Determining HRM Support in Franchises:  
The Role of Strategic Choices

Ashlea Kellner  
Department of Employment Relations and Human Resources  
Griffith University, Nathan, QLD, Australia  
Email: a.kellner@griffith.edu.au

Dr Keith Townsend  
Department of Employment Relations and Human Resources  
Griffith University, Nathan, QLD, Australia  
Email: k.townsend@griffith.edu.au

Prof Adrian Wilkinson  
Department of Employment Relations and Human Resources  
Griffith University, Nathan, QLD, Australia  
Email: Adrian.Wilkinson@griffith.edu.au

Prof David Peetz  
Department of Employment Relations and Human Resources  
Griffith University, Nathan, QLD, Australia  
Email: d.peetz@griffith.edu.au
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ABSTRACT

In recent decades, franchising has evolved as a new model for business and looks set to become more pertinent in the future of work and organisations. Individual franchise firms can employ thousands of staff, but who is responsible for managing them? Operations of this size tend to have developed human resource management (HRM) systems, however, the findings of this study suggest that some franchises operate without even the most basic HRM support infrastructure. This study explores the degree of HRM support provided to franchisees in three coffee-themed franchises operating in the Australian retail and hospitality industry. The paper presents a new typology of HRM in franchise firms and suggests that risk-driven strategic choices, specific to franchising, influence the strength of support provided.

Keywords: Employment Relations, Human Resource Development, Recruitment, Training and Development.
Franchising has changed the world of business. From the humble cup of coffee, to gardening, real estate, cola and burgers, franchising offers customers consistency in their product, service and experience of a brand. Customers can now buy their favourite coffee on every street corner and shopping centre in the country – Australia has one of the highest numbers of franchises per capita in the world, (80,000 stores and counting) (Frazer, Weaven and Bodey 2010). But it is not just the customer who has (supposedly) benefited from the franchising phenomenon. For the entrepreneurial “franchisor” (the developer and owner of the franchise firm), franchising a concept allows a business to be developed rapidly, using other people’s money while maintaining a high level of control. The franchisor is able to leverage intellectual capital and innovative process, using franchisee funding, in return for a smaller slice of a much larger pie. For “franchisees” (the store or ‘unit’ owner-managers), franchising offers the opportunity to enter into an established business, with a recognised brand and developed systems and support mechanisms. As franchising has evolved in recent decades, the level of franchisor involvement in providing support to franchisees has increased, and can involve facilitating finance, developing supplier relationships and managing employment activities such as training new staff (Felstead 1993, Justis and Judd 2003).

This unique balance of control and support distinguishes franchises from other organisational forms. It means that conventional models of the firm may have difficulty in predicting Human Resource Management (HRM) practices in franchises. The franchisor/franchisee structure sees the emergence of a multitude of small businesses, which collectively can be equivalent to a large firm. This can radically change the rationale for HR interventions in franchises and has the potential to confound the relationship between firm size and HR practices typically observed in the literature. Yet there is a dearth of scholarly research on this issue, which is surprising considering the high level of interest in HR in other organisational forms and the extensive literature on further aspects of the franchise relationship in many other disciplines.
Our study, then, investigates two core questions. First, *how do franchisors develop, implement and assess support systems designed to assist franchisees in human resource management?* Second, *what factors influence the approach that franchisors adopt to managing human resources?* We use data from three coffee-themed franchise organisations in the Australian retail and hospitality sector. We develop a typology of HR support in franchises, and show that the strategic choices of the firm prioritising either brand protection or avoiding liability can have a strong influence on the HR strategy adopted, and can be more important than the traditionally critical factor of organisational size.

**HR IN FRANCHISES: THE STORY SO FAR**

The success of franchising has seen a flurry of increased scholarly attention over the past decade although as mentioned, this breadth of interest in franchising has not extended to the management of HR in the franchise relationship. The range of such studies in this area is sufficiently limited to allow an almost exhaustive listing here. A study by Litz and Stewart (2000) suggested that the contribution of training to firm performance in franchised stores may not be any better than in independent stores. Their research, however, is difficult to generalise due to the sample being drawn from the less common product-based form of franchising. Weaven and Herrington (2007) briefly discussed the possibility that franchise governance structure (e.g. purely franchised, purely corporate or hybrid forms) may influence the franchisors approach to certain activities including training and staff development. While the study suggests that governance structure may indeed influence the franchisors approach to managing HRM, their focus on HR as part of the study was minor and only four activities were measured. Castrogiovanni and Kidwell (2010) published a conceptual piece which explored the key differences in HR practices between franchisees and employed unit managers, although this topic is outside the scope of the study at hand.

A study by Truss (2004) conducted in an automotive retail company incorporating four separate franchises suggested that despite franchising’s reputation for consistency, and all
four franchises being governed by the same head office, each operated HR functions very inconsistently. HRM (both inter and intra-franchise) operated on an ad-hoc basis and generally without consideration of the advice of the HR department. Truss’s study is important because it provides perhaps the only glimpse into how control and support in HRM operate within the franchise relationship, and this paper seeks to further analyse the same area of research by focusing on HRM as it is enacted in three stages: development, implementation and assessment of the effectiveness of HR support systems.

Further to this first area of enquiry, and building on the existing work by Truss, this study also aims to find out why HRM in franchises is different. The HR strategy adopted by the franchisor will certainly be influenced by a number of internal and external variables. For instance, broad external factors such as the political environment, the state of the labour market, the level of unionisation and the particular industry in which the franchise operates can have targeted effects on how HR operates (Jackson and Schuler 1995). The recent introduction of the Fair Work Act, combined with low unemployment, reduced unionisation and industry-specific characteristics (such as a large percentage of employees paid Award wages and employed casually) have a profound impact on how HR activities are managed, and arguably exert a similar influence across all three case organisations.

Internally, the stage of the organisational lifecycle is another factor which has been linked to HRM. When an organisation reaches maturity, as all three cases in this study have, this has been linked to a broader focus on HR activities and more integration with the needs of the business (Baird and Meshoulam 1988, Buller and Napier 1993). Furthermore, the size of an organisation has been linked to how HR is managed, and this is one factor that the cases do not share in common. Existing literature suggests that small businesses are far less likely to have an HR department, employ HR specialists or have an HR strategy compared to large organisations (Edwards and Ram 2009, Forth, Bewley and Bryson 2006). Small firms are also typified by a high level of informality and an ad-hoc approach to HR activities, including
recruitment, selection, career advancement and training (Cardon and Stevens 2004, Dundon and Wilkinson 2009). Therefore it is possible that smaller franchises may have less developed strategy and systems in place for supporting their franchisees in managing HR. As the firm becomes larger and more resources become available, the HR offerings of the firm should increase. As such, the effect of the size on the overall HR strategy of the firm can be examined in this study, and we expect our findings to be reflective of the prior research detailed above.

**RESEARCH METHODS**

Given the lack of viable theory or established empirical research on the topic, a case study design was adopted to concentrate on the phenomenon intensely in three organisations and gather rich, descriptive data (Denzin and Lincoln 2000, Yin 1994). The three case organisations shared a number of traits. They were Australian-owned, mature-aged (established 20-30 years ago), operated the majority of stores in the domestic market and were competing ‘coffee-brands’ that all offered a similar product and service. Franchises from the retail and hospitality sector were selected as this sector accounts for 52% of all franchise units in Australia (Frazer et al. 2010, Frazer, Weaven and Wright 2008). However, the number of units operated by each case organisation varied. As size may influence an organisations’ approach to HRM, three franchises of varying size were selected, ranging from the small “Short Black” (70 units), to the medium-sized “Cappuccino” (300 units) and large “Café Latte” (1000 units). A short description of each firm and the interviews conducted is provided in Table 1.

[INSERT TABLE 1 HERE]

The data were collected between December 2008 to December 2010. Over this two year period the lead investigator was in frequent communication with senior management in each franchise, conducted interviews with corporate employees and franchisees, attended informal meetings, participated in HR-related workshops and seminars, and gathered documentary
evidence on the HR strategy and systems employed at each firm. Corporate level interviewees (i.e. those employed by the franchisor at the ‘head office’) were purposefully selected based on their involvement in delivering HR support. Franchisees were also purposefully selected, to ensure representation of different levels of tenure (very new and long established franchisees) and unit ownership (single and multiple unit owners were selected). In total thirty-seven recorded interviews were conducted across the three firms, each averaging around one hour in duration. All interview transcripts, field notes and electronic documentary evidence were inputted into the NVivo software package and analysed using a two-step coding procedure based on the ‘inductive analysis’ technique described by Patton (2002). Inductive coding involves a process of reading and re-reading data then assigning keywords (second-order categories) to passages of text, to facilitate sorting and identification of emerging themes (first-order categories) (see for example Carsten, Uhl-Bien, Patera and McGregor 2010, Kreiner, Hollensbe and Sheep 2009). Randomly selected sections of coded data were cross-checked by team members throughout the two-year process to test the internal reliability of the coding technique, with a high level of consistency.

EXPLORING HRM SUPPORT: THREE CASES

Case 1: Café Latte

The size of the HR department in each franchise organisation was revealing. Although Café Latte operated an HR Department with two specialists who managed the needs of the head office, the firm did not have resources dedicated to supporting franchisees. Accordingly, the firm did not have a formalised HR strategy and their policies and systems, particularly around industrial relations (IR), were undeveloped. Aside from a short overview of the recruitment process, the three week franchisee induction did not cover matters relating to HR. Although initial and on-going training in HR was very limited, general guidance and direction could be sought from the ‘franchise consultant’. The franchise consultant role is common between the three case organisations, serving as an intermediary between franchisor and franchisee. At
Café Latte, as with the other firms, consultants had a broad general knowledge of business management and were typically unable to provide specialised support in HR. In this particular case, neither the consultant nor the franchisor gave advice on technical matters such as those regarding industrial relations, including ‘awards’ (regulations determining minimum pay and conditions). They suggested that franchisees obtained their own independent advice.

We always ask [franchisees] to get their own independent advice… McDonalds don’t do that. They actually go to their franchisees and say, we’ve got our advice about it, here’s what you need to do. So there’s a big difference there. So for example, they will lobby with the government to make sure that the award suits them. Whereas we probably tend to be a little bit reactive and we have to deal with the cards we’ve got.

Market Manager, Café Latte

Despite their lightly prescriptive approach, Café Latte was quite strong in their delivery of operational training to franchisees and employees. The Café Latte training platform allowed franchisees and employees to undertake online training in most aspects of store operation, as well as communication between franchisor, franchisee and employees. Overall, Café Latte focussed resources on delivering quality operational training, while adopting a position of limited support in relation to HR. The firm did not employ a team of HR professionals to assist franchisees and had not developed a formal HR plan, systems or policies; nor did they assess or monitor franchisee performance in any aspect of staff management.

Case 2: Short Black

Short Black was owned and managed by a parent company that also managed two additional hospitality brands. HR was managed at the parent company level, and one department oversaw activities for all three brands. The department was involved in delivering support, training and advice to franchisees. The team was comprised of seven permanent employees and the training function was managed by a separate department. While consultants assisted
franchisees with general enquiries, the HR team communicated directly with franchisees where necessary. However, with the constant change and complexity of industrial relations in Australia, technical matters were often referred to advisors outside the organisation.

*When it comes to labour relations and the technicalities like how to pay staff and leave and everything else, I think we are on our own. They definitely told us to seek legal advice, seek labour advice... They can advise you on how to select the right person I think it is up to you to choose which Award to follow.*

*Franchisee, Short Black*

*Short Black* operates an online training portal similar to the system adopted at *Café Latte*, which allowed franchisees and store employees to complete their induction and some training modules online. *Short Black* had the advantage of belonging to a large parent company that was resourced to provide professional services such as the training portal and a sound introduction to HR in the induction program. The effectiveness of this training in improving franchisee performance as managers was only measured on an ad-hoc basis, with limited variables captured through participation in the online training portal. *Short Black* planned to improve their methods of franchisee assessment in the near future, beginning with the capture of employee turnover information.

**Case 3: Cappuccino**

The *Cappuccino* head office operated a small HR team consisting of an HR Manager and an Advisor. Reporting to the HR Manager were also three training managers and a small team of specialist store openers. The HR Manager at *Cappuccino* recently developed a formal HR strategy and was involved in creating programs and support documentation to grow franchisees’ skills in managing people. Recent changes to employment legislation encouraged the recruitment of the HR Advisor specialising in industrial relations, to support franchisees
through some challenging adjustments. The Advisor developed support systems to ease the transition to the new legislative and award requirements, including differential minimum wages.

Unlike Café Latte and Short Black, Cappuccino did not have an online training portal for franchisees and employees, although this was under development. However, the franchisee induction program was well developed and consisted of two weeks of classroom-based theory and four weeks of in-store training (including at least one day on HRM). In addition, the team was developing an on-going leadership program for franchisees to enhance their management skills. The team also offered practical support for franchisees in key areas of HR such as recruitment.

_We’re a full format franchisee. We do the [initial] recruitment for the store… Once we’ve done the set up for them it’s up to them. We give them templates for advertisements. If they’ve never done it before they can get support from their consultant._

_HR Manager, Cappuccino_

As part of scheduled assessments of franchisee performance, Cappuccino recently introduced a number of measures of employment-related activities. For instance, franchisees were audited on completion of staff inductions, provision of correct employment paperwork and completion of performance appraisals. Franchisees that were not compliant with legal requirements (such as employment legislation) faced a breach of the franchise agreement, while high performing franchisees were acknowledged and rewarded. Although these three franchises all operated similar types of businesses in the retail and hospitality sector, it seems that their approaches to managing HR were quite diverse. The second part of this paper explores factors that influence franchises to develop distinct approaches to HRM.

**HOW STRATEGIC CHOICES AFFECT HRM**
At the outset of this study it was suggested that, if franchise organisations are comparable to other organisations, then the size of the franchise may influence the degree to which the HR function is developed, centralised and formalised. However, Café Latte, despite being substantially larger than the other two firms, had the least developed and least centralised HR function. In this study, it appears that variations in size do not explain variations in HR practices. Furthermore, as all three firms are at a similar level of organisational maturity and age, this factor cannot explain inter-organisational variations either. The data suggested two strategic choices influenced the degree of HR support offered to franchisees: avoidance of liability and brand protection.

Supporting franchisees with management of employment processes poses a risk to the franchisor – the risk of financial liability. 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 (such as the costs of defending claims by disgruntled employees or prosecution by industrial inspectors) the franchisor may be blamed or liable. The franchisor may determine this risk of liability to be too high given the potential return and thus limit HR support for franchisees. Without this support, franchisees will independently develop their own systems and determine their responsibilities as an employer. This increases the risk that the franchisees will, either intentionally or unintentionally, misbehave. Misbehaviour can take many forms, such as unfair dismissal, underpayment, hiring underage workers, failure to train new staff or safety violations. Situations such as these have proven to make sensational news stories and the mistake of a single franchise can quickly damage the entire brand. Therefore, limiting support for franchisees in HRM (as in other aspects of business management) can put the franchise brand and reputation at high risk. The franchisor must make a strategic choice and determine their priority – to protect the brand (and thus
increase the probability of facing liability) or to avoid liability (but potentially expose the brand to damage).

In this study, the three franchisors adopted different strategies which reflect the level of risk they were comfortable taking. *Cappuccino* determined that in their organisation, protection of the brand was paramount and this responsibility extended to the HR department.

> My role is to protect the brand. So when we have an issue, like a parent calling about their daughter who was on an unpaid trial, I conduct an investigation… The franchisee may say – no, we had a verbal agreement that I wouldn’t pay her. What are we going to do for the sake of $19? The answer is obvious – we will pay her. We could ignore the complaint, it’s only $19. But if the parents take her to the media it looks really bad for us.

*HR Manager, Cappuccino*

Despite the risk of liability for providing incorrect information, *Cappuccino* provided full in-house support to franchisees in all aspects of employment management. However, they took precautions to minimise legal risks, such as adding a disclaimer to emails and keeping a log of all discussions. Meanwhile, *Short Black* determined brand protection and avoiding liability as equal priorities. While the franchisor provided some support with general HR activities, they shifted the responsibility of dealing with technical employment matters to external advisors. This strategy allowed the franchisor to deliver support in the areas of least legal risk, while providing some recourse for franchisees to obtain guidance in more complex matters. However, such guidance is obtained at the franchisees expense. *Café Latte* appears to have prioritised liability as a greater risk than brand damage. They selected a low involvement approach to managing HR, directing their franchisees to seek advice externally and thus avoiding legal issues.
When you set up these [HR] procedures and policies and support systems you always have to set them up viewing the worst case scenario. If you’re prepared to give advice, remember that you are liable for it.      Market Manager, Café Latte

While Cappuccino and to some extent Short Black prioritised the risk of brand damage and longer term financial losses, Café Latte implicitly perceived the risk of brand damage due to HR misconduct to be low and not warrant the implementation of HR systems. Each franchise considered the strategic choices available to them and chosen a unique position based on what is deemed as an appropriate level of risk. The proposed relationship between this strategic choice and the resultant HR approach of the franchisor is demonstrated in the following typology.

A NEW TYPOLOGY OF FRANCHISOR SUPPORT

The findings suggest that the strategic decision outlined above influences the broad approach adopted to providing HR support to franchisees. Specifically, this decision influences each step of what we have identified as a linear process involving the development, implementation and assessment of HRM support. Firstly, the strategic decision influences the extent to which HR strategy and support systems are developed; secondly, it affects the degree of involvement of the franchisor in implementation of these strategies and systems and; thirdly it affects whether the effectiveness of HR support is assessed or measured. The following typology displays this proposed relationship and allows us to categorise the case organisations into three types depending on their strategic decision and related approach to HRM.

[INSERT FIGURE 1 HERE]

The Franchisor HR Support Typology helps to explain why a specific process of development, implementation and assessment of HR strategy and systems has been adopted by the three case organisations. In interviews with senior management at Café Latte, it was
clear that, for the purpose of avoiding legal action, the firm had made the strategic decision to minimise involvement with franchisees in HR matters. The firm therefore did not need to direct resources to the development, implementation and assessment of HR systems, and can be classified as a Low HR Support Franchise. Meanwhile, Short Black made the choice to regard protection of the brand and avoidance of legal action as equal priorities. They provided support to franchisees in areas that they deemed of least legal-financial risk, avoiding technical and complex issues. Finally, Short Black directed minimal attention to assessing HR performance and can be classified as a Moderate HR Support Franchise. Finally, Cappuccino, with their specialist team and formal HR strategy, offered comprehensive HR support to franchisees. This firm conducted frequent assessments of franchisee performance on a number of measures and had outcomes associated with good or poor performance. The highly centralised and developed approach adopted by Cappuccino suggests it can be categorised as a High HR Support Franchise.

CONCLUSIONS

The findings of this study, as outlined in the proposed typology, help us to understand the multiple approaches to managing HR that are available to franchise organisations. This typology suggests that the firm’s strategic choice to prioritise liability avoidance or brand protection (as the fundamental goal of HR interaction with franchisees) may influence the characteristics of the HR strategy of the franchise. Ultimately, the typology explains the relationship between contextual factors and franchisor’s approach to HR, and allows franchises to be classified as either a high, moderate or low support firms. However, this paper does not suggest that one approach is preferable to another. Rather, the study highlights the inherent risks of each strategy, and the potential benefits. There is a trade off at each firm between a number of factors; the risks of liability and brand damage; the costs of providing HR support; and the satisfaction of franchisee needs and expectations of support. When potentially critical incidents occur (such as harsh media coverage of employment related misbehaviour in a franchised store) the strategic direction of a franchise organisation may
change. A franchise may move between corresponding levels of HR processes, for example from a limited to moderate support approach. It is less likely, however, that firms will display internally incompatible levels of processes. For instance, a firm with limited development or implementation of HR systems would be unlikely to comprehensively assess HR effectiveness. Although, it must be considered that future research could find franchises with highly developed systems but limited implementation and assessment if these activities are outsourced to external organisations. However, further testing of this typology in franchises of different sizes and industries will help to establish whether these propositions are correct.

The factors that influence franchises set them apart from other organisational forms to such a degree that it cannot be assumed that they manage HR in the same way. In particular, the roles and services of the HR function may be less extensive and less centralised in franchises than in organisations of comparable total size running on the conventional large firm model. This is because franchise firms have a choice open to them that is not available in the same way to conventional firms: how much to devolve the liability for mistakes (and rewards of success) to individual units. Inherent in the business model of franchises is the transfer of risk from franchisor to franchisee, so it is almost inevitable that some of the responsibility for HR will transfer to the franchisee. Just how much this occurs, however, may vary substantially between franchise operations, and factors such as size and age (at least, amongst mature firms) are unlikely to adequately explain the degree of devolution. Instead, it seems plausible that factors relating to the distribution of rewards between franchisor and franchisee may have greater influence over the distribution of risk and responsibility when it comes to HRM. While this study leaves some questions unanswered and open to further investigation, it has revealed that franchise organisations – due to their unique structure, environmental factors and strategic choices they make – manage human resources in a way distinguishes them as unique to other organisational forms.
### Table 1 Case Organisation and Interview Details

<table>
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<th>Café Latte</th>
<th>Cappuccino</th>
<th>Short Black</th>
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<td>HR Manager (x3)</td>
<td>National Services and Support Manager</td>
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<tr>
<td></td>
<td>Global Capability-Manager (x2)²</td>
<td>HR Advisor</td>
<td>HR Manager</td>
</tr>
<tr>
<td></td>
<td>HR Manager³</td>
<td>Training Manager 1</td>
<td>Training Manager 2</td>
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<td></td>
<td>HR Advisor</td>
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<td>Training Manager</td>
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<td><strong>Total Interviews</strong></td>
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<td>14</td>
<td>9</td>
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</table>

¹ (x2) indicates two interviews were conducted with this interviewee

² Café Latte HR Manager and Advisor support corporate office employees almost exclusively.
Figure 1 Franchisor HR Support Typology

- **Protect Brand**
  - **COMPREHENSIVE**
    - Specialist HR Team
    - Formal HR strategic plan
    - Highly developed HR policies and systems
  - **MODERATE**
    - Generalist HR team (or HR function outsourced)
    - Informal HR plan or goals exist
    - Basic HR policies and systems developed
  - **LIMITED**
    - No HR Team
    - No HR strategic plan
    - Few or no HR policies or systems developed

- **Mixed Priorities**
  - **COMPREHENSIVE**
    - Key HR skills delivered in induction
    - Ongoing HR training and support
    - All HR support and training delivered by franchisor
  - **MODERATE**
    - Basic HR skills delivered in induction
    - Limited ongoing HR training
    - Franchisees directed to external advisors for technical support
  - **LIMITED**
    - Little/ no HR content delivered in induction
    - No ongoing training
    - Franchisees directed to external advisors for HR support

- **Avoid Liability**
  - **COMPREHENSIVE**
    - Measurable HR systems assessed
    - Frequent assessments
    - Outcomes associated with franchisee performance
  - **MODERATE**
    - Few systems assessed
    - Ad-hoc/ infrequent assessments
    - No outcomes associated with franchisee HR performance
  - **LIMITED**
    - Franchisee performance in HR not measured or assessed.

- **High HR Support Franchise**
- **Moderate HR Support Franchise**
- **Low HR Support Franchise**
References


