

## **Organization Development through Franchise Advisory Boards: A Model for Governance Relationships**

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### **Abstract**

Franchising brings a unique set of challenges to HROD practitioners who are focused on strategically aligning human capacity and organizational goals through cultures of collaboration. Because franchising consists of inter-firm relationships, the presence of franchise associations can help ensure that franchisee voices are heard and that collaborative relationships exist between the franchisor and franchisees. These franchise associations typically use governance structures, which includes elected boards of directors. While practitioner data delineates the roles these franchise boards should perform, there has been only limited empirical investigation on the topic. Moreover, no research addresses how to foster productive relationships between the franchisees and franchisors who work together in these board relationships. This article presents a proposed framework for these boards, using a multi-theoretical perspective that addresses the competing emphases impacting the franchisor-franchisee relationship and the respective roles for HROD professionals.

**Keywords:** Franchise Boards; Group Dynamics; Relationship Typology

As the field of human resource development (HRD) increasingly recognizes the importance of expanding beyond an individual focus to a more pluralistic perspective, opportunity exists for considering HRD's role in improving relationships and the culture operating inside organizations (Korte, 2012). Among the pluralistic realms operating inside many organizations are board governance structures and employee involvement processes that provide stakeholders a voice and foster dialogue with management (Bierema, 2005; Githens & Aragon, 2009; Scully & Segal; Spear, 2004). The importance of such groups in leading to productive workplaces has been widely accepted. However, concerns exist about how the relationships, attitudes, and actions among participants can result in a dysfunctional group that neither solves problems nor promotes organizational goals (Schuster & Weidman, 2006). These issues of aligning human capacity and organizational goals through successful group functioning are directly relevant to HRD, human resource management (HRM), and organization development (OD) (Gilley & Maycunich, 2000; McLean & McLean, 2001). These converging fields (Ruona & Gibson, 2004), referred to in this paper as human resources and organization development (HROD), serve an important role in helping culture, values and leadership align with group functioning for organizational success.

As one setting for considering such issues, the franchising industry occupies a significant presence in the areas of employability, economic generation, and human resource capability. Franchising arrangements occur when a corporation has a concept that it wants to expand through independent agents, who operate using the brand, products/services, and procedures of the franchisor (International Franchising Association, 2013). The franchisor grants a franchisee the rights to operate one or more units in return for monthly payments, or what is referred to as royalties. This \$800+ billion expanding sector in the United States (Haller, 2013) is one of the world's most accessible employers. In 2013, this business format accounted for over 8.2 million jobs in the U.S., a gain of 2% versus 2012 (International Franchise Association, 2013). Franchise businesses continue to outpace growth in other business sectors, with over 750,000 franchise establishments operating in the United States (Haller, 2013).

For HROD professionals that have a role in creating high-performance work systems (Galang, 1999), this unique business arrangement creates interesting challenges. The quasi-independent relationship between the franchisor and the franchisees requires a high level of nurturing to encourage productive relationships (Truss, 2004). In franchise systems, franchisees are entrepreneurs who exist within a large corporate structure. The front-line workers serving customers are typically not employees of the corporation (i.e., franchisor); instead, they are employees hired by the franchisees, which have incorporated businesses. Such an environment presents a host of HROD issues, but raises particular challenges when considering how a corporation brings about system-wide change. Collaboration and shared decision making, foundational assumptions in much of the OD literature (e.g., Cummings & Worley, 2009; Schein, 1999), provide an option for organizations seeking such system-wide change. Additionally, when considering the prevention of problems, franchisors spend a good deal of effort working to prevent lawsuits or the premature exit of franchisees from the system. It is a lose-lose-lose proposition when a franchise unit fails: the franchisee loses his or her investment, employees lose their jobs, and the franchisor loses royalties (Brox, 2010).

Many industries are part of franchise systems, but common categories include restaurants, lodging, automotive, fitness, education, real estate, maintenance, and business services. Understanding what detracts and enhances that relationship between franchisees and franchisors been the subject of academic research (Cochet, Cormann, & Ehrmann, 2008; Kidwell, Nygaard, & Silkoset, 2007; Tikoo, 2005; Baucus, Baucus, & Human, 1996). Yet, one of the understudied areas in franchising is the board of elected franchisees that share concerns, provide information and in some systems vote on organization proposals. While board governance has been examined in corporations, nonprofits, professional associations and the public arena, there has been no literature that addresses franchise boardrooms.

The dynamics of working through differences in achieving organizational goals creates tensions between the different players that can result in conflict, of particular concern for HROD professionals (Korte, 2012). When a franchise relationship is dysfunctional there is far-reaching effects on organizational health. Franchisees may resist training efforts, change initiatives, or recommendations to address issues impacting the employees in their independent organizations. Corporate field employees who regularly interact with franchisees sometimes experience first-hand tension and sometimes experience hostile conditions that result in them moving to a new company. Furthermore, franchisees may begin to perceive a lack of support from the franchisor in a climate that is rife with conflict (Giddings, Weaven, Grade, & Frazer, 2011). On a more macro level, the franchisor may have trouble recruiting new franchisees, resulting in slower expansion, thereby impacting the ability to fully establish the brand's identity. The fostering of

positive relationships between franchisors and franchisees is similar to the importance of fostering positive employee relations in other types of firms. In the case of franchise organizations, it is essential that these franchisees, who intimately know the day-to-day facets of the business, be engaged and providing continual feedback to improve the organization. HROD professionals working in franchise organizations address these challenges and opportunities on a daily basis.

Studies conducted during the past decade have demonstrated the positive effects of inter-group collaboration on organizational performance (Iecovich, 2005). Dulewicz, MacMillan, and Herbert (1995) maintain that “an effective board is more than the sum of its individuals; it must work together effectively as a group, even as a team” (p. 8). While the HRD literature has investigated group problem solving (Wolf, 1997) group processes (Qin, Smyrniou, Deng, 2012), generative groups (London, 2012), and the impact of teams (Russ-Eft, 1996), the HROD literature overall has yet to focus on the nature of the relationships between franchisees and franchisors. Since one of the core spheres of activity in HRD is organization development (Swanson & Holton, 2009), we need more knowledge about the factors that contribute or hinder functional relationships in this environment.

### **Purpose of the Paper**

As a major part of their role, HROD professionals serve as internal consultants and strive to help their organizations function optimally and avoid organizational dysfunction (Godkin & Allcorn, 2009). Given that research has shown participative communication and shared decision-making are beneficial to franchise organizations (Weaven, Frazer, & Giddings, 2010), further understanding about how to ensure franchise boards function effectively is needed. The purpose of this paper is to provide a deductive model, drawn from the theoretical literature on board governance that frames the type of relationship that is likely to operate in the boardroom based on the roles that the group emphasizes. The concepts developed in this article provide a theory-based typology for identifying the relationship that is likely to operate between elected franchisee board members and franchisors when they intersect in the boardroom. Illuminating the relationship between the franchisor and franchisees on boards can help HROD professionals in franchise organizations identify whether an intervention is needed to repair the relationship. Ultimately, a strong relationship between the franchisor and franchisees on these boards may lead to more unit growth, expansion of sales, and more employment opportunities, as franchisees may be more willing to expand their business when a culture of trust and respect is operating. Conversely, dysfunctional boards are likely to lead to simmering frustrations, resulting in a climate of hostility and suspicion.

### **Research Significance and Approach**

HROD researchers and professionals benefit when they have typologies to help examine relationships within and between groups. Limited empirical studies on franchise governing boards has made it difficult for those in HROD to fully understand how and why the relationships between franchisors and franchisee members of these groups become characterized by hostility and distrust. These entities have not been examined in light of organizational theories that may illuminate why certain types of behavior occur. This paper advances HROD theory forward by offering a conceptual framework that aligns organizational theory with the type of relationship that operates on franchise boards.

The development of a typological framework that explains board relationships in light of organizational theories is the goal. The paper provides an integrative literature review that culminates in a proposed conceptual typology. The paper proceeds as follows. First, we provide an overview of why franchise boards initially formed, how they have evolved and present normative expectations of the functions the boards perform based on practitioner and scholarly data. Next, we examine the literature on board governance and applicable theoretical research and empirical evidence associated with board roles. While franchising itself has been associated with multiple theoretical perspectives, franchise boards have not been associated with specific theoretical linkages. We provide a theory-based framework for franchise boards that suggests a board is either internally focused (agency theory) or externally focused (resource-dependent) and either emphasizes the good of the organization (stewardship theory) or the good of the membership (stakeholder theory). We offer suggestions for future research, and conclude with implications for research and for practice.

### **Defining Franchise Association Boards**

The franchisee–franchisor relationship is interdependent. Each partner relies on and influences the other across multiple domains, including marketing, operations, finance, human resources, and governance (Morrison, 1998). Unfortunately, in the case of franchising, the possibility of intergroup conflict among members arises because franchisors and franchisees have a different lens for viewing solutions and it is rare for one group to belong to the other group. Furthermore, the power balance favors the franchisor, as it is the franchisor that retains the rights to the brand and it is the franchisor that specifies the terms of the contract (Chathoth & Olsen, 2003; Dant, Grunhagen, & Windsperger, 2011; Davis, 2012).

The discrepancy in power between the franchisor and franchisee was the impetus for the formation of independent franchise associations (Darrin, Stadfeld, & Wulf, 1998; Karp, Norman, Safford, 1999). The first franchise associations came into existence in the 1970's when franchisees coalesced formally to battle franchisors over perceived breaches of contractual rights (Luxenberg, 1986). By the end of the 1970s, there were over 40 independent franchise associations in the U.S. (Luxenberg, 1986).

Over the years franchisors learned that it was wiser to recognize these entities and work with them versus ignoring the franchise associations that sprang up (Karp, Normal & Stafford, 1999; Nathan, 2008; Spandorf & Barkoff, 2003). Likewise, franchisees of these associations came to recognize the need to collaborate with the franchisor (Gurnick & Wharton, 2000; Nathan, 2008; Spandorf & Barkoff, 2003). These associations are funded by dues paid by members, but in some cases the franchisor also contributes funds to the organization (Barkoff, Green-Kelly, 2006; Sniegowski, 2009). There is a lack of consistent data that identifies the total number of franchise associations, but the International Association of Franchisees and Dealers lists 75 franchisee associations in the U.S. (Argyres & Bercovitz, 2013), while the American Association of Franchise Dealers reports that 120 U.S. franchise systems have franchise associations (Emerson & Benoliel, 2014). Though limited, empirical research has identified that well-known brands, including Midas Muffler Dealerships, Holiday Inn Hotels, Dairy Queen, Subway, Burger King, Pizza Hut, Taco Bell, and Kentucky Fried Chicken restaurants all have independent franchise associations (Lawrence & Kaufmann, 2010). In addition to franchise associations, franchise organizations today may also have other forms of franchisee structures that promote collaboration, either taking the form of formal advisory councils or ad-hoc groups of franchisees who meet regularly (Barkoff, Green-Kelly, 2006; Lawrence & Kaufmann, 2010;

Nathan, 2008; Shapiro & Zwisler, 1995). Practitioner data suggests that it is not uncommon for larger franchise organizations to have both an independent association and a franchise advisory council (Shapiro & Zwisler, 1995).

While franchise associations are influential and have been addressed by franchise attorneys and consultants, there is limited empirical data (Argyres & Bercovitz, 2013; Lawrence & Kaufmann, 2010). In a recent study, Argyres and Bercovitz (2013) found that the presence of a franchise association improves franchisee bargaining power by allowing franchisees to win longer-term contracts. Lawrence & Kaufmann (2010) found that franchise associations help create a community framework of franchisees who become stewards of the brand. Both studies were focused broadly on franchise associations membership overall, however, and neither investigated the governance of these associations. Since it is the governing boards of these franchise associations that work closely with the franchisor, we address this gap in the literature.

The governing body of the franchise association is the board of directors, which is elected by franchisees to pursue the objectives of the association for a pre-established term of office (Karp, Norman, & Stafford, 1999; Shapiro & Zwisler, 1995). The role of the franchisor on the board varies. In some franchise systems, the franchisors' help fund the association (Barkoff & Green-Kelly, 2006; Wulff & Trice, 1991). The franchisor may serve on the board in some systems, or may meet regularly (as non-members) with the officers of the board. Some franchisors may even attempt to ignore the association and its board (Barkoff & Green-Kelly, 2006; Darrin, Stadfield, Wulff, 1998; Gurnick & Wharton, 2000; Spandorf & Barkoff, 2003). Franchisors who recognize their franchise associations include KFC, Pizza Hut, Taco Bell, Arby's, Church's Chicken, Fazoli's, Burger King, Midas, Sylvan Learning Systems, Fantastic Sam's, Curves and Taco John's (Argyres & Bercovitz, 2013; Lawrence & Kaufmann, 2010; Spandorf & Barkoff, 2003).

The limited empirical literature on franchise associations indicates that two of the primary goals of these entities are representation of franchisee interests and development of community bonds (Argyres & Bercovitz, 2013; Lawrence & Kaufmann, 2010). Attorney practitioners (Karp, Norman & Stafford, 1999; Barkoff and Green-Kelly, 2006) offer an expanded list of functions that includes:

- An exchange of ideas between franchisees and between franchisor and franchisees
- A source of endorsement for initiatives being introduced to the system
- A safe communication forum to franchisees about changes proposed by the franchisor that may not be beneficial to their interests
- More purchasing power through co-operative buying arrangements
- Representation of franchisee interests
- The bonding between the franchisee community

From an HROD perspective, we would expand this list to include collaborative development of ideas and consideration of changes proposed by both the franchisor and franchisee.

### **Integration of Nonprofit Board Literature & Franchise Literature**

Similar to professional and trade associations, franchise associations can register as non-profit entities in most states (Wulff & Trice, 1991). While the empirical literature on franchise association boards is silent, Lyons (1999) positions the boards of business and professional associations within the nonprofit sector. Likewise, Cornforth (2004) compares co-operatives and mutual associations to nonprofit boards. Parker (2007) argues that the nonprofit sector organizations can be defined in multiple ways, including "organizations that are considered

nonprofit by law or custom, that are separate from government, self-governing and often owned by their members, do not distribute any surpluses to members or those who control them, and attract voluntary membership and service, often through committee and board memberships” (p. 1455). Scholars have made the case that these entities are comparable to nonprofits and use relevant literature from this arena to understand board governance (Friedman & Phillips, 2004; Parker, 2007).

Organizational theorists Meyer and Rowan (1977) make the persuasive argument that organizations employ ritualized controls of credentials and solidarity. Governing boards offer one example of a formal ritualized structure that seeks to control and bring unity of purpose. Furthermore, new organizations are frequently modeled after old ones and managers seek models upon which to build (DiMaggio & Powell, 1985). This imitation is evidenced by the literature on nonprofit board roles being similar to the for-profit literature on board governance (Nicholson & Newton, 2010). Based on this argument, we suggest there is ubiquity with respect to governing functions performed by boards across sectors that can help us understand franchise boards. We used nonprofit boards as a starting point to understand the theoretical underpinnings of board activities. A variety of competing organizational theories have been proposed to try to understand the role of boards in the nonprofit sector, including agency theory, stewardship theory, stakeholder theory, and resource dependency theory. A premise of this paper is that a number of these theories can be usefully extended to franchise boards.

Studies on nonprofit boards (Brown & Guo, 2010; Cornforth & Edwards, 1999; Dulewicz, MacMillan, & Herbert, 1995; Green & Griesinger, 1996; Inglis, Alexander, & Weaver, 1999) have examined nonprofit-board characteristics, roles, responsibilities, and effectiveness. Although the objectives of each study varied, each of these scholars classified the roles and responsibilities of nonprofit boards to capture the essence of specific functions. The various typologies suggest that board tasks could be classified from three broad components (Inglis et al., 1999) up to 13 distinct roles (Brown & Guo, 2010). Through an examination of the various typologies, we condensed these roles into four key functions: stewardship of the organization, legitimacy to harness resources, representation of stakeholders, and oversight or monitoring of the organization.

The five groups of scholars were in agreement that nonprofit boards play a role in strategy, both in setting the mission and values and in providing long-range thinking. A second common theme was the role that nonprofit boards play in securing financial resources and legitimizing the organization to the external world. Likewise, boards were also viewed as monitoring mechanisms. Four of the five scholars specifically emphasized that boards have a key role in representing stakeholders in the community. Table 1 demonstrates the high degree of commonality among these scholars, according to the four common roles we identified.

	Dulewicz et al. (1995)	Green & Griesinger (1996)	Cornforth & Edwards (1999)	Inglis et al. (1999)	Brown & Guo (2010)
Monitoring	X	X	X	X	X
Legitimacy/ Resources	X	X	X	X	X
Strategy	X	X	X	X	X
Representation	X	X	X		X

*Table 1.* Nonprofit board classification of roles.

The roles and responsibilities of franchise boards closely parallel those of nonprofit boards as shown in Table 2. Central with both types of boards is the monitoring function that protects stakeholders. Some franchise association boards were initiated to address a crisis involving an economic conflict of interest with the franchisor (Darrin, Stadfeld & Wulff, 1998). While nonprofits will have different stakeholders, both types of boards have a commitment to watchfulness with respect to management practices. Although franchise boards are not specifically involved in securing financial resources for the organization in the same manner as a nonprofit would be, franchisee boards provide a resource function by serving to endorse franchisor initiatives or acting as “cheerleaders” to convince the franchisees to support system initiatives (Spandorf & Barkoff, 2003); franchise associations also typically create co-operative purchasing arrangements that function to provide savings for members (Spandorf & Barkoff, 2003). With respect to the strategy role, franchise boards play a more limited role in long-term franchisor strategy, but they are involved in short-term strategic decisions that encompass product development, operational changes, and marketing direction (Barkoff, 2007; Mowji, 2006; Darrin, Stadfeld, & Wulff, 1998; McCosker et al., 1995; Webster, 1986; Ingage Consulting, n.d.). Finally, similar to nonprofit boards, the franchise board exists to represent stakeholders and provide franchisees a voice (Nathan, 2008; Shapiro & Zwisler, 1995; Spandorf & Barkoff, 2003). In the next section, literature on nonprofit and corporate boards is examined to understand theory associated with specific board roles.

	Nonprofit Board Roles	Franchise Board Roles
Monitoring	X	X
Legitimacy/Resources	X	X
Strategy	X	X
Representation	X	X

*Table 2.* Roles of nonprofit and franchise boards.

### **Theoretical Background for Board Roles**

In reviews of the research on the role of nonprofit boards, scholars have suggested multiple theoretical underpinnings to explain board behavior (Cornforth & Edwards, 1999; Miller-Millesen, 2003; Nicholson & Newton, 2010). In this article, we propose a conceptual framework to describe how the roles a franchise board performs also stems from organizational theories. Our conceptual framework for board roles was influenced by Cornforth and Edwards’

(1999) study of nonprofit boards, as well as Hung’s (1998) typology of corporate boards. These scholars’ conceptualizations have led to more understanding about why boards perform certain roles. Our framework, however, stresses the importance of building upon how organizational theory explains board roles by suggesting that the level of emphasis given to the roles can impact the type of relationship that exists between the franchisor and franchisees on the board. Stated simply, *what* a board emphasizes may very well shape the relationship between parties. Understanding these inter-group relationships has important implications for HROD scholars.

We focus on four role-sets that include: (a) safeguarding assets or what could be termed a *monitoring role*; (b) presenting a united front in a *linking role*; (c) adding value by improving decisions in a *strategy role*; and (d) advancing others’ interests in a *representing role* (Cornforth & Edwards, 1999; Hung, 1998). The *monitoring role* aligns with agency theory (Fama & Jensen, 1983), the *linking role* with resource-dependency theory (Pfeffer & Salanick, 1978), the *strategy role* with stewardship theory (Davis, Schoorman, & Donaldson, 1997), and the *representing role* aligning with stakeholder theory (Freeman, 1984).

We suggest an internal and external focus can be one way to classify the different theoretical perspectives, while also considering whether board members have an organizational or individual emphasis. We concur with Hung (1998), who suggested that boards that focus on *linking* have more of an external orientation, while boards with a *monitoring* emphasis are internally focused. Similarly, Knutsen and Brower (2010) suggested that boards emphasizing a *strategic role* have an organizational orientation, while boards emphasizing the *representing role* have an individual orientation. Figure 1 provides a representation of these various alignments of board role, theoretical orientation, and focus/priority.

<b>Board Role</b>	<b>Theory</b>	<b>Focus</b>
Monitoring	Agency <i>Fama &amp; Jensen (1983)</i>	Internal ↕
Linking	Resource Dependency <i>(Pfeffer &amp; Salanick (1978))</i>	External
Strategic	Stewardship <i>Donaldson and Davis (1989)</i>	Organization ↕
Representing	Stakeholder <i>Freeman (1984)</i>	Individual

Figure 1. Adapted from Cornforth and Edwards (1999) and Hung (1998).

### Monitoring Role

An agency perspective on boards focuses on the responsibility of the board to monitor the actions of the agent (Fama & Jensen 1983). Grounded in economics, this theory assumes that there are conflicting relationships between principals and agents. From an agency perspective, the board is an internal control mechanism composed of independent directors who guard against

moral hazard problems (Napoli, 2012; Miller- Milleon, 2003). Agency theory assumes that external board members have the power to control the behavior of the executive director (Cornforth & Edwards, 1999). Early studies of corporate boards focused almost exclusively on agency theory as an explanation for board roles and responsibilities (Pugliese, Bezemer, Zattoni, Huse, Van Den Bosch, & Volberda, 2009). Close monitoring is needed from outsiders to ensure the organization is conforming to established guidelines (Hung, 1998).

When monitoring is the favored role of a franchise board, the focus is on ensuring each side is adhering to the contractual obligations outlined in the franchise development agreement. This focus, therefore, is on the internal versus the external environment. The objective of the franchisee board members is to protect their constituents from possible overreach efforts from the franchisor. This might include the requirement for new capital investments by individual franchisees, changes to the design or logo of the product or establishment, increased franchisee contributions to the marketing fund, special promotions that drive sales (beneficial to franchisor) but are unprofitable for franchisees, or shifts in how marketing funds are utilized.

### **Linking Role**

The resource-dependence perspective suggests that boards serve the organization by securing resources (Pfeffer & Salancik, 1978). Pfeffer and Salancik noted that the four principal benefits of having external board members include advising, communicating, legitimizing, and securing resources. Further, a key role that board members play is that of ambassador in their community (Iecovich, 2005). Carpenter and Westphal's (2001) study found that boards with external members who have ties to strategically related organizations are able to provide better advice that, in turn, bolsters performance. With respect to communicating, external members of nonprofit boards link the organization to the community and serve as conduits for information (Napoli, 2012).

In franchising, the board offers the franchisor an important asset for getting out their message and can be seen as connectors and marketers to other franchisees for promoting the franchisor's position or in interacting with potential new recruits. For example, when franchisee board members endorse the franchisor's recommendations or policies, this paves the path for board acceptance among the rest of the franchise system (Spandorf & Barkoff, 2003). The franchisee board members may also help the franchisor by demonstrating to prospective new franchisees that the franchisor is committed to giving franchisees the opportunity for input. Hence, the board can become a marketing vehicle. Furthermore, franchise association boards can establish relationships with outside groups for products and services that benefit the members (Shapiro & Zwisler, 1995).

### **Strategy Role**

The strategy formulation role of a board emphasizes performance. The strategic role of boards involves the board members serving as partners to help develop and sustain mission and vision, set long-term strategic goals, and review initiatives (Hung, 1998). According to stewardship theory, "the behavior of the steward is collective, because the steward seeks to attain the objectives of the organization," (Davis, Schoorman, & Donaldson, 1997, p. 24). Unlike agency theory, there is no assumption of the need for control; rather, the board members are aligned with the executive director and help guide the organization to achieve its mission and vision (Hung, 1998). Under the lens of stewardship theory, the emphasis is on performance as opposed to the monitoring role or conformance focus.

When setting strategy is the primary role that a franchise board performs, the focus is organizational versus individual oriented. The board members seek to attain the objectives of the entire system above all else (Davis, Schoorman, & Donaldson, 1997). Franchisors may desire input from franchisees with respect to product innovation or brand reinvention when the competition intensifies (Spandorf & Barkoff, 2003). Change in franchise organizations can be particularly complex because of the number of franchisees in the system and the tendency to prefer the status quo. A franchise board can help strategize not only what changes to implement, but also how to execute these changes to avoid a collision with fellow franchisees (Shapiro & Zwisler, 1995).

### **Representing Role**

The representing role of governing boards is best explained by stakeholder theory, which offers a pluralistic approach, suggesting that there are many groups, besides owners and employees to whom the organization is accountable (Hung, 1998). One of the most cited definitions of a stakeholder is that of Freeman (1984), “any group or individual who can affect or is affected by the achievements of the organizations objectives” (p. 46). Stakeholder theory with respect to boards suggests that there are interests of other groups besides the corporation that must be taken into consideration. When boards are not focused on the needs of their constituencies, they may misinterpret the environment and enact misguided programs or policies. The individual constituencies, rather than the overarching organizational mission, are deemed the priority.

By participating on or working with franchise association boards, the franchisor adopts the view that input from franchisees is valuable and the interests of franchisees should be considered with respect to certain areas of influence. When a stakeholder philosophy guides the board, the emphasis of the board is on the individuals or franchisee constituents represented as opposed to a more organizational mission lens. In franchising, the competing interests of individual franchisee needs versus organizational needs can be illustrated by the economic issues. Franchisees will emphasize programs that drive bottom-line profitability, while the franchisor may desire top-line sales to demonstrate a vibrant and growing brand while not placing heavy consideration on profitability for franchisees. Taking a stakeholder view, however, the franchisor will empower franchisee decision-making in areas that concern their profitability. Rare is the franchisor that successfully institutes system-wide change without franchisee support (Hackel, 2013; Shapiro & Zwisler, 1995).

### **Linking Board Governance to Relationship Dynamics**

Using the literature outlined above, the model of board dynamics suggests that board roles can be placed on a continuum with boards (a) either being more internally or externally focused and (b) either being more concerned with the franchise organization or the individual franchisees (Figure 2).

On the horizontal axis, the internal/external dimension is noted. On one end are boards that have more of an internal focus, as they are concerned with *monitoring* the relationship. These boards operate from an agency perspective (Fama & Jensen, 1983). On the opposite end are boards with an external focus. These boards are concerned with *providing legitimacy and linkage* to enhance the reputation of the organization and secure resources. These boards embrace a resource-dependency theoretical orientation (Pfeffer & Salanick, 1978).

On the vertical axis, boards may focus on the good of the organization or be focused more on the interests of the individual franchisees. On the top of the axis is the *strategy role*, which places higher value on the long-term health of the organization. Such franchise boards would prioritize the needs of the franchise organization to grow, even if this caused short-term personal losses because they are operating as stewards of the firm (Donaldson & Davis, 1989). On the opposite end of the vertical axis is the *representing role*, stemming from stakeholder theory (Freeman, 1984). Using this lens, boards emphasize individual franchisees and view the board perceives their mission is to protect franchisees above protecting the brand.

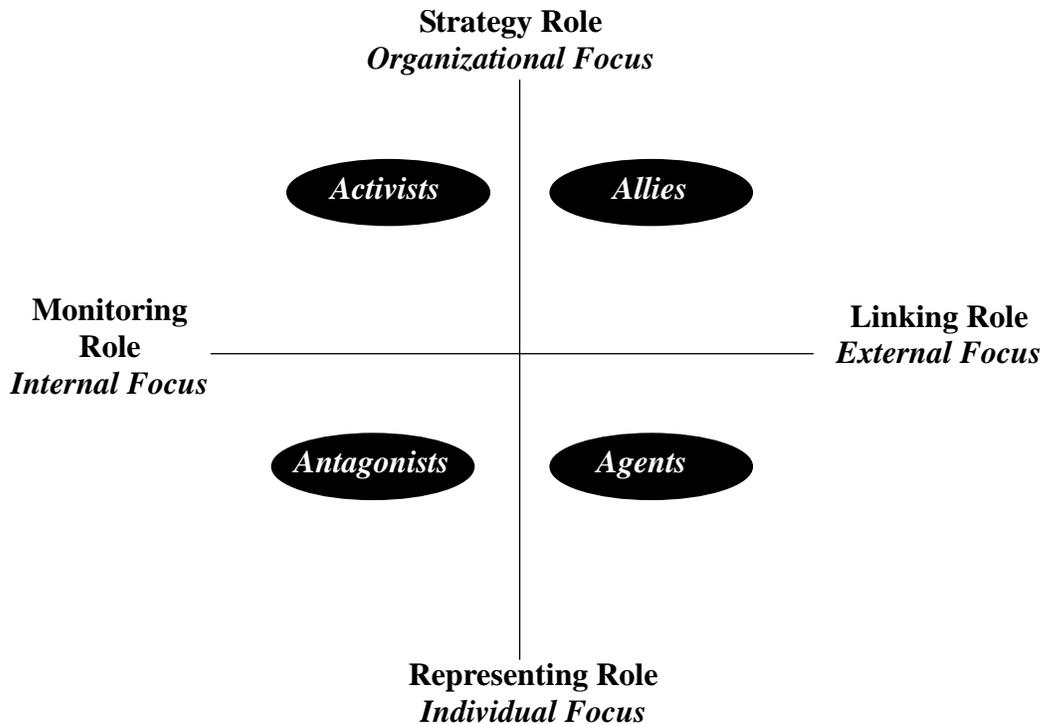


Figure 2. The relationship grid offers a conceptual framework for franchise advisory boards illustrating governance processes and board member relationships.

The four-quadrant grid of normative governance frames provides a process for categorizing the relationships of franchise boards. Figure 2 depicts the four groups (antagonists, agents, activists, and allies), which are described below. Each of these quadrants provides various opportunities and challenges for HROD professionals working with boards to address human capacity or organizational change.

### **Antagonists**

In this schema, boards that operate between the representing and monitoring frame are characterized as having an antagonistic stakeholder relationship. Board dynamics are fraught with dissension and distrust between franchisees and the franchisor. Each side uses various power bases to exert influence, and rather than trying to achieve a common goal, each side wants to dominate or control decision-making. The most extreme example of an antagonistic board relationship is one that leads to lawsuit with a judge ruling on disputed issues.

An example of this type of relationship is seen in 2009, when the Burger King franchise association filed a suit against the franchisor for requiring all franchisees to sell the double cheeseburger for \$1 on the value menu. Historically, franchisees have retained the right to set their own prices. The franchisor argued that the association does not have this right. The two-year litigation ended in 2011 when Burger King's new owners gave franchisees more input on the price of menu items and on how long special deals could be advertised. Steve Wiborg, the new president of Burger King at the time said, "We saw this as an opportunity to resolve our differences and move forward. Our system is 90 percent franchised and it's important for our franchisees to win." The chairman of Burger King's franchise board commented that the new management had engaged franchisees in a meaningful discussion and was "listening to their concerns" (Baertlein, 2011). Conversely, KFC's franchise association once sued KFC corporate over the right to develop and control the advertising strategy (Schreiner, 2011). A 2-year court battle ended with the judge siding with the corporation on their ability to direct the national advertising agency, but also siding with the franchisees that they can make and approve advertising plans. After a protracted battle in which neither side could claim a conclusive victory, the franchisee-board relationship was left in a stagnant and antagonistic mindset.

In instances where the franchisor is engulfed in an antagonistic relationship with the franchise association board, HROD professionals have the opportunity to draw upon labor-management studies (Galbraith, J., 1986) to develop frameworks that can be executed to improve the relationship between the franchisor and the association board. Another opportunity would be for HROD professionals to facilitate the development of a task force that is charged with creating a pact between the franchise association board and the franchisor that establishes key values and principles that help begin the dialogue for moving the relationship forward. In mature organizations, the HROD professional may need to promote "reflexiveness," or the ability to learn from prior actions (Beatty & Ulrich, 2011). The franchising history could be used to spotlight when the relationship was healthy between the franchisees and franchisor and what was accomplished during that time. In the antagonistic environment the HROD professional would assume a transformative change agent stance (Caldwell, 2001) since there would need to be a major change in the strategic approach the franchisor adopts with respect to the franchise association board.

## **Agents**

Boards that operate between the linking and representing role behave politically, but are mindful of the need to recruit new franchisees and maintain the "peace" in the franchisee-franchisor relationship. Such boards would be considered as having agent stakeholder relationships. Franchisors' who recognize that association board leaders are apt to have greater influence among the franchisee community are more likely to negotiate with the board on issues impacting the system (Shapiro & Zwisler, 1995). Securing the franchise association boards' approval and buy-in for pre-determined initiatives becomes the goal. Furthermore, franchisee board leaders may be asked to talk with prospective franchisees for recruitment purposes. Association board members may then use their power and encourage prospective franchisees to negotiate terms that the association advocates. In this quadrant, quid pro quo dialogue frequently operates, whereby the franchisor and franchisees on the board engage in "horse-trading." The danger in this relationship is when board members become indoctrinated into the trappings of being part of the board and the advantages that are associated with that position. Franchisees that serve on these boards may receive perks, such as tickets to high-profile sporting events, be given

access to senior leaders in the franchise system, or provided knowledge ahead of time about upcoming changes the franchisor is planning to initiate. Boards that fall victim to this behavior may become little more than “rubber stamps” for approving franchisor proposals.

When the association board is working with the franchisor in an agent type relationship, there are steps that HROD professionals could execute to help reduce the chances that the political process will become corrupt. One of the first areas of opportunity would be ethics training for the franchisor leaders and franchisee association board members. Because the chair of the board influences how meetings are conducted, how the agenda is set, and how decision-making processes occur (Bailely & Peck, 2013) there is an opportunity for HROD professionals to facilitate the relationship between the franchisor and the chair of the board to create a climate of transparency. Chairs have the ability to facilitate effective interactions and whether the franchisor is a member of the board, or merely works with the board, the chair is key to an effective relationship when the agent relationship operates.

### **Activists**

In the upper left quadrant are activist stakeholders, existing between the strategy role and monitoring role. These boards want to be intensely involved in decision-making on key issues. There is a more competitive relationship between the franchisor and franchisees based on the mindset that each party must protect its interests. Because of prior experiences, franchisees tend to be suspicious of the franchisors’ intentions. The activist board understands that franchisors and franchisees share the same goal, but strategies for achieving that goal may differ between the groups. Franchisors, for example, are frequently more willing to pursue aggressive discounting to bolster sales, because they receive royalties regardless of whether the franchisees are profitable. Franchisees, on the other hand, often resist aggressive pricing strategies because they erode franchisee earnings (e.g., a deeply discounted product increases overall sales and profits for the franchisor but the franchisee might be losing money on each sale).

Franchisors acting in an activist stakeholder frame, however, continue to seek the board’s input because they view franchisee input as valuable (Shapiro & Zwisler, 1995; Nathan, 2008). The franchisor relies on the board to help safeguard the brand by ensuring attention is focused on issues of importance to the collective system versus becoming mired in grievances from a small number of franchisees. Likewise, the franchisee board members recognize that while they represent the voice of the franchisee, they need to work collaboratively with the franchisor. The Denny’s franchise association board’s efforts to work with the franchisor to launch a gift card program embodied the activist relationship. The chair of the association board (DFA) said, “the negotiation of the legal documents, along with the financial settlement issues were worked out carefully before the franchisees were asked to participate” and that the “franchise community accepted the program and benefited from the hours and expertise of DFA board members who worked diligently for the good of the brand” (Axelton, 2011, p. 3).

In an activist relationship dynamic between the association board and the franchisor, the interventions from HROD professionals might be designed to help board members and franchisor leaders become more effective in their communication with one another. HROD professionals might observe board meetings and provide feedback on the overt behavior that occurs during meetings (Cummings & Worley, 2009). Furthermore, in an effort to uncover possible issues, a board assessment survey could be undertaken by HROD professionals to identify any issues that may suggest differences between the franchisor and franchisees’ on what roles each group is expected to take on the board. Lack of role clarity is one of the leading issues

for board dysfunction (Brown & Guo, 2010). With respect to the concept of improving individual board member interactions, HROD professionals could recommend training or mentoring programs for new board members.

### **Allies**

In the upper right quadrant are boards that emphasize a strategic role and linking role. Characterized as allies, these boards have two-way discussions, and both franchisees and franchisors bring insight and advice to meetings. The franchisees' attitudes are one of trust towards the franchisor. Power in this relationship is shared and the franchisor brings issues to the board early to seek advice and encourages dialogue between franchisees. Recognition that franchisees are a valuable resource characterizes this relationship. Such is possibly the case between the Curves' Franchise Association and the franchisor. The Curves' franchise association's attorney stated publicly, "the company has supported a completely independent association, both financially, and through open and continuous access to Curves' senior management and have embraced the CFA as a valuable source of information. That's contributed to noticeable improvements in the system for both the franchisees and the franchisor – exactly how a healthy franchisor-franchisee relationships should work" (Sniegowski, 2009, para. 3).

HROD's role in franchise organizations operating in the allies quadrant is to continue to encourage shared decision-making and partnership in aligning human capital with system-wide goals. This can include partnership in developing training initiatives, workforce planning initiatives, and reward schemes. Ideally, there would be joint strategic planning initiatives that would consider this aligned of human capacity and organizational goals. Another key consideration in this more decentralized approach to power is to ensure that there are clear boundaries of responsibility regarding the areas in which each party has input. In addition, HROD professionals must be proactive in ensuring that the franchisor leaders and association board members spend enough time together to facilitate communication.

Each of the four archetypes provides HROD researchers and practitioners a way to characterize the relationship of a board based on what roles the board emphasizes and possible roles for HROD professionals. The relationship grid may be applicable to assessing a single board meeting or single interaction over an organizational change initiative because every group will demonstrate behaviors and attitudes that could align with any of the four quadrants. In other words, these are temporary attitudes and perceptions, which tend to change rapidly. However, long-standing groups will tend to develop a dominant style of working together that lasts over a period of time.

As a limitation, we recognize that the roles boards emphasize are only one element that may influence the relationship. We believe the dynamics on the board will also be influenced by organizational factors such as the age of the franchise board, governance processes, engagement of the board members, and leadership norms. Furthermore, when an environmental jolt occurs, such as a new franchisor comes aboard (e.g., franchisor purchased by a private equity firm), key leaders depart from the board or some upheaval occurs that threatens the firm, the franchise board's relationship may also shift from one quadrant to another. These variables are not necessarily directly accounted for in this framework.

### **Implications for Research and Practice**

As a way of improving relationships and performance in franchise organizations, franchise boards serve a central role in helping these organizations meet goals of multiple stakeholder groups. Despite the size of the sector, the HROD literature has been largely silent on how issues of change, performance, and learning within franchise organizations. One exception is a study by Truss (2004), which illustrates the importance of franchisee/franchisor relationships and variable approaches to organizational change and training initiatives. Our paper is an attempt to add to the research in order to deepen the applicability of HROD research to the franchise sector and to influence future practice.

Brilhart (1986) defined group dynamics as “a field of inquiry concerned with the nature of small groups, including how they develop and interact, and their relationships with individuals, other groups, and institutions” (p. 3). Our board matrix suggests that the relationship between franchisee and franchisor board members is a complex interaction shaped by the roles the board emphasizes. The matrix offers a way to classify these group dynamics, which has implications for HROD on multiple levels. In the context of theory building, this is a testable typology that could consider how the roles the board emphasizes impact whether there is a positive or negative relationship between the franchisee and franchisor board members.

The matrix typology presented is a worthwhile approach for researchers to consider group dynamics. It provides a way to characterize how the roles performed by a franchise board related to dominant theoretical perspectives of board functioning. These organizational theories are based on different world-views (Davis, Schoorman, & Donaldson, 1997) that make different assumptions about human nature. Because of these different assumptions about behavior, the relationship dynamics between franchisor and franchisees will be impacted if there is an over emphasis on one particular role. For example, agency theory assumes a suspicious view of managerial behavior (Fama & Jensen, 1983; Jensen & Meckling, 1976), while stewardship theory argues that external board members and internal management are partners aligned on the same objectives (Davis, Schoorman, & Donaldson 1997). Meanwhile, stakeholder theory focuses on a broad constituency that needs to be represented by having a voice in decisions (Freeman, 1984), while resource-dependency theory stresses the need for scanning the environmental and accessing resources (Pfeffer & Salanick, 1978).

While empirical literature has aligned theories with corporate (Hung, 1998) and nonprofit boards (Miller-Milleson, 2003), the literature relating organizational theory to franchise boards has been silent. Our framework attempts to fill that gap by focusing on roles that the franchise board performs as signaling the type of relationship operating between franchisees and the franchisor.

### **Implications for Future Research**

Testing the four-quadrant conceptual framework presented in this article could be conducted both qualitatively and quantitatively. Interviews and observations of board behavior could illuminate decision-making norms and power relationships. Board performance, chair leadership, board cohesiveness, board roles have been measured in studies of corporate and nonprofit boards and constructs could be adapted for franchise boards. An assessment tool could be operationalized to measure each of the four role-sets and assess whether emphasis on specific roles impacts relationship dynamics between the franchisees and the franchisor. Once empirically validated, this board assessment could be used to help franchise boards identify which quadrant best represents their boards' relationship. While no board will likely match the

criteria on every measure, a board will have more in common with one classification than another.

Empirical research is also needed to understand whether franchisors, as voting members or invited attendees, result in different perceptions of franchisee-franchisor relationships. A related research opportunity would be to examine whether there is a relationship between franchisee satisfaction, firm performance, and the types of board relationships that are operating. This line of research could be extended by considering how HROD strategy and interventions should be calibrated in light of these variables. While we have focused on the board as a group, an additional area of study would be the individual competencies needed for leading franchise boards, as well as the skills needed to be an effective member.

Dant, Grunhagen and Windsperger (2011, p. 258) argue that “anecdotal evidence” is surfacing that suggests franchisees are gaining traction in the asymmetrical relationship of this business format. Further development around the relationships on boards could also examine whether the franchisor and franchisee board members are aligned on the roles the board should perform. If franchisee and franchisor expectations differ regarding the roles the board performs, then HROD interventions such as board member orientations, OD group process, and training programs could be evaluated for effectiveness in impacting the franchisor-franchisee relationship. Motivation to participate in such OD and training efforts should be considered in light of research pointing to the importance of collaborative decision-making, clearly communicating outcomes, discussing benefit for participants (e.g., Baldwin & Ford, 1998; Hurtz, & Williams, 2009; Nadler, 2006; Schein, 1999).

Since franchising is a major provider of employment in the U.S., accounting for over eight million jobs (Haller, 2013), the impact of franchise boards is not something to be ignored. Gaining knowledge that can facilitate the relationship between franchisees and franchisors is valuable in that satisfied franchisees are more likely to become multi-unit operators who help drive employment.

### **Implications for Practice**

A central role of HROD practitioners is to encourage fruitful dialogue and relationships among stakeholders in order to utilize human capacity for meeting organizational goals. In franchise organizations, those organizational goals are more complex than in some other types of organizations due to the additional stakeholders who are central to organizational success.

Building and maintaining well-functioning franchise boards can create an effective two-way communication system between franchisors and franchisees (Axelton, 2013; Nathan, 2008; Wulff, 2005). Simply put, a well-run board can help a franchise organization be successful. Conversely, a dysfunctional board is not something the franchisor can afford to ignore. When dysfunctional behaviors do arise in franchise boards, the board chair or the franchisor needs to step in. We believe the image of the matrix, for classification purposes, provides a helpful mechanism for HROD practitioners to assess the nature of board relationships. One of the authors has been involved with action research to test this model with eight franchise boards and early findings show that it resonates with practitioners in helping them improve franchise-franchisor relations.

Using the matrix, practitioners can help these groups gain a deeper understanding about why their relationship may shift between quadrants depending on what roles the board emphasizes. HROD team members employed by the franchisor may want to provide learning and development opportunities for board members. Depending on the issue, HROD professionals can

recommend training efforts to improve poor listening skills, establish norms for working together, and/or teach conflict management strategies. They might also consider OD interventions for improving group dynamics and norms, strategic goal setting, and understanding of mutual expectations.

Another area of promise with this typology is franchisee and franchisor board members considering annual board assessments. As boards begin to understand “how” they are working together they improve their ability to function as a team. A cohesive team culture creates an environment conducive to information exchange and the ability to debate issues in a constructive manner that often proves critical to an organization’s long-term success.

In an ideal world, franchise boards would not only contribute to an improved relationship between franchisees and the franchisor, they help drive business performance and elevate franchisees satisfaction. Highlighting how the roles the board emphasizes may impact the relationship is a way to initiate conversations about how HROD efforts can help good boards become better, and dysfunctional boards become functional.

### **Conclusion**

One role of HROD is facilitating opportunities for groups to function in a manner that optimizes productivity and creates sustaining relationships within organizations. High performing boards do not appear out of nowhere; rather they take time, energy, and commitment (Nadler, 2004). The working relationship between the board and the franchisor can be the key to successful interactions that help the organization perform. The practice of introspection can help a board navigate challenges and avoid migrating to an “us versus them” mentality.

In this conceptual paper, four critical board roles were delineated and associated with four specific theoretical explanations. Furthermore, we suggested that the amount of emphasis placed on these four roles by board members influences the group dynamics and, in turn, impacts the relationship between franchisor and franchisees serving on the board. Future research will undoubtedly lead to expanding and building upon the ideas introduced in this paper.

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