Inter-Firm Relationships And The Limits Of HRM Discourse

Stream 8: Human Resource Management Phenomena and Beyond

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Abstract

The assumption underpinning many recent writings about human resource management has been that full control over the HR policies and practices of organisations is located within the boundaries of the organisation, and is primarily under the jurisdiction of the HR department. However, this paper reports on the findings of a pilot study within the automotive retail sector which suggests that third party organisations can, under some circumstances, exercise both direct and indirect control over the employees of another firm. A model that describes these patterns of influence is put forward. The findings of this study suggest that our traditional modes of theorising on HRM may be limited by failing to take account of this additional dimension of the employment relationship. The paper also contributes to the relatively limited literature on the operation of franchising systems, in particular concerning the role played by HRM policies and practices as a mechanism for inter-organisational control.
INTRODUCTION

How can we define and explain what the role of the HR department is, or should be, within an organisation? The literature has generally focused on HR's internal role in helping to define the strategic agenda of the firm, in designing and administering HR processes and practices, and in creating and maintaining the organisation's stock of human capital (Ulrich, 1997; Wright et al., 1999). The onus, according to this perspective, is on the HR department to do all these things in the 'right way', either by adopting 'best practice' approaches, or by achieving the 'best fit' between HR and business strategies (Purcell and Boxall, 2002). To take but one example, Becker et al 2001:3) argue that the HR department needs 'innovative assessment systems that will let them demonstrate their influence on measures that matter to CEOs, namely firm profitability and shareholder value' (emphasis added).

But the question we raise here is: what if activities that normally would be considered part of the HR department's remit were, in fact, beyond the sphere of influence of the HR department, determined by an external third party? Recent research has shown that, under certain circumstances, other organisations, such as clients or suppliers, can have a significant voice in determining people management practices (Swart et al., 2002). As Felstead (1993: 189) comments, 'it is becoming harder to determine for whom one really works. Interlocking business relationships are at the heart of this confusion.' This notion represents a challenge to our traditional conceptualisation of HRM as contained 'within the organisation' under the jurisdiction of the HR department. Notions of what constitutes an 'effective' HR department under these conditions become contested.

This issue is particularly pertinent in today's business world, characterised as it is by increasingly complex and interdependent organisational structures (Felstead, 1993). Miles and Snow (1999) argue that organisations with what they describe as the new 'spherical structure' are becoming linked together in multfirm networks. Sparrow and Marchington (1998) show how these organisational forms bring a new set of challenges to the HR department. These can be categorised as inter-firm or intra-firm (Sparrow, 1998). Whilst Sparrow argues that it is the intra-firm changes, involving a shift in organisational design, work co-ordination systems and trust relations that represent the most significant challenge for HR practitioners, the impact of inter-firm changes remains relatively unknown.

Some light has, however, been shed on this issue by Swart et al (2002). In a study of growing, knowledge-intensive firms, they found that choices within the HR system of such firms were constrained by business-to-business relationships, especially with clients. The nature and extent of these constraints depended upon a number of factors, notably the power relationship between client and supplier, and the uniqueness of the services provided. This research builds on earlier studies of client-supplier relationships in the manufacturing sector (Rainnie, 1989; Beaumont et al., 1996).

Swart et al (2002: 18) found that client demands created a tension in the management of human resources within the supplier companies: 'it is almost as if the HR practices are being pulled in two directions at the same time'. For instance, whilst the clients wanted the suppliers to be flexible, responsive and available, as well as wanting to influence the choice of personnel working on their projects, the suppliers needed to run their companies profitably, meet the needs of multiple clients, and create and maintain organisational identity. The supplier companies were therefore faced with a number of choices and alternative responses in the management of these relationships, which their three case-study companies all
resolved in a different way. As Camuffo and Costa (1993) argue, the remit of HRM is being extended to include bilateral relationships between firms such as these, implying that the focus of concern for HR may be shifting from productivity enhancement to attending to the management of complex contractual, informal and implicit relationships at the permeable boundary of the organisation.

This notion of permeable boundaries has been extended to include individual and macro-level factors. At the level of the individual employee, Garsten (1999) argues that the increasing use of temporary workers within firms makes the interface between different kinds of organisation, such as suppliers of temporary workers and their customers, more permeable. At the macro level, industry sector or institutional factors can equally impact on HRM. Truss et al’s (2002) longitudinal study of HR practices within Citibank and the Chelsea and Westminster NHS Trust shows that industry sector can strongly influence choices made in the HR domain. This builds on studies within the institutional perspective that have shown how isomorphic tendencies within an industry or sector can lead to organisations adopting similar employment practices (Oliver, 1997; di Maggio and Powell, 1983).

These disparate studies taken together reveal the complexity of the role of the HR department and the scope of influence of HR policies and practices (Truss et al., 2002). They also draw attention to two important points: firstly, that decisions made within the HR domain are influenced and constrained by broader macro-level factors outside the organisation (such as institutional norms); secondly, that an organisation’s employees may be subject to either direct or indirect influence by the HR policies and practices of external organisations (Beaumont, 1996). As Mohrmann and Lawler (1999: 435) argue, the challenge for HR departments is:

‘to design human resource practices that fit with the new way of organizing and the new business requirements, in other words, practices that fit into a dynamic, unpredictable corporation with a myriad of approaches to getting work done’.

With the increasing scale and scope of various forms of inter-organisational relationship, the role of the HR department is subject to redefinition in a way that we do not yet fully understand. Our purpose in this paper is to present the findings from a preliminary study into HRM in a setting characterised by a strong degree of inter-organisational dependency in an effort to shed some light on this hitherto uncharted territory. The inter-organisational relationship on which we are focusing here is franchising. Franchising has been defined as:

‘a business form essentially consisting of an organization (the franchisor) with a market tested business package centered on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms, operating under the franchisor’s trade name to produce and/or market goods or services according to a format specified by the franchisor.’ (Curran and Stanworth, 1983: 11)

Stanworth and Curran (2003) later extended this definition and argued:

‘the independent franchised outlet is a legally separate business with its own capital base, employees, organizational structure, and specific customer relations which can be seen as analytically independent of the franchisor’ (Stanworth and Curran, 2003: 22).
Given that the franchising system therefore involves a complex system of contractual relations between legally separate firms, this would appear to be very fertile ground upon which to build a study of HRM in inter-organisational relationships.

According to Floyd and Fenwick (2003), franchising accounts for over one third of retail sales in the US, and 29% in the UK, thus involving a considerable proportion of the workforce. The most commonly known franchises are in the fast food sector, although franchising is found in many areas of retailing. Our focus in this paper is on car distribution, described by Stanworth and Curran (2003) as a ‘quasiform’ of franchising, or a product-based franchise, as opposed to the business format franchises found in fast food retailing (Felstead, 1993).

Whilst the businesses involved in the franchising system (franchisor and franchisee) are legally separate entities, they are bound together through complex contractual relationships. Although a focus of considerable attention within the economics and marketing literatures, franchising has received scant attention with the HRM field, and meta-analyses of the franchising literature have revealed that relatively little research has been carried out into the actual operation of franchises or the implementation of strategy within franchised firms (Felstead, 1993, Elango and Fried, 1997). Seminal texts on franchising contain surprisingly few references to HRM issues, and almost no empirical evidence (Felstead, 1993; Hoy and Stanworth, 2002).

Although the available body of knowledge about HRM within franchise firms is limited, the literature that has been developed on power relations in franchise systems is very relevant to this study, since it can provide an important foundation for understanding the nature of the relationship between franchisor and franchisee (Brito, 2001).

Two basic forms of power have been identified; coercive power, including the imposition of monitoring systems and financial control by the franchisor to ensure a strict adherence to the franchise agreement, and non-coercive power, which includes more indirect forms of support provided for the franchisee, with a focus on management by persuasion and example (Quinn and Doherty, 2000; Elango and Fried, 1997; Hunt and Nevin, 2003; Sibley and Michie, 1982). Generally, power in the franchising relationship is viewed as being skewed in favour of the franchisor (Ozanne and Hunt, 1971; Felstead, 1993)

Hunt and Nevin (2003) found that franchisees are more satisfied with the franchising arrangement when non-coercive forms of power are used. However, when franchises grow to an international level, then the cost of providing the kind of support necessary in a non-coercive relationship increases, and the tendency is for franchisors to adopt an increasingly coercive approach.

Although studies such as these make an important contribution towards our understanding of power relations within franchised firms, there are a number of weaknesses, as they tend firstly to be prescriptive and, secondly, to be biased in favour of the franchisor, thus downplaying the important role played by the franchisee in negotiating the nature of the relationship (Elango and Fried, 1997; Hogarth-Scott, 1999; Brito, 2001). Under certain conditions, it may be that the franchisee holds a greater balance of power (Quinn and Doherty, 2000). As Hoy and Shane (2003: 14) point out, ‘many franchisors rely on franchisee experimentation to generate the innovations that keep their organizations healthy and competitive’. Felstead (1993: 157) also comments:
Franchisors have limited access to the market their franchisors actually serve on a day-to-day basis. Nevertheless, franchisor income rises and falls according to how much franchisees sell.

Thus, although studies have generally assumed that the power lies in the hands of the franchisor, with the franchisee relegated to a relatively subservient and powerless role, very little primary research has been carried out which explores how this relationship is enacted in practice in the operation of the franchising system (Elango and Fried, 1997). In one of very few references found in the literature to HRM in franchise firms, Felstead (1993) argues that there are circumstances in which the franchisor may intervene directly in personnel policies and practices in the franchisee firm, and our concern is to identify how, and under what circumstances, this takes place in the context of power relations within the franchising system.

Our review of the literature on HRM in inter-firm relationships and on the franchising industry has revealed that our existing knowledge of the nature, meaning and enactment of HRM within such organisational settings is very limited. Although Swart et al’s (2002) study has shed some light on how clients can influence the HRM system within supplier organisations, there is no primary research that has explored the influence of franchisors on HRM within franchise organisations. The available literature on power in franchise systems, which is generally from the marketing perspective, has revealed that there is most often a power imbalance in favour of the franchisor within such systems in terms of both coercive and non-coercive power. However, nothing is known about how this is reflected in the policy and practice of HRM within the franchise system, and it is to this that we now turn.

In particular, our study sought to answer the following exploratory questions:

1. how is HRM enacted in practice within the franchise relationship?
2. what mechanisms are used by the franchisor to influence HRM within the franchisee, and vice versa?
3. what are the broader implications for concepts and discourse of HRM?

METHODOLOGY

Elango and Fried (1997) have indicated that there is a dearth of qualitative, case-based research investigating the operation of franchise systems. This present study seeks to go some way towards filling this gap through an analysis of HRM within the automotive retail franchising industry. This is a significant sector of the British economy; the UK Automotive industry employs around 850,000 people, is worth £40 billion and contributes 3.4% of GDP. There are around 7,000 franchised car dealers in the UK, and around 300,000 people are employed in the retail, distribution and maintenance sector of the industry (www.tradepartners.gov.uk). Car manufacturers have sold cars via a franchising system since the early 1900s, and the franchise arrangement is found in all countries where cars are sold in a free market (Felstead, 1993).

This was an emergent and exploratory study, comprising a series of interviews within Car Sellers, a large automotive retail company with multiple franchises, and interviews with four car manufacturers. Semi-structured interviews and focus groups were conducted in Car Sellers during the early part of 2002. The purpose of these was to find out how the company went about managing its people, the role, and general perceptions within the line about the effectiveness of the HR department. In all, 10 interviews were undertaken with the Chief Executive, the HR Director and HR Managers, Operations, Managing and Franchise Directors, and retail General
Managers (responsible for running dealerships). Normally, the interviews lasted for one hour. In addition, four one-hour focus groups were conducted involving line managers and core staff, each involving between 4-6 people. A ‘vertical slice’ approach was used to selecting the sample of staff to be interviewed, so that, where possible, managers and staff who worked together were involved in the data collection exercise. In total, we obtained views and opinions from 30 members of staff. All the interviews and focus groups were tape recorded and transcribed verbatim.

We then interviewed the Training Managers in four car manufacturers. Each of these followed a semi-structured, exploratory interview schedule. In addition, we interviewed the Regional Manager responsible for managing the Car Sellers franchises within one manufacturer, Prestige Cars. Again, these interviews were tape recorded and transcribed verbatim. This study forms the pilot study for a more extensive piece of research that is being conducted into inter-firm relationships and human resource management.

In presenting the findings, we focus on HRM activities mainly in the area of training and development, but also in recruitment and selection, performance management, career management, role of the HR department, and overall HR strategy and policy.

**FINDINGS**

Car Sellers plc is an automotive services group and is the largest independent automotive retailer and distributor in the world, operating in 6 core markets and representing most major car manufacturers. The company’s headquarters are in London, and the group employs around 11,000 people worldwide, achieving a turnover of £4.5bn.

There are four main business areas within Car Sellers UK: Retail, Vehicle Contracts, Fleet Solutions and Personal Finance, and the majority of the 3,000 strong UK workforce are employed in the Retail division, which represents 18 major vehicle manufacturers. We conducted interviews in four of these: Luxury Cars, Executive Cars, Prestige Cars and Family Cars. All are international and well-known brands. Luxury Cars focuses its range on large cars exclusively at the upper end of the market; Executive Cars produces a range of large, expensive cars. Prestige Cars owns a range of brands but, again, is best known for its cars aimed at the upper end of the market. Family Cars represents two brands, one a specialist brand and the other offering a range of cars across the spectrum. All of these manufacturers employed Regional Managers, peripatetic line managers responsible for dealerships within certain geographical areas, and these Regional Managers formed an important lynchpin in the relationship between dealer and manufacturer.

**HRM at Car Sellers**

The HR team at Car Sellers’ UK Head Office comprised the HR Director, responsible for setting the strategic direction; two generalist HR managers to support line managers; and an HR administrator. There was also a pensions team supporting the international business.

Generally, it was apparent that Car Sellers was strongly performance driven as a company, and that the HR function was positioned as a support role providing consultancy to line managers. The department was deliberately ‘lean’, with a small team responsible for a relatively large workforce. This was, to a great extent, a reflection of Car Sellers’ response to the nature of the motor industry:
‘The motor trade is probably the worst business to be in if you’re looking to make a profit in relation to turnover, the margins are just so slight. We’ve got businesses that haven’t made money for years. We’ve got other businesses that make money, but the return is very, very low. We constantly, constantly are looking at our overhead structure all the time because the margins are so tight.’ (Director)

This reflects Felstead’s (1993) contention that labour relations in franchise firms are likely to be based on cost minimisation.

The HR team had two main areas of activity. The first was establishing overall HR policy for the company, writing policy documentation and setting standards. The second was providing consultancy services to line managers, particularly the General Managers who ran the dealerships. This support included an employee handbook, an intranet site, Car Sellers on-line University, self-development tools, and employment law guidance notes. At the time of our research, there was no overarching HR strategy statement, although work had begun on developing one.

General Managers saw HR’s role as being essentially one of providing support to enable the line to achieve its objectives:

‘The way I understand it is that HR is a support mechanism. I’m trying to think if there is a mission statement or anything and I can’t think of one.’

Role of General Managers

At Car Sellers, the implementation of HR policy was devolved to the General Managers (GMs), who were responsible for all aspects of running the dealerships. This reflects general trends that have been identified for HRM responsibilities to be devolved to line managers (Hall and Torrington, 1998).

Those we spoke to felt confident both with their own levels of expertise on HR matters, and with the back-up provided by the HR department. Several of the managers were keen to stress that they would not want the HR department to be ‘too close’ or to ‘interfere’ in the day-to-day running of the business, which they saw as being their responsibility:

‘For HR to get involved in the implementation in the dealership would be disruptive. It would send out confused messages for employees as to who they would have to relate to.’ (GM)

Inevitably, however, this meant some GMs avoided using the HR department:

‘Some of the GMs see themselves as running their own business, and, therefore, you know, they wouldn’t dream of ever involving HR in it because it’d be seen as a weakness for them. I don’t see that myself, I see it as a positive strength. … I don’t think that view is widely seen in the Group.’ (GM)

GMs were responsible, in conjunction with their Operations Director at Board level, and within the HR framework set by the HR department, for staffing levels, recruitment, job design, training needs analysis, appraisal, holiday entitlement, pay, termination, grievances, HR record keeping, and career development for their staff.
One consequence of this autonomy was a marked variation in management style across the firm:

‘Although they are part of a big organisation and we do have policies and procedures and things like that that we get everybody to adhere to, but things are done differently here dependent upon who’s running this company as they would be to someone in a different part of the country with a different franchise with different people.’ (Line Manager)

These differences in style and approach impacted on the employees and their experiences of working for Car Sellers. Our focus groups were, for some, the first occasion they had been able to meet with others working in similar jobs in other dealerships. One commented to another on hearing of the disparities between the different dealerships:

‘I can’t believe half of what I’m hearing here, I’m just gob smacked. I can’t believe that we work for the same company.’

We asked the interviewees about their experiences of various HR interventions. We found that individual experiences varied depending on the approach taken by their GMs. This was particularly true of pay management, and also appraisals, where some employees had positive experiences to report, whilst others were more negative:

‘I think mine [appraisal] was last year. ‘Any changes?’ ‘No’, ‘That’s fair enough’. All 30 seconds of it ... you just get used to it, you go to work, fall into line, do your stuff and go home.’ (Employee)

‘Mine [appraisals] have been OK ... I said I wanted to do some more training ... I wanted to try to make something of myself, and [the GM] sent me on a course to do so.’ (Employee)

The same was apparent in the area of training and development opportunities, where some GMs actively encouraged their employees to attend courses, whilst others did not even inform staff that courses were available. In this way, the GMs acted as information gatekeepers between Car Sellers and the individual employees. One employee described Car Sellers as:

‘like a country which was divided into small principalities with their own little dialects.’

This meant that any attempt by the central HR team to develop and implement HR strategies or to inculcate a core set of values throughout the organisation was hindered by these personal idiosyncrasies. Our findings confirm those of other studies, such as McGovern et al. (1997), who showed that, where responsibility for implementing HR policy is devolved to the line manager level, then inconsistencies emerge that impact directly on employees.

We found that the employees were largely unaware of the existence of the central HR department:

‘If you asked 95% of the people who worked in our building, they wouldn’t know what [HR department] was, they wouldn’t be able to comment on it.’ (Line Manager)
This very much reflects the powerful position of the General Managers as people managers within their business units, and the explicit decision made by the HR Department not to play the ‘Employee Champion’ role described by Ulrich (1997).

This lack of knowledge of the HR Department appeared to equate to lack of trust in the eyes of some employees:

‘[a lot of people] are too scared to contact human resources because they don’t know if they’re going to get back on to the general manager and you could get sort of intimidating repercussions.’ (Employee)

The general feeling that the HR department was ‘remote’ from the employees was exacerbated by the communication structure of the company with its reliance on the intranet. Some employees explained to us that they did not have personal access to a computer:

‘A lot of us have dumb terminals, we don’t all have PCs, so we never actually get to see any vacancies that come up at all unless they’re posted on the notice board, which hasn’t happened within our branch for about three years.’ (Employee)

The lack of awareness of many that the company even had an HR department was coupled with a general lack of communication and identity with the company as a whole, which was perceived as remote and unknown. Rumours appeared to be rife about changes in the company, with little use made of formal communication channels between the centre and the staff. Employees in one branch found out about a proposed change of their franchise from ‘the chappie who sells the burgers on the trading estate’.

Although, as discussed earlier, other studies have found significant differences between line managers in terms of the way they implement HR policies (McGovern et al., 1997), in the case of Car Sellers, these differences would appear to be amplified because of the extent of devolution of HR activities in this firm, the autonomy of the business units, the variation in demands of the manufacturers (to which we shall return), and the number and geographical separation of the HR managers. These factors appeared to limit the ability of the HR team to enforce consistency of practice except in the most general of terms.

**HRM at the Manufacturer-Dealer Interface**

Each of the manufacturers we spoke to had a strict set of dealer standards to which franchise holders were expected to adhere. These dealer standards covered corporate identity, minimum levels of investment, financial performance, and, for some of the manufacturers, the amount and type of training that dealer employees should undertake. As the Training Manager at Prestige Cars explained:

‘The ultimate power is through the dealer standards and contracts. We can be selective about who we choose to have as dealer partners ... ultimately, if they don’t meet those standards, we can terminate them.’

One way in which this control was manifest was through limiting the territories available to any individual franchisee:

‘If a dealer had too many territories then they would have too much power and start to maybe influence or change policy in their benefit. That is part
of the classic dealer/manufacturer relationship is where the power base
is, the sharp end.’ (Training Manager, Prestige Cars)

All the manufacturers operated a system of ‘margin holdback’; this meant that a percentage of the dealer’s profit margin was ‘held back’ by the manufacturer, with the dealer able to ‘earn’ the margin back again through achieving certain performance criteria. As one Director at Car Sellers said: ‘we have to concede and do things that the manufacturer wants us to do even if we don’t really want to.’ For instance, whilst the manufacturer had the freedom to design and develop a new car, the dealer did not have the freedom to refuse to sell it, whatever the financial implications might be for the company, for example, in instances where the new car attracted a lower profit margin. As one Director commented about the discussions between manufacturer and dealer over stock levels ‘it’s supposed to be negotiation but in reality it’s not quite like that.’ This implies that taking on a franchise agreement may create a conflict situation similar to that described by Swart et al. (2002) between clients and suppliers.

Although, as Felstead (1993) has argued, power within this relationship was imbalanced in favour of the franchisor, the dealers felt they had a degree of latitude as well:

‘they clearly have a defined set of rules they want us to operate by and, as a franchise holder, we have to work with those or, if we don’t want to work with them, we have to explain to them why we don’t and see if we can get their agreement.’ (General Manager)

We shall discuss in more detail later how the franchisee was able to exercise power in the context of human resource management practices.

Whilst the exercise of some forms of power within the franchising system was non-coercive and covert, in many respects, as we have seen, the imbalance of power in the relationship was achieved through the use of ‘direct’ forms of influence (Beaumont et al, 1996):

‘The net profit of the company here, half of it is achieved by achieving certain standards and doing things in the xxx way, that if we weren’t doing we wouldn’t be getting that money.’ (General Manager)

Another factor that emerged through the research, and which was not apparent in the literature, was the importance of differentiating between formal and informal power relations. Whilst the franchise contract specified certain practices and targets for the franchisees at a formal level, it was clear that informal interpersonal relations between members of the franchisee and franchisor organisations often subverted these more formal arrangements. This is illustrated through an anecdote related by one of Car Sellers’ directors:

‘In March, they want us to order a number of vehicles that we didn’t have customers for ... so the GM said, ‘no, we’re not going to do it’. The Regional Manager then rang me up and said, ‘[this GM] isn’t going to take all his cars’ ... it’s a fine line and it’s very difficult sometimes to define the relationship with the manufacturer ... [the Operations Director] could have lunch with somebody way up the tree in the manufacturer who’ll say, ‘I really need your help with this’, and then the whole thing’s bypassed and you just do it.’
The nature of the relationship between manufacturer and dealer ranged from very informal to very formal. All used ‘dealer forums’ to discuss and debate major policy issues. At Family Cars, the emphasis was on formal means of communication and control, as reflected in their more sophisticated approach to training and development, the way they related training and development to the margin rebate system, the splitting of the role of Regional Manager with one manager responsible for dealer performance and another for longer-term dealer development, and their ‘strong recommendations’ in the area of pay within the dealerships, which are discussed in more detail below.

At the opposite extreme to this was Luxury Cars, with a greater reliance on informal mechanisms: ‘there’s an open door policy all the time, you know, ring any time you like ... just pop in and have a cup of coffee, that’s how close our relationships are.’ The focus was on the ‘partnership’ between manufacturer and dealer, with a discourse based around ‘joint interests’ and ‘gentlemen’s agreements’. A similar scenario was evident at Executive Cars, where the Training Manager described the ‘informal network’ between manufacturer and dealer: ‘we have a very open dialogue, there’s a formal structure, but there’s actually a lot of informal contacts and conversations.’ This again highlights the crucial role played by the General Managers as communications gatekeeper, not only between the employees and Car Sellers, but also between the manufacturer and the employees:

‘If I’m working in a dealership as a technician or a salesman or a parts manager or whatever, my relationship with the manufacturer would be dependent on how I guess the boss wanted it to be, because communication is still primarily with the management and the dealer principals.’ (Prestige Cars)

The relationship between dealer and manufacturer was multi-layered and complex. At the most senior level within Car Sellers, members of the Board were involved in strategic discussions with the manufacturers, one Director referred to his role as being the ‘ambassador for Car Sellers’ with the manufacturer. At General Manager level, the interactions mainly involved the Regional Managers from the manufacturer firms, and concerned performance issues, both individual and organisational, and general issues about the operation of the franchise business. Individual employees appeared to come into contact with the manufacturers mainly in the context of training and development, but also on occasion for performance feedback. This mirrors the ‘frequent, intense contact’ between clients and suppliers in Swart et al’s (2002) study.

This multi-layered relationship between dealer and manufacturer was compounded by the complexity of the differences in manufacturer demands, and the variation in the external pressures to which Car Sellers was subject:

‘Each manufacturer has their own agenda as to what they want. If you go into a xxx dealership, all they’re interested in is x% of the market share ... if you come into a xxx dealership, yes, performance is important, but also customer satisfaction is paramount. They’re besotted by it, they want the customer to have a certain type of experience when they come into our dealership and as a result they’re pretty prescriptive in what they allow us to do.’ (Director)
Recruitment and Selection

Turning now to consider HRM interventions, it was clear the manufacturers had a significant voice in terms of staffing of the dealerships, especially at a senior level:

‘if they’re not happy with the GM of any dealership, they can remove the franchise from us as well. They have a lot of power over the dealership.’
(HR Manager)

Some manufacturers appeared to be more involved in recruitment and selection than others. Prestige Cars had very little involvement in the recruitment of staff into the dealerships, placing just between 50-60 people a year across their whole network; the Training Manager said, ‘they can recruit who they want’, although the Regional Managers would normally give informal approval to new appointments at GM level: ‘a new dealer principal would be given the nod by the regional dealer Operations Manager’. This was corroborated by the Regional Manager we spoke to:

‘We’ve just recruited an HR manager in one of the market areas and what I did, because I’m not fully au fait with the HR process if you like, so I got one of our HR managers involved in the process. He spoke to them, looked at the CV, talked to them a few times etc, made sure that he was happy and I said, ‘Okay, if you’re happy then, fine, I’m happy’, and we agreed it and they recruited the person.’

Executive Cars held assessment centres for the appointment of all Dealer Principals and General Managers, although the dealership took the final appointment decision:

‘They can still go through an assessment centre and pass from our perspective, and actually they’re not the right fit culturally to that business ... it’s not up to us, it’s up to the dealership.’

However, if an individual did not pass their assessment centre tests, then they could not be appointed by the dealer.

Family Cars recruited around 95% of the apprentices joining the dealerships as technicians; recruits had to pass the Family Cars assessment, but the dealerships decided whether or not to take on the individual concerned. They also set up a graduate recruitment programme a few years ago, although this had been abandoned because the dealers were not keen to take on the graduates. This had been a deliberate exercise in trying to change the culture in the dealer network: ‘we thought that bringing in these sort of people, they would start to change the culture’. This is an interesting insight into the deployment of non-coercive power within the franchise relationship. The Training Manager explained:

‘The culture in our dealerships is not 2002. In some dealerships, it’s still 1960s. It’s difficult to get that to change. What tends to happen is that managers tend to recruit in the same mould as they are. If they’ve been in the business, 20, 30 years, they were a salesman 20 years ago, they tend to recruit in the same mould and so the business doesn’t move on and new business practice is not being taken on board.’

This illustrates the converse side of the dealer-manufacturer power relationship, where the manufacturers are dependent for the sale of their products upon the way in which the dealers enact their contractual standards in daily practice within the
dealerships. Ultimately, there are clear limitations to the direct control which the manufacturers can operate in this relationship.

Family Cars were not involved in the recruitment of Dealer Principals or General Managers, although the Training Manager, in common with Luxury Cars, was of the view that recruitment was generally not handled very well by the dealers, and that greater intervention on their part into the process would lead to better hiring decisions. At Luxury Cars, the Training Manager commented:

‘Our dealers are independent bodies, so it’s their responsibility [recruitment] ... but we’re there to support them. For example, the field manager will have his ear to the ground and there may well be people who’ve had experience ... it’s like a gentlemen’s agreement, if you will. We don’t take an active role and say, ‘right, Car Sellers, this is what you’re going to do’. We don’t do that. We do offer support when requested, though.’

**Training and Development**

One of the most obvious ways in which the manufacturers’ influence impacted on the employees was through training, especially when new products were launched:

‘We’ve got a new model coming out in the next few weeks, and straight away there’s an influx of training courses that are available both from the manufacturer and from HR ... you’re bombarded with training.’ (Employee)

Contrast this with the comment from one employee in a focus group about their training experiences within Car Sellers:

‘We’ve got a training room, but it’s sort of left unoccupied. It’s dusty and it’s got a few overhead projectors and a TV in it’.

From the employees’ perspective within the dealerships, training was very much manufacturer-driven. In this way, the manufacturers’ needs could take priority over individual/HR needs in order to bolster the dealership’s financial performance. Thus, a significant aspect of the employees’ total work experiences derived from external sources beyond the influence of Car Sellers’ HR function. Some manufacturers linked dealer participation in their training and development programmes to financial incentives: ‘if they don’t attend the training, then they are penalised on the standards programme’ (Family Cars), thereby exercising direct control over the content and quantity of employee training in the dealerships.

Training interventions provided by the manufacturers ranged from the provision of 3-year NVQ apprentice training, through induction training for new recruits, product-related training for technical and sales staff, to management skills training. At Prestige Cars, the ethos up until recently was that they provided a suite of training programmes, and it was up to the dealers to decide whether or not to send people on them: ‘some dealers are more proactive than others, some dealers did as little as they could get away with.’ Recent changes meant that the number of technicians to be employed in the dealerships was now specified, along with a minimum number of training days per employee and an annual training plan was required for all members of staff with brand responsibility. The Training Manager explained:

‘I think it will be quite revolutionary for us, as a manufacturer, to go to, say, Car Sellers and say, ‘what do you want from us?’ Because they’re
used to us producing a brochure and them deciding what they want from that or not ... we're trying to move away from a provider of training courses into a department where we've got some responsibility for the capability of the network.'

This raises a number of interesting points. Firstly, the relationship is clearly one that fluctuates over time and does not remain static; this reflects issues of negotiated order between the two parties (Strauss et al., 1963). Secondly, it provides a further illustration of the way in which the manufacturers are not able to exercise direct control over the way in which their products are serviced and sold, their control is indirect and, in order to reach the dealers' employees, they are required to find ways of working at an at least apparently collaborative level. This was reflected in comments made by the Training Manager at Executive Cars:

‘There’s a specific Executive Cars sales process which we would love dealers to follow, but someone like Car Sellers has their own training approach and they have their own way of selling which ultimately will be the one that happens in the dealership ... it comes back to that triangle of head office, dealership, manufacturer. We need to work in a happy partnership. At the end of the day the dealership and the head office are the ones intrinsically linked by the nature of ownership.’

Family Cars had the most sophisticated approach towards training and development of the four manufacturers. They had developed a competency programme covering 25 different jobs in the dealerships, specifying three levels for each. Their new standards programme included the requirement for sales staff to have an annual training plan relating to the competency programme, and part of the dealer’s margin rebate related to training; they reported a 100% increase in the training of sales staff when this was introduced. In addition, Family Cars rewarded individual participants through a car subsidy scheme, the only instance we found where a manufacturer was directly and individually rewarding dealer employees (with the exception of sales competitions). Family Cars was also the only manufacturer to have established direct links with a business school to run a University-accredited programme for its Dealer Principals.

The focus of training provision from all the manufacturers was on product-related training and on the brand; one manufacturer referred to the induction training they provided as putting ‘green blood’ into the new recruits, referring to the company’s corporate colour. Underlying the majority of this training provision was the implicit goal of tying the dealer’s employees into their brand, rather than equipping them with transferable skills. The Training Manager at Prestige Cars articulated this as follows:

‘The last thing we want to do is spend a lot of time and energy training up a salesman or technician for him to go to one of Car Sellers’ other dealerships.’

This highlights one potential area of conflict within the manufacturer-dealer relationship, which concerns where the individual employee’s loyalties were expected to lie: with the brand, and the manufacturer, or with the dealership and the dealer group. One Training Manager commented:

‘We don’t get involved in moving John from this dealership to this dealership because it gets very messy and it’s not what we’re about ... the golden rule is we will not get involved in anything that is poaching.’

(Executive Cars Training Manager)
Although it may be in the interests of the manufacturer in some instances to encourage individuals to move between dealerships (rather than, say, losing their skills to another manufacturer), there are potentially negative consequences for their relationship with the employing dealer groups which make it inadvisable to intervene. In this way, the dealers are able to exercise an unexpected, indirect form of power over the manufacturers.

Thus, the tension between the dealers and the manufacturers is clear: whilst the dealer would like to retain high performing individuals within the dealer group, even if this meant them transferring to work for another manufacturer, the manufacturers have every incentive to retain the employees within their brand, even if this means them moving to work for another dealer group. Prestige Cars’ new initiative of awarding ‘training passports’ to technicians who had attended their courses met with complaints from the Dealer Principals for just this reason. An allied tension in the relationship between manufacturer and dealer employees was also brought to light, illustrated by an incident that happened at Prestige Cars. The company had organised a competition for top sales people and the agency that had organised the competition contacted the prizewinners personally. This caused the General Managers to complain that the manufacturers should only communicate with their employees through them, not directly. Felstead (1993) has highlighted the point that the interests of both parties to the franchising relationship can be either conflictual or coinciding. This is a clear example of conflicting interests.

Executive Cars’ involvement in career management was largely informal:

‘There could be people in the business who are performing very well, and you’re round the table and XYZ is retiring, and then the area manager may say, ‘well, we’ve got so and so coming through’. But that’s informal.’

Prestige Cars had no involvement in career management or promotions within the dealerships. Executive Cars provided an advice manual on the conduct of appraisals for the dealers and voluntary assessment centres for managers. Family Cars’ Training Manager explained that their main involvement in career management was in terms of managing poor performance. If an instance of poor performance arose, then a meeting would be held with the General Manager, who would be told:

‘Either we’ve got to develop this guy, or you’ll replace him. Now let’s see if we can develop him .... if it makes no difference, then you may have to do the other thing.’

Perhaps unconsciously, the Training Manager here appeared to assume joint responsibility for the employee when discussing retraining (‘let’s see if we can develop him’), whereas responsibility lay with the dealer to deal with the less palatable consequences (‘you may have to do the other thing’ (ie make him redundant)).

Interestingly, in the focus groups with Car Sellers employees, it became apparent that some employees had had little or no performance feedback from their GM or the HR department, whereas they had from the manufacturer:

‘The only feedback I’ve ever had is from [the manufacturer] in the two years I’ve been here, not from Car Sellers.’ (Employee)
This further reinforces the notion that the employee’s relationship with the manufacturer may be stronger than their relationship with their employing organisation.

**Role of the HR Department**

Although the interaction with the manufacturers was a key concern of the business, and the manufacturers had both direct and indirect impact on Car Sellers’ employees, Car Sellers’ HR function appeared not to be involved in these interactions at any level. Consequently, the HR department members were not necessarily aware of what training and development were being offered to their staff by the manufacturers, or how they were being appraised on their performance. There was no evidence of any monitoring of this taking place. One potentially negative consequence of this was highlighted by an employee:

‘I think [the manufacturer] demand so many courses, but it doesn’t matter who does them, providing those courses are done by somebody. So you could get some staff members not going on any courses .. you could, in theory, end up with the most expendable person doing all the courses … ‘well, we’re busy this week, we’ll send Harry on’.

Without the intervention of the HR department, the decision about who to send on training courses appeared to be made in such a way as to comply with manufacturers’ requirements rather than with any strategic or developmental purpose in mind. It further suggests that compliance may be the outcome of some of the manufacturers’ edicts rather than a wholehearted commitment.

The notion that the manufacturers interacted directly with GMs and employees without involving the HR function was reflected in comments from HR managers, General Managers and employees, for instance:

‘They [manufacturers] work very closely with the GMs and that’s a very, very key partnership to the dealership. However, they have completely separate programmes that they will deliver, training programmes, development programmes, and in terms of HR we don’t necessarily have any dialogue with the manufacturers. So you have a GM who works with the manufacturers to determine what they need and then a GM who works with HR to determine what they need and the two are completely kept separate.’  (HR Manager)

In the eyes of the employees, their relationship with the manufacturer was ‘separate’ from their much more tenuous relationship with Car Sellers’ HR Department:

‘If it [training] was to do with the actual franchise business, it would be technical procedures and updates on information from the car manufacturer, so that HR wouldn’t have anything to do with that because it doesn’t really concern them, it’s just information from the manufacturer to us.’  (Employees)

From the perspective of the manufacturers, whilst recognising the employees will identify with Car Sellers, they were also keen to encourage them to ‘buy into’ the brand. The Training Manager at Prestige Cars summed it up as follows:

‘These guys are turned on by technology and they’re turned on by the product and they feel a very strong affiliation to us ... so they have a dual
relationship, if you like. They feel very much part of us, part of the global
brand, but they also work for Car Sellers, or one of the other dealerships,
and I guess they have a relationship also at a local level with their
employers. We do foster that, because living the brand, being involved
in the brand that we represent is important for us, you know, they’re the
interface with the customers and we want to influence them as much as
we can.’

For the managers, the decision of whether or not to take part in manufacturer training
was viewed as a business issue, beyond the remit of the HR department:

‘It could be a minimum requirement of a xxx franchise is for everybody to
go on a particular training thing. Now HR won’t have any input on that,
we would decide as a business, we would decide here if that was
mandatory, then we had to … a lot of our money, a lot of our profitability,
is paid by meeting these sort of standards.’ (General Manager)

This is a fascinating insight into the operation of a crucial domain of HR intervention,
the training and development of employees, which was apparently viewed in this
context as a business issue, beyond the remit of the HR department, and concerned
with the relationship between manufacturer and dealer’s employees.

The boundary between manufacturer and dealer therefore becomes blurred, as
unconsciously exemplified in this comment from the Training Manager of Family
Cars, who spoke of the dealer staff as if they were his:

‘One of the issues we’ve got is that turnover is so high in our industry ...
Service advisors we think turn over about 50% and of course they’re
crucial to customer retention because they’re the people that customers
see most of the time when they come in … if we can recruit good people,
pay them right, treat them right, they feel part of the business, and they
feel they’re being thought of as people as opposed to employees, then
we’ll start to get that turnover down, we’ll start to improve customer
retention, customer service.’

Thus, the manufacturers have a direct interest in the HRM practices within the
dealerships; retaining the customers who buy their cars depends on the behaviour
and performance of individuals employed by the franchisee.

DISCUSSION AND CONCLUSIONS

The case of the manufacturer-dealer relationship within car retailing presents a
fascinating insight into how inter-organisational dependency is enacted through the
lived experiences of organisational actors. The delicate balance of power between
manufacturer and dealer is clearly in evidence, and is constantly renegotiated within
the context of frequent, multifaceted interactions. Human resource management, in
this scenario, is deployed as one of a range of tools used to create, reinforce and
sustain the position of the powerful manufacturer, but also, on occasion, to subvert
and rebalance this power relationship in favour of the relatively power-less dealer.

It is important, first of all, to build a clear picture of how HRM is deployed in this
complex context; Figure 1 depicts a simple model that maps the terrain. At the
centre of the model is the individual employee within the dealership. In HRM terms,
there are three channels of influence. The first is the individual dealership within
which the employee works; here, HRM policies developed elsewhere (either at the
dealer group level or the manufacturer) are interpreted and enacted with significant variation and a large degree of latitude between the various business units. Next is the dealer group level, which in this case is Car Sellers, who develop overall HR policy frameworks, act as consultants to the General Managers and provide troubleshooting services, but do not interact directly with the individual employee. All three of these constituents lie within the permeable boundary of the organisation. The fourth element of the model is the car manufacturer, who lies nominally outside the organisational boundary, but whose influence permeates all levels of the dealer organisation, both directly and indirectly. In terms of the individual employee, their selection, training, development, career progress and performance management may all result from manufacturer edicts or recommendations. In their relationship with the dealer group (Car Sellers), the manufacturer sets overarching standards, and determines whether or not they are a suitable franchisee. At the level of the individual dealership, the manufacturer monitors performance, and confers rewards and sanctions.

This model, preliminary though it is, sheds further light on the importance of permeable organisational boundaries for conceptions of HRM, as highlighted by Swart et al (2002). If Car Sellers’ employees are more directly influenced in HR terms by an external organisation than by the HR department at the company’s head office, what does this mean for the limits of HR departmental control? How can the influence of a company’s HR policies and practices on employees be evaluated? To what extent can a link between HRM and organisational performance be established? Our focus here has been on HRM within the franchising system, but other studies have suggested that all forms of inter-organisational relationships are increasing (Sparrow and Marchington, 1998), thus expanding the potential scope of applicability of these findings.

These issues go some way towards suggesting that our traditional conceptualisations of HRM, and many of our current preoccupations, are based on an outmoded understanding of the nature of both HRM and organisations. Perhaps the way forward for HRM, as Camuffo and Costa (1993) have suggested, lies more in demonstrating their value and worth through the efficacy with which they manage relations at the boundary of the organisation, than with seeking to demonstrate a causal linkage between HR interventions, HR department behaviour and organisational outcomes. In the case of Car Sellers, the interface with the manufacturer is clearly fundamental to their operations. Their HR department had taken a deliberate decision not to become involved in these relationships, leaving it instead to the individual dealerships and the line managers to create and sustain effective partnerships. This meant that a considerable part of what is normally considered as being within the remit of the HR department, such as employee selection and training, was influenced more by the manufacturers than by Car Sellers. It was beyond the scope of this particular study to explore what this meant for individual identity, career trajectories or organisational effectiveness, but these are clearly important areas that could potentially be impacted by the HR department’s mode of operation.

In addition to raising questions about the nature, meaning and enactment of HRM, this study has also made an empirical contribution to our understanding of how franchise firms operate, albeit in the context of a ‘quasi-franchise’. The study clearly shows how both coercive and non-coercive forms of power are deployed by the manufacturers to develop and retain control over the dealerships. The findings lend support to earlier studies that have shown how power relations are imbalanced in favour of the franchisor and, in particular, show how the direct use of monetary rewards and sanctions are used to retain this power. Financial incentives were used
by the manufacturers to reward dealers for their performance but also, on occasion, for their implementation of HR initiatives, such as training. Sanctions were deployed, for instance, by retaining part of the margin, to encourage the training of employees. Interestingly, there was also evidence of the use of financial incentives at the level of the individual employee to reward participation in training programmes, illustrating the multifaceted nature of power relations between the two organisations.

The study has also shown, importantly, that power is exercised at both a formal and an informal level between franchisor and franchisee. This is a factor that has not been particularly highlighted in the franchising literature so far. For instance, whilst some forms of power were overt, such as those contained within the franchise contract, and in the enforcement of its terms and conditions, it was also evident that power relations were played out between organisational actors on a daily basis. One example of this was the quotation cited earlier, explaining how a General Manager could refuse to take some of his/her allocated stock from the Regional Manager; the Regional Manager would then relay this information to his/her superior, who would then telephone the General Manager’s superior within Car Sellers. Another example was the way in which new appointments at GM level were ‘given the nod’ by one manufacturer.

Within these relationships, HRM practices were clearly being used as both a means and an end of power retention by the manufacturers. It was through training and development of employees that the manufacturers were able to instil concepts of the importance of the ‘brand’ and the image of the products, and reinforce employee identification with the manufacturer, the ‘green blood’, in the words of one. At the same time, retaining control over the amount and content of employee training meant that the manufacturer could flex interventions to suit their own purposes; this was illustrated by the ‘bombardment’ of training programmes described by one employee around the time of a new product launch. Similarly, retaining control over the recruitment process was a means of exercising some power over the human capital base employed by the dealers, and was used in one instance by a manufacturer in an attempt to promote cultural change within their dealerships.

Conversely, although it was evident that power relations were skewed in favour of the franchisor, this study suggests that the potential power of the franchisee has not been given sufficient credence in the literature to date. One example of this was the failure of one manufacturer’s graduate trainee programme in the face of dealer apathy; another was the General Managers’ resistance to the provision of ‘training passports’ to dealer employees; yet another was GM resistance to individualised communication from the manufacturer to the employee. As Felstead (1993) has commented, goal heterogeneity may exist between franchisor and franchisee; the resulting conflictual relations, in these particular instances, appear to have been resolved in favour of the franchisee. This illustrates the concept of negotiated order within such relationships, and the way in which the balance of power is constantly renewed (Strauss et al., 1963). This is an area about which we need to know much more. Felstead (1993: 203) has argued:

> ‘the most important decisions remain in the hands of the franchisor and those made by the franchisee are confined within strict boundaries. This enables elements of hierarchy to be created, arranged and maintained through what looks at first sight to be the market mechanism.’

From our data, we are unable to shed much more light on this important issue of the balance of power, and further studies that investigate this facet of the franchise relationship would be welcome.
From the perspective of the car manufacturer, what this study has highlighted is the way in which their relationship with their customer is at one remove, mediated by the employees of another organisation. Our study uncovered many of the different ways in which the manufacturers deployed power in the franchise relationship in order to gain and maintain control over the customer interface; HRM was clearly one tool in their armoury.

From the perspective of the franchisee, Car Sellers, the study has shown how HR policy and practice, and the role, scope and power of the HR department at the group level have been highly constrained both by the variety of ways in which they are enacted by the company’s own General Managers, but also by the influence of the manufacturers. It was apparent that relations with each manufacturer were different; this has created multiple tensions within Car Sellers, and between Car Sellers and the individual manufacturers. We need to know much more about these differences and what they mean, in practice, for HRM and HR practitioners. There are likely as well to be differences between the various dealer groups and individual privately-owned dealerships, and the factors that influence these differences warrant further investigation. This study lends some credence to the argument put forward by Camuffo and Costa (1993) that HRM is likely to become more concerned with the management of internal and external networks rather than with developing and implementing uniform sets of policies and practices, challenging our traditional view of HRM as totally under the control of the organisation’s HR department.

From the perspective of the individual employee, it is evident that we need to know much more about what it means to be subject to the influences of two separate organisations. Our interviews suggested that employees tended to identify more with the manufacturer whose products they sold than with Car Sellers. We need to find out more about how individual employees enact and interpret these various influences on a day-to-day basis. For instance, what do these multiple influences mean for forms of collective representation?

In between all these various stakeholders, who has an interest in the employee? The HR department at Car Sellers, in common with many other HR departments, had opted out of the Employee Champion role, leaving the manufacturers and the General Managers within the dealerships as potential champions. However, as the Training Manager at Family Cars commented, from his own perspective and that of the dealerships: ‘the ultimate aim … if we’re honest about it, is to sell more cars, more parts, retain more customers. That’s all we’re interested in really.’
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Fig 1: Human Resource Management in the Manufacturer - Dealer Relationship

- Implements
  - Sets Framework
  - Consults
  - Troubleshooting
- Recruitment & Selection
- Training & Development
- Career Management
- Rewards
- Monitors Implementation
- Rewards / Sanctions
- Sets Standards

Car Manufacturer

Dealership
Employee
Dealer Group
REFERENCES


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i This study is being conducted by the author with Dr Clare Kelliher and Professor Veronica Hope-Hailey at Cranfield School of Management.

ii Changes currently taking place to the block exemption of the Treaty of Rome meant that all the manufacturers were revising their policies and practices to reflect the new legislative environment. Since these changes were speculative in all the manufacturers at the time of the research, the findings reported on here reflect the situation prior to the new regulations taking effect.