

Organisational form and performance in fashion retailing

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Abstract

Purpose – This research seeks to discover how the organisational form (franchising vs vertical integration) of 384 fashion stores belonging to a Spanish franchise chain influences unit-level performance measured through three key indicators commonly used in the retail literature: sales per square metre, sales per employee and service quality scores.

Design/methodology/approach – The authors have analysed this research question using bivariate and multivariate analyses, with a panel dataset that includes quarterly establishment-level data covering the period from January 2018 to December 2019.

Findings – The aggregated data initially reveal weaker outcomes among franchised establishments. However, after controlling for other variables related to the fashion stores and their local markets, the authors have found that franchised establishments record higher sales both per square metre and per employee than vertically integrated stores. The findings also reveal that franchised establishments record lower service quality scores than their company-owned counterparts.

Originality/value – Nothing has been published on the differences between franchising and company ownership in terms of establishment-level performance in fashion retailing.

Keywords Company ownership, Fashion retailing, Franchising, Performance, Sales per employee, Sales per square metre, Service quality

Paper type Research paper

1. Introduction

The coexistence of franchised and company-owned establishments in the same franchise chain is a very important matter for researchers studying entrepreneurship and small business management (Brand and Croonen, 2010). At network level, scholars have analysed the synergies between franchised and company-owned outlets in the same chain (Bradach, 1997, 1998). At establishment level, researchers have examined the performance differences between franchised and company-owned outlets with mixed findings (Kosová *et al.*, 2013; Shelton, 1967; Vázquez-Suárez *et al.*, 2020). One of the goals of research in this field is to discover whether one of these two organisational choices outperforms the other. This is a key



issue, as whatever influences a business's performance also affects its efficiency and long-term survival.

Nothing has been published on the differences between franchised and vertically integrated stores in terms of establishment-level performance in fashion retailing. This research addresses this lacuna by focussing on the relationship between a fashion store's organisational form and an establishment's performance estimated through three key performance indicators (KPIs) commonly used in the retail literature: sales per square metre, sales per employee and service quality scores.

This study is based on a panel dataset that corresponds to a Spanish fashion retailing chain, whose identity cannot be revealed for reasons of confidentiality [1]. The data provided are comprehensive, consisting of quarterly unit-level figures for the KPIs studied. The data also show whether each fashion store is franchised or vertically integrated, as well as sundry other characteristics (e.g. individual establishment's age and size). We also have data on local markets, which means we can control for several variables with an impact on the KPIs studied. Since its creation in the 1980s, this fashion chain has been revolutionising Spain's ready-to-wear market by launching innovative concepts. The company has deployed a fast response strategy that shortens the time between a store's order and its dispatch. This allows the company to respond rapidly to both their clients and market trends. The company thus has the flexibility needed to react to changes in the specialised clothing market, making it possible to adjust its business to the orders placed by the retail chain and respond in a timely manner to new fashions and market needs. This chain's success has driven its expansion, first nationally and then internationally.

This paper is structured as follows. Section 2 reviews the literature and develops our hypotheses. Section 3 introduces the data and the empirical model used. Section 4 presents the results of our analyses, and Section 5 concludes.

2. Literature review

2.1 Franchising in the fashion industry

Franchising is an effective operating model in business expansion and has made a significant contribution to the development of the global business (Combs *et al.*, 2011). The franchising business in 2019, for example, reported a turnover of 26.11 bn euros in Spain, accounting for approximately 2.1% of Spain's gross domestic product (GDP) (Spanish Franchise Association, 2020).

The fashion industry is one of the world's biggest, with a total value of US\$ 3 tn in 2017 (Fashion United, 2018). Franchising has also been advocated by many brands as the premier strategy to enter a new market (Märzheuser-Wood and Chatwood, 2015). A total of 14 fashion companies are on the list of the top 100 global franchisors, with PVH Corp., Iconix Brand Group and Authentic Brands Group ranked third, sixth and tenth, respectively, with annual retail sales of US\$18bn, US\$7bn and US\$5.3bn (Chen *et al.*, 2020). There were 1,381 franchise chains operating in Spain at the end of 2019, and the sector with the highest number of chains was "Fashion", with a total of 242 chains and 9,297 stores, with a turnover of 2,364 m euros and employing 23,226 workers (Spanish Franchise Association, 2020).

The volatility of consumer preferences towards fashion products leads to a joint increase in the heterogeneity of production, marketing and supply management activities in the clothing industry. The aggregation of these operations makes it possible to provide the market with fast responses to new fashion trends. Accordingly, all the information disseminated throughout the market requires a specific orientation. This orientation will be more successful in step with the higher level of coordination in fashion franchise chains. In other sectors where franchising is used, such as hospitality, the need for coordination between members of the chain is not so important because of the lower variation in demand.

This idiosyncrasy of fashion chains is relevant because the level of coordination they require affects each outlet's choice of organisational form (franchising vs vertical integration). Specifically, the higher the level of coordination required in a franchise chain, the more likely it is that its stores will be vertically integrated (Michael, 2002).

2.2 Organisational form and performance in franchise chains

Clothing franchise chains may choose to run their establishments either through their own employees or by outsourcing them in the form of franchisees. This is a relevant matter because franchisees and managers of vertically integrated establishments have different incentives, which could affect their establishment's performance (Brickley and Dark, 1987; Lafontaine, 1992; Bradach, 1998; Sveum and Sykuta, 2017).

The joint presence of two different organisational forms within the same business structure creates hiring and incentive problems that have been studied by agency theory. The argument here is that managers of vertically integrated establishments will underperform the franchisees because franchising avoids the former's moral hazard issues (Carney and Gedajlovic, 1991; Jensen and Meckling, 1976). Agency theory reasons that franchisees have greater incentives to keep a close eye on their employees, as their own wealth depends heavily on the establishment's performance (Rubin, 1978). In theory, this incentive should prompt franchisees to invest more effort than the company's own managers, and thereby prompt different levels of unit performance. In our case, it may be argued that managers of vertically integrated stores have fewer incentives to work harder than franchisees, thereby reducing an establishment's performance. Although the management literature has not studied this issue in the clothing retailing, previous research has analysed this topic of differential performance in the hospitality literature with mixed outcomes. The following paragraphs provide a review of the literature.

Shelton (1967) compares the performance of franchised and vertically integrated fast-food restaurants that have changed from franchising to vertical integration or vice versa. In 19 of the 22 restaurants studied, the establishments were more profitable under franchising. Shelton's focused research is its main advantage, with no change in market and unit characteristics when the business's organisation shifted from one form to the other. Ackermann (2019) has also addressed this issue in a US casual dining chain called Applebee's by examining the revenues of 60 units that moved from company ownership to franchising. At the beginning of 2007, there were 93 Applebee's establishments operating in Texas, 33 of which were franchised. A corporate sell-off strategy launched in 2007 meant that every company-owned unit had been franchised by the end of 2008. By observing these units' revenues before and after they had been franchised, Ackermann has estimated the effect of franchising on unit performance, finding that this organisational form increased unit sales in Applebee's case.

Beheler *et al.* (2008) have studied the differences in performance in the restaurant industry between franchised and company-owned establishments, finding that the latter record significantly lower scores in health inspections, thereby supporting the premise that they record a weaker performance. Krueger (1991) backs this claim by finding that the differential effect of contractual arrangements provides the managers of vertically integrated establishments with fewer incentives to mentor and supervise their staff, whereby employees in those units belonging to fast-food chains earn slightly more and have steeper earning profiles than their peers in franchised units. Krueger also contends that managers' lesser incentives in company-owned establishments render it advisable to be more generous in performance-linked wages and provide steeper earning profiles.

Sveum and Sykuta (2017) have studied the US restaurant industry and found that franchisee ownership has a major and lasting impact on performance in full-service restaurants but not so in the case of limited-service units. Anderson (1984) has addressed performance differences across franchised and company-owned establishments in 17 business areas, with 11 recording differences. In 7 of these 11 business areas, company-owned

units post a sharper increase in average sales than their franchised counterparts, although in some cases this has been attributed to more favourable locations.

Agency theory might argue that, as part of a franchise network, franchisees could free-ride on the brand, and consequently provide less quality. Considering that a franchisee is part of a larger chain, positive spillover means it can free-ride on the parent brand (Brickley and Dark, 1987), diminishing quality compared to company-owned outlets. Franchisees base their turnover on serving their own customers, so they increase their profit margin by delivering lower cost/quality, but this means spreading the costs of dissatisfied customers across all the other franchisees in the chain (Brickley and Dark, 1987). Franchising lowers monitoring costs, encouraging franchisees to make a greater effort than the franchisor's own managers, although this may encourage individual free-riding that undermines coordination (Michael, 2002) and weakens the brand's reputation (Kidwell *et al.*, 2007; Lafontaine and Shaw, 2005; Michael, 2000). Jin and Leslie (2009) support this argument in the restaurant industry by finding lower hygiene scores in franchised establishments than in company-owned ones within the same chain. Michael (2000) provides more support for franchisee free-riding, finding lower customer quality ratings for predominantly franchised networks.

Even though evidence has supported results consistent with the higher performance of both franchised and vertically integrated establishments, some scholars have not found any outcome differences that favour either one or the other. A qualitative study of franchise systems in the restaurant industry by Bradach (1998) has not reported any differences between the two types of establishments. In turn, Kalnins and Mayer (2004) have also observed similar failure rates for franchised and vertically integrated establishments. Furthermore, recent investigations have not observed any significant performance differentials between vertically integrated and franchised outlets (Kosová *et al.*, 2013; Lawrence and Perrigot, 2015; Vázquez-Suárez *et al.*, 2020). In short, the empirical evidence is diverse. Some scholars have observed that performances differ, but others have found that organisational form has no impact whatsoever.

In view of the above, franchisees may be encouraged to work more than the managers of vertically integrated stores (Rubin, 1978). Agency theory states that franchisees are likely to monitor efficiently their employees, as their own wealth depends largely on their business's performance. Corporate employees require close monitoring, which means franchisors can save on costs by incentivising franchisees through residual profits. Franchise agreements to some extent resolve the issue of motivating company managers, as they might relax their effort because their own particular interests are not so directly linked to the performance of their stores. A franchisee's capital investment should decrease shirking compared to company managers, whereby franchisees should perform better than the managers of vertically integrated stores in terms of staff monitoring. Therefore, on measures such as sales per square metre and sales per employee, which are directly related to labour productivity and managerial supervision, franchised stores should outperform company-owned establishments. We may therefore expect the following when controlling for those variables linked to the demographics of stores and the nature of their local markets:

- H1.* Franchised clothing stores will outperform their company-owned counterparts in sales per square metre and sales per employee.

As well as explaining the weaker performance of vertically integrated establishments, agency theory can also be used to argue that franchised outlets will, in turn, underperform them, as franchisees share their brand with the rest of the network, so they might want to reduce costs and free-ride accordingly (Lafontaine and Shaw, 2005), in the knowledge that they will not bear the full brunt of customer dissatisfaction because the ensuing costs are shared both by the franchisor and by the other franchisees. Franchisees might therefore free-ride on the brand and skimp on quality. As franchisees are part of a chain, they can free-ride

on the brand's overall reputation (Brickley and Dark, 1987), thereby providing lower levels of service quality. When controlling for a series of variables linked to the demographics of the stores and the nature of their local markets, we may therefore expect the following:

- H2. Franchised clothing stores will underperform their company-owned counterparts in service quality scores.

3. Data and research methodology

3.1 Dataset and sample

The dataset used includes quarterly establishment-level data covering the period from January 2018 to December 2019, with a total of 8 observations for the majority of the 384 fashion stores located in Spain belonging to the franchise chain studied. Economic performance is a dynamic process, so the data need to be longitudinal. The minimum number of observations per store is 6, and the average number of observations per establishment is 7.62, which mean our panel data are fairly well-balanced. We have performed descriptive and multivariate analyses to explore the combined effect that the explanatory variables have on performance in each case.

3.2 Dependent variables

This research uses two common indicators to measure retail productivity: sales per square metre and sales per employee computed on a quarterly basis (Nicasio, 2015; Reynolds *et al.*, 2005; Vidya *et al.*, 2015).

Additionally, store performance is measured through service quality scores, which are also computed on a quarterly basis in each case. Service quality is a vital part in fashion retailing and it is clear that the shopping experience becomes more enjoyable for the customer and more profitable for the retailer when staff members are well-trained and understand the consumer. It has been proven that staff interaction with customers, alongside the physical appearance of store personnel can enhance the shopping experience and this, combined with store policy, creates the strongest impact on consumers (Siu and Cheung, 2001; Yu-Sum and Leung, 2009). Academic research has demonstrated that sales personnel are critical to the store experience and indeed these factors also help customers to decide whether they will return to the store; that is, the shopping experience can create competitive advantage for the retailer (Jackson and Shaw, 2008). A number of models have been developed to conceptualise and measure service quality in fashion retailing. The bulk of the studies have been adopted, modified or informed by the SERVQUAL model (Parasuraman *et al.*, 1988) to measure context-specific services (Leung and Fung, 1996; Leung and To, 2001; Patten *et al.*, 2020). These investigations have relied mainly on service quality ratings provided by customers. Our research, by contrast, uses a dataset provided by a fashion retailing franchise company that includes quarterly unit-level data on service quality inspection scores. Among other aspects, these inspections assesses service convenience (i.e. the suitability of payment methods), staff attitudes and efficiency (i.e. whether they are quick to respond to customers' needs, inquiries and complaints, informing customers about the services provided; whether they are engaged with their work, polite, courteous and well-informed, and never being too busy to attend to customers' requests), reliability (i.e. customers' perceptions of how well the store fulfils its promises and how willingly the establishment deals with returns, exchanges and complaints), cleanliness of the premises (i.e. internal and external hygiene, such as toilets, enter/exit signage, windows, doors and shop front), tangibles (i.e. modern equipment, physical facilities and store materials; the décor, the ease of locating clothes and moving around; the ambient temperature and ventilation) and convenient business hours. Service quality inspections are mostly conducted for internal purposes, and so they are usually treated as confidential, with

this type of information rarely being disclosed. The fashion stores analysed here are inspected on a quarterly basis to assess their operational status on a scale of 0–100.

3.3 Independent variable

The independent variable, namely, the store's organisational form at the start of each quarter, takes a value of 1 for franchised establishments and 0 otherwise. Hence, company ownership serves as the yardstick in our model.

3.4 Control variables

Our model isolates the impact that an individual establishment's organisational form has on the KPIs studied. The model also avoids spurious relationships between the dependent and independent variables, and includes eight quarterly dummy variables and a set of control variables to account for the characteristics of the stores and their local markets that may affect their performance. Specifically, the multivariate analysis includes two dimensions that typify each establishment demographically, such as size (measured by the total square metres of retail space at the beginning of each quarter) and age (measured by the number of years in operation, also at the beginning of each quarter). As in other studies in this area (e.g. [Xavier et al., 2015](#)), our analysis also includes a variable related to each local market, such as the average net per capita income of the sub-city district (SCD) in which each fashion store in the sample operates. We also use a binary dummy variable that takes the value 1 if the store is located in a shopping mall and 0 otherwise. [Table 1](#) shows all the variables and their measurements, as well as their descriptive statistics, and [Table 2](#) lists the correlations among these variables.

3.5 The regression model

The aim here is to study the link between the organisational form of individual clothing stores and their performance. Our basic assumption is that the characteristics of both the establishments and their local markets influence the KPIs studied. We therefore formulate the following equation:

$$Y_{it} = f(F_{it}, X_{it}, Z_i, \varepsilon_{it})$$

where i and t index establishment and quarters (1–8), respectively. Y_{it} is the log of the performance variables studied. F_{it} reflects each one's organisational form, whereby in a specific quarter it can either be franchised ($F_{it} = 1$) or vertically integrated ($F_{it} = 0$). X_{it} stands for time-varying establishment and local market characteristics, and Z_i for time-invariant ones.

According to the methodology applied by [Kosová et al. \(2013\)](#) in the hotel industry, we consider $\varepsilon_{it} = \mu_i + \mu_{it}$ to be a composite error term, where μ_i stands for establishment-level unobserved heterogeneity, which we initially assume is not correlated with observed characteristics, and μ_{it} stands for an idiosyncratic error term. We control for establishment-level unobserved and uncorrelated heterogeneity (μ_i) across all the empirical specifications, either by amending standard errors for store-level clusters, or by using standard random effects (RE) models. The difference between RE specifications and clustering in ordinary least squares (OLS) estimations is that the RE model accepts an "equal correlation" structure between unit observations, while clustering provides for flexible correlations. If the "equal correlation structure" supposition is inappropriate, more robust results are provided by OLS with clustered standard errors, while the RE model gives more accurate estimates. In addition, in both cases, the variance-covariance matrix White/Huber estimator is used to correct the standard errors regarding potential heteroscedasticity ([Kosová et al., 2013](#), p. 1,311). All the continuous variables in our regressions are in logarithmic form, whereby the coefficient estimates can be directly understood as elasticities. This also takes into account

Table 1.
Descriptive statistics
(by establishment)

Variable	Description	Mean	SD	Maximum	Minimum
SPSM	Quarterly sales (in euros) per square metre	784.23	512.37	1,493.73	426.14
SPE	Quarterly sales (in euros) per employee	83194.71	18386.62	148274.08	42952.51
Service quality scores	Quarterly assessment of operational aspects related to, among others aspects, service convenience (i.e. the suitability of payment methods), staff attitudes and efficiency (i.e. whether they are quick to respond to customers' needs, inquiries and complaints, informing customers about the services provided; whether they are engaged with their work, polite, courteous and well informed and never being too busy to attend to customers' requests), reliability (i.e. customers' perceptions of how well the store fulfills its promises and how willingly the establishment deals with returns, exchanges and complaints), cleanliness of the premises (i.e. internal and external hygiene, such as toilets, enter/exit signage, windows, doors, and shop front), tangibles (i.e., modern equipment, physical facilities and store materials), the décor, the ease of locating clothes and moving around, the ambient temperature and ventilation and convenient business hours	91.34	9.03	100.00	71.00
Franchising	Takes value 1 for franchised stores and 0 otherwise, at the beginning of the quarter	0.42	0.49	1	0
Establishment size	Number of square metres of retail area at the beginning of the quarter	642.38	294.15	2000	285
Establishment age	Number of years in operation at the start of the quarter	9.62	7.79	21.75	0.50
Shopping mall	Takes the value 1 if the store is located in a shopping mall and 0 otherwise	0.46	0.50	1	0
Average net per capita income	Annual average net per capita income in 2016 of the SCD where the store operates	12987.45	3476.95	42,819	7,849
	Number of observations	2,926			
	Number of stores	384			

	1	2	3	4	5	6	7	8
1. SPSM	1.00							
2. SPE	0.21***	1.00						
3. Service quality scores	0.08	0.13**	1.00					
4. Franchising	-0.19***	-0.16***	-0.14***	1.00				
5. Establishment size	0.22***	0.31***	-0.06	-0.18**	1.00			
6. Establishment age	0.03	-0.09	-0.08	-0.04	-0.22***	1.00		
7. Shopping mall	-0.05	-0.07	0.04	0.10	0.06	-0.08	1.00	
8. Average net per capita income	0.29***	0.19***	0.15***	-0.27***	-0.17***	0.05	-0.16***	1.00

Note(s): Significance levels: *** 1%

Table 2. Correlations among variables

	Franchised: 161 out of 384 (41.9%)	Vertically integrated: 223 out of 384 (58.1%)	Difference in means
SPSM	714.07 (540.31)	834.89 (478.63)	***
SPE	79863.02 (20124.14)	85600.10 (17062.86)	***
Service quality scores	87.57 (9.37)	94.06 (8.89)	***
Establishment size	530.46 (372.19)	723.18 (237.15)	***
Establishment age	9.47 (7.59)	9.73 (7.92)	
Shopping mall	0.47 (0.50)	0.45 (0.50)	
Average net per capita income	11438.63 (3906.27)	14105.66 (3061.33)	***

Note(s): Significance levels: 1%

Table 3. Franchised and vertical integrated stores (means and standard deviations)

non-linear relationships across variables, reducing the potential effect of outliers or skewed regressors and therefore ensuring that the coefficient estimates are more robust.

4. Results and discussion

4.1 Bivariate statistics

In view of our interest in the impact that an individual store's organisational form may have on its KPIs, Table 3 compares franchised and company-owned establishments.

Vertically integrated stores are on average larger than franchised ones, operating in local markets where the average net per capita income is higher. In addition, our KPIs (sales per square metre, sales per employee and service quality scores) are on average higher among company-owned clothing stores.

The patterns for this bivariate analysis suggest that franchised stores do not perform as well as their company-owned counterparts, although straightforward mean comparisons do not account for the impact of certain characteristics of establishments and their local markets. The next section applies a multivariate model to discovering whether organisational form does indeed prompt differences in our stores' KPIs.

4.2 Multivariate statistics

The results for our dependent variables estimated by OLS are showed in column 1 in Tables 4–6.

A potential issue with the OLS estimations is that although we control for the impact that different establishment and local market features have on store outcomes, as well as for the unobserved heterogeneity of establishments in the error term, some of this heterogeneity (e.g.

Table 4.
Store organisational
form and SPSM

	Log (SPSM) OLS (cluster)	Log (SPSM) Controlling for store FE OLS (cluster)	Log (SPSM) Controlling for store FE RE
Franchising	0.0304*** (0.0052)	0.0268*** (0.0039)	0.0237*** (0.0033)
Establishment size	0.2618*** (0.0349)	0.3502*** (0.0430)	0.3143*** (0.0378)
Establishment age	-0.1045 (0.0792)	-0.0810 (0.0692)	-0.0697 (0.0565)
Shopping mall	0.0408 (0.0314)	0.0209 (0.0277)	0.0268 (0.0356)
Average net per capita income	0.3384*** (0.0527)	0.4352*** (0.0607)	0.4131*** (0.0570)
Constant	3.0383*** (0.5065)	0.3843*** (0.0643)	1.7634*** (0.2651)
Quarterly dummy variables	Yes	Yes	Yes
Observations	2,926	2,926	2,926
Number of fashion stores	384	384	384
R ²	0.57	0.62	0.63

Note(s): Significance levels: *** 1%

Table 5.
Store organisational
form and SPE

	Log (SPE) OLS (cluster)	Log (SPE) Controlling for store FE OLS (cluster)	Log (SPE) Controlling for store FE RE
Franchising	0.0289*** (0.0048)	0.0353*** (0.0046)	0.0321*** (0.0043)
Establishment size	0.2238*** (0.0390)	0.2561*** (0.0327)	0.2935*** (0.0363)
Establishment age	-0.0143 (0.0201)	-0.0552 (0.0431)	-0.0426 (0.0327)
Shopping mall	0.0227 (0.0264)	0.0319 (0.0360)	0.0319 (0.0360)
Average net per capita income	0.3934*** (0.0609)	0.4512*** (0.0565)	0.4832*** (0.0587)
Constant	3.0147*** (0.4386)	1.714*** (0.2958)	0.8976*** (0.1664)
Quarterly dummy variables	Yes	Yes	Yes
Observations	2,926	2,926	2,926
Number of fashion stores	384	384	384
R ²	0.59	0.66	0.67

Note(s): Significance levels: *** 1%

Table 6.
Store organisational
form and service
quality scores

	Log (service quality scores) OLS (cluster)	Log (service quality scores) Controlling for store FE OLS (cluster)	Log (service quality scores) Controlling for store FE RE
Franchising	-0.0287*** (0.0039)	-0.0241*** (0.0043)	-0.0203*** (0.0037)
Establishment size	0.0326 (0.0239)	-0.0209 (0.0243)	-0.0135 (0.0160)
Establishment age	-0.1008 (0.0716)	-0.0420 (0.0294)	-0.0673 (0.0475)
Shopping mall	0.0092 (0.0117)	0.0201 (0.0235)	0.0149 (0.0163)
Average net per capita income	0.2644*** (0.0319)	0.3245*** (0.0419)	0.2921*** (0.0376)
Constant	2.1633*** (0.3157)	-3.0821*** (0.4710)	-1.7494*** (0.3127)
Quarterly dummy variables	Yes	Yes	Yes
Observations	2,926	2,926	2,926
Number of fashion stores	384	384	384
R ²	0.52	0.56	0.56

Note(s): Significance levels: *** 1%

management quality) might correlate with the organisational form or other regressors. This means our RE and OLS results would be biased, so we addressed this issue and, following Mundlak (1978), corrected standard errors for uncorrelated store heterogeneity by controlling for fixed effects (FE). Mundlak shows that the outcomes from standard FE models can be attained by RE estimations when using establishment-level means of time-varying regressors as supplementary controls. These means are used accordingly in both our RE specifications and our standard OLS estimations, where clustered standard errors allow for more robust correlation structures among establishment-level observations (Kosová *et al.*, 2013, p. 1,311). This is a suitable procedure because organisational form and many other store features barely change in our longitudinal data. For example, over the course of the two years studied here, there have been just a handful of modifications (11 cases) in the organisational form used by the fashion chain in question.

The outcomes of our performance indicators are showed in columns 2 and 3 in Tables 4–6, which in most cases are similar to the ones for the OLS. However, the coefficients' size changes for some variables, indicating the importance of controlling for unobserved correlated heterogeneity.

First, we find that franchised stores always record higher sales both per square metre (SPSM) and per employee (SPE) than company-owned ones (see Tables 4 and 5). The impact of the franchising dummy variable on these performance indicators is positive and statistically significant in all cases. Specifically, franchising raises SPSM on average by around 2.7%, which in our sample corresponds to 21.2 euros more for a mean SPSM of 784 euros. Likewise, franchising increases SPE on average by around 3.21%, which corresponds here to an increase of 2,670 euros for a mean SPE of 83,195 euros. These results support H1, whereby franchisees are prompted to work harder than the managers of vertically integrated establishments (Rubin, 1978). Franchisees therefore have greater incentives to monitor their employees, as their own wealth is tightly linked to store performance. Several researchers support this argument in the franchising literature (Ackermann, 2019; Beheler *et al.*, 2008; Krueger, 1991; Shelton, 1967; Sveum and Sykuta, 2017).

Second, we find that franchised fashion stores always record lower service quality scores than company-owned ones (see Table 6). The impact of the franchising dummy variable on this performance measure is negative and statistically significant in all the specifications. Specifically, franchising decreases service quality scores on average by around 2.44%, which in our sample corresponds to a 2.23% point decrease for a mean service quality score of 91.34. This finding supports H2, which argues that franchisees, as part of a chain, could free-ride on the brand and therefore provide lower service quality than company-owned establishments (Brickley and Dark, 1987). Jin and Leslie (2009) and Michael (2000) support this argument in the hospitality industry.

Our results also show that larger stores tend to record a higher SPSM (see Table 4). Estimated coefficients (elasticities) suggest that increasing establishment size by 10% (which given the mean size of fashion stores in our data corresponds to an increase of roughly 64 square metres) raises SPSM by about 3.08%, which in our sample means 24.15 euros more per square metre. Similarly, larger stores tend to record a higher SPE (see Table 5). Estimated coefficients suggest that increasing store size by 10% increases SPE by about 2.58%, which in our sample means 2,146 euros per employee.

Finally, increasing the annual average net per capita income in the local market by 10%—around 1,299 euros—(1) raises SPSM by about 3.96%, which in our sample means 31 euros per square metre (see Table 4) increases SPE by about 4.43%, which in our sample means 3,685 euros per employee (see Table 5) raises service quality scores by about 2.93%, which corresponds to 2.68% points (see Table 6).

Tables 4–6 show that franchised fashion stores record a different performance to company-owned ones when the regressions control for sundry establishment and local market characteristics. The negative differences in the KPIs studied for franchised stores (see

Table 3) change after controlling for such characteristics (see Tables 4–6). The outcomes show that the two different organisational forms in our fashion franchise chain alter the KPIs analysed. This is consistent with other reported findings involving performance differences between franchised and company-owned establishments (Ackermann, 2019; Beheler *et al.*, 2008; Freedman and Kosová, 2014; Krueger, 1991; Shelton, 1967; Sveum and Sykuta, 2017).

5. Conclusions and limitations

A fashion retailing franchise chain's own data are used here to investigate the effect of two organisational forms, namely, company ownership and franchising, on unit-level performance estimated by three KPIs over the period 2018–2019: SPSM, SPE and service quality scores. There are meaningful divergences in the performance indicators in our bivariate analysis. If establishment and local market features are not controlled, a comparison of the mean performance variables between these two organisational forms reveals weaker outcomes among franchised stores. After controlling for these characteristics, these stores are found to record higher SPSM and SPE than company-owned establishments. We also find in all cases that franchised stores record lower service quality scores than company-owned ones.

5.1 Research contributions

Our investigation adds to the franchising literature in the clothing retailing. This is the first article on the differences between franchising and company ownership in terms of SPSM and SPE at establishment level in this industry. We have addressed this lacuna by examining the relationship between an establishment's organisational form and its performance estimated through these KPIs commonly used in fashion retailing. We have found that franchised outlets record higher SPSM and SPE than company-owned ones.

Second, this study reveals that franchised establishments record lower service quality scores than company-owned outlets. Many studies have measured perceptions of service quality in fashion retailing (Leung and Fung, 1996; Leung and To, 2001; Patten *et al.*, 2020). These investigations have mainly used the assessment of service quality provided by establishment users. There are some issues with using these data sources because respondents often experience self-selection bias. Satisfaction scores may also be influenced by salient reference scores that are visible to the customer. Our research, however, uses a dataset provided by a large Spanish company. This company uses a control system to evaluate their establishments' performance on a regular basis. Given that this control system is conducted for internal purposes, and the generated data are usually treated as confidential in the organisation, this type of information is rarely disclosed.

Third, many of the studies that have analysed the performance differences between franchised and company-owned establishments have adopted a cross-sectional approach (Beheler *et al.*, 2008; Jin and Leslie, 2009; Lawrence and Perrigot, 2015; Michael, 2000). This approach has several limitations and prevents capturing all the dynamics of the performance process. In our case, we have used a panel dataset with quarterly establishment-level data on individual outlets from January 2018 to December 2019.

Lastly, this research deals with the Spanish market. The selection of this specific market, which has a dynamic franchising sector, is consistent with the recommendations issued by Dant (2008) and Dant *et al.* (2008), who have stressed the importance of studying franchising issues in non-English-speaking markets.

5.2 Managerial implications

This study has several implications for practitioners in fashion retailing. Our findings show that franchised stores record higher SPSM and SPE than company-owned units. Our results also show that the latter provide a better service quality scores than the former. Franchisors can lower these

performance differences by implementing control mechanisms and incentives for both franchisees and managers of vertically integrated stores. For instance, franchisors in fashion retailing can use several control devices (audits, mystery shoppers, customer surveys, management information systems) to monitor both the financial situation and the service quality provided by the chain's stores (Sánchez-Gómez *et al.*, 2011; Vázquez-Suárez *et al.*, 2020). Audits consist of visits to a chain's establishments by a franchisor's representatives in order to verify compliance with its standards. Mystery shoppers are anonymous, trained observers that visit the chain's stores posing as a customer, and immediately after engaging in what appears to be a normal interaction complete a detailed report on various aspects of the store's service and their shopping experience. Customer surveys provide the franchisor with information about consumers' level of satisfaction with their in-store experience. Management information systems link the chain's stores to the franchisor's headquarters. Franchisors use this control tool to closely monitor the financial situation of the chain's establishments, with on-line data on the evolution of each store's sales and costs. All these instruments of control regularly assess the chain's operational performance (Sorenson and Sorensen, 2001). They are also designed to rate store managers for incentives such as promotion (DiPietro *et al.*, 2007) and regular bonus plans (Raith, 2008), as well as for disciplinary measures (Raith, 2008; Sorenson and Sorensen, 2001).

Our results also show that fashion stores located in shopping malls do not record better performance indicators than those located elsewhere. The past few decades have witnessed major changes in the strategies for locating clothing stores, whereby many stores have moved from traditionally fashionable streets to shopping malls.

Lastly, franchisors seeking to attract customers that value service quality should understand that this will be better provided if their establishments are vertically integrated rather than franchised, due to free-riding considerations. Our findings support this recommendation. The data in Table 3 show that the average net per capita income in local markets where company-owned stores operate is notably higher than where franchised establishments operate. High-earning fashion store customers are more likely to value service quality, merchandise quality and a pleasant shopping experience (Baltas *et al.*, 2010).

5.3 Limitations and future research

The results and conclusions of our research should be considered in terms of its shortcomings, given that our empirical setting is specifically a fashion retailing franchise chain operating in Spain. Although the focus on a specific network in a given country allows control for external effects, it negatively affects the results' validity. Another shortcoming involves the limited number of KPIs and time periods examined, which mean our outcomes cannot be generalised. In view of these weaknesses, additional investigation is required to discover whether the outcomes hold more generally for other KPIs, and whether our results are valid for other fashion retailing chains, other industrial sectors and other territories.

Note

1. We thank this firm for providing these data.

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