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Peter Cappelli
*Wharton School, University of Pennsylvania*

Monika Hamori
*Instituto de Empresa, Madrid*

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**Abstract**
Franchise *jobs* are often viewed as epitomizing a "low-road" employee-management approach characterized by high turnover and several practices that are deemed unsophisticated, such as low investment in training, deskilling of work, and little encouragement of employee involvement. Research on franchise *operations* suggests, however, that the basic operating principles and practices of franchises tend to be more sophisticated than those of equivalent independent operators. Might their employee management practices be more advanced as well, notwithstanding the stereotype of franchise jobs? This study uses data from a national probability sample of establishments, drawn from surveys conducted in the mid-1990s, to examine the relationship between franchise status and employment practices. Descriptive statistics suggest that franchise operations used low-road practices, but once industry, size, and other control variables are included in the analysis, these operations appear to have offered better jobs with more sophisticated systems of employee management than did similar non-franchise operations.

**Keywords**
franchises

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# ARE FRANCHISES BAD EMPLOYERS?

PETER CAPPELLI and MONIKA HAMORI*

Franchise *jobs* are often viewed as epitomizing a "low-road" employee-management approach characterized by high turnover and several practices that are deemed unsophisticated, such as low investment in training, deskilling of work, and little encouragement of employee involvement. Research on franchise *operations* suggests, however, that the basic operating principles and practices of franchises tend to be more sophisticated than those of equivalent independent operators. Might their employee management practices be more advanced as well, notwithstanding the stereotype of franchise jobs? This study uses data from a national probability sample of establishments, drawn from surveys conducted in the mid-1990s, to examine the relationship between franchise status and employment practices. Descriptive statistics suggest that franchise operations used low-road practices, but once industry, size, and other control variables are included in the analysis, these operations appear to have offered better jobs with more sophisticated systems of employee management than did similar non-franchise operations.

Franchises are an important part of the U.S. economy. There are an estimated 1,500 franchise companies operating in the United States, doing business through 320,000 retail units (see International Franchise Association estimates). Our data, described in more detail below, suggest that they account for about 5% of all establishments in the United States. Franchises represent an alternative to traditional forms of business operations. Through a legal agreement, the independent franchisee sells a product or service using the brand name or operating system (or both) of the franchisor, typically in return for a lump sum payment and annual royalty fee (Shane 1996; Shane and Foo 2001).

Franchises are market-like in their exchange of capital and products between the franchisor and the franchisee, and hierarchical in the uniform operating procedures set by the franchisor (Norton 1988). They also represent a hybrid between the attributes of small- and large-scale operations in that they function with some autonomy as independent establishments but are also part of a much larger franchise organization. The product's or service's image, marketing, and basic operating practices are created most efficiently in large scale by the parent (Rubin 1978), while the actual production of the goods and services is most efficient when it is decentralized to the place of consumption (Caves and Murphy 1976).

The management of employees and work organization issues is central to most franchise operating procedures, in part because franchises are especially common in services, where labor content is the crucial component. And the popular image of franchises is that they provide low-quality jobs. We consider the conceptual arguments behind that position and then examine it empirically in the analyses below.

*The authors are listed in alphabetical order. Peter Cappelli is George W. Taylor Professor of Management, The Wharton School, University of Pennsylvania, and Monika Hamori is Assistant Professor, Department of Human Resources and Organization Behavior, Instituto de Empresa, Madrid. The authors thank Anne Marie Knott and David Hsu for helpful comments.

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**Franchises and Employment Practices**

The descriptive literature on franchises reinforces the idea that franchises provide low-quality jobs (for example, Zuber 1997; Matusky 1998; Schaaf 1994; Feuer 1988), although most of that work is anecdotal. Franchise outlets appear to make extensive use of part-time and temporary employees (Leidner 1993) and do not invest much in recruiting because they do not expect employees to be with the organization very long (Royle 1998). They also appear to pay low wages. Royle (1998), for example, emphasized the huge disparity between the U.S. average wage and the starting wage at *McDonald's*. Benefits like health insurance and sick days are entirely absent at some franchise operations (Leidner 1993). Franchise operations are marked by a very high rate of turnover that can reach 300% per year (Krueger 1991).

While the practitioner-oriented literature hails the effectiveness and superiority of training practices of franchises (for example, Zuber 1997; Matusky 1998; Schaaf 1994; Feuer 1988), Litz and Stewart (2000), who surveyed 307 hardware stores in a trade name franchise chain, questioned whether franchises train more than independent stores do. Whether workers actually learn much from franchise training is another open question. Wildavsky (1999) asserted that fast-food franchise workers learn both job-related skills, such as how to operate a cash register or train others, and general, transferable skills such as teamwork, customer service, and getting along with coworkers; Leidner (1993), on the other hand, pointed out that the training for making French fries, for example, consisted of simply watching a short videotape, and the most skilled job, window work, demanded only three to four hours of total training time (Leidner 1993).

Among the larger and more sophisticated franchises, such as *McDonald's,* there is at least *a priori* evidence suggesting that the basic approach to management—generating standardized "best practices" and transferring them across organizations—bears close similarity to scientific management. Frederick Taylor's model for organizing production work began by systematically gathering up skilled workers' tacit knowledge of production and organizing it into precise, formalized rules that defined the performance of each specific task performed by every individual worker (see Taylor 1947 for a discussion). The effect of scientific management approaches on worker-level outcomes, particularly skill requirements, is extremely well documented: because knowledge is built into rules, procedures, and systems, individual workers no longer need to have that knowledge, and job requirements fall. (See Braverman 1974 for the seminal work and Attewell 1987 for a review.) Less-skilled workers, who are cheaper, can be hired into these de-skilled jobs and then trained to follow the standardized approaches. Leidner's (1993) ethnography of franchise operations argued that their routinization of work practices leads to tight managerial control, detailed job descriptions, and copious specifications and regulations, very much like scientific management.

Also tending to limit the autonomy of employees are hierarchical and bureaucratic forms of supervision and control, which transfer decision-making up the hierarchy (for example, Perrow 1972; Edwards 1978). The franchise model, with operating procedures both designed and controlled at the franchisor headquarters, very much resembles a bureaucratic control system. Bureaucratic systems of control through hierarchy are also part of the scientific management approach, whereby the design and control of jobs are separated from the execution of work and transferred to layers of industrial engineers and supervisors. In the case of highly specialized jobs, for example, it is difficult for workers, on their own, to coordinate their work with others, because they often lack the requisite knowledge and connections. Further, highly specialized work is less intrinsically motivating than more traditional work, which again increases the need for hierarchical supervision (Lawler 1988). Thus, the practices of scientific management and the practice of hierarchical control systems both limit the autonomy and control of employees.

Scientific management implies different outcomes for franchise *management* jobs, however, as the coordination of such oper-

ating systems typically demands some more complex skills that are not demanded of managers in other organizations. Parcel and Sickmeier (1988) highlighted how *McDonald's* simultaneously uses a secondary labor market for front-line workers with low entry criteria, low wages, low degree of autonomy, and little employment stability, and an upper-tier labor market with high wages and benefits and clear lines of promotion to attract managers with the knowledge, skills, and abilities to develop and maintain these routines.

One argument for how franchises could have more sophisticated management practices in general *and* apparently unsophisticated low-road employment practices would be that they rely on these scientific management principles. The poor employment outcomes for front-line workers could be part of an intentional strategy. A great deal of contemporary research in human resources and industrial relations, however, has emphasized the considerable advantages for employers of "high commitment" or "high performance" work systems associated with greater worker involvement and participatory decision processes (for example, Berg 1999; Berg, Kalleberg, and Appelbaum 2003). High performance work practices, which focus on employee involvement and team work arrangements, also tend to be accompanied by supporting programs such as worker training (Osterman 1994). Wages for workers employed in high commitment systems are higher than for those employed by traditional organizations, especially for managers, supervisors, and technical workers in unionized establishments (Black, Lynch, and Krivelyova 2004). While the early studies on high commitment work systems showed benefits associated with individual performance, the more recent studies demonstrate effects associated with firm-level outcomes in services as well as in the more typical manufacturing settings (for example, Combs, Liu, Hall, and Ketchen 2006; Preuss 2003).

If the essence of franchise management is to identify effective management practices, then standardize and distribute them across franchise outlets, it is not obvious why franchise operations would not also include high performance work practices in their portfolio. Further, it is not obvious that the descriptive literature on franchise jobs is definitive. Most of the studies that point out the poor quality of employment practices at franchises focus on fast-food outlets, especially *McDonald's* (for example, Love 1985; Parcel and Sickmeier 1988; Leidner 1993; Royle 1998 and 2000). Many of the characteristics of jobs at those franchises appear to be common to all fast-food jobs. The franchises that were examined in these studies also tend to be relatively small operations, and small firms often lack the resources to develop human resource practices like training (Kalleberg et al. 1996; Litz and Stewart 2000). Vickerstaff (1992) found, for example, that smaller firms lacked both the training infrastructure (training specialists and budgets) and the training capacity (employees' time and training skills) to implement training programs. To truly understand the workplace practices that characterize franchises, it is necessary to control for these other attributes that are associated with typical franchise operations, as they may well confound any association between job quality and franchise status.

The few studies that control for these factors carefully are those that compare franchisee-owned establishments to company-owned establishments, often in the same chain—for example, a franchisee-owned *Burger King* store compared to a company-owned *Burger King* (Krueger 1991; Bradach 1998). This approach is very helpful for examining the effects of ownership structure *per se,* but it cannot examine the effect of franchise operating practices, because the basic operating models are the same in company-owned and franchisee-owned operations within the same chain. The nature of the relationship between franchise operations and employment practices therefore demands further examination, which we turn to below.

## Hypotheses

Our central question, based on the conflicting implications of the literature cited above, is whether franchises offer lower-quality jobs than do non-franchise operations. The perception that they do is widespread, but whether that apparent association is

due to confounding factors is an important empirical question. Research suggests that franchises in general are more sophisticated in their management practices than equivalent non-franchise operations, which might lead one to hypothesize that their workplace practices would also be more sophisticated and not necessarily the "low-road" approach with which they are associated.

Asking this question requires first establishing criteria for deciding the quality of jobs. What constitutes a good job? One approach, for example, might be to compare the perceptions of workers themselves in franchise and non-franchise operations: which workers are more satisfied with their jobs? The difficulty with this approach is that interpreting differences in attitudes across jobs is very complicated because satisfaction levels are in part influenced by expectations, and representative attitudinal data across operations are extraordinarily difficult to obtain. A more straightforward approach is to examine the attributes of jobs directly. Kalleberg, Reskin, and Hudson 2000 focused on three factors to measure job quality: wage level, pension benefits, and health insurance. Other aspects of jobs no doubt are important as well, such as promotion prospects, the specific aspects of individual tasks as they relate to principles of job design, and aspects of interpersonal dynamics, such relationships with superiors and others.[1] Many of these aspects are complicated to measure (or even to define) and, unfortunately, are beyond the scope of the data that we know to exist. We believe most observers would agree that important measures of job quality include aspects of the rewards from work (pay and benefits), employer investments in employees (training programs), and, especially in the context of franchises, work organization practices that affect employee involvement along the lines of high performance systems.

[1]One could imagine controlling for the attributes of individuals holding those jobs as well, in order to determine whether jobs are better than one would expect given the quality of the workers. This approach answers a slightly different question, however—whether jobs offer a market premium, as opposed to whether they are good *per se*.

An important caveat to the notion of assessing job quality is that the distinction between good jobs and bad jobs is somewhat arbitrary. In fact, job quality is likely to represent a continuum that depends on which attributes of jobs are being examined. And the fact that workers may have different preferences with respect to these attributes (for example, some prefer part-time work) makes even a continuum complicated to construct.

## Methods and Data

To address the questions above, we need data that can compare the employment practices of franchises to those of equivalent non-franchises in order to control for possible confounding relationships. To do so, we turn to the National Employer Surveys (see Cappelli 2001 for a description). Conducted by the U.S. Bureau of the Census, the National Employer Surveys are representative surveys of all private sector, for-profit U.S. establishments with more than 20 employees (excluding corporate headquarters). The 1994 National Employer Survey sampled over 4,000 of these establishments. The survey was administered via Computer Assisted Telephone Interviewing to a target respondent who was most commonly the plant manager in manufacturing establishments and the local business site manager in service establishments. The survey also obtained information from multiple respondents where the target respondent thought those responses would be more accurate than his or her own responses alone. Those interviewed were asked about establishment characteristics, work organization practices, and human resource practices. The overall response rate was 72%, with no apparent differences between respondents and non-respondents on dimensions such as industry type or size. The 1994 public use data file that resulted contains data on 3,173 establishments.

The 1996 National Employer Survey interviewed persons at a subsample of the establishments from the 1994 survey and also asked respondents whether the establishment was a member of a franchise organization. The response rate for the 1996 survey was 75%. By matching the data from the 1994

survey to the franchise question from 1996, we obtain a data set with 2,136 observations that identifies organizational and work practices for a national sample of franchises and non-franchised establishments.[2]

Cross-sectional data of this kind create obvious difficulty in establishing causal relationships. That concern is mitigated in this context, however, because the direction of causation seems clear on logical grounds. It is straightforward to see how the decision to become a franchise drives work practices, because the use of specific operating procedures is typically required by the franchise agreement. These, in turn, either define the employment practices or drive employment outcomes. It is much more difficult to imagine the reverse case, where employment outcomes exogenously cause an establishment to become a franchise or a franchise to switch to a different ownership form. Further, the types of work practices and outcomes we are considering are in no way unique to franchise status, so there is no reason to believe that a company would have to take a franchise form in order to adopt these practices.

A different concern with respect to estimation is whether franchise status and work practices are determined simultaneously. Simultaneous observations could bias OLS estimators asymptotically, although OLS estimation might still possess advantages (superior robustness, say) over other forms. Again, the nature of the typical franchise operation start-up suggests that franchise status occurs first and then work practices follow. The fact that most franchise firms begin operations with their work practices in place may suggest simultaneity, but in practice operators invariably decide to become a franchise and then roll out the operating procedures, which include work practices.

### Variables and Analyses

The arguments above at least satisfy the requirement of Granger Causation and suggest that simple regression models are sufficient to establish the estimates of the relationship between franchise status and work practices and associated outcomes. Among the primary variables to consider in deciding whether franchises offer good jobs are wages, which we measure separately for managerial and non-managerial (typically front-line) workers.[3] This measure is for full-time workers. It would be useful to have similar data for part-time workers as well, but such data are unavailable. We also include a count of how many among 11 important benefits the establishment offers its employees. All of these benefits add fixed costs to employment and are typically seen as practices that help create attachment between firms and employees. Not all benefits are equal in terms of value or cost, of course, and there is a wide range of possible analyses one could conduct to examine relationships with benefits. This approach at least has the virtue of parsimony.[4]

[2]Establishments do switch status from franchise to non-franchise and vice-versa, although such changes are rare; Peterson and Dant (1990) found that the percentage of franchisees that have *ever* been an independent operator, for example, was only 6.7%. The rate of change over a short period like 1994 to 1996 is likely to be insignificant for the purposes of empirical analyses. We know so little about what causes franchise status to change in either direction that it is difficult even to speculate as to possible relationships with the other variables. Not all franchise agreements are the same. The important distinction is between "trade name" franchises, in which the franchisee acquires the right to sell a particular product and manage its operation with considerable autonomy (for example, a gas station's relationship with an oil company), and "business unit" franchises, where the operations are highly structured according to prior agreements (for example, most fast-food chains). While we might expect relationships with work practices to be stronger for business unit franchises, we cannot distinguish between the two franchise types in our data.

[3]The original question in the survey asked for average hourly pay, but because not all establishments had compensation data in that format, they were allowed to report it as weekly, monthly, or hourly pay. The reports were therefore converted to a standard metric of annual salaries based on 40-hour workweeks and 52-week years.

[4]The benefits are the following: pension, severance pay, health insurance, dental insurance, life insurance, sick pay, child care subsidies, paid vacations/holidays, family leave (this was before the Family and Medical Leave Act), grievance/complaint procedures, and stock options.

Another important factor is the extent of training offered to employees, which we measure with three variables: whether the establishment had a written training program or policy in place; the percentage of employees who received formal training each year; and the number of hours of formal training employees received each year. The last two variables are measured separately for managerial and non-managerial employees.

One way to capture the extent of expenditures on employees for pay, benefits, training, and so on is with a single measure of total labor costs. This variable comes from the 1997 National Employer Survey, which asked about expenditures for 1996, the year to which the franchise question referred.[5] We also include other measures of job quality—the percentage of workers who had part-time status, the average education level of the work force (measured separately for management and non-management employees), and a proxy for turnover and tenure. Actual turnover measures are not available, only the percentage of the work force with less than one year of tenure. This measure is important in its own right as an indication of the extent of new hires in the workplace. It should vary directly with turnover, but it, like all measures of tenure, can be confounded by employment growth: growing companies, other things equal, have lower tenure independent of turnover rates. Because employment growth rates are not available, it is important to recognize that this measure is an imperfect proxy for turnover.

We also have two measures for high performance work systems that have been used in previous studies. The first is the percentage of the work force involved in regularly scheduled meetings to discuss workplace problems. This measure captures something about the extent of employee participation in the workplace, but it is also fair to say that it is an imperfect measure, as we do not know how much involvement employees truly have in these discussions. The second measure is whether the establishment had a total quality management program. Hackman and Wageman's (1995) study of TQM practices found that problem-solving teams, which are a central feature of high performance systems, were the most common attribute of TQM programs.

In addition, we control for establishment size (measured as the logarithm of the number of employees working at the establishment in 1996) and the industry that the establishment operated in (measured by ten binary variables, the omitted category being "Other manufacturing"). Tables 1a–1b present a description of the ten industries.

We do not have detailed measures of the human capital and demographics of the employees in these establishments other than their average education level. The focus here is on the jobs *per se,* but attributes of the employees would allow us to answer other questions as well, such as whether franchises disproportionately employed younger workers or whether their rate of pay exceeded that for equivalent workers at non-franchises.

The analyses below begin with difference-of-means tests for franchise and non-franchise establishments followed by regression models that control for the most important characteristics of establishments that may be spuriously associated with the franchise form. Because the analyses are examining the possible effect of the franchise form on various practices and aspects of employment, each such aspect is measured by a different dependent variable and is therefore essentially a separate model. Whether each equation should have a unique model specification based on its own theoretical underpinnings is an important question. Without an established literature to define what such models should look like in each case, however, it is not obvious what characteristics or management practices other than industry, size, and establishment age are truly exogenous to franchise status and therefore should be controlled for in the equation. There are

[5]The size control variable helps to adjust for differences in labor costs based simply on having more employees. Per-employee measures have important caveats, however, in that establishments may differ in their use of part-time labor and overtime hours. If franchises make greater use of part-time workers, for example, then their labor cost per employee measure should understate the true expenditure per unit of labor.

*Table 1a.* Descriptive Characteristics of Franchise Organizations.[a]

| *Description* | *Independent Establishments* | *Franchise Establishments* | *Percentage Franchised* |
|---|---|---|---|
| *Establishment Size* | | | |
| 20–100 Employees | 652 | 57 | 8.04 |
| 101–435 Employees | 687 | 37 | 5.11 |
| > 435 Employees | 682 | 21 | 2.99 |
| Total | 2,021 | 115 | 5.38 |
| *Industry* | | | |
| Food and Tobacco | 98 | 6 | 5.77 |
| Transportation Equipment, Machinery and Computers, and Instruments | 242 | 9 | 3.59 |
| Other Manufacturing: Textile & Apparel, Lumber & Paper, Printing & Publishing, Chemicals & Petroleum, and Primary & Fabricated Metals | 871 | 12 | 1.36 |
| Construction | 101 | 3 | 2.88 |
| Transportation, Communication, Utilities and Wholesale Trade | 286 | 16 | 5.30 |
| Retail | 61 | 19 | 31.15 |
| Finance and Insurance | 142 | 6 | 5.41 |
| Business Services | 75 | 10 | 11.76 |
| Health Services | 74 | 4 | 5.13 |
| Hotels, Restaurants | 71 | 30 | 29.70 |
| Total | 2,021 | 115 | 5.38 |

[a]Census concerns about data disclosure require that information about the franchise variable be reported in a categorical form.

also advantages of consistency in using the same model across equations.

In addition to direct effects, franchise status may also have indirect effects on the dependent variables considered here through relationships with other variables. For example, greater use of part-time jobs may reduce average education levels. If the goal is to see what the net effect of franchise operations was, then it is sufficient to examine the reduced form of what are no doubt more complicated relationships: leaving out possible control variables that could be endogenous to franchise status ensures that all of the possible indirect effects appear together in the franchise coefficient. This approach is sufficient to address the question as to whether franchises were associated with good jobs. The caveat is that it does not answer the more complicated question of why franchise jobs might have been better or worse.

## Results

Tables 1a–1b show some of the characteristics of franchises in the United in the mid-1990s by size and industry classification. Smaller establishments (< 100 employees) contained a slightly greater proportion of franchises than the overall population (8% versus 5.4%). Mid-size establishments (101–435 employees) had about the same proportion of franchises as in the economy as a whole, while larger establishments (> 435 employees) had about half as many franchise organizations as in the overall economy (3% versus 5.4%). Franchises were quite rare in manufacturing. They represented 2.2% of organizations in the manufacturing sector, versus 5.4% in the whole economy. Franchise organizations occurred at twice the rate in the service sector as in the economy as a whole (10.9% versus 5.4%), and they were disproportionately concentrated in retail (31.1%),

*Table 1b.* Means, Standard Deviations, and Pearson Correlations for Key Variables in the Analyses.

| *Variable* | *Mean* | *S.D.* | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* | *9* | *10* | *11* | *12* | *13* | *14* | *15* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Franchise | 0.05 | 0.47 | 1.00 | | | | | | | | | | | | | | |
| 2. TQM | 51.8 | 50.0 | .00 | 1.00 | | | | | | | | | | | | | |
| 3. Meetings | 49.7 | 42.1 | .03 | .18 | 1.00 | | | | | | | | | | | | |
| 4. Educ., Managers | 14.3 | 1.55 | –.06 | .15 | .10 | 1.00 | | | | | | | | | | | |
| 5. Educ., Non-Mgrs. | 12.4 | 1.11 | –.03 | .03 | .10 | .43 | 1.00 | | | | | | | | | | |
| 6. Pay, Managers | 48.6 | 20.5 | –.10 | .13 | .08 | .22 | .13 | 1.00 | | | | | | | | | |
| 7. Pay, Non-Mgrs. | 24.5 | 11.4 | –.09 | .12 | .08 | .26 | .28 | .43 | 1.00 | | | | | | | | |
| 8. Benefits | 6.85 | 2.08 | –.06 | .36 | .19 | .30 | .21 | .25 | .32 | 1.00 | | | | | | | |
| 9. % Part-Timers | 6.80 | 14.7 | .19 | –.07 | .01 | –.07 | –.02 | –.24 | –.21 | –.14 | 1.00 | | | | | | |
| 10. % Low-Tenure | 15.1 | 17.0 | .16 | –.10 | –.04 | –.14 | –.06 | –.26 | –.30 | –.24 | .22 | 1.00 | | | | | |
| 11. Training Policy | 58.7 | 49.3 | .07 | .02 | .14 | .08 | .09 | –.01 | .06 | .22 | .09 | .03 | 1.00 | | | | |
| 12. % Manager-Trained | 48.8 | 37.2 | –.01 | .26 | .19 | .05 | .05 | .07 | .12 | .26 | –.04 | –.06 | .21 | 1.00 | | | |
| 13. Log Hour, Manager | 2.17 | 1.42 | .03 | .30 | .19 | .10 | .10 | .08 | .13 | .33 | –.02 | –.04 | .26 | .67 | 1.00 | | |
| 14. % Non-Mgr.-Trained | 50.5 | 38.8 | .01 | .30 | .25 | .14 | .07 | .12 | .14 | .30 | –.08 | –.06 | .25 | .50 | .51 | 1.00 | |
| 15. Log Hour, Non-Mgr. | 2.13 | 1.52 | .02 | .30 | .22 | .14 | .11 | .11 | .18 | .33 | –.08 | –.10 | .26 | .45 | .66 | .73 | 1.00 |

*Note:* Correlations higher than .06 are significant at $p < .05$. Correlations higher than .07 are significant at $p < .01$. Correlations higher than .09 are significant at $p < .001$.

*Variable definitions:* **1.** Establishment is part of a franchise (1 = Yes, 0 = No). **2.** Establishment adopted a formal Total Quality Management program (1 = Yes, 0 = No). **3.** Percentage of non-managerial employees involved in regularly scheduled meetings to discuss work-related problems. **4.** Average number of years of completed schooling for managers. **5.** Average number of years of completed schooling for non-managerial employees. **6.** Annual pay for managers (thousands of dollars). **7.** Annual pay for non-managerial employees (thousands of dollars). **8.** Number of employee benefits provided (maximum of eleven): pension plan, severance plan, health insurance, dental care benefits, child care subsidies, family leave, formal grievance procedures, life insurance, sick pay, paid vacation/holidays and stock options. **9.** Number of permanent part-time employees at the establishment. **10.** Percentage of current permanent employees who have been with the establishment for less than one year. **11.** Establishment has a formal/written training policy (1 = Yes, 0 = No). **12.** Percentage of managers who received formal training during the past year. **13.** Natural log of manager's hourly pay. **14.** Percentage of non-managerial employees who received formal training during the past year. **15.** Natural log of non-managerial hourly pay.

*Table 2.* Employment Practices of Franchise and Non-Franchise Establishments: Means, Standard Deviations, and Difference of Means t-Tests.

| | *Franchise* | | *Non-Franchise* | | |
|---|---|---|---|---|---|
| *Employment Practices* | *Mean* | *S.D.* | *Mean* | *S.D.* | *t-Test* |
| TQM | 52.63 | 50.15 | 51.77 | 49.98 | 0.18 |
| Work-Related Meetings | 54.77 | 41.48 | 49.41 | 42.18 | 1.34 |
| Education, Managers | 14.86 | 1.90 | 15.27 | 1.80 | 2.28* |
| Education, Non-Managerial Employees | 12.06 | 1.80 | 12.47 | 1.32 | 2.42* |
| Average Pay for Managers | 40,585 | 22,341 | 49,070 | 20,354 | 3.48** |
| Average Pay for Non-Managerial Employees | 20,492 | 12,342 | 24,743 | 11,264 | 3.26*** |
| Provision of Ten Benefits | 6.50 | 2.30 | 7.03 | 1.96 | 2.43* |
| Percentage of Part-Time Employees | 18.72 | 23.96 | 6.14 | 13.68 | 5.58*** |
| Percentage of Employees with the Organization for Less Than a Year | 26.57 | 27.41 | 14.45 | 15.98 | 4.69*** |
| Percentage of Organizations with a Formal Training Policy | 72.17 | 45.01 | 57.91 | 49.38 | 3.29** |
| Percentage of Managerial Employees Trained | 48.06 | 35.68 | 48.93 | 37.25 | 0.23 |
| Average Number of Training Hours for Managerial Employees | 62.23 | 124.86 | 34.11 | 56.08 | 2.13* |
| Percentage of Non-Managerial Employees Trained | 36.68 | 34.23 | 28.18 | 28.17 | 2.38* |
| Average Number of Training Hours for Non-Managerial Employees | 55.55 | 88.42 | 50.60 | 92.95 | 0.47 |

Total N = 2,136; Franchise N = 115; Non-Franchise N = 2,021.
*Sources:* 1994, 1996, and 1997 National Employer Surveys.
*Statistically significant at the .05 level; **at the .01 level; ***at the .001 level.

hotels and restaurants (29.7%), and business services (11.8%). In most of the other service industries, franchise operations occurred at about the same rate as in the economy as a whole. As one would expect, franchise status appears to have been related strongly to other important attributes of employers.

The difference-of-means tests in Table 2 show that in terms of human capital, franchises paid lower wages and salaries both to their non-managerial workers ($20,500 versus $24,700 [1996 dollars], $p < .001$) and to their managerial employees ($40,600 versus $49,100, $p < .01$) than did non-franchise firms. They employed three times as many part-time workers (6% versus 18%, $p < .001$) and twice as many employees who had less than one year of tenure with the organization (27% versus 14%, $p < .001$). The results seem consistent with the stereotype of "bad" jobs, although franchises were significantly more likely than non-franchise businesses to have a formal training policy (72% versus 58%, $p < .01$) and, on balance, they may have provided more training both in terms of the percentage of employees trained and in terms of total training hours. What we cannot know from these results is the extent to which the differences in Table 2 were driven by franchise status *per se* as opposed to other attributes that are associated with franchises.

The regressions presented in Tables 3a–3c control for industry and the size and age of the organization. The results are strikingly different from those in the difference-of-means tests. There are no statistically significant differences with respect to pay or benefits for franchises; the signs of the variables actually point toward higher pay and benefits for franchises. The results for training are consistent with the idea that franchises provide more extensive and intensive formal training to their employees than do non-franchise operations. Franchise operations were more likely to have a formal training policy ($\beta = .45$, $p < .1$), trained a significantly higher

*Table 3a.* The Effect of Franchise Membership on Employment Outcomes.

| | *DV: Labor Costs* | | *DV: Pay, Non-Managers* | | *DV: Benefits* | | *DV: Education, Non-Managers* | | *DV: Percentage of Part-Timers* | | *DV: Percentage of Employees with Less Than 1 Year on the Job* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *OLS Regression* | | *OLS Regression* | | *OLS Regression* | | *OLS Regression* | | *Tobit Estimates* | | *OLS Regression* | |
| *Variable* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* |
| Franchise | 170026.6** | (57721.92) | .63 | (1.15) | .12 | (.17) | –.19† | (.11) | .03* | (.01) | 4.43** | (1.59) |
| Size | 62474.41*** | (7519.8) | 1.71*** | (.19) | .61*** | (.03) | .10*** | (.02) | –.01† | (.00) | .02 | (.26) |
| Food Industry | 111684.5** | (41046.4) | –3.41** | (1.16) | .06 | (.18) | –.16 | (.12) | .00 | (.01) | 5.48** | (1.66) |
| Machine | –3928.24 | (28670.86) | –1.01 | (.80) | .17 | (.12) | .16* | (.08) | –.01 | (.01) | –2.37* | (1.14) |
| Construction | 40128.45 | (42080.24) | 10.94*** | (1.21) | –.88*** | (.17) | .26* | (.11) | .01 | (.01) | 5.65** | (1.64) |
| Transportation | 50749.21 | (32917.54) | 7.17*** | (.79) | .55*** | (.11) | .67*** | (.07) | .04*** | (.01) | –1.36 | (1.08) |
| Retail | –11185.34 | (87642.33) | –4.77*** | (1.43) | .10 | (.20) | .28* | (.13) | .34*** | (.01) | 12.70*** | (1.92) |
| Finance | 28154.49 | (55043.5) | 4.66*** | (1.19) | 1.20*** | (.15) | .99*** | (.10) | .06*** | (.01) | 1.70 | (1.43) |
| Business Services | –12182.94 | (61179.11) | 9.18*** | (1.43) | .03 | (.20) | 1.24*** | (.13) | .10*** | (.01) | 15.20*** | (1.84) |
| Health | –33133.02 | (58409.18) | –2.06 | (1.56) | .05 | (.20) | .40** | (.13) | .21*** | (.01) | 7.40*** | (1.88) |
| Hotel and Rest. | –26180.53 | (68330.58) | –4.49*** | (1.21) | –.42* | (.19) | .51*** | (.13) | .16*** | (.01) | 19.56*** | (1.71) |
| Est. Age | | | .02† | (.01) | .01** | (.00) | –.00 | (.00) | –.00 | (.00) | –.10*** | (.01) |
| % Low Tenure | | | –.17*** | (.02) | –.02*** | (.00) | –.01*** | (.00) | .00** | (.00) | | |
| Constant | –281691.3*** | (45178) | 16.03*** | (1.12) | 3.68*** | (.16) | 11.70*** | (.11) | 3.29*** | (1.6) | 15.48*** | (1.52) |
| | N = 654 | | N = 1,627 | | N = 2,055 | | N = 1,930 | | N = 2,055 | | N = 2,055 | |
| | F = 8.34*** | | F = 39.3*** | | F = 71.2*** | | F = 18.6*** | | $Chi^2$ = 853.21*** | | F= 35.2*** | |
| | $R^2$=.13 | | $R^2$ = .241 | | $R^2$ = .31 | | $R^2$ = .11 | | Ps. $R^2$ = .41 | | $R^2$ = .17 | |

†Statistically significant at the .10 level; *at the .05 level; **at the .10 level; ***at the .001 level.

percentage of their non-managerial work force ($\beta = 9.34$, $p < .05$), and provided more training hours per employee ($\beta = .4$, $p < .05$). And overall, labor costs per employee were higher in franchise operations. There is no support for the idea that franchises pursue a strategy of lower expenditures on employees. Franchises also appear to have made greater use of work organization practices associated with employee involvement, such as work-related meetings ($\beta = 2.26$, $p < .1$) and TQM practices ($\beta = .56$, $p < .01$).

On the other hand, compared to non-franchise operations, franchises did employ a higher percentage of part-time workers ($\beta = .03$, $p < .05$), a higher percentage of employees with less than one year of tenure on the job ($\beta = 4.43$, $p < .01$), and non-managerial employees with fewer years of education ($\beta = -.19$, $p < .1$).

The size of the coefficients on the control variables reminds us just how important basic factors like industry and establishment size are in determining employment outcomes. Consistent with the argument that larger employers provide better working conditions (Brown, Hamilton, and Medoff 1990), the large establishments in our sample had significantly higher labor costs, managerial pay, non-managerial pay, and investment in employee training than did the smaller establishments, and their new hires possessed more human capital. But the effects associated with franchise status are also sizeable: controlling for industry and employment levels, for example, franchises spent $170,000 more per year on employees than did non-franchises.

Of the industry controls, "Hotels and restaurants industry" and "Retail" provide especially useful insights, given that most of the franchises examined in the extant literature operate in these two industry classifications (for example, Bradach 1998; Leidner 1993; Royle 2000). The predictor "Franchise" often has a coefficient opposite in sign to that on the predictors "Hotels and restaurants" and "Retail," showing that franchises' employee management approach did differ from that of hotels and restaurants and retail industries *per se*. In separate analyses, available on request, we examined the interaction between the hotel/restaurant industry variable and franchise status. The coefficient on the interaction variable across the models in Tables 3a–3c generally suggests that franchises in that industry provided better employment outcomes than non-franchise operations did, although the results are statistically significant in only about one-third of the cases, possibly because the number of observations in the hotel/restaurant industry (101) is relatively small.

Finally, the control variable that measures the establishment's turnover rate is statistically significant in all but three of the equations where it is included. Establishments with a higher turnover rate provided lower pay and fewer benefits to both managerial and non-managerial employees. Their managers and non-managerial employees had lower education levels, and fewer of them were involved in work-related meetings. Such establishments were also less likely to have TQM practices.

## Discussion and Conclusions

This study is the first to use nationally representative data to examine franchise operations and their work practices in detail. The basic question we investigate is whether franchise forms of operation are associated with lower-quality jobs. The results above suggest that this bad-jobs stereotype may be based on confounding attributes associated with franchises rather than franchise status *per se*. Franchises are concentrated in smaller establishments, which have fewer resources, and in industries like hotels and restaurants, which have lower-quality jobs. But within those sectors, the franchise operations in our sample appear to have offered more sophisticated management practices and to have made greater investments in their employees than did similar non-franchise establishments. Once we control for size and industry, we find little evidence that jobs were worse in franchises and considerable evidence that they were better than in equivalent, non-franchise operations. While there is some evidence that franchises hired less educated workers and designed more of their jobs to be part-time, they spent more

*Table 3b.* The Effect of Franchise Establishments on Employee Management.

| | *DV: Meetings* | | *DV: Existence of TQM* | | *DV: Existence of Training Policy* | | *DV: Log of Training Hours to Non-Managers* | | *DV: Percentage of Non-Managers Trained* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Tobit Estimates* | | *Logit Estimates* | | *Logit Estimates* | | *Tobit Estimates*[a] | | *OLS Regressions* | |
| *Variable* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* |
| Franchise | 2.26† | (1.18) | .56** | (.23) | .45† | (.23) | .40* | (.17) | 9.34* | (4.31) |
| Size | 1.16*** | (.18) | .42*** | (.037) | .34*** | (.04) | .17*** | (.03) | 4.60*** | (.70) |
| Food Industry | –.28 | (1.16) | –.11 | (.23) | .06 | (.22) | –.09 | (.18) | –2.63 | (4.57) |
| Machine | .78 | (.82) | .39* | (.16) | –.15 | (.15) | .02 | (.12) | 1.97 | (3.05) |
| Construction | 1.36 | (1.14) | –.83*** | (.24) | –.16 | (.22) | –.53** | (.18) | –14.39** | (4.29) |
| Transportation | .60 | (.75) | –.67*** | (.15) | .41** | (.15) | –.18 | (.12) | –7.17* | (2.88) |
| Retail | –.08 | (1.32) | –.55* | (.27) | 1.12*** | (.29) | –.30 | (.21) | –10.75* | (5.28) |
| Finance | 4.94*** | (1.17) | –.59** | (.20) | .41* | (.20) | .36* | (.17) | 16.66*** | (3.93) |
| Business Services | –.23 | (1.28) | –.37 | (.26) | .36 | (.25) | –.63** | (.20) | –19.84*** | (5.01) |
| Health | .96 | (1.30) | .09 | (.26) | 1.26*** | (.29) | –.15 | (.22) | 5.29 | (5.30) |
| Hotel and Rest. | 3.14** | (1.28) | –.56* | (.24) | .70** | (.25) | –.40* | (.19) | –17.36*** | (4.65) |
| Est. Age | .00 | (.01) | –.01* | (.00) | –.00† | (.00) | .00 | (.00) | –.01 | (.04) |
| % Low Tenure | –.03* | (.01) | –.01** | (.00) | 8.95e-06 | (.00) | –.00 | (.00) | –.01 | (.06) |
| Constant | 7.76*** | (1.09) | –1.77*** | (.22) | –1.57*** | (.22) | 1.29*** | (.17) | 28.35*** | (4.19) |
| | N = 1,998 | | N = 2,040 | | N = 2,037 | | N = 1,567 | | N =1,675 | |
| | $Chi^2(13) = 73.6$*** | | $Chi^2(13) = 260.8$*** | | $Chi^2(13) = 139.5$*** | | $Chi^2(13) = 93.1$*** | | F = 10.61*** | |
| | Pseudo $R^2 = .01$ | | Pseudo $R^2 = .09$ | | Pseudo $R^2 = .06$ | | Pseudo $R^2 = .02$ | | $R^2 = .08$ | |

[a]Tobit estimation was used because some establishments reported no training of employees, and in those cases, the variable is missing.
†Statistically significant at the .10 level; *at the .05 level; **at the .01 level; ***at the .001 level.

*Table 3c.* The Effect of Franchise Establishments on Employee Management: Evidence for Managerial Employees.

| | *DV: Pay for Managers* | | *DV: Education for Managers* | | *DV: Log of Training Hours for Managers* | | *DV: Percentage of Managers Trained* | |
|---|---|---|---|---|---|---|---|---|
| | *OLS Regression* | | *OLS Regression* | | *Tobit Estimate* | | *Tobit Estimate* | |
| *Variable* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* | *Coeff.* | *(s.e.)* |
| Franchise | 1.34 | (2.23) | –.05 | (.15) | .37* | (.17) | 1.23 | (1.95) |
| Size | 2.49*** | (.36) | .25*** | (.03) | .19*** | (.03) | 3.05*** | (.34) |
| Food Industry | –2.09 | (2.44) | –.02 | (.16) | .03 | (.17) | –1.28 | (2.01) |
| Machine | 1.07 | (1.68) | .29** | (.11) | .14 | (.12) | .03 | (1.42) |
| Construction | 5.11* | (2.20) | –.19 | (.16) | –.39* | (.16) | –4.54** | (1.74) |
| Transportation | 1.13 | (1.50) | .13 | (.10) | .15 | (.11) | 1.19 | (1.30) |
| Retail | –13.31*** | (2.74) | –.15 | (.19) | .04 | (.19) | –.03 | (2.21) |
| Finance | .52 | (2.10) | .94*** | (.14) | .29* | (.15) | 6.16** | (1.98) |
| Business Services | –1.99 | (2.58) | 1.04*** | (.18) | –.05 | (.19) | –1.48 | (2.03) |
| Health | –7.21** | (2.58) | 1.08*** | (.19) | –.08 | (.19) | .53 | (2.28) |
| Hotel and Rest. | –16.94*** | (2.42) | –.11 | (.18) | –.07 | (.18) | | (2.17) |
| Est. Age | .00 | (.02) | –.00 | (.00) | .00 | (.00) | .00 | (.02) |
| % Low Tenure | –.21*** | (.03) | –.01*** | (.00) | –.00 | (.00) | –.01 | (.02) |
| Constant | 39.71*** | (2.18) | 13.05*** | (.15) | 1.18*** | (.16) | 4.12* | (1.84) |
| | N = 1,531 | | N = 1,930 | | N = 1,623 | | N = 1,741 | |
| | F (13, 1517) = 20.9*** | | F (13 1916) = 19.08*** | | $Chi^2$ (13) = 82.87*** | | $Chi^2$ = 126.58*** | |
| | $R^2$ = .15 | | $R^2$ = .11 | | Pseudo $R^2$ = .01 | | Pseudo $R^2$ = .03 | |

†Statistically significant at the .10 level; *at the .05 level; **at the .01 level; ***at the .001 level.

on these workers, offered them more training, and engaged more of them in employee involvement–related work systems than did non-franchise establishments. A fair assessment might be that franchise jobs offered more to lower-quality workers than did similar non-franchise jobs.

A related question is whether the employee management approach taken by franchise operations is closer to the scientific management model or to the high commitment model for managing employees. The bad jobs argument, especially as applied to fast-food companies like *McDonald's,* emphasizes deskilled jobs based on approaches that look much like scientific management. On the other hand, the fact that franchises are generally seen as more advanced in their management practices than equivalent non-franchise operations suggests that they would be more likely than non-franchise operations to use high performance work practices. The franchises in our sample did hire less educated front-line employees, as one would expect if they followed a scientific management model, but their expenditures on their employees, which exceeded the corresponding expenditures of similar non-franchise establishments, certainly are inconsistent with the goal of scientific management, which is to lower employee costs by deskilling jobs. We also find no evidence that franchises used better-paid and better-educated managers, as would be expected if they practiced scientific management.[6] But the most compelling evidence that these franchises were closer to the high performance model than to the scientific management model is that they made greater use of systems associated with employee involvement and teamwork. Data that could measure more precisely the tasks individual workers perform and give a more detailed picture of their job design would be helpful in establishing more clearly the extent to which franchises make use of scientific management as an organizing principle. Additional data on employee attributes might also make it possible to tell whether workers with given attributes receive better treatment by franchisees than by non-franchise establishments and whether, for example, franchisees offer efficiency wage levels of compensation.

One conclusion to be drawn from the results above is that jobs cannot be classified as simply "good" or "bad." Considering the complex mix of outcomes we have found across various job attributes, we would guess that only a rather sophisticated classification system could accurately evaluate how a given job stacks up for workers.

Several important puzzles remain about franchises and work practices. An obvious question is why franchises invest more in training than do non-franchise operations but also appear to have higher turnover, at least as measured by the presence of more low-tenure workers. After all, training investments are lost when workers leave. Franchise training and other arrangements could be structured to earn a return in a shorter time period; it is also possible that turnover at franchises is actually lower than one would expect given the characteristics (such as the relatively low education levels) of the workers they hire. But this explanation leads to the more general question that has yet to be answered clearly: what is the comparative advantage of franchises? Spending more per employee than non-franchise operations do would appear to put franchises at a considerable cost disadvantage that somehow has to be offset—possibly through superior productivity or some other method of adding value. It is clear, though, that the competitive advantage of franchises is not based on a model of spending less on its employees. The fact that they continue to exist and at least in many areas thrive against non-franchise forms suggests that they must be able to offset the labor cost disadvantage in other ways.

A logical explanation for the above would be that franchises have productivity advantages over non-franchise forms. Unfortunately, there is little research on this issue, due to the difficulty of accessing data on franchise financial performance, in part because most franchise chains are privately

[6]An alternative that we cannot examine is that franchises concentrate management skill requirements at headquarters where the operating systems are designed, allowing them to use lower-quality, lower-paid managers in the establishments.

owned (Combs, Michael, and Castrogiovanni 2004). The papers that do look at financial performance compare performance across various franchisee-owned outlets (Combs, Ketchen, and Hoover 2004; Darr, Argote, and Epple 1995; Hennessy 2003), or between franchisee- and company-owned units of the same chain (Sorenson and Sørensen 2001; Thomas, O'Hara, and Musgrave 1990). The financial performance of franchises versus non-franchise forms remains for future research to examine. The place to begin would be with the hypothesis that the greater use of practices such as TQM and training in franchises drives higher performance and offsets the labor cost difference.

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