

Education Franchising in Australia: Can Teachers be Successful Franchisees?

Joo-Gim Heaney, Service Industry Research Centre, Griffith University

Lorelle Frazer, Service Industry Research Centre, Griffith University

Abstract

Educational franchising is an emerging area in the fast growing services sector. However, no empirical research has been done in exploring whether franchising is a suitable business structure for distributing quality educational services. Four children's education franchisors in Australia were interviewed for this qualitative study to determine aspects of the business relationship between the franchisor and franchisee. The findings reveal that while the franchising structure supports the teaching and distribution of quality education as well as providing a vehicle for cost effective expansion, more business skills are needed by the franchisees. Franchisors feel that the teacher franchisees need to be skilled business people to support the educational franchising system more effectively.

Key words: education franchising, resource constraints theory, agency theory, franchisor-franchisee relationship

Introduction

Service franchises have grown by 78 percent in the USA since 1979 (Dugas, 1983) and have also grown significantly in Australia over the past decade (Chow & Frazer, 2003). A growth area of services franchises is education franchising (Frazer & Weaven, 2004). The burgeoning growth of education franchises, the large number of parents and students involved with education franchises and the high financial earnings of education franchises make this an essential area of study. This paper explores the efficacy of the business relationship between educational franchisors and franchisees, specifically, how and if the franchising structure works for educational services.

Business format franchising has been growing steadily in Australia since the 1980s. During the 1970s and 1980s intense business competition saw the failure of many small and medium sized businesses, which resulted in growth in franchising as an alternative to independent operations (Terry, 1991). Although American fast-food giants such as McDonald's and Pizza Hut were responsible for early franchising activity in Australia, there are now 850 franchisors operating in Australia of which some 92 percent are Australian-based home-grown systems (Frazer and Weaven, 2004).

Although retailing accounts for more than 40 percent of franchise operations, the services sector is expanding. Almost a quarter of Australia's franchising interests can be found in the property and business services sector. Education franchising accounts for only 3.3 percent of franchisors and less than 1 percent of franchise units, yet it is recognised as an emerging area (Australian 2004). Far from the products commonly associated with franchising, such as hamburgers and lawn mowing, there is increasing acceptance of educational services being franchised.

There have been a number of reasons expressed by parents and teachers as to why additional education is needed outside that of schools; these include schools not adequately teaching fundamental skills such as reading comprehension, vocabulary skills, and "analysing,

synthesizing, scanning inferences and drawing conclusions” (Zaslow, 1985). A number of education franchises have sprung up internationally, including Kumon Math & Reading Centres (specialising in rigorous advancement in children’s academic education), Sylvan Learning Centre (reading and math), American Learning (using their “Reading Game” to improve children’s reading and math), Language Odyssey (which operates after-school programs that teach foreign language), and [Schore@Kaplan](#) (which provides a blend of study hall and multimedia arcade activities) (Gubernick & Burger, 1997). The largest parent-participation movement/play program in the USA is Gymboree. These examples describe only a very small segment of education franchises now operating internationally; there are other franchises which have started in Australia and New Zealand.

Why Use Franchising As a Business Structure?

Two main theories, *resource constraints* theory and *incentives* theory (incorporating agency and administration efficiency explanations) underlie the efficiency of franchising. The existence of franchised education services may be justified by the higher level of emphasis on quality management of the franchised outlets. *Resource constraints* theories propose that a lack of financial and managerial resources cause organisations in the early stages of development to rely upon franchising to overcome financial limitations (Carney & Gedajlovic, 1991). Capital constraints also motivate both franchisor and franchisee to select franchising over independent business ownership coupled with an expectation that franchisees are more productive and conscientious than managers because of their investment (Hunt, 1977; Lafontaine, 1994; Oxenfeldt & Thompson, 1969). Initial and ongoing franchise fees preclude the need for the franchisor to raise finance (Fladmoe-Lindquist, 1996) as franchisees provide important capital investment for system infrastructure as well as the ability to mobilise human resources and a desired level of market knowledge (Lafontaine, 1994).

Incentives theory remains an alternative argument to explain the motivation for companies to franchise. In contrast, *agency costs* theory describes the principal–agent (franchisor–franchisee) relationship and costs involved in vertical contractual constraints (Jensen & Meckling, 1976) when aligning the interests of these two groups (Eisenhardt, 1989; Kulkarni, 1988). Through *administrative efficiency*, franchising allows the franchisors to control agency costs and to attain transaction cost economies by shedding the risks and costs of monitoring company-owned outlets (Carney & Gedajlovic, 1991; Martin, 1988). However, the inability to directly observe a franchisee’s action could still be costly to the franchisor (Carney & Gedajlovic, 1991) due to agency costs involved in the need for additional knowledge and infrastructure (Huszaugh, Huszaugh, & McIntrye, 1992).

It is therefore apparent that there are conditions which may encourage the existence of education franchising, which include lack of financial constraints and motivation of self-ownership/investment. However, what is not yet investigated about education franchising is whether teachers who are operating as for-profit franchisees comply with the business structures and thus administrative efficiency models justifying the franchising structure. This study therefore explores the vital questions of how the education franchising structure is utilised to deliver quality and consistent educational services. The research questions are: a) how does the business relationship work between the franchisor and the franchisee, b) how does the franchisor monitor the quality of the franchised product, and c) how satisfied are franchisors with this business structure?

Methodology and Data Collection

We decided upon a *case study* design in this research project because we are investigating a contemporary phenomenon (education franchising) in a real-life setting (the interaction of franchisor, franchisee and customers) (Yin 2003). As there are few examples in this emerging field of franchises that offer educational services for children, we purposely selected four systems that offer different educational products to determine whether results across all four systems would produce similar results (Patton 2002). The four firms exhibit variations in size, age, and method of distribution to customers (Flyvbjerg 2004), enabling us to compare the research themes across different settings. Our extended research project involved data collection from three different sources within each case, as a method of *data triangulation* (Maxwell 1996). Interviews were held with franchisors, franchisees and customers of the franchisees to obtain different perspectives of the same issues. However, in this paper we are reporting on only the data collected from the four franchisors.

We began our data collection with the franchisors who were either founders or the CEOs of the organisations. It was essential to speak to franchisors as they are best able to articulate the reasons behind the choice of franchising to distribute their products. A larger sample was not possible as these were the only systems we could enlist to participate in the research. Time and administrative burdens were the main reasons preventing others from contributing. Nevertheless, we feel that the four cases provided enough rich and deep information (Patton 2002) for this investigation. As the franchisors were located in different cities, we conducted interviews by telephone for periods up to 90 minutes. With the respondents' permission, the interviews were audio recorded, transcribed and entered into NVivo for qualitative analysis. Our combined backgrounds as researchers in education and franchising enabled us to recognise and scrutinise relevant data (Glaser and Strauss 1967). To uphold our promise of confidentiality to the respondents, we refer to the cases by code (A to D) in the findings below.

To improve the rigour of the research, we employed several strategies in the design. A case study *protocol* (Yin 2003) was considered essential due to the use of multiple cases. The use of a protocol increases the reliability of the research as the data collection procedures were consistent across the four cases. Next, we used multiple *sources of evidence* (interviews, website information, and company promotional materials) as a means of corroborating our findings. As the interviews and data collection progressed, we analysed the data concurrently, allowing flexibility in shaping the process until ideas were 'crystallized' (Fetterman 1998, p.108). In brief, the data collection and analyses steps were entwined and iterative. In the following section the main themes arising from the franchisor interviews are revealed.

Findings

The four franchise systems utilised in the study cover a range of educational services. The size of the franchise and degree of franchisor's experience are shown in Tables 1 and 2 and offer a broad range of examples. The findings have been grouped as follows.

Perceived benefits of franchising. All the education franchisors reported that they used the franchising structure because they believed it was an easier and faster way to expand/grow the business, and that the quality (through consistency) was better compared to owning company

branches. Only one franchisor (Franchisor C) believed it was more “cost beneficial” and this was probably due to C being a large and established franchisor in the industry. All four franchisors believed that these benefits of quality and growth were due to franchisees being motivated through making a financial investment in their own business.

Table 1: Size of Franchisor in Australia

Franchising Units In Australia			
Franchisor	Small <10 units	Medium 10 to 23 units	Large Over 31 units
A	•		
B		•	
C			•
D		•	

Table 2: Years of Franchisor’s Experience

Years of Franchising			
Franchisor	Start Up Up to 5 years in operation	Developing 6 to 10 years in operation	Mature Over 10 years in operation
A	•		
B		•	
C			•
D			•

Business relationship between the franchisor and the franchisee. All four franchisors felt that the relationships with their franchisees were good, effective and fair. None of the franchisors was currently in dispute with their franchisees. The franchisors disclosed that they supported their franchisees in a number of ways, including: 1) marketing the overall product or franchised brand, 2) marketing the franchisee, 3) constant communication (for example, face-to-face, electronic means, advisory councils, area manager communication, conferences), 4) general business support (for example, discussing roles of the franchisor and franchisee, developing new revenue streams), 5) conducting business appraisals, and 6) training of teaching and administrative staff (for example, customer development, computer software and support, training in the teaching method and philosophy). Therefore, three main areas of support consist of franchise growth, consistent support/communication, and educational product quality. In addition, most of the franchisors contribute to marketing expenses of the franchisees. Financial support may also include providing marketing kits and rental subsidy. The franchisors also provide intellectual property to the franchisees in the form of service (brand research, educational training and understanding of the teaching philosophy) and educational products (worksheets and folders, books used for teaching). Franchisor D specifically mentions that franchisees receive two main types of training: in the business area and in the teaching (educational) area. However, Franchisor D also mentions that “*training is for the business side more than the academic*”.

However, the franchisors noted that franchisees “could do more” to support the franchisor and two franchisors stated that franchisees could be more motivated to self-educate themselves about children, education and business development. The franchisors noted that franchisees did support the brand, their “vision” and the educational system.

Franchisor monitoring of product quality. The four franchisors all mentioned that they consistently and rigorously monitor the quality of the educational products and the franchisees. The analysis shows that monitoring is carried out using four main avenues: a)

financial, b) administrative, c) teaching, and d) customer feedback. Financial monitoring is conducted by reviewing franchisee sales, income per class, student enrolments, and “*checking and monitoring their KPI*” (Key Performance Indicator) (Franchisor D). Administrative monitoring is done through business and strategic training sessions. Teaching feedback is carried out by sitting in on lessons, asking trainers to assess for compliance with the educational system, and by being members of education associations. Customer feedback is also elicited as an independent source of comments on the product, brand and franchisee.

Satisfaction with the franchise structure. Whilst all the franchisors were satisfied with the franchise structure they also felt that improvements could be made in order to achieve faster unit-level growth. The analysis showed that franchisors would like to enforce more compliance and standards on their (admittedly) independent franchisees. They were also keen to ensure that franchisees had a better understanding about sales and marketing, and were able to write business plans and interpret financial statements. In fact, three of the franchisors (A, B and D) emphasised the need for franchisees to understand and implement growth and business activities faster and more strategically.

Discussion, Further Research and Limitations

Based on our analyses of interviews conducted with four educational franchisors in Australia, it can be surmised that there are actual benefits of using franchising as a distribution strategy in this sector. Franchisors were committed to the idea of franchising being an easier method of expanding the brand or business because their franchisees were self-motivated. This view complies with resource constraints theory where the franchising structure provides capital investment that overcomes financial limitations of building large companies. It also supports the agency theoretic viewpoint that franchising contracts provide incentives for both parties to achieve mutual goals. The analysis revealed that the business relationship between franchisor and franchisee was perceived by franchisors to be supportive and fair, based on financial, educational, and training support. The franchisors also declared that they monitored the operational and strategic progress of their franchisees using a number of methods of feedback systems.

However, within the educational franchising structure, there are a number of agency costs involved, mainly through the franchisees not being adequately trained or skilled in the business side of franchising. As Franchisor D stated, “*let teachers concentrate on the teaching side and the franchisee do the business side*”, and Franchisor C, “*most business owners are teachers and they need to improve their business skills*”. These comments reveal that it may be more crucial for franchisees to be recruited for their teaching skills and trained in business skills. The lack of such business skills may hamper the administrative efficiency aspect of utilising teachers as franchisees in education franchising. The interviews also revealed that two of the franchisors were undergoing changes in structure and branding (B and C) and that three of the franchisors used professional franchising consultants to assist them in improving their franchise (B, C and D), again validating the need for a very professional business approach to what was traditionally a not-for profit educational service.

This paper is limited to findings revealed from franchisor interviews. Further research will analyse interviews from franchisees of these four franchisors to cross-validate findings revealed by the franchisors. In addition, interviews have been conducted with customers of these franchisees to assess the effectiveness of the educational franchising system as perceived by consumers and how consumers choose educational franchising products.

References

- Australian, The, 2004. Top result for education. *The Australian*, Sydney.
- Carney, M., and Gedajlovic, E. 1991. Theoretical integration in franchise systems: Agency theory and resource explanations. *Strategic Management Journal*. 12, 607-629.
- Chow, L., and Frazer, L. 2003. Servicing customers directly: mobile franchising arrangements in Australia. *European Journal of Marketing*. 37(3/4), 594-613.
- Dugas, C. 1983. Marketing: The prescription for professional practices? *Ad Forum*. 4 February, 42-45.
- Eisenhardt, K. 1989. Agency theory: an assessment and review. *Academy of Management Review*. 14(1), 57-74.
- Fetterman, D. M. 1998. *Ethnography*. (2nd ed.). London, Sage.
- Fladmoe-Lindquist, K. 1996. International franchising: capabilities and development. *Journal of Business Venturing*. 11(5), 419-438.
- Flyvbjerg, B. 2004. Five misunderstandings about case study research. in *Qualitative Research Practice*. C. Seale, G. Gobo, J. F. Gubrium and D. Silverman, Eds. London: Sage.
- Frazer, L., and Weaven, S. 2004. *Franchising Australia 2004 Survey*. Brisbane: Griffith University.
- Glaser, B. G. and Strauss, A. L. 1967. *The discovery of grounded theory: strategies for qualitative research*. New York, Aldine de Gruyter.
- Gubernick, L., and Burger, K. 1997. Girls always have trouble with math. *Forbes*. 159, 120-121.
- Hunt, S. 1977. Franchising: promises, problems, prospects. *Journal of Retailing*. 53(3), 71-83.
- Huszaugh, S., Huszaugh, F., and McIntrye, F. 1992. International franchising in the context of competitive strategies and the theory of the firm. *International Marketing Review*. 9(5), 5-18.
- Jensen, M., and Meckling, W. 1976. Theory of the firm: managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*. 3(4), 305-360.
- Kulkarni, M. 1988. *Agency theory*. North Humberside: Barmarick Publications.
- Lafontaine, F. 1994. Agency theory and franchising: some empirical results. *The Rand Journal of Economics*. 23(2), 263-283.
- Martin, R. 1988. Franchising and risk management. *The American Economic Review*. 78(5), 954-968.
- Maxwell, J. A. 1996, *Qualitative research design: an interactive approach*. London, Sage.

Oxenfeldt, A., and Thompson, D. 1969. Franchising in perspective. *Journal of Retailing*. 44(4), 3-13.

Patton, M. Q. 2002. *Qualitative research and evaluation methods*. London, Sage.

Terry, A. 1991. *Business format franchising: The cloning of Australian business*. Business Format Franchising in Australia. Sydney: Legal Books.

Yin, R.K. 2003. *Case study research: design and methods*. Thousand Oaks, California, Sage.

Zaslow, J. 1985. Latest boom in education: private tutors. *Wall Street Journal* (Eastern Edition). 1.