

# The Operational Consequences of Private Equity Buyouts: Evidence from the Restaurant Industry

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## ABSTRACT

What, if anything, do private equity firms do with businesses they acquire? We find evidence of significant operational changes in 101 restaurant chain buyouts between 2002 and 2012. Analysis of health inspections conducted for over 50,000 stores in Florida shows that food safety and sanitation improve after private equity takeover, especially in areas related to food handling, kitchen maintenance and consumer advising. Supporting a causal interpretation, this effect is stronger in directly owned stores than in franchised locations—“twin restaurants” in the same chain over which private equity owners have limited control. Restaurants also reduce employee headcount and lower menu prices. This evidence suggests private equity firms are not simply financial engineers but rather active operators that improve management practices in the firm. Moreover, efficiency gains do not come at the expense of product quality.

What is special about private equity as an asset class? One view is that private equity firms are financial engineers who simply load companies with debt for short-term gains. Prior literature provides evidence for a second view in which PE buyouts create value through cost cutting and reallocation of labor and capital (Kaplan 1989; Lichtenberg and Siegel 1990). Recent evidence further shows that while the net employment effect following buyouts is modest, PE targets experience increased job creation and destruction via reallocation across new establishments and closures (Davis, et al. 2011). Can it be, however, that private equity buyouts affect targets beyond reallocation of inputs of production? A third view theorizes PE ownership creates value by introducing better management practices. Survey evidence provides support for this view (Bloom, Sadun and Van Reenen 2009). In this paper we provide an in-depth look at the operational consequences of PE buyouts and find direct evidence of both cost cutting and importantly, improved management practices.

Two major challenges deter study of the operational actions of private equity buyouts. First, data is scarce. PE-backed firms are private companies and therefore not required to disclose financial information. Even if financial information were available it has very little to say on management practices. Moreover, defining “good” management practices is a hard task, regardless of data limitation, as management practices are often contingent on a firm’s environment and vary between and even within industries (Bloom and Van Reenen 2007). The second challenge is endogeneity. Operational deterioration or improvement associated with PE involvement may have happened regardless; PE firms do not choose targets at random.

To overcome these obstacles, this paper performs a deep dive into a single industry: restaurants. This industry is particularly well suited. First, restaurants are covered by a wealth of industry sources, which track many margins of activity. This is likely due to the fact that

restaurants are simple to understand and of great interest to the general public. Second, restaurants are fairly homogeneous and share similar standards of “good” management practices, thus allowing meaningful comparison of operational changes across firms. Third, restaurants have attracted much attention from private equity firms resulting in a sizable sample of deals. Lastly, the prevalence of the dual ownership structure in the restaurant industry – franchisees and directly owned – allows the comparison of “twin restaurants” within the same chain, with differential private equity treatment effect which can be exploited to address endogeneity concerns.

We peer into firm operations first through the lens of health inspections, which provide a “back-stage” view of restaurants’ management practices. All restaurants in the United States are subject to periodic inspections conducted by trained specialists in food service evaluation certified by the Food and Drug Administration. These inspections aim to mitigate foodborne illnesses, which pose a substantial threat to public health safety. Poor performance on any of these dimensions poses health risks associated with food poisoning, hospitalization, and even death.<sup>1</sup> Moreover, improper management of health related issues may also destroy significant shareholder value.<sup>2</sup> Restaurants are evaluated in 58 distinct categories such as food handling, maintenance, consumer advising, and employee training. Thus, these inspections provide a unique view on practices and routines employed by restaurant managers.<sup>3</sup>

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<sup>1</sup> Each year roughly 48 million people get sick, 128,000 are hospitalized, and 3,000 die of foodborne diseases in the United States (Center for Disease Control and Prevention).

<sup>2</sup> In 1993, four children died and 700 became sick due to a food poisoning in Jack in the Box chain. As a response, the stock of the chain's parent company, Foodmaker Inc., has dropped more than 30 percent. Robert Nugent, president of Jack in the Box said, “In the last 10 years, we've sold 400 million pounds of hamburger safely and without incident. Then bang, it hits you. It's your worst, worst nightmare.”

<sup>3</sup> In the appendix, we provide a complete list of practices examined by inspectors.

We compile every restaurant inspection conducted in Florida between 2002 and 2012.<sup>4</sup> Private equity firms acquired 101 restaurant chains with a presence in Florida over this period, accounting for approximately 3,500 individual restaurants out of over 50,000 in operation in Florida.<sup>5</sup> We find that restaurants commit fewer health violations after being acquired by a private equity firm. This effect is driven by those hygiene practices whose potential hazards are deemed most dangerous for customers. The effect remains strong even when we control for changes in number of employees and number of seats per restaurant. The improvement in health-related management practices is particularly apparent in practices related to the handling of food (e.g., clean food contact surfaces, toxic items properly stored, food worker hygiene practices, etc.), maintenance of kitchen appliances (thermometers well operated, maintenance of product temperature, etc.) and consumer advising and warning (properly label and advertise food and beverages, etc.).

A natural question is whether these changes would have happened even without private equity involvement. We deal with endogeneity concerns in three ways. First, we show that there is no pre-existing trend in health inspection before private equity takes over. Second, we employ non-private equity owned restaurants in the same zip code as a control group. Thus, instead of comparing Applebee's chain to Chili's Bar and Grill chain, this setting allows us to compare a particular Applebee's restaurant to a Chili's Bar and Grill down the street.

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<sup>4</sup> Health inspections in the U.S. are commonly conducted at the level of the county. Each county has its own inspection standards and grading system, making cross-county health inspection comparisons difficult. The choice to conduct the study in Florida was motivated by the fact that health inspections in Florida are conducted at the level of the state, not the county, allowing consistent comparison of inspection outcomes across a larger sample.

<sup>5</sup> Recent buyouts of restaurant chains by private equity funds include Burger King, Sbarro, California Pizza Kitchen, Chilis, Quiznos, PF Changs, Outback Steakhouse, among others.

Third, the ideal experiment to test the causal impact of PE ownership would be to compare two identical restaurants, one treated with PE ownership and one without. We exploit the franchise ownership structure common in the restaurant industry to achieve a close variation of this ideal experiment. An individual store can be owned and run by either the parent company or a franchisee. Franchisees are legally independent entities that acquire a turnkey business format from a franchisor, to whom royalties and fixed fees are paid. Franchised outlets have the same brand, menus, and appearance as those run by the brand concept owner. Beyond such contractual specifications, however, the franchisor headquarters has limited ability to influence decision-making of the franchisee.<sup>6</sup> Hence, our prediction is that soft management changes will be passed down to company-owned stores more easily than to franchisees. Thus we are able to use restaurants that are identical in all outward characteristics—brand, logo, food, building design, location—that differ only in ownership as a clean counterfactual. Indeed, we find that within a brand, health and maintenance improvements are concentrated among those stores over which private equity exerts direct control.

These improvements in health practices coincide with additional measures of product quality. Using restaurant customer reviews from Yelp.com in 2012, we establish that health inspection outcomes are strongly correlated with overall customer satisfaction. We also find evidence of efficiency changes and cost reductions. PE-backed restaurants reduce employee headcount at the store level. Moreover, more efficient operations translate into lower prices for the consumer. Using a panel of menu samples from nearly 2,200 restaurant chains from

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<sup>6</sup> Quickly following the acquisition of Burger King by TPG Capital, the new management appointed by TPG stated that Burger King NFA (National Franchisees Association), which organizes 90% of Burger King's franchisees, is one of the main problems interfering with improving company operations. Over the next several years the TPG and NFA relationship devolved into several major lawsuits around issues such as hours of operation and menu pricing (Gibson, Richard (17 May 2010). "Have it Whose Way?", Wall Street Journal).

2005 to 2012, we find restaurants under private equity control lower prices relative to those of similar menu items sold by competitors in the same cuisine and price segment. Thus, while we find evidence for lower headcount per restaurant, these cost-reductions occur in parallel with significant improvements to customers in terms of menu prices and improved safety and sanitation practices.<sup>7</sup>

Our work relates to several strands in the literature. First, we contribute to the literature on the consequences of private equity, as our findings illustrate that private equity firms affect the organization through improving operational management practices as apparent in better restaurant level cleanliness, food-handling procedures, and consumer advising which ultimately translate into lower food hazard. Existing literature focuses on labor and capital reallocation (Kaplan 1989; Lichtenberg and Siegel 1990; Boucly, Sraer and Thesmar 2011; Davis, et al. 2011; John, Lang and Netter 1992). Our paper is consistent with the papers above, as we also find substantial changes in employment turnover. Importantly, our findings illustrate that despite such cost-cutting activities, consumer product quality is not adversely affected but rather improved.

A second related strand is work on the impact of human resource management (HRM) on productivity, illustrating a link between management practices and firm performance.<sup>8</sup> Our findings illustrate that PE firms improve operations management practices, consistent with Bloom, Sadun and Van Reenen (2009) who survey over 4,000 firms in Asia, Europe, and the U.S. to assess their management methods. They show that PE-backed firms are on average the best-managed group in the sample. However, they cannot rule out the possibility that these firms were better managed before private equity takeover. Our paper is also closely related to

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<sup>7</sup> These results can be interpreted more broadly given that we find strong correlation between health inspections and restaurant customer reviews at Yelp.com.

<sup>8</sup> For example, Bartel, Ichniowski, and Shaw, (2007), Black and Lynch (2001), Bloom and Van Reenen (2007), Ichniowski, Shaw, and Prenzushi (1997), and Lazear (2000).

Matsa (2011) who explores the impact of leverage on product quality, captured by supermarket product availability. Matsa (2011) finds that firms that undertook high leverage appear to degrade their products' quality. While we find improvements in product quality following PE buyouts, remember that the nature of PE buyouts and importantly amounts of leverage taken have changed over time (Guo, Hotchkiss and Song 2011). Our focus on the recent wave of private equity buyouts, which is associated with lower levels of debt, may explain the discrepancies.

The remainder of the paper proceeds as follows. Section I describes data sources and particularly describe health violations. Section II provides empirical results on the impact of private equity on restaurant operations, and Section III concludes.

## **I. Data description**

The data in this analysis is constructed from numerous sources combining information on PE buyouts (CapitalIQ), health inspection results and restaurant ownership in Florida (Florida Department of Business and Professional Regulation), employees per restaurant (InfoUSA), restaurant menu prices (Datassential) and restaurant consumer reviews (Yelp.com). In this section we also provide basic correlations that illustrate key characteristics of the health inspection results and their correlation with consumer satisfaction.

### *A. Health Inspections Data*

Restaurants vary across different characteristics such as food type, geographic location, price, and quality. Quality can be measured on multiple dimensions including food, service, and sanitation and safety. The focus of this paper is the latter measure of quality, sanitation and food-hazard safety. While we show in section I.C that hygiene practices are strongly

correlated with overall consumer satisfaction, safety and sanitation practices are important in their own right, as they pose a threat to public health safety. Each year in the U.S. roughly one in six people get sick (48 million people), 128,000 are hospitalized, and 3,000 die of foodborne diseases in the United States (Center for Disease Control and Prevention). Most of these outbreaks originate from commercial food facilities through food held at improper temperature, poor personal hygiene of workers, food handling, and cross contamination (Collins 1997). Due to such concerns, all restaurants in the United States are subject to periodic health inspections conducted by trained specialists in food service evaluation certified by the Food and Drug Administration. Failed inspections can result in fines, suspensions, and closure.

We gather health inspection data from the Florida Department of Business and Professional Regulation. This data encompasses every restaurant inspection conducted in the state of Florida from 2002 through 2012. U.S. health inspections are typically organized and conducted at the county level, and each county is free to use its own criteria and scoring methodology. There is no common standard used across states and counties. The advantage of using data from Florida is that inspections here are conducted at the state level using consistent criteria, and historical records are available back to 2002. Each record gives the name of the restaurant, the address, the date of the inspection, and the health results.

Florida health inspections check the violation incidence of 58 separate practices, split into critical and non-critical. Critical violations are those “likely to directly contribute to food contamination, illness or environmental degradation.” Examples of critical violations are improper disposal of waste, improper temperatures for cooked or stored food, dirty restrooms, and contaminated food surfaces. Non-critical violations “do not directly relate to foodborne illness risk, but preventive measures are required.” Examples include clean non-



food contact surfaces, adequate lighting, clean clothes and hair restraints. A complete description of inspection violations, split into critical and non-critical violations, is provided in Appendix A<sup>9</sup>.

Florida inspections fall primarily into three categories: routine surprise, follow-up, and initial setup. We consider only surprise inspections for this study. Follow-ups are arranged in response to violations that need to be fixed and, like startup inspections, occur on known dates, which allow restaurants to put their best foot forward. Table I summarizes surprise inspections by year. Approximately 40,000 eating establishments are inspected roughly twice each year.<sup>10</sup> The mean number of critical violations found is 4.1 with a standard deviation of 4.3.

#### *B. Other data sources*

We supplement the inspection data with restaurant ownership data, also from the Florida Department of Business and Professional Regulation. Restaurants need to renew licensing agreements with the state each year, thus this information, available from 2002 to 2012, provides the name of the licensed owner of each address and the name of the restaurant. These data allow us to separate restaurant branches into those owned directly by the parent brand and those that have been franchised to independent owners. We incorporate data from InfoUSA, which makes phone calls to establishments to gather, among other data items, the number of full-time equivalent employees. This data is also gathered on an annual basis. Employee count is matched to the inspection database by name, address, and geocode

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<sup>9</sup> Each inspection results in a “disposition”—an action taken in response to the net effect of all violations. The three main disposition categories are Pass, Warning Issued, and Emergency Closure. In the full sample, these outcomes are given 78.4%, 21.2%, and 0.4%, respectively. Results throughout this paper are similar using disposition categories instead of violation counts.

<sup>10</sup> There are fewer inspections in 2002 because the data do not cover the entire year.

coordinates. We also collect median income at the county level from the Bureau of Economic and Business Research (BEBR) at the University of Florida.

We gather restaurant-pricing information from Datassential. This provider samples a representative menu from over 2,000 chains each year from 2005 to 2012. These menus give the item name, food category, and price. Datassential also categorizes each restaurant by price range and cuisine type. We also collect information on restaurant consumer reviews from Yelp.com. While the website was founded in 2004, it started to become popular in Florida only from around 2010.

To determine which of these restaurants were acquired by private equity firms, we download from Capital IQ all Leveraged Buyout, Management Buyout, and Secondary LBOs in the restaurant industry. We research each deal to find the names of the restaurant chains involved and record the date the deal closes. There are 101 separate deals involving 117 distinct brand names and approximately 3,500 individual restaurant locations in Florida.

### *C. Correlation between health inspection and other restaurant dimensions*

Before introducing the impact of private equity, we begin by studying the determinants of restaurant hygiene generally. In Table II, columns 1 and 3, we regress critical and non-critical violations on a number of variables. Larger restaurants—those with more seats and employees—have more violations. Richer neighborhoods see fewer violations. The more units in the restaurant chain, the better the inspection outcomes. This may be evidence of professional management; a firm running multiple stores has more experience and better controls and procedures in place to monitor hygiene than a proprietor opening her first store. More expensive menus are associated with more violations. By cuisine type, Asian establishments fare the worst, while donut shops, ice cream parlors, and beverage stores are

the cleanest. These latter categories offer simpler items and less variety, which may explain fewer violations. Columns 2 and 4 add restaurant chain fixed effects and drop chain-invariant variables. The remaining results are unchanged. Higher median county income leads to fewer violations even within the same chain.

Hygiene is one dimension on which restaurants serve customers. Food quality, service, ambiance, and prices are all also certainly part of the value proposition. One way of measuring overall customer satisfaction is through restaurant reviews. We extract such data from Yelp.com, a consumer review website. People who register as users with Yelp by providing a valid email address can leave star ratings, ranging from 1-5, and comments on restaurants and other businesses. Anyone can read these reviews. In Florida, review quantity is sparse before 2010 and increases significantly by 2012. We thus do not have a sufficient panel structure to examine the impact of PE on consumer satisfaction, but we examine the cross-sectional correlation between this review-based restaurant quality measure and health violations in Table III.

For the year 2012, by restaurant chain, we average the number of critical violations found in all inspections for all branches. We also average the number of stars given in Yelp for that chain. Column 1 shows the results of a simple univariate regression of stars on critical violations. The coefficient on critical violations is -0.025 and highly significant. A four-violation increase (one standard deviation) is thus associated with a rating lower by 1/10 of a star. This is meaningful given that 90% of ratings fall between 2 and 5 stars, and half-stars are associated with significant changes in revenue (Luca 2011). Column 2 adds price range by cuisine fixed effects (e.g., \$10-\$15 check size – Asian). Violations and customer satisfaction are strongly negatively related even among similar restaurants. Column 3 shows the results of

robustness check requiring at least five Yelp reviews for a restaurant or chain, and the results remain the same.

This relationship between hygiene and perceived quality could be a direct effect—customers down rate stores with poor hygiene levels. The correlation may also reflect more broadly that a restaurant that manages to sustain high levels of sanitation and food-safety may also perform better on other quality dimensions such as service and food. Both explanations suggest that our findings, described below, may have a broader interpretation on customer satisfaction.

## II. Results

### *A. Health Inspections and Private Equity Ownership*

We turn to the relationship between private equity ownership and health violations. We create a variable, *PostPE*, which equals one if an inspection at a particular restaurant occurs after it was acquired by a private equity firm. Panel A of Table IV regresses critical violations on *PostPE*. The sample here consists of all restaurants, not just those purchased by private equity. Year fixed effects are included to pick up any changes in violations over time that happen for all restaurants. Hence, the other restaurants in Florida serve as the counterfactual for PE treated chains. In column 1a, chain (e.g., Burger King) fixed effects are included to control for different baseline levels of cleanliness so that the impact of PE entry can be isolated. The coefficient on *PostPE* is -0.662 and significant at the 1% level. Given that inspections average 4.1 critical violations, this is a sizable decline of 16%. Column 2a includes seats and employees as controls, motivated by Table II. The larger the restaurant, the more critical violations, but the *PostPE* coefficient remain unchanged and maintain similar magnitude. This suggests that practices related to sanitation and food-hazard improve

following the PE acquisition, regardless of changes in restaurant size and number of employees.

Critical health violations at the chain fall when private equity takes over. Two distinct effects could drive this. Individual restaurants could be getting cleaner, or poor performing branches could be closing. To extract this composition effect, columns 3a and 4a replace chain fixed effects with individual store fixed effects. The coefficient on *PostPE* remains the same with slightly lower significance, now at the 5% level, in this stricter test. Thus a given restaurant sees improvement in health outcomes.

We introduce an even more precise counterfactual in columns 5a and 6a by replacing year fixed effects with zip code-by-year fixed effects. This specification compares PE treated restaurants to competitors in the same zip code. Restaurants are serving different demographics, and experience different economic conditions across neighborhoods, which could lead to different patterns in hygiene effort. Even after adjusting for such variations, critical violations still decline after PE entry.

Panel B of Table IV replaces critical with non-critical violations. In all six specifications, the effect of private equity management is essentially zero. Non-critical violations have a much smaller effect on health outcomes, and thus effort appears to be concentrated where it violated practices may matter, and may actually reflect danger to public safety.

Figure 1a shows the path of critical violations around private equity takeover. Plotted here are the coefficients of a regression in which critical violations are regressed on private equity entry event year dummies<sup>11</sup>. Violations are flat in the three years before PE entry. Thus there does not appear to be a pre-deal trend. This helps mitigate endogeneity concerns that

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<sup>11</sup> The regression results are in the Appendix, Table 1A.

private equity was simply capitalizing on a trend of improved health and sanitation. The decline in critical violations then occurs steadily over the subsequent four years (becoming statistically significant in year 2 onward). This is consistent with anecdotal evidence on the speed of operational change in restaurants (Gompers, Mugford and Kim 2012). Figure 1b plots the evolution of non-critical violations. There appears to be no pattern before or after the PE buyout.

To provide a better understanding of the critical violations that drive the results, Table V breaks these critical and non-critical violations down into specific categories. Appendix A provides a list of which violations belong to which category. Improvements are concentrated in practices such as food handling, kitchen maintenance, and consumer advising. These results suggest that better operations management practices are installed following the PE buyout that generate improved performance on these margins.

### *B. Endogeneity Concerns*

The results thus far indicate that after private equity firms take over a restaurant, health inspection outcomes improve. It could be the case, however, that private equity firms are simply passive owners who target brands that would have experienced improvement regardless of the buyout. We employ a number of strategies to address this concern. First, as illustrated in Figures 1a and 1b, there was no pre-existing trend in health scores in the three years leading up to the deal. PE firms would need to have predictive power to anticipate these improvements. Second, we implicitly match our treated stores with non-treated restaurants by including all restaurants in Florida and year fixed effects in our regressions. If there is an overall trend for health scores, the other restaurants will pick that up and control for it. Further, because our analysis is at the establishment level, we can include zip code by year

fixed effects. Therefore, for example, the counterfactual for a McDonalds restaurant is a Burger King branch in the same neighborhood. The two restaurants cater to similar demographics, compete in the same market, and likely experience similar fluctuations in demand.

The ideal counterfactual experiment, however, would be to compare two identical restaurants, one treated with PE ownership and one without. The prevalence of the franchising model in the restaurant industry allows us to run a close variation of this experiment. In a franchising arrangement, a parent franchisor sells a business format, typically including a brand, operating strategies, and design concepts, to a franchisee. Franchisees range from a single proprietor running a single restaurant to publicly traded firms that operate hundreds of restaurants across multiple brands. In return for an “off-the-shelf” business, the franchisee supplies the capital for the restaurant and pays royalties and fixed fees to the franchisor. Importantly, a franchise is a legally independent business not vertically integrated with the parent company and has a connection to headquarters only through contractual agreements.<sup>12</sup> Such contracts are typically for 10 to 20 years.

Restaurant chains vary in the fraction of individual stores that are franchised. Each Olive Garden, for example, is run directly by parent company Darden Restaurants, while Subway sandwich shops are all franchised, and half of TGI Friday’s nationwide are franchised. For chains that employ a mixture of outsourcing and direct ownership, there thus exist outwardly identical restaurants that differ only in ownership. When a private equity firm acquires a chain, legally, they only acquire the company-owned branches and the contractual obligation of the franchisees to pay royalties. While the name of the store, its logo, basic menu

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<sup>12</sup> Since franchisees are independent legal entities, their capital structure is separate and thus they do not experience any increases in debt loads following the PE buyout.

and food are the same, there can be substantial differences in the ability of PE owners to actively affect the operations of franchisees relative to directly owned restaurants.

These differences can be dramatic. For example, private equity owned Burger King faced numerous lawsuits in 2010 from the Burger King National Franchisees Association (NFA), a group representing a majority of their independent operators in the United States. The franchisees “opposed a company mandate [to] sell a double cheeseburger for \$1,” “challenged a mandate that they keep their restaurants open late at night,” and “haven’t upgraded their checkout terminals as quickly as management wanted” (Wall Street Journal, 5/17/10). Hence, our prediction is that any effects of private equity takeover of a parent will manifest more strongly in company-owned than in franchised stores.

There can, of course, be endogeneity in the decision to franchise. Why are certain stores company-owned, and do these same underlying reasons drive the hygiene results? The literature on franchising (see Lafontaine and Slade (2007) for a recent survey) explores the determinants of the variation across firms in the degree of vertical integration of retail branches. One prediction from a moral-hazard model borne out in the data is that when individual store effort matters more, franchising is more common. Some additional variables modeled and tested include branch size and complexity of tasks to be performed by store managers. As units of a *particular* restaurant chain are nearly identical, however, most of these cross-sectional predictions cannot explain why Burger King chooses to own store A but franchise store B. One theory that can apply, because stores of a chain do differ in location, is that stores further from headquarters are more likely to be franchised. This is because it is more costly for HQ to monitor product quality for more distant stores, and thus incentives need to be stronger for distant managers to do the right thing. This is achieved by giving them claim over residual franchise profits. This can be a concern if distance to HQ is correlated with



hygiene practices through channels other than PE degree of control. For example, areas closer to HQ may have higher income, and higher income areas may exhibit a greater response to managerial changes. We mitigate with this concern by including zip code-by-year fixed effects in our regressions.

Figure 2 presents an example of franchising outcomes. Of the 21 Burger Kings in Tampa, Florida in 2012, eight are owned by franchisees. These stores are dispersed among the company owned units. Franchises do not appear to be situated in different types of locations. Figure 3 compares two particular stores, one direct owned and one franchised, a few miles apart. The appearance is similar.

For the sake of this test, we are interested in chains that have a mixture of both franchises and directly owned restaurants. Therefore, our sample only includes chains that employ franchising for at least 5% of its units and no more than 95% of its units in Florida.<sup>13</sup> In Table VI we regress critical violations on *PostPE* but now also include the indicator variable *DirectOwn* and the interaction *PostPE \* DirectOwn*. We have the licensed owner each year at each address, and thus *DirectOwn* equals one if the storeowner is the same as the ultimate parent. This specification allows extraction of a differential private equity effect on directly owned versus franchised units. We also include store and year fixed effects. In column 1 the interaction term is negative and significant. The coefficient on *PostPE \* DirectOwn* is -0.32, while the coefficient on *PostPE* alone is still negative at -0.22 but is insignificant<sup>14</sup>. Thus the reduction in critical violations is concentrated at directly owned stores. In column 2 we include the number of employees and seats and results are similar, suggesting that improvements at health practices at directly owned restaurants are not driven by alternations

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<sup>13</sup> Results are very similar if we use a 10% top/bottom cutoff.

<sup>14</sup> The independent variable *DirectOwn* does not drop out of the regression with store fixed effects because some stores switch between parent and franchise ownership.

of number of employees or number of seats. Moreover, these improvements in health practices cannot be driven by hidden variation in strength of brand, popularity of food genre, or advertising strategy because all branches are identical along these dimensions. In columns 3 and 4 we replace year fixed effects with zip code-by-year fixed effects to address concerns regarding franchisee location choice. The results are unchanged.

Overall, these results suggest that within the organization, improvements in health and sanitation practices are concentrated in stores in which PE has greater control.

### *C. Employment*

Private equity firms may make operational changes to restaurants along margins besides health and sanitation. The effect of private equity on employment is controversial. The popular press often chides private equity for eliminating jobs for debt service and short-term profits. Davis, et al. (2011) find that private equity transactions result in increased job creation and destruction via reallocation across new establishments and closures, but the net impact on employment is modest.

We explore the effect on this stakeholder in Table VII. First, do PE firms increase the number of stores? We total all units by chain each year. We regress the log of this annual restaurant count on *PostPE* in column 1 with chain and year fixed effects and find a positive, but insignificant coefficient<sup>15</sup>. Acquired chains do not appear to be expanding more or less quickly than before. One caveat is our data covers only Florida, so we do not know if PE firms are expanding or contracting nationally. Next, we calculate the average number of employees by chain each year. Across all chains, the mean and median employee counts are 20

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<sup>15</sup> Because employees are measured at an annual frequency at an unknown date during each year, we drop data points in the year of PE entry since we cannot pinpoint whether the employee count that year was made before or after the deal closing date.

and 12. In column 2 of Table VII, we regress the mean employee count by chain on *PostPE* and a chain fixed effect. The coefficient is -0.14 and significant at the 5% level. The average store in the chain has approximately one less full-time equivalent employee after PE takes over. In column 3, the log of the average number of seats in the chain is included as a control. Larger restaurants employ more people, and the coefficient on *PostPE* is still negative.

Employees per store at the chain level can fall for two reasons: PE firms could be shifting the composition to smaller, more efficient stores or reducing headcount at existing stores. To distinguish between these possibilities we turn our analysis to the restaurant level, and individual restaurants are now the unit of observation. In column 4 the dependent variable is number of employees, and we add individual store fixed effects. The coefficient on *PostPE* is still negative and significant, and thus PE firms do appear to operate existing restaurants with fewer employees than before. To control for the possibility that PE targets are located in areas that, perhaps due to varying economic conditions, have employment patterns different from other restaurants, we include zip code-by-year fixed effects in column 5. PE restaurants still see a decline in workers even when adjusting for geographic variation. In columns 6 and 7 of Table VI we include the *PostPE \* DirectOwn* interaction to see if the employment effect is stronger in directly controlled branches. The interaction is essentially zero, meaning both company-owned and franchised outlets see a similar decline in headcount. It is possible that relative to hygiene practices, employee counts are more easily contractible and hence easier for the parent to mandate. Franchisees may also be more amenable to suggestions which lower their costs.

#### *D. Menu prices*

To continue identifying operational changes at private equity owned restaurants, we turn to pricing. Does the increase in leverage associated with buyout firms and improved food-safety practices come at the expense of higher prices? Or is cost cutting passed on to the consumer? We gather annual menus from 2005-2012 for 2,178 restaurant chains from Datassential. Datassential draws a representative menu each year from each of these chains. There can be regional differences in pricing; we assume that the randomly drawn menu is representative of the entire chain. Unlike with inspections and employment, our pricing analysis will thus necessarily be at the overall chain level, not the individual establishment level.<sup>16</sup> The menu data includes the restaurant name, every menu item (e.g., “Hot and sour soup”), its price, and its broad item category (“Soup—appetizer”). Each restaurant is also categorized into one of four segments (Quick service, Casual, Midscale, Fine dining) and one of 24 cuisine types (e.g., Chinese).

For each restaurant-year, we first generate *itemtype\_price*, which averages the prices of all items in each broad category. Thus instead of having five soups with different prices, we collapse these into a single average “soup” price for each restaurant, each year. We also again create the variable *PostPE* which equals one for all restaurant-year menus drawn after a private equity firm has acquired the chain. The unit of observation is restaurant’s *itemtype\_price* each year. In Table VIII, column 1, *itemtype\_price* is regressed on *PostPE* and chain and year fixed effects. The coefficient is -0.29 and weakly significant. This means, relative to average prices for all restaurants, the average menu item is 29 cents cheaper in years after PE takeover than it was before.

We refine this analysis by using only close competitor pricing as a counterfactual. Holding steak prices constant is actually a relative decline if other steakhouses charge more.

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<sup>16</sup> Unfortunately, individual restaurant pricing information is not widely available.

We replace year fixed effects with “year  $\times$  cuisine type  $\times$  segment  $\times$  item type” fixed effects. The unit of observation in these regressions is a restaurant’s *itemtype\_price* each year. For Applebee’s “cold sandwich” price in 2005, then, the new fixed effect controls for “cold sandwich” (item type) prices sold by all other American (cuisine type), Casual (segment) restaurants in 2005<sup>17</sup>. The regression in column 2 with these fixed effects shows a coefficient of -30 cents on *PostPE*, still significant at 10%. Thus private equity restaurant prices fall relative to those of their closest competitors. Regressions 3-7 look at pricing changes in specific categories. Entrées, the most expensive menu item, show the largest and most significant declines.

Overall, the results illustrate that item prices go down following the PE buyout, suggesting that improvements in sanitation practices and food safety do not translate into higher prices for consumers.

#### IV. Conclusion

We study what private equity firms actually do operationally with firms they buy in the context of the restaurant industry. We find that restaurants commit fewer health violations after being acquired by a private equity firm. This effect is driven by those critical hazards most dangerous for customers and public health. These results are strongest in stores over which PE firms have complete control. Franchises, which look otherwise identical, do not see the same improvement, suggesting that PE firms cause these changes. Violations are strongly negatively correlated with online review scores, and thus customer satisfaction is likely to be higher as well. On the cost side, PE restaurants achieve efficiency improvements, as employee

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<sup>17</sup> For these fixed effects to provide meaningful comparisons, we drop observations without at least 10 cuisine type  $\times$  segment  $\times$  item type competitors. For example, “Italian, Fine Dining, Fried Chicken” data points, for example, would likely be dropped. For consistency, we also apply this cutoff in column 1 of Table VIII.

headcount at existing stores declines after takeover. PE appears to pass these savings to customers, as pricing declines relative to competitors.

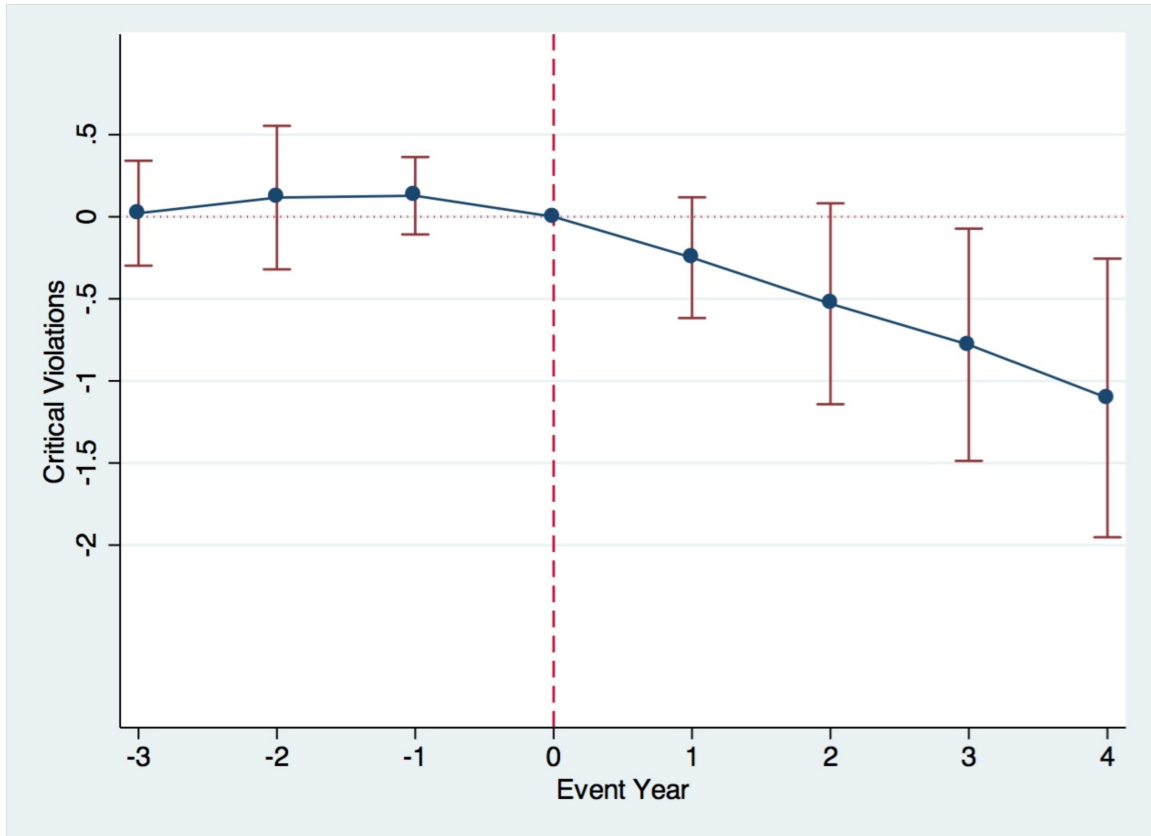
These findings are inconsistent with the portrayal of private equity as solely an exercise in financial engineering with a negative influence on the real economy. Rather, PE firms take an active managerial role in the firms they acquire and improve operations management practices, beyond the reallocation of labor and capital that was previously documented in the literature.

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**Figure 1a: Critical violations around private equity deal date.**

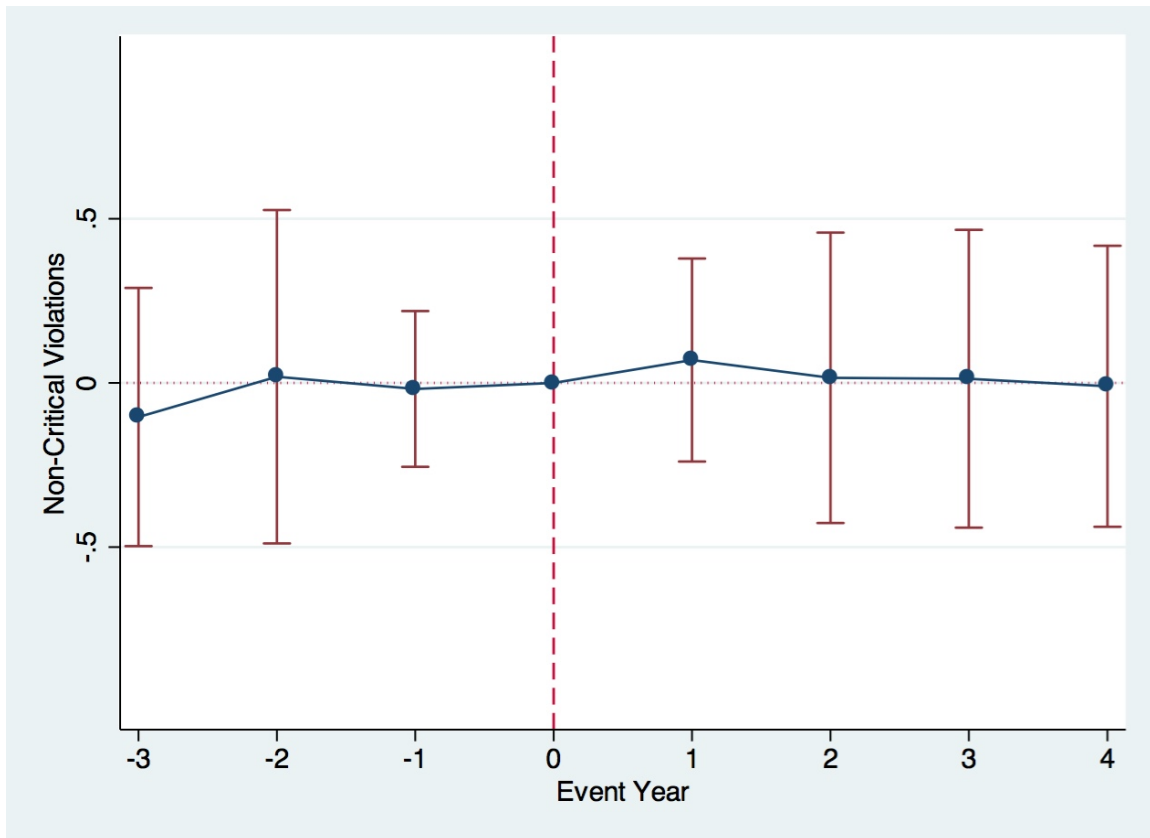
This figure plots the coefficients and 95% confidence interval bands of a regression of critical violations on event year dummy variables around the date private equity acquires a restaurant. Additional control variables are restaurant fixed effects, year fixed effects, number of employees and number of seats. Standard errors are clustered at the level of the chain. Event year 0 is the omitted variable, corresponding to inspections that occur from 1 to 365 days after the deal close date.





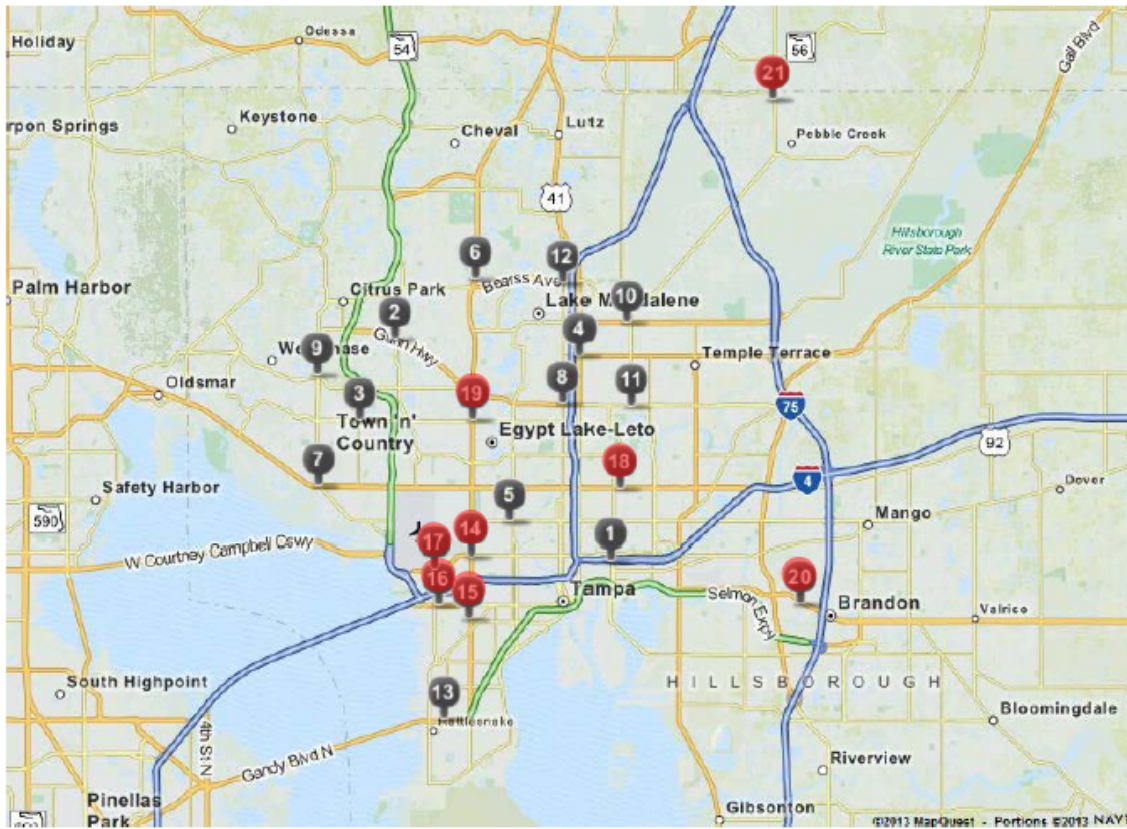
**Figure 1b: Non-Critical violations around private equity deal date.**

This figure plots the coefficients and 95% confidence interval bands of a regression of non-critical violations on event year dummy variables around the date private equity acquires a restaurant. Additional control variables are restaurant fixed effects, year fixed effects, number of employees and number of seats. Standard errors are clustered at the level of the chain. Event year 0 is the omitted variable, corresponding to inspections that occur from 1 to 365 days after the deal close date.



**Figure 2: Burger King Restaurants in Tampa, Florida**

Map presents the locations of Burger King restaurants in Tampa, Florida, as of December 2012. Black circles are restaurants directly owned by Burger King headquarters, while red circle are franchisees.



**Figure 3: Franchised vs. Directly owned Burger King restaurants – Tampa, Florida**  
Restaurant numbers indicate the location in the map in Figure 2.



#5 Direct-owned



#16 Franchised

Table I  
Inspection Summary Statistics

This table summarizes the Florida restaurant health inspection data. Critical violations are those “likely to directly contribute to food contamination, illness or environmental degradation.” Non-critical violations “do not directly relate to foodborne illness risk, but preventive measures are required.” Only routine, surprise inspections are counted.

Year	Inspections conducted	Restaurants inspected	Inspections per restaurant	Avg # critical violations	Avg # non-crt violations
2002	45,437	35,265	1.29	1.46	1.84
2003	84,089	38,682	2.17	1.96	2.65
2004	67,569	37,925	1.78	2.08	3.20
2005	73,419	40,397	1.82	2.50	3.59
2006	75,872	40,840	1.86	4.42	4.08
2007	76,857	41,246	1.86	6.06	3.44
2008	89,680	43,371	2.07	5.76	3.43
2009	101,819	44,610	2.28	4.97	2.85
2010	99,264	44,760	2.22	4.91	2.88
2011	105,914	45,917	2.31	4.31	2.41
2012	106,067	48,561	2.18	4.18	2.31
Mean				4.07	2.96
St Dev				4.27	3.27

Table II  
Drivers of Restaurant Health and Cleanliness

This table reports general determinants of restaurant health inspection outcomes. Critical violations are those “likely to directly contribute to food contamination, illness or environmental degradation.” Non-critical violations “do not directly relate to foodborne illness risk, but preventive measures are required.” *Units in chain* counts the total number of separate stores of that particular restaurant chain in Florida each year. *Median county income* is the median income each year in the restaurant’s county. Standard errors are omitted for cuisine types for brevity; positive significance is bolded, negative significance is bolded and italicized. Standard errors are clustered by restaurant chain. \*, \*\*, \*\*\* indicate significance at 10%, 5%, 1%.

	Critical violations (1)	Critical violations (2)	Non-critical violations (3)	Non-critical violations (4)
Log(Units in chain)	-0.238*** (0.026)		-0.112*** (0.020)	
Log(Seats)	0.262*** (0.024)	0.195*** (0.027)	0.223*** (0.022)	0.141*** (0.022)
Log(Employees)	0.065** (0.033)	0.079*** (0.020)	0.179*** (0.024)	0.096*** (0.015)
Log(Median county income)	-0.535*** (0.101)	-0.334** (0.132)	-0.509*** (0.074)	-0.345*** (0.088)
Average check under \$7	-0.632** (0.275)		-0.232 (0.219)	
\$7 - \$10	-0.394** (0.164)		-0.095 (0.128)	
\$10 - \$20	0.220* (0.132)		0.207* (0.120)	
<u>Cuisine type</u>				
American- omitted category				
Asian	1.628***		1.050***	
Chicken	0.032		0.543***	
Donut, ice cream, beverage	<i>-0.542**</i>		<i>-0.530**</i>	
Hamburgers	-0.240		-0.433	
Other ethnic	-0.101		-0.224	
Pizza, pasta, Italian	0.178		-0.136	
Sandwiches, soup, deli	<i>-0.417*</i>		<i>-0.594***</i>	
Steak, seafood	-0.263		-0.038	
Year fixed effects	X	X	X	X
Chain fixed effects		X		X
Observations	345,489	345,489	345,489	345,489
R2	0.20	0.32	0.10	0.21

Table III  
Health Violations and Customer Satisfaction

This table presents results from OLS regressions of customer satisfaction on restaurant sanitation. Each observation is a restaurant chain. The dependent variable Avg Yelp stars is the average star rating (which can range from 1 to 5) for all reviews given to all branches in a chain in 2012 on the website Yelp.com. The dependent variable *Avg critical violations* similarly averages the critical violations for all inspections for all branches in a chain in 2012. The restriction “5 or more reviews” refers to the number of Yelp reviews for the chain in 2012. Standard errors are in parentheses. \*, \*\*, \*\*\* indicate significance at 10%, 5%, 1%.

	Dependent variable = Avg Yelp stars		
	(1)	(2)	(3)
Avg critical violations	-0.025*** (0.003)	-0.022*** (0.004)	-0.022*** (0.004)
Price × Cuisine fixed effects		X	X
5 or more reviews			X
Observations	5,876	3,775	2,123
R2	0.012	0.031	0.051

Table IV  
Violations under Private Equity Ownership

This table presents results from OLS regressions of restaurant inspection results on private equity ownership and store characteristics. An observation is an inspection on a specific date at a specific restaurant address. The dependent variable *Critical violations* is the number of critical violations, those “likely to directly contribute to food contamination, illness or environmental degradation,” recorded during the inspection. Non-critical violations are those that “do not directly relate to foodborne illness risk, but preventive measures are required.” *PostPE* is a dummy variable which equals one if a restaurant is owned by a private equity firm on that inspection date. *Log(Seats)* and *Log(Employees)* count the number of seats and full-time equivalent employees at the restaurant in the year of the inspection. *Zip × Year* fixed effects use the zip code of each restaurant. Standard errors are in parentheses and clustered by restaurant chain. \*, \*\*, \*\*\* indicate significance at 10%, 5%, 1%.

Panel A: Dependent variable = Critical violations						
	(1a)	(2a)	(3a)	(4a)	(5a)	(6a)
PostPE	-0.662*** (0.238)	-0.647*** (0.240)	-0.627** (0.249)	-0.625** (0.251)	-0.614** (0.252)	-0.612** (0.253)
Log(Seats)		0.212*** (0.0257)		0.239*** (0.0503)		0.178*** (0.054)
Log(Employees)		0.0676*** (0.0169)		-0.0289 (0.0188)		-0.028 (0.020)
Chain fixed effects	X	X				
Store fixed effects			X	X	X	X
Year fixed effects	X	X	X	X		
Zip × Year fixed effects					X	X
Observations	553,471	541,147	553,471	541,147	553,471	541,147
R2	0.122	0.134	0.122	0.137	0.536	0.535
Panel B: Dependent variable = Non-Critical violations						
	(1b)	(2b)	(3b)	(4b)	(5b)	(6b)
PostPE	0.0526 (0.139)	0.0685 (0.141)	0.087 (0.154)	0.084 (0.156)	0.024 (0.148)	0.023 (0.150)
Log(Seats)		0.155*** (0.0208)		0.006 (0.041)		0.037 (0.037)
Log(Employees)		0.0841*** (0.0134)		-0.007 (0.012)		-0.003 (0.012)
Chain fixed effects	X	X				
Store fixed effects			X	X	X	X
Year fixed effects	X	X	X	X		
Zip × Year fixed effects					X	X
Observations	553,471	541,147	553,471	541,147	553,471	541,147
R2	0.031	0.046	0.030	0.031	0.471	0.470

Table V  
Restaurant Health Violations by Category

This table presents results from OLS regressions of violations in disaggregated categories of restaurant maintenance and sanitation on private equity ownership and store characteristics. An observation is an inspection on a specific date at a specific restaurant address. Appendix A details the specific critical and non-critical violations that belong to each category. The independent variables are as defined in Table IV. Standard errors are in parentheses and clustered by restaurant chain. \*, \*\*, \*\*\* indicate significance at 10%, 5%, 1%.

	Food Handling	Maintenance (Kitchen)	Maintenance (Non-Kitchen)	Consumer Advising	Training/ Certification
	(1)	(2)	(3)	(4)	(5)
PostPE	-0.351*** (0.133)	-0.0274* (0.0163)	-0.0743 (0.0530)	-0.0929*** (0.0321)	-0.0167 (0.0194)
Log(Seats)	0.107*** (0.0301)	0.0111 (0.00873)	0.0301** (0.0125)	0.0151* (0.00828)	0.00854 (0.00758)
Log(Employees)	-0.0112 (0.0107)	-0.000521 (0.00237)	-0.00705 (0.00551)	-0.00524* (0.00278)	-0.00574** (0.00235)
Store fixed effects	X	X	X	X	X
Year fixed effects	X	X	X	X	X
Observations	540,366	540,366	540,366	540,366	540,366



Table VI  
 Inspection Results in Directly Owned versus Franchised Stores

This table presents results from OLS regressions of restaurant inspection results on private equity ownership and store characteristics. An observation is an inspection on a specific date at a specific restaurant address. The independent variable *DirectOwn* is a dummy variable which equals one if the restaurant is owned and operated by its brand's parent company in a given year. *DirectOwn* equals zero if the restaurant is run by an independent franchisee. The remaining variables are as defined in Table IV. Standard errors are in parentheses and clustered by restaurant chain. \*, \*\*, \*\*\* indicate significance at 10%, 5%, 1%.

	Critical Violations	Critical Violations	Critical Violations	Critical Violations
	(1)	(2)	(3)	(4)
PostPE	-0.223 (0.306)	-0.222 (0.306)	-0.160 (0.266)	-0.159 (0.266)
PostPE * DirectOwn	-0.316** (0.150)	-0.315** (0.150)	-0.319** (0.141)	-0.319** (0.141)
DirectOwn	0.106 (0.133)	0.102 (0.134)	0.114 (0.121)	0.111 (0.121)
Log(Seats)		0.232*** (0.071)		0.146* (0.086)
Log(Employees)		-0.034 (0.024)		-0.023 (0.025)
Store fixed effects	X	X	X	X
Year fixed effects	X	X		
Zip × Year fixed effects			X	X
Observations	179,524	179,390	179,524	179,390
R2	0.107	0.111	0.520	0.520

Table VII  
Restaurant Employment under Private Equity Ownership

This table presents results from OLS regressions of restaurant count and employment characteristics on private equity ownership. *Number of restaurants* is at the chain level, measured each year, and only includes stores in Florida. *Avg employees/store across chain* is a single average for all restaurants in a chain in a year. The remaining variables are as defined in Table VI. Standard errors are in parentheses and clustered by restaurant chain. \*, \*\*, \*\*\* indicate significance at 10%, 5%, 1%.

	Log number of restaurants	Log avg emp/store across chain	Log avg emp/store across chain	Log employees / store	Log employees / store	Log employees / store	Log employees / store
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
PostPE	0.074 (0.120)	-0.140** (0.059)	-0.142** (0.059)	-0.032** (0.014)	-0.026* (0.014)	-0.022* (0.012)	-0.019* (0.011)
PostPE *						0.002	0.000
DirectOwn						(0.012)	(0.010)
DirectOwn						0.009 (0.010)	0.018 (0.012)
Log avg seats			0.180*** (0.018)	0.021*** (0.007)	0.028*** (0.008)	0.007 (0.009)	0.013 (0.009)
Chain fixed effects	X	X	X				
Store fixed effects				X	X	X	X
Year fixed effects	X	X	X	X		X	
Zip × Year fixed effects					X		X
Observations	126,101	123,788	111,733	241,337	235,090	74,065	70,554
R2	0.904	0.940	0.926	0.961	0.971	0.954	0.967

Table VIII  
Restaurant Prices under Private Equity Ownership

This table presents results from OLS regressions of restaurant menu prices on private equity ownership. An observation is a menu item type at a particular restaurant in a given year. The dependent variable *Item type price* is the average price of all menu items in a food category (e.g., “cold sandwiches”) sold by a particular restaurant in a given year. An example of a Year × Cuisine × Segment × Item type fixed effect is “2005, Chinese, Fine dining, dessert.” The data comprise menus from 2,178 restaurant chains sampled annually from 2005-2012. Standard errors are in parentheses and clustered by restaurant chain. \*, \*\*, \*\*\* indicate significance at 10%, 5%, 1%.

Menu items	All	All	Appetizer	Beverage	Dessert	Entrée	Side
	Dependent variable = Item type price						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
PostPE	-0.285* (0.171)	-0.304* (0.180)	-0.144 -0.374	-0.178* -0.0976	-0.318 -0.523	-0.456** -0.208	-0.0896 -0.115
Chain fixed effects	X	X	X	X	X	X	X
Year fixed effects	X						
Year × Cuisine × Segment × Item type fixed effects		X	X	X	X	X	X
Observations	374,891	374,891	65,281	67,757	32,635	116,190	77,076
R2	0.185	0.497	0.51	0.426	0.523	0.479	0.427

## Appendix

Table 1A  
Year-by-year Impact of Private Equity on Violations

This table replaces the variable *PostPE* in Table IV columns 4a, 6a, 4b, and 6b with event year dummies for the year relative to PE entry. Event year 0, corresponding to inspections that occur from 1 to 365 days after the deal close date, is omitted. The coefficients in columns 1 and 3 are plotted in Figures 1a and 1b, respectively. Standard errors are clustered by restaurant chain. \*, \*\*, \*\*\* indicate significance at 10%, 5%, 1%.

	Critical violations	Critical violations	Non-critical violations	Non-critical violations
	(1)	(2)	(3)	(4)
Year -3	0.0216 (0.163)	0.0466 (0.176)	-0.104 (0.201)	-0.0930 (0.199)
Year -2	0.117 (0.223)	0.137 (0.230)	0.0189 (0.259)	0.0253 (0.251)
Year -1	0.128 (0.120)	0.129 (0.127)	-0.0183 (0.121)	-0.00227 (0.119)
Year 1	-0.249 (0.188)	-0.238 (0.195)	0.0697 (0.158)	0.0340 (0.166)
Year 2	-0.530* (0.312)	-0.508 (0.320)	0.0156 (0.226)	-0.0419 (0.225)
Year 3	-0.780** (0.361)	-0.794** (0.359)	0.0127 (0.231)	-0.0896 (0.231)
Year 4	-1.104** (0.433)	-1.099** (0.438)	-0.0102 (0.218)	-0.104 (0.218)
Log(Seats)	0.210*** (0.054)	0.168*** (0.0521)	-0.00779 (0.046)	0.0314 (0.0397)
Log(Employees)	-0.0201 (0.019)	-0.0193 (0.0200)	0.000181 (0.013)	0.00103 (0.0127)
Store fixed effects	X	X	X	X
Year fixed effects	X		X	
Year × Zip fixed effects		X		X
Observations	510,457	510,457	510,457	510,457
R2	0.137	0.537	0.033	0.474

## Inspection Violation Descriptions

Critical violations recorded by the Florida Department of Business and Professional Regulation:

- Food obtained from approved source
- Original container; properly labeled, date marking, shell stock tags
- Consumer advisory on raw/undercooked animal products
- Cold food at proper temperatures during storage, display, service, transport and cold holding
- Foods properly cooked/reheated
- Foods properly cooled
- Unwrapped or potentially hazardous food not re-served
- Food protection during storage, preparation, display, service, transportation
- Foods handled with minimum contact
- Personnel with infections restricted
- Hands washed and clean, good hygienic practices (observed), alternative operating plan
- Food contact surfaces clean and sanitized
- Restrooms with self-closing doors, fixtures operate properly, facility clean, supplied with hand soap, disposable towels or hand drying devices, tissue, covered waste receptacles
- Toxic substances properly stored
- Employee training verification
- Facilities to maintain product temperature
- Thermometers provided and conspicuously placed
- Potentially hazardous foods properly thawed
- Potential for cross-contamination, storage practices; damaged food segregated
- Dishwashing facilities designed, constructed, operated
- Sanitizing temperature
- Water source safe, hot and cold under pressure
- Sewage and waste water disposed properly
- Cross-connection, back siphonage, backflow
- Toilet and hand washing facilities, number, convenient, designed, installed
- Presence of insects/rodents. Animals prohibited
- Outer openings protected from insects, rodent proof
- Fire extinguishers - proper and sufficient
- Exiting system - adequate, good repair
- Electrical wiring - adequate, good repair
- Gas appliances - properly installed, maintained
- Flammable/combustible materials - properly stored
- Current license, properly displayed
- False/misleading statements published or advertised relating to food/beverage

Non-Critical violations recorded by the Florida Department of Business and Professional Regulation:

- In use food dispensing utensils properly stored
- Food contact surfaces designed, constructed, maintained, installed, located
- Wiping cloths clean, used properly, stored
- Clean clothes, hair restraints
- Non-food contact surfaces designed, constructed, maintained, installed, located
- Pre-flushed, scraped, soaked
- Wash, rinse water clean, proper temperature
- Non-food contact surfaces clean
- Single service articles not re-used
- Plumbing installed and maintained
- Containers covered, adequate number, insect and rodent proof, emptied at proper intervals, clean
- Outside storage area clean, enclosure properly constructed
- Floors properly constructed, clean, drained, coved
- Walls, ceilings, and attached equipment, constructed, clean
- Lighting provided as required. Fixtures shielded
- Rooms and equipment - vented as required
- Employee lockers provided and used, clean
- Premises maintained, free of litter, unnecessary articles. Cleaning and maintenance equipment properly stored. Kitchen restricted to authorized personnel
- Complete separation from living/sleeping area, laundry
- Clean and soiled linen segregated and properly stored
- Other conditions sanitary and safe operation
- Florida Clean Indoor Air Act

We subdivide all violations into categories for use in Table IV:

#### Food Handling

- Approved source
- Food Out of Temperature
- Unwrapped or potentially hazardous food not re-served
- Potentially hazardous food properly thawed
- Food protection, cross-contamination
- Foods handled with minimum contact
- Personnel with infections restricted
- Hands washed and clean, good hygienic practices, eating/drinking/smoking
- Sanitizing concentration or temperature
- Food contact surfaces of equipment and utensils clean
- Toxic items properly stored, labeled and used properly
- In use food dispensing utensils properly stored
- Food contact surfaces designed, constructed, maintained, installed, located

- Wiping cloths clean, used properly, stored
- Clean clothes, hair restraints

#### Kitchen Equipment Maintenance

- Facilities to maintain product temperature
- Thermometers provided and conspicuously placed
- Dishwashing facilities designed, constructed, operated
- Thermometers, gauges, test kits provided

#### Restaurant Maintenance (non-kitchen)

- Sewage and wastewater disposed properly
- Toilet and hand-washing facilities, number, convenient, designed, installed
- Presence of insects/rodents. Animals prohibited. Outer openings protected from insects, rodent proof
- Restrooms with self-closing doors, fixtures operate properly, facility clean, supplied with hand-soap, disposable towels or hand drying devices, tissue, covered waste receptacles
- Cross-connection, back siphonage, backflow
- Water source safe, hot and cold under pressure
- Non-food contact surfaces designed, constructed, maintained, installed, located
- Pre-flushed, scraped, soaked
- Wash, rinse water clean, proper temperature
- Non-food contact surfaces clean
- Storage/handling of clean equipment, utensils
- Single service items properly stored, handled, dispensed
- Single service articles not re-used
- Plumbing installed and maintained
- Containers covered, adequate number, insect and rodent proof, emptied at proper intervals, clean
- Outside storage area clean, enclosure properly constructed
- Floors properly constructed, clean, drained, coved
- Walls, ceilings, and attached equipment, constructed, clean
- Lighting provided as required. Fixtures shielded
- Rooms and equipment - vented as required
- Employee lockers provided and used, clean
- Premises maintained, free of litter, unnecessary articles. Cleaning and maintenance equipment properly stored. Kitchen restricted to authorized personnel
- Complete separation from living/sleeping area, laundry
- Clean and soiled linen segregated and properly stored
- Other conditions sanitary and safe operation
- Florida Clean Indoor Air Act

#### Consumer Advising

- Original container: properly labeled, date marking, consumer advisory
- False/misleading statements published or advertised relating to food/beverage

#### Training/Certification

- Current license properly displayed
- Food management certification valid / Employee training verification
- Hospitality Education Program information provided (information only – not a violation)