Hotel News Resource

Are Franchises Bad Employers? A Closer Look at Burger Flippers and Other Low-paid Jobs

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The idea of McJobs - low-paying positions with little chance of advancement - bothered the CEO of McDonald’s so much that, when Merriam-Webster included the term in its dictionary in 2003, he wrote a public letter of protest. His plea went unheeded.

"McJobs" stayed. Merriam-Webster said that it strove to record and define the words that people use, not pass judgment on them. But McDonald’s hasn’t given up. Earlier this year, it launched a similar effort in the United Kingdom, trying to persuade the Oxford English Dictionary to drop the term.

As these debates suggest, the idea that franchises, especially those in the fast-food sector, create dead-end jobs is widespread. Comedians like David Letterman joke about it. Muckrakers write books about it (think Fast Food Nation or Nickel and Dimed). Even Peter Cappelli, director of Wharton’s Center for Human Resources, admits that he accepted the prejudice that many franchises provided "lousy jobs," with low pay, few benefits and limited opportunities for training and advancement.

But Cappelli, a management professor, and Monika Hamori, a management professor at Instituto de Empresa Business School in Spain, decided to investigate whether facts supported the conventional wisdom. In a recently completed study, "Are Franchises Bad Employers?" the researchers conclude that, in some cases, they didn’t. "Once we control for size and industry, we find little evidence that jobs are worse in franchises and considerable evidence that they are better than in equivalent non-franchise operations," they write.

In analyzing data from a national employment survey designed by Cappelli, they found that franchises paid their employees better than comparably-sized independent operators in the same industry and offered more training. Indeed, when it came to training, franchises beat their independent competitors on two different measures: They not only trained a higher percentage of their workers, but they also provided more hours of instruction per employee, on average. They were also more likely to have a formal training policy and to use practices that required employee involvement -- like work-related meetings and Total Quality Management. Meetings may often be dull but, in many workplaces, they offer a genuine opportunity for employee input.

Yet there is also another side to this story. Franchises don’t trump non-franchise operators on every measure. They have greater turnover, and in their non-managerial ranks, they employ less experienced, less educated workers. They also have a higher percentage of part-timers. "A fair assessment might be that franchise jobs offer more [than non-franchise ones] to lower-quality workers," the two researchers write. The average McDonald’s employee isn’t weighing a job making Quarter Pounders versus one writing software for Microsoft. He’s comparing it with one at the local Greasy Grill. And in that contest, McDonald’s wins.

According to Cappelli, the mixed evidence that he and Hamori found "takes away from the idea that there are good guys and bad guys out there [among employers]. On some dimensions, franchises are good, and on some they aren’t.... Our view is that different companies have different models. Some are good at training, and so it makes sense to train. Others would rather pursue a low-wage, churning strategy." Maybe, for example, they operate in a market where low-skill workers are plentiful and therefore can’t command high wages. In such a market, retaining employees matters less.

The facts uncovered by Cappelli and Hamori did present a puzzle: If franchises invest more in their employees, through pay and training, why do they see higher turnover than non-franchise firms? And how do they compete, given their higher costs and higher turnover?

One potential explanation is that franchise turnover is lower than it would be without the superior pay and training. That’s possible, but it still leaves open the more vexing question of franchises’ competitive advantage. "Spending more per employee than non-franchise operations 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," the authors write. Little research has explored what that advantage might be, and Cappelli and Hamori’s data didn’t allow them to address the question. Even so, they have little doubt that "the competitive advantage of franchises is not based on a model of spending less on employees."

From Fry Cook to Sous Chef

If franchises are better employers than non-franchise firms by some measures, then why does the McJobs stereotype endure? Cappelli and Hamori chalk it up to "confounding attributes," that is, characteristics of franchises that have nothing to do with 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," they write. "But within those sectors, franchise operations appear to offer more sophisticated management practices and to make greater investments in their employees."

Franchises are plentiful, too, which makes them easy targets. About 1,500 franchise companies, doing business through about 320,000 outlets, operate in the United States. Cappelli and Hamori estimate that franchises account for about 5% of U.S. business establishments. Besides the obvious fast-food sellers like McDonald’s, Wendy’s and Subway, they include such well-known companies as Gold’s Gym, Jiffy Lube, Mail Boxes Etc. and The Athlete’s Foot. Franchises are disproportionately represented in the service sector, where they account for nearly 11% of employers versus about 5% for the economy as a whole. Nearly a third of restaurants and retailers are franchises.

Franchise proponents, especially those in the fast-food business, have made the argument that it’s wrong to criticize franchises for not offering better jobs because they serve as critical entry points for inexperienced workers. According to this argument, franchise jobs tend to be lower paying and offer fewer paths for advancement. But that’s only a problem if you view them in isolation from the rest of the economy and think of them as the only place a person will work. The reality is that the average worker changes jobs multiple times in his or her career and that a job in, say, a franchise fast-food outlet offers valuable, necessary experience and skills to land better positions in the future. Under this argument, today’s fry cook at McDonald’s becomes tomorrow’s sous chef at Applebee’s.

Cappelli buys the argument under some circumstances. "There is a hierarchy of jobs, and other things being equal, people do work their way up," he notes. "But you don’t need six months of work at McDonald’s to work at Applebee’s. It’s just that from the employer’s perspective, it makes you a better bet. The fact that people move that way doesn’t reflect that they are acquiring skills."

Fast food employees, especially novice workers like high school students, might learn some basic workplace competencies, like an understanding of the importance of promptness, collegiality and customer service. But they are probably not acquiring specialized skills that make them more valuable to other firms and thus more employable. Cappelli likens non-managerial employment at Wendy’s, Dunkin’ Donuts or any other franchise fast-food outfit to screening more than training.

That doesn’t mean that these sorts of jobs, in some cases, can’t help employees advance. When unemployment is high, firms get picky about whom they hire. In effect, they start looking for pre-screened workers to fill even the simplest jobs. "And for a job that was entry level, like a dishwasher at Applebee’s, they won’t hire anybody unless he has had some work experience," Cappelli points out. "A place like McDonald’s could provide that experience."

That points to another reality of the labor market, which is that it’s seldom possible to classify a job as good or bad in isolation. Economic conditions matter. Job seekers might sneer at jobs at fast-food franchises in fast-growing Las Vegas, for example, where they can land lucrative positions as waiters in casinos. But they might covet them in a struggling textile town in the Carolinas. "If you look at the tightness of the labor market around the country, you will probably find better quality employees working in franchises in places with slack labor markets," Cappelli notes.

And if you happen to drive through one of those little textile towns and find yourself hungry, you can order your Quarter Pounder and fries without worrying about whether you are contributing to the proliferation of "McJobs." McDonald’s may not be offering the most lucrative jobs in town, but chances are it’s paying more than the barbeque joint down the road.

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