensive should they be doing it the wrong way.' However, when it comes to managing industrial relations matters, Real Estate prefer to maintain a professional distance and direct franchisees to contact their own expert advisors outside of the company. Overall, it is clear that Real Estate have adopted a position where only a base level of education and support in ER is provided. Furthermore, the focus of this limited support is only on HR related activities with little to no support provided in managing industrial relations matters.

Take Away Coffee

Take-away Coffee operates a small department of two people, who are focussed entirely on managing ER for internal corporate employees. Franchisees are provided a base level of employment related training during their initial induction program. On-going communication around employment matters is primarily through 'franchise consultants;' corporate employees who support and monitor up to twenty franchisees in their designated geographical area. Skill development for franchisees and unit employees is facilitated by an online training system, which also includes a forum for discussion. Although the franchisor offers some training in managing people, they steer away from providing franchisees with advice on employment issues.

'We have always backed away from representing anything to our franchisees around HR or IR. We've never provided advice or anything, or any training on it. We've always waved the white flag and said get your own independent

advice. If anything comes up that's an issue in the stores then the consultant will direct them to get some help or advice or support. We're very hands off.'

HR Manager, Take-away Coffee, 26/04/2009

The standard of ER support provided to corporate employees in contrast to franchisees is acknowledged by upper management as insufficient. Although *Take-away Coffee* provide some HR focussed support to their franchisees (such as the provision of the training system), the general level of guidance provided is quite low. However, management acknowledges that this is a less than ideal situation and may be improved in the future.

Pizza

Pizza operates a team of seven employees, covering payroll, training and administration. The team are responsible for providing full employment services to corporate employees and limited services to franchisees. This division of services is illustrated in the provision of IR support between their corporately owned and franchisee owned pizza stores.

'I have to negotiate our award with the union. I give advice to the corporate stores on the award. With franchised stores I don't give advice on the award – there is an external person that they can talk to who charges them for it... But in Corporate stores it's different. If I've got someone that's underpaid in a corporate store that's my problem, it's my responsibility. I've got to make sure that all the managers are aware of their obligations under employment law.'

ER Manager, Pizza, 21/11/2008

Pizza are aware and involved in industrial activities outside of the organisation to some degree. Although they do not support franchisees in managing IR (franchisees are asked to contact an external consultant) they have a positive relationship with the union that ultimately benefits store owners and the company's image. *Pizza* offers a unique case as the manager is especially interested and up to date with industrial relations and highly involved with the union. However, they have chosen not to extend this IR expertise to the franchised units, instead only offering support in some HR activities.

Cake Shop

Cake Shop is one of three food based franchises managed by an Australian parent company. Business functions are all managed at the parent company level, and the ER department consists of six employees (excluding training staff). The team supports corporate employees and franchisees in HR activities, although they provide only limited IR support to franchised units. The department understand that IR is a key area of difficulty for franchisees, explaining that, 'They struggle with the IR. They really struggle with understanding Awards.' However, the team does not have the IR expertise required to provide full support to franchisees, and enlist the support of an external

company to speak to franchisees during their induction and when faced with legislative changes.

'In this one week induction, from an HR and IR perspective, out of the five days two full days are directly or indirectly related to franchisees' obligations to do with staff... We use [an external company]. We work closely with them and at the moment we're getting our franchisees to set up Enterprise Bargaining Agreements. [The manager] is an IR lawyer, so he comes in and talks to franchisees about IR, they spend 3 or 4 hours with him on that. On Friday they go through HR and Management, so recruitment, interviewing, hiring, payroll, administration...' **National Support Manager, Cake Store 27/04/2009**

Like *Pizza*, *Cake Store* is aware of the IR environment and the challenges faced by franchisees in interpreting and applying legislation. Unlike *Pizza* however, *Cake Store* has chosen to wear the cost of bringing in IR experts rather than directing franchisees to source their own advisors.

Banking

Banking has seen significant developments in the quality of ER support provided to franchisees since the commencement of a new department manager in 2009. The manager works closely with a team of nine including an advisor, three payroll officers, two administrative support staff and three employees who manage an employment helpline. The team recognise that many new franchisees join the company with strong technical experience but limited experience in managing people and therefore offer guidance in most aspects of HR and IR.

'Interestingly enough, what we get a lot of the time is experienced lenders and the single biggest issue they have is HR. So they have been a business banker with no staff and after a month they will say to me, I can do the lending but this people stuff has got to go. They don't understand how to do it.'

ER Manager, Banking, 25/04/2010

Unique to the other case organisations, *Banking* has also created a strategic plan to guide their ER activities with franchisees. This organisation has committed to developing themselves as a high value franchisor and providing franchisees with the full spectrum of employment support.

Restaurant

The ER team at *Restaurant* was developed in the last couple of years, and includes two specialists plus training staff to support corporate employees and franchisees. Due to the small size of the team, corporate franchise consultants field as many employment related queries from franchisees as possible. Franchisees are provided with a high level

of support in activities including recruitment, selection, training and performance management, reinforced by comprehensive documentation.

'We're a full format franchisee. We do the recruitment for the store... we have a whole manual on people management. We have... appointment letters, performance review papers, probation, first and second warnings, dismissal, all of that paperwork is provided as well as what to do. And that is continually updated as the laws change.' **People Manager, Restaurant 12/12/08**

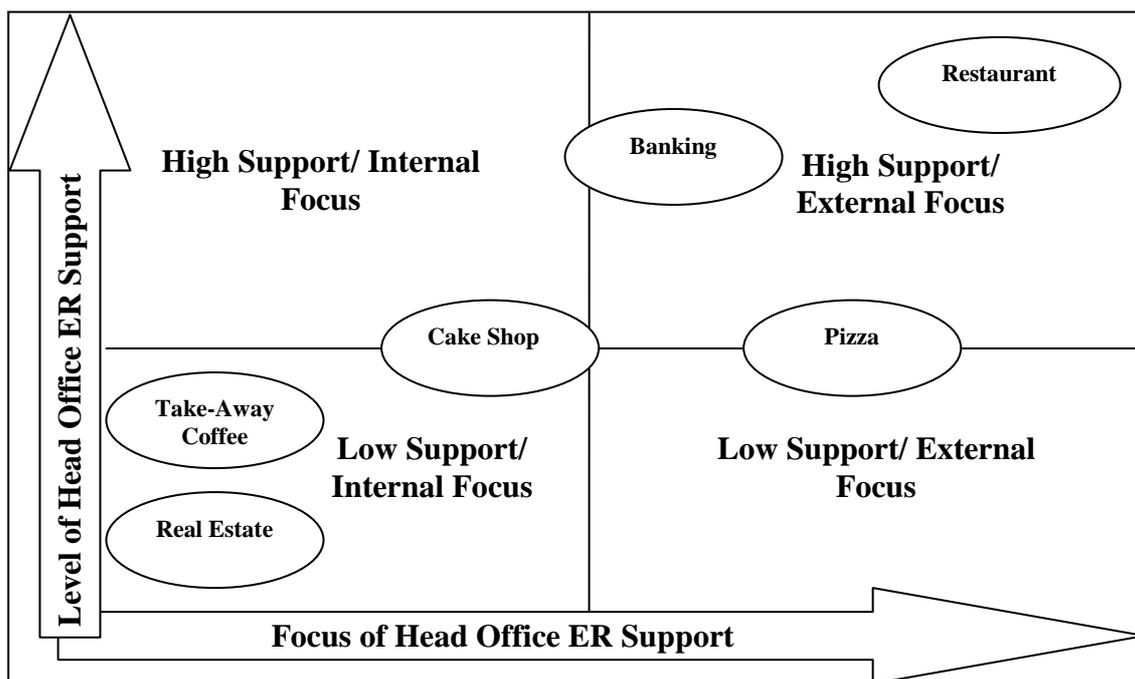
The introduction of new employment legislation in Australia has posed such a challenge to franchisees that *Restaurant* dedicated one of the two team members to provide IR support. The support provided to franchisees included intense workshops, spread sheets for calculating salary amendments, 'on-call' assistance of the specialist team member and revised employment documentation. Although the team may be small, the level of ER support offered to franchisees by *Restaurant* is comparably high. The advisor is a solid link with the external environment and keeps both corporate employees and franchisees up to date with industrial changes.

Discussion

In consideration of the research question, it is clear that franchise firms do offer some support to franchisees in the management of ER. However, across the six case organisations there appears to be high variation in the level of support provided. Some firms employed ER specialists and offered a high degree of support to franchisees, beginning with an in-depth induction covering the fundamentals of people management. These firms appeared highly invested in building quality systems of people management, such as web-based training for employees, franchisor managed staff recruitment and ER helplines. Meanwhile, other franchise firms adopted a less supportive approach, allowing franchisees more autonomy in designing and managing their employment activities.

Furthermore, the focus of ER activities also varied. *Real Estate* and *Take-Away Coffee* were almost exclusively focussed on internal activities such as training and tracking employee turnover, and were non-responsive to events in the external environment. These firms did not offer franchisees support in external matters such as managing industrial relations changes. Meanwhile, other firms had some developed HR systems and also extended their focus to the external environment, becoming involved with industrial relations developments. While two of the firms (*Cake Store* and *Pizza*) chose to employ consultants to advise franchisees on IR, *Restaurant* and *Banking* chose to manage this service in-house. This range of approaches to managing ER is displayed in Figure 1 below.

Figure 1 Head Office ER Support Matrix



Factors Influencing ER Support in Franchises

The wide variation in each case firms’ approach to managing ER cannot, in this study, be easily explained as an industry effect. The four case firms operating in the food service industry are represented at both ends of the spectrum; from high to low support and internal to external focus. However, two variables have been identified from the interviews that may affect the ER approach adopted; these are the dual risks of liability and brand damage. Where a franchisor provides legal advice to franchisees in areas such as compensation, dismissal or health and safety, the franchisor is responsible for ensuring that this information is correct. If consequences arise due to misinformation provided to the franchisee, the franchisor may be liable. It is this risk of liability that deters some franchisors from offering a high level of support (or motivates them to utilise external advisors) to assist franchisees in managing employment activities. As the ER manager from *Pizza* explains, he will not give employment advice to franchisees:

‘That is managing a legal risk. If I say that’s what you need to pay or do and it’s not accurate then they can sue us. So I can’t, I’ve gotta send them to someone else. I can give general direction of where to find that information but not advice on what to do.’
ER Manager, Pizza, 21/11/2008

There are implications of prioritizing liability and minimizing the support provided to franchisees. Where support is not provided, the franchisor runs the risk that the franchisee will accidentally or intentionally be involved in HR related misconduct, due to a lack of understanding of their responsibilities. If a franchisee is identified by the media as committing misconduct, such as underpaying employees or hiring underage

people to work in their stores, the mistake of one franchisee can damage the entire brand. In the case of franchises, the company brand and reputation is paramount to success. This has been acknowledged by *Restaurant* and *Banking* who have decided to provide a high level of support in HR and IR - by managing the risk of liability for the sake of protecting the brand.

While four of the franchise firms prioritised the risk of liability in determining their ER approach, *Restaurant* and *Banking* considered the risk of damage to their brand as a greater threat. However, as already noted, perception of the brand is of great importance to the franchise model. It perplexing that one franchise would deem brand protection to be more important than the next, and there are a number of potential justifications for this approach. It is possible that some franchises are more heavily invested in their brand image (through marketing and advertising) and will therefore work harder to protect it. Alternately, some firms may attract franchisees with very limited people management skills, and therefore offer more comprehensive support in reply to franchisee demand. Furthermore, it may be that some franchises have encountered incidents of misconduct in the past that affected their reputation, and are protecting their brand from further damage by closely monitoring (or supporting) the ER activities of franchisees. Potentially there are many other explanations for these findings, however there is a need for further investigation across a larger number of cases and industries to produce firmer theories.

Conclusion

The management of people in franchises and the factors that influence a firm's overall approach to ER are quite unique to other forms of business. Reflecting on the extant research on ER in SMEs, the franchise firms in this study did not replicate the ad-hoc, informal approach typical of independent small businesses. Although there were some elements of this small business approach, the influence of the franchisor in most cases was palpable. Through large scale activities such as training and employee inductions, the franchisor can influence how ER is managed in the franchised units. From this perspective, the support provided in the franchise relationship is complex; the franchisee is not autonomous in determining their management approach but nor are they entirely controlled by the franchisor. Further complicating matters, the degree of support provided to franchisees is heavily influenced by the possibility of brand damage and liability.

These findings suggest that franchise firms cannot be assumed to replicate the ER approach of other types of organisation. It is the distinctive structure of franchise firms, and the particular forces that influence them that create a new and interesting environment in which to explore employment relations. An implication for future research on the quality of employment in franchise firms is that franchises cannot be assumed to offer consistent employment conditions, as individual units may vary significantly depending on the approach of the franchisee. Furthermore, though not explored in this study, there may be considerable differences in ER management between corporate owned units, single franchised units and multi-franchised units. The continued growth and success of franchising on an international scale, combined with the limitations of existing scholarly studies, presents a great opportunity for future research into employment relations in franchise organisations.

References

- Allan, C., Bamber, G., Gould, A., & Timo, N. (2001). Good job or bad job? Fast food employment in Australia, Employment Relations Stakeholders in the New Economy Conference and Symposium. Singapore: International Employment Relations Association.
- Baucus, D., Baucus, M., & Human, S. (1993). Choosing a franchise: How base fees and royalties relate to the value of the franchise. *Journal of Small Business Management*, 31(2), 91.
- Cappelli, P., & Hamori, M. (2008). Are franchises bad employers? *Industrial and Labor Relations Review*, 61, 147-162.
- Cully, S., Woodland, S., O'Reilly, A., & Dix, G. (1998). *Britain at Work as Depicted in the 1998 Workplace Employee Relations Survey*. London: Routledge.
- Dant, R. (2008). A Futuristic Research Agenda for the Field of Franchising. *Journal of Small Business Management*, 46(1), 91.
- Elango, B., & Fried, V. (1997). Franchising research: A literature review and synthesis. *Journal of Small Business Management*, 35(3), 68.
- Felstead, A. (1993). *The Corporate Paradox: Power and Control in the Business Franchise*. London: Routledge.
- Frazer, L., Weaven, S., & Wright, O. (2008). *Franchising Australia 2008*. The Franchise Council of Australia, Asia-Pacific Centre for Franchising Excellence, Griffith University.
- Inma, C. (2005). Purposeful Franchising: Re-thinking of the Franchising Rationale. *Singapore Management Review*, 27(1), 27.
- Justis, R., & Judd, R. (2003). *Franchising*. Ohio, USA: Thomson Custom Publishing.
- Krueger, A. (1991). Ownership, Agency, and Wages: An Examination of Franchising in the Fast Food Industry. *Quarterly Journal of Business and Economics*, 106(2), 75-101.
- Royle, T. (1995). Corporate versus societal culture: A comparative study of McDonald's in Europe. *International Journal of Contemporary Hospitality Management*, 7(2), 52.
- Schlosser, E. (2002). *Fast Food Nation*. London: Penguin.
- Shane, S., & Hoy, F. (1996). Franchising: A gateway to co-operative entrepreneurship. *Journal of Business Venturing*, 11, 325-327.
- Spinelli, S., & Birley, S. (1996). Toward a theory of conflict in the franchise system. *Journal of Business Venturing*, 11(5), 329.