SIMILAR, BUT DIFFERENT? OWNERSHIP FORM, HUMAN RESOURCE MANAGEMENT, AND PERFORMANCE IN FRANCHISE BUSINESSES

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This dissertation is organized as a three paper thesis on the effects of ownership structure on human resource systems and outcomes in franchise businesses. Using qualitative field research and quantitative establishment-level survey and matched performance data from a large hotel company, I examine how and why differences between franchise and company forms of ownership shape: 1) the management of human resource systems across ownership forms, paying particular attention to the role of intra- and inter-firm relationships between franchisors and their units; 2) the specific human resource practices adopted across franchise and company operations; and 3) the relationship between human resource practices, and employee and organizational outcomes across ownership forms. I find significant differences in the management and types of human resource systems adopted across franchise and company forms of ownership. I also find that differences in human resource systems across ownership forms influence employee organizational citizenship behaviors and customer satisfaction, but ownership form also has independent and offsetting effects on both of these outcomes. The results suggest that while franchise and company operations are in many ways similar, their human resource systems and performance outcomes are different.

BIOGRAPHICAL SKETCH

Tashlin Lakhani was born and raised in Guelph, Ontario Canada. Prior to completing her Ph.D., she received a Master of Science in Industrial and Labor Relations from Cornell University, a Master of Industrial Relations from Queen's University, and an Honors Bachelor of Business Administration with High Distinction from Wilfrid Laurier University. Tashlin has received numerous academic awards including the Alumni Gold Medal at Wilfrid Laurier University, the R.S. McLaughlin Fellowship and the Cameron-Wood Prize at Queen's University, the Seidman Prize at Cornell University, and a Social Sciences and Humanities Research Council of Canada Doctoral Fellowship.

To my parents.

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CHAPTER 1

OUR BUSINESS, *YOUR* EMPLOYEES: THE MANAGEMENT OF HUMAN RESOURCE SYSTEMS IN FRANCHISE BUSINESSES

ABSTRACT

Despite the growth and significance of franchising in today's economy, we know very little about how human resource systems are managed in franchised operations, especially compared to similar company-owned and managed operations in franchise businesses. This study examines the management practices of franchise businesses in one of the most highly franchised industries in the U.S., the hotel industry, exploring the ways in which human resource systems are managed across ownership forms and paying particular attention to the level of corporate (franchisor) involvement in the management of these systems. The results of a matched-pair case study comparison of a franchisee-owned hotel and a company-managed hotel operating under the same parent company reveal significant differences in the management of human resource systems across ownership forms. While corporate provides franchisees with methods of operation and ongoing support, this does not extend to matters of employment. With the exception of training, human resource practices are decentralized to, and at the discretion of, the franchisee. In contrast, corporate has a high level of involvement in all aspects of the company-managed hotel's human resource system. Three potential explanations, and their implications, for the observed differences in the management of human resource systems across franchised and company operations are outlined: 1) franchisor fears over potential liability for the actions of its franchisees; 2) the classification of employment decisions as "tactical" rather than "strategic" in nature; and 3) the entrepreneurial nature of franchised operations. The study concludes with suggestions for future research.

Keywords: franchise businesses; human resource systems; ownership form.

INTRODUCTION

The last three decades have witnessed an explosion in new forms of economic organization both in the United States (US) and abroad. One such form has been that of franchising. Today, one in every 10 US businesses is franchised (US Census Bureau 2010). Moreover, franchise businesses have directly and indirectly contributed $2.1 trillion to the US economy, accounting for 9% of all private sector output[1]. Franchise businesses are also a significant source of employment, directly and indirectly generating more than 17 million jobs and encompassing 11.8% of the US private sector workforce (IFA 2013). For many firms, the franchise form of business ownership represents a viable alternative to the traditional, hierarchical company form. Firms in a multitude of industries have begun to operate franchised units alongside their existing company units in an effort to expand more quickly and efficiently. Yet, we know very little about how human resource (HR) systems are managed under this new ownership form, especially compared to the traditional company ownership form. In particular, while we know that franchisors provide franchisees with a product/service, trademark and methods of operation[2], just how far do these methods extend? Does this include HR strategies and practices? How are human resource systems managed across franchised and company units in franchise businesses? Moreover, how much involvement does corporate (the franchisor) have in the management of these systems?

Building on resource-scarcity theories and agency theories, researchers have given considerable attention to why firms choose to own or franchise units (e.g. Oxenfeldt and Kelly 1969; Caves and Murphy 1976; Rubin 1978; Brickley and Dark 1987) and the performance consequences of franchising (Michael 2000; Kosova, Lafontaine and Perrigot 2010). Little attention, however, has been given to how franchise businesses and more specifically, their

[1] "Franchise businesses" refer to all businesses that are part of a franchise system. This includes both franchisee-owned and franchisor/company-owned or managed establishments.
[2] This definition of franchising represents the business format form of franchising as opposed to product/trademark franchising in which the franchisor grants a license to the franchisee to use their trademark or sell their products but with little guidance as to the methods of operation (Alon 2006). Since business format franchising accounts for the majority of growth, employment and output in franchising (IFA 2013), it will be the focus of this study.

human resource systems, are managed. Although some studies have examined how company and franchised units are managed in franchise businesses, they have primarily focused on operational issues (Bradach 1998; Birkeland 2002), largely ignoring issues of work organization and the management of employees within and across those units. The few studies that have looked at employment have focused on differences in human resource practices between franchised operations and similar independent operations (Cappelli and Hamori 2008) or have compared franchised units to comparable company units on a narrow range of practices (Krueger 1991; Ji and Weil 2009; Freedman and Kosova 2010) or actors (Castrogiovanni and Kidwell 2010). Nevertheless, these studies do not examine how human resource systems are actually managed in franchise businesses and instead, attribute similarities and differences in practices across ownership forms to assumptions of how human resource systems are managed and/or differences in incentives[3]. For example, Cappelli and Hamori (2008) demonstrate that franchise operations have more sophisticated systems of employment than non-franchise operations and attribute this, in large part, to standardized franchise operating procedures: "If the essence of franchise management is to identify effective management practices, then standardize and distribute them across franchise outlets, it is not obvious why franchise operations would not also include high performance work practices in their portfolio" (149). Here, the authors assume that human resource practices are part and parcel of the franchise system provided to franchisees. In contrast, studies which have compared human resource practices in franchised operations to similar company operations, such as those by Krueger (1991) and Freedman and Kosova (2001) on employee compensation and that by Ji and Weil (2009) on labor standards compliance, have found differences in practices across ownership forms and attribute these differences to comparative ownership incentives. In these studies, the authors assume that human resource

[3] An exception here is Truss (2004) who examines inter-firm relationships and the management of human resources in product-based car distribution franchises in the UK. Although not the focus here, Truss' findings offer an interesting contrast to the findings of this study in a business format franchise and different institutional context.

practices are not dictated by the franchisor or that franchisees, at the very least, have some discretion with regards to matters of employment.

Evidently, we still lack a clear understanding of how human resource systems are managed across franchised and company forms of ownership. Understanding this is important not only because a growing number of workers now find themselves employed by franchise businesses but also because previous research indicates that HR strategies and practices affect organizational performance (Combs et al 2006). In particular, research has shown that HR practices affect employee outcomes, such as turnover, and that these outcomes, in turn, affect organizational outcomes including but not limited to customer satisfaction and financial performance. Accordingly, differences in the management of human resource systems across franchise and company units may lead to differences in employee outcomes and ultimately, organizational outcomes. And since franchise units and company units are replicated, operationally indistinguishable operations that share a common brand name, the effects can be far reaching. Thus, understanding how human resource systems are managed across franchised and company units in franchise businesses can provide us with a better understanding of factors which may affect the success and long-term viability of both individual units and the larger organizations to which those units belong. This is especially important when we take into account the role of franchise businesses as drivers of economic growth and the fact that as many as three fourths of new franchise systems die within 10 years of establishment (Shane 1996).

In this paper, I examine how franchise businesses manage their human resource systems in one of the most highly franchised industries in the US, the hotel industry, paying particular attention to the level of corporate involvement in these systems. Using a matched-pair case study comparison of a franchisee-owned hotel and a company-managed hotel operating under the same parent company, I find significant differences in the management of human resource systems across ownership forms. While corporate has a high level of involvement in all aspects of the company-managed hotel's human resource system, they take a much more hands-off approach to the human resource system of the franchisee-owned hotel, with most human resource practices, apart from training, decentralized to, and at the discretion of, the franchisee. Three potential explanations, and their implications, for the observed differences are outlined.

FRANCHISE BUSINESSES

Company Units vs. Franchised Units

Franchise businesses are typically made up of both franchised units and company units. Company units can either be company-owned and operated or company-managed. Company-owned operations are those that the company not only manages but also has an ownership interest in. Company-managed operations are those that the company manages but does not own. In these operations, the company contracts with the owners to manage the business on their behalf, using the company's brand-name, in exchange for management fees. Owners retain legal and financial responsibility and receive the profits from the business (minus management fees) but are not involved in day-to-day operations and in most cases, have contractually agreed not to interfere with the company's management of the business (Guilding 2003; Freedman and Kosova 2010). In this way, company-managed units are very similar to company-owned units in that the company assumes full management control over operations.

Franchising represents an alternative to traditional company forms of ownership. In exchange for an upfront lump sum payment and annual royalty fees (typically a % of gross revenues), a company (franchisor) grants an individual (franchisee) the right to sell its product or service using its brand-name and business system (Shane 1996; Alon 2006). The latter typically includes methods of operation and ongoing support and guidance. The franchisee is responsible for day-to-day operations and receives the profits from the business (minus royalties).

In contrast to company arrangements then, which are characterized by employment contracts with company personnel, an internal system of rewards for managers in the form of salaries and bonuses, and authoritative hierarchical top-down influence, franchise arrangements are characterized by business contracts between the franchisee and the franchisor, an external system of rewards in the form of profits, and a negotiated partnership between an independent entrepreneur and a larger organization (Bradach 1998).

Nevertheless, there is some debate over the extent to which franchise arrangements are actually different from company arrangements and some have even gone as far as to argue that franchisees are akin to managers of what are, in effect, "subsidiaries" of the company. We examine these arguments and the nature of the franchise relationship next.

The Franchise Relationship

The franchise relationship can be characterized as one of both legal independence and economic interdependence. On the one hand, the franchisor and the franchisee are legally independent entities and franchise agreements often classify franchisees as "independent contractors" that are responsible for the management and operation of their own businesses. This implies that franchisees have a high degree of autonomy and discretion. On the other hand, the franchisee and the franchisor are partners. The franchisee adopts the franchisor's brand-name and the franchisor provides the franchisee with managerial assistance, training, advertising assistance, operating procedures and site selection (Rubin 1978). Moreover, both the franchisee and the franchisor have a vested interest in the success of the franchised operation. The franchisee has invested financial capital and benefits from the profits of the operation. The franchisor has invested intellectual capital, in the form of its name and trademarks, and benefits from ongoing royalties, which are based on the franchised operation's revenues.

There is some question, however, as to the equality of this "partnership". To be sure, the franchisor has extensive contractual control over the franchisee and the franchise agreement typically includes strict provisions regarding the use of trademarks, operating procedures and record-keeping (Ji and Weil 2009). The franchisor also places limits on the franchisee's ability to sell the operation and retains the unilateral right to terminate the franchise agreement (Brickley and Dark 1987). So how does the franchise relationship play out in reality? How much independence do franchisees actually have?

In his analysis of the McDonald's franchise system, Royle (2000) argues that given their lack of autonomy as well as the company's extensive control over most aspects of operations and the ease with which the company can terminate the franchise contract, franchisees are just as restricted as company managers and as a result, "the relationship between the franchisor and the franchisee is arguably one that is closer to the employee and employer relationship" (53). In contrast, there is some evidence that franchisees may have more autonomy than otherwise believed. For example, while Stanworth (1995) found little formal independence in the franchise relationship in his analysis of franchise contracts and described the formal relations between the franchisor and franchisee as "dependently-one sided" (165), he also argues that franchisees have some degree of operational independence which is not reflected in formal contracts. Using questionnaire responses of franchisees and franchisors, he indicates that franchisees believed that they had control over hours of operation, employment of staff, staff wage levels, service quality standards, bookkeeping and local advertising while franchisors only had control over the product/service mix and pricing. It is worth noting however that the franchisors in his study were not in complete agreement with franchisee responses. Specifically, while franchisors agreed that they have primary responsibility for the product service mix and pricing and that franchisees had primary responsibility for hours of operation, staff wage levels and bookkeeping, franchisors did not agree that franchisees had primary discretion over the employment of staff, service quality standards and local advertising. Hunt (1972) found similar results regarding franchisee beliefs of independence in a survey of 1000 franchisees, with franchisees claiming control over key operating areas such as hours of operation, bookkeeping, local advertising, pricing, standards of cleanliness and the number of employees. However, Hunt also concluded that franchisors exert significant control over franchisees through franchise agreements that include specific procedures for operating the business and that "many franchise agreements provide powerful evidence that they are one-sided contracts of adhesion rather than balanced, negotiated agreements" (38). Finally, in his study of five restaurant chains, Bradach (1998) argues that while franchisees have discretion over tactical decisions, such as pricing, suppliers (though suppliers had to be preapproved by the franchisor), the deployment of labor and local marketing, they did not have the ability to make strategic decisions – decisions that had the potential to affect the uniformity of the product or service being provided.

As these studies demonstrate, it is not clear how much independence franchisees actually have in their operations. Perhaps more importantly, for the purposes of this study, it is not at all evident how much discretion franchisees have over their human resource systems and what the role of the franchisor is in the management of these systems. For example, while Royle (2000) notes that franchisees have more control with regards to matters of employment than managers of company-owned operations, he also demonstrates that the company (McDonald's) maintains considerable influence over staffing, training and labor costs in its franchised operations. Similarly, while Stanworth (1995) provides evidence that franchisees believe that they have significant control over the employment and compensation of staff in their operations, the franchisors in his study did not completely agree. Moreover, while both Hunt (1972) and Bradach (1998) indicate that franchisees seem to have discretion over staffing in franchised operations, they do not examine or discuss the degree to which franchisees have discretion over other elements of the employment system such as training, compensation and performance management.

Accordingly, this paper aims to examine how human resource systems are managed in both franchisee-owned and company-managed operations, paying particular attention to the discretion of franchisees and the level of corporate involvement in the management of these systems.

METHODS

Research Setting

The focus of this study is a single industry, namely the hotel industry. The hotel industry provides an ideal context for examining how human resource systems are managed across ownership forms for a number of reasons. First, franchising is not only prevalent in the hotel industry but is expected to grow in importance in the industry in the years to come (Michael

2000). In 2005, franchise businesses made up 29.8% of jobs, 28.6% of payroll and 25.3% of establishments in the lodging industry and produced over $48.0 billion in output (IFA 2005). Moreover, nearly two-thirds of branded hotels in the US are franchised (Diaz-Bernardo 2010). Second, the hotel industry shares many characteristics with other service industries engaging in franchising and can thus provide us with insights as to how franchise businesses in these other industries likely manage their human resource systems as well. Similar to many other service industries, the hotel industry is a low-skilled, labor intensive service industry, uses business-format franchising rather than product/trademark franchising and continues to operate franchised units alongside company units in plural form organizations, with franchisee-owned establishments outnumbering franchisor or company-owned establishments (IFA 2005). Finally, focusing on a single industry not only provides an in-depth understanding of how franchising takes place in the industry but more importantly, allows us to control for any between-industry differences that may exist in the operation and management of company and franchised operations.

Research Design

This study utilizes an inductive qualitative case study approach. In particular, a matched-pair case study design is utilized in which two hotels – one franchisee-owned and one company-managed – are compared. A number of factors contribute to making these two hotels a "matched" pair. First, both hotels belong to the same parent organization[4]. The parent organization is a large global hospitality company that owns, manages and franchises a portfolio of brand-name hotels in a wide range of market segments including luxury, full service, select service, limited service, extended stay and time share. Second, they are both upscale, full-service hotels that cater to leisure and convention customer markets and operate within the same city, a major business, convention and urban tourist market ranking among the top travel markets

[4] In order to protect the identities of the case study hotels, the names of the parent organization, the hotels and the respondents as well as detailed data on the city in which they operate are not provided here. Any other information which would make it possible to identify the hotels has also been removed to preserve confidentiality.

nationwide. Third, they are both classified as 3 Diamond hotels under the AAA Diamond Rating System. These ratings represent a combination of the overall level of quality, facilities and services offered by a property and a 3 Diamond rating is given to hotels that "appeal to the traveler with comprehensive needs. Properties are multifaceted with a distinguished style, including marked upgrades in the quality of physical attributes, amenities, and level of comfort provided" (AAA 2010). Finally, both hotels belong to the same rewards category in their parent organization's customer loyalty program. According to the parent organization's website, hotels are arranged into reward categories based on the location and type of hotel. The fact that the two case study hotels have been placed in the same rewards category seems to indicate that the parent organization assigns equivalent value to these two hotels – yet another reason why these hotels can be considered matched. Table 1.1 provides a summary of these characteristics.

Table 1.1: Characteristics of the Two Case Study Hotels

	Franchisee-Owned Hotel	**Company-Managed Hotel**
Parent Organization	Hotel Company A	Hotel Company A
Brand	Chain I	Chain II
Market Segment	Full Service	Full Service
AAA Diamond Rating	3 Diamond	3 Diamond
Customer Segment	Convention, Leisure	Convention, Leisure
Market/Location	City A – Major tourist, business, convention market	City A – Major tourist, business, convention market
Parent Organization Customer Rewards Program Category	6	6
Total Guest Rooms	~250 Rooms	~1500 Rooms
Total Employment	~140 employees	~800 employees
Age (Year Opened)	2006	1984; Renovated in 2007
Unionized?	No	Yes

As can be seen in Table 1.1, there are also noteworthy differences between these two hotels aside from their ownership form. To begin with, the hotels operate under different brand-name chains and thus, between-brand differences or brand specific effects cannot be controlled for. Nevertheless, given that both hotels operate in the same market segment, cater to the same customer markets, operate in the same city and appear to be valued similarly by the parent company, there is no reason to believe that between-brand differences exist in how franchised and company units are managed or that any such brand specific effects would be significant enough to make these hotels "unmatched".

Three other differences are worth mentioning here: size, age and unionization. The hotels differ significantly with regards to size, measured in terms of total guest rooms, with the company-managed case study hotel approximately six times the size of the franchisee-owned case study hotel. When measured in terms of total employment, the company-managed hotel is still over five times larger than the franchisee-owned hotel, with a total of 800 employees compared to only 140 employees in the latter. The two hotels also differ in age, calculated based on the year of hotel opening. The franchisee-owned unit is a relatively new hotel while the company-managed unit is a much older, though recently renovated, hotel. Last, while the company-managed hotel is unionized, the franchisee-owned hotel is not. All three factors – size, age and union status – have the potential to affect work organization and the use of certain employment practices. Indeed, past research has shown that larger firms have more resources and are thus more likely to employ "sophisticated" HR practices than smaller firms (Jackson and Schuler 1995). Research has also shown a positive relationship between firm size and the formality of HR practices (Cardon and Stevens 2004; Kotey and Slade 2005). Similarly, research has indicated that older firms are likely to have more organized and mature HR systems (Kaufman 2010). A union effect on employment practices has also been documented, with the strongest effects being noted for compensation, working conditions and job security (Freeman and Medoff 1984; Lawler and Mohrman 1987; Zuberi 2006) [5]. Notwithstanding these documented effects however, the differences in size, age and union status between the two case

[5] It is worth nothing that one study in the US hotel industry found that union effects come from union density in the cities in which firms operate rather than actual union presence in a given workplace (Bernhardt, Dresser and Hatton 2003).

study hotels are not likely to be important here as the purpose of this study is not to compare human resource practices or job quality *per se* but rather, to examine how the nature of operations and in particular, the ownership structure of the two hotels affects the management of human resource systems. That is, while firm size, age and union status may affect *what* human resource systems look like, in terms of the specific practices used, they are much less likely to affect *how* firms manage their human resource systems across ownership forms and in particular, the extent of corporate involvement in the management of these systems.

Data Collection

Data for this study was collected in the spring and summer of 2010. The research methodology was primarily qualitative and data was gathered through interviews and the examination of both organizational and publicly available archival documents.

In-depth, face-to-face interviews were conducted on-site at the two hotels with a wide range of managerial employees as these individuals are responsible for implementing human resource practices and most able to ascertain corporate's role in day-to-day operations. In order to ensure comparability across cases, a common semi-structured interview guide was used for each respondent. Open-ended questions were used to elicit respondents' views of how, and why, the ownership structure of their hotel affected the way they managed their human resource systems. Probing questions were used to establish details, particularly regarding the nature of operations and specific elements of the human resource system in each hotel. Follow-up interviews, where necessary, were conducted by telephone. In total, over 20 interviews were conducted. This included interviews with the General Manager (GM) and HR directors and managers as well as various departmental directors in the two case study hotels. I also interviewed several other informants without direct connections to the case study hotels. These included industry professionals at industry roundtables and conferences, a franchisee of two express location quick-service restaurants located in the company-managed case study hotel and a Director of HR for a company-managed hotel in an adjacent city operating under the same parent organization as the two case study hotels and in the same brand-name chain as the company-managed case study hotel. These interviews served to expand my understanding of how franchise and company-managed units operate and manage their human resource systems. Moreover, the interview with the Director of HR at the second company-managed hotel helped to validate my findings from the company-managed case study hotel[6].

In addition to these interviews, archival material was also collected. This included employee handbooks, corporate, prospective franchisee and property-level brochures, hotel chain fact sheets and Franchise Disclosure Documents (FDDs)[7] for both hotels. In addition, a corporate quality assurance inspection checklist was obtained for the franchisee-owned hotel and recruitment material and the current collective bargaining agreement were obtained for the company-managed hotel.

Data Analysis

Consistent with previous inductive research (e.g. Brown and Eisenhardt 1997), the data was analyzed by first building individual case studies and then comparing across the cases to uncover similarities and differences in the management of the two hotels. In each case, the focus was on gaining an in-depth understanding of the nature of operations and how the human resource system was managed in that particular hotel. Using the interviews and archival material, a detailed case study was written for each hotel. This was an iterative process in which the data was revisited and follow-up interviews were conducted to clarify or elaborate important aspects of operations and human resource systems as they emerged within each case. Once these

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[6] This hotel is located in the same county as the two case study hotels. Like the company-managed hotel, it was built in the 1980s, has recently been renovated and is unionized but is relatively smaller with just under 500 rooms.

[7] A FDD, formerly referred to as a Uniform Franchise Offering Circular (UFOC), is a legal document that must be provided by the franchisor to a prospective franchisee under the Federal Trade Commission (FTC) Franchise Rule (FTC Franchise Rule Compliance Guide 2008). It is a detailed document intended to help prospective franchisees make an educated decision about purchasing the franchise. It has a total of 23 sections and outlines all aspects of the franchise system, including information about the licensor and any parents, predecessors and affiliates, the business experience of key personnel, litigation involving the business or any of its officers, owners, directors or executives, any bankruptcy of its directors or officers, initial investment costs and fees, franchisee and franchisor obligations, copyrights and trademarks and the current status of franchised and company outlets. It also includes franchisee earnings claims, franchisor financial statements and parts of, or in some cases an entire copy of, a standard Franchise License Agreement (FLA).

case studies were complete, a cross-case search for patterns was conducted. Using the tactics suggested by Eisenhardt (1989), the two case study hotels were juxtaposed against one another in order to determine the similarities and differences between them.

The results of this analysis follow. The next two sections present the individual case study write-ups. This is followed by a discussion of the cross-case analysis and a set of preliminary explanations for the observed patterns across the two case study hotels. But first, I define the term "human resource system" and how it is being measured in this study.

Human Resource System Defined

The term "human resource system" has been defined in a multitude of ways. Jackson and Schuler (1995) define a human resource system as the practices, policies and philosophies that "attract, develop, motivate, and retain employees who ensure the effective functioning and survival of the organization and its members" (238). Osterman (1987) defines a human resource system as different hiring, training, promotion and turnover patterns and identifies four systems or "subsystems" which characterize most firms: industrial, salaried, craft, and secondary. Delery and Doty (1996) conceptualize a human resource system as the combination of seven "strategic" human resource practices and identify two main systems: market-type and internal.

Despite varying definitions of the term "human resource system", common to all is the presence of human resource practices that fit together with a coherent logic. Following these definitions, this study focuses on five broadly defined categories of human resource practices: staffing, training, compensation, performance management, and employee relations. These categories were chosen as they represent significant aspects of most human resource systems, both in and outside of the hotel industry, and have the potential to affect firm performance (Delery and Shaw 2001).

The first category, staffing, includes recruitment, selection and hiring practices, job definition, the scheduling and deployment of labor and the level of job security provided to employees. The second category, training, refers to formal and informal practices of orienting, socializing, training and developing employees. The third category, compensation, refers to all forms of pay provided to employees and includes both direct financial payments in the form of wages, salaries, merit increases, bonuses, commissions and tips and indirect financial payments or benefits. The fourth category, performance management, includes formal and informal means of appraising employee performance and promotion practices. The fifth and final category, employee relations, refers to those practices having to do with the management of the employer-employee relationship and includes communication programs, discipline procedures, methods of conflict and grievance resolution, and relationships with trade unions, where they exist.

CASE I: FRANCHISEE-OWNED HOTEL

The Chain

The franchisee-owned case study hotel belongs to an upscale, full service hotel chain established in the late 1980s. The hotel chain began franchising the same year it was established. Although the chain has some units located in international markets and has plans for continued domestic and international expansion, most of its current units are located in the United States. Of its 200+ total operating units, 77% are franchised while 23% are company-owned or managed.

The Average Room Rate (ARR; also referred to as the Average Daily Rate or ADR) for all hotels in this chain, franchised and company-owned or managed, over the last 3 years has been between $115 and $130 per night. The average occupancy for all hotels in this chain over the same period has been between 65-70%. As measures of this hotel chain's performance relative to others in their competitive set, the average Occupancy Index for all hotels in this chain ranged from 104 to 107 from 2007 to 2009 and the average RevPAR Index for all hotels in this chain ranged from 105 to 107[8].

[8] The Occupancy Index measures a hotel's share of the segment's demand where demand is defined as the number of room nights sold in a given period. An Occupancy Index of 100 indicates that the hotel is receiving a fair share of the segment's demand while an index above 100 indicates that the hotel is receiving more than its fair share of demand. The RevPAR index measures a hotel's fair market share of their segment's revenue per available room

Franchising in the Chain

The total investment required to open a newly constructed 250 room franchised hotel in this chain, excluding real property, ranges from $34 to $57 million, including a one-time initial franchise fee of $75 000. The monthly royalty fee is 5% of gross room revenue and the monthly program (advertising) fee is 4% of gross room revenue. A typical franchise term is approximately 20 years with the potential to re-license for an additional 5-10 years depending on factors such as the age and physical condition of the hotel, market conditions and the hotel's past performance.

The most important qualifications for prospective franchisees in this chain are their financial net worth, general business experience and specific industry experience. The franchisor does, however, allow for passive ownership wherein franchisees may choose not be involved in the day-to-day operations of the hotel. That said, any General Manager (GM), including any owner who intends to act as a GM, or third-party management company chosen by franchisee-owners to manage the hotel property must be approved by the franchisor. Approval is based, in part, on the proposed manager's prior experience and performance managing similar hotel(s). Following approval, the GM or any third party management company appointed by the franchisee must undergo training and gain corporate certification prior to the hotel's opening. Such training is intended to familiarize the GM with corporate policies, standards, operating systems and management values and philosophies. Specific topics include brand management, marketing, customer measures and quality assurance, technology and leadership. The Director of Sales must also undergo an orientation to the franchisor's sales and marketing programs and both the GM and the Director of Sales are required to attend an annual brand conference held by the hotel chain.

In addition to the training provided to the GM and Director of Sales, the franchisor provides the franchisee with a business system to operate the hotel. This includes the licensed

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(RevPAR; calculated as Total Room Revenue/Number of Available Rooms or alternatively, Occupancy Rate * Average Room Rate). An index above 100 indicates that the hotel is capturing more than its fair market share.

brand and marks, a central reservation system, advertising and marketing materials, training programs and materials, and standards and specifications for the construction, furnishing, operation, appearance and service of the hotel. The system also includes programs for inspecting the hotel, such as bi-annual quality assurance inspections and guest surveys. While the franchisor provides the hotel with ongoing support and guidance through a regional director who communicates primarily with the GM, the franchisee and any franchisee-appointed management team are solely responsible for the overall management and operation of the hotel.

The Franchisee-Owned Case Study Hotel

The franchisee-owned case study hotel opened in 2006 in a major tourist and convention market. The hotel is owned by three individuals who have formed a limited liability company (LLC) and managed by an experienced GM. It is an all-suite hotel with over 250 rooms and ample meeting and event space. On-site amenities include a 24-hour self-service business center, a state-of-the art fitness center, a video arcade and a heated rooftop pool. A leased out gift shop carrying souvenirs, jewelry, clothing and sundries is also located inside the hotel. In addition to room service, the hotel has three in-house food and beverage outlets – a full-service restaurant with a dining room and outdoor patio, a lounge and a café.

The ARR for this hotel is $130 per night. It has been awarded a AAA Diamond Rating of 3 Diamonds (on a scale of 1-5; 1 being the lowest and 5 being the highest). The hotel caters to group business, namely meetings and conventions, and leisure travelers, typically families on vacation, with an estimated 70% of the hotel's clientele falling into the latter category.

Like most hotels, the franchisee-owned case study hotel is organized into several departments by function (see Figure 1.1 for the hotel's organizational structure). Departments fall into two main categories: administrative (i.e. accounting – property controller, sales & marketing, human resources) and operations (i.e. housekeeping, front office, food & beverage and engineering). The GM is the chief executive of the hotel and is responsible for the overall operation of the establishment on a day-to-day basis. As shown in Figure 1.1, the GM reports to both the franchisor (corporate) and the hotel owners. By appointing the GM, the owners have given the GM the right to act on their behalf and communicate with the franchisor. At the same time however, the GM remains accountable to the owners and is in constant contact with them. The organization is relatively flat and the GM has a wide span of control, with all departmental directors reporting directly to him.

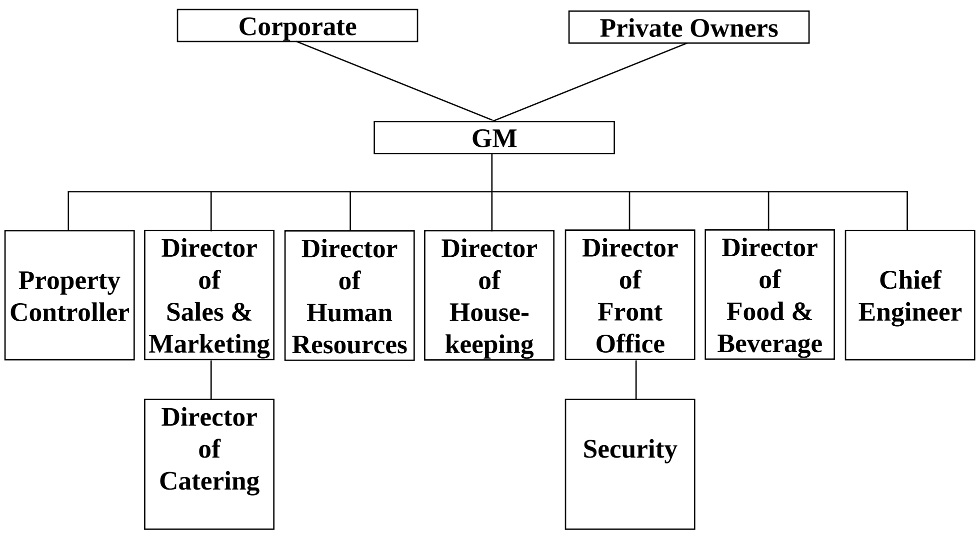

Figure 1.1: Organizational Structure of the Franchisee-Owned Hotel

Human Resource System

The hotel employs approximately 140 workers, of whom 20 are exempt supervisory personnel and 120 are hourly. Of the 120 nonsupervisory workers, 80 are full-time, 20 are part-time and 20 are on-call. The majority of nonsupervisory personnel are employed in operations – specifically housekeeping, front office and food & beverage. The 20 part-time employees are primarily in the food & beverage department and the 20 on-call workers are all in banquets.

Given that the nonsupervisory, hourly employees make up the majority of the hotel's workforce (over 85%), they will be the focus of this discussion. Although these employees can be differentiated by department or level of guest interaction, for example front-of-house, interactive workers such as those in the front office and restaurants vs. back-of-house, noninteractive workers commonly found in housekeeping and the kitchen, no such distinctions are made here. While some human resource practices, such as wage rates or the specific form that training programs take, are likely to vary across employee groups, and there is some evidence from interviews with managers that differences exist in the level of autonomy provided to front-of-house and back-of-house workers[9], interviews with managers also reveal that most human resource practices, and especially those reviewed here, are applied consistently to all frontline workers, regardless of their actual department or level of guest interaction. Moreover, since the primary purpose of this discussion is to understand how the human resource system is managed in this hotel and the extent of corporate involvement in the management of this system, it is general practices that are of greatest interest here. Accordingly, unless otherwise stated, the practices examined below are common to all nonsupervisory employees in this hotel.

The following outlines the staffing, training, compensation, performance management and employee relations practices of the franchisee-owned hotel. The picture that emerges is one in which corporate takes a hands-off approach to the management of human resource systems in its franchised units. With the exception of training practices, all other practices appear to have been decentralized to, and are at the discretion of, the franchisee and property-level management.

Staffing. Given the smaller size of the hotel and the recent economic downturn, recruitment for the hotel is down. At the time of my interviews, the hotel had two job openings and according to the Director of HR, this was “unusual”. As for recruitment methods, the hotel does not use or have access to the parent company’s online career site to post job openings or recruit employees. Instead, sources of recruitment tend to be informal and the hotel relies on walk-ins and unsolicited resumes, submitted either in person or via email, and employee referrals and word-of-mouth to fill entry-level frontline positions. On occasion, the hotel uses online

[9] Here, managers mentioned the importance of “empowering” front-of-house workers, such as front desk staff, to make decisions given their high level of guest contact. As one director put it, “we want them to take charge and satisfy the guest at that very moment”. In contrast, low levels of guest contact and language barriers (as hotels, including this one, often rely on non-English speaking staff – especially in housekeeping) are cited as reasons for giving back-of-house workers, such as room attendants, relatively less discretion.

career sites, such as *CareerBuilder.com* and *Hcareers.com*, and recruits at the college level, particularly for front office positions.

The hotel utilizes streamlined selection processes. No prescreening takes place and all applications and resumes received are distributed by HR to the appropriate department head. The department head then reviews the application forms and resumes and calls an interview with the applicant if they feel the application or resume warrants it. Once interviews have been conducted, the department head passes their top 2 candidates on to HR who verifies each applicant's information and conducts reference checks. After all information has been verified and department heads make their final hiring decision, the GM signs off on every new hire. Corporate is not involved in any part of the selection process.

The hotel uses lean staffing practices and scheduling is done on the basis of actual and predicted occupancy levels. Seniority is not a factor in employee scheduling for either regular shifts or overtime, which is mandatory. While the hotel has always practiced lean staffing in an effort to control labor costs, lower occupancy levels and average daily rates brought about by recent economic events have resulted in an increased emphasis on minimizing the number of staff needed to run the hotel on a day-to-day basis. Although the hotel has not engaged in layoffs, they have reduced staff through attrition and many of the frontline employees in the hotel have experienced a reduction in work hours.

Cross-training, in which employees are trained across positions, is also a common practice in this hotel. Managers cited two primary reasons for cross-training. The first is related to lean staffing. By training employees in a variety of jobs, employees can be transferred to positions on an "as-needed" basis, reducing the need to hire additional staff to fill openings. Moreover, rather than reduce work hours significantly or layoff employees altogether, employees can be transferred from positions where there may little work available to positions and even departments where more work is available. This practice is perhaps best summarized by the GM:

> There’s a lot of multi-tasking that you can do in the hotel business that you might not be able to do in an assembly line, or automotive or somewhere else. A desk clerk can be a bellman, a bellman can be a PBX operator, any number of people can clean rooms or wait on tables and so we’ve encouraged our employees to learn different departments so they can move into different departments [as needed].

The second reason for cross-training is employee development. Cross-training, both within and across departments, provides employees with new skills and can lead to greater opportunities for mobility. This is especially true when one considers the limited opportunities for mobility in some departments, such as housekeeping, compared to others. Nevertheless, lateral movement or cross-training across departments is much lower than cross-training within departments in the hotel. One reason for this is the difficulty in controlling overtime hours when an individual simultaneously works in two departments. Another factor preventing across-department training, particularly cross-training from housekeeping to other departments, is the English language problem plaguing housekeeping staff, mentioned earlier. Since room attendants often do not speak English, and those that do typically transfer early on to other departments, cross-training employees in the housekeeping department is limited. One department where cross-training is used extensively in this hotel however is the food & beverage department. Here, employees have been trained in multiple positions – for example, host, barista, food server, room service – and cross-training has been a primary factor in determining work hours in the department, with those receiving cross-training “pulling more hours” than others.

Related to, and perhaps even a partial byproduct of, cross-training is loose job definitions for most frontline staff in the hotel. Since employees are encouraged to learn and move into different positions as necessary, they may find themselves performing very different tasks over time. In addition, job descriptions are developed at the property level, without input from corporate, and jobs are defined broadly, encompassing many tasks and in some cases, tasks of more than one traditional position. For example, front desk clerks also perform the tasks of private bank exchange (PBX) operators, managing the switchboard and telephone calls in the hotel. Likewise, room service order takers also perform the tasks of servers/food runners, delivering food and beverages to guest rooms.

Finally, frontline employees in the hotel have low job security. Employees are considered to be “at-will” and neither employment nor hours are guaranteed to workers. Once hired, employees do not sign an employment contract. Instead, they receive a copy of the employee handbook and are asked to sign a document which acknowledges their receipt of the handbook, knowledge of their status as at-will employees and their agreement to binding arbitration of any employment related dispute. The handbook is created at the property level and without input from corporate. It outlines the terms and conditions of employment as well as each employee’s rights, duties, responsibilities and obligations.

In general, corporate does not have a role in the staffing practices at this hotel and the deployment of labor is at the full discretion of property-level management.

Training. Upon hiring, all frontline employees undergo formal training. For the most part, training programs for new employees are provided, and required, by corporate. This includes orientation training, brand promise service skills training, and job skills certification. For those employees in the front office department and particularly front desk, additional training is provided on the hotel’s computer systems and guest service programs. Orientation training involves 4-8 hours of classroom training and includes an introduction to the parent company’s portfolio of brands, the hotel property itself and all applicable personnel and operations policies and procedures in the hotel. Brand promise training involves 4-6 hours of classroom training and is centered on guest service. It is a structured program that is focused on brand standards and takes employees through each department’s role in servicing the guest. Job skills certification involves 40-120 hours of classroom (on-the-job) training and includes everything having to do with the employee’s particular job – specific tasks, safety measures and rules for guest engagement.

While training is tailored to the specific property, there is otherwise very little customization in the training programs. The franchisee-owners of this hotel do not take part in or have an influence on training programs in the hotel. Corporate provides the hotel with all of the materials necessary to conduct training, including training manuals, videos and job aids, and those responsible for training employees must participate in, and gain certification from, a corporately provided “Train the Trainer” program before they are allowed to run the training programs. Moreover, training is strictly monitored by corporate. The hotel is required to keep a record of all training dates and results and these records are reviewed during quality assurance inspections, which are conducted by corporate twice a year.

There are no additional training or development programs provided by the hotel for frontline employees, with the exception of cross-training discussed earlier, and those mandated by law. While corporate mandates ongoing training in the form of daily pre-shifts, or “huddles”, the use of these huddles is not enforced. In fact, the daily huddles are used in this hotel as a mechanism for communicating operational information to employees rather than as a tool for daily training, as intended by corporate.

Compensation. Although this hotel is not unionized, the major hotels and the hotel’s main competitors in the area are unionized and this has exerted some influence on the wage and benefit levels provided to employees. While the hotel does not pay union wages, they aim to pay their employees at the 75th percentile of their competitive set (i.e. comparable hotels competing in the same labor market). Information about the wage and benefit levels of competitors are obtained from *WageWatch*, an online compensation and benefits survey.

The hotel currently pays its entry-level frontline staff slightly above the minimum wage, with a starting wage of $8.50-$9.00/hour, depending on experience. Tipped employees, employees who regularly receive more than $30 a month in tips, are paid at the minimum wage as state law does not allow tip credit. While annual increases are not guaranteed, merit increases typically range from 3-5% per annum. Given the state of the economy however, the hotel has been under a wage freeze for the past two years and employees have not received any pay increases.

The hotel provides a range of benefits to regular full-time employees. This includes a 401(k) plan, a group health insurance plan for employees and their eligible dependents and Paid Time Off (PTO). PTO takes the place of traditional vacation, sick and holiday pay benefits. Full-time frontline employees begin to accrue PTO benefits for all regular and PTO hours worked or used after 90 days of service and the accrual rate is based on length of service (i.e. the yearly accrual rate hours for an employee with service of 90 days – 1 year: 120 hours, 2-4 years: 160 hours, 5-14 years: 200 hours, 15+years: 240 hours).

While the hotel believes that their wage rates are competitive, benefits is an area where management feels that they are not meeting their competition and this is largely due to franchisee-owner influence given the high costs involved in providing certain benefits:

> There are three areas of this hotel that are not competitive and we've discussed it since we opened the hotel…where the owners basically made the decision that no, we're not going there and those areas are the 401(k) employer match, which I know we're not competitive, offering the employees an employee meal free everyday and picking up a percentage of dependent coverage in healthcare. We pick up a percentage for the employee but we do not pick up the dependents. Those are three major areas where we are not competitive. (Director of HR)

As is evident in the above quote, decisions over compensation practices are made by property-level management in consultation with the owners. Corporate does not have a role in these decisions.

Performance Management. The hotel has formal performance appraisals in the form of annual performance evaluations. These evaluations are developed at the property level and are intended to provide employees with an understanding of how well they are performing their assigned job duties, whether they have any performance problems and to set future performance goals. They also serve as the basis for merit increases. However, these performance evaluations are inconsistently used and enforced. Although the hotel has a stated policy of annual performance evaluations, not all managers conduct them and the hotel has not consistently enforced their use. This is especially true in recent years. With a wage freeze over the last two years and an inability to give merit increases, managers have refrained from giving employees any formal appraisals of their work. The Director of HR summarized the use of performance evaluations in the hotel as follows:

> Well performance reviews should be given every year…We're kind of a little bit lax about that because no one is getting increases and even though increases aren't guaranteed, the managers feel a little hesitant about giving a great performance review and then not giving an increase. I still have the feeling that people want to know how they're doing but what I can say? Right now, I'd say that it's not being enforced at all.

As for promotions, the hotel has a policy of promoting from within whenever possible. Promotions and transfers are based primarily on competence and the most important factors considered are past performance, qualifications, potential, and job experience. Seniority is not a deciding factor in promotions or transfers but may be considered in cases where two or more employees are deemed to be equally competent for the job.

That being said, there are limited opportunities for mobility, both vertical and lateral. For the most part, promotion and transfer opportunities are dictated by attrition. What's more, promotions and transfers are limited by organizational/ property boundaries. That is, despite the fact that the hotel belongs to a chain of like-branded hotels, promotions and transfers are limited to what is available in this particular establishment. As one director in the hotel noted, "when you're a franchised property, we have to look at what we have right here." Employees of this hotel cannot be promoted or transferred to positions in other hotels in the chain and in this way, the hotel very much resembles an independent operation.

Employee Relations. As mentioned above, the hotel is not unionized. While the hotel itself does not have any experience with the union and has never experienced any organizing attempts, the hotel tends to model its practices after larger (often company-operated) hotels in the area, which are unionized[10]. As a result, the hotel has indirectly experienced union influence

[10] This type of "modeling" occurs in a number of ways. For example, managers in the hotel obtain information on practices in other hotels not only from benchmarking reports and surveys but also through direct and constant (informal) communication with their counterparts at these hotels.

with regards to its human resource practices. The most significant example of this is with regards to compensation, as discussed earlier.

In general, employee involvement in the hotel is informal and limited. Most communication is downward, from management to employees, and takes place through daily huddles, discussed above, quarterly all-team member meetings and quarterly newsletters. Upward communication, from employees to management, takes place through the hotel's "open door policy" in which employees are encouraged to bring suggestions for improvement and issues of concern to the attention of managers in the hotel. There is also an opportunity for employees to get involved in a more formal way by joining the hotel's joint management-employee brand standards committee. This committee is mandated from corporate as part of the hotel chain's commitment to total service quality. The committee meets once a month and is responsible for monitoring and improving the hotel's progress in meeting brand standards. However, membership in this committee is completely voluntary and while every frontline employee is invited to attend meetings, most do not.

Although employees are considered to be at-will and can be terminated with or without notice, as previously discussed, the hotel has developed a formal progressive discipline procedure to give employees an opportunity to correct performance-related problems. This typically begins with some form of verbal counseling and is followed by written warnings before an employee is suspended and/or terminated.

Last, the hotel has established formal methods of conflict and grievance resolution. In addition to the hotel's "open door policy", the hotel has instituted mandatory binding arbitration to resolve employment-related disputes. This includes disputes related to compensation, wrongful termination, discrimination or harassment and violations of public policy. Arbitration can be initiated at the request of either employees or management and an arbitrator is chosen by mutual agreement. Each party is responsible for paying their own attorney fees, where applicable, but the employer pays for the cost of the arbitrator and all other incidental costs that would not be incurred in a court proceeding.

In general, corporate has a limited role in employee relations at the hotel. While corporate mandates some communication programs, such as quarterly all-employee meetings and the quarterly newsletter, they do not monitor or enforce their use. Moreover, corporate does not involve itself with the labor relations of any of its franchised hotels, unionized or not.

CASE II: COMPANY-MANAGED HOTEL

The Chain

The company-managed hotel belongs to an upscale, full service hotel chain first established by the parent organization in the 1920s. The hotel chain began franchising in the late 1960s. The chain has a number of units located in international markets and has plans for continued domestic and international expansion. Of its 500+ total operating units, 44% are franchised while 56% are company-owned or managed.

The average room rate for all hotels in this chain, franchised and company-owned or managed, over the last 3 years has been between $140 and $160 per night. The average occupancy for all hotels in this chain over the same period has been between 65-75%. As measures of this hotel chain's performance relative to others in their competitive set, the average Occupancy Index for all hotels in this chain in 2009 was 104 and the average RevPAR Index for all hotels in this chain in 2009 was 109.

The Company-Managed Case Study Hotel

The company-managed case study hotel opened in 1984 in a major tourist and convention market and was renovated in 2007. The hotel is owned by a diversified real estate development company and managed by corporate. It has over 1500 rooms and 100 000 square feet of meeting and event space. On-site amenities include a full-service business center, a heated outdoor pool and a full-service spa and fitness center with state-of-the art equipment, group exercise classes and an indoor pool. Two leased out gift and souvenir shops and a leased out clothing store are also located inside the hotel. In addition to room service, the hotel has four in-house food and beverage outlets – a full-service restaurant, a lounge, a coffee shop and during the summer months, a poolside bar and gazebo. The hotel also has a food court with 3 subcontracted franchised quick-service restaurants.

The ARR for this hotel is $150 per night. It has been awarded a AAA Diamond Rating of 3 Diamonds. The hotel caters to leisure travelers and conventioneers. While managers estimate that group (convention) business makes up anywhere from 50 to 80% of the hotel's current clientele, they also noted that the hotel was increasingly targeting the leisure market. Steps the hotel had recently taken to do this include adding different menu items and a "Kids Eat Free" program as well as offering children's activities and childcare services onsite and providing family-friendly guest-room amenities, such as mini-fridges, free of charge.

The company-managed case study hotel is organized into several departments (See Figure 1.2 for the hotel's organizational structure). There are two main operating divisions in this hotel: Rooms and Food & Beverage and all of the non-administrative departments fall into one of these two divisions. The Rooms Division is made up of front office (i.e. reservations, front desk/guest service agents), guest services (i.e. bell desk, concierge and lobby representatives) and housekeeping (i.e. room attendants). Property operations (general maintenance) and security, while administrative, are also located in this division. The Food & Beverage Division is made up of room service, outlets, culinary and banquets & catering. The GM is responsible for the overall operation of the hotel and reports directly to corporate[11]. The Food and Beverage Division and all administrative departments, with the exception of property operations and security, report directly to him. The Executive Assistant Manager is the assistant general manager and assists the GM with all aspects of the hotel operations. All departments in the Rooms Division report directly to her.

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[11] The GM does not directly report to the owners of the hotel. While corporate consults with the owners, as a company-managed hotel, corporate retains full management control of the hotel.

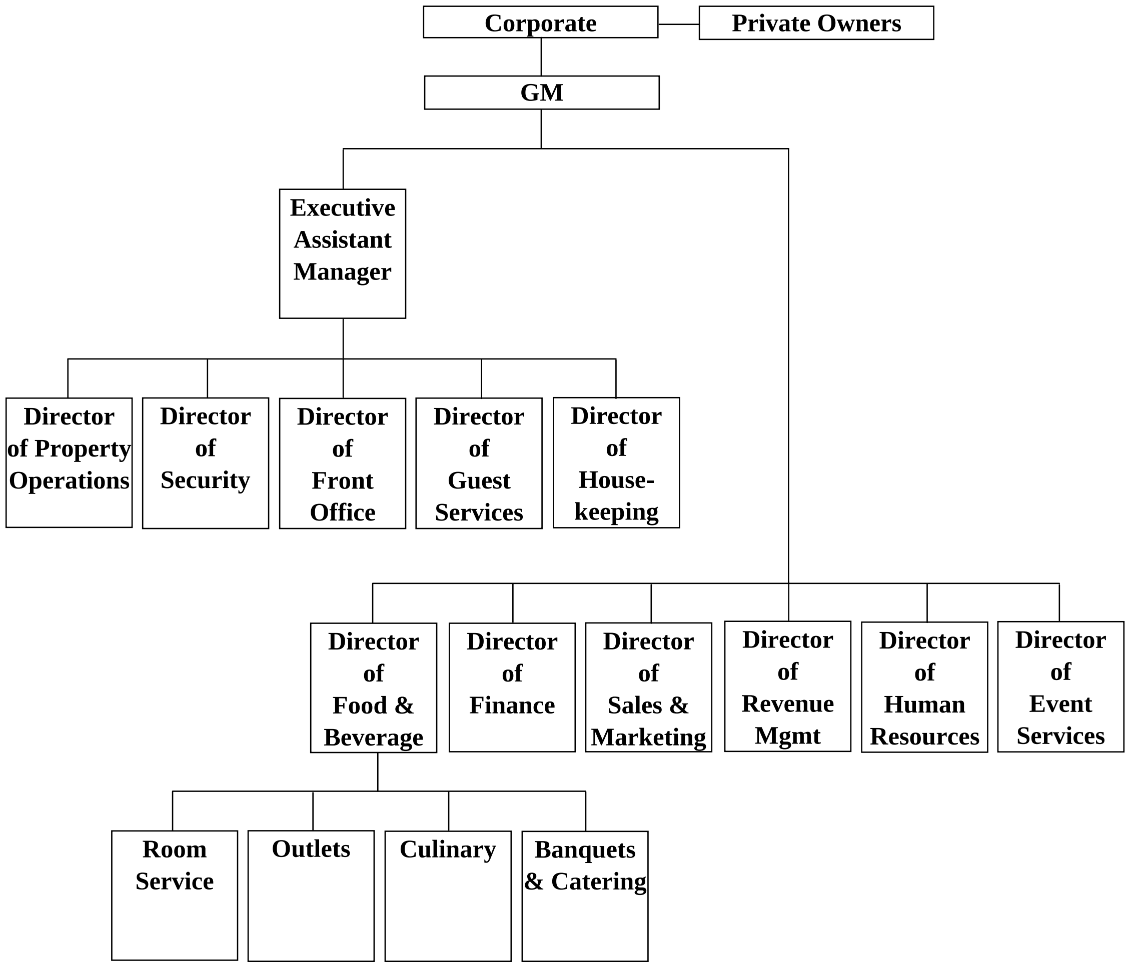

Figure 1.2: Organizational Structure of the Company-Managed Hotel

Human Resource System

The hotel employs approximately 800 workers, of whom 200 are managerial and administrative personnel and 600 are hourly, nonsupervisory personnel. The majority of nonsupervisory personnel are employed in operations – specifically housekeeping, front office, guest services and food & beverage and most of the frontline employees in these departments are unionized.

Given that the majority of hotel employees (75%) are hourly employees, and in order to facilitate comparison with the franchisee-owned case study hotel, the focus of this discussion will be frontline, nonsupervisory staff. Again, for the reasons stated above, no distinctions are made here between employees in different departments or with differing levels of guest interaction. Unless otherwise stated, the human resource practices reviewed here are common to all nonsupervisory employees in this hotel.

The following outlines the staffing, training, compensation, performance management and employee relations practices of the company-managed hotel[12]. The picture that emerges is one in which corporate takes a very hands-on approach to the management of human resource systems in its company-managed units. Overall, human resource practices appear to be centralized and standardized across company-owned and managed units, with most practices mandated or influenced in some way by corporate.

Staffing. The hotel's recruitment methods are formal and highly influenced by corporate. The hotel places ads, actively recruits at the college level and works with disability-related organizations and workforce development agencies. The hotel also has an Affirmative Action Plan that is reviewed annually by corporate and based on the results of this review, the hotel engages in targeted recruitment to increase the number of applicants from certain underrepresented minority groups. In addition, the hotel is required to use the parent company's career website to post job openings and receive applications. While the hotel does accept "walk-ins" and/or unsolicited resumes, these must be submitted online via the website. Walk-in applicants can either use computer kiosks located on hotel premises or submit their applications online from home.

While attracting and retaining employees has certainly been a key concern facing hotels in the past, including this one, managers in this hotel noted that recruitment was no longer a problem given the recent economic downturn. At the time of my interviews, the hotel was receiving 200-300 applications a day for less than 30 (mostly frontline) job openings and managers frequently commented that these applicants were often overqualified. As a result, the major challenge they now faced was appropriate screening and selection:

[12] The discussion will also include some insights and examples from the second company-managed hotel operating under the same parent organization and brand name.

> It's almost like a bad medicine if I can use that analogy because even though the medicine is working right now, when these jobs open up, then you've trained people, you've invested money into training, you've given them the company secrets to how this thing works and to them it's just a stepping stone until this analyst job re-opens again in the same company. One guy said 'I went through this in '91, I was laid off for eleven months and I went and did other things and then I went back to work for the same job and the same company…I did that for 10 years and here I am all over again looking for that but I'm just holding out – I'll take anything – but I'm just holding out until my job comes back.' So I'm thinking that's just on a miniscule scale because it's just one position but if you take that and take a macro approach to the industry, that could be devastating to our industry, hotels I'm talking about, because all of a sudden you're going to have people leaving and a lot of positions opening. (Director of Food & Beverage)

These comments were echoed by the Director of HR at a second company-managed hotel:

> Back in the day, anytime you asked an HR person what their challenges are, it was always hiring, recruitment. That's not really our issue anymore because a) we don't have that many open positions and b) there's such a large workforce out there of people that don't have jobs. What I've found now is that it's almost like you have way too many candidates for jobs…now we're so overwhelmed…someone who used to be a financial analyst is applying for a $10.30 an hour job and you know that you can't hire that person because they're only going to stay until they find something better so…you have to screen people out a lot more.

The hotel's selection process involves a number of steps and begins with prescreening during the online application process. Job candidates must submit a separate application for each position they are applying to and each application includes a set of questions that allow the computer to screen out candidates that do not meet "must have" criteria, predetermined by corporate, for those positions. For example, this might include physical or experience-related requirements, depending on the job. Those that do not meet the minimum selection criteria are eliminated and the remaining applications are sent to the Employment Manager at the hotel. The Employment Manager then screens all applications, on a first-come, first-served basis, to ensure that each candidate meets the minimum requirements for the job and schedules a first interview. The initial interview is structured and behavioral-based and is conducted by the Employment Manager. It is intended to predict future job performance and narrow down the candidates that will proceed to the next stage of the selection process. Candidates who pass the initial interview are then given a second interview with department managers, who are responsible for making the final hiring decision. Once the department managers make their decision, the Employment Manager confirms work history and references prior to making an offer. For some positions, an offer is made contingent on a background check, drug test and/or credit check and the results of these tests are sent to corporate. Corporate and the hotel then jointly determine the candidate's eligibility for the position.

Two factors affect employee scheduling in the hotel: seniority, given that the hotel is unionized, and occupancy. While seniority affects who is scheduled (i.e. those with higher tenure are given preference), occupancy affects how many employees are scheduled[13]. This includes scheduling for regular shifts as well as overtime, which is mandatory. Despite the use of actual and predicted occupancy rates for setting work schedules however, the hotel does not necessarily practice "lean" staffing. In fact, there is some evidence that the hotel may even overstaff in order to ensure proper levels of service. This is perhaps best exemplified in a quote by the Director of Food & Beverage regarding staffing levels in the hotel's full-service restaurant:

> If it [the restaurant] was independently-owned, there would be so many things that are done differently…We have to have 3 managers – AM, PM and relief. In a privately-owned restaurant, you might have a manager and an assistant but again then you have to have all of your occupancy stages of how to schedule, staff, your minimum staffing. If I owned this restaurant myself and today I'm going to do 30 covers, I'd probably have two servers period but no, we have to schedule more, potentially, because if we get hit from a convention that broke next door and we weren't ready, as a company, as an image that we have to protect, as the brand essence – we have to be ready for that. And it's very easy, it's OPM – Other People's Money. It's not coming out of my pocket.

The hotel is characterized by rigid job definitions for most frontline staff. Corporate provides the hotel with job descriptions and specifications for each position in the hotel and

[13] The union contract does however specify that once employees have been scheduled for a shift, they must be paid for the hours they have been scheduled to work, so they cannot be sent home without pay if occupancy later drops. While some employees may voluntarily elect to take the day off if they know it will be slow (e.g. servers, as many don't want to work unless they are making tips), others will choose to work their scheduled hours regardless because, as will be discussed later, union benefits are based on the number of hours worked. The union contract also specifies the number of hours/days (work week) that each employee can work.

because many of the frontline employees are unionized, the hotel strictly adheres to these job definitions. Such rigid job definitions have, in turn, resulted in limited cross-training in the hotel. To the extent that cross-training does occur, it is restricted by union status – union members are only permitted to cross-train in union positions and non-union employees are only permitted to cross-train in non-union positions. Managers in the hotel viewed such rigid job definitions and the inability to cross-train employees across union and non-union positions as impediments to providing high quality service to guests:

> We've had instances, I'll give you an example where a guest was struggling with a suitcase unloading the trunk of the car in the front drive and the bellman was busy doing something else and one of the valet parkers ran over and helped him with his suitcases, loaded them up on a cart. The bellman came over in front of the guest and said 'Never do that again, that's my job. You're not allowed to do that.' How do you think that looked to the guest? (Director of Sales)
>
> Sometimes the service aspect is kind of tied but we just do what we can to work within the limits…Legally, because of the [union] contract, we can't have a nonunion employee assist a union position. For instance, let's say the concierge is nonunion and wants to learn a new position, they can't do that even though it would benefit the hotel all around because they can assist when it does get busy, because they are a wealth of knowledge, just to have that broad spectrum of what they can do and can't do, it does kind of hinder us a bit because of that. (Director of Front Office)

Finally, job security for most frontline employees in this hotel is relatively high and this is due, in large part, to the union. On the one hand, employees do not sign an employment contract and are not guaranteed work or hours. Further, an employee handbook is created and disseminated by corporate and every hotel employee must sign a receipt and acknowledgement of the handbook which states that "employment is at-will and may be terminated with or without cause and with or without notice". On the other hand however, many frontline employees are covered by the collective bargaining agreement (CBA), which supersedes the corporate employee handbook and clearly states that all discipline, including discharge, must be for "just cause" only. Moreover, in the event of a dispute regarding any disciplinary action, such action is subject to grievance and/or arbitration.

Training. The hotel has a formal training system in place for all line level employees. Training programs are developed by corporate and are required for all new hires. In addition to training mandated by law, there are four main training programs implemented by corporate for new employees: 1) an interactive multi-media orientation program designed to introduce employees to the company, its brands, the hotel property and its policies and procedures, including those regarding employment and safety 2) service skills training which is focused on customer service and guest engagement 3) job skills certification which is performed mainly on the job and typically involves role playing and/or shadowing experienced employees to learn specific job skills and tasks and 4) a “reunion” program that takes place 60 days after hiring and is intended to assess new employees’ progress and performance to date and set future goals.

Combined, the new employee training programs involve 50-140 hours of classroom and/or on-the-job training, depending on the position, and corporate provides specific dates by which training must take place (i.e. orientation within 14 days of hire, job skills certification within 45 days, service skill training within 60 days). Moreover, these training programs are standardized across properties in the chain, with little input and customization at the property level. Corporate provides all of the materials necessary for training (e.g. manuals, videos) and trainers undergo training themselves through a formal “Train the Trainer Program” provided by corporate because, as one manager put it, “they don’t want you to train any of the wrong stuff or put your own insight into things”.

While cross-training in the hotel is limited, as previously discussed, the hotel provides two primary forms of ongoing training and development for frontline employees: 1) daily pre-shifts or “huddles” and 2) educational assistance. Daily huddles are a corporate directive that requires every department to have a 10-15 minute meeting with a specific training topic prior to the start of every shift and all employees are required to actively engage in these interactive huddles. Corporate provides the hotel with potential training topics/ideas and the Executive Committee, which is made up of the GM and department heads, sets the training topic for each week to ensure consistency in training across departments. Educational assistance is a program instituted by corporate which provides employees with tuition reimbursement (90%, up to a maximum of $1200 per calendar year) for job-related courses to prepare them for additional job responsibilities. This may include, for example, certification classes for administrative staff or English as a second language (ESL) classes for line employees. This program is open to any full-time employee with at least six months of service and is subject to the business demands of the hotel, as determined by management.

Compensation. Since the hotel is unionized, the union has a significant influence on the wages and benefits provided to most frontline employees and managers interviewed at both this hotel and the second company-managed hotel, which is also unionized, indicated that wages at their hotels were some of the highest in their respective competitive sets.

Wages for entry-level, non-tipped employees begin at $12.50/hour and wages for entry-level, tipped employees begin at $8.00/hour (plus tips and gratuities) and as per the most recent CBA, employees in non-tipped positions received bi-annual wage increases for the last 3 years. Newly-hired employees may be paid at a rate of 75% of the applicable pay scale during the first four months of employment and at a rate of 90% of the pay scale during the second three months of employment.

Employees in this hotel receive a number of benefits and most of these are negotiated by the union. This includes vacation based on years of service (i.e. 1 year of service: 40 hours, 2-5 years: 80 hours, 6-9 years: 120 hours, 10+ years: 160 hours), paid holidays (8), paid sick leave based on hours worked, an employer-matched employee savings plan, a 401(k) savings plan with matching employer contributions and an employer-funded health benefit plan for employees and their eligible dependents (provided they work at least 90 hours/month)[14].

Employees also receive a free meal per shift and are entitled to participate in the company's travel program, which provides employees with complimentary and/or discounted rates at all owned and managed properties throughout the company.

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[14] The employer makes contributions to the union's health benefit fund for each hour worked by a union employee. The current rate is $3.56/hour worked.

While the union clearly has an influence on wages and benefits, corporate also has considerable influence in setting and managing the hotel's compensation practices. Corporate not only manages the hotel's pay and benefits administration through a centralized system but also, as will be discussed in more detail later on, plays a significant role in union contract negotiations, where wages and benefits are set for most frontline employees.

Performance Management. The hotel has formal performance appraisals in the form of annual performance reviews. Corporate plays a significant role in the review process, providing the competencies and goals for annual reviews. While the primary purpose of these reviews is to evaluate and provide feedback on job performance, managers also noted a second important function of the annual review process: career planning and development. Managers repeatedly emphasized the importance of using the annual performance reviews to identify and develop employees that have the potential and desire to grow with the company.

In line with this, the hotel has a policy of promoting from within whenever possible. This policy is both a corporate policy, stated in the employee handbook, and part of the CBA. As per the CBA, the hotel is required to first post available job openings internally. Qualified employees are allowed to apply for available openings and provided that skill and ability are relatively equal among candidates, seniority is used as a determining factor in promotions and transfers.

There are significant opportunities for mobility, both lateral in the form of transfers and vertical in the form of promotions. What's more, transfer and promotion opportunities are not limited by organizational/property boundaries. Employees not only have the opportunity to transfer or be promoted within this hotel but also to other hotels throughout the company. Corporate facilitates this process by communicating company-wide openings to the hotels that it either owns or manages and while seniority is not a determining factor in cross-property transfers and promotions, experience within the company certainly plays a considerable role.

Many managers in this hotel are themselves a product of the hotel's (and the overall company's) performance management system, either having been developed into the positions they are now in from within this hotel or another hotel in the company. Moreover, managers take great pride in employee development, which they consider to be part of their job. For example, the Director of Front Office started off as a front desk agent in the hotel and was "groomed" into the position he now holds. He summarizes the hotel's performance management practices and his role as a manager as follows:

> The thing is, we go through a review process and if we see the potential in somebody, we'll ask them, 'Hey, what do you want to do with this position?' We never want to let a good person go. We always want to promote. For me, that's what I think my job is – it's not just to run this department, it's to find that gem or that person who can excel and get them into that next level. That's the biggest reward as a manager and director – to get that person and kind of set them out into these other properties so you kind of have some type of, I don't know, I guess a legacy in a way. My boss [the Executive Assistant Manager] has done a phenomenal job of getting these people developed and placing them around different hotels. It's always a good thing to have the people that work for you at different hotels and kind of live off of that in a way.

Employee Relations. As previously mentioned, the hotel is unionized. While the hotel is responsible for day-to-day union-management relations and contract administration, corporate is highly involved in the labor relations of its owned and managed hotels. In particular, corporate not only has a significant influence on collective bargaining but also, in some cases, the unionization process itself. Corporate appoints an experienced chief negotiator for all contract negotiations, sets the upper limit on labor costs and has final say over the terms of agreement. Moreover, corporate can decide when to accept (or challenge) union organizing in its non-union owned and managed hotels. This was evident, for example, in the second company-managed hotel, where corporate signed a neutrality agreement that assured the union that the company would remain neutral in organizing campaigns at a handful of its nonunion hotels in exchange for settling outstanding contracts and the union's promise to "stay away" from certain other hotels. The hotel properties chosen as part of this agreement were at corporate's sole discretion.

Corporate's involvement in contract negotiations is perhaps nowhere clearer than in another example from the second company-managed hotel. While many of its frontline employees were unionized as a result of the company's neutrality agreement with the union, the engineering department was not unionized. A different union (one that did not have a neutrality agreement with the company) attempted to organize the hotel's 15 engineers (general maintenance employees). The hotel engaged in an aggressive campaign to "fight off" the union and the majority of the employees voted against unionizing. At the same time however, the hotel was in contract negotiations with the union representing its other employees. The union proposed the inclusion of the engineers in the bargaining unit in exchange for concessions and against hotel management's wishes, corporate agreed:

> The last night of our last negotiation, they [the union] made us a deal. They said, 'we won't make you have a pension plan if you give us the engineers'. And of course, we [hotel management] were like 'no, no, no, no, no' and when you work with your negotiator, your chief negotiator, who is a great guy, works for [the company], but he's an attorney and you know ultimately, they just want to get it done. And so we said no, the hotel said no, but it was overridden by corporate because if you look at it, it's a better business decision to give up 15 engineers for no pension plan for the other 200 people in the unit. But every day, looking at these engineers where I was like 'vote no, vote no' but now they're in the union, it's tough. (Director of HR, second company- managed hotel)

Employee involvement in the hotel is formal and directed by corporate. Upward communication, from employees to management, takes place not only through a company-wide "open door policy" but also through employee surveys and suggestion boxes throughout the employee cafeteria. Downward communication, from management to employees, takes place primarily through the daily huddles, discussed earlier, and through all-employee meetings.

The hotel has a formal progressive discipline procedure and formal methods of conflict and grievance resolution. Progressive discipline includes a combination of coaching, counseling and written warnings prior to suspension or discharge and the collective bargaining agreement includes a grievance and arbitration procedure for all disciplinary action and other employment-related disputes. This begins with the employee making a complaint to their immediate supervisor. If the issue is not resolved, the complaint is put into writing and the employer representative and the union representative attempt to settle the issue. If the issue is still not satisfactorily resolved, the parties can mutually agree to enter into mediation or either party can submit the issue for arbitration.

DISCUSSION

Cross-Case Analysis

How does the management of human resource systems compare across the franchisee-owned and company-managed hotels examined in this study? What is the extent of corporate involvement in the management of these systems?

A comparison of corporate's involvement across each of the five categories of human resource practices reveals significant differences in how human resource systems are managed in the two case study hotels. As shown in Table 1.2, corporate has a "high" level of involvement in every aspect of the company-managed hotel's human resource system, from staffing to employee relations. Corporate provides the company-managed hotel with a centralized recruitment system, a formal selection process with clear selection criteria, detailed job descriptions and specifications and a standardized handbook outlining employment policies and procedures. Corporate also provides the company-managed hotel with a formal training system, which includes training programs for new employees and ongoing training and development, and a formal system of performance management, which includes performance evaluations with pre-specified goals and competencies and procedures for internal employee development with opportunities for company-wide mobility. Finally, corporate has a significant influence on the company-managed hotel's compensation practices and employee relations through its involvement in labor relations and union contract negotiations and its mandated employee communication programs. Moreover, the consistent use of corporate-mandated practices is monitored not only through the GM, who is employed by, and reports directly to, corporate but also through other means such as management information systems, regional directors and property inspections.

Table 1.2: Summary of Human Resource Practices and Corporate Involvement in the Case Study Hotels

	Company-Managed Hotel		**Franchisee-Owned Hotel**	
	Practices	*Level of Corporate Involvement*	*Practices*	*Level of Corporate Involvement*
Staffing	➢ Formal/centralized recruitment system ➢ Formal selection process ➢ Little cross-training or lean staffing ➢ Rigid and narrow job definitions ➢ High job security	**High**: All staffing practices provided or highly influenced by corporate.	➢ Informal sources of recruitment ➢ Streamlined selection process ➢ Lean staffing ➢ Cross-training ➢ Loose and broad job definitions ➢ Low job security	**Low**: All staffing practices are developed at the property level.
Training	➢ Formal training for new employees ➢ Ongoing training and development through daily huddles and educational assistance	**High**: Corporate provides and monitors all training and development programs.	➢ Formal training for new employees ➢ No ongoing training and development (aside from cross-training above)	**High**: Corporate provides and monitors all training programs.
Compensation	➢ Competitive wages with bi-annual increases ➢ Union-negotiated benefits: vacation, paid holidays, paid sick leave, 401(k) with employer match, and employer-funded health benefit plan ➢ Additional benefits: employee meals and travel discounts	**High**: Centralized pay and benefit administration. Corporate also has significant influence over compensation practices through involvement in union contract negotiations.	➢ Entry-level pay at or slightly above minimum wage ➢ Merit increases ➢ Benefits include 401(k) plan (no employer match), group health insurance plan (employer pays % for employee coverage but not dependents), and PTO	**Low**: Compensation practices at the discretion of owners and property-level management.
Performance Management	➢ Formal annual performance appraisals ➢ Seniority used as a determining factor in promotions/ transfers ➢ Significant opportunities for mobility within and across properties	**High**: Competencies and goals for annual reviews provided by corporate and corporate facilitates employee development and mobility.	➢ Formal but inconsistently used annual performance appraisals ➢ Promotions/transfers based on competence ➢ Limited opportunities for mobility within the hotel; no cross-property mobility	**Low**: Performance management practices determined by franchisee. Corporate has no role in employee development and mobility.
Employee Relations	➢ Corporate appointed chief negotiator for contract negotiations ➢ Corporate mandated upward and downward communication programs ➢ Formal progressive discipline procedures ➢ Formal grievance and arbitration procedure	**High**: Corporate has final say over collective bargaining and other labor relations decisions. All employee relations practices negotiated in CBA or mandated and monitored by corporate.	➢ Indirect union influence through modeling larger unionized hotels ➢ Corporate mandated downward communication programs ➢ Formal progressive discipline procedures ➢ Formal methods of conflict and grievance resolution	**Low**: Franchisee has discretion over the structure, content and use of all corporate mandated communication programs. All other employee relations practices determined at property level.

In contrast, as shown in Table 1.2, corporate has a “low” level of involvement in every aspect of the franchisee-owned hotel’s human resource system, with the exception of training practices. Recruitment and selection processes, job descriptions and specifications and employment policies and procedures are all developed at the property level, without input from corporate. Likewise, wages and benefits are set by the franchisee and corporate has minimal involvement in the employee relations practices of the franchisee-owned hotel. Although corporate does mandate some employee communication programs, such as quarterly all-employee meetings and a quarterly newsletter, the structure and content of these programs are at the discretion of the franchisee and the management team at the property level and corporate does not enforce their use. Moreover, corporate does not get involved in labor relations at any of its franchised units. Finally, corporate does not have a role in any of the performance management practices at the franchisee-owned hotel – the use and content of performance reviews as well as the policies and procedures for employee development and promotion are determined at, and limited to, the property level. The only aspect of the franchisee-owned hotel’s human resource system that corporate is involved in is training. Corporate not only provides the franchisee-owned hotel with formal training programs but also strictly monitors their use through bi-annual quality assurance inspections. Nevertheless, training programs provided by corporate are limited to new employee training and for the most part, corporate neither mandates nor monitors ongoing training and development in the franchisee-owned hotel. To be sure, while the franchisee-owned hotel is “required” to have daily huddles or pre-shifts, and these are intended to be a form of ongoing training for employees, the content of these huddles is at the discretion of property-level management and corporate does not oversee their use. This is clearly evident in the franchisee-owned hotel where these huddles are used predominantly as a mechanism for communicating daily operational information to employees rather than as a tool for training.

Another interesting finding regarding the management of human resource systems in the franchised and company-managed case study hotels is the clear demarcation of franchisee employees and company employees. That is, corporate has taken steps to make it apparent that employees in the franchisee-owned hotel work for the franchisee, not for the company. Prospective employees cannot apply for a job at the franchisee-owned hotel through the company's career website because they are not applying for a job with the company but rather, a job with the franchisee. Unlike in the company-managed hotel, pay and benefits administration in the franchisee-owned hotel takes place at the property level and employees receive their paychecks directly from the franchisee, not from corporate. Employees in the franchised hotel do not have access to corporate's system of internal promotion and opportunities for company-wide mobility because they are not considered to be employees of the company. Instead, employees at the franchisee-owned hotel are limited to openings within the franchisee-owned hotel. If they want to apply for job openings in other like-branded properties or company-owned or managed hotels, they must do so as an external applicant and any work experience at the franchisee-owned hotel is not counted as experience within the company. Similarly, corporate does not collect any personnel records from its franchised hotels and all employment verification (i.e. to verify work history) must be done through the franchisee. As one manager described it, "it's as if that person has never worked for [the company] before".

These findings raise the question of why. Why does corporate have such a high degree of involvement in the human resource system of its company-managed hotel but not its franchised hotel? Why is there such a clear demarcation of franchisee employees and company employees? Furthermore, what, if any, are the potential implications of these management practices for employee and organizational outcomes?

Explaining Differences

One explanation for the differences we observe between the two case study hotels may be concerns over potential liability. Specifically, in order to avoid direct and/or vicarious liability for the actions of franchisees in matters of employment, franchisors may distance themselves from their franchisees' employment decisions (Nixon Peabody 2010). The company's hands-off approach to the human resource system and employees of the franchised hotel in this study appears to be, at least in part, influenced by legal limits. Corporate not only has very little, if any, involvement in most aspects of the franchisee-owned hotel's human resource system but also makes it very clear in the Franchise License Agreement that the franchisee is "at all times solely responsible for the management of the Hotel's business". While no direct statements are made about the management of employees, the term "your employees" is repeated throughout franchise documents. The practices outlined earlier also reflect steps on the part of the company to distinguish franchisee employees from company employees, in line with legal recommendations (see, for example, Koch and Dodge 2003).

Nevertheless, while these practices may help to protect (though not absolve) the company from potential liability, they are also likely to have organizational implications. First, to the extent that fears of potential liability cause the company to distance themselves from franchisees' human resource systems, this may have implications for the long-term viability of franchised operations. A common slogan in the franchising realm, coined by Ray Kroc, the founder of McDonald's Corporation, is: "in business for yourself, not by yourself". Implied in this is the idea that franchising provides prospective business owners with a successful business concept – one that includes established methods of operation and ongoing support. However, not providing these individuals, who may be inexperienced in business in general and in human resource management in particular, with effective HR strategies and practices or even guidelines, can lead to franchise failure. This is especially true when we consider the importance of HR for the success of franchises and other new ventures (Castrogiovanni and Kidwell 2010). Franchisee inexperience with business and HR has been noted elsewhere (e.g. Royle 2000; Davlin 2007). It was also observed firsthand in the case of the franchisee of two quick-service restaurants operating in the food court at the company-managed case study hotel. The franchisee often complained about their lack of knowledge and experience in managing such a large number of employees (the two restaurants shared a total staff of about 30, mainly part-time, employees). More specifically, this included a lack of knowledge regarding government regulations (i.e. wage and hour laws and sexual harassment – both of which were brought up in conversations with the franchisee) as well as other HR issues, such as how to manage performance and discipline employees. Accordingly, while some of the differences we observe between the two case study hotels may be explained by the company's desire to avoid legal liability for the actions of its franchisees, it is not clear why the company does not, at the very least, provide the franchisee-owned hotel with suggestions or information on how they structure their practices in company-owned and managed hotels. To be sure, previous court cases regarding franchisor liability indicate that this is a legally acceptable practice and in fact, as outlined by Koch and Dodge (2003), in one case where the franchisor failed to provide such information to its franchisee, this was characterized by the court as "irresponsible" (see *Freeman v. Suddle Enters* 2001).

Second, these practices are also likely to send mixed messages to employees and thus, have significant implications for the brand. Specifically, since employees are considered to be employees of the franchisee and not the company, they do not work *for* the brand, only *with* the brand. As a result, the company may find it difficult to create brand commitment[15] among frontline employees who, in service industries like the hotel industry, are primarily responsible for service delivery and influencing customer perceptions of the brand. Moreover, in cases where the company's goals are incongruent with the goals of the franchisee, the actual employer for whom these employees work, whose goals are considered to be paramount? Indeed, this may be a strong explanatory factor in understanding why corporate is so highly involved in the training practices of the franchisee-owned hotel. The provision of prescribed training programs, including "brand promise training" that focuses on brand standards and service skills, may be an attempt on the part of the company to socialize employees, who are central to delivering that "brand promise" to customers, with appropriate "premises"[16] rather than rely on franchisees to

[15] Where employee brand commitment can be defined as "the extent to which employees experience a sense of identification and involvement with the brand values of the company they work for" (Kimpakorn and Tocquer 2009: 532).

[16] The term "premises" is adapted from Simon (1947) and defined by Osterman (1987) as employees' "information, frame of reference, identification with the goals of the organization, and motivation" (56). It is worth noting here the similarity between the terms "premises" and "employee brand commitment".

develop such training as it would be much harder to control and ensure consistency. This is analogous to Osterman's (1987) explanation for why firms use in-house training for certain organizationally central, and in his case managerial, employees. In addition, since the training programs provided by corporate are primarily operational (i.e. intended to familiarize employees with corporate standards and develop the skills and knowledge to effectively perform their jobs), they are perhaps more legally permissible than other human resource practices or even training programs, such as diversity and non-discrimination training (for example, see *Miller v. D.F. Zees, Inc*., 31 F. Supp. 2d 792, 806-07 (D. Or. 1998)).

A related, though alternative, explanation for corporate's limited involvement in the human resource system of the franchisee-owned hotel in this study may be the classification of "strategic" vs. "tactical" employment decisions. Bradach (1998) defines "strategic" responses or decisions as those that have the ability to affect the uniformity of the chain while "tactical" decisions are those that result in variation but do not affect the standards specified by the franchisor and/or the degree of consistency across units. As a result, franchisees are often permitted to make tactical decisions and are limited in their ability to make strategic ones. While Bradach is referring to operational decisions in particular and does not pay much attention to employment decisions, he classifies the deployment of labor (staffing) as a tactical decision – one that is largely at the discretion of the franchisee. Applied to other elements of the human resource system, it may also be the case that the company has classified these decisions – namely compensation, performance management and employee relations – in addition to staffing as tactical rather than strategic and has thus left these decisions to the franchisee. In contrast, the company may be classifying training programs as strategic, especially given that much of this training is focused on brand standards and service skills – factors which are likely to affect the uniformity of service provided across units – and as a result, the company plays a much stronger role in training decisions and keeps franchisee involvement to a minimum.

In so far as this explains, in whole or in part, corporate's involvement in the management of human resource systems in its franchised operations however, there may be implications for both employee and organizational outcomes. In particular, previous research has shown that a host of human resource practices besides training have the ability to affect organizational performance. This includes practices that might be categorized by the company as "tactical". As summarized by Combs et al (2006), these practices, which are typically referred to as high performance work practices (HPWPs), include comprehensive recruitment and selection procedures, formal training, incentive compensation and performance management systems, flexible work arrangements and employee participation in decision making and are said to not only enhance employees' knowledge, skills and abilities (KSAs) but also empower and motivate employees to leverage those KSAs to achieve organizational objectives (Huselid 1995; Delery and Shaw 2001). This, in turn, affects employee outcomes, such as satisfaction, commitment and turnover – all of which have been linked to organizational performance and, especially in the case of services, customer-related outcomes such as customer satisfaction and service quality perceptions (Dyer and Reeves 1995; Schuler and Jackson 1999; Koys 2001; Batt 2002; Harter, Schmidt and Hayes 2002; Hausknecht, Trevor and Howard 2009; Batt and Colvin 2011). In this way, in addition to training decisions, decisions over staffing, compensation, performance management and employee relations are likely to affect employee outcomes and in turn, the uniformity and quality of service provided to customers (along with other organizational outcomes) and may be more "strategic" than first believed. Consequently, there may be a possible misspecification of strategic vs. tactical employment decisions on the part of the company and to the extent that this is resulting in a low level of involvement in franchisee human resource systems, this may have implications for the success of both franchised units and the company as a whole. The following quote from the GM at the franchisee-owned hotel provides some support for the strategic vs. tactical explanation for corporate's (arguably misguided) lack of involvement in the human resource systems of its franchised operations:

> Some things that directly affect the guest like the number of times the phone is supposed to ring before it is answered to some of the food on the menu and whatnot is absolutely a standard that is dictated by the franchise. Whether you have a bonus program, whether you give sick day, whether you give this or that isn't. However, you could argue that one

> is just as important as the other. So, there is somewhat of a failing in the franchise system because you have an opportunity for some cheapskates [franchisees] to kind of abuse the system…If someone were to take [all the hotels in the chain] and take those properties in the top 15, I bet there's a commonality in their employment practices.

A third possible explanation for the differences we observe between the two case study hotels may be the entrepreneurial nature of franchised operations. Individuals become franchisees because they are interested in running their own business (Royle 2000). While they may purchase a franchise rather than an independent operation because of the established business system and presumed lower risk that comes along with it[17], at the heart of their decision to become a franchisee is often the desire to be their "own boss". Being your own boss, however, requires control and given that franchisors typically dictate so many aspects of franchise operations, franchisees may not welcome franchisor involvement in their human resource systems as well. There are two primary reasons for this. First, franchisees may not see how human resource practices connect to operational issues or corporate standards and thus, do not see the need for corporate involvement in this aspect of their business. Second, given that labor costs are the single highest operating expense in many service operations where franchising is prevalent, including hotels[18], franchisees are not likely to welcome corporate involvement that will increase their costs and decrease their residual profits. This is perhaps best summarized by the GM at the franchisee-owned hotel:

> The whole entrepreneur, the spirit of things doesn't necessarily, doesn't like to be dictated to…You've got to have the BPs [British Petroleum] of the world, they're going to drill just the way they want to drill regardless of anything else and so it's hard to dictate to them, so you're always going to be fighting that…Most of it though is the bottom-line. The various owners just don't want to spend the money. There are just so

[17] In support of this, research shows that franchising provides opportunities for business ownership to many who may not otherwise take the risk. In one study, 52% of those surveyed indicated that they would not be self-employed if it were not for franchising (Hunt 1972). There is mixed evidence, however, on the degree to which franchises are "lower risk" than comparable independent operations. While some report high franchise survival rates, e.g. a recent news report indicated that 97% of franchises started 10 years ago were still open today (Shively 2010), others have indicated that success rates are much lower – around the 25% mark (Shane 1996). Birkeland (2002) attributes this discrepancy to definitions of "survival" and "success" so that while franchises themselves may have high survival/success rates overall, franchisees may have much lower success rates and greater turnover.
[18] One estimate indicates that payroll and related expenses comprise 44% of hotel operating expenses (Mandelbaum 2004).

> many things that the franchisor dictates that you do that they just figure…we'll let the employment practices go and they don't recognize the importance of the employment practices.

While the entrepreneurial nature of franchise operations may in turn give rise to lower corporate involvement in the human resource systems of franchised operations, this is likely to have implications for both the franchised unit and the organization as a whole. First, as is evident in the GM's quote, since franchisees receive the profits from their hotel (and only their hotel), their primary objective is the bottom-line. In contrast, since the franchisor is interested not only in the success of their units but also the chain as a whole, their primary objective is brand reputation (Ji and Weil 2009). In this way, while franchisors often deal with what one director in the company-managed hotel called "OPM – Other People's Money" and can thus afford to place brand as a top imperative, franchisees work with what might be referred to as "MPM – My Personal Money". Accordingly, the discretion afforded to franchisees with regards to their human resource systems may not only provide them with the ability to free-ride on the brand-name in an effort to increase profits but also, to the extent that the goals of the franchisee and the franchisor are at odds, the goals of the franchisee will prevail. That is, to the extent that human resource practices cause costs to increase, and in turn reduce franchisee residual profits, they are likely to "let the employment practices go" – and this may come at the expense of the brand (and ultimately, the overall company). This is especially true when we consider the fact that, as discussed earlier, HR practices have been shown to affect organizational outcomes such as customer satisfaction.

Second, corporate's lack of involvement in franchisees' human resource systems as a result of franchisees' desires for control may lead to a disconnect between what franchisees want and what their management teams need. That is, while franchisees may not welcome corporate involvement in matters of employment, their management teams, who are often responsible for managing operations on a day-to-day basis, particularly in those cases where franchisees exercise passive ownership, may require the information and guidance that corporate can provide to successfully operate the hotel. This was evident in the franchisee-owned case study hotel, where managers often (informally) looked to and modeled themselves after their larger, company-owned and managed counterparts, and is reflected in the following quotes from the Director of HR:

> The thing about HR in these big hotels…they are all mandated by corporate because they are corporate run and managed, so they get all this information that I don't get. You know the HR directors, it's just fed to them and then they have to comply.
>
> … [If we had more communication from corporate], it would be wonderful, it would be fantastic. It would give me so much peace of mind all the time.

This section outlined three potential explanations, and their implications, for the observed differences in the management of human resource systems in the two case study hotels. Additional research is needed to validate these explanations for why we see low levels of corporate involvement in franchisee human resource systems and high levels of involvement in company-managed human resource systems. The next section outlines the limitations of this study and provides suggestions for future research.

Limitations & Suggestions for Future Research

While this study finds significant differences in the management of human resource systems across ownership forms, there are some noteworthy limitations. First, this study took place at the establishment level and interviews were only conducted with directors and managers at each hotel property. While these interviews provide us with an adequate understanding of how human resource systems are managed in each hotel, it is difficult to ascertain the reasons why we observe the differences that we do between the two case study hotels without multi-level research that includes interviews with both corporate-level personnel and franchisee-owners. Accordingly, although this study provided some possible explanations for why we see low levels of corporate involvement in franchisee human resource systems, future research will need to validate and expand on these explanations through the use of multi-level, multi-source data.

Second, this study examined how human resource systems are managed across franchise and company forms of ownership by comparing a franchisee-owned hotel to a company-managed hotel rather than a company-owned hotel. While company-managed hotels certainly have a lot in common with company-owned hotels, including the fact that corporate has full management control over operations, differences remain between the two forms of ownership. To be sure, the owner still has a role in the hotel, albeit a limited one, and retains financial and legal liability for the hotel. This may, in turn, give rise to differences in how human resource systems are managed in company-managed vs. company-owned hotels. In support of this, one director at the company-managed case study hotel noted: "Just from the outside looking in – I've never worked for a [company-owned hotel] – I think they get a lot more scrutiny than we would but then again, I think we get a lot more scrutiny than a franchised hotel." Consequently, future studies should compare franchisee-owned hotels to both company-managed hotels and company-owned hotels to fully understand how, and why, ownership structure affects both the management and types of human resource systems adopted.

Third, while both hotels in this study operated under the same parent company and shared a number of other similarities (e.g. market segment, customer segment etc), they operated under different brand-names. While it is unlikely that this would significantly affect how human resource systems are managed across ownership forms in the same parent company, this study does not allow us to control for any possible between-brand differences that may exist in the management of human resource systems across ownership forms. Thus, future studies should also control for brand-specific effects.

Future research should also examine the extent to which the patterns observed in this study extend to other chains and industries. This would provide us with an understanding of the extent to which the findings of this study apply to other chains and the conditions under which we may find different patterns of employment system governance in franchised and company units than those found in this study. In line with this, there is some evidence from other industries that the management of franchised and company-owned units may differ across chains. For example, in the restaurant industry, it appears that some restaurant chains, like McDonald's, exert much more control, even with regards to matters of employment, on their franchised units than other similar chains, including those operating within the company-managed case study hotel. While McDonald's plays an integral role in decisions over staffing, training and even labor costs in its franchised units (Royle 2000), the franchisee of the two fast-food restaurants in the company-managed hotel indicated that the franchisors took a much more hands-off approach – and in the case of one restaurant, had no involvement whatsoever. Additional research is therefore needed to understand the extent to which, and the reasons why, similarities and differences exist in the governance of human resource systems in franchised and company operations across chains as well as organizational implications of such governance.

In addition, there may factors, and thus management practices, that are unique to different industries. One such factor may be passive ownership. While passive ownership is a common practice in hotels, as evident in the case of the franchisee-owned case study hotel, in other industries, such as restaurants, franchisees are often required to be involved in the day-to-day operations of the business. This might give rise to different patterns of management and different reasons for such patterns than those found here.

Finally, while this study examined how human resource systems are managed in franchised and company-managed hotels, the next step will be to determine how these management practices translate to employee outcomes (i.e. job quality, satisfaction and turnover) and ultimately, organizational outcomes (i.e. operational and financial measures of performance). Although this study did not control for hotel size, age or union status, all of which are likely to have an impact on work organization and human resource practices, the two case study hotels do provide some idea of what we might expect to find, at least with regards to employee job quality. For example, as shown in Table 1.2, the human resource practices in the franchisee-owned hotel appear to be much less formal and less sophisticated than those in the company-managed hotel and there seems to be a higher emphasis on containing costs (i.e. through lean staffing, fewer benefits etc) in the franchisee-owned hotel than in the company-managed hotel. On the one hand, the differences between the two hotels may merely be reflecting differences in the size or union status of the two hotels, as larger firms are more likely to have formal and sophisticated HR practices than smaller firms and unionization results in a greater emphasis on seniority and higher wages and benefits. On the other hand however, the fact that the smaller, second company-managed hotel displayed similarities to the company-managed case study hotel, for example in regards to the level of formality in HR practices, seems to suggest that some of the observed differences between the hotels are due to ownership rather than say, size or some other factor. It is also worth keeping in mind that the human resource practices of the franchisee-owned hotel in this study are likely to be a conservative representation of human resource practices in other franchised hotels. The franchisee-owned hotel has not only won multiple service awards but also places a high degree of importance on “good” human resource practices, as is evident in the quotes from the GM presented earlier. The relationship between ownership structure and employee (and ultimately organizational) outcomes therefore needs to be examined in future research. Such research should control for relevant factors such as hotel brand, age, size and union status.

CONCLUSION

The purpose of this study was to examine how franchise businesses manage their human resource systems across ownership forms and in particular, the level of corporate involvement in the management of these systems. A matched-pair case study comparison of a franchisee-owned hotel and a company-managed hotel revealed significant differences in the management of human resource systems across ownership forms. In particular, while the company-managed hotel was characterized by a high level of corporate involvement in all aspects of its human resource system, from staffing to employee relations, the franchisee-owned hotel was characterized by a high degree of franchisee independence and a much lower level of corporate involvement in every aspect of its human resource system, with the exception of training.

Moreover, corporate took a hands-off approach to employees of the franchisee and the cross-case analysis revealed a clear demarcation of franchisee employees and company employees.

What explains these differences? Three potential explanations, and their implications, were outlined: company fears over potential liability for the actions of its franchisees, the classification of employment decisions as “tactical” rather than “strategic” in nature, and the entrepreneurial nature of franchised operations.

This study makes an important contribution to our understanding of how franchise businesses are managed in general and to our understanding of the franchise relationship in particular, especially with regards to human resource management. Future research should examine the extent to which the findings of this study generalize to other settings, both in and outside of the hotel industry. Future research should also examine the extent to which observed differences in the management of human resource systems across ownership forms, in turn, affect the types of human resource systems adopted and ultimately, employee and organizational outcomes across franchised and company operations. Such research is important not only for understanding how the increasing number of individuals employed in franchise businesses are affected by differences in ownership form but also for understanding the factors which may affect the success and long-term viability of businesses that are a significant and growing part of the US (and global) economy.

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CHAPTER 2

THE EFFECT OF OWNERSHIP ON HUMAN RESOURCE PRACTICES IN NETWORKED FIRMS: EVIDENCE FROM A FRANCHISE SYSTEM

ABSTRACT

This study investigates the relationship between ownership form and human resource practices in a franchise system. Drawing on the franchising and family business literatures, I examine competing hypotheses regarding franchisee ownership incentives and behavior vis-à-vis their employees relative to the alternative, vertically integrated company form of ownership. Using data from a unique establishment level survey of a U.S.-based limited service hotel chain, I find significant differences in human resource practices across franchised and comparable company operations. Consistent with predictions of franchisee profit motives and free riding behavior, franchisee-owned establishments are associated with lower adoption of strategic human resource practices compared to company-owned establishments. The results of this study suggest that strategic choices over the organization and ownership of production can influence human capital investments in networked firms.

Keywords: franchising, human resources, ownership, networked firms

INTRODUCTION

The production of goods and services has become increasingly fragmented as large firms vertically disintegrate and coordinate with other firms in networked forms of organization. In some cases, such as those commonly found in global value chains, this has been led by firm efforts to focus on core competencies and reduce ownership over "non-core" activities (the "make-or-buy" decision) (Gereffi, Humphrey, & Sturgeon 2005). In others, such as tapered integration, firms have engaged in the simultaneous use of in-house production and outside suppliers for the same activities (the "make-and-buy" decision) (Porter 1980).

Shifts in the ownership and coordination of production have also brought about shifts in the coordination of work and employment. Employment relationships have become increasingly fragmented, or "fissured", as workers have moved from large firms to networks of smaller business units (Weil 2010). However, we still know very little about what it means to work under these arrangements (Batt & Banerjee 2012; Lakhani, Kuruvilla, & Avgar 2013). Moreover, the management of employees and the organization of work within these arrangements can have significant implications for the performance of networked organizations. Research in strategic human resource management has demonstrated a strong relationship between human resource (HR) practices, often referred to as high performance or high involvement work practices, and a range of organizational outcomes (Combs, Liu, Hall, & Ketchen 2006). These practices, which typically involve some combination of comprehensive recruitment and selection procedures, formal training, incentive compensation, and employee participation in decision making, reflect investments in the human capital of the firm that result in sustained competitive advantage (Hatch & Dyer 2004; Liu, van Jaarsveld, Batt, & Frost 2013; Wright, McMahan, & McWilliams 1994). As firms progressively integrate with other firms, they rely more on the human capital of those firms to deliver value and achieve competitive advantages that were once created exclusively within firm boundaries. As a result, variation in human capital investments, via human resource practices, could affect the success of networked firms.

This paper examines work organization under a networked organizational form that has experienced significant growth over the last few decades: franchising. Franchise businesses directly and indirectly account for 11.8% of private sector employment and 9% of private sector output in the United States (IFA 2013). Over the period of 2007-2013, franchise businesses created jobs at a faster rate than other businesses in the U.S. economy, and such rapid growth is expected to continue in the future (IFA 2013).

Most franchise businesses are "plural form" organizations – a form of tapered integration that includes both franchisee-owned and company-owned units (Bradach 1998; Michael 2000). In franchised units, the company (franchisor) grants an individual (franchisee) the right to sell its product or service using its brand name and business system. Although the franchisor provides the franchisee with ongoing guidance and support, the franchisee is responsible for operating the business and as the residual claimant, receives the profits of their efforts. Alongside franchised units, franchisors also operate their own units. Franchisors hire managers to run these units using the same business system provided to franchisees but in company-owned operations, the franchisor (rather than manager) is the residual claimant. The simultaneous operation of franchisee and company owned units raises questions about the nature of employment in these units: who sets the standards of work, and to what extent are there differences in the strategies and practices of franchisees versus company managers?

Few studies have examined HR practices under the franchise form of ownership. Those that have done so have focused on a narrow range of practices or have examined HR practices in franchised operations relative to independently-owned operations, assuming that practices in franchised and company units are identical given their common business system (Cappelli & Hamori 2008). There are, however, reasons to expect variation in HR practices across ownership forms in the same organization. To begin with, there is evidence that while franchisors provide franchisees with operating guidelines, they do not involve themselves in the employment matters of their franchisees. Concerns over vicarious liability appear to be a primary reason for this although recent research has illuminated other possible explanations as well (Lakhani 2013). Second, franchisee owners and company managers may experience very different incentives when it comes to their HR systems. On the one hand, the provision of residual claimancy may lead franchisees to act in the best interests of the brand through comparable investments in HR practices as company managers. On the other hand, since franchisees only receive the profits from the units they own, they may have an incentive to free ride on the brand name by cutting costs and investments in HR practices.

To investigate these competing hypotheses, I draw on a unique establishment level survey of a limited service hotel chain to compare twelve key strategic HR practices across ownership forms[1]. The hotel industry is an appropriate context for this study because it is one of the most highly franchised industries in the U.S., with chains operating both franchisee and company owned units under the same business format and procedures. Given the limited data on franchises in general and their employment practices in particular, focusing on a single industry and chain also allows us to include rich controls to rule out alternative explanations for any observed variation in practices.

This study makes several contributions. First, the study will contribute to the literature in strategic human resource management by examining how decisions over the production of goods

[1] In line with the earlier discussion, "strategic" HR practices are practices that are "theoretically or empirically related to overall organizational performance" (Delery & Doty 1996: 805).

and services shape investments in human capital. Although understanding the determinants of HR practices is a fundamental aim of strategic human resource management theory (Wright & McMahan 1992), much of the empirical research in this area has focused on the outcomes of those practices (for a noteworthy recent exception, see Liu, van Jaarsveld, Batt, & Frost 2013). By examining HR practices in a plural form franchise system, this study will illuminate how strategic choices over production and more specifically, the ownership structures that result from such choices affect strategic human resource investments.

Second, this study will contribute to growing debates over job quality. Recent studies have documented the prevalence of low wage work in the U.S. and abroad, and the causes and consequences of such work (Appelbaum, Bernhardt, & Murnane 2003; Gautié & Schmitt 2010; Osterman & Shulman 2011). Since franchising is common in many low wage service industries, this study will provide an understanding of how the ownership structures of firms affect the quality of jobs for a growing proportion of the working population.

Third, this study will contribute to the franchising literature by expanding our understanding of franchisee incentives and behavior. Research on franchising has predominantly focused on the franchisor perspective. As Dant (2008: 92) notes, this leads to questions about the "emic generalizability of our etic-oriented franchising theories…and the applicability of franchisor-based findings to the mindset of franchisees". Since HR practices appear to be one domain where franchisees have considerable autonomy, examining variation in practices across ownership forms may provide important insights on franchisee motives. Additionally, given the replicated and interdependent nature of franchised and company operations that share a brand name, the results of this study may point to factors that have the potential to affect the success of franchise businesses more generally.

Finally, by examining the relationship between ownership and HR practices in a plural form franchise system, this study may provide insights on how production decisions and ownership structures shape work organization and outcomes in other types of networked firms, such as global value chains, strategic alliances, and other plural form organizations.

The paper begins with a brief overview of prior research on employment practices in the franchise context. Next, drawing on theories of franchising and family owned businesses, I examine alternative hypotheses for the relationship between franchise ownership and investments in HR systems. I then describe my data, methods, and results. In the final section, I discuss the findings of the study and offer suggestions for future research.

PRIOR RESEARCH

The limited literature on employment in franchises reveals significant differences in HR practices across ownership forms. Studies in the restaurant and hotel industries have shown that employees in company-owned operations receive higher compensation and have a steeper tenure-earnings profile than employees in comparable franchisee-owned operations (Freedman & Kosová 2012; Krueger 1991). These differences have been attributed to agency problems and more specifically, variation in employee supervision which leads franchisors to adopt efficiency wages in their company-owned operations.

Research on labor standards compliance in fast food restaurant chains has also demonstrated that company-owned outlets have higher rates of compliance than franchised outlets (Ji & Weil 2010). On average, franchisee-owned restaurants owe 60% more in back wages than comparable company-owned restaurants. The authors argue that the compliance gap reflects differences in concerns over brand reputation.

Few studies on HR systems (as opposed to individual practices) in franchises exist, but one study of a Dutch retail chain did find that company-owned units have higher HR intensity, measured in terms of the quantity of HR practices, than franchised units (Brand & Croonen 2010). It is difficult to determine the source of these differences though, as company-owned units in the study are covered by a Collective Labour Agreement, which is likely to influence HR practices, and only establishment size is controlled for in the analysis.

In contrast, Cappelli and Hamori (2008) use a national probability sample of establishments to examine the relationship between franchise status and a series of HR practices for managerial and non-managerial employees. After controlling for relevant factors, they find that franchise operations have more sophisticated HR practices than similar independently-owned operations. The authors, however, assume that HR practices are largely the same for all establishments in a plural form franchise system and do not differentiate between units that are franchisee-owned vs. company-owned. As a result, it is not clear whether the findings reflect differences between franchised establishments and independent establishments or between company establishments in a franchise system and independent establishments. Although it is worthwhile to examine how HR systems vary between franchised and independently-owned operations, it does not provide us with a clear understanding of how franchisee-owned establishments compare to other establishments operating under the same brand name. In light of the integrated nature of franchised and company operations, as well as recent findings that franchisees may have more discretion over their HR systems than first believed (Lakhani 2013), it is important to understand how HR practices under the franchise form of ownership compare to those under the alternative, vertically integrated company form of ownership.

In this study, I extend previous work by developing hypotheses regarding franchisee incentives and behavior vis-à-vis their employees and investments in HR practices relative to company-owned operations. I test these hypotheses by investigating the effect of franchise ownership on a broader range of HR practices than has been examined in prior research while also controlling for factors that may be associated with the franchise form. Below, I elaborate these hypotheses, beginning with a discussion of the agency cost theory of franchising.

THEORY AND HYPOTHESES

Traditionally, research on the franchise relationship has used agency cost theory to emphasize the agency benefits of franchising. Franchise scholars have found that providing franchisee agents with residual claims on the profits of their operations reduces two common problems in principal-agent relationships, namely adverse selection (incentives to misrepresent abilities) and moral hazard (incentives to shirk) (Brickley & Dark 1987; Rubin 1978). Thus, franchising is said to enhance performance by reducing the agency costs typically found in company-owned units where individuals are hired under fixed wage contracts to manage operations.

Franchising may not eliminate all agency costs, however, and may bring forth new costs, such as free riding. The agency cost explanation of franchising assumes that by turning franchisees into residual claimants, the interests of the principal (franchisor) and the agent (franchisee) are brought into alignment. Although this is true in that franchisees internalize the consequences of their behavior via their profits, the profit motive of franchisees may also lead to situations where the interests of the franchisor and the franchisee are not aligned. One area where this is likely to occur is employment. Labor costs make up a significant proportion of expenses in many service operations where franchising is prevalent. For example, payroll and related expenses comprise almost 50% of operating expenses in the hotel industry (Mandelbaum 2004). Since franchisees benefit from the profits of their unit (and only their unit), they may have an incentive to free ride on the established brand name by reducing quality and labor costs in order to maximize profits. Reducing labor costs also allows franchisees to increase their take home pay without having to share the benefits with franchisors as they would if they were to increase profits through higher sales (Felstead 1993). Accordingly, franchisees may be less likely to adopt HR practices which are believed to increase costs and decrease residual profits, such as high performance or high involvement work practices, even though such practices may benefit the franchised operation and the larger organization over the long term. Indeed, research has shown that these practices consistently lead to higher performance across a range of industries, including services (Batt 2002; Delery & Doty 1996; Delery & Doty 1996; Hoque 1999; Macduffie 1995). In contrast, given the franchisor's concern for the brand name and the performance of the franchise business as a whole, they may be much more likely to adopt such practices in their company-owned units.

A parallel line of reasoning can be found in research on family business ownership. This literature is relevant to the study of franchising not only because franchised establishments are often family owned and operated (Carney 2005), but also, and perhaps more importantly, because the structure of ownership is similar across franchised and family-owned operations. Specifically, family businesses, like franchised businesses, are characterized by the presence of owner managers. Also, family businesses often have outside investors or "owners" with an interest in the success of their operations, much like franchisors have a vested interest in the success of franchised operations. This may, in turn, give rise to "principal-principal" relationships with similar issues and incentives across family and franchise forms of ownership.

To date, research on family ownership has been divided into two main perspectives: agency and stewardship (Le Breton-Miller, Miller, & Lester 2011). The agency perspective, for the most part, echoes the arguments outlined above. Here, the family owner is viewed as a risk-averse investor that favors family interests over the interests of other stakeholders and acts in ways that maximize short-term personal wealth. In contrast, the stewardship perspective views the family owner as a far-sighted investor that is willing to sacrifice short-term personal gains for the long run benefit of the organization and its stakeholders. In addition, family owners value their reputation so they are likely to behave in ways that enhance and preserve their family name. Applied to HR practices and employment relations, these perspectives paint opposing pictures of family owners – as employers who see employees as costs to be minimized on the one hand and as beneficent employers that value long-term relationships and investments in human capital on the other (Cobb 2013; Tsao, Chen, Lin, & Hyde 2009).

A similar argument could be made for franchisee owners. That is, franchisee owners may be viewed as short-term, individual profit-seeking maximizers, as discussed earlier, or as stewards who invest in their employees for the long run benefit of their operations and the franchise system as a whole. This leads to competing hypotheses regarding the franchisee employer in comparison with the company employer. Because HR practices such as formal selection, training, discretion, and competitive pay and benefits represent immediate costs with an uncertain longer term payoff, franchisees may be less likely to adopt these practices than franchisors and their managers who value brand reputation. Conversely, franchisees may be as or perhaps even more likely to adopt such HR practices as they represent investments in the brand that they have bought into and directly benefit from through higher long run profits. It is worth noting here that this perspective is consistent with arguments regarding the agency benefits of franchising and in particular, the high powered incentives of franchisees as residual claimants. Also, franchisees may be less likely to adopt poor or cost cutting management practices as they can have a detrimental effect on the franchisee's personal or family reputation if consumers are made aware of such practices. Although HR practices are often private and less subject to consumer scrutiny than other organizational practices, the recent strikes by restaurant workers in major cities across the U.S. provide an example of how such practices can be made public knowledge (Petroff & O'Toole 2013). Accordingly, the following hypotheses are set forth:

Hypothesis 1a: Franchisee-owned establishments will exhibit lower investment in HR practices compared to company-owned establishments.

Hypothesis 1b: Franchisee-owned establishments will exhibit equal or greater investment in HR practices compared to company-owned establishments.

METHODS

Industry Setting

The setting for this study is the U.S. hotel industry. The hotel industry provides an ideal context for examining the relationship between franchise ownership and HR practices for a number of reasons. To begin with, the hotel industry is one of the most highly franchised industries in the U.S., and franchising is expected to grow in importance in the industry in the years to come (Michael 2000). Almost two thirds of branded hotels in the U.S. are now franchised (Diaz-Bernardo 2010) and 65% of employment in franchise businesses is in the food and hospitality sector (IFA 2013). Second, focusing on a single industry will control for any between-industry differences that may exist in franchising and HR systems more generally (Cappelli & Hamori 2008). Finally, given the high cost of opening a hotel franchise and the presence of long-term contracts[2], the hotel industry provides a good context for testing hypotheses regarding franchisee incentives and behavior because, all other things equal, franchisees should have long-term orientations.

Sample

The data for this study come from an establishment level survey of HR practices in a U.S.-based limited service hotel chain. Limiting the sample to a single chain allows us to control for extraneous sources of variation, including brand and market segment effects. Since limited service hotel chains are typically unorganized, I am also able to control for union effects. Although union density remains low in the U.S. hotel industry, at approximately 7% overall (Hirsch & Macpherson 2013), previous research has shown that unions have significant effects on employment practices in general and in the hotel industry in particular (Bernhardt, Dresser, & Hatton 2003; Freeman & Medoff 1986; Zuberi 2006). Since company-owned units in other market segments are more likely to be unionized than franchised hotels, examining a primarily non-union limited service chain allows me to separate the effects of ownership from the effects of unionization, which has been difficult to do in previous research (Brand & Croonen 2010).

An establishment is defined as a single hotel in the chain. Although it was not feasible to survey multiple respondents, establishment level surveys have generally been recognized as more reliable than firm level surveys since units are smaller and managers have the opportunity to observe the actual practices being implemented (Batt 2002; Gerhart, Wright, McMahan, & Snell 2000).The target respondent for the survey was the General Manager (GM) in each hotel. GMs are responsible for managing the entire hotel and are likely to be more aware of the practices, including those pertaining to HRM, in their hotels than other department managers.

[2] For example, Lakhani (2013) reported that the total investment to open a newly constructed 250 room 3 Diamond hotel, excluding real property, ranges from $34 to $57 million, with a typical franchise term of 20 years.

Since HR practices vary by occupational group, even within the same workplace (Lepak & Snell 1999; Osterman 1987), I focused on HR practices for a specific group of workers in each hotel, namely non-managerial front-of-house (FOH) employees. While some studies have focused on the "core" workforce, defined as the largest group of non-managerial employees (Batt 2002; Delery & Doty 1996), this study focuses on the group of employees with the highest "strategic value" – the human capital that is most responsible for creating the firm's competitive advantage (Lepak & Snell 1999; McClean & Collins 2011). In interactive service work, the employees that have direct contact with the customer are responsible for service delivery. Furthermore, since these employees are the most visible to customers, their attitudes and behavior directly influence customer perceptions of service quality and the brand (Schneider & Bowen 1985). Variation in HR practices for FOH employees could therefore have a substantial impact on organizational outcomes.

The survey was administered online to all of the hotels in the chain in Spring 2013, following a pilot test in Fall 2012. The survey was developed after conducting extensive qualitative research in the hotel industry. This included in-depth case studies of two hotels, one company-managed and the other franchised, as well as interviews with a wide range of industry professionals[3]. This provided me with a greater understanding of hotel operations and, in turn, allowed me to tailor questions to fit the language and nature of the hotel industry. Interviews were also conducted with the top management team in the hotel chain in this study and the survey was pre-tested by senior managers to ensure that questions were clear and applicable to hotels. This approach is consistent with recent calls to investigate context and service specific human resource systems and should lead to more reliable findings (Batt & Hermans 2012; Becker & Huselid 1998; Combs, Liu, Hall, & Ketchen 2006).

[3] Note, the survey for this study was conducted in a different chain than my initial qualitative fieldwork/case studies.

After accounting for missing and duplicate responses, the overall response rate was 63% (n=483), with a company-owned hotel response rate of 82% (n=305) and a franchisee-owned hotel response rate of 46% (n=178). I also obtained establishment level data from corporate on hotel ownership, age, size, location, and performance for all of the hotels in the chain.

To check for non-response bias, I conducted a series of t-Tests comparing responders to non-responders for each ownership subsample using corporate data[4]. Among franchisee-owned hotels, there were no significant differences in hotel age or size between responders and non-responders. However, franchisee-owned hotels that responded to the survey had higher average performance, as measured by the most commonly used industry metric RevPAR[5] (M=$46.90, SD=$17.81), than non-responders (M=$43.79, SD=$16.33), $t(431)=1.87$, $p=0.062$. A chi-square test of independence was performed to examine the relationship between responding and hotel location. The relationship between these variables was significant (χ^2 (5, N =433) = 13.16, p <0.05). Responders in the franchisee-owned hotel subsample were less likely to be located in an urban area compared to non-responders. Among company-owned hotels, there were no significant differences in hotel size or performance but responders were, on average, younger, as measured by the number of years the hotel has been open, (M=19.25, SD=11.46) than non-responders (M=21.56, SD=11.29), $t(396)= -1.71$, $p=0.088$. A chi-square test of independence revealed no apparent differences in hotel location for responders compared to non-responders in the company-owned hotel subsample. These differences were controlled for in the analyses below.

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[4] As will be discussed later on, since there are significant differences in the attributes under consideration between franchisee-owned hotels and company-owned hotels, it was important to examine non-response bias separately for each ownership subsample to obtain an accurate assessment of the differences between responders and non-responders.

[5] RevPAR is "revenue per available room". It is a financial performance metric that takes into account both room revenue and occupancy rates and is calculated as: total guestroom revenue/total number of available rooms or average daily rate x occupancy rate (for more information, see http://www.strglobal.com/Resources/Glossary.aspx).

Measures

To investigate the effect of ownership on investments in HR practices, I examine 12 practices that have been identified in the literature as key elements of an HR system and that have the potential to affect organizational performance. Following Cappelli and Hamori (2008), each individual HR practice is treated as a dependent variable. This not only facilitates comparability with previous studies but also allows for the possibility that different HR practices may vary by ownership form, thus providing a more fine-grained analysis of the relationship between ownership and HR systems[6]. To further facilitate comparability, measures were adapted from published research in strategic human resource management, including Batt (2002), Way (2002), Cappelli and Hamori (2008), and Batt and Colvin (2011) among others. The variables used in this study are presented below[7].

Dependent Variables. *Annual salary* is the annual salary for the typical FOH employee. This measure excludes tips, bonuses, and other forms of performance-related pay as respondents in the survey indicated that only a very small percentage of gross annual pay comes from these sources[8]. *Benefits* is a count of how many of 6 benefits the hotel provides to its FOH employees: paid vacation/holidays, sick leave, other paid leaves, health insurance, pension, and meals. *Education* is the average number of years of completed schooling for FOH employees in the hotel. Although this is not an HR practice per se, it may be an indicator of selectivity and has been used in previous studies as a measure of the general skill level of the workforce (Batt 2002). *Percent full time* is the proportion of the workforce that is full time and has typically been used

[6] It is conceivable that franchisees invest in some practices but not others. Given that different HR practices can be complements or substitutes (Becker, Huselid, Pickus, & Spratt 1997; Delery 1998), examining individual practices can provide a better understanding of how ownership affects the structure of HR systems as well as the potential implications for organizational outcomes.
[7] Detailed definitions can be found in Appendix 2.1.
[8] The mean reported performance-related pay for the typical FOH employee in the sample was 7% of gross pay and the median was 0%.

as a measure of employment security. Three measures were included to examine high involvement work design. *Information sharing* is the percentage of FOH employees that regularly receive information regarding hotel goals, objectives and performance. *Meetings* is the percentage of FOH employees that are involved in regularly scheduled meetings to discuss work related issues. *Discretion* is a four-item scale adapted from Batt and Colvin (2011) and is the average extent to which FOH employees have discretion (using 1-5 Likert response scales where 1 is "not at all" and 5 is "a great deal") over work methods, what they say to customers, handling customer requests, and handling customer complaints (alpha = 0.79). Two measures were included to examine training. *Initial training* is the number of hours of initial training that FOH employees receive in their first year, including orientation and job-related training. *Time to proficiency* is the number of days it takes for a new hire to become fully proficient on the job. While the first measure reflects formal training, the latter is likely to include both formal and informal or on-the-job training. *Internal mobility* is the percentage of front of house employees typically promoted to higher positions. Two final measures were included to examine the extent to which establishments invest in selecting a high quality workforce. *Cost to recruit, screen, and train new employees* is the approximate cost to recruit, screen, and train a new FOH employee, including direct costs and management time. *Formal selection* is the extent to which the establishment relies on formal assessment methods such as ability or personality testing and structured interviews to determine the suitability of job candidates (on a 1-4 scale, from "not at all" to "to a great extent"). In line with previous research in strategic human resource management (Batt 2002; Becker & Huselid 1998), the 12 individual practices were also standardized and combined into an additive mean index called *high performance work system* to examine the effect of ownership on HR systems as a whole.

Independent Variable. The primary independent variable in this study is ownership. *Franchise* is a dichotomous variable where 1=franchisee-owned hotel and 0=company-owned hotel. The ownership form of the hotel was reported by each respondent and confirmed using data from corporate. A very small percentage of hotels in the sample (2.7%) are company-managed but not owned. Since company-owned and company-managed hotels are managed in the same way and there were no significant differences in practices between company-owned hotels and company-managed hotels in this study, both are included under the category "company-owned hotels". Previous studies have taken a similar approach (Freedman & Kosová 2012; Weil 2012).

Control Variables. Several variables are included as controls. To control for establishment characteristics, I include *establishment size*, the number of rooms in the hotel, and *establishment age*, the number of years since the hotel opened, as larger and older establishments may have more sophisticated and mature employment systems (Jackson and Schuler 1995; Kaufman 2008). I also control for the location of the hotel using a series of dummy variables: *airport*, *city center*, *resort*, *suburban,* and highway (omitted category). To control for labor market characteristics, three variables are included. Following previous studies, the local *unemployment rate* and the *median wage* for the main occupational group (hotel desk clerks in this study) control for variation in job availability and cost of living respectively (Batt 2001; Batt and Colvin 2011). I also control for private sector *union density* to account for the effects of union representation in the local area where the establishment is located. Finally, the performance metric *RevPAR*, obtained from corporate, is included for each hotel to control for differences in performance as higher performing establishments may have a greater ability to invest in HR practices than lower performing establishments (Wright, Gardner, Moynihan, & Allen 2005).

RESULTS

Table 2.1 provides the means, standard deviations, and bi-variate correlations for the variables. Table 2.2 compares establishment and labor market characteristics by ownership form. To examine the effect of ownership on HR practices, I perform difference-of-means tests for each of the dependent variables in this study. This is followed by multivariate analyses that control for factors that may be associated with franchise ownership.

Beginning with the characteristics of franchisee-owned hotels and company-owned hotels, Table 2.2 shows that franchised hotels in this sample are, on average, younger (5.2 vs. 19.2 years old, $p<0.001$) and smaller (78 vs. 125 rooms, $p<0.001$) than their company-owned counterparts. Franchisee-owned hotels also appear to perform better, in terms of RevPAR, than company-owned hotels (\$46.90 vs. \$40.00, $p<0.001$), consistent with the agency cost explanation of franchising. There are no apparent differences in the unemployment or union density rates of the local labor markets where franchised and company hotels operate but the median hourly wage for hotel desk clerks appears to be slightly higher in locations where company-owned hotels operate (\$9.40 vs. \$9.54, $p<0.10$). Such differences underscore the importance of including these variables as controls in the analysis.

Table 2.1: Means, Standard Deviations, and Bivariate Correlations for Variables

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Franchise	0.37	0.48	1																
2	Annual Wage	16646.52	2610.50	-.309**	1															
3	Benefits	3.16	1.85	-.796**	.306**	1														
4	Education	13.41	0.88	-.117*	.101*	.132**	1													
5	Percent Full Time	67.74	27.74	-.262**	.374**	.242**	0.05	1												
6	Information Sharing	92.92	18.38	-.209**	.125**	.217**	.127**	.135**	1											
7	Meetings	84.27	27.62	-0.02	0.02	0.06	0.04	.116*	.440**	1										
8	Discretion	3.91	0.80	-.245**	.167**	.223**	0.08	.127**	.179**	0.08	1									
9	Initial Training	83.61	65.43	-.120**	.113*	.157**	.093*	0.07	-0.03	-0.01	.145**	1								
10	Time to Proficiency	38.81	38.29	-.106*	0.09	.101*	.097*	0.06	0.02	0.01	0.04	.218**	1							
11	Internal Mobility	13.86	16.81	-0.01	.098*	0.08	-0.01	0.06	0.01	0.08	0.01	0.02	0.03	1						
12	Cost to Recruit, Screen and Train	1454.02	1562.39	-.248**	0.07	.236**	0.06	0.06	.112*	0.06	0.07	.230**	.125**	0.03	1					
13	Formal Selection	3.31	0.76	-.512**	.136**	.432**	0.05	.167**	.178**	.097*	.183**	.126**	0.01	0.06	.170**	1				
14	High Performance Work System	0.01	0.41	-.545**	.496**	.590**	.296**	.490**	.491**	.396**	.445**	.264**	.293**	.289**	.393**	.502**	1			
15	Establishment Age	14.17	11.51	-.588**	.095*	.509**	-0.06	.250**	0.09	-0.02	.160**	0.04	0.04	0.06	.164**	.352**	.330**	1		
16	Establishment Size	107.95	35.51	-.633**	.280**	.575**	.108*	.243**	.108*	-0.01	.139**	.146**	.125**	0.03	.182**	.304**	.372**	.413**	1	
17	RevPAR	42.49	15.36	.216**	.125**	-.133**	-0.02	0.01	-0.06	0.00	0.01	0.06	0.00	-0.06	-0.05	-.156**	-0.05	-.232**	-0.03	1
18	Airport	0.14	0.35	-0.09	.113*	0.05	0.02	0.06	0.05	-0.04	0.02	0.02	.095*	-.100*	0.00	0.01	0.05	0.03	.186**	0.07
19	City Center	0.12	0.33	0.03	-0.01	0.05	0.01	0.04	0.01	0.06	0.02	0.01	0.00	.115*	0.00	0.01	0.05	0.05	0.04	.140**
20	Resort	0.03	0.17	0.07	0.09	-0.05	0.02	0.05	-0.08	-.098*	-0.01	-0.04	-0.07	-0.02	-0.03	-0.01	-0.07	-0.07	0.04	.099*
21	Suburban	0.19	0.39	-.095*	0.05	0.06	0.04	-0.04	-0.01	-0.06	0.03	.096*	-0.03	0.06	0.08	0.03	0.07	-0.06	0.00	0.05
22	Unemployment Rate	7.33	1.73	-0.05	0.04	0.06	0.06	0.04	0.04	0.06	0.07	0.07	-0.02	-0.06	-.102*	0.00	0.00	-0.06	0.04	0.02
23	Union Density	4.27	3.00	0.01	.122**	0.01	0.08	-0.09	-0.02	0.02	0.00	.106*	-0.04	-0.05	-0.08	0.00	-0.05	-.141**	-0.01	0.02
24	Median Wage	9.49	0.83	-0.08	.408**	.106*	0.02	0.03	0.03	0.01	0.07	0.05	0.03	-0.06	-0.01	-0.05	0.09	-.120**	.152**	.264**

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 2.1 (Continued)

	Variable	18	19	20	21	22	23	24
18	Airport	1						
19	City Center	0.07	1					
20	Resort	.140**	-.152**	1				
21	Suburban	.099*	-0.07	-0.06	1			
22	Unemployment Rate	0.05	-.196**	-.181**	-0.08	1		
23	Union Density	0.02	0.05	0.02	.107*	0.03	1	
24	Median Wage	0.02	0.08	-0.08	-0.07	0.06	.180**	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 2.2: Characteristics of Franchisee-Owned and Company-Owned Establishments: Means, Standard Deviations, and Difference of Means t-Tests

	Franchisee-Owned		*Company-Owned*		
Characteristic	*Mean*	*S.D.*	*Mean*	*S.D.*	*t-Test*
Establishment Age	5.16	2.81	19.25	11.46	***
Establishment Size	78.04	22.46	124.82	29.99	***
RevPAR	46.90	17.81	40.01	13.19	***
Unemployment Rate	7.22	2.08	7.39	1.49	n.s.
Union Density	4.30	2.88	4.26	3.06	n.s.
Median Wage	9.40	0.90	9.54	0.78	†

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

Table 2.3 presents the difference-of-means tests for the HR practices examined in this study. There are significant differences in the types of HR practices adopted by franchised and company hotels. Franchisee-owned hotels pay 10% less (\$15,588 vs. \$17,262, $p<0.001$) and offer fewer benefits than company-owned hotels (1.23 vs. 4.28 benefits out of a possible 6, $p<0.001$). Franchisee-owned hotels also employ workers with fewer years of education (13.28 vs. 13.49 years, $p<0.05$) and provide employees with less employment security, measured in terms of the percentage of full time employees (58.24% vs. 73.31%, $p<0.001$). Franchised hotels also appear to make less use of a high involvement work design. They engage in less information sharing with their frontline employees (87.88% vs. 95.83% of employees regularly receive information on hotel goals and objectives, $p<0.001$) and provide employees with less discretion over work methods and customer service than company hotels (3.65 vs. 4.06 on a 5 point scale, $p<0.001$). Franchisees also appear to offer less training, in terms of initial training hours (73.23 vs. 89.50 hours, $p<0.01$), and the number of days it takes for a new hire to become proficient on the job (33.47 vs. 41.88 days, $p<0.05$). Finally, franchisees spend less than company managers on recruiting, selecting and training new employees (\$934.87 vs. \$1741.61 per new hire, $p<0.001$) and are less likely to employ systematic selection procedures (2.80 vs. 3.61 on a 4 point scale, p<0.001). Combined, franchisees have, on average, lower adoption of a high performance work system than their company owned counterparts (-0.30 vs. 0.17, p<0.001).

Table 2.3: Human Resource Practices of Franchisee-Owned and Company-Owned Establishments: Means, Standard Deviations and Difference of Means t-Tests

	Franchisee-Owned		*Company-Owned*		
Employment Practices	*Mean*	*S.D.*	*Mean*	*S.D.*	*t-Test*
Annual Salary	15587.61	2494.91	17261.60	2479.15	***
Benefits (/6)	1.23	1.23	4.28	1.05	***
Education Years	13.28	0.94	13.49	0.83	*
Percent Full Time	58.24	28.91	73.31	25.48	***
Information Sharing (%)	87.88	24.32	95.83	13.01	***
Meetings (%)	83.43	28.65	84.75	27.04	n.s.
Discretion Scale	3.65	0.91	4.06	0.68	***
Initial Training Hours	73.23	65.46	89.50	64.78	**
Time to Proficiency (Days)	33.47	36.42	41.88	39.05	*
Internal Mobility (%)	13.59	16.84	14.02	16.82	n.s.
Cost to Recruit, Screen and Train New Employees	934.87	1145.96	1741.61	1685.22	***
Formal Selection	2.80	0.84	3.61	0.52	***
High Performance Work System	-0.30	0.42	0.17	0.30	***

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

Since the difference-of-means tests do not control for factors that may be associated with franchise ownership, it is not clear whether the results in Table 2.3 reflect actual differences in practices due to ownership form. As noted earlier, franchised and company hotels differ on a number of characteristics (see Table 2.2), which could potentially account for the observed differences in HR practices. A series of multivariate regressions were therefore estimated to examine the effects of ownership on HR practices, controlling for various hotel and labor market characteristics. These regressions are presented in Table 2.4. The results are largely consistent with the difference-of-means tests. Controlling for hotel age, size, location, performance, and local labor market factors[9], there are statistically significant differences in HR practices between franchised operations and comparable company operations[10].

The analyses provide strong support for Hypothesis 1a: franchisee-owned hotels display lower investment in HR practices than company-owned hotels. Specifically, franchisee-owned hotels pay their frontline employees less (β = -1671.87, p <0.001) and offer fewer benefits (β = -2.63 , p <0.001). They also hire less educated (β = -0.33, p <0.01) and less full time workers (β = -8.55, p <0.05). Franchisees also engage in less information sharing (β = -9.05, p <0.001) and provide their employees with lower discretion (β = -0.41, p <0.001). They spend less to recruit, screen and train new employees (β = -615.36, p <0.01) and are less likely to use formal assessment methods in selecting new workers (β = -0.83, p <0.001). Overall, franchise ownership is associated with significantly lower adoption of a high performance work system (β = -0.43, p <0.001).

Notably, when the controls are added, there are no statistically significant differences for initial training. Franchisees do, however, appear to provide less informal or on-the-job training, as measured by time to proficiency (β = -0.23, p <0.10). These findings are consistent with the idea of high franchisor involvement in formal training over areas such as brand standards and service skills (Lakhani 2013; Truss 2004), which is likely to be reflected in similar levels of initial training hours across franchised and company operations.

There are no statistically significant differences with regards to work-related meetings and opportunities for internal mobility. The former may be reflecting the fact that hotels usually

[9] In separate analyses, available on request, respondent characteristics such as the respondent's main role and years of experience were also included as controls. The findings did not change so these variables are excluded for the sake of parsimony.
[10] Although ownership is correlated with some of the control variables in these models (see Table 2.1), multicollinearity does not appear to be an issue as the variance inflation factor (VIF) for all of the variables are well under acceptable limits (Robert O'brien 2007).

engage in daily pre-shift meetings where work-related issues are discussed. The latter is perhaps more surprising since we would expect opportunities for internal mobility, particularly cross-property mobility, to be greater in company-owned hotels compared to franchisee-owned hotels[11]. Conversely, these opportunities may not be realized since the organizational structure of limited service hotels is relatively flat so upward internal mobility is likely to require physical mobility (i.e. moving to another city or even state to work in a different hotel), which low wage hotel workers would find difficult to do. So while there may theoretically be more opportunities for mobility in company-owned operations, the percentage of employees that actually move to higher positions either inside the hotel or within the larger company will be comparably low across franchised and company operations.

The results also indicate some noteworthy relationships between the control variables and HR practices. In line with the notion that larger establishments have better, or more sophisticated, HR practices, establishment size was positively related to annual pay, benefits, initial training, time to proficiency, and opportunities for internal mobility. Establishment age was positively related to benefits and employment security but negatively related to education, indicating that older establishments tend to employ less educated workers. The location variable that seemed to have the strongest impact on HR practices was resort. Resort establishments were associated with higher pay and promotion opportunities but less information sharing, meetings to discuss work-related issues, and days to become fully proficient on the job. This suggests that there may be differences in the nature of work performed in resort locations compared to other locations.

[11] As Lakhani (2013) details, internal mobility opportunities for employees in franchised hotels are limited to openings in the hotel(s) directly owned by the franchisee. In contrast, employees in company-owned hotels have more opportunities for mobility because they can move to any other company-owned hotel.

Of the local labor market controls, unemployment rate was negatively related to annual pay and to the cost of recruiting, screening, and training new employees, which suggests that employers are able to pay employees less in loose labor markets (i.e. when unemployment is high) and can easily hire new workers since there is a large supply of qualified candidates. As expected, hotels in labor markets with higher median wages for desk clerks have significantly higher annual pay. Interestingly, higher median wages are also associated with lower use of formal selection methods, perhaps reflecting higher employee skill levels in those markets which make the use of formal assessment methods less necessary.

It is worth noting that private sector union density did not appear to have a significant effect on the HR practices examined in this study, except for training. This is somewhat surprising given qualitative case study evidence indicating that local labor market union density is positively related to worker outcomes, such as wages (Bernhardt, Dresser, & Hatton 2003). One reason for the discrepancy might be that this study used private sector union density as a proxy for hotel industry union density, with the assumption that higher private sector union density in a given metropolitan area would be associated with higher hotel industry union density in that area as well[12]. Future research should examine the effects of union representation more carefully, with better measures of local industry union membership/density.

[12] At present, there is no publicly available data on hotel industry union density by city, metropolitan area, or state. Union density data are typically compiled from the Current Population Survey, with sample sizes too small to reliably estimate density by location and industry (for more information on union density estimates, see www.unionstats.com).

Table 2.4: The Effect of Ownership on Human Resource Practices (OLS Models)[a]

	Annual Salary		*Benefits*		*Education*		*Percent Full Time*		*Information Sharing*	
Variable	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*
Franchise	-1617.87***	326.35	-2.63***	0.16	-0.33**	0.13	-8.55*	3.83	-9.05***	2.53
Est. Age	-7.23	11.70	0.01†	0.01	-0.01***	0.00	0.36**	0.14	-0.05	0.09
Est. Size	3.39	4.00	0.01**	0.00	0.002	0.002	0.06	0.05	-0.02	0.03
Airport	249.56	326.38	-0.22	0.16	0.03	0.12	2.00	3.79	0.91	2.51
City Center	0.55	337.49	0.27	0.17	0.12	0.13	1.77	3.94	0.10	2.61
Resort	1411.07*	637.59	-0.11	0.31	0.14	0.25	8.42	7.47	-8.51†	4.94
Suburb	89.90	283.51	-0.04	0.14	0.07	0.11	-2.36	3.32	-1.91	2.20
RevPAR	13.97†	7.63	0.003	0.004	-0.002	0.003	0.12	0.09	-0.02	0.06
Unemployment	-140.75*	63.33	0.02	0.03	0.02	0.02	0.61	0.74	0.44	0.49
Union Density	12.84	37.69	0.01	0.02	0.02	0.02	-0.70	0.44	-0.35	0.29
Median Wage	1131.28***	146.48	0.06	0.07	-0.07	0.06	0.39	1.70	0.58	1.13
(Constant)	6526.86***	1359.71	2.40***	0.67	14.02***	0.53	48.91**	15.93	93.45***	10.57
	F = 15.58***		F = 76.97***		F = 2.18*		F = 5.41***		F = 2.60**	
	$R^2 = 0.27$		$R^2 = 0.65$		$R^2 = 0.05$		$R^2 = 0.11$		$R^2 = 0.06$	

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

[a] Two decimal places are reported for each statistic. Small coefficients (< 0.004) have been rounded to three places to aid interpretability.

Table 2.4 (Continued)

	Meetings		*Discretion*		*Log Initial Training*		*Log Time to Proficiency*		*Log Internal Mobility*	
Variable	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*
Franchise	-4.81	3.96	-0.41***	0.11	-0.13	0.09	-0.23†	0.13	0.16	0.17
Est. Age	-0.12	0.14	0.003	0.004	0.002	0.003	-0.002	0.005	0.003	0.006
Est. Size	-0.02	0.05	-0.001	0.001	0.002*	0.001	0.003*	0.002	0.01**	0.00
Airport	-5.87	3.92	-0.02	0.11	-0.03	0.09	-0.02	0.13	-0.31†	0.17
City Center	1.96	4.08	0.04	0.12	-0.09	0.09	-0.06	0.14	0.36*	0.18
Resort	-18.80*	7.73	-0.01	0.22	-0.12	0.18	-0.56*	0.26	-0.11	0.33
Suburb	-6.19†	3.44	0.01	0.10	0.10	0.08	-0.11	0.11	0.14	0.15
RevPAR	0.05	0.09	0.003	0.003	0.003	0.002	0.003	0.003	-0.002	0.004
Unemployment	1.18	0.77	0.02	0.02	0.01	0.02	-0.01	0.03	0.001	0.034
Union Density	-0.02	0.46	0.00	0.01	0.03**	0.01	0.01	0.02	-0.01	0.02
Median Wage	-0.41	1.76	0.03	0.05	-0.06	0.04	-0.01	0.06	-0.04	0.08
(Constant)	85.59***	16.53	3.49***	0.47	4.16***	0.38	3.06***	0.55	1.77*	0.72
	$F = 1.25$		$F = 3.12$***		$F = 3.44$***		$F = 2.39$**		$F = 1.99$*	
	$R^2 = 0.03$		$R^2 = 0.07$		$R^2 = 0.08$		$R^2 = 0.05$		$R^2 = 0.05$	

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

Table 2.4 (Continued)

	Cost to Recruit, Screen and Train New Employees		*Formal Selection*		*High Performance Work System*	
Variable	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*
Franchise	-615.35**	231.68	-0.83***	0.10	-0.43***	0.05
Est. Age	2.71	8.23	0.004	0.003	0.001	0.002
Est. Size	2.43	2.80	-0.001	0.001	0.000	0.001
Airport	-1.90	235.76	-0.02	0.09	-0.001	0.055
City Center	71.73	238.93	0.08	0.10	0.06	0.06
Resort	3.96	464.96	0.24	0.19	-0.06	0.11
Suburb	275.98	202.68	0.01	0.08	0.01	0.05
RevPAR	-1.99	5.29	-0.001	0.002	0.001	0.001
Unemployment	-93.12*	44.65	-0.004	0.019	-0.01	0.01
Union Density	-28.13	26.98	0.01	0.01	-0.01	0.01
Median Wage	27.85	102.36	-0.08†	0.04	0.03	0.02
(Constant)	1938.09*	960.67	4.41***	0.40	-0.20	0.22
	$F = 3.27$***		$F = 16.56$***		$F = 16.26$***	
	$R^2 = 0.08$		$R^2 = 0.28$		$R^2 = 0.31$	

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

Additional Analyses

Previous research has suggested that variation in practices across franchised and comparable company operations could be due to differences in underlying worker characteristics, such as demographic variables or job tenure (Freedman & Kosová 2012). To address this issue, I also estimated models using key worker attributes as predictors of a high performance work system[13]. The results are shown in Appendix 2.2. The first model, model 1, includes workforce controls alone: the average age of FOH employees, the percentage of FOH employees in the establishment that are women, and the average tenure (i.e. years of service) for FOH employees in the hotel. The second model, model 2, adds establishment and market controls, and finally, model 3 includes ownership form. The relationships for the worker attributes are statistically significant. The age of FOH workers and the percentage of the workforce that is female are negatively related to the adoption of a high performance work system ($p<0.05$ and $p<0.01$ respectively, model 1). In contrast, job tenure is positively related to the adoption of a high performance work system ($p<0.05$, model 1). Notably, however, controlling for workforce, organizational, and market variables, franchise ownership has a statistically significant negative relationship with high performance work systems ($p<0.001$, model 3). Hence, the observed differences between franchised and company operations do not appear to be resulting from differences in underlying worker characteristics. The franchise form of ownership has a strong direct relationship with investments in HR practices.

[13] Whether this is a concern is up for debate. On the one hand, worker attributes may be spuriously associated with ownership. On the other hand, as Freedman and Kosova also acknowledge, worker attributes may themselves be a product of franchisee behavior as franchisees can free ride on the brand name by actively hiring lower quality workers. This may, in turn, be related to the types of HR practices they adopt. In line with this, Cappelli and Hamori (2008) argue that the ownership variable should capture both the direct and indirect effects of franchise status on HR practices. The models estimated here may help to shed light on this and in particular, the extent to which franchise ownership affects HR practices indirectly through other variables.

Although this study examined HR practices individually and altogether as a system, scholars have suggested that the components of HR systems should also be examined separately since they may have distinct effects (Batt & Colvin 2011). Furthermore, since practices can be substituted for one another to achieve similar outcomes (Batt 2002), for example high skilled workers can be obtained from outside the workplace through higher selectivity or through in-house training, it is important to examine sets of related HR practices in addition to individual practices. Using the ability-motivation-opportunity (AMO) framework (Appelbaum, Bailey, Berg, & Kalleberg 2000; Delery & Shaw 2001), the twelve HR practices in this study can be separated into three main components that reflect different investments in human capital (Liu, van Jaarsveld, Batt, & Frost 2013): those pertaining to the knowledge, skills and abilities (KSAs) of the workforce (skills index), those that provide opportunities for employees to use those KSAs through discretion and opportunities for substantive involvement (work design index), and those that motivate employees to put forth discretionary effort (incentives index)[14]. Models estimated using these three indices can be found in Appendix 2.3. The relationships between franchise ownership and all three indices are in line with the results for the individual practices and the HR system as a whole: negative and statistically significant. Franchisee-owned hotels make lower investments in workforce skills, high involvement work designs, and incentives than company-owned hotels.

DISCUSSION

In this study, I examine the relationship between ownership and work organization in a plural form franchise system. I find significant differences in HR practices across ownership forms. Franchisee-owned hotels make lower investments in HR practices than comparable

[14] The specific practices in each index are as follows. Skills index: education, initial training, time to proficiency, cost to recruit, screen and train a new employee, and formal selection. Work design index: information sharing, meetings, and discretion. Incentives index: annual pay, benefits, percent full time, and internal mobility.

company-owned hotels. They are less selective, provide lower pay and benefits, have lower employment security, and offer employees less discretion. Overall, franchisee-owned hotels are less likely to use a high performance work system than company-owned hotels.

These findings are consistent with the notion of free riding behavior. Although the agency cost theory of franchising suggests that franchisees have high powered incentives to act in the best interests of their establishments (and the brand) because they directly benefit through their residual claimant status, I find the opposite in relation to the management of their employees. In particular, franchisees make lower investments in strategic HR practices – practices that have been linked to the development of human capital resources and sustained competitive advantage. Since franchisees benefit from the profits of their operations, they have an incentive to free ride on the brand name by cutting costs and quality. Because HR practices entail high costs with little immediate payoff, franchisees reduce investments in these practices. In contrast, because franchisors are more concerned with brand reputation and the (long-run) success of their operations and the chain as whole (Ji & Weil 2010), company-owned operations make greater investments in HR practices.

The findings of this study paint a picture of franchisees as short-term profit seeking maximizers. However, an alternative explanation for the observed differences relates to the idea of efficiency wages. As noted earlier, scholars have argued that differences in monitoring affect the compensation of employees in franchisee-owned and company-owned operations. Since managers of company-owned operations have less of an incentive to monitor and supervise employees than franchisee owner-managers who receive the profits of their operations, franchisors are said to provide employees in company-owned operations with higher ("above-market") wages and benefits than those found in comparable franchised operations to improve productivity and reduce shirking (Freedman & Kosová 2012; Krueger 1991). As a result, the variation in HR practices observed in this study could very well be reflecting efficiency wages in company operations (recall that both wages and benefits are higher in these operations, see Table 2.4), as part of a larger set of complementary HR practices. This is consistent with early efficiency-based explanations of internal labor markets (cf. Osterman 1987) as well as theory and research in strategic human resource management, which suggests that HR practices are most effective when implemented as part of an internally coherent system (Wright & McMahan 1992). The concept and predicted effects of efficiency wages also correspond with those of high performance work systems (Combs, Liu, Hall, & Ketchen 2006).

It is difficult to ascertain whether the differences we observe in this study are in fact due to efficiency wages. Efficiency wage theory addresses one set of agency problems – namely those that arise due to the more limited monitoring of employees in company-owned hotels and incentives to shirk because income is not tied to the pay of company managers (the vertical agency problem). It does not, however, address the agency problems that arise in the franchisor-franchisee relationship and in particular, issues of free riding (the horizontal agency problem). In fact, studies on efficiency wages in the franchise context have all but ignored the role that free riding behavior may play in producing variation in compensation and other HR practices across ownership forms. Nonetheless, it is possible that differences in practices are driven by franchisee behavior, efficiency wages, or both.

One way to examine whether variation in HR practices is due to efficiency wages or free riding on the part of franchisees would be to compare practices of actively owned franchised hotels to those in passively owned franchised hotels. Accounts of efficiency wages are based on the assumption that franchisees both own and manage their establishments (e.g. see Krueger

1991: 79). Incentives to shirk are said to be minimized under active ownership because franchisee efforts are reflected in profits. In contrast, since hired managers are usually paid a fixed wage and franchisees cannot perfectly observe and monitor their actions, passive ownership recreates the vertical agency problems that franchising is intended to overcome (Shane 1998). To the extent that variation in practices reflects differences in monitoring ability then (as opposed to free riding behavior), we should expect greater adoption of efficiency wages and related HR practices in passively owned franchised operations compared to actively owned franchised operations.

To investigate this, I examined the effect of management type (active vs. passive) on the adoption of a high performance work system in the subsample of franchisee-owned hotels (n=178), controlling for relevant establishment and labor market characteristics. Since franchisee owner-operators and hired managers may have different levels of experience that could also explain variation in HR practices, respondent (GM) experience in the hotel industry is also included as a control variable[15]. The results are presented in Appendix 2.4 (Table A) and provide preliminary support for the efficiency wage argument: there is a negative relationship between active ownership and high performance work practices ($\beta = -0.13$, $p < 0.10$). Or put differently, compared to actively owned franchised operations, passively owned franchised operations are associated with greater adoption of a high performance work system.

Given the modest level of significance, the above results should be interpreted with caution. To be sure, the HR practices of passively owned operations are in no way equivalent to those of company operations, despite the presence of theoretically similar monitoring problems. In fact, the results presented in Tables 2.3 and 2.4 indicate that franchised operations (across

[15] As noted earlier, the primary respondent was the GM. Of the 178 responses from franchisee-owned hotels, only 11 were by someone other than the "Owner" or "General Manager". As a result, respondent experience is a good measure of GM (franchisee owner-operator or hired manager) experience in this study.

management types) are fairly homogenous in their practices and significantly different from company operations. As further evidence, a one-way ANOVA was used to test for differences in HR practices among the three ownership types (company, active, and passive). The results are presented in Appendix 2.4 (Table B). Adoption of a high performance work system differed significantly across the three ownership forms. Post hoc comparisons indicate that company owned operations have significantly higher adoption of a high performance work system than both actively owned and passively owned franchised operations. Likewise, when the high performance work system is broken down into the components of skills, work design, and incentives, company-owned operations are significantly different from both types of franchisee-owned hotels on all three indices. Comparisons between actively owned and passively owned franchised operations also reveal that the two types of hotels differ with regards to the work design index and the skills index (the latter at a moderate level of significance, $p < 0.10$; not shown in table), but not on the incentives index, contrary to the efficiency wage explanation.

The failure to find significant differences in the incentives index between active and passively owned franchised units provides strong support for the free riding hypothesis because the practices associated with this index are those that are likely to have the greatest explicit costs to franchisees (e.g. wages, benefits, employment security) and as such, actively resisted. Support for this can be found in the case study of a franchisee-owned hotel conducted by the author. Although the hotel was passively owned, management indicated that compensation was an area where the owners exercised decision-making authority:

> There are three areas of this hotel that are not competitive and we've discussed it since we opened the hotel…*where the owners basically made the decision that no, we're not going to go there* and those areas are the 401(k) employer match,…offering the employees an employee meal free every day, and picking up a percentage of dependent coverage in healthcare [emphasis added]. – Director of Human Resources

In contrast, other practices may face less resistance from owners because the costs are less clear and/or because they may be easier for management to adopt without necessarily requiring approval from owners. However, the fact that passively owned operations also significantly differ from company operations with regards to the work design index and the skills index seems to indicate that franchisees exercise some degree of control here too[16].

Another way to examine whether variation in practices is due to free riding versus monitoring differences would be to examine the effects of multiunit ownership. As Ji and Weil (2010) argue, a multi-unit franchisee faces the same monitoring problems as company-owned operations. Consequently, we should expect to see the adoption of efficiency wages as multi-unit ownership increases. In contrast, if free-riding behavior is driving differences in practices, we should not see differences in the adoption of HR practices as franchisees operate more units, unless the franchisee becomes sufficiently large in scale that free riding behavior negatively affects sales in their own units[17]. In separate analyses (not shown), I estimate the effects of franchisee multiunit ownership on the high performance work system dependent variable, controlling for establishment and labor market characteristics. The relationship between

[16] In light of these results, the negative effect of active ownership (relative to passive ownership) on HR systems in Appendix 2.4, Table A may actually be reflecting differences in control as opposed to efficiency wages. Since franchisees are motivated by the profits of their unit, their incentives to cut costs and reduce quality (i.e. free ride on the brand name) should be greatest, or most visible, in those operations where franchisees have the ability to directly influence day-to-day operations. This includes the management of employees and the specific HR practices used. In contrast, the franchisee's profit motive (although present) is likely to be attenuated by the presence of hired managers because passive franchisees are unable to exert control over all aspects of operations.

[17] This rests on the assumption that franchisees own multiple units within the same brand so that when they become large enough in scale, they begin to operate under similar incentives as company-owned operations that are concerned with brand image and the success of the chain as a whole. While multiunit ownership within the same brand is common in some industries and chains, such as McDonald's, it may be less prevalent in the hotel industry. One reason for this is the high cost of owning and operating hotels relative to other types of franchises. Also, unlike restaurants, there are a limited number of hotels of the same brand in each city/region, so to the extent that franchisees own multiple hotels, especially in the same area, these hotels likely belong to different brands. It is worth noting that ownership of multiple units in different brand does not change the monitoring problem. As franchisees own more units, regardless of brand, monitoring becomes more difficult. If monitoring problems explain variation in practices, we should expect franchisee multiunit ownership of any kind to be positively associated with the adoption of efficiency wages and high performance work practices more generally.

multiunit ownership and high performance work systems is not significant, again consistent with the free riding explanation.

These findings suggest that variation in HR practices across ownership forms is due, at least in part, to franchisee free riding behavior. This is not to say that franchisees do not also have a greater ability to monitor their employees than managers in company operations, as those adopting an efficiency wage perspective have suggested. One way to tease out free riding and monitoring explanations would be to examine the effects of both franchise ownership and HR practices on employee behaviors and organizational outcomes. Efficiency wage theory predicts that monitoring differences lead to the adoption of efficiency wages because of their (positive) effects on outcomes such as productivity and shirking. Thus, examining the extent to which HR practices actually influence outcomes such as turnover and extra-role behaviors and how this may differ across ownership forms can provide us with greater insights into the causes and consequences of franchisee and franchisor/company manager behavior, including the reasons why franchisors allow franchisees to make lower investments in HR practices. This approach is also consistent with research in strategic human resource management that aims to examine how HR practices affect outcomes, and can provide much needed insights on the HR-performance relationship in different organizational contexts.

This study contributes to our understanding of the determinants of HR practices and job quality in the service sector. Divergent ownership incentives lead to significant differences in HR practices across franchised and company-owned operations. This study extends our knowledge of franchisee behavior vis-à-vis their employees by demonstrating that differential concerns over brand reputation and the propensity of franchisees to free ride on the brand name not only affect compliance with labor and workplace policies (Ji & Weil 2010) but also willingness to make human resource investments more generally. Revisiting the question of whether franchisees are "bad employers", the evidence presented here contrasts with that found by Cappelli and Hamori (2008). Compared to company operations, franchisees make fewer investments in their employees. The question remains however, are franchisees truly bad employers?

One consideration is whether franchisees are profit maximizing agents as a product of circumstance. First, to the extent that franchisors distance themselves from the employment matters of their franchisees, franchisees may be left with little guidance as to how HR systems should be structured in their operations to achieve optimal performance. In support of this, research indicates that franchisees are inexperienced with business and human resources (Davlin 2007; Royle 2000), and this inexperience may be one of the factors driving the decision to purchase a franchise in the first place. Recognizing the importance of HR practices in franchises (Castrogiovanni & Kidwell 2010), some hotel chains have recently started to provide franchisees with tools and suggestions for effective human resource management (Zappone 2011). Future research should examine whether the provision of such tools leads franchisees to make greater investments in strategic HR practices.

Second, a common complaint among franchisees concerns their profit margins. For example, franchisees and their proponents have argued that franchisees operate in highly competitive industries with low profit margins (Sherman 2013). On the one hand, this might suggest that franchisees operate in more competitive markets than company-owned operations. But even controlling for any such differences – as this study does through careful sample selection and the inclusion of key establishment and market characteristics – franchisees may require higher profit margins in order to make purchasing a franchise a worthwhile endeavor. As Krueger (1991) argues, franchisees bear inefficient risk because they invest a considerable proportion of their wealth and income in the franchised operation. This may lead franchisees to require a higher rate of return on their investment than similar company operations. One way to achieve this might be to cut costs by economizing on HR practices. Just how high rates of return must be, though, is unclear. For example, Shelton (1967) found that the profit margin in restaurants under franchise ownership was 9.5% compared to 1.5% under company ownership. In addition, while investments in HR practices increase costs in the short term, they have been linked to *higher* financial performance over the long term, including sales growth (Batt 2002) and profitability (Huselid 1995). Finally, as Ji and Weil (2010) aptly note, budget constraints (and arguably, required rates of return) should decline as multi-unit ownership increases, in turn allowing for greater investments in HR practices. As discussed earlier however, multiunit ownership was not found to be significantly related to HR practices in this study. Further investigation is therefore needed to better understand how profit margins may affect franchisee behavior in relation to the management of their employees.

There are several limitations to this study. First, the findings of the hotel industry may not generalize to all industries. Although the hotel industry shares many characteristics with other industries that engage in franchising, there may be unique attributes of franchising in other industries that moderate the relationships between ownership form and HR practices found here. For example, the restaurant industry is characterized by the presence of more active ownership and within-brand multi-unit ownership. While active ownership and multi-unit ownership did not significantly affect investments in HR practices relative to company ownership in the present study, future research should examine their effects in other industries.

Second, the focus on a limited service hotel chain may limit generalizability to other chains. Examining HR practices in a limited service hotel chain is valuable because franchising is a common strategy in this market segment. Establishments in this type of chain are also smaller, which increases the reliability of findings, and are typically unorganized, which allows for the separation of union and ownership effects. Future research should examine whether the findings here extend to chains in other market segments. In addition, research should examine whether the findings apply to chains that vary in the degree of franchisor involvement in franchised operations. Although legal liability concerns similarly affect all franchise businesses, there is evidence that some franchisors, such as McDonald's, exert much more control over their franchisees (Royle 2000). As noted above, some chains have also begun to influence personnel practices in their franchised operations through the provision of optional tools and suggestions. Additional research is needed to understand how differences in chain-level governance affect the structure of HR systems across ownership forms.

Third, while this study focused on investments in HR practices for the group of employees that are responsible for the intangible aspects of service delivery, namely front of house workers, future research could also valuably extend the current analyses to other occupational groups, such as back of house workers who are responsible for delivering the more tangible aspects of service production (e.g. room cleanliness in hotels or meals in restaurants).

Finally, as is common with other cross-sectional studies, we must be cautious about drawing conclusions regarding causality. While this study included rich controls to rule out alternative explanations, longitudinal research designs that control for unobserved establishment characteristics and include analyses of management practices as establishments change ownership forms would provide greater confidence in causal inferences (e.g. Freedman & Kosová 2012).

CONCLUSION

This paper examined the relationship between ownership form and investments in HR practices in a plural form franchise system. The analysis builds on past research and theory on comparative ownership incentives and management practices by investigating variation in a collection of strategic HR practices in a limited service hotel chain. The evidence points to significant differences in practices across franchised and company-owned operations, and suggests that franchisees free ride on the brand name by cutting costs and investments in human capital.

The findings of this study shed light on how strategic choices regarding the organization and ownership of production can affect the management of employees and work organization in networked firms. Differential investments in human capital may, in turn, have important consequences for the quality of jobs that workers experience and the success of interconnected operations. Further empirical work is needed to fully comprehend the causes and implications of the findings presented here. Future work should also extend the analyses to other industry, organizational, and network contexts.

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APPENDIX 2.1
Variable Definitions

Dependent Variables	
Annual Salary	The base hourly wage for most FOH employees times the number of hours the typical FOH employee works per week times 52 weeks.
Benefits	The number of benefits provided to FOH employees (maximum of 6): paid vacation/holidays, paid sick leave, other paid leaves of absence, employer subsidized health insurance, defined benefit or defined contribution pension plan with employer contribution, and free/discounted meals.
Education	The average number of years of completed schooling for FOH employees in the hotel.
Percent Full Time	The proportion of the workforce that is full-time.
Information Sharing	The percentage of FOH employees that regularly receive information regarding hotel goals, objectives, and performance.
Meetings	The percentage of FOH employees that are involved in regularly scheduled meetings to discuss work-related issues.
Discretion	A 4-item index of discretion over work methods/procedures, what to say to customers, handling additional customer requests, handling customer complaints (each item was measured with a 1 to 5 Likert-scale type question with anchors “not at all” and “a great deal”; the mean response for the 4 questions was 3.91) (alpha = 0.79).
Initial Training	The number of hours of initial training that FOH employees receive in their first year, including orientation and job-related training.
Time to Proficiency	The number of days it takes for a new hire with little or no experience to become fully proficient on the job, meaning they are thoroughly competent in all aspects of the job and able to work independently during busy periods with little or no supervision.
Internal Mobility	The percentage of FOH employees typically promoted to higher positions in the hotel or promoted or transferred to other hotels within the company.
Cost to Recruit, Screen and Train New Employees	The approximate cost to recruit, screen and train a new FOH employee, including direct costs as well as management time.
Formal Selection	The extent to which the establishment relies on formal assessment methods to determine the suitability of job candidates (on a 1-4 scale, with anchors “not at all” and “to a great extent”).
High Performance Work System	An index of the 12 HR practices listed above, standardized and averaged.
Independent Variables	
Ownership: Franchise	Whether the hotel is owned by a franchisee (1) or owned/managed by corporate (0).
Control Variables	
Establishment Age	Number of years since establishment opened.
Establishment Size	Number of rooms in the hotel.
Location	A series of indicators for the hotel’s location: Airport, city center, resort, suburban or highway (omitted category).
RevPAR	The average annual revenue per available room (RevPAR) for each hotel in the prior year.
Unemployment Rate	Unemployment rate in the county where the hotel is located (drawn from 2012 Local Area Unemployment Statistics, BLS 2013a).
Union Density	Private sector union density in the metropolitan area where the hotel is located (drawn from 2012 Current Population Survey Outgoing Rotation Group Earnings Files, Hirsch and Macpherson 2013).
Median Wage	Median hourly wage for hotel desk clerks in the metropolitan area where the hotel is located (drawn from Occupational Employment Statistics Survey, SOC code 434081, BLS 2013b).

APPENDIX 2.2
The Effect of Franchise Ownership on High Performance Work System[a]
[Including Workforce Controls]

	Model 1		*Model 2*		*Model 3*	
Variable	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*
Franchise					-0.45***	0.05
Est. Age			0.01***	0.00	0.001	0.002
Est. Size			0.003***	0.001	0.000	0.001
Airport			-0.02	0.06	-0.02	0.06
City Center			0.01	0.06	0.05	0.06
Resort			-0.13	0.11	-0.05	0.10
Suburb			0.06	0.05	0.01	0.05
RevPAR			0.000	0.001	0.001	0.001
Unemployment			-0.001	0.011	-0.004	0.010
Union Density			-0.005	0.007	-0.005	0.006
Median Wage			0.04	0.03	0.03	0.02
FOH Age	-0.01*	0.00	-0.003	0.003	-0.01*	0.00
FOH Female	-0.002**	0.001	-0.002*	0.001	-0.002*	0.001
FOH Tenure	0.01*	0.01	0.002	0.005	0.002	0.005
(Constant)	0.33**	0.11	-0.55*	0.25	0.18	0.25
	F = 4.87**		F = 7.97***		F = 13.73***	
	R^2 = 0.04		R^2 = 0.21		R^2 =0.33	

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

[a] Two decimal places are reported for each statistic. Small coefficients (< 0.004) have been rounded to three places to aid interpretability.

APPENDIX 2.3
The Effect of Franchise Ownership on Components of the HR System[a]
[Skills Index, Work Design Index, and Incentives Index]

	Skills Index		*Work Design Index*		*Incentives Index*	
Variable	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*	*Coeff.*	*S.E.*
Franchise	-0.37***	0.06	-0.40***	0.10	-0.55***	0.08
Est. Age	-0.001	0.002	0.00	0.00	0.01†	0.00
Est. Size	0.001	0.001	0.00	0.00	0.002*	0.001
Airport	0.02	0.06	-0.06	0.10	-0.01	0.08
City Center	0.06	0.06	0.04	0.10	0.16*	0.08
Resort	-0.04	0.12	-0.38*	0.19	0.21	0.15
Suburb	0.06	0.05	-0.11	0.08	0.04	0.07
RevPAR	0.000	0.001	0.00	0.00	0.002	0.002
Unemployment	-0.01	0.01	0.03†	0.02	-0.01	0.01
Union Density	0.003	0.007	-0.01	0.01	-0.005	0.009
Median Wage	-0.03	0.03	0.02	0.04	0.11***	0.03
(Constant)	0.32	0.25	-0.15	0.40	-1.16***	0.31
	F = 8.65***		F = 3.42***		F = 21.88***	
	$R^2 = 0.19$		$R^2 = 0.08$		$R^2 = 0.35$	

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

[a] Two decimal places are reported for each statistic. Small coefficients (< 0.004) have been rounded to three places to aid interpretability.

APPENDIX 2.4

Table A: The Effect of Franchise Management on High Performance Work System[a]

	High Performance Work System	
Variable	*Coeff.*	*S.E.*
Active Management[b]	-0.13†	0.07
Est. Age	0.02†	0.01
Est. Size	0.004**	0.001
Airport	-0.01	0.12
City Center	0.23*	0.10
Resort	-0.08	0.15
Suburb	-0.03	0.10
RevPAR	0.003	0.002
Unemployment	-0.02	0.02
Union Density	-0.004	0.012
Median Wage	0.02	0.04
GM Experience	0.003	0.004
(Constant)	-0.84*	0.35
	$F = 2.64$**	
	$R^2 = 0.20$	

N = 178; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

[a] Two decimal places are reported for each statistic. Small coefficients (< 0.004) have been rounded to three places to aid interpretability.

[b] Active Management = 1 if franchised establishment managed by owner; = 0 if managed by hired manager.

Table B: One-Way ANOVA of High Performance Work System (HPWS) and Components by Ownership Type

	Company-Owned		**Active Franchisee-Owned**		**Passive Franchisee-Owned**		
Variable	*Mean*	*S.D.*	*Mean*	*S.D.*	*Mean*	*S.D.*	*F*
HPWS	0.17^a	0.30	-0.39^b	0.41	-0.25^c	0.36	98.772***
Skills Index	0.13^a	0.38	-0.34^b	0.36	-0.19^b	0.43	47.416***
Work Design Index	0.12^a	0.56	-0.41^b	0.97	-0.08^c	0.73	17.577***
Incentives Index	0.26^a	0.50	-0.48^b	0.60	-0.44^b	0.56	97.165***

N = 483; *** = p<0.001. Means with differing subscripts within rows are significantly different at the p<0.05 level using Tukey HSD post hoc paired comparisons.

CHAPTER 3

OWNERSHIP MATTERS: THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE, HUMAN RESOURCE PRACTICES, AND PERFORMANCE IN A FRANCHISE SYSTEM

ABSTRACT

This study examines the relationship between ownership form, human resource practices, and employee and organizational outcomes in a franchise system. Integrating strategic human resource management theory and agency theory, I develop and test a theoretical model of how differences between franchise and company forms of ownership affect the HR-performance relationship. Based on survey and objective customer satisfaction data from 483 establishments in a limited service hotel chain, I find that investments in human resource practices are positively related to employee service-oriented organizational citizenship behaviors and customer satisfaction in both franchised and company-owned hotels. I also find that franchise ownership is associated with lower investments in human resource practices compared to company ownership, but the negative effects of these lower investments are offset by the positive direct effects of franchise ownership on both employee behavior and customer outcomes. The results suggest that agency theory is valuable for examining how differences in ownership form influence management practices and outcomes, and highlight the importance of examining the organizational context within which HR practices influence performance.

Keywords: ownership, franchise, human resources, service-oriented OCBs, customer satisfaction, agency theory

INTRODUCTION

The field of strategic human resource management (SHRM) has made considerable progress in understanding the relationship between investments in human resource (HR) practices and their effects on organizational performance. Practices such as comprehensive recruitment and selection procedures, formal training, incentive compensation, and employee participation in decision making have been linked to employee outcomes such as human capital, commitment, and turnover, which in turn positively influence organizational outcomes (Combs, Liu, Hall, & Ketchen 2006).

However, this research has not paid much attention to the larger context within which HR practices influence performance. To the extent that context has been examined, it has taken the form of control variables or at best, moderators such as business strategy or industry (Batt & Hermans 2012). Nevertheless, understanding the organizational context within which firms operate is vital because HR practices do not operate in isolation. They are implemented along with other management policies and in the presence of organizational variables that may affect not only the propensity to invest in HR practices but also organizational performance (Becker & Huselid 2006). Accounting for these factors can help avoid omitted variable biases and provide insight regarding the conditions under which investments in HR practices are most likely to occur and be worthwhile (Batt & Banerjee 2012). This is also necessary for the theoretical development of the field as it can help build contingencies into SHRM theory as well as help resolve longstanding questions of causality by providing a greater theoretical basis for examining the HR-performance relationship (Becker & Huselid 2006; Combs, Liu, Hall, & Ketchen 2006).

This paper contributes to the SHRM literature by examining how a key element of organizational context, ownership structure, affects the HR-performance relationship. I focus on a particular form of ownership that has witnessed significant growth in recent decades, franchising, and examine how strategic decisions to own or franchise units affect investments in HR practices and organizational outcomes.

Franchising is a strategy for growth in many service-related industries and typically entails the simultaneous operation of replicated units that are either owned and operated by the company or by an independent franchisee (Combs, Michael, & Castrogiovanni 2004). Under the franchise form of ownership, a company (franchisor) grants an entrepreneur (franchisee) the right to sell its product or service using its brand name and business practices in an exchange for an upfront lump sum and ongoing royalties. A number of explanations have been put forward to understand why firms decide to franchise. The most commonly accepted explanation is minimizing agency costs. According to agency theory, franchising reduces the agency costs of adverse selection and moral hazard commonly associated with managers in the company form of ownership by turning franchisees into residual claimants (Shane 1998). Franchisees are highly motivated by their investments and the profits of their operations and are therefore less likely to shirk and more likely to closely monitor employees than company managers. Although the franchise form of ownership helps to resolve vertical agency problems, it also brings forth its own set of costs, or horizontal agency problems, through the potential to free ride on the efforts of other units (Combs, Ketchen, Shook, & Short 2011). Since franchisees only receive the profits from their own operations, they have an incentive to cut costs and quality while still benefiting, at least in the short-term, from the shared brand name and the investments of the franchisor and other franchisees.

Integrating SHRM theory with agency theory, I develop and test a theoretical model of how ownership form influences investments in HR practices, employee behavior, and ultimately, customer satisfaction. Specifically, I develop the following arguments: 1) investments in HR practices will be positively related to employee service-oriented organizational citizenship behaviors because they provide employees with the skills, motivation, and opportunities to engage in discretionary customer service behaviors that benefit operations; 2) these discretionary behaviors will create external service value for customers and as a result, have a positive effect on customer satisfaction; 3) the agency costs of franchising and in particular, the propensity of franchisees to free ride on the efforts of other units will result in lower investments in strategic HR practices in franchised operations compared to company-owned operations. Franchise ownership will therefore have an indirect negative relationship with service-oriented employee behaviors and customer satisfaction; 4) at the same time, the agency benefits of franchising and in particular, the incentives of franchisees to closely supervise employees and put forth maximal effort given their residual claimant status will lead franchise ownership to have direct positive effects on both employee service-oriented behaviors and customer satisfaction.

Figure 3.1 depicts this model and highlights the importance of examining how organizational context affects the HR-performance relationship. On the one hand, the model suggests that HR practices influence employee and organizational outcomes, consistent with extant theory and evidence in SHRM. On the other hand, drawing on agency theory, the model suggests that ownership structure directly influences both investments in HR practices *and* employee and organizational outcomes. As a result, investments in HR practices may not have the expected effect on organizational performance. In the case of franchised operations, lower investments in HR practices may not lead to lower organizational performance overall because the *negative indirect* effects of lower HR investments may be offset by the *positive direct* effects of franchise ownership on both employee behaviors and customer satisfaction.

To test this model, I draw on a unique establishment level survey of HR practices in a limited service hotel chain. I also link this data to objective customer satisfaction data from corporate records and TripAdvisor.com. Hotels are an appropriate context for this study because the hotel industry is one of the most highly franchised industries in the U.S., and investments in HR practices have been shown to affect performance outcomes in this industry (Hoque 1999; Sun, Aryee, & Law 2007). I focus on customer satisfaction because it is a strategically important outcome for franchise businesses and the service sector more generally. Moreover, given the active role of the customer in the service production process (Batt 2002), HR investments and employee behaviors are likely to have a clear and immediate impact on customer satisfaction, which has in turn been linked to more distal outcomes such as financial performance (Heskett, Jones, Loveman, Sasser, & Schlesinger 1994).

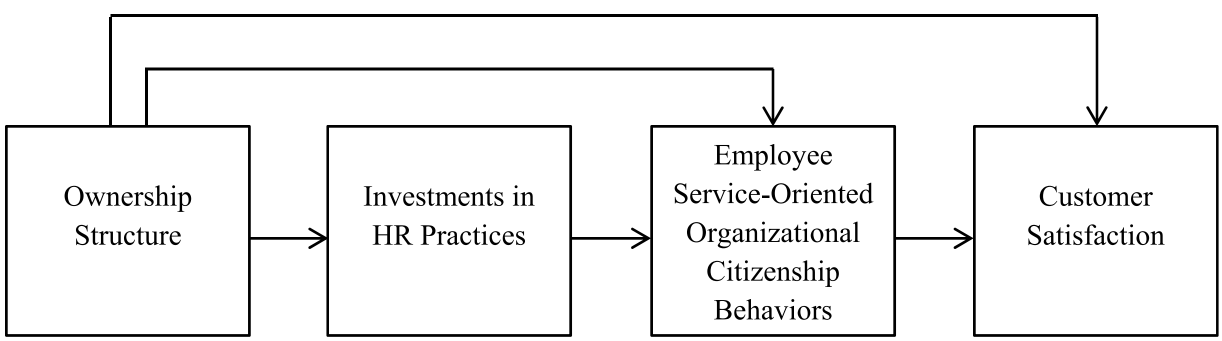

Figure 3.1: Theoretical Model Linking Ownership to HR Practices, Service-Oriented OCBs, and Customer Satisfaction

THEORY & HYPOTHESES

HR Practices and Performance

The relationship between HR practices and performance is based on the assumption that investments in HR practices influence employee outcomes, which in turn leads to superior performance. Researchers in strategic human resource management have often used the ability-motivation-opportunity (AMO) model of HRM to understand how the different dimensions of HR systems relate to employee and organizational performance (Appelbaum, Bailey, Berg, & Kalleberg 2000; Delery & Shaw 2001). According to the AMO model, performance-enhancing HR practices fall along three complementary dimensions: practices that invest in the skills and training of the workforce (the "ability" or skills dimension), practices that motivate employees to make long-term commitments to their organizations and encourage discretionary effort (the "motivation" or incentives dimension), and practices that provide employees with opportunities to use their skills and substantively contribute (the "opportunity" or work design dimension). Investments in HR practices therefore not only enhance employees' knowledge, skills and abilities (KSAs), but also motivate and empower employees to leverage those KSAs to achieve organizational objectives. In the service context, the result is improved organizational performance, such as customer satisfaction, because skilled employees who have discretion and are rewarded for their behaviors are better able and more likely to interact with customers in ways that enhance the overall service experience (Batt 2002). This includes, for example, effectively responding to customer needs and inquiries and immediately resolving problems.

One way that investments in HR practices may improve customer satisfaction is through their effects on employees' positive, discretionary behavior. Discretionary or "extra-role" behavior is particularly important in dynamic environments where desired employee behaviors cannot be specified or predicted in advance (Van Dyne & LePine 1998). Interactive service work provides an example of such an environment. The intangible nature and the coproduction of services by employees and customers results in complexity and uncertainty, and often requires firms to rely on their direct contact employees to act in ways that will benefit their organization

(Morrison 1996). This may include a range of activities from more general emotion management to specific behaviors that go above and beyond formal job descriptions to satisfy customers at the time of service delivery. As a result, investments in HR practices can provide employees in service organizations with the requisite KSAs, motivation, and opportunities to engage in customer service enhancing extra-role behavior (Combs, Liu, Hall, & Ketchen 2006).

The relationship between HR practices and extra-role behaviors, often conceptualized as organizational citizenship behaviors, has also been theorized in SHRM research using social exchange theory (McClean & Collins 2011; Morrison 1996; Sun, Aryee, & Law 2007). Investments in HR practices are said to foster high-quality relationships with employees based on the norm of reciprocity. In line with the inducement-contribution model (March & Simon 1958), HR practices are viewed as an inducement, signaling the employer's long-term commitment to employees. This creates a sense of obligation on the part of employees, who reciprocate and express their commitment to employers by contributing behaviors (i.e. increased effort and citizenship behaviors) that benefit the organization.

Therefore, investments in HR practices such as comprehensive recruitment and selection procedures, formal training, job security, incentive compensation, and employee participation in decision making, should, all other things equal, lead to higher organizational citizenship behaviors (OCBs). The specific OCBs that are important for employees are likely to vary by context ((Borman & Motowidlo 1993). In the case of services, scholars have identified service-oriented OCBs that are likely to be appropriate for customer contact employees. This includes behaviors that focus on loyalty (e.g. saying good things about the organization), participation (e.g. offering suggestions for service improvement), and service delivery (e.g. helping customers beyond what is expected) (Bettencourt 1997; Bettencourt, Gwinner, & Meuter 2001).

Accordingly, we should expect investments in HR practices to be positively related to customer satisfaction and service-oriented OCBs in hotels. Moreover, since franchisee-owned and company-owned units are replicated service operations, this should hold across ownership forms.

Hypothesis 1: Investments in HR practices will be positively related to customer satisfaction and employee service-oriented OCBs.

Employee behavior plays an important role in shaping the customer's experience of service quality and overall satisfaction (Schneider, Ehrhart, Mayer, Saltz, & Niles-Jolly 2005). Customer contact employees are responsible for delivering external service value and their interactions with customers can influence future purchasing behavior (Borucki & Burke 1999; Heskett, Jones, Loveman, Sasser, & Schlesinger 1994). Positive interactions can result in repeat patronage and increased sales while negative interactions can lead customers to switch service providers (Morrison 1996). This, in turn, can have significant implications for the profitability and growth of firms (Heskett, Jones, Loveman, Sasser, & Schlesinger 1994).

In support of this, research has revealed a strong positive relationship between employee behavior, in the form of OCBs, and organizational outcomes in service organizations (Podsakoff & MacKenzie 1997; Podsakoff, MacKenzie, Paine, & Bachrach 2000). For example, Walz and Niehoff (1996) found that OCBs were related to a variety of performance measures in limited service restaurants, including customer satisfaction and customer complaints. Likewise, Koys (2001) found a positive relationship between employee outcomes, namely employee satisfaction and OCBs, and organizational effectiveness, measured as customer satisfaction and profitability, in a longitudinal study of a restaurant chain. Customer and service-oriented OCBs are especially likely to influence organizational performance in service organizations because these employee behaviors are targeted at improving the overall service experience (Podsakoff & MacKenzie 1997). In support of this, Bettencourt and Brown (1997) found a positive relationship between customer service OCBs and customer satisfaction in their sample of bank branches. Similarly, Schneider et al (2005) found that customer focused OCBs were positively related to customer satisfaction and ultimately, sales in their sample of departments in a supermarket chain. Also noteworthy given the focus on HR practices in this study as a predictor of customer satisfaction and service-oriented OCBs (Hypothesis 1), Sun et al (2007) demonstrated a positive relationship between high performance HR practices, service-oriented OCBs, and turnover and productivity, which have been theoretically linked to customer satisfaction and loyalty (Heskett, Jones, Loveman, Sasser, & Schlesinger 1994).

Therefore, to the extent that investments in HR practices lead to greater service-oriented OCBs, we should expect improvements in customer satisfaction across franchised and company hotels in this study. This suggests the following hypotheses:

Hypothesis 2: Employee service-oriented OCBs will be positively related to customer satisfaction.

Hypothesis 3: Employee service-oriented OCBs will mediate the relationship between investments in HR practices and customer satisfaction.

Agency Theory: Franchisee and Company Manager Incentives

Although the above hypotheses suggest that investments in HR practices will have similar effects across franchised and company operations, there may be reasons to expect differences in the extent to which franchisee-owned and company-owned units actually invest in HR practices. In addition, ownership structure may directly affect employee behavior and customer satisfaction. Agency theory provides a basis for examining these assertions.

Beginning with investments in HR practices, agency theory suggests that franchisees may have an incentive to free ride on the brand name by reducing quality and therefore costs in order to maximize their bottom line (Kidwell, Nygaard, & Silkoset 2007). Since franchisees only receive the profits from their own operations, they directly benefit from reducing costs. In addition, since franchisees share their revenues with franchisors through royalties, reducing costs allows franchisees to increase their take home pay without having to share the benefits with franchisors as they would if they were to increase sales (Felstead 1993). This may, in turn, lead franchisees to focus on cost savings (Ji & Weil 2010).

One way to cut costs in franchised operations may be to reduce labor quality (Michael 2000). Although labor is an important resource in service operations, as discussed above, it also constitutes the highest expense, accounting for almost 50% of operating expenses in some industries (Mandelbaum 2004). In addition, while franchisors retain strict control over most aspects of franchise operations, there is increasing evidence that decisions over the staffing and management of employees are decentralized to franchisees because of franchisor concerns over liability (Lakhani 2013). As a result, the desire to maximize profits could lead franchisees to free-ride on labor quality by underinvesting in HR practices. Although this would have negative consequences for franchised operations (and the chain as a whole) in the long-term, franchisees are likely to benefit, at least financially, from such actions in the short-term (Kidwell & Nygaard 2010).

Free riding behavior may not be the only reason to expect variation in HR investments across ownership forms, however. An alternative perspective is provided by Krueger (1991) and more recently, Freedman and Kosova (2012). These scholars argue that agency problems associated with company ownership, as opposed to franchise ownership, may lead to variation in

HR practices. Since company managers do not receive the residual profits from their units, they have a stronger incentive to shirk. This includes the monitoring and supervision of employees. In contrast, the residual claimant status of franchisees provides them with much stronger incentives to closely supervise employees and output. To address this agency problem, franchisors may provide employees in company operations with efficiency, or above market, wages to improve productivity and discourage shirking (Freedman & Kosová 2012). Efficiency wages work in much the same way as other investments in HR practices, that is by improving human capital and employee motivation (Jiang, Lepak, Jia, & Baer 2012). Since HR practices have additive effects (Batt 2002) and are most effective when adopted as a bundle or system of practices (MacDuffie 1995), franchisors who adopt efficiency wages may also be more likely to invest in other HR practices such as formal training, job security, and participative work designs.

Both the free riding and efficiency wage explanations lead to the same prediction regarding investments in HR practices across ownership forms, albeit for different reasons. Specifically, all other things equal, franchisees will be associated with lower investments in HR practices compared to company owned operations. In light of Hypothesis 1, which suggests a positive relationship between investments in HR practices and employee service-oriented OCBs, lower investments in HR practices by franchisees will, in turn, have a negative effect on employee service-oriented OCBs[1].

Hypothesis 4: Franchise ownership (compared to company ownership) will be negatively related to investments in HR practices.

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[1] This is true even though franchisees are likely to benefit financially from their free riding behavior in the short-term. As noted above, although franchisees will experience cost savings from their lower investments in HR practices, these lower investments are likely to have a more immediate (negative) impact on employee behaviors and in turn customer satisfaction. In the long-term, lower customer satisfaction is expected to also negatively affect financial performance (Heskett et al 1994).

Hypothesis 5: Franchise ownership will have an indirect negative relationship with employee service-oriented OCBs via lower investments in HR practices[2].

Although the above indicates that franchise ownership has an indirect, negative relationship with employee behavior and ultimately, customer satisfaction, via lower investments in HR practices, agency theory provides us with the basis for also expecting independent, direct positive relationships between franchise ownership and both of these outcomes.

Specifically, the argument about efficiency wages rests on the assumption that franchisees have stronger incentives than company managers to closely supervise their employees because they directly benefit from their efforts to do so (Krueger 1991). Greater monitoring of employees can result in higher output or at the very least, ensure that employees are effectively performing their prescribed duties. Supporting this assertion, research suggests that perceived task visibility is negatively related to employee propensity to withhold effort because employees perceive that managers are aware of their individual contributions (Kidwell & Bennett 1993). As monitoring increases, perceived task visibility and thus, employee effort should also increase. Detert et al (2007) also provide support for the relationship between monitoring and employee behavior. In their study of restaurants, the authors find that managerial oversight is negatively related to counterproductive behavior in the form of food loss.

It is worth noting that these examples refer to negative employee behaviors, such as withholding effort and counterproductivity, as opposed to the positive, discretionary employee behaviors (i.e. OCBs), discussed earlier (Kidwell & Bennett 1993). Some could argue that monitoring will not have the same effect on such positive behaviors. Indeed, Niehoff and Moorman (1993) argue that monitoring can have negative effects on OCBs because close

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[2] This hypothesis is equivalent to a mediation hypothesis where investments in HR practices mediate the relationship between franchise ownership and employee service-oriented OCBs.

supervision may prevent employees from performing duties that are not rewarded as part of their job description. At the same time, they also find that monitoring increases employee perceptions of justice and fairness, which are positively related to citizenship behavior.

Research on the effects of performance monitoring on employee well-being and behavior also provides noteworthy insights on the likely outcomes of higher supervision in franchisee-owned operations. On the one hand, performance monitoring has been linked to increased job stress and over time, higher turnover (Carayon 1993; Shaw et al 1998). The intensity of performance monitoring has also been linked to lower employee well-being, measured as depression, anxiety, emotional exhaustion, and job satisfaction (Holman et al 2002). On the other hand, scholars have found that some aspects of performance monitoring, such as the performance-related content of monitoring and the extent to which monitoring is used for developmental purposes, are related to increased employee well-being, including lower depression and higher job satisfaction (Chalykoff and Kochan 1993; Holman et al 2002). Moreover, Holman et al (2002) found that higher perceived intensity of monitoring leads to increased employee attention to tasks and efforts to regulate behavior through surface acting. The authors suggest that this may result in greater depletion of cognitive resource over time, which may explain the negative relationship between the intensity of monitoring and employee well-being. Together, these findings suggest that performance monitoring can have positive and negative effects. Further, while greater monitoring and managerial oversight may lead to negative employee outcomes in the long-term, such as higher stress and turnover, they are likely to have positive effects on visible employee behaviors, such as service-oriented OCBs, in the short-term. The latter is especially true in franchised operations where the perceived intensity of performance monitoring, via direct supervision, will be high.

In addition, although OCBs are defined as "extra-role" behaviors and differentiated from "in-role" behaviors, which are required and rewarded as part of one's job duties (Van Dyne & LePine 1998), in some cases, it may be difficult for employees to differentiate between extra-role and in-role behaviors (Morrison 1994). This may occur, for instance, when job descriptions are broad and open-ended. Recent research on franchisee and company HR systems reveals that franchised operations are less likely than company-owned operations to have standardized and narrow job descriptions (Lakhani 2013). This may lead employees to define their job responsibilities more broadly (Morrison 1994), and in turn, engage in OCBs under franchise ownership due to greater monitoring. This leads to the following hypothesis:

Hypothesis 6: Franchise ownership (compared to company ownership) will have a direct positive relationship with employee service-oriented OCBs.

Combined, Hypothesis 5 and 6 suggest that the net effect of franchise ownership on employee service-oriented OCBs will be close to zero. Put differently, the indirect or mediated negative effect of franchise ownership on employee service-oriented OCBs via lower investments in HR practices, and the positive direct effect of franchise ownership on employee service-oriented OCBs will cancel each other out so that the total effect of franchise ownership (i.e. the direct effect + the indirect effect) is small and non-significant. This is referred to as "inconsistent mediation" because the mediator, in this case investments in HR practices, acts as a suppressor variable (MacKinnon, Fairchild, & Fritz 2007). Thus, the following hypothesis is also set forward.

Hypothesis 7: The total effect of franchise ownership on employee service-oriented OCBs will be small and not significant.

Just as franchisees have a strong incentive to monitor employee behavior, they also have a strong incentive to maximize output, such as sales and customer service, because doing so directly impacts their bottom line. Franchisees internalize the consequences of their behavior through the profits of their operations (Bradach 1998). Agency theory suggests that these high-powered ownership incentives lead to greater operational efficiency in franchisee-owned operations compared to company-owned operations (Michael 2009). There is some empirical support for the positive effect of franchise ownership on operational outcomes. For example, Shelton (1967) found that restaurants were more profitable under franchise ownership compared to company ownership.

On the other hand, there is also evidence that the incentive for franchisees to free ride on the brand name, discussed earlier, will lead to lower quality in franchised operations compared to company operations. Michael (2000) provides support for this by demonstrating that quality, as measured by customer reports, is negatively related to the percent of franchising in restaurant and hotel chains. Although this is likely to occur indirectly through labor cost reducing strategies that increase short-term profits, such as lower investments in HR practices as hypothesized above, franchisees are also likely to exert significant direct effort in providing superior customer service in their own units since unit level income is inherently tied to their efforts. Such superior customer service by franchisees may be achieved, for example, through greater responsiveness to customer needs and/or the personal interactions between franchisee owners and customers. Consistent with this, Schneider et al (2005) note that leaders can sometimes interact with customers, directly impacting customer satisfaction and sales. This is especially likely in franchised operations since these operations tend to be small and active ownership is often a requirement for franchisees (Combs & Ketchen 2003; Michael & Combs 2008).

Accordingly, we should expect a direct, positive relationship between franchise ownership and customer satisfaction. Moreover, given the hypothesized small total effect of franchise ownership on employee service-oriented OCBs (Hypothesis 7), the indirect effect of franchise ownership on customer satisfaction via employee service-oriented OCBs should also be small[3]. The total effect of franchise ownership on customer satisfaction will therefore primarily reflect the direct effect and is expected to be positive and significant. The following final hypotheses are proposed.

Hypothesis 8: Franchise ownership will have a direct positive relationship with customer satisfaction.

Hypothesis 9: The total effect of franchise ownership on customer satisfaction will be positive and significant.

METHODS

Sample

The data for this study come from an establishment level survey in a U.S.-based limited service hotel chain. Hotels are an appropriate context for this study because franchising is a significant and growing strategy in this industry (Michael 2000). Hotels have also been used as the context in previous SHRM research (Hoque 1999; Sun, Aryee, & Law 2007), suggesting that hotels are a relevant setting for examining the HR-performance linkage in the low-wage, interactive service sector.

The survey covered questions regarding organizational characteristics, human resource practices, and employee behavior. The respondent, the general manager in each hotel, answered

[3] Recall that the total effect of franchise ownership on employee service-oriented OCBs encompasses the direct effect of franchise ownership on employee service-oriented OCBs as well as the indirect effect of franchise ownership on employee service-oriented OCBs via investments in HR practices. As a result, the indirect effect of franchise ownership on customer satisfaction via employee service-oriented OCBs includes the effect of franchise ownership on investments in HR practices.

questions about their front-of-house (FOH) employees, the group of workers with the most customer contact and thus, strategic value in these establishments (Lepak & Snell 1999).

After accounting for missing and duplicate responses, the overall response rate was 63% (n=483), with a company-owned hotel response rate of 82% (n=305) and a franchisee-owned hotel response rate of 46% (n=178).

Additional establishment characteristics, such as hotel ownership, age, size, and location, as well as performance data were obtained from corporate records for all of the hotels in the chain. This includes the occupancy rate, average daily room rate, revenue per available room (an industry metric that combines occupancy and room rates, RevPAR), and the net promoter score (NPS), an industry metric for customer satisfaction.

To gather external, independent customer satisfaction data, TripAdvisor® ratings were researched and linked to each hotel establishment from www.tripadvisor.com, the largest online travel review site. Each of these measures is discussed in detail below[4].

Measures

Human Resource Practices. Investments in HR practices were measured by three indices reflecting the different dimensions of HR systems, discussed earlier: *skills*, *incentives*, and *work design* and a full *HR index*, with all of the HR practices across these dimensions combined. Following previous research in SHRM, all four indices are treated as additive rather than as latent factors because practices can act as substitutes to achieve the same effects (Batt 2002). Indices were created by calculating the mean of the standardized values of the practices in each index. The specific measures of HR practices were adapted and developed from published research in strategic human resource management (Batt 2002; Batt & Colvin 2011; Way 2002).

[4] A summary of these measures can also be found in Appendix 3.1.

Skills index is an additive index of four variables: the extent to which formal selection practices are used, the average education level of FOH employees, hours of initial training, and time to proficiency. The first two measures reflect the extent to which the establishment invests in selecting a high quality workforce. *Formal selection* is the extent to which the establishment relies on formal assessment methods such as ability or personality testing and structured interviews to determine the suitability of job candidates (on a 1-4 scale, from “not at all” to “to a great extent”). *Education* is the average number of years of completed schooling for FOH employees in the hotel and reflects the general skill level of the workforce. The last two measures reflect establishment investments in firm-specific training. *Initial training* is the number of hours of initial training that FOH employees receive in their first year, including orientation and job-related training. *Time to proficiency* is the number of days it takes for a new hire to become fully proficient on the job. While initial training captures formal training, time to proficiency is likely to capture both formal and informal or on-the-job training.

Incentives index is an additive index of 4 variables: annual pay, benefits, employment security, and opportunities for internal mobility. *Annual salary* is the annual salary for the typical FOH employee. *Benefits* is a count of how many of 6 benefits the hotel provides to its FOH employees: paid vacation/holidays, sick leave, other paid leaves, health insurance, pension, and meals. *Employment security* is measured as the proportion of the workforce that is full time. Full time employment can signal the employer’s commitment to employees and provides a stable alternative to the kind of contingent (e.g. part-time and temporary) work that characterizes many low wage workplaces (Appelbaum, Bernhardt, & Murnane 2003). *Internal mobility* is the percentage of FOH employees typically promoted to higher positions in the hotel or in the larger company.

W*ork design index* is an additive index of 3 variables: the percentage of employees who participate in information sharing and meetings, and the extent of employee discretion. These variables measure the extent to which the establishment utilizes high involvement or participatory work practices. *Information sharing* is the percentage of FOH employees that regularly receive information regarding hotel goals, objectives and performance. *Meetings* is the percentage of FOH employees that are involved in regularly scheduled meetings to discuss work related issues. *Discretion* is a four-item scale adapted from Batt and Colvin (2011) and is the average extent to which FOH employees have discretion over work methods, what they say to customers, handling customer requests, and handling customer complaints, measured on 5-point Likert scales from "not at all" to "a great deal" (alpha = 0.79).

In addition to the three separate HR system indices, the 11 HR practice variables described above were combined into an additive mean *HR index* as an overall measure of investments in HR practices.

Service-Oriented OCBs. Four items measured employee service-oriented OCBs on a 5-point scale from "strongly disagree" to "strongly agree". The items were chosen based on the literature and one item was included for each of the three dimensions of service-oriented OCBs: loyalty, service delivery, and participation (Bettencourt 1997; Bettencourt, Gwinner, & Meuter 2001). *Loyalty* is measured using one item: "says good things about the hotel to others". *Service delivery* is measured using one item: "helps customers with problems beyond what is expected or required". *Participation* is measured using one item: "makes constructive suggestions for service improvement". One additional item was included to reflect what Bettencourt and Brown (1997) refer to as *Cooperation*: "helps workers with heavy workloads". This is an important service-oriented OCB as assisting coworkers can help to improve overall service delivery. Following other studies (Koys 2001; Schneider, Ehrhart, Mayer, Saltz, & Niles-Jolly 2005; Sun, Aryee, & Law 2007), service-oriented OCB was treated as an aggregate, unit-level variable. The mean score of the four items was used as the measure of service-oriented OCB. The internal consistency of this scale was acceptable and comparable to previous studies, with an alpha reliability of 0.86.

Customer Satisfaction. Customer satisfaction was measured with two variables: the net promoter score (NPS) for each hotel, obtained from corporate records, and the overall TripAdvisor® rating for each hotel. *NPS* measures customer loyalty and is based on the question "how likely are you to recommend our company [hotel] to your friends and colleagues?" (Reichheld 2003). Customer responses are measured on a 0 to 10 point rating scale where 0 is "not likely at all" and 10 is "extremely likely". The NPS is then calculated by subtracting the percentage of detractors (those who respond with a 0-6) from the percentage of promoters (those who respond with a 9-10). The score can range from -100 to +100. The mean NPS score in the sample is 42.65, with a minimum of -31.0 and a maximum of 89.8.

The TripAdvisor® rating for each hotel is a composite measure of customer satisfaction based on consumer reviews of hotel experiences. The overall rating (out of 5) takes into account a number of factors, including the tangible and intangible elements of service delivery[5]. The latter is particularly relevant to the current study as frontline employees do not typically have the ability to change or influence the more tangible elements of hotel experiences, aside from hotel cleanliness. Although we do not have the ability to distinguish between the different aspects of TripAdvisor® ratings, since we are examining establishments within a single brand name chain

[5] In some cases, TripAdvisor® breaks down the overall rating into different categories (i.e. sleep quality, location, rooms, service, value, and cleanliness). Although examining the relationship between our variables and these individual categories would be useful, this breakdown is only available for a negligible number of hotels in the sample. As a result, the overall rating, which is a composite score out of 5, is used in this study.

operating in the same limited service market segment, the tangible elements of service delivery, such as the type and quality of amenities, should be roughly equivalent across hotels in the sample[6]. The control variables used in this study, noted below, will also help to account for any differences in tangible elements of customer satisfaction ratings due to variation, for example, in the age, size, or location of establishments. This suggests that any residual differences in TripAdvisor® ratings across establishments in this study are likely to reflect intangible factors that can be influenced by differences in ownership, HR practices, and employee behaviors.

It is also worth noting here that while some have suggested that TripAdvisor® ratings may be skewed by false reviews, recent evidence suggests that these ratings are largely reliable (Chua & Banerjee 2013; O'Connor 2010)[7]. The mean TripAdvisor® rating in the sample was 3.81, with a minimum of 2.23 and a maximum of 4.87[8]. Moreover, the mean number of customer reviews was 90 (minimum of 14 and maximum of 563), which provides us with additional confidence that these ratings are unlikely to be biased by a small number of false or misleading reviews.

To address the shortcomings of a single measure of customer satisfaction, a *customer satisfaction index*, measured as the mean value of the standardized net promoter score and TripAdvisor® rating for each hotel, is used as a dependent variable in this study.

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[6] This is especially true since franchisors dictate and closely monitor such aspects of operations via franchise agreements, operating manuals, and quality assurance inspections.

[7] TripAdvisor® also takes steps to ensure the reliability of its ratings through community policing measures (Chua & Banerjee 2013) and automated screening tools that help detect questionable reviews (for more information, see http://www.tripadvisor.com/vpages/review_mod_fraud_detect.html).

[8] To calculate the precise TripAdvisor® rating for each hotel, which is the mean of all customer reviews, the total number of customer reviews in each rating category (1-5) was collected (where 1 = "Terrible" and 5 = "Excellent"). The total number of reviews in each category was multiplied by the value for each category and added together. The sum was then divided by the total number of reviews to obtain the overall rating out of 5. For example, a hotel with 100 total customer reviews, 40 reviews in the 5 category, 30 reviews in the 4 category, 20 reviews in the 3 category and 5 reviews in the 2 and 1 categories would have an overall TripAdvisor® rating of: (40x5)+(30x4)+(20x3)+(5x2)+(5x1)/100 = 3.95.

Franchise Ownership. Ownership was measured as a dichotomous variable where 1=franchisee-owned hotel and 0=company-owned hotel. The ownership form of the hotel was reported by each respondent and confirmed using data from corporate records. A very small percentage of hotels in the sample (2.7%) are company-managed but not owned. Since company-owned and company-managed hotels are managed in the same way and there were no significant differences in practices between company-owned hotels and company-managed hotels in this study, both are included under the category "company-owned hotels". Previous studies have taken a similar approach (Freedman & Kosová 2012; Weil 2012).

Control Variables. Several variables are included as controls. To control for establishment characteristics, I include *establishment size*, the number of rooms in the hotel, and *establishment age*, the number of years since the hotel opened, as larger and older establishments may have more sophisticated and mature employment systems (Jackson & Schuler 1995; Kaufman 2010). Further, since franchising is a relatively new strategy, hotel age is likely to be related to ownership status, and may also be directly related to customer satisfaction as newer hotels are likely to be in better condition than older hotels. I also control for the location of the hotel using a series of dummy variables: *airport*, *city center*, *resort*, *suburban,* and highway (omitted category). To control for labor market characteristics, three variables are included. Following previous studies, the local *unemployment rate* and the *median wage* for the main occupational group (hotel desk clerks in this study) control for variation in job availability and cost of living respectively (Batt 2001; Batt & Colvin 2011). I also control for private sector *union density* to account for the effects of union representation in the local area where the establishment is located. Finally, the financial performance metric *RevPAR*, obtained from corporate, is included for each hotel to control for differences in performance as higher performing establishments may have a greater ability to invest in HR practices than lower performing establishments (Wright, Gardner, Moynihan, & Allen 2005). Higher performing establishments are also likely to have more resources available for maintaining and updating amenities, which can influence customer satisfaction. RevPAR also takes into account hotel room rates, which may affect customer satisfaction.

Data Analysis

Multivariate regression analyses are first conducted. Specifically, an equation is estimated for each dependent (endogenous) variable in Figure 3.1. A structural equation model of the hypothesized relationships between franchise ownership, HR practices, employee service-oriented OCBs, and overall customer satisfaction is then tested, controlling for relevant market and establishment characteristics. A structural equation model without latent variables (i.e. path model) is tested as most of the variables in this study, with the exception of the service-oriented OCB scale, are additive indices that do not require confirmatory factor analysis (Liu, van Jaarsveld, Batt, & Frost 2013). The advantage of path analysis over traditional multivariate regression analyses is that it allows us to capture the direct, indirect, and total effects of the independent variables and simultaneously test all of the relationships in the hypothesized model (Lleras 2005).

RESULTS

Table 3.1 provides the means, standard deviations, and bi-variate correlations for the variables. Table 3.2 reports the results of the multivariate regressions for each of the dependent variables. This includes the three separate HR indices (Models 1-3), the full HR index (Model 4), service-oriented OCBs (Models 5a and 5b), and customer satisfaction (Models 6a and 6b).

Table 3.1: Means, Standard Deviations, and Bivariate Correlations for Variables

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Franchise	.37	.48	1																
2	Skills Index	.00	.57	-.375**	1															
3	Incentives Index	.00	.63	-.549**	.297**	1														
4	Work Design Index	.00	.70	-.225**	.183**	.243**	1													
5	HR Index	.00	.44	-.557**	.701**	.761**	.644**	1												
6	Service-Oriented OCBs	4.28	.64	.061	.014	.070	.197**	.128**	1											
7	Customer Satisfaction	.00	.96	.510**	-.132**	-.294**	-.039	-.231**	.151**	1										
8	Est. Age	14.17	11.44	-.582**	.166**	.361**	.107*	.311**	-.029	-.574**	1									
9	Est. Size	107.95	35.29	-.626**	.297**	.444**	.109*	.416**	-.038	-.348**	.413**	1								
10	RevPAR	42.49	15.27	.213**	-.052	-.025	-.021	-.046	-.014	.173**	-.232**	-.034	1							
11	Airport	.14	.35	-.087	.064	.047	.017	.061	.000	.105*	.024	.184**	.074	1						
12	City Center	.12	.33	.025	.015	.071	.022	.053	.015	-.041	.060	.041	.138**	-.152**	1					
13	Resort	.03	.17	.073	-.044	.025	-.090*	-.046	.021	.020	-.075	.040	.099*	-.070	-.065	1				
14	Suburban	.19	.39	-.097*	.064	.054	-.011	.054	-.059	.038	-.055	.000	.043	-.196**	-.183**	-.084	1			
15	Unemployment Rate	7.33	1.72	-.047	.044	.032	.080	.072	.067	.047	-.059	.044	.023	.053	.019	.106*	.031	1		
16	Union Density	4.27	2.98	.008	.062	-.004	-.005	.025	.014	.051	-.141**	-.012	.022	.082	-.090*	-.067	.063	.180**	1	
17	Median Wage	9.49	.82	-.078	.023	.189**	.049	.130**	.040	.009	-.120**	.152**	.264**	.133**	.025	.058	.060	.279**	.331**	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 3.2: Multivariate Regression Analyses: HR Indices, Service-Oriented OCBs, and Customer Satisfaction[ab]

Variable	Model 1 *Skills Index*	Model 2 *Incentives Index*	Model 3 *Work Design Index*	Model 4 *HR Index*	Model 5a *Service-Oriented OCBs*	Model 5b *Service-Oriented OCBs*	Model 6a *Customer Satisfaction*	Model 6b *Customer Satisfaction*
	Beta	*Beta*	*Beta*	*Beta*	*Beta*	*Beta*	*Beta*	*Beta*
Franchise	-0.35***	-0.43***	-0.28***	-0.51***	0.18**	0.19**	0.27***	0.28***
Skills Index					0.02		0.02	
Incentives Index					0.11*		-0.01	
Work Design Index					0.20***		0.04	
HR Index						0.24***		0.04
Service-Oriented OCBs							0.12**	0.12***
Est. Age	-0.08	0.09†	-0.03	-0.01	0.02	0.01	-0.41***	-0.41***
Est. Size	0.12*	0.12*	-0.05	0.09†	-0.02	-0.03	-0.04	-0.04
RevPAR	0.02	0.04	0.03	0.04	-0.04	-0.05	0.02	0.02
Airport	0.03	-0.02	-0.02	-0.004	0.000	-0.01	0.17***	0.17***
City Center	0.04	0.07†	0.005	0.05	-0.004	-0.01	0.02	0.01
Resort	-0.02	0.05	-0.09*	-0.02	0.02	0.01	-0.01	-0.01
Suburb	0.03	0.02	-0.05	0.005	-0.04	-0.06	0.09**	0.08*
Unemployment	0.02	-0.03	0.08†	0.03	0.05	0.06	0.03	0.04
Union Density	0.07	-0.02	-0.03	0.01	-0.005	-0.01	-0.02	-0.02
Median Wage	-0.07	0.15***	0.02	0.05	0.03	0.03	-0.05	-0.06
	F = 8.22***	F = 23.19***	F = 3.17***	F = 21.02***	F = 2.24**	F = 2.14**	F = 22.57***	F = 26.45***
	R^2 = 0.16	R^2 = 0.35	R^2 = 0.07	R^2 = 0.33	R^2 = 0.06	R^2 = 0.05	R^2 = 0.42	R^2 = 0.42

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level

[a] Two decimal places are reported for each statistic. Small coefficients (< 0.004) have been rounded to three places to aid interpretability.

[b] Standardized coefficients reported.

Note: Models 5a and 6a include the three separate HR indices (skills, incentives, work design) as measures of investments in HR practices. Models 5b and 6b include the overall HR index as the measure of investments in HR practices.

Models 1-4 show the relationship between franchise ownership and investments in HR practices. These models indicate that franchise ownership is significantly and negatively related to the skills index ($\beta = -0.35$, $p < 0.001$), incentives index ($\beta = -0.43$, $p < 0.001$), and the work design index ($\beta = -0.28$, $p < 0.001$). Furthermore, franchise ownership is significantly and negatively related to the full HR index ($\beta = -0.51$, $p < 0.001$). In unstandardized terms, franchisee-owned establishments, on average, have a skills index that is 0.41 units lower, an incentives index that is 0.55 units lower, a work design index that is 0.40 units lower, and an overall HR index that is 0.46 units lower than comparable company-owned establishments ($p<0.001$)[9].

Models 5a and 5b show that investments in HR practices significantly increase service-oriented OCBs. Model 5a shows that investments in incentives ($\beta = 0.11$, $p < 0.05$) and work design ($\beta = 0.20$, $p < 0.001$) significantly increase service oriented OCBs, but investments in skills do not have a statistically significant effect on service-oriented OCBs. Model 5b shows that investments in HR practices overall, as reflected in the HR index, have a positive and significant effect on service-oriented OCBs ($\beta = 0.24$, $p < 0.001$). Models 5a and 5b also show that controlling for investments in HR practices, franchise ownership has a direct, positive effect on service-oriented OCBs ($\beta = 0.19$, $p < 0.01$; Model 5b). In unstandardized terms, franchisee-owned establishments, on average, have a 0.25 higher score on the service-oriented OCB scale compared to company-owned establishments ($p<0.01$).

Finally, Models 6a and 6b reveal a positive relationship between service-oriented OCBs and customer satisfaction. A one standard deviation increase in the service-oriented OCB scale is

[9] Standardized coefficients are reported in the tables. However, standardized coefficients for dichotomous variables do not have substantive interpretation because dichotomous variables cannot be increased by one standard deviation, which is the usual interpretation of standardized coefficients. To ease interpretation, I present both the standardized coefficients (β) as well as the unstandardized coefficients for the franchise ownership variable in this section.

associated with a 0.12 standard deviation increase in the customer satisfaction index ($p<0.001$; Model 6b). In addition, Model 6a and 6b show that controlling for investments in HR practices, there is a strong and statistically significant relationship between franchise ownership and customer satisfaction ($\beta = 0.28$, $p <0.001$; Model 6b). In unstandardized terms, franchisee-owned establishments have a customer satisfaction index that is 0.56 units higher, on average, than company-owned establishments ($p<0.001$).

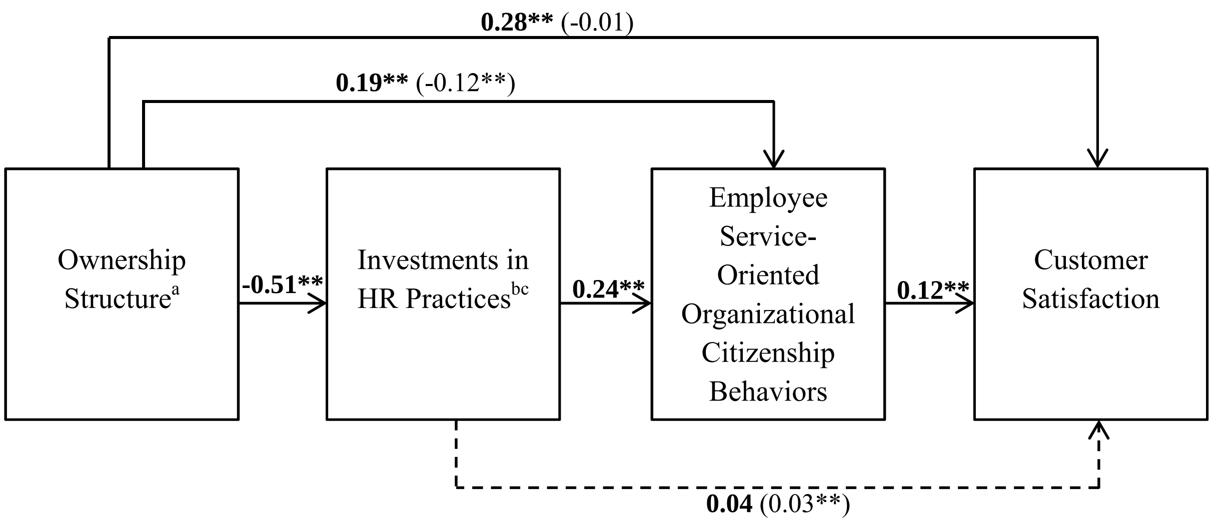
Models 1-6 provide preliminary support for the hypotheses in this study. The multivariate regressions are particularly useful for examining the direct effects of the independent and control variables on our dependent variables of interest. However, Figure 3.1 indicates that some of our independent variables also have indirect effects on the dependent variables. Specifically, franchise ownership has an indirect effect on employee service-oriented OCBs through investments in HR practices, and an indirect effect on customer satisfaction through service-oriented OCBs. Similarly, HR practices also have an indirect effect on customer satisfaction through service-oriented OCBs. To decompose the direct and indirect effects of the independent variables and simultaneously examine all of the hypotheses in this study, a structural equation model was tested.

First, I tested the model in Figure 3.1, with all of the control variables included. The model fit the data well ($\chi^2(1)=1.06$, $p=0.30$, CFI=1.00, RMR=0.001, RMSEA=0.01, AGFI=0.97)[10], providing overall support for the theoretical model. Figure 3.2 shows this model, with path coefficients[11]. I then examined the direct, indirect, and total effects of the independent

[10] For the sake of parsimony, the full HR index was used as the measure of investments in HR practices. A model using the three separate indices of HR practices was also tested, and demonstrated adequate fit and consistent estimates. Results for this model are available upon request.

[11] The initial model tested representing Figure 3.1 did not include a direct path from investments in HR practices to customer satisfaction. However, in order to explicitly test Hypothesis 3 (service-oriented OCBs as a mediator between HR practices and customer satisfaction), a direct path was included in the estimated model shown in Figure 3.2. When the direct path from HR practices to customer satisfaction is included, the model is just identified.

variables on service-oriented OCBs and customer satisfaction, with all of the control variables included. The results are presented in Table 3.3. The direct effects reported in Table 3.3 are identical to the effects reported in Models 5b and 6b of Table 3.2. The total effect is the combination of the direct effect and the indirect effect (if any) of each independent variable on the dependent variable.



N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level
Notes: Standardized coefficients reported. Direct effects in bold, indirect effects in parentheses. Total effect = direct effect + indirect effect.
[a] Ownership Structure = 1 if franchisee-owned, 0 if company-owned
[b] Investments in HR Practices = HR Index
[c] The estimated model includes a direct path from investments in HR practices to customer satisfaction and an indirect path from investments in HR practices to customer satisfaction through service-oriented organizational citizenship behaviors. The theoretical model in Figure 3.1 does not include the direct path. When the direct path is excluded, the model goes from just identified to over-identified and goodness-of-fit tests reveal good model fit ($\chi2(1)=1.06$, $p=0.30$, CFI=1.0, RMR=0.001, RMSEA=0.01, AGFI=0.97).

Figure 3.2: Estimated Path Coefficients for Theoretical Model

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Although goodness-of-fit tests are not available for this model, path coefficients for all variables are still available for hypothesis testing.

Table 3.3: Direct, Indirect, and Total Effects of Independent Variables on Service-Oriented OCBs and Customer Satisfaction

	Service-Oriented OCBs			*Customer Satisfaction*		
Variable	**Direct Effects**	**Indirect Effects**	**Total Effects**	**Direct Effects**	**Indirect Effects**	**Total Effects**
Franchise	0.19**	-0.12**	0.07	0.28**	-0.01	0.27**
HR Index	0.24**	--	0.24**	0.04	0.03**	0.07†
Service-Oriented OCBs	--	--	--	0.12**	--	0.12**
Controls Included	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*

N = 483; *** at the 0.001 level, **at the 0.01 level, * at the 0.05 level, † at the 0.10 level
Notes: Structural equation model includes same control variables as multivariate regressions (see Table 3.2). Standardized effects reported. Total effect = direct effect + indirect effect. Bias-corrected and percentile bootstrap analyses on 1000 samples were conducted to determine the significance of effects (Preacher & Hayes 2004; Shrout & Bolger 2002). Results were robust across both analyses so the percentile bootstrap significance is reported here.

Beginning with ownership structure, Figure 3.2 shows a direct negative relationship between franchise ownership and investments in HR practices ($\beta = -0.51$, $p < 0.01$), a direct positive relationship between HR practices and employee service-oriented OCBs ($\beta = 0.24$, $p < 0.01$), and a direct positive relationship between employee service-oriented OCBs and customer satisfaction ($\beta = 0.12$, $p < 0.01$). In addition, Figure 3.2 reveals an indirect positive relationship between investments in HR practices and customer satisfaction via employee service-oriented OCBs ($\beta = 0.03$, $p < 0.01$). As shown in Table 3.3, the total effect of HR practices on customer satisfaction is marginally significant ($\beta = 0.07$, $p < 0.10$), and the direct effect is not significant ($\beta = 0.04$, $p = 0.30$), which suggests that employee service-oriented OCBs mediate the relationship between investments in HR practices and customer satisfaction[12]. The significant positive

[12] This approach is analogous to the traditional causal-steps approach outlined by Baron and Kenny (1986). According to the causal-steps approach, mediation occurs if 1) the independent variable X significantly predicts the dependent variable Y; 2) X significantly predicts the mediator M; and 3) if M significantly predicts Y, controlling for X. In the relationship between the HR index, service-oriented OCBs, and customer satisfaction, we see that all three steps are satisfied. As discussed in the text and shown in Table 3.3, Step 1, which is the total effect of the HR index on customer satisfaction (X on Y), is positive and marginally significant. Step 2, the direct effect of the HR index on service-oriented OCBs (X on M), is also positive and significant. Finally, Step 3 is also satisfied as the direct effect between service-oriented OCBs and customer satisfaction (M on Y) is positive and significant while the

relationships between investments in HR practices, employee service-oriented OCBs, and customer satisfaction provide support for Hypotheses 1-3. The significant negative relationship between franchise ownership and investments in HR practices also provides strong support for Hypothesis 4.

Turning to the effects of ownership structure on employee service-oriented OCBs and customer satisfaction, Figure 3.2 and Table 3.3 show that franchise ownership has a significant indirect negative relationship with employee service-oriented OCBs ($\beta = -0.12$, $p < 0.01$), via the negative effects of franchise ownership on investments in HR practices noted above. This supports Hypothesis 5. At the same time, franchise ownership has a significant and positive direct effect on employee service-oriented OCBs ($\beta = 0.19$, $p < 0.01$). Hypothesis 6 is therefore also supported. Hypothesis 7 predicts that the direct and indirect effects of franchise ownership on employee service-oriented OCBs will cancel each other out, leading to a total effect that is small and not significant. As shown in Table 3.3, the total effect of franchise ownership on employee service-oriented OCBs is positive but not significant ($\beta = 0.07$, $p = 0.23$). The results support Hypothesis 7.

Finally, Hypotheses 8 and 9 predict positive direct and total effects between franchise ownership and customer satisfaction. As shown in Figure 3.2 and Table 3.3, there is a positive and significant direct effect between franchise ownership and customer satisfaction ($\beta = 0.28$, $p < 0.01$). Moreover, given the small and non-significant total effect of franchise ownership on employee service-oriented OCBs, the indirect effect of franchise ownership on customer satisfaction via employee service-oriented OCBs is also small and not significant ($\beta = -0.01$,

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direct effect between the HR index and customer satisfaction is not significant (X on Y, when M is included in the model). Support for mediation is also found when the direct path from HR index to customer satisfaction is removed in the model as the unsaturated model suggests good fit. See text above and Figure 3.2 for the fit statistics of this model. For a similar approach to testing mediation in structural equation/path models, see Schneider et al (2005).

p=0.58). Therefore, the total effect of franchise ownership on customer satisfaction primarily represents the direct effect and is positive and significant ($\beta = 0.27$, $p<0.01$). Hypotheses 8 and 9 are thus fully supported.

The results of the multivariate analyses and the structural equation model confirm the theoretical model presented in Figure 3.1. All hypothesized links between the variables in the model proved significant: franchise ownership was significantly related to investments in HR practices, employee service-oriented OCBs, and customer satisfaction. Investments in HR practices were also significantly related to employee service-oriented OCBs and, in turn, customer satisfaction. Although the latter is consistent with extant theory and research in SHRM, the results highlight the significant and offsetting effects of franchise ownership on both HR practices and outcomes.

DISCUSSION

This study examined how differences in ownership structure shape the HR-performance relationship. I focused on an economically and strategically important form of ownership that has not received much attention in SHRM research, namely franchising. The findings suggest that franchise ownership is associated with lower investments in strategic human resource practices, but that franchisee owners are able to offset the negative consequences of these lower investments through comparative ownership incentives that lead franchised operations to have *higher* overall performance (namely, customer satisfaction) than company-owned operations, which make greater investments in performance-enhancing HR practices.

The results of this study suggest that agency theory is particularly valuable for examining how differences in ownership form influence HR practices and outcomes. The study also contributes to the franchising literature and agency theory more generally by providing some of the first research to simultaneously test multiple agency theory predictions regarding comparative ownership incentives. In particular, this study tests and finds support for differences in both free riding and effort incentives across ownership forms.

The findings have important implications for the SHRM and franchising literatures. To begin with, the results of this study suggest that investments in HR practices may be more important for some types of firms than others that are able to effectively mitigate the negative effects of lower investments. In the case of franchises, it appears that franchisee incentives to supervise employees and output result in higher performance, in the form of customer satisfaction, in franchised operations relative to company-owned operations, despite lower investments in HR practices. In contrast, greater investments in HR practices may be an important way for franchisors to balance the agency costs of company ownership since company managers do not have the same incentives to closely monitor employees and output.

At the same time, the findings of this study also indicate that while franchisees have higher customer satisfaction than company-owned operations, they are not capitalizing on what may be one of the most sustainable sources of competitive advantage in service operations: human capital. Theory and empirical research in the field of strategic human resource management have relied on the resource-based view of the firm to argue that human capital can serve as a source of competitive advantage to the extent that it is valuable, rare, and difficult to imitate (Barney 1991; Wright & McMahan 1992). Investments in employment practices can help to develop this kind of human capital by investing in employee KSAs, and providing incentives and opportunities for employees to use those KSAs for the benefit of the firm (Liu, van Jaarsveld, Batt, & Frost 2013). Firms that do not invest in such practices, however, will find it difficult to develop the kind of strategic human capital that results in long-term performance gains and survival.

This is evident in the current study. Although franchisees are able to effectively monitor employees, their lower investments in HR practices suppress the positive effects of monitoring on customer service improving employee behaviors, and as a result, franchisees do not benefit from their human capital resources. In agency theory terms, the agency benefits of franchising, in the form of reduced incentives to shirk and greater monitoring, are offset by the agency costs of franchising, in the form of free riding on investments in human capital or more simply, labor quality. Although customer satisfaction remained high in these operations, some have suggested that free riding on labor quality can be a source of variation in service quality (Michael 2000). Moreover, Michael (2000) shows that service quality at the chain level (as opposed to the unit level, as examined here), is much lower in chains that have a higher percentage of franchising. Accordingly, franchisee free riding on labor quality may have long-term negative consequences for both franchisees and perhaps more importantly, the larger organizations/chains to which they belong.

Further research is therefore needed to understand a) the mechanisms through which franchise ownership directly relates to unit-level customer satisfaction, and whether these mechanisms represent sustainable sources of competitive advantage, and b) the long run implications of differential investments in strategic human capital across ownership forms. Longitudinal and multi-level data would be especially useful here as it would provide a greater understanding of how unit-level decisions and outcomes affect chain-level performance. A longitudinal research design would also provide a more rigorous test of the causal model examined in this study (i.e. Figure 3.1).

The results of this study and the preceding discussion also suggest that investments in HR practices for managers are just as important as investments in HR practices for frontline employees. More specifically, this study examined the extent and outcomes of investments in HR practices for non-managerial, line level employees, which has been the primary focus of SHRM research. However, the results also show that franchisee managers and company managers have different incentives to invest in performance-enhancing HR practices for frontline employees, and to monitor employee behavior and customer satisfaction. As a result, if franchisors also invested in HR practices for company managers, such as performance incentives that encourage managers to more closely monitor employee and customer output, then the combined effects of investments in HR practices for managers and frontline employees might lead to higher overall performance in company-owned operations. Likewise, practices to encourage franchisee managers to invest in HR practices for their frontline staff may allow franchised operations to effectively capitalize on their human capital resources and result in even higher (and perhaps more sustainable) performance. Given the interconnected nature of franchised and company-owned operations, performance improvements brought about through investments in HR practices for managers may have noteworthy implications for the success of franchise businesses (i.e. chains) as a whole.

In general, the findings of this study underscore the importance of examining the conditions and more specifically, organizational context under which HR practices influence performance (Batt & Hermans 2012). The findings of this study also contribute to our understanding of the “black box” in the HR-performance relationship, particularly in the service context. Building on recent work that seeks to identify the employee behaviors mediating the relationship between HR practices and performance (Batt & Colvin 2011; McClean & Collins

2011; Sun, Aryee, & Law 2007), this study examines the relationship between HR practices, service-oriented OCBs, and customer satisfaction, a strategically important performance outcome in interactive service work. In line with the service-profit-chain framework (Heskett, Jones, Loveman, Sasser, & Schlesinger 1994), internal service quality, in the form of investments in HR practices, is positively related to employee service-oriented organizational citizenship behaviors, which in turn create external service value and positively influence customer satisfaction.

The results of this study also provide support for the argument that the dimensions of HR systems can have differential effects on outcomes (Batt & Colvin 2011). Although investments in incentives and work design positively influenced service-oriented OCBs and, in turn, customer satisfaction, investments in skills did not have a significant effect on these outcomes. Moreover, the work design index demonstrated a stronger effect on both service-oriented OCBs and customer satisfaction than the incentives index[13].

The importance of a high involvement work design for improving performance has been highlighted in other studies of service organizations as well. For example, Batt (2002) found that a participatory work design was particularly important in explaining the relationship between investments in HR practices, turnover, and sales growth in call centers. Similarly, Batt and Colvin (2011) also found that the use of a high involvement work design was positively and significantly related to turnover and customer satisfaction in call centers. This may be suggesting that practices associated with the "opportunities for participation" dimension of HR systems are especially important for performance in the service context and warrants additional attention in

[13] As shown in Table 3.2, the effect of the incentives index on service-oriented OCBs is 0.11 while the effect of the work design index is 0.20 (Table 3.2, Model 5a). Although all three indices do not have significant direct effects on customer satisfaction when service-oriented OCBs are included in the model (Table 3.2, Model 6a), separate analyses (available upon request) reveal that the work design index has a stronger indirect effect on customer satisfaction via employee service-oriented OCBs ($\beta = 0.02$, $p<0.01$) than the incentive index ($\beta = 0.01$, $p<0.05$).

future research. This is also consistent with Combs et al's (2006: 521) call to investigate the specific types of HR practices that are important for service work.

On a practical note, the relative importance of the work design index suggests that franchisees and other service employers concerned about budgets may still be able to benefit from their human capital resources through low cost investments in high involvement work design practices. Practices such as increased employee discretion and information sharing may provide employees with opportunities for collaboration and innovation that lead to sustained competitive advantages (Liu, van Jaarsveld, Batt, & Frost 2013). Further research is needed however to understand whether and to what extent these practices can be effectively implemented without complementary investments in the other HR system dimensions, as posited in SHRM theory (i.e. "horizontal fit"; Appelbaum et al 2000; Delery & Shaw 2001).

There are several limitations to this study. First, this study used cross-sectional data to test the causal model of the relationship between ownership, HR practices, and outcomes. Although I find significant relationships between these variables and carefully control for organizational and labor market characteristics that could influence the hypothesized relationships, longitudinal data would provide a more rigorous test of the causal model and provide greater confidence in the results.

A second limitation is that this study focused on establishments within a single company and industry. Although focusing on a single chain allowed us to control for extraneous sources of variation, such as industry, brand, and market segment effects, the findings of this study may not generalize to other industries and organizations. Additional research is therefore needed to understand whether the causal model presented in this study extends to franchise chains in other settings.

Finally, it is worth noting that this study only focused on two specific outcomes of variation in HR investments: service-oriented OCBs and customer satisfaction. While these are important outcomes in the service sector, and have been tied to more distal outcomes such as a financial performance (Heskett, Jones, Loveman, Sasser, & Schlesinger 1994), it is possible that differences in ownership structure and HR investments have differential effects on other employee behaviors and organizational outcomes that were not examined here. For example, higher monitoring under franchise ownership may increase employee stress and turnover as previously mentioned (Carayon 1993; Shaw et al 1998), which may, in turn, negatively influence financial outcomes such as sales or profitability. Future research should therefore incorporate other employee and organizational outcomes to gain a better understanding of how ownership structure influences the HR-performance relationship, particularly over time.

CONCLUSION

This paper examined the relationship between ownership form, investments in HR practices, and employee and organizational outcomes in the context of franchising in the hotel industry. Integrating SHRM theory with agency theory, a theoretical model was developed and tested to examine how differences in ownership form affect the HR-performance relationship. The evidence indicates that while HR practices positively influence performance, ownership structure can affect both the propensity to invest in these practices and organizational performance. As a result, lower investments in HR practices may not necessarily translate into lower overall performance.

The findings of this study highlight the importance of examining the conditions under which HR practices influence performance. This task is especially important if SHRM researchers aim to develop research that is of practical significance. This study also contributes to the SHRM literature by examining the HR-performance relationship in a sector that has received little attention but is of significant economic importance: low-skilled services. The findings provide support for the intermediate elements of the service profit chain, that is the relationship between internal service quality, employee external service behavior, and customer satisfaction, and suggest that high involvement work design practices may be especially important for performance in the service sector. Future research should examine these and other practices that are important in service work (Combs, Liu, Hall, & Ketchen 2006). Future research should also examine the extent to which the findings of this study generalize to other organizations and industries.

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APPENDIX 3.1
Variable Definitions

Skills Index	An index based on 4 items, standardized and averaged. • Formal Selection: The extent to which the establishment relies on formal assessment methods to determine the suitability of job candidates (on a 1-4 scale, with anchors "not at all" and "to a great extent"). • Education: The average number of years of completed schooling for FOH employees. • Initial Training: The number of hours of initial training that FOH employees receive in their first year, including orientation and job-related training. • Time to Proficiency: The number of days it takes for a new hire with little or no experience to become fully proficient on the job.
Incentives Index	An index based on 4 items, standardized and averaged. • Annual Salary: The base hourly wage for most FOH employees times the number of hours the typical FOH employee works per week times 52 weeks. • Benefits: The number of benefits provided to FOH employees (maximum of 6): paid vacation/holidays, paid sick leave, other paid leaves of absence, employer subsidized health insurance, defined benefit or defined contribution pension plan with employer contribution, and free/discounted meals. • Employment Security: The proportion of the workforce that is full-time. • Internal Mobility: The percentage of FOH employees typically promoted to higher positions in the hotel or promoted or transferred to other hotels within the company.
Work Design Index	An index based on 3 items, standardized and averaged. • Information Sharing: The percentage of FOH employees that regularly receive information regarding hotel goals, objectives, and performance. • Meetings: The percentage of FOH employees that are involved in regularly scheduled meetings to discuss work-related issues. • Discretion: A 4-item scale of discretion over work methods/procedures, what to say to customers, handling additional customer requests, handling customer complaints (each item was measured with a 1 to 5 Likert-scale type question with anchors "not at all" and "a great deal"; the mean response for the 4 questions was 3.91) (alpha = 0.79).
HR Index	An index of the 11 HR practice items listed above, standardized and averaged.
Service-Oriented OCBs	A 4-item scale with items: says good things about the hotel to others, helps customers with problems beyond what is expected or required, helps other workers who have heavy workloads, and makes constructive suggestions for service improvement. Each item was measured with a 1 to 5 Likert-scale type question with the anchors "strongly disagree" and "strongly agree"; the mean response for the 4 questions was 4.28 (alpha = 0.86).
Customer Satisfaction	An index based on 2 items, standardized and averaged. • Net Promoter Score for each hotel; calculated as the percentage of promoters – percentage of detractors. • TripAdvisor® rating for each hotel; mean of customer reviews (on a 5 point scale, where 1 = "Terrible" and 5 = "Excellent").
Franchise Ownership	Whether the hotel is owned by a franchisee (1) or owned/managed by corporate (0).
Establishment Age	Number of years since establishment opened.
Establishment Size	Number of rooms in the hotel.
Location	A series of indicators for the hotel's location: Airport, city center, resort, suburban or highway (omitted category).
RevPAR	The average annual revenue per available room (RevPAR) for each hotel in the prior year.
Unemployment Rate	Unemployment rate in the county where the hotel is located (drawn from 2012 Local Area Unemployment Statistics, BLS 2013a).
Union Density	Private sector union density in the metropolitan area where the hotel is located (drawn from 2012 Current Population Survey Outgoing Rotation Group Earnings Files, Hirsch and Macpherson 2013).
Median Wage	Median hourly wage for hotel desk clerks in the metropolitan area where the hotel is located (drawn from Occupational Employment Statistics Survey, SOC code 434081, BLS 2013b).