

Improving Unit-Level Performance Through Better People-Practices

The world's best processes become worthless unless people can execute them consistently.

BY DAN HAWTHORNE



When it comes to operations, franchisors constantly evaluate their processes to reduce unit-level costs and increase profitability. However, many franchisors do not apply the same level of rigor to their "people processes." Your franchise system's people processes—selection, training, and performance management systems—allow you to turn dusty operations manuals into a

living brand that satisfies customers and increases revenues and profits.

Franchise systems often follow very different business models, and they require workers with vastly different skills and expertise, such as:

- The front-line QSR cashier who enters customers' orders and makes prepares meals;
- The franchisee who generates 40 to 60 page RFPs to sell large-ticket technology solutions to large corporations and organizations; and,
- Schedulers and technicians who perform on-site services for residential customers.

All of these roles require the franchisee's employees to follow a process and please their customers.

Let's examine how a franchisee's people processes tie to key performance metrics within the franchise industry, such as: customer satisfaction, retention, and unit-profitability. We will also look at franchisors who invested in the success of their franchisees by developing their systems' people processes.

Three Steps to Building Firm-Specific Human Capital

The world's best processes become worthless unless people can execute them consistently. It doesn't matter how much the phone rings if there's no one there to answer it. When we talk about human-resources processes, three elements form a tightly-integrated pathway for success:

- **Selection**—choose the right franchisees and provide tools that will help them choose the right employees.
- **Training**—teach people how to execute processes consistently and well, and

- **Performance management**—measure outcomes at every level by inspecting what you expect.

People processes are like any other operational processes. They must be implemented, monitored, and refined.

For many years, businesses managed their people practices by instinct and assumption rather than evidence-based methods. Bill Sherman, managing partner of Exardius, a consultancy that creates custom people practices for franchises, says that contemporary HR professionals must be able to provide clear answers to the franchisor's CEO and CFO.

According to Sherman, it is not enough for a company to have strong people practices. "They must be implemented within a culture of continuous improvement. Yesterday's solution may not meet tomorrow's needs."

Therefore, when franchisees experience challenges, it is worthwhile to investigate how they currently apply their people processes within their unit.

- Do the franchisees use the system's people processes, such as selection, training, and performance management?
- Do they apply them consistently?
- Do these tools meet the current needs of the franchisees and their employees?

Franchise systems need answers to all three questions. If the tools do not meet current needs, they can be refined and improved. However, if franchisees avoid the tools entirely, then franchisors need to know why. Either way, the franchisor will know which levers to pull in order to improve performance.

Selecting the Right People for Each Role

Selection systems can be as simple as a single pen-and-paper test or a single, structured interview. However, selection systems can also contain multiple selection tools to build a well-rounded understanding of the candidate and their capabilities.

Selecting the right characteristics in a candidate is a lot like panning for gold. Your selection choices may not be perfect candidates. You may not have star performers out of the gate. But, when you actually start with gold, you can refine nuggets into bars.

Franchisors must understand what skills a franchisee

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needs to bring to the table and what skills can be taught later. Jim Nicholas, president of FRSTeam, a fabric-restoration franchisor, quotes the movie *Chariots of Fire*: "I can't put in what God left out." According to Nicholas, "If an applicant comes with a strong service ethic, then we can train policy and process. They will be willing to go the few extra steps to ensure a satisfied customer."

Custom-selection systems allow franchisors and franchisees to find candidates most suited to the roles that they want to fill. However, selection systems must be developed by professionals to ensure that they do not produce adverse impact.

Training Leads Unit Performance

Franchisors are required to disclose training programs and instructional hours in their franchise disclosure documents. However, both the best and worst training programs can be listed as "two weeks at our corporate headquarters." Training works most effectively when it has been designed to align with the learners' needs as well as the franchise system's goals. In

this regard, training programs can be like coffee. You can order a cup of coffee custom-brewed by a barista or you can drink day-old, burnt coffee poured from a dingy coffee pot. They are both coffee, but one will be much higher quality than the other.

For a long while, people invested in training without knowing whether it actually yielded measurable results at the unit level. They hoped that improving individual performance would yield improved business metrics and profitability. YUM! Brands recently participated in an academic research study that examined whether selection and training systems impacted

unit-level performance. Franchisors can now link top-tier people processes to the unit-level bottom line performance. While franchisors need professionals to guide their training initiatives, they must remember to take advantage of the rich depth of experience within the franchise system itself. Jotham Hatch, training director at Harris Research, the franchisor of the ChemDry and NHance systems, says "if you can have someone with proven success stand up in front of their peers and show them how they have been successful, then your adoption rate will increase."

Therefore, Harris Research hosts frequent topic-based retreats where all of the training is handled by franchisees who excel in the selected topic area. When a member of their group models success, it validates their self-identity and buy-in occurs.

Inspect What You Expect

In Steven Kerr's article about performance management, "On the Folly of Rewarding A, While Hoping for B", he outlines several examples of misaligned performance management systems. Many

times, our best-laid plans can go awry, creating unforeseen consequences of our attempts to reward behaviors and motivate franchisees and their employees.

Performance management can be a bit more complex for franchisees than regular employees, simply because the psychological contract and the relationship between employer and employee are very different than between franchisor and franchisee. A franchisee is not bound by an employee's paycheck. Franchisees are more influenced by the profits and the implicit joy in operating their own businesses.

However, entrepreneurs thrive on competition. Human beings are naturally interested in competing with one another, and franchisors can tap into this by giving them what they crave. "They respond just like they're in high school," says Kim Rubin, CEO of SightMind, which offers networked IP video security solutions to large organizations. According to Rubin, "Franchisees are always interested in the metrics and how they stack up to their peers. When someone is ahead, they want to brag. If they are behind the pack, they want to know why."

According to Hatch, the franchise uses an agricultural mantra to guide its performance management efforts: "Get the water to the end of the row." Literally, this means that when you irrigate crops, you cannot scrimp on water. You have to make sure that even the crops furthest from the head row are also getting enough nourishment.

Performance management follows a similar set of principles. You need to gather and disseminate information widely. Knowledge must nourish the entire franchise system not just the top performers.

Recent technology makes it much easier to collect data and provide benchmarking data with franchisees. SightMind chose to go with a 100 percent software-as-a-service solution that automates the entire CRM and project management pathway. Corporate can monitor performance and offer just-in-time help when needed. Similarly, FRSTeam implemented a Web-based performance management and benchmarking system across the brand. According to Jim Nicholas of FRSTeam, he first wondered whether franchisees would want to share their data. However, they all said, "put us in there!"

However, franchise systems must also preserve the privacy of the individuals

involved. Performance management must never shame individual franchisees. Instead, the franchise's performance management system should drive performance higher and higher. Each year, standards and measures should be revisited and analyzed.

Successful franchisors embrace the spirit of partnership with their franchisees. An important part of that partnership is working to make sure that the people processes they provide to their franchisees align with the franchise system's organizational goals and values. ■

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Study: People Processes and Unit-Level Performance,

An interview with Dr. Chad Van Iddekinge, of Florida State University, the study's principal author.

YUM! Brands collaborated with researchers on a study to determine whether specific HR practices actually impacted unit-level performance. The study examined 861 restaurants in the southeastern United States for more than one year and examined the impact of selection and training practices on customer service scores, retention, and profitability.

• *What type of employees did you focus on?*

We looked at front-line restaurant employees within YUM! Brands. Typically the QSR industry can see over 100 percent turnover for these hourly jobs. We took a very close look at whether selection and training were worth the investment for these employees.

• *What were the study's key findings?*

Although the restaurant units in the study all sold the same products, units that best applied the selection and training practices saw direct benefits, such as a 15 percent improvement on retention and an 8 percent increase in customer service performance. These led to an 11 percent increase in profits over expectations. These results are not based upon a handful of restaurants over a few days, but upon over 800 restaurants looked at for over an entire year.

• *What advice would you offer franchisees?*

Our research supports the idea that "your customer experience will never be better than your team members' experience." Even during tough and very busy times, it is vital to use top-tier people practices.

Rigorous selection and training practices can seem a large up-front cost, but in this study, the investment repaid itself through increased retention and profitability.

• *What advice would you offer franchisors?*

Really listen to your franchisees and franchise operations leaders. They will readily share what is connecting and what is not with the front-line team members.

Make sure that franchisees and their teams understand the "why" for any people processes that come from the franchisor. What will be the benefit or the ROI? If the benefit is not clear, do not expect execution.

If HR systems and processes are being executed, great. If they are not, take time to understand why they are not.

Your hourly employees are the face of your brand and company. They are the closest to your customers. Start here. Make sure that you have the very best people practices in place for your largest workforce.