Franchising Job Quality Gap and the Effects of New Labor Standards

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Rising Inequalities and Fissuring

Collective barg. (Card et al 2004) + fairness perceptions (Akerlof and Yellen 1990) $\rightarrow$ wage compression + rent sharing

wage = firm-specific + worker-specific + e

Increased dispersion and sorting of firm pay premia

$\rightarrow$ higher wage inequality (Card et al. '13; Song et al. '19)

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Fissuring: low-wage workers sorting into lower-wage firms (Weil '14; Goldschmidt & Schmieder '17; Dube & Kaplan '10).

Fissuring likely has effects beyond wages: amenities are "central components of the compensation received by workers" (Maestas et al. '23).

Rising Inequalities and Fissuring

1. Fissuring via Outsourcing (IT, cleaning, logistics, security) leads to wage reductions (Goldschmidt & Schmieder 2017, Dubes & Kaplan 2010).

2. Fissuring via Franchising:

- Franchising and **compliance** with labor standards (Ji Weil '15)
- Decision to franchise (Lafontaine '92)
- Franchising **Political Economy** (Callaci, forthcoming)
- **Job quality**:
  - New franchises vs old franchises (Ouyang and Batt, 2025)
  - Franchising vs Mom and Pops (Cappelli '08)

Franchise vs non-Franchise JQ gap

To assess whether franchising is associated with worse job quality, we need to compare...

Franchising brands such as

VS

Non franchising brands such as

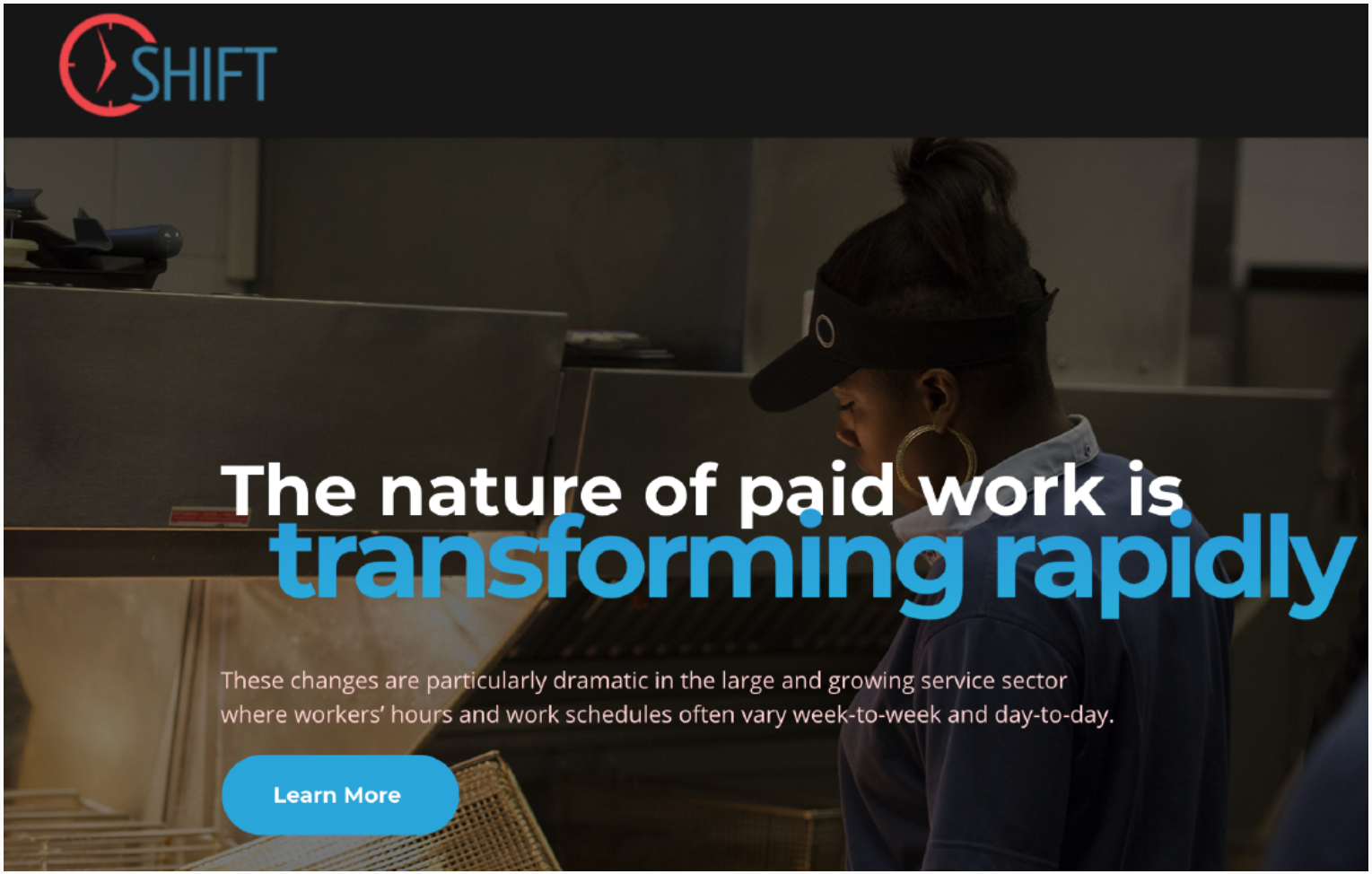
Reasons for the Franchise JQ gap

- Lost Large-Firm Premium (Weil 2014; Goldschmidt & Schmieder 2017)
- Franchise Squeeze Pressure (Callaci, forthcoming; Appelbaum & Batt, 2017, Weil, 2014)
- Fragmented Worker Bargaining Power (Weil 2014)
- Easier to violate labor stds (Ji & Weil 2015)

Research Questions

- Is there a job quality gap between franchising and non franchising employers in
  - Wages?
  - Other dimensions of job quality?
- If so, can expanded labor standards reduce the franchise job quality gap, or does it persist through non-compliance (Ji & Weil '15)?

Shift Project data



https://shift.hks.harvard.edu/

Data Sample characteristics

- Sample of 17,401 hourly workers at fast-food branded firms. (waves 3-17, years 2017-2024)
- Matched employer-employee data (establishment level)

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- Sample of 17,401 hourly workers at fast-food branded firms. (waves 3-17, years 2017-2024)
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- Sampling frame: Users of FB and Instagram.
- Previous work using similar sampling frame: Harknett and Schneider (2020), Dube and Naidu (2022)

Data Franchise Disclosure Documents

Item 20
Outlets and Franchisee Information

Table No. 1
Systemwide Outlet Summary
For years 2022 to 2024

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2022	12,775	12,764	-11
	2023	12,764	12,772	+8
	2024	12,772	12,887	+115
Company-Owned	2022	661	691	+30
	2023	691	685	-6
	2024	685	672	-13
Total Outlets	2022	13,436	13,455	+19
	2023	13,455	13,457	+2
	2024	13,457	13,559	+102

We scraped info from FDDs about number of franchisees and company owned establishments.

Data Franchising Measures

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- Franchise Density:
  % of establishments in brand that are franchisees in 2017-2024
- Franchise Brand:
  $< 25\%$ vs $> 75\%$ franchise density

▸ Histogram of brands by franchise density

Measuring Job Quality: The Challenge

Mitigating concerns of p-hacking:

We pick ALL job quality measures in Shift survey

33 job quality measures across 6 domains

Challenges:

- **Interpretability**: Too many estimates $\rightarrow$ unclear conclusions
- **False discoveries**: More tests $\rightarrow$ higher chance of spurious findings

Solution: Combine related measures into domain indices

(Anderson, 2008, Equal weights index for robustness)

Job Quality Domains

Three key individual outcomes:

Hourly wage (with tips), Paid sick leave access, and Two weeks advance notice

Six domain indices: (Grayed out indices are exploratory due to small n)

- Hours quality (usual hours, involuntary PT, volatility)
- Scheduling quality (advance notice, clopening, on-call)
- Fringe benefits (health, dental, vacation, retirement, etc.)
- Work-life balance (schedule control, time-off flexibility)
- Worker perceived JQ (Job satisfaction, advanc opportunities)
- Management qual. (Manager treats fairly, manag. bullying)

Job Quality and Firm Structure

Empirical Strategy 1: Comparing job quality at firms with varying degrees of franchising density

$$\text{Outcome}^j = \text{JQGap}^j \cdot \text{Franchise Density} + \text{Controls} + \text{Year} + \epsilon \quad (1)$$

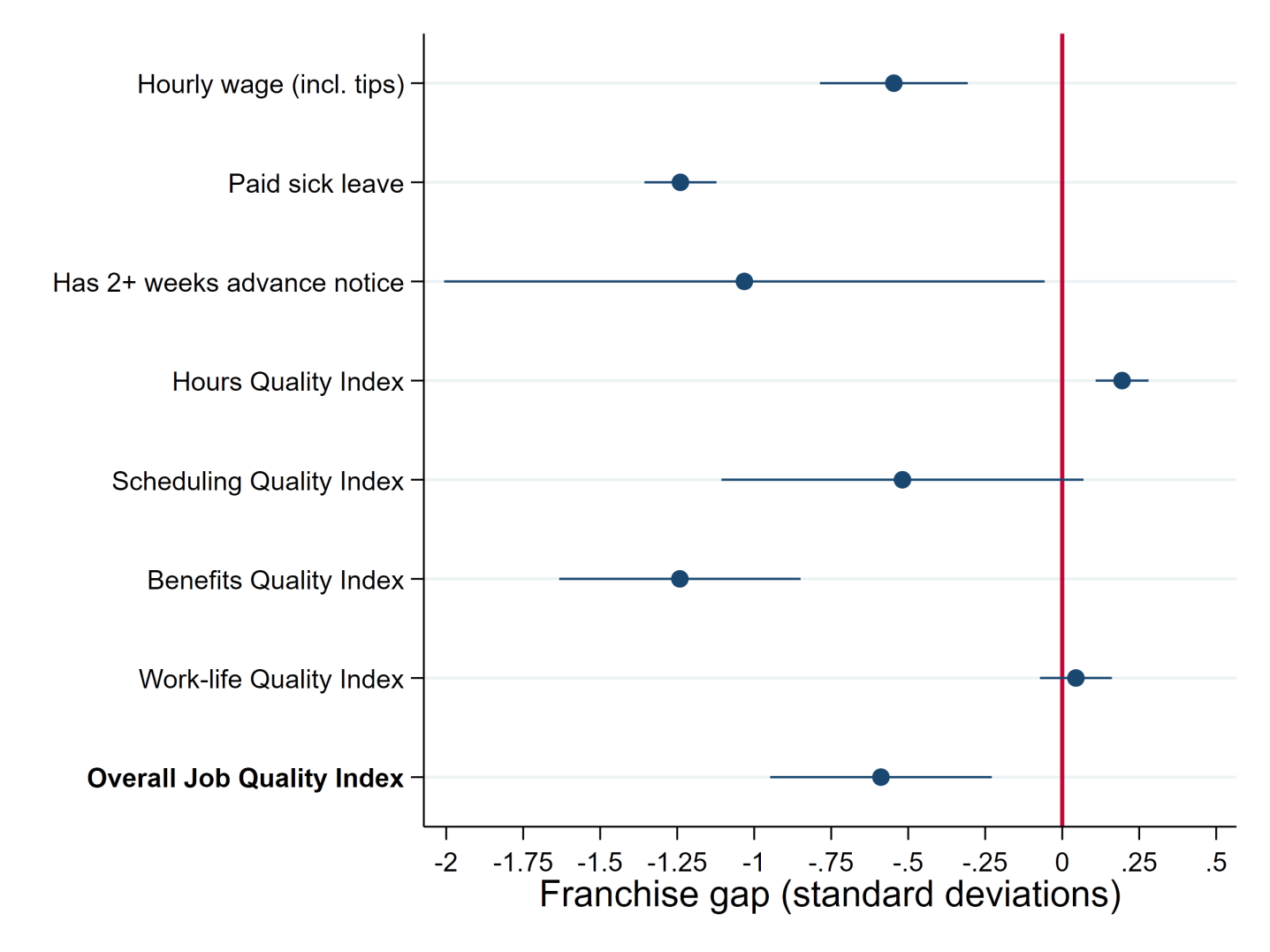
Spec 1: Without controls

Spec 2: With controls (Does adding controls absorb the gap?)

Controls: female ## kids ## cohab + time constr + tenure + manager + white non hispanic + tipped worker + union member

▸ List of controls ▸ Controls Balance Table

Job Quality Gap (Franchise Density, Year FE, No Controls)

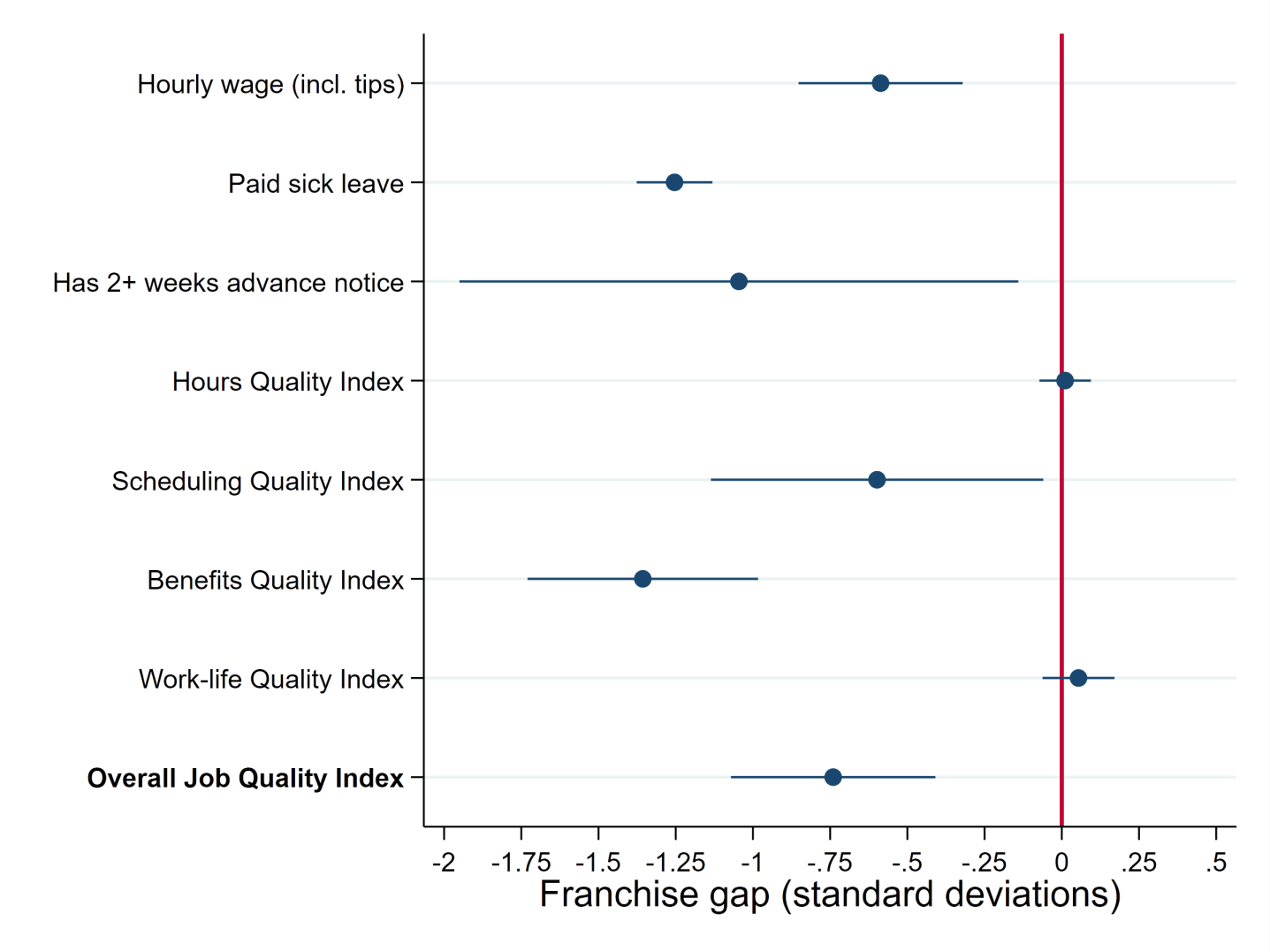


Anderson (2008) indices. All standardized. More is better. ▸ Equal Weights Plot

▸ Table w/ FDR p-vals ▸ Indiv Outc in Orig Scale ▸ Few clusters ▸ CV3 clustering All Outcomes

Motivation Data Job Quality Gap Effects of PSL on JQ gap

Job Quality Gap (Franchise Density, Year FE, Controls)



Anderson (2008) indices. All standardized. More is better. Brand-level CV1 clusters

▸ Controls Balance Table ▸ Table w/ FDR p-vals ▸ Few clusters ▸ CV3 clustering

Franchise Job Quality Gap

Empirical Strategy 2: Is there a job quality gap between working for a franchise brand vs a non-franchise brand?

Franchise vs Corporate brand: Brand national franchise density >85% vs <25%

$$\begin{aligned} \text{Outcome}^j = &\text{JQGap}^j \cdot \text{Franchise Brand} + \\ &\text{Controls} + \text{Year} + \text{State} + \epsilon \end{aligned} \tag{2}$$

Spec 1: Without controls

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Alls specs together

	(1) Fran Dens	(2) Fran Dens	(3) Fran Brand	(4) Fran Brand
Overall Job Quality Index	-0.59***	-0.74***	-0.57***	-0.71***
	(0.18)	(0.16)	(0.17)	(0.16)
Hourly wage (incl. tips)	-0.55***	-0.59***	-0.35***	-0.42***
	(0.12)	(0.13)	(0.08)	(0.09)
Paid sick leave	-1.24***	-1.25***	-1.03***	-1.08***
	(0.06)	(0.06)	(0.08)	(0.08)
Has 2+ weeks advance notice	-1.03**	-1.05**	-1.01**	-1.02**
	(0.48)	(0.45)	(0.47)	(0.44)
Hours Quality Index	0.19***	0.01	0.17***	0.01
	(0.04)	(0.04)	(0.03)	(0.04)
Scheduling Quality Index	-0.52*	-0.60**	-0.51*	-0.58**
	(0.29)	(0.27)	(0.29)	(0.27)
Benefits Quality Index	-1.24***	-1.36***	-1.17***	-1.29***
	(0.19)	(0.18)	(0.19)	(0.18)
Work-life Quality Index	0.04	0.05	0.03	0.04
	(0.06)	(0.06)	(0.05)	(0.05)
Year FE	Y	Y	Y	Y
State FE	N	N	Y	Y
Firm FE	N	N	N	N
Sample	All sample	All sample	All sample	All sample
Controls	N	Y	N	Y
N	23567	23567	21192	21192

▸ With CV3 SEs

Paid Sick Leave Gap in Franchising

Does the introduction of new Paid Sick Leave laws reduce the gap in access to paid sick leave between franchises and non-franchises? (Negative β_1)

We study the implementation of PSL laws across 11 states between 2018 and 2022.

Implementation Schedule

Franchise Analysis: Triple Difference

Pre vs Post Model (base e=0)

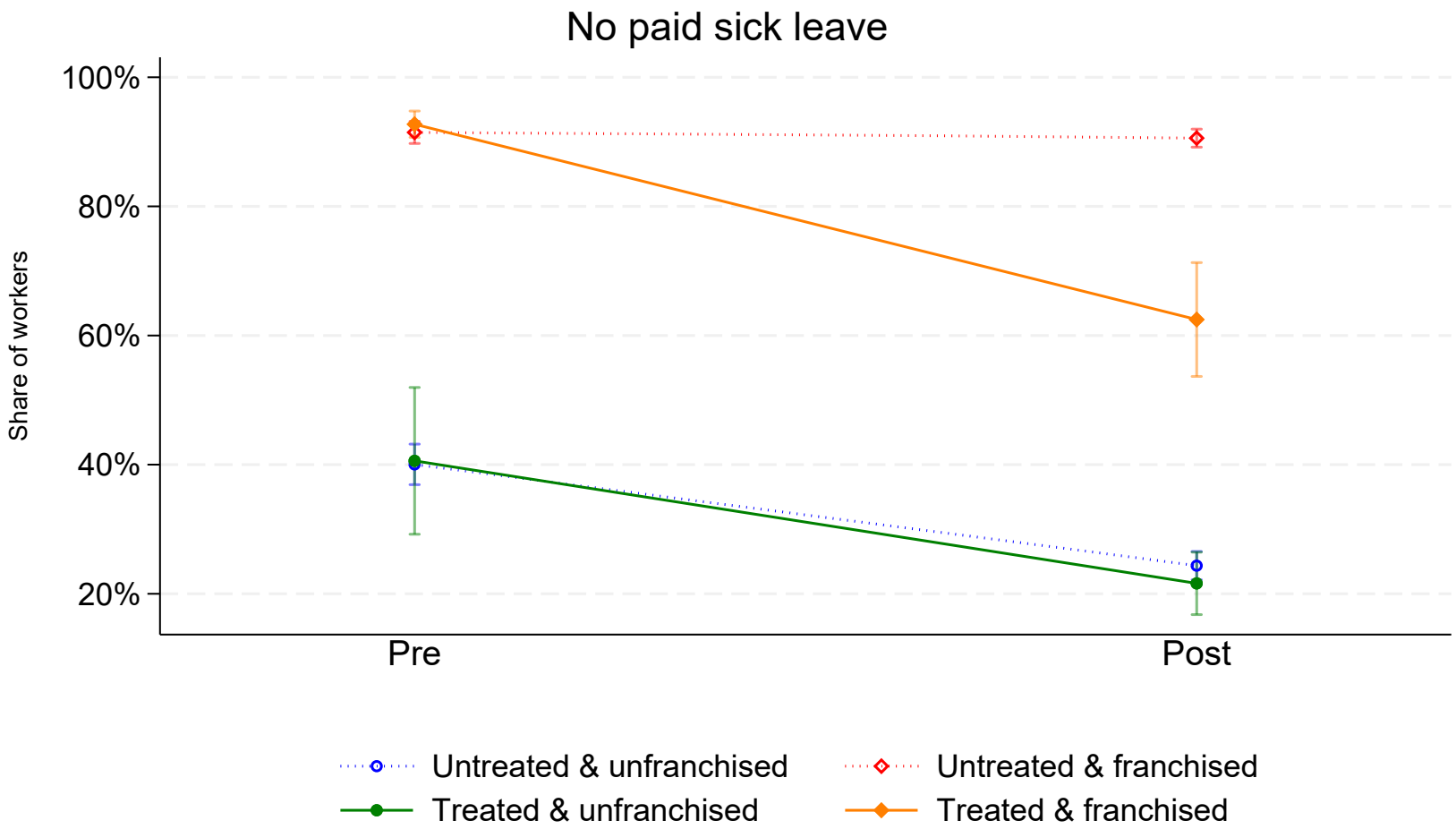
$$Y_{its} = \beta_1 \text{Franchise Brand} \times \text{Treatment} \times \text{Post}_{its} + \beta_2 \text{Treatment} \times \text{Post}_{its} + \beta_3 \text{Franchise Brand} \times \text{Post}_{its} + \text{lower level int} + \text{yr x subexp} + \textit{controls}$$

Event Study Model (base e=0)

$$Y_{its} = \sum_{\substack{h=-6,\ldots,+5 \\ h \neq 0}} [\beta_{1h} \text{Franchise Brand} \times \text{Treatment}_{its} \times \mathbf{1}[e = h] + \beta_{2h} \text{Treatment}_{its} \times \mathbf{1}[e = h] + \beta_{3h} \text{Franchise Brand}_{its} \times \mathbf{1}[e = h]] + \text{lower level int} + \text{yr x subexp} + \textit{controls}$$

PSL laws reduced PSL Gap?

Figure 1: Predicted values for Lack of PSL ($\hat{y}$)



PSL laws reduced PSL gap?

Table 1: PSL law effects on PSL gap (base e=0)

Dependent variable: Lack of Paid Sick Leave

	(1)	(2)	(3)	(4)	(5)	(6)
Fran comp × PSL law × Post (β_1)		-0.270***		-0.259***		-0.260***
		(0.070)		(0.071)		(0.068)
PSL law × Post (β_2)	-0.254***	-0.043	-0.247***	-0.048	-0.259***	-0.049
	(0.044)	(0.049)	(0.049)	(0.055)	(0.048)	(0.053)
Fran comp × Post (β_3)		0.152***		0.148***		0.148***
		(0.015)		(0.014)		(0.014)
Fixed Effects	N	N	Y	Y	Y	Y
Controls	N	N	N	N	Y	Y
Observations	108,672	108,672	108,672	108,672	108,672	108,672

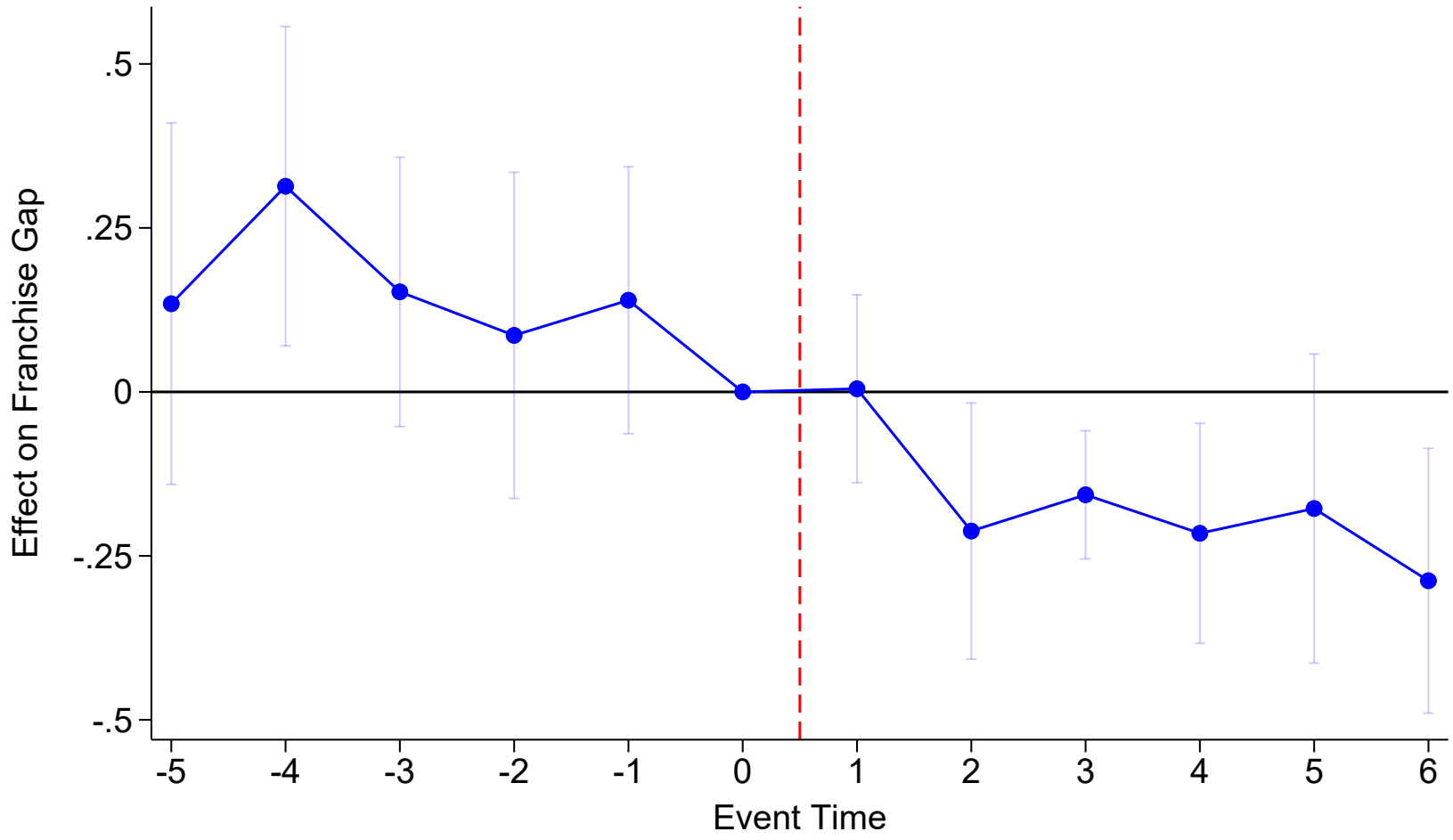
Standard errors in parentheses

$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Note: Sample sizes are large because we are using weighted stacks (Wing, 2024). Fixed effects are year by subexperiment (state-specific effects within each policy rollout). Controls include demographics (gender, age, race, has children, cohabitation status, education). Standard errors clustered at the employer level.

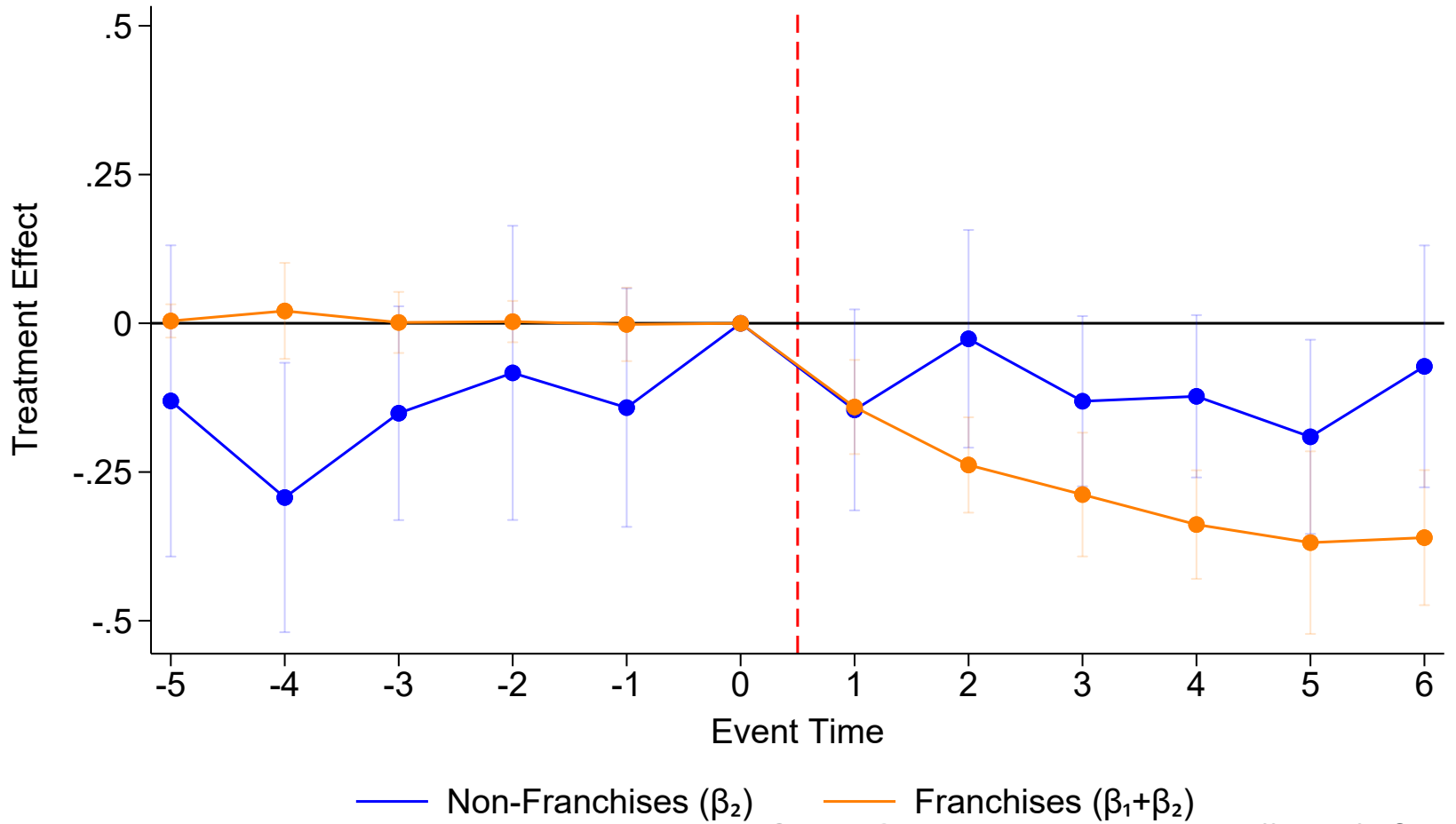
PSL laws reduced PSL gap?

Figure 2: Change in PSL gap in treated states (β_1 coeff.)



PSL laws reduced PSL gap?

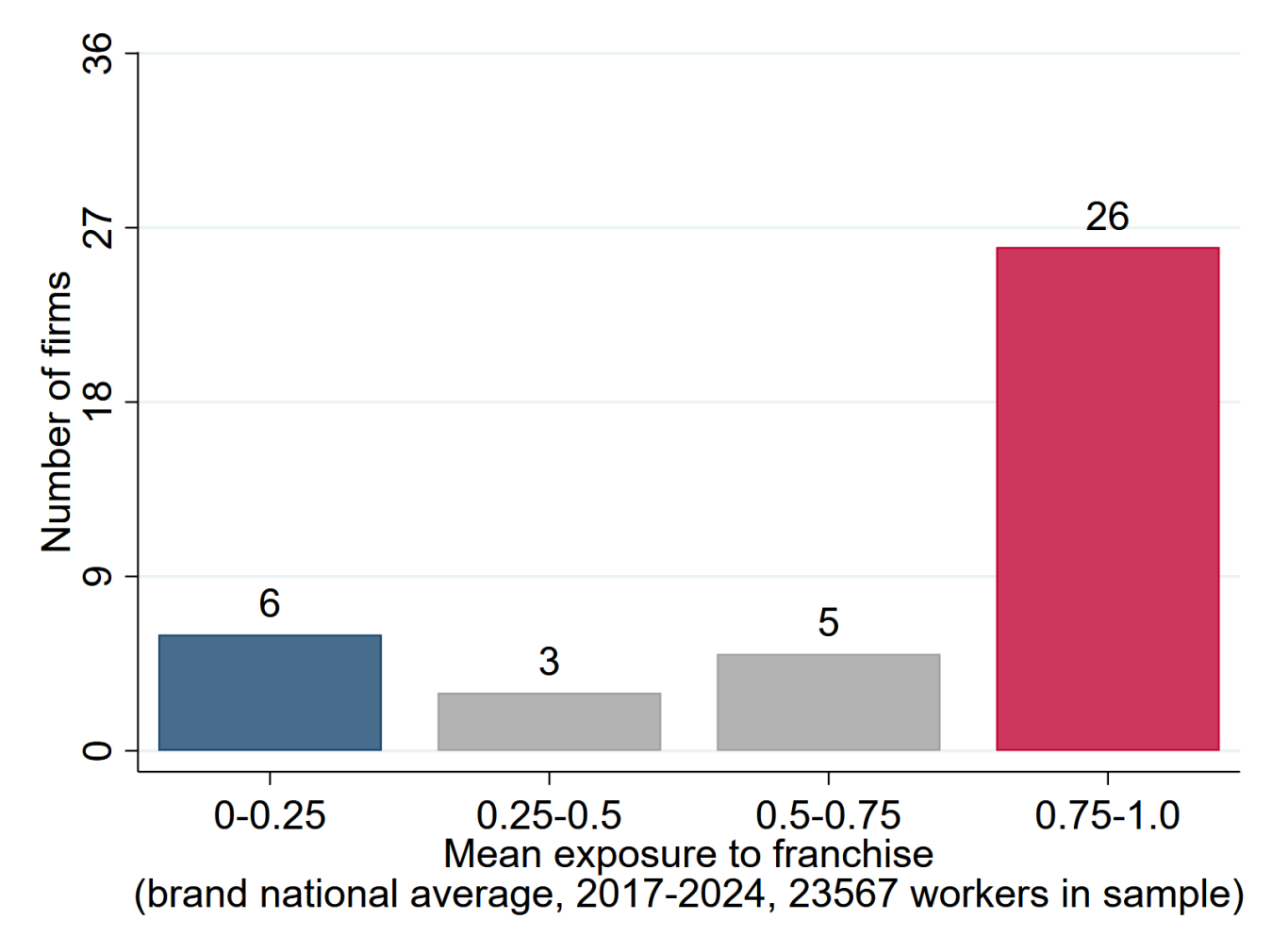
Figure 3: Change in lack of PSL in non-franchise and franchise establishments (β_1 and $\beta_1 + \beta_2$ coeff.)



Conclusion

- Substantial job quality gap between franchise and non-franchise establishments in fast-food
- Paid sick leave laws reduce the franchise PSL gap. Non-compliance remains widespread at franchises.

Data Histogram of firms by their franchising density



Our sample includes 6 non-franchising firms and 26 franchising firms.

◂ Back

Controls

$$\text{female\#\#kids\#\#cohab} + \text{time constr} + \text{tenure} + \text{manager} + \text{white non hispanic} + \text{tipped worker} + \text{union member}$$

1. **Household Structure** female##kids##cohabitation

Captures "time crunch" and Willingness-to-Pay for stability; specifically isolates single mothers (Mas & Pallais '17; Hamermesh '07).

2. **Time Constrained** (Student or Second Job)

Controls for availability constraints and opportunity cost of time. (Mas & Pallais '17).

3. **Experience and position** Tenure (Years at firm) + Manager Status

Proxy for firm-specific knowledge, seniority privileges and occupation.

4. **Race** (White Non-Hispanic)

Controls for Front-of-House vs. Back-of-House sorting

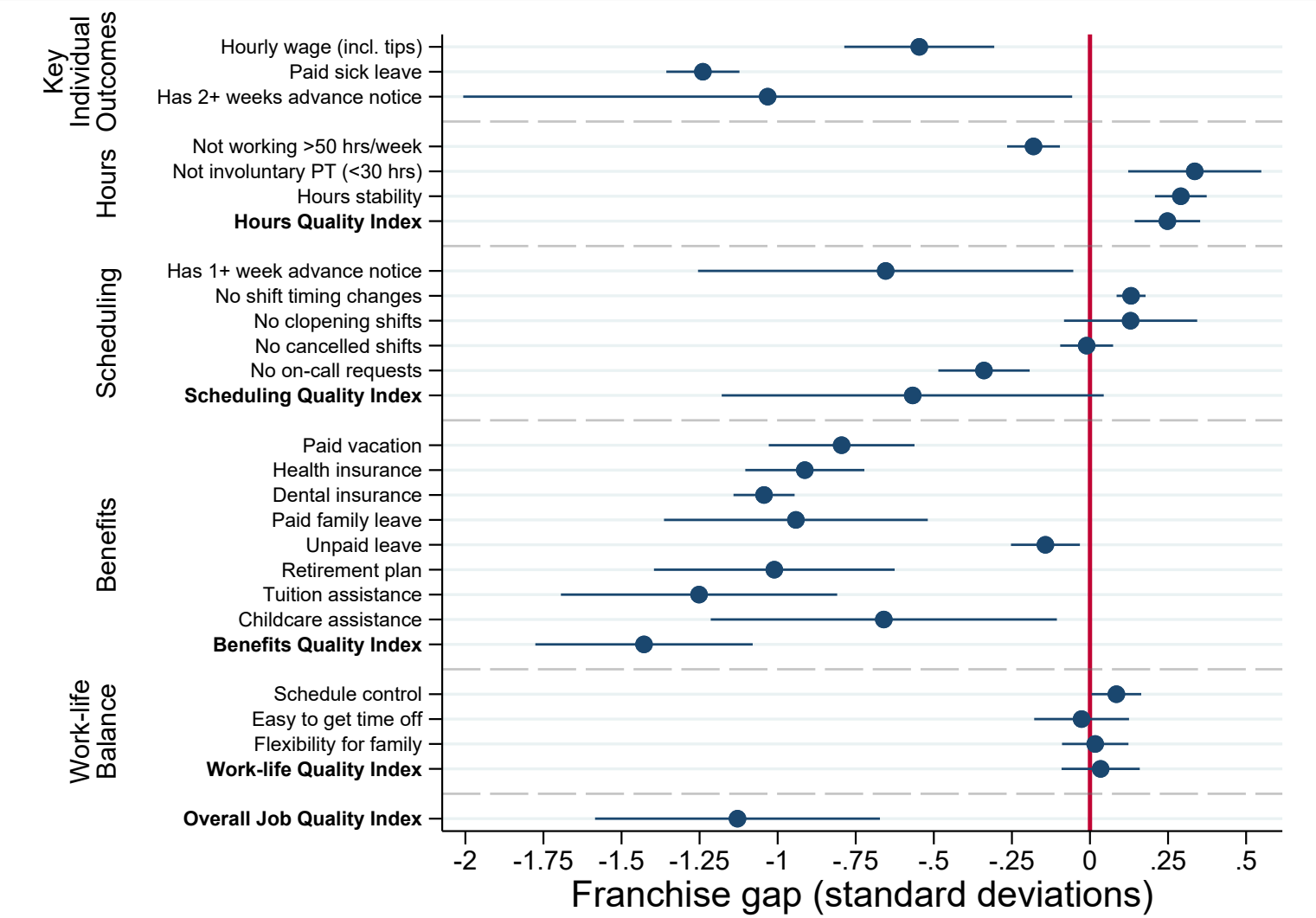
5. **Job Characteristics** Tipped Worker + Union

◂ Emp Strat 1 ◂ Emp Strat 2

Balance on covariates table

	All sample			Never treated			PSL pre			FWW pre		
	Overall	Franchise	Non-fran	Overall	Franchise	Non-fran	Overall	Franchise	Non-fran	Overall	Franchise	Non-fran
Female	0.72	0.73	0.71	0.73	0.73	0.72	0.74	0.74	0.72	0.67	0.68	0.65
Has children	0.37	0.43	0.16	0.41	0.45	0.17	0.39	0.45	0.15	0.30	0.40	0.18
Married/cohabiting	0.42	0.43	0.34	0.43	0.44	0.35	0.42	0.44	0.34	0.36	0.42	0.29
Single mother	0.11	0.13	0.04	0.13	0.14	0.05	0.12	0.14	0.04	0.10	0.12	0.07
Tenure (years)	3.41	3.52	2.98	3.42	3.54	2.70	3.42	3.58	2.71	3.53	3.61	3.43
White non-Hispanic	0.77	0.80	0.66	0.84	0.84	0.78	0.78	0.80	0.68	0.48	0.56	0.41
Manager	0.34	0.38	0.18	0.37	0.40	0.21	0.34	0.39	0.17	0.25	0.35	0.14
Tipped worker	0.36	0.30	0.54	0.34	0.29	0.62	0.31	0.26	0.48	0.25	0.19	0.33
Union member	0.04	0.04	0.04	0.03	0.04	0.03	0.03	0.03	0.02	0.06	0.08	0.04
Time constrained	0.40	0.35	0.61	0.37	0.33	0.60	0.40	0.35	0.63	0.49	0.42	0.60
N	23,567	16,274	5,095	11,397	8,542	1,623	4,300	3,065	853	965	459	414

Franchise Exposure state year (Eq. Weig, Yr FE, No Controls)



Equal Weights indices. All standardized. More is better.

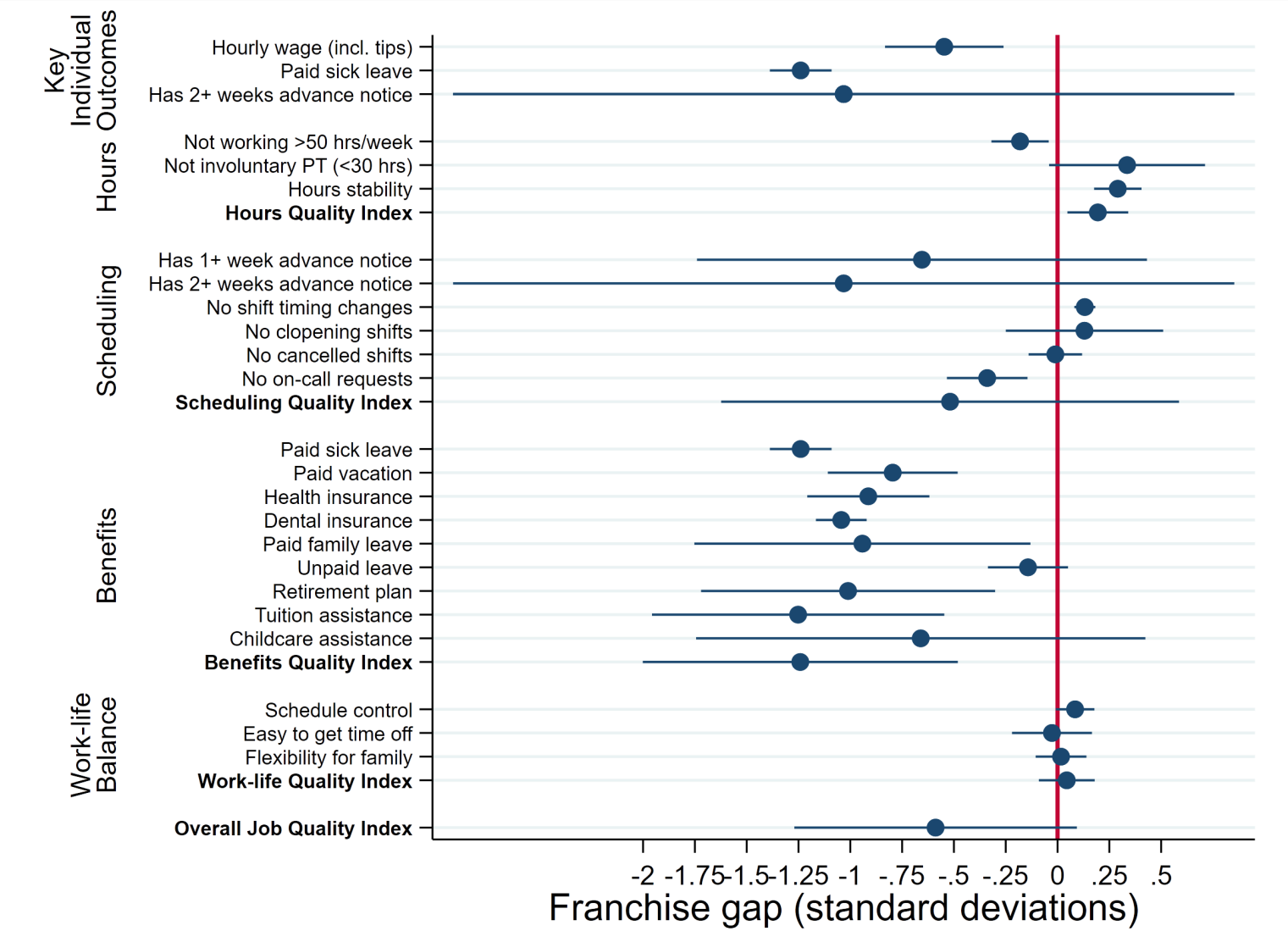
◂ Back to Anderson Weights

Statistical Inference with Few Clusters

Standard errors clustered at firm level (29 firms). t-statistics don't follow assumed distribution when G < 30

- To make matters worse: Firm sizes highly unequal (1 to 4,099 workers per firm)
- Few large chains dominate: McDonald's, Starbucks, Subway
- **Effective # of clusters = 4** (G(0) obtained with MacKinnon et al (2023) summclust Stata package)
- CV1 (standard cluster-robust) SEs underestimate uncertainty.
- Provide CV3: Designed for small G; more conservative but more reliable

Franchise Exposure state year (Eq. Weig, Yr FE, No Contt)



Equal Weights indices. All standardized. More is better. CV3 clustering

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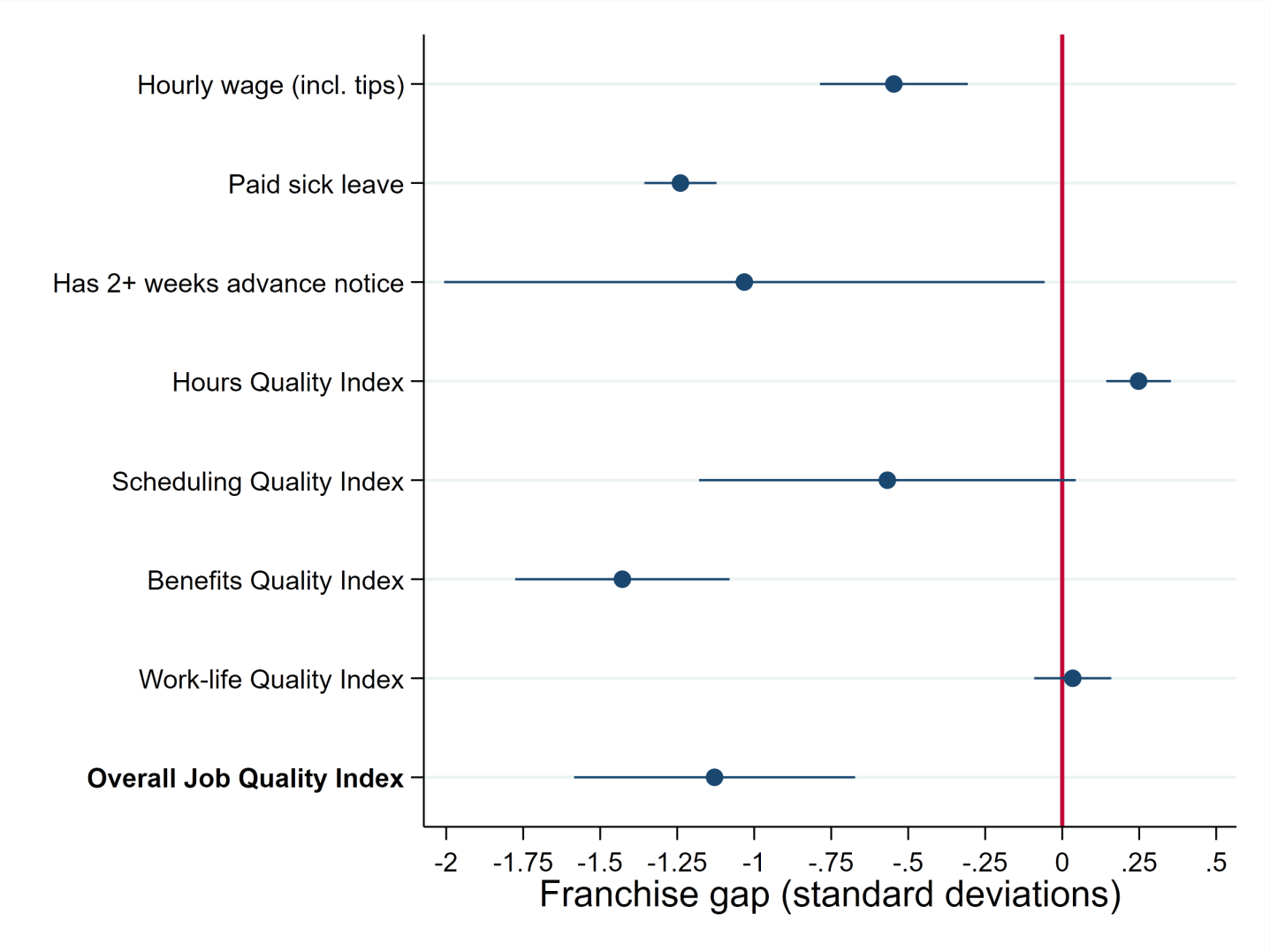

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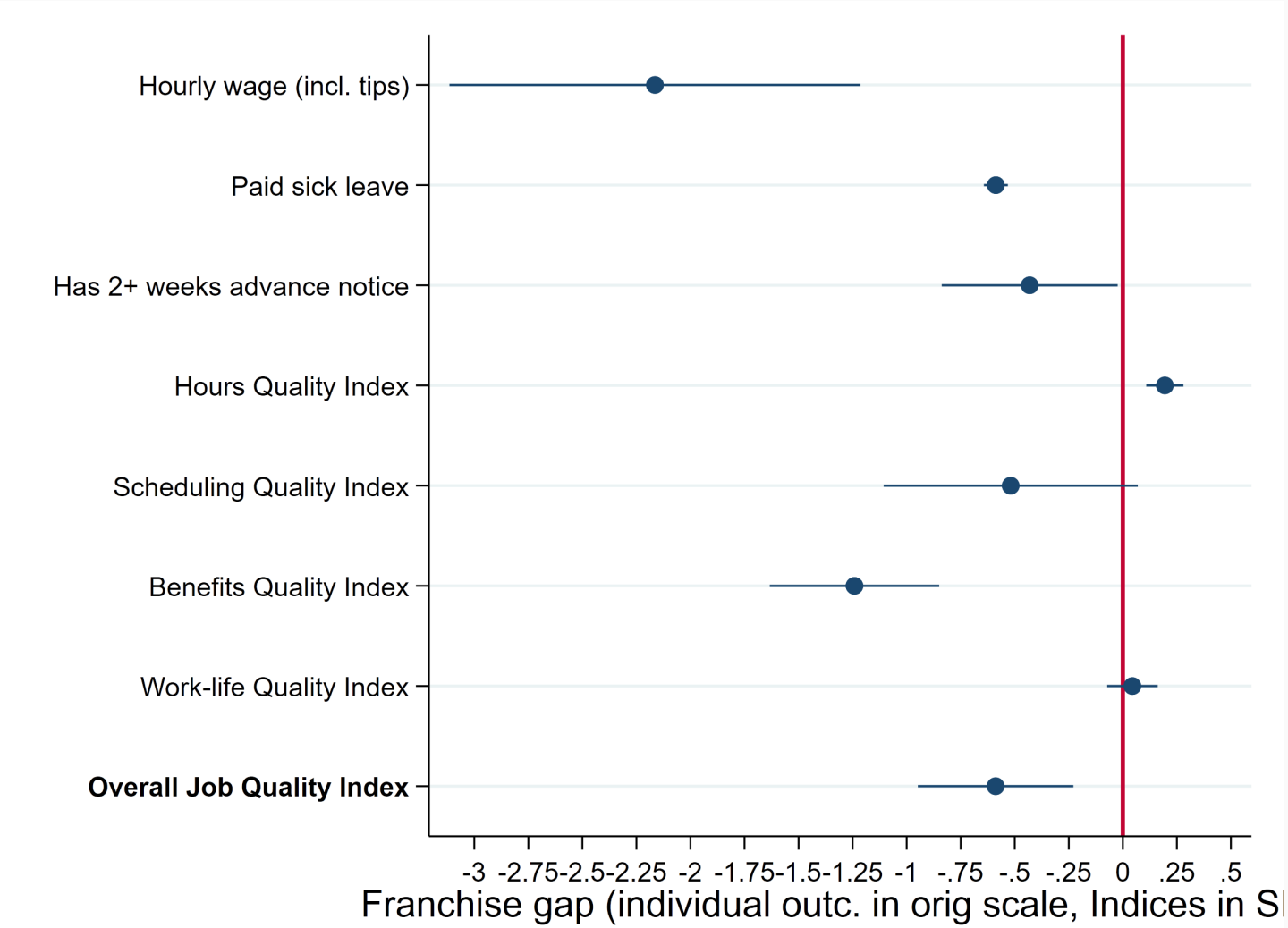

Individual Outcomes. Original Scale (Point Estimates).

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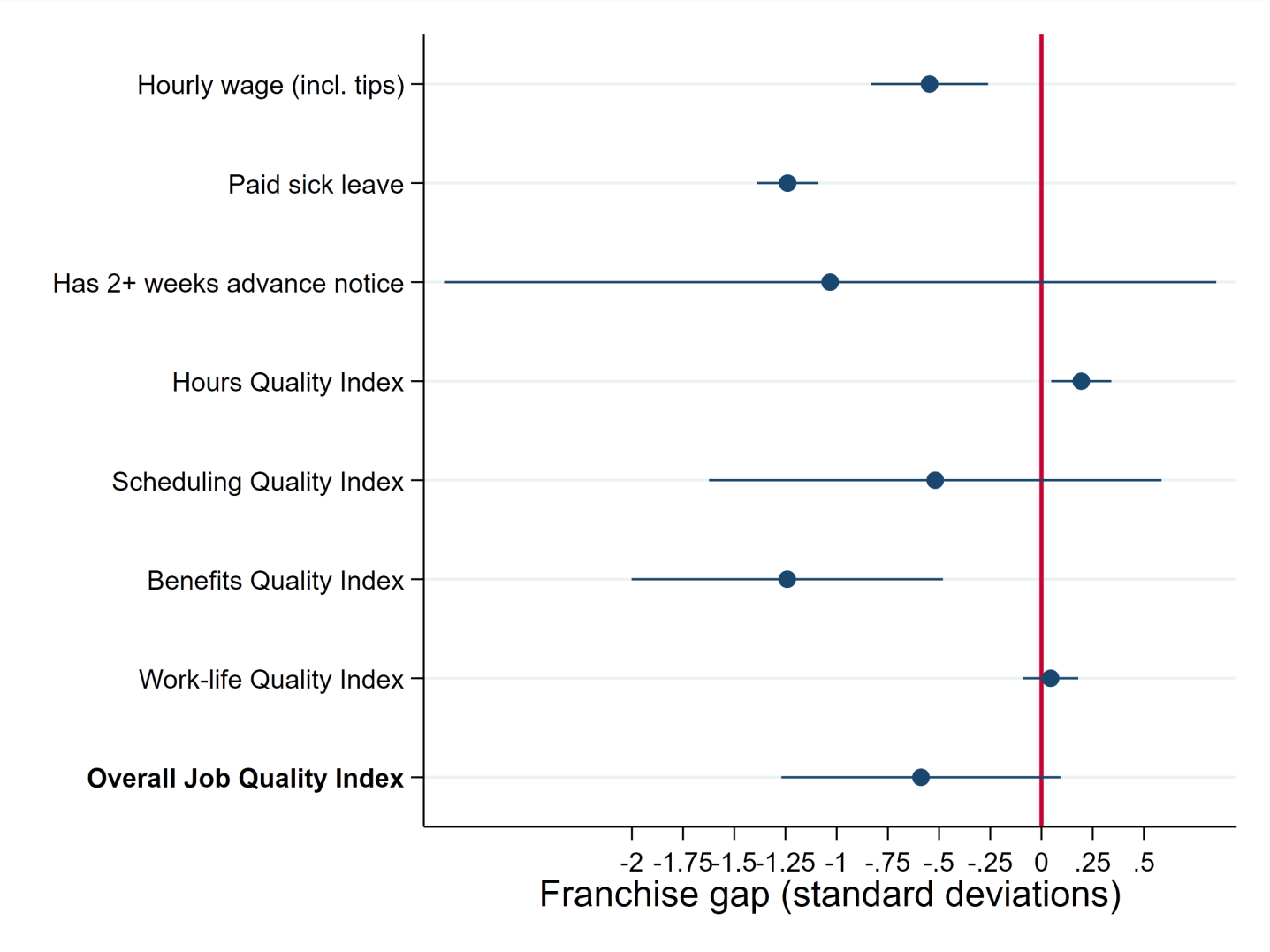
Franchise Exposure state year (Year FE, No Controls)



Equal Weights indices. All standardized. More is better. Brand-level CV3 Clusters

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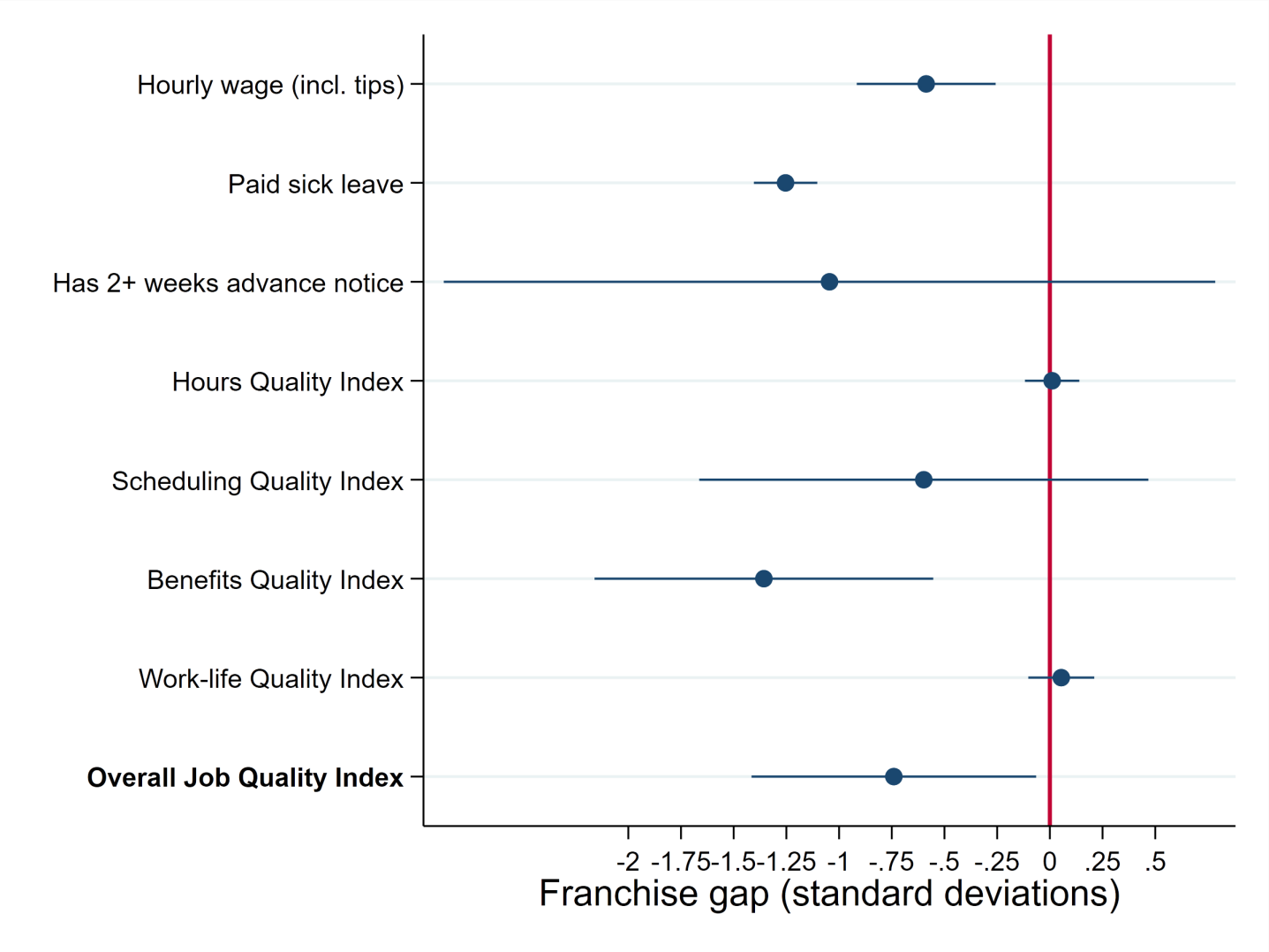
Franchise Exposure state year (Year FE, with Controls)



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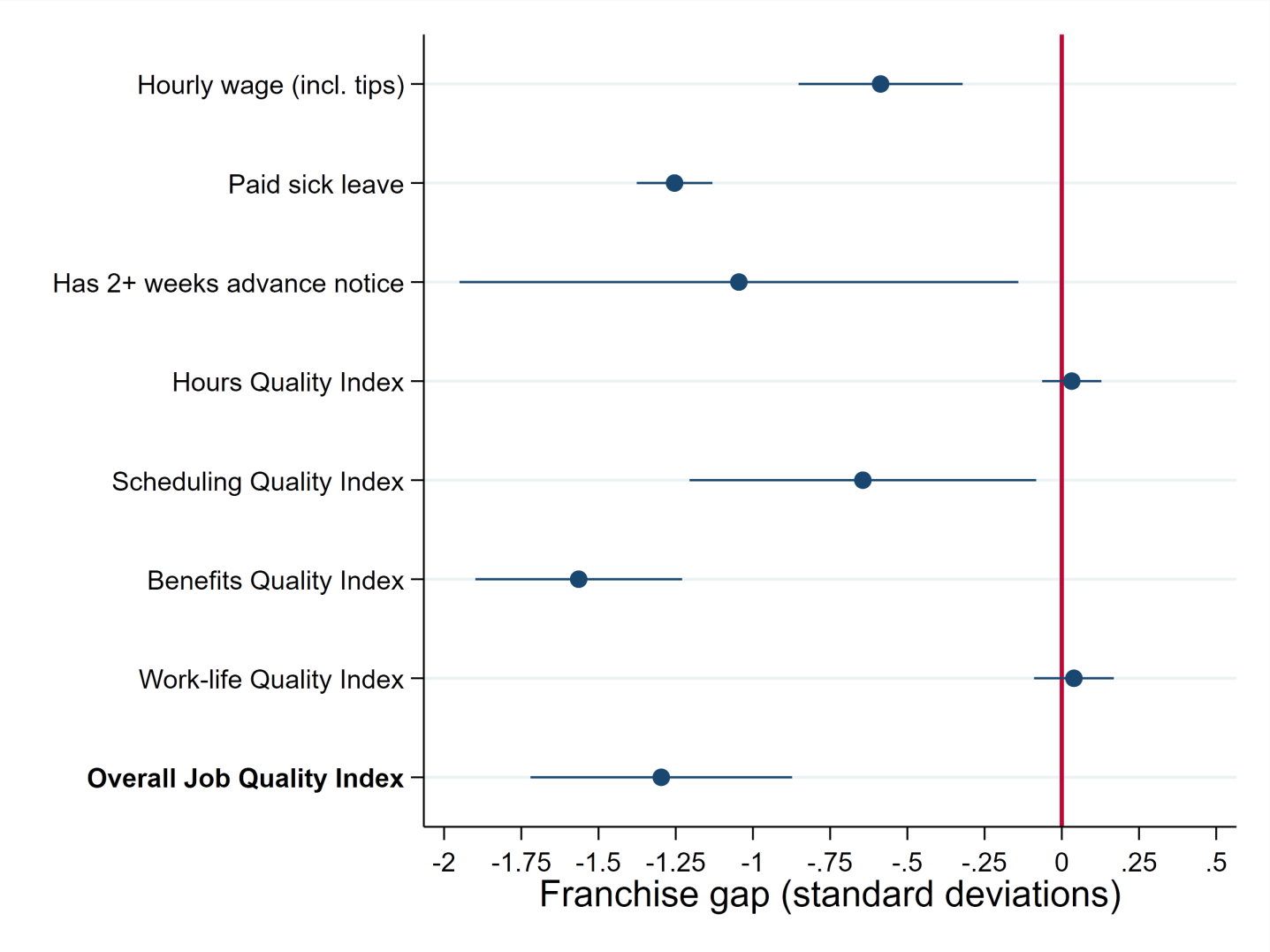
Franchise Exposure state year (Eq. Weig, Yr FE, With Controls)



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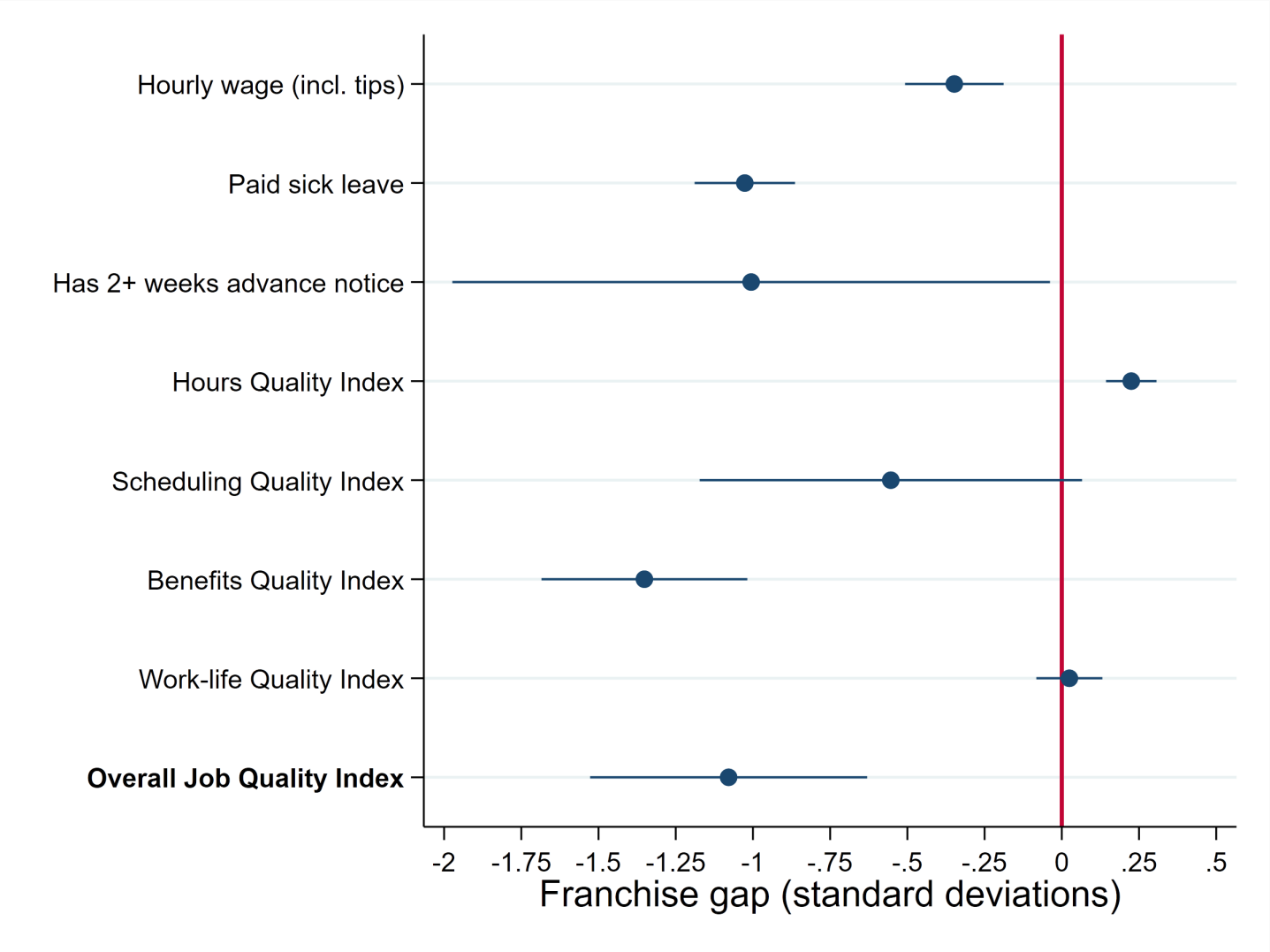
◂ Back to Anderson Weights

Franchise Brand Dummy (Eq. Weig, Yr FE, No Controls)



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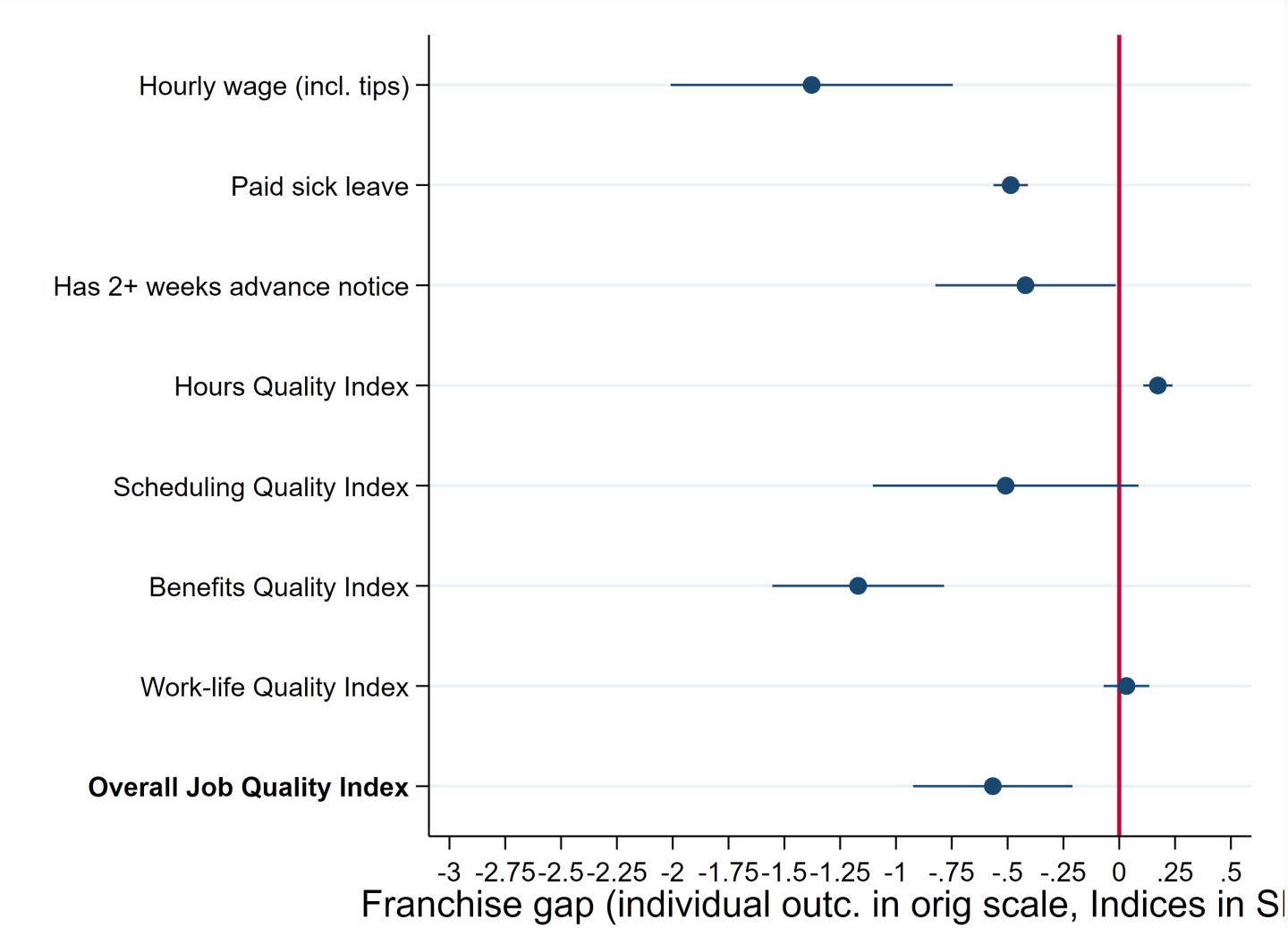

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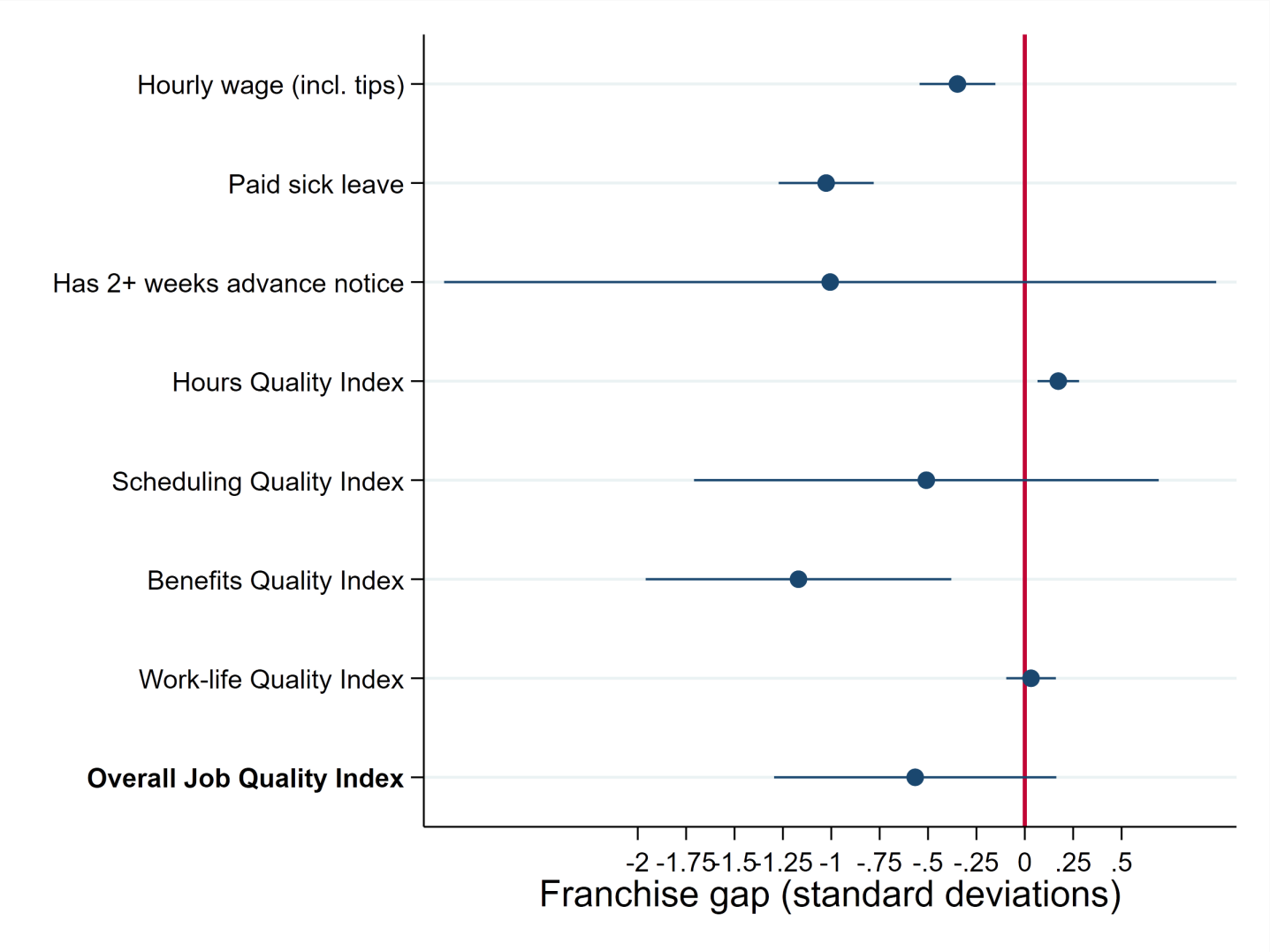

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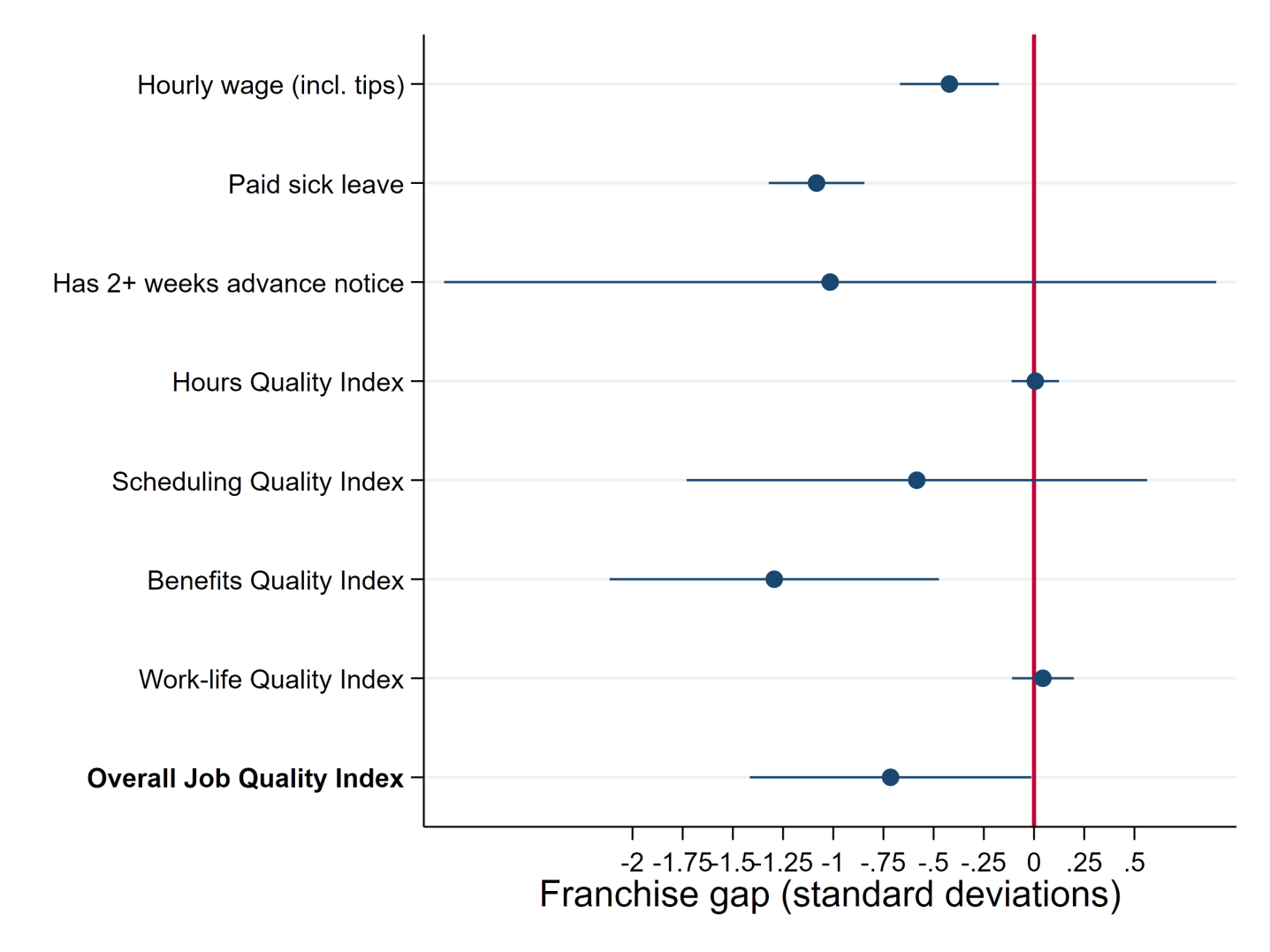

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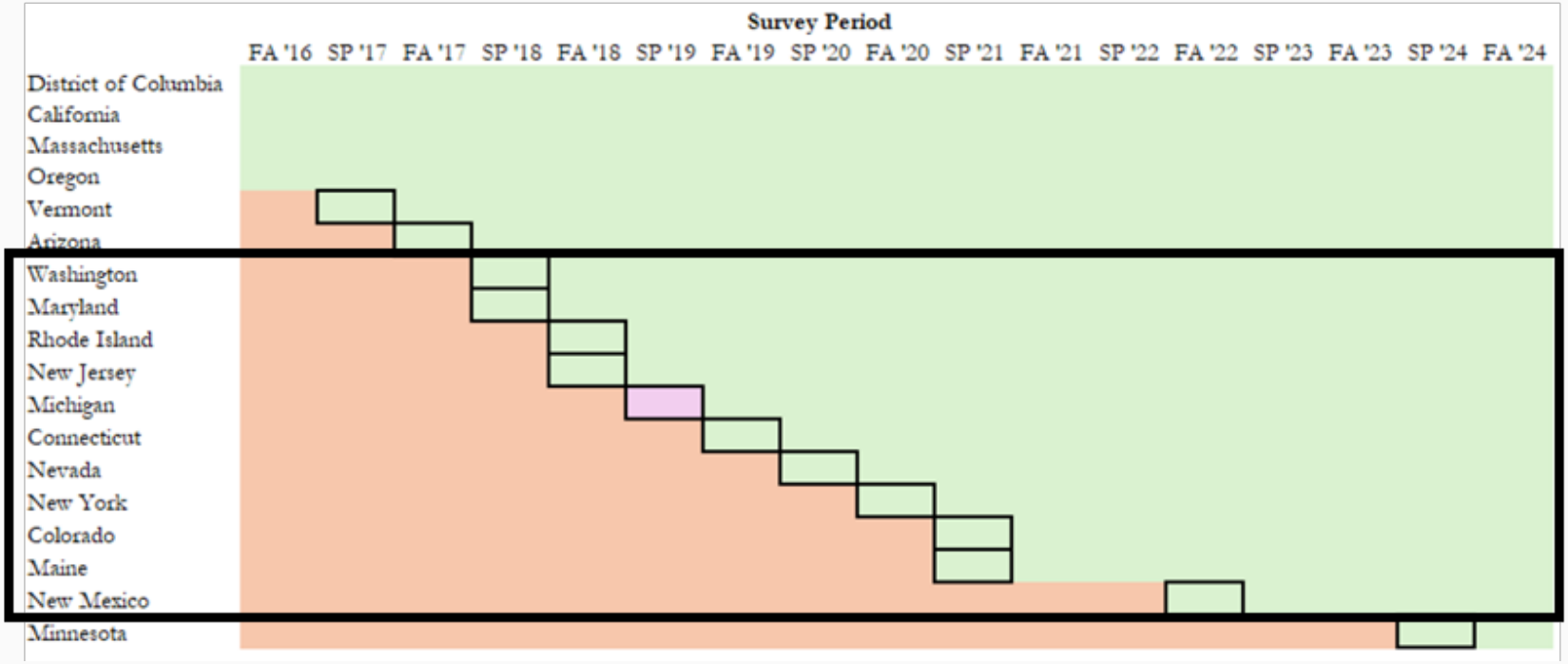
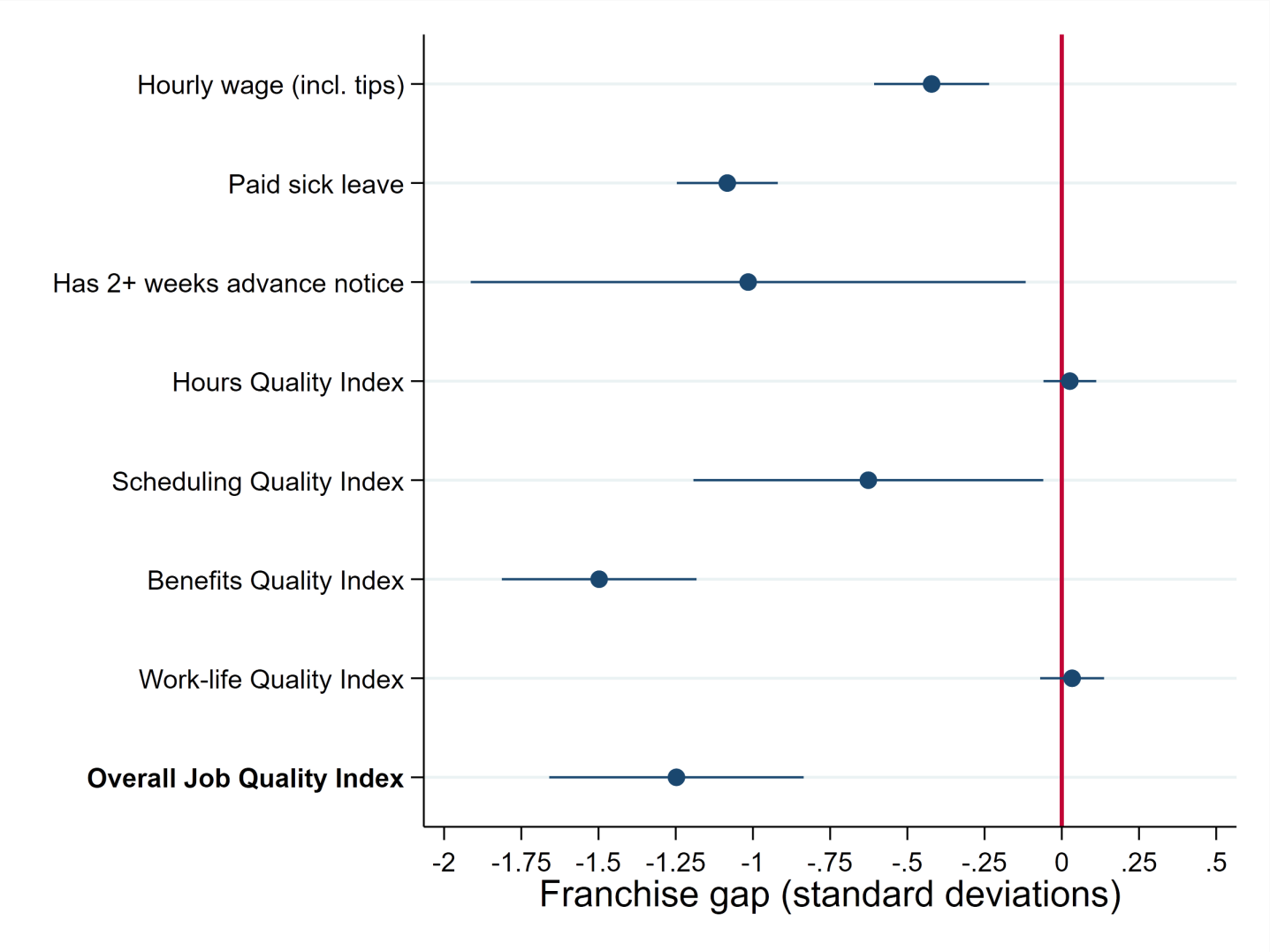
Paid Sick Leave Laws

Staggered Policy Adoption:



Back

Franchise Brand Dummy (Eq. Weig, Yr FE, With Controls)



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Alls specs together - CV3 SEs

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Has 2+ weeks advance notice	-1.03	-1.05	-1.01	-1.02
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	(0.55)	(0.53)	(0.59)	(0.56)
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Work-life Quality Index	0.04	0.05	0.03	0.04
	(0.07)	(0.08)	(0.06)	(0.07)
Year FE	Y	Y	Y	Y
State FE	N	N	Y	Y
Firm FE	N	N	N	N
Sample	All sample	All sample	All sample	All sample
Controls	N	Y	N	Y
N	23567	23567	21192	21192

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Clustering Inflates SEs Differently by Outcome

	2+ Weeks Notice		Paid Sick Leave	
	(1)	(2)	(3)	(4)
	No cluster	Cluster	No cluster	Cluster
Franchise brand	-1.006***	-1.006**	-1.026***	-1.026***
	(0.015)	(0.472)	(0.013)	(0.079)
Observations	21192	21192	21192	21192
R-squared	0.199	0.199	0.386	0.386

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Observation: Clustering inflates SEs by 32× for 2-weeks notice but only 6× for sick leave

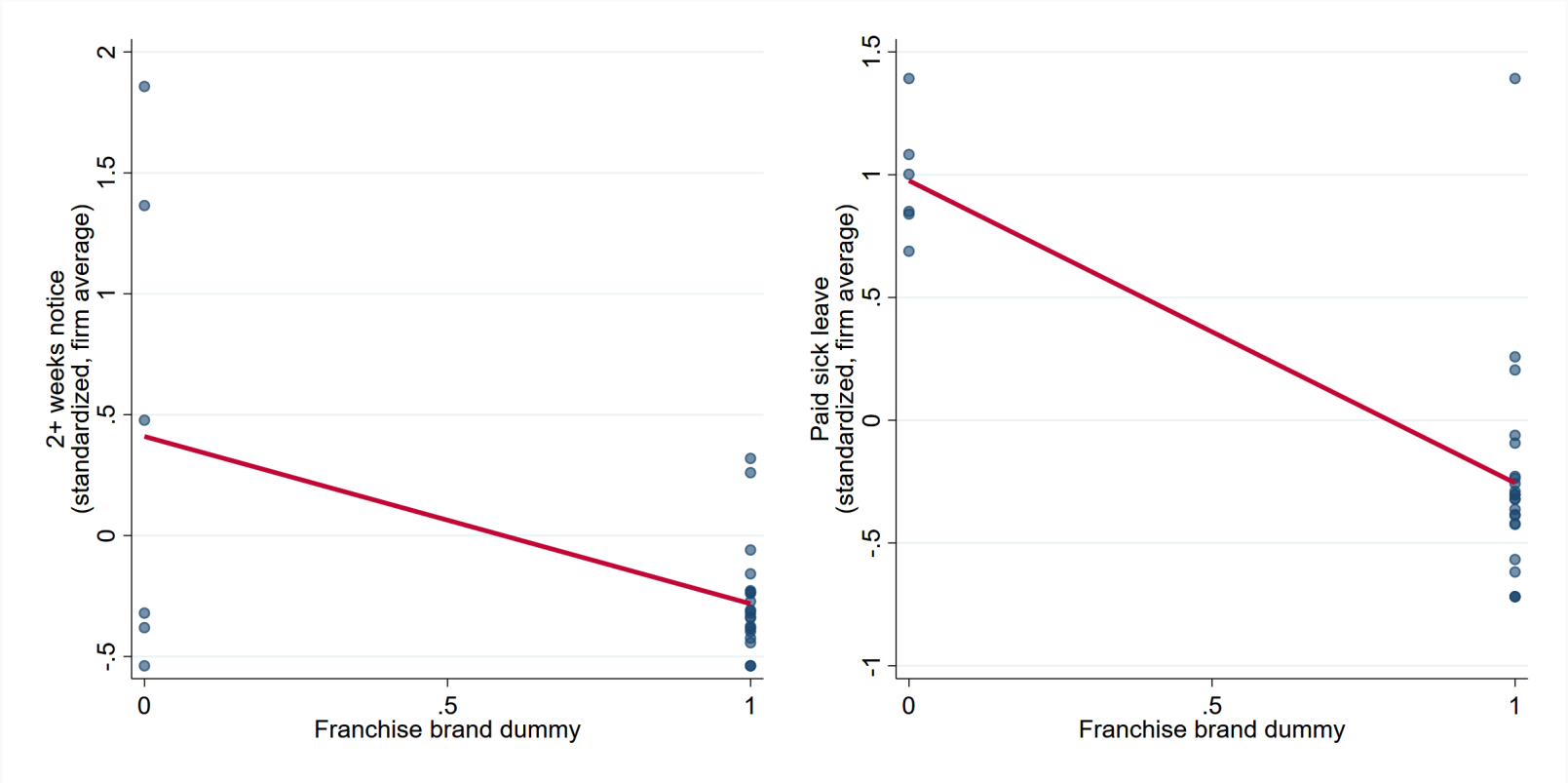
Why Are Standard Errors So Different?

- Without clustering: 23,011 workers treated as independent
- With clustering: Effectively 29 firms
- SE inflation depends on **how consistent the relationship is across firms**

Outcome:

- PSL: Consistent corporate policy $\rightarrow$ stable across firms
- Advance notice: Varies widely across non-franchise firms

Firm-Level Relationships Explain the Difference



Left: 2-weeks notice varies widely among corporate firms (0=corporate, 1=franchise)

Right: Paid sick leave shows clean separation between corporate and franchise

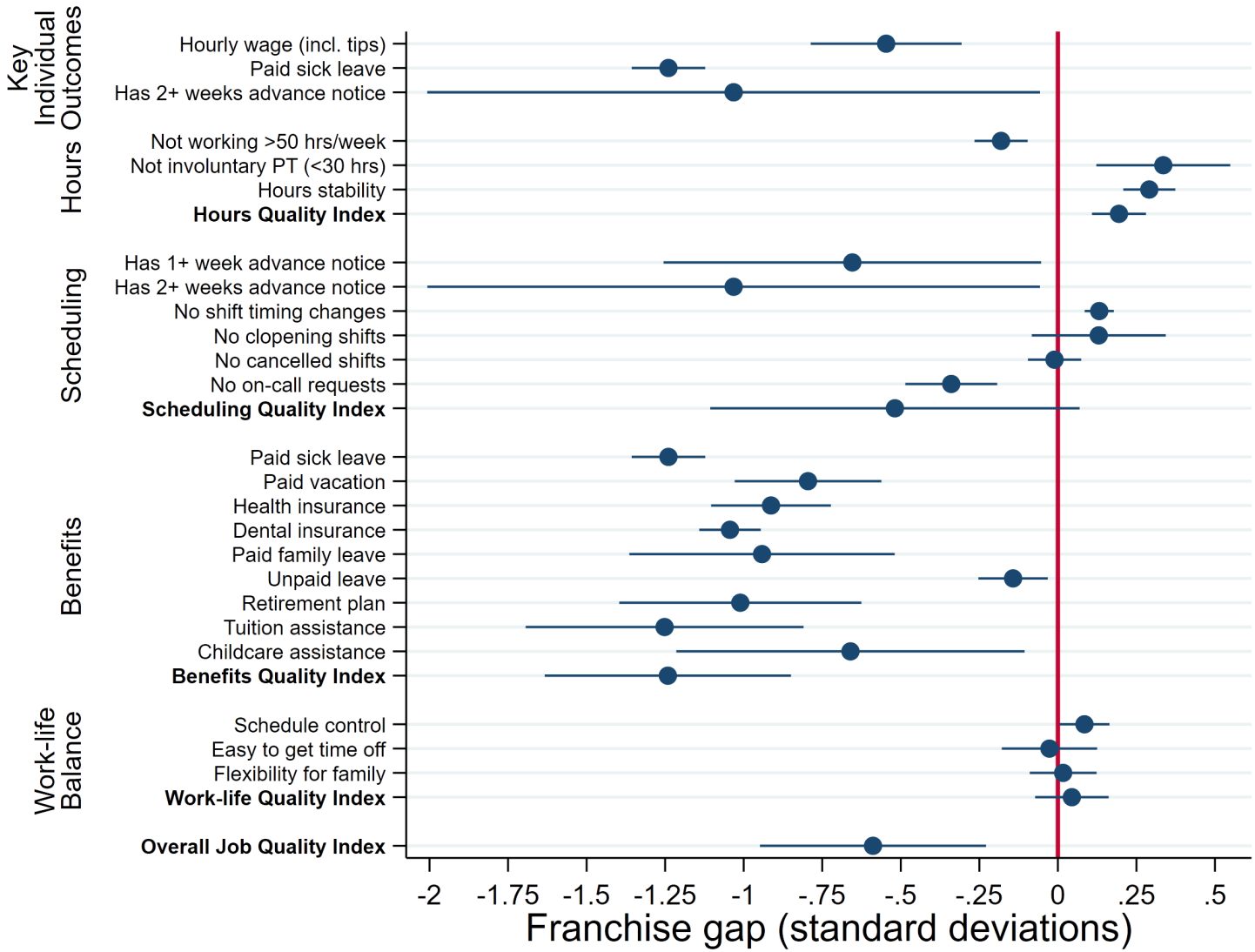
Heterogeneity in Scheduling Practices

Firm-level coefficient variation (dropping each firm one at a time):

	2+ Weeks Notice	Paid Sick Leave
Coefficient range	-0.13 to -1.47	-0.98 to -1.12
Coefficient variation	18.6%	2.0%
Effective # clusters (G*)	4.0	4.0

Obtained with `summclust` diagnostics (MacKinnon et al., 2023)

Franchise Density (Year FE, No Controls)



Anderson (2008) indices. All standardized. More is better. Brand-level CV1 clusters

▸ Equal Weights Plot ▸ Few clusters ▸ CV3 clustering ▸ Why are 2+ wk notice CIs so big? Back