7-Eleven Inc.: The Fine Line Between Franchise Independence and Interdependence

Teaching Notes

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Organization: 7-Eleven Inc. | Organization size: Large
Region: Northern America | State:
Industry: Retail trade, except of motor vehicles and motorcycles

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A supplemental PowerPoint for teaching this case can be found here.

Purpose of the Case Study

1. To highlight the conflict that arises when a franchisor strives to maintain independence from its franchisees while providing a guiding framework for franchise management
2. To explore the role of government involvement in business
3. To encourage analysis of business strategy in handling internal and external communication
4. To consider a company’s crisis management strategy in responding to a crisis
5. To promote discussion surrounding the responsibility and role franchisors have to manage franchisees

Business Problem

In June of 2013, federal agents from the United States Immigration and Customs Enforcement (ICE) Agency seized fourteen 7-Eleven franchised stores that were deemed responsible for running an indentured servitude ring. The owners of these franchises were suspected of recruiting more than 50 illegal immigrants, working those employees as much as 100 hours a week with very little pay, forcing them to live in inadequate conditions. Former Chief Operating Officer Darren Rebelez spoke out, stating that 7-Eleven must protect its integrity and reputation, insist on compliance with the Franchise Agreement, and ensure that all franchised stores operate in a lawful manner. Spokeswoman Cara Stern further said that the company would take aggressive approaches to end relationships with violating franchisees.

In January of 2018, ICE agents conducted an additional raids on approximately 100 stores, resulting in 21 arrests. These raids were intended as a follow-up to the 2013 incidents to ensure proper compliance with hiring and employment practices. Neither 7-Eleven Inc. nor Seven & i Holdings Co. Ltd. was charged in that case.

Corporate spokesman Scott Matter once again promised the company would take aggressive action to audit the employment status of all franchisees’ employees. These actions appeared to open a new front in the Trump administration’s expansion of immigration enforcement.

Critical Stakeholder Issues

A variety of constituents will bear the consequences of the raids. To devise a crisis management strategy to mitigate those consequences, 7-Eleven must understand the impact on each group and develop a plan to address the concerns of major stakeholders. Those stakeholders and their issues include:

Franchise Owners. 7-Eleven’s profits depend strongly on the performance of their franchisees. Franchising represents one of their strongest strategies in growth and expansion. Thus, 7-Eleven must devise a way to keep franchise owners satisfied while preventing similar incidents from occurring again. This may mean terminating agreements with franchisees who cause problems to ensure that those in compliance can continue operations as usual. Franchise owners may see a difference in policies and management after the audits. 7-Eleven, however, must find a way to address these owners’ concerns with such policies while maintaining profitability.
Seven & i Holdings, Inc. As the holding company for 7-Eleven, Seven & i Holdings, Inc. should consider the role they can play for their subsidiary. On one hand, Seven & i Holdings may want to take a backseat approach and allow their U.S. subsidiary to respond on its own accord. On the other, they may want to support their subsidiary, both legally and financially. Such a strategy may depend on how the incident trickles up to the holdings level. If such incidents have little impact on Seven & i Holdings’ stock price, little may be done. If such incidents dramatically and negatively affect stock prices, action may be taken. Seven & i Holdings may take a variety of approaches in responding to a subsidiary problem.

Employees. Employees working legally and employees working illegally both experience consequences. Those working legally must undergo scrutiny to determine eligibility and must comply with legal requirements if their stores became the subject of raids. Employees working illegally likely fear for their jobs and, perhaps, that ICE officers will find them. This can affect employee retention rates, employee satisfaction, costs, and more. 7-Eleven must address both types of employees when determining a course of action.

US Government: ICE. A reflection of the political climate of the time, the raids on 7-Eleven occurred because of new initiatives to crack down on illegal immigration. The company’s relationship with the US government should be maintained so as not to run into further consequences other than those they already face. If the current political climate should seriously expand immigration enforcement, 7-Eleven may hope to demonstrate compliance to the government to ensure positive relations moving forward.

Competitors: Circle K, Speedway, Alimentation Couche-Tard. Other competitors may look to the 7-Eleven case in two ways. First, they may seize their opportunity to poach dissatisfied customers or employees. The more 7-Eleven draws fire, the better their businesses could perform. On the other hand, these convenience stores may also experience similar issues in which their franchises are loaded with illicit activity just hidden from public view. Thus, competitors may want to look to 7-Eleven and re-evaluate their own policies to ensure nothing of the sort happens in their stores.

Media. Media attention to these raids fizzled quickly. In 2013, after a spurt of attention, the result of the raids went quiet. Similarly, in 2018, the raids resulted in major media focus due to the Trump administration’s efforts to crack down on immigration. Although 7-Eleven responded to the situation, the aftermath went similarly silent. Thus, as the case unfolds, 7-Eleven must consider their long list of lawsuits and potential for an even bigger crisis when devising a media communication strategy.

Most Desirable Outcomes

- Continue rapid growth through franchising without compromising the policies and company culture of 7-Eleven, Inc.
- Monitor the franchises for compliance with hiring and employment practices through a yearly random selection of franchises to audit.
- Develop strong relationships with ICE to ensure compliance with their policies.
- Minimize the number of lawsuits against 7-Eleven.

Applying the Page Principles

The Arthur W. Page Society is the world’s leading professional association for senior public relations and corporate communications executives. The mission of the society seeks to strengthen the enterprise leadership role of the chief communications officer by embracing professional standards, advancing communication in practice and in teaching, and providing a dynamic learning environment. In line with such mission, the Page Principles align with seven best practices of public relations. These principles provide a guideline for which all communication professionals should strive to undertake in their respective endeavors.
Tell the Truth. The majority of 7-Eleven communications state that the utmost effort will be made to ensure compliance with policies. The communication team may want to consider telling the truth in providing the public with a deeper understanding of the situation on hand. Otherwise, media investigative reporters might publish further damaging findings.

Prove it with action. After the 2013 raids, little information came to light regarding 7-Eleven’s actions to ensure proper hiring and employment compliance policies. Public perception, according to Page, consists of 90% doing and 10% talking about it. While 7-Eleven may state that steps will be taken, without action, public trust can severely falter.

Listen to stakeholders. 7-Eleven derives most of its success from its franchisees. Thus, 7-Eleven should engage in serious transparency with franchise owners and devise strategies to ensure that the franchisees feel satisfied in the resolution.

Manage for tomorrow. Just as in 2013 and 2018, such raids could occur again in the future. Thus, 7-Eleven should anticipate public reaction and eliminate the practices that create difficulties. Furthermore, the current political climate plays is likely to play a continuing role in the intensity of the raids and investigation. Staying prepared for changes in government policy can ensure that 7-Eleven forms a plan for a variety of different scenarios.

Conduct public relations as if the whole enterprise depends on it. If 7-Eleven devises strategies to ensure compliance with hiring and employment practices, a public statement should describe the changes. Although spokespeople help to communicate a company’s position, 7-Eleven has yet to release a specific, tangible response to the crisis. The company lacks transparency in responding to such issues, other than a gauzy, general statement to the press. A serious consideration of changes to policy, the value of each employee, the role of the parent organization, and the impact of public expectations must guide management to ensure a streamlined vision for the future.

Realize an enterprise's true character is expressed by its people. Each employee plays a role in public relations. In fact, several employees spoke to the media regarding the raids. Some statements claimed employees experienced abuse while others claimed illegal immigrant employees were not the real victims.

Remain calm, patient, and good humored. Although the audits could cost 7-Eleven millions in resources, 7-Eleven should remain cool headed. Customers appreciate 7-Eleven for the variety of products they offer at low prices. This reputation has hardly changed throughout the years, and will likely continue in future. Thus far, spokespeople for the company have – for the most part – responded properly to media questions without creating further scandal. Thus, 7-Eleven should continue to remain calm and not allow a crisis mentality develop in their business.

Discussion Questions

1. Who are the responsible stakeholders in this case?

   Suggested guidance: See “Critical Stakeholder Issues"

2. What policies should be included or changed in the franchise agreements to hold the franchises responsible?
Suggested guidance: Serious repercussions for owners can ensure franchises comply with politics. For instance, financial compensation reductions for owners or quicker termination of franchise.

3. What steps should 7-Eleven take to protect their brand and reputation?

Suggested guidance: A strong crisis management strategy should be devised and implemented in order to prepare for future crises.

4. From a resource standpoint, is it viable for the 7-Eleven to monitor all franchisees?

Suggested guidance: With more than 8,300 stores in the United States alone, 7-Eleven certainly cannot manage each one individually.

5. Does 7-Eleven have an issue with corporate disassociation? If so, how can they remedy that? If not, why not?

Suggested guidance:

Yes: A disconnect certainly exists between franchises and parent, inevitably with the size and scope of 7-Eleven. By creating more stringent policies and perhaps an increase in random audits of franchises, 7-Eleven can create a corporate culture founded on legal and ethical business practices.

No: 7-Eleven has done their best in maintaining a strong relationship with franchises. Ultimately, it becomes up to the franchises to comply with the law.

6. What role does the government play in this case? How should 7-Eleven manage government relations?

Suggested guidance: The government can set rules and policies regarding immigration, which can impact the hiring practices of a franchise. 7-Eleven can work closely with the government to demonstrate a pointed effort in compliance with government regulations.

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