Company-owned stores, franchised stores or/and stores-within-a-store: can any organizational form yield better performance? Evidence from French fashion retailers

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Résumé :

The research has for purpose to analyze the ultimate effect of organizational form choices on retail network's financial performance at the network level. We consider (i) three forms used in isolation: networks operating company-owned stores, franchisee-owned stores or stores-within-a-store, (ii) three dually-organized forms i.e. dual forms mixing two of the three forms: networks operating company-owned and franchised stores, company-owned and stores-within-a-store or franchised stores and stores-within-a-store and (iii) a combined form associating the three ones: networks operating company-owned units, franchisee-owned units and stores-within-a-store. In doing so, the research considers a broader range of organizational forms than the ones usually analyzed in the literature.

How can we explain theoretically that an organizational form yields a better financial performance? Prior research provides indirect theoretical arguments and evidence of how each organizational form may affect financial performance. The benefits and drawbacks associated to company-ownership and franchising as dominant organization forms have been extensively studied, mainly in the light of three theoretical views – the resource scarcity theory, the contractual theories and the resource based view. They suggest three reasoning on how resources can be acquired and spread out thanks to the various organizational forms. When comparing dual forms to dominant forms, we suggest extending the synergistic view of dual franchising forms to the two other dually-organized forms. Finally, as the advantages and draw-backs of forms associating the three pure forms have not been analyzed in the literature

so far, the rationale for such combined form is analyzed in the light of the theoretical view used for the choice of internationalization modes used in combination. With this theoretical framework, the research extends existing views on retail organizational forms and their expected outcomes in terms of financial performance.
To test our hypotheses, we study a sample of mostly privately-held French retail companies from the fashion sector (n= 170), using two criteria of performance - profit margin ratio and return on assets. The issue consists in distinguishing the two different dimensions of a retail organisation form – its nature and its degree of concentration – in a consistent manner. To do so, we follow a two-steps approach on the basis of a conventional mathematical method yet uncommon in business academic research. First, we transform the triplet of the percentage of stores in each organizational form in Cartesian coordinates. Second, we transform Cartesian coordinates in polar coordinates to study the two dimensions of concentration and nature of a retail organization form. In doing so, the research uses an innovative empirical method. Descriptive statistics and ordinary least squares (OLS) regression model are used to empirically examine the influence of the organizational forms on the financial performance at the network level.
Main results show that none of the purely or dual forms tends to generate better financial performance than any other, even though descriptive statistics exhibit important differences in terms of performance among organizational forms. But the results highlight that networks combining company-ownership, franchising and stores-within-a-store generate better financial performance (higher profit margin ratio and higher return on assets), up to a certain point, compared to dual forms and pure forms. In doing so, the research provides further evidence on the question if any organizational form is superior in terms of financial performance.

Key words : Organizational form, resource-based view, financial performance, retailing, fashion sector

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Introduction

For a multi-unit network, is there an organizational form that exhibits better financial performance? This question deserves particular interest for retail practitioners developing networks and deciding for the "best" organizational structure to maximize performance.

Considerable research interest has been devoted to the reasons for the choice of an organizational form over another as far as company-owned and franchised stores and their dual use are concerned. Yet there is a much larger array of organizational forms to develop retail networks, among which the store-within-a-store arrangement that is regularly used by retailers but rarely considered by academics (Jerath and Zang, 2010). This is a complex and little understood organizational form in which both market governance and hierarchy governance exist, that is worth analyzing (Kim et al., 2011). Furthermore, the ultimate effect of organizational choices on financial performance has been rarely studied and the empirical evidence on this issue remains sparse (Madananoglu & al., 2011; Fadairo and Lachimba-Lopez, 2012; Kosova & al., 2013).

Given this research deficit on the impact of governance structures on financial performance, this paper addresses the following research question: is there an organizational form that yields better financial performance for a retail network? Our research investigates whether French fashion retail networks exhibit better or lower financial performance according to their organizational structure.

This research contributes to the existing literature in three ways:

(1) it further examines empirically the impact of an organizational form on a company's financial performance. To do doing so, it considers a broader range of organizational forms than the ones usually analyzed in the literature: three distinctive forms – company-owned stores, franchisee-owned stores and stores-within-a-store – three dual forms – plural form associating franchising and company-owned stores, dual forms associating (i) franchising and stores-within-a-store and (ii) company-owned stores and

stores-within-a-store – and a combined form associating company-owned stores, franchisee-owned stores and stores-within-a-store. Moreover, contrary to most of existing research focusing on publicly traded companies, our sample contains mainly non-listed companies;

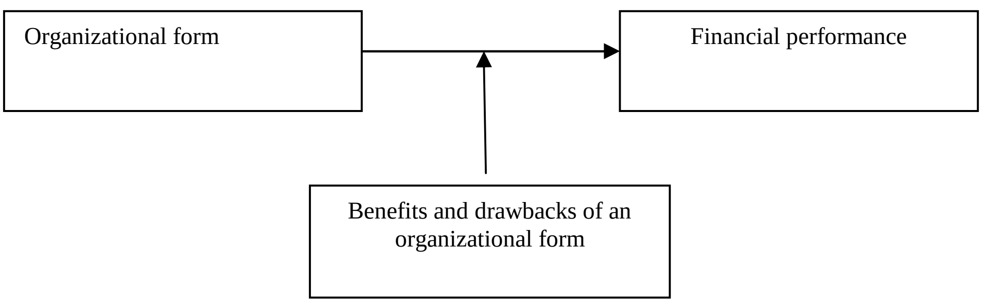
(2) it uses an innovative empirical method – the polar coordinates – to depict the nature and degree of diversification of a retail organizational form;

(3) it enlarges existing evidence both in terms of sector and in terms of countries. With its narrow focus on the French fashion retail sector, it provides additional evidence to the existing ones about the performance of organizational forms that mainly focused on the US market and the service sector.

1. Retail Organizational forms and Financial performance: Overview of Major Research Results

Prior research have attempted to assess the mechanisms through which an organizational form could result in a better or lower financial performance. The literature provides indirect theoretical arguments and evidence of how each organizational form may affect financial performance. In this perspective, the literature review leads to shed light on different theoretical views, providing explanations for financial performance outcomes of various organizational choices. The conceptual framework we adopt in this research is presented in figure 1. It consists in considering the benefits and drawbacks of the three main organizational forms operated by retail companies as well as those of their mixed and combined uses and subsequently conclude on how they may result in a better, neutral or lower financial performance at the network level.

Figure 1. Conceptual model



1.1. Theories explaining purely organized networks and their financial performance outcomes

Among the variety of organizational forms to develop retail networks, retailers most commonly embrace company-ownership, franchising and store-within-a-store (SWS hereafter) (Mossinkoff and Smit, 2002; Netmeyer & al., 2012). Concisely defined, a company-owned network – e.g. the British retailer *Accessorize* – refers to a network in which units are owned by the parent company and managed by the employees of this company. A franchised network – e.g. the Italian retailer *Benetton* – consists in a network in which each unit is based on an arrangement where one party (the franchisor) grants another party (the franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or service according to certain specifications. A network operating SWS – e.g. the Australian retailer *Billabong* – is a network based on units that consist in a retail space under its specific brand implemented in a well-defined place of a store managed and known under a different sign.

The benefits and drawbacks associated to company-ownership and franchising as dominant organization forms have been extensively studied, mainly in the light of three theoretical views – the resource scarcity theory, the contractual theories and the resource based view. The SWS arrangement has attracted very little attention from a governance perspective so far (Kim & al., 2011). Yet its interest as an innovative retail business model to generate customer value has been demonstrated (Mossinkoff and Smit, 2002; Sorescu & al., 2011). The cross-channel context characterized by the multiplication of the number of touch points with consumers leads to retail networks combining mono-brand stores with stores-within-a-store (Jerath and Zang, 2010; Netmeyer & al., 2012). Hence retail networks are becoming more and more complex in terms of governance structure. The figure 2 illustrates our conceptual model.

Figure 2. Purely organized retail networks: theories explaining their impact on financial performance

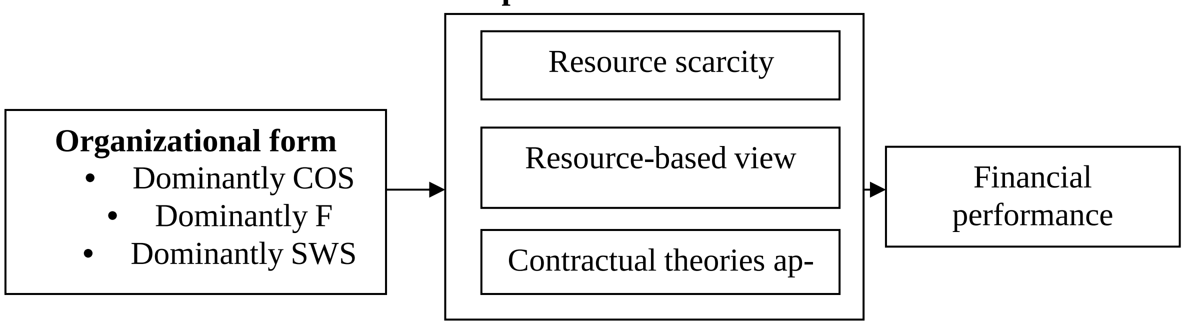


Table 1. Benefits of a network operating dominantly an organizational form and impacts on financial performance

		Dominantly company-owned store	**Dominantly franchisee-owned store**	**Dominantly store-within-a-store**
Governance structure		Hierarchy Integrated channel	Contract Contractual channel	Mix of hierarchy and contract Partially integrated channel
Theoretical framework	Resource scarcity		Access to information, financial and managerial resources; rapid expansion; capital redirection hypothesis: F as a transitional form (Oxenfeld and Kelly, 1969; Combs and Castrogiovani, 1994)	Indirect and non-traditional means to overcome informational, financial and, to a lesser extent, managerial resource constraints (Amadieu, Viviani and Picot-Coupey, 2013)
	Resource-based view	The higher the resources and capabilities of the network, the higher is the rent-generating potential of such resources and, consequently, the higher is the propensity towards company-owned stores	Thanks to franchising, development of specific resources and capabilities resulting in a competitive advantage (franchisees' local market knowledge and a strong motive for profit leading to innovate and adapt to external environment (Gillis and Combs, 2009))	The higher the complementarity of resources between the host retailer and the hosted retailer, the higher will be the value enhancement potential of SWS (Amadieu, Viviani and Picot-Coupey, 2013)
	Contractual theories	- Reduced risk of free-riding; - Better control; - Promotion of consistency across units within the network: hierarchical control to ensure quality, image uniformity and cost minimization	- Reduced monitoring costs (minimizing costs of geographically dispersed units); better incentive structure; - Positive effect on performance since it overcomes financial, informational and managerial limits to company growth (Shane, 1996)	As some resources are under the control of the host retailer, there is a risk of free riding and hold-up.
Impact of the organizational form on perfor-mance (main references)		- Positive impact when they have a valuable brand name and tacit business practices (Barthélémy, 2008) - Positive impact when valuable operating routines exist (Gillis and Combs, 2009)	- Mixed impact (Newby and Smith, 2009; Gillis and Combs, 2009) - Positive impact when brand name not too valuable (Barthélémy, 2008) - Positive but non-significant impact (Aliouche and Schlentrich, 2009) - Positive and significant impact with five measures of financial performance (Madananoglu & al., 2011)	Positive non-significant impact on the profit margin ratio and positive non-significant for ROA as dependent variable (Amadieu, Viviani and Picot-Coupey, 2013)

The benefits and drawbacks associated to company-ownership, franchising and stores-within-a-store arrangements as dominant organization forms are synthetically presented in table 1. In terms of respective benefits and drawbacks as well as their subsequent impacts on a company's financial performance, company-owned stores result in a better control over the retail concept and subsequently to a consistent and uniform image (Chang and Harrington, 2000), thus providing a high brand value and a strong network reputation (Barthélémy, 2008). These benefits should result in a higher financial performance. But if free-riding is reduced by company-ownership, effort monitoring is difficult which could result in a lower financial performance (Gillis and Combs, 2009).

Previous research results synthesized in table 1 suggest that networks operating dominantly franchised units exhibit three main benefits through which their financial performance can be enhanced. It is a governance structure with which a full business system is transferred to a franchisee who operates an independent business under the marketing and managerial guidance of a franchisor. Consequently, this organizational form (i) eases the leverage of value creating resources leading to rapid growth, (ii) reduces the cost of effort monitoring thanks to motivated owners and (iii) provides better market knowledge with the feedbacks of local franchisees. This should indirectly result in a higher financial performance (Shane, 1996; Bartélémy, 2008). Moreover, studies have addressed the direct effect of franchising on financial performance, along various dimensions of performance: market measures of financial performance in terms of shareholder return and shareholder risk (Spinelli & al., 2003; Aliouche and Schlentrich, 2009) enriched with market value added and economic value added (Aliouche and Schlentrich, 2009), or the Sharpe ratio, Treynor Ratio, Jensen Index, Sortino Ratio, Upside potential Ratio (Madananoglu & al., 2011) or self-reported measure (Gillis and Combs, 2009). This body of research, conducted on US listed firms with the exception of Gillis and Combs (2009) and on the service sector (restaurant, hospitality), is slowly converging to provide empirical evidence that franchising results in a positive effect on financial performance.

With networks operating SWS, retailers organize their presence within other retail stores, the formers gaining autonomy over a part of the store owned by the latters (Jerath and Zhang, 2010). Analyzed in the light of the resource based-view (Amadieu, Picot-Coupey and Viviani, 2013), a SWS generates benefits through the complementary and synergy effects between concessionaires and retailers, and among the various shops collectively. It is a form of controlled distribution that offers flexibility as the retailer is not committed with long-term lease contract with multiple clauses (Jerath and Zang, 2010). Adopting the resource scarcity perspective, SWSs help speed the development of a retail network as it is possible to open numerous outlets at the same time with limited resources. Such network expansion should raise the retail brand profile, in terms of visibility and recognition as an increase in the number of outlets strengthen a brand (Lafontaine and Shaw, 2005). In this perspective, operating dominantly with SWS arrangements should have a positive impact on the profit margin rate of a retail network by increasing and diversifying sales (higher number of outlets, pricing strategy control, better brand exposure) and reducing expenses (lower promotion campaign expenses and labour costs). Yet, a high number of small size and dispersed stores involves additional costs such as extensive splitting of assortment management, higher logistic, inventory management and labour costs (Amadieu, Viviani and Picot-Coupey, 2013), lowering the operational efficiency of the network. On balance, these arguments lean towards a negative effect of SWS on financial performance.

Table 2. Expected impact of a pure organizational form on financial performance

	Dominantly COS	**Dominantly F**	**Dominantly SWS**
Resource scarcity		Information, financial, managerial resources	Information and financial resources
Resource-based view	++ [CO strategic resources]	++ [relational embedded strategic resources]	+[relational embedded strategic resources]
Contractual theory approaches [Control v. Local adaptability]	Control +++ Local adaptability -	Control ++ Local adaptability ++	Control ++ Local adaptability +
Expected impact on financial performance	++	+++	+

Therefore, considering these arguments that are synthesized in table 2, we could hypothesize:

H1. Franchised networks generate a higher financial performance than wholly-owned networks which in turn generate a higher financial performance than networks operating stores-within-a-store.

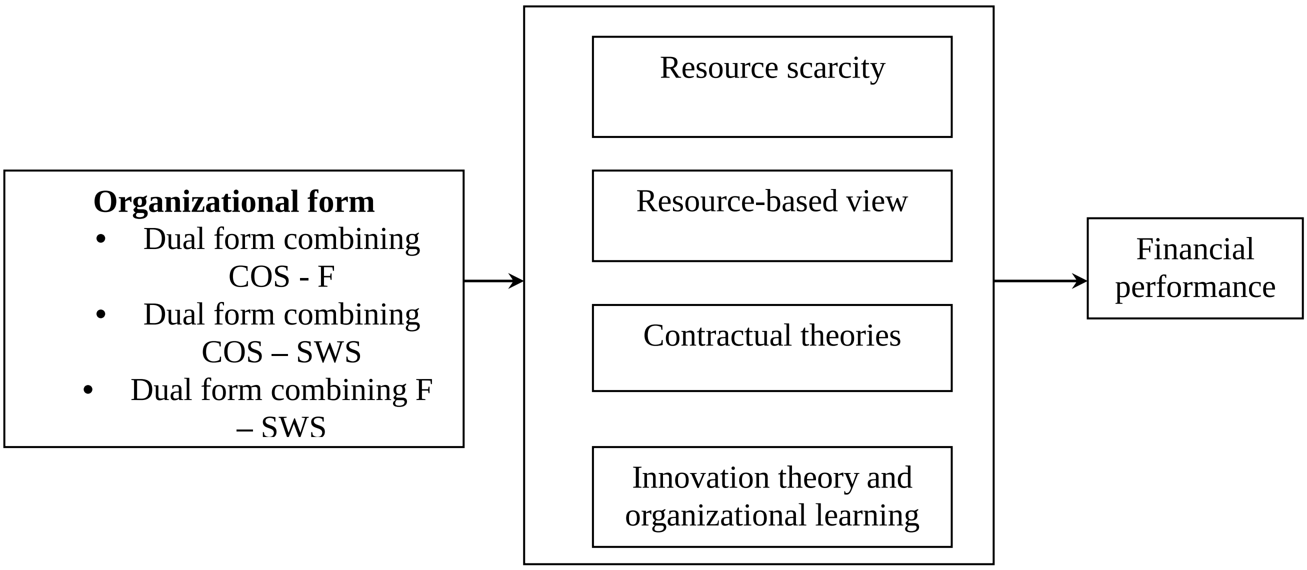
[Franchised networks> wholly-owned networks > networks operating SWS]

1.2. Theories to explain dually and combined organized networks and their financial performance outcomes

Dual distribution franchising - or plural form– refers to the simultaneous presence of both franchised and company-owned stores in a given network. It is one of the most widespread governance structure (Hendriske and Jiang, 2011; Gillis & al., 2013) with well-known retail brands such as *CopCopine* in France or *Camper* in Spain. Dual forms associating company-owned stores and SWSs (e.g. *Gucci*) and franchisee-owned stores and SWSs (e.g. *G-Star*) are mentioned in the retailing literature (Burt, 1993; Moore and Fernie, 2000) but not studied in the business literature. The dually-organized networks and their financial performance outcomes can be compared to the pure forms as well as among themselves.

When comparing dual forms to dominant forms, we suggest extending the synergistic view of dual franchising forms to the two other dually-organized forms. Several theoretical views, depicted in figure 3, suggest explanations of the mix between franchisee-owned and company-owned stores and provide indirect rationale for the financial performance outcomes of such an organizational choice.

Figure 3. Dually-organized forms and theories to analyze their impact on financial performance



The benefits and drawbacks of dual franchising forms are synthetically presented in table 3.

Table 3. Benefits of a dual franchising network and impact on financial performance

		Dual franchising form
Theoretical framework	Agency theory	- Benefits of managing an hybrid retail organization lies in the balance between the centralized corporate control and the local autonomy and initiative of retailers (Mitronen and Möller, 2003); - Rationale for plural form is market heterogeneity in monitoring costs Monitoring efforts is distance sensitive. (Pénard & al., 2011).
	Resource-based view	The benefit of a plural form derives from the efforts to organize franchisor-owned and relational strategic assets so that their value can be best leveraged to meet key strategic goals (Gillis & al., 2013)
	Innovation theory and organizational learning perspective	The benefits of a plural form lies in the management of a diversity of goals and the possibility to overcome four challenges inherent to the management of a multi-unit organization, namely: network growth by adding new stores in coping with speed and location quality constraints; maintenance of concept uniformity across stores on behalf of the brand image; local responsiveness to threats and/or opportunities; and system-wide adaptation to accommodate concept changes (Bradach 1997; 1998)
	Economic framework	Complementarity between units in terms of capabilities: exploitation capabilities (quality management, administrative management) by the managers of company-owned stores opposed to exploration capabilities of franchisees (Sorensen and Sorensen, 2001)
Impact of the plural form on performance		- Positive but non-significant impact (Botti & al., 2009; Perrigot., 2009) - Positive significant impact (Roh, 2002; Chabaud & al., 2009; Perrigot, 2009)

Such a co-existence of company-owned and franchised units generates benefits in terms of network management (Bradach, 1997; 1998; Sorensen and Sorensen, 2001) and network growth (Shane, 1996; Michael, 2002). Shortly stated, franchised units gather new information and exploit local opportunities while company-owned units benchmark best practices and maintain consistency. Such respective benefits of each form in a given network should result in a higher financial performance: the value of the various assets can be best leverage thanks to each organizational form (Mitronen and Möller, 2003; Gillis & al., 2013). Besides this indirect evidence of the impact of a plural form on financial performance, several research recently addressed the issue of financial outcomes of plural forms. They derived evidence that plural form has a positive significant impact on financial performance at the network level compared to networks operating pure forms (Roh, 2002; Botti & al., 2009; Chabaud & al., 2009; Perrigot, 2009).

The two other dual forms mixing either company-owned stores and SWSs or franchised stores and SWSs can be analyzed in the light of the theoretical explanations that support plural form organizations. Following the complementary perspective, a benefit of managing a dual form mixing company-owned stores and SWSs can be in the balance of units with exploitation capabilities (quality management, administrative management) by the managers of company-owned stores opposed to exploration capabilities of managers of SWSs who better know their local market. The synergies between franchisee-owned units and SWSs are less obvious: their capabilities look alike; a main drawback can be in network inconsistency as none of the units exhibits control capabilities. On balance, the benefits of a dual form mixing franchisee-owned stores and SWS are limited and will not generate a superior financial performance for retail companies when compared to dominant forms. But the benefits generated by a dual form mixing company-owned stores and SWSs are more important and will generate a superior financial performance, when compared to dominant forms. Therefore, we could hypothesize:

H2. Networks operating dual forms will generate:

(*H2.1.*) a higher financial performance than networks operating a dominant organizational form, in the case of networks operating plural forms and a form mixing company-owned stores and SWSs;

(*H2.2.*) a lower financial performance, in the case of a network mixing franchised stores and SWSs.

[Networks operating a plural form> networks operating company-owned stores and SWSs> networks operating a dominant organizational form > networks operating franchised stores and SWSs]

When comparing dual forms among themselves, previous research results suggest that dual franchising form is particularly performing because the complementarities between the two governance structures inside the networks are particularly high. Following this perspective, it appears that complementarities between company-owned stores and SWSs exist but are less important than between company-owned stores and franchised stores. Indeed, operating SWSs with company-owned stores leads to mix partially-integrated units with integrated units while a dual franchising form mixes integrated units with units based on a contract with high incentives. Besides, as mentioned above, mixing franchised units and SWSs seem to generate problems of consistency in the networks. Therefore, we could hypothesize:

H3. Networks operating plural forms will generate a higher financial performance than networks operating company-owned stores and SWSs, which in turn will generate a higher financial performance than networks operating franchised stores and SWSs. [Networks operating a plural form> networks operating company-owned stores and SWS> networks operating franchised stores and SWSs]

1.3. Theories to explain networks operating a combined form and their financial performance outcomes

The advantages and drawbacks of organizational forms associating the three pure forms, company-owned units, franchised units and SWSs, have not been analyzed in the literature so far. Yet, it is very common for retail companies to choose an organizational arrangement mixing these three forms rather than a single or a dual form. Well-known retailers such as *Mexx*, *Hermes* or *Hugo Boss* operate such combined forms. How to explain such a diversification and the mix between franchisee-owned stores, company-owned stores and stores-within-a-store? We label it "combined form" in reference to internationalization modes used in combination in the international business literature (Petersen and Welch, 2002; Benito & al., 2011). The rationale for such combined form is analyzed in the light of the theoretical view used for the choice of internationalization modes used in combination namely the value chain approach (Welch & al., 2007). Benito & al. (2011) observed various motives for combining internationalization modes: to operate various value chains in a foreign market (unrelated modes), to target different customer segments (segmented modes), to increase efficiency (complementary modes), to strengthen commitment and control (hybrid modes), or to benchmark local operators (competing modes). Replicating this analysis in terms of governance structure of a network, we suggest that the diversification of organizational forms in a retail network may allow increasing substantially the flexibility of strategic decisions as well as the marketing efficiency with more customer targets being served. Consequently, such a choice should have a positive impact on a retail network financial performance. But too much diversification could generate problems of operational efficiency, with a network being too dispersed and requiring too many capabilities. We expect to observe a decreasing return in synergies with a too much diversified network. Therefore, we could hypothesize:

H4. There is an inversed U shaped relationship between combined forms and financial performance.

2. Research Methodology

Our research question is: "is there an organizational form that yields to better financial performance?" To answer this question, we studied a sample of 170 privately-held French companies from the fashion retail sector.

2.1. Sample

We focus on one industry to control for sector effect and strengthen the research validity (Aliouche and Schlentrich, 2009; Madananoglu & al., 2011). The fashion industry in France was chosen for two main reasons. Firstly, the French market exhibits high variety in terms of organizational forms (Fadairo and Lachimba-Lopez, 2012; Chaudey & al,. 2013) thus allowing to study the variety of dominantly-organized, dually-organized and combined-organized forms. Second, France is recognized as a key market in the world in the fashion retail sector. We enlarged the study to listed and non-listed companies: the sample did not focus only on publicly traded companies as it is often the case in previous research (Aliouche and Schlentrich, 2009; Madananoglu & al., 2011).

2.2. Data

Data were gathered from two sources. First, the data were collected in the 2011 yearbook of the French Fashion Institute. 613 retail networks with more than ten mono-brand outlets (mono-brand stores or SWSs) among which four mono-brand stores in France are presented. Among other, information is provided on the organizational form of the network as well as three financial results for the year 2009. For reason of sample homogeneity, we considered only the French companies. Second, data were matched, cross-checked and completed with financial statements extracted from the Diane database. Developed by *Bureau van Dijk* (www.bvdep.com), this database provides audited financial information on a large number of French listed and non-listed companies. This database has already been used in franchising research (Barthélémy, 2008). Matching these two sources, we obtained a cross-sectional sample for the year 2009 consisting in 170 French retail networks (n= 170), for which complete data were available.

2.3. Independent variable: analysis of the geometrical structure of a retail organizational form

We suggest that a retail organizational form (ROF hereafter) is characterized by two dimensions:

(i) its nature: company-owned stores (COS), franchised stores (F), stores-within-a-store (SWS);

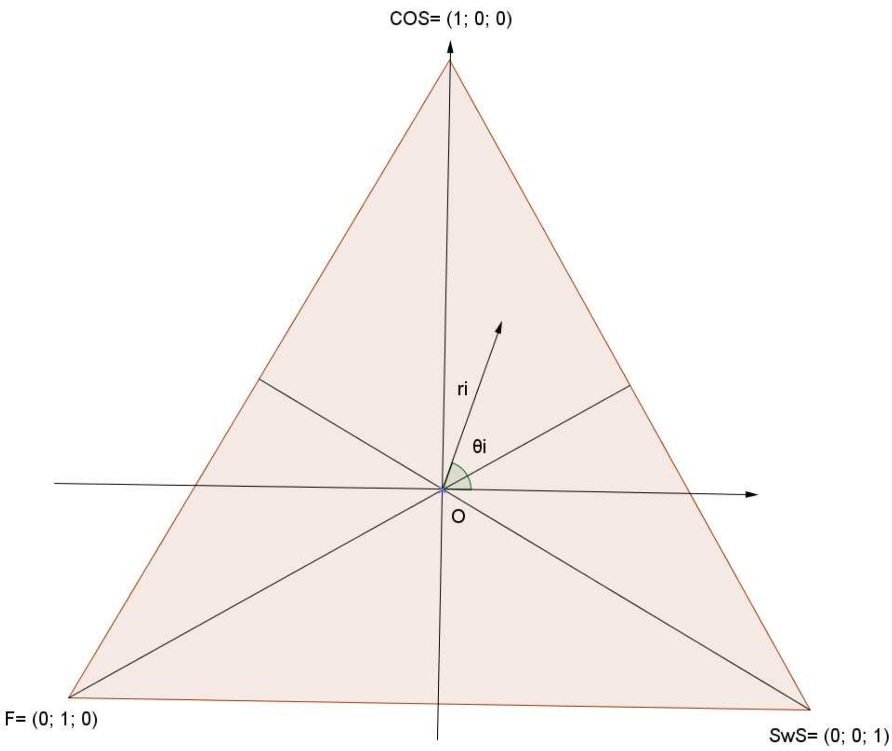
(ii) its degree of concentration or diversification in these organizational forms: it reflects the degree of combination between two or three organizational forms.

A ROF for a given company "i" can be represented by the following triplet $ROF_i = (COS_i, F_i, SWS_i)$ with:

- COS_i: the percentage of units that are company-owned stores;
- $F_{i:}$ the percentage of units that are franchised;
- $SWS_{i:}$ the percentage of units that are operated with store-within-a-store arrangements.

The triplet can be represented in an equilateral triangle, as presented in figure 4.

Figure 4. Representing a retail organizational form with polar coordinates



The issue consists in distinguishing in a consistent manner these two different dimensions of a ROF i.e. the nature and the degree of concentration. To do so, we follow a two-steps approach with a conventional mathematical method yet uncommon in business academic research. First, considering that COSi + Fi+ SWSi = 1, we transform the triplet of the percentage of stores in each organizational form in Cartesian coordinates. Second, we transform Cartesian coordinates in polar coordinates in order to study the two dimensions of concentration and nature of a ROF. The relevance of this mathematical procedure is demonstrated thanks to the representation of a ROF in an equilateral triangle. In this triangle, every point is defined by:

(1) the distance to the origin O, noted r: this point represents a perfectly diversified ROF with COS = F= SWS = 1/3;

(2) the angle with the horizontal axis, noted θ. The greater r, the more concentrated in a form the network is. The angle indicates if a retail store network is situated in an area where COS, F or SWS are dominant or not. Each triplet representing the retail network of a company "i" is then split into a measure of concentration/diversification, ri and a measure of the nature of the network θ_i.

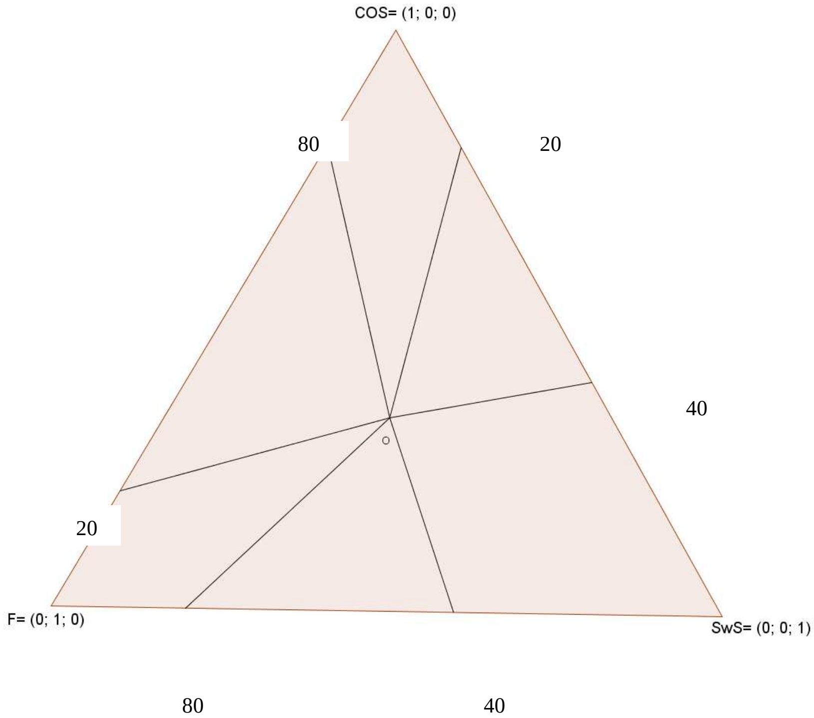
Thus, we found a measure of concentration/diversification of a ROF, r_i and a measure of the nature of the ROF θ_i. This is depicted in figure 4.

Additionally, using θ, we define several groups. Their definition is grounded in the distinction between dominantly franchised networks (percentage of franchised stores > 80%), dominantly company-owned networks (percentage of company-owned stores > 80%), networks operating dominantly SWSs (percentage of SWS > 60%). The threshold for the latter form is lower: it seems that when networks operate dominantly SWSs, 60% of units is already a threshold above which there is no doubt that it is not a hazard. The groups are:

- COS: angular sector defined by the points (0.8, 0.2, 0) and (0.8, 0, 0.2);
- F: angular sector defined by the points (0.2, 0.8, 0) and (0, 0.8, 0.2);
- SWS: angular sector defined by the points (0.4, 0, 0.6) and (0, 0.4, 0.6)
- Plural (COS-F): angular sector defined by the points (0.8, 0.2, 0) and (0.2, 0.8, 0);
- Dual (COS-SWS): angular sector defined by the points (0.8, 0, 0.2) and (0.4, 0, 0.6);
- Dual (F-SWS): angular sector defined by the points (0, 0.8, 0.2) and (0, 0.4, 0.6).

They are presented in figure 5.

Figure 5. Clusters of retail networks according to the distribution between the three retail organizational forms



2.4. Dependent variables: financial performance measures

The financial performance is measured with two different dependent variables. Considering that our sample contains mostly non-listed companies, two classical measures of financial performance based on data available in financial statements were used:

(1) the profit margin ratio (PMR): it is equal to profit divided by sales[1]. It essentially expresses the overall cost/price effectiveness of the operation. Thus, it can be considered as reflecting the financial performance of commercial activities.

(2) return on Assets (ROA): it is equal to profit/divided by invested capital. It measures the overall profitability of the company.

2.5. Control variables

To demonstrate the unique influence of a ROF on the financial performance of a retail network, we control for various effects already observed in the literature:

- **firm size** (SIZE), **capital intensity** (CAPINT), and **combination between capital and labor** (K/L): they were observed as key determinants of financial performance in a meta-

[1] Detailed computation of variables is given in appendix A.

analysis (Capon & al., 1990) and in previous studies in retailing research (Cronin, 1985; Srinivasan, 2006; Madanoglu & al., 2011);

- **leverage** (LEV): it was observed as negatively impacting the financial performance (Hsu and Jang, 2009, Srinivasan, 2006; Madanoglu & al., 2011);

- **age** (AGE**):** young companies may not benefit from experience effects which could result in lower financial performance (Alon, 2001; Perdreau & al., 2011; Madanoglu & al., 2011);

- **stock level** (STOCK): it is considered as a measure of efficiency (Cronin, 1985).

2.6. Data analysis

Descriptive statistics and ordinary least squares (OLS) regression models allow testing the hypotheses and empirically examining the influence of the organization forms on the financial performance at the network level.

3. EMPIRICAL RESULTS

3.1. Descriptive statistics

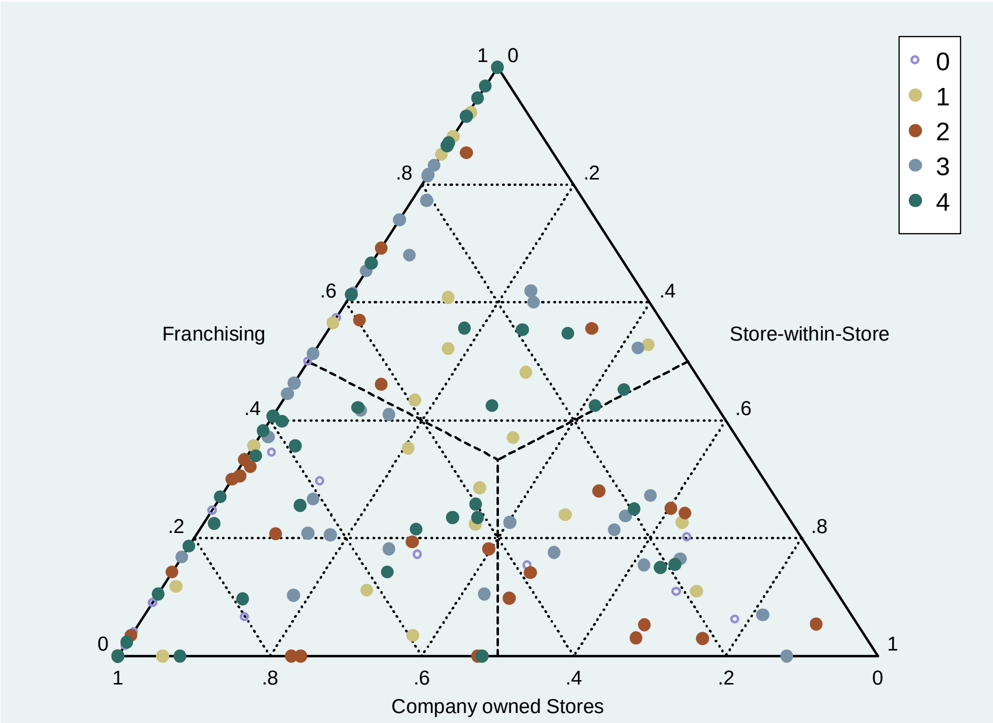
The ROFs used by the retail companies in our sample and their financial performance are presented in figure 6 for the PMR and in figure 7 for the ROA. Each point represents one retail company. The “Y” shape divides the triangle into areas where each organizational form (COS, F or SWS) is more frequent than the two others. A large number of points is located on the company-owned stores / franchised-stores frontier. Yet, a significant number of points is located almost everywhere in the triangle: this shows the relevance of our choice to include SWSs as an organizational form while it is not studied in the literature so far.

Performance measures are divided in quartiles:

- 1 indicates the lowest performance quartile;
- 4 indicates the highest performance quartile;
- 0 is used for missing data.

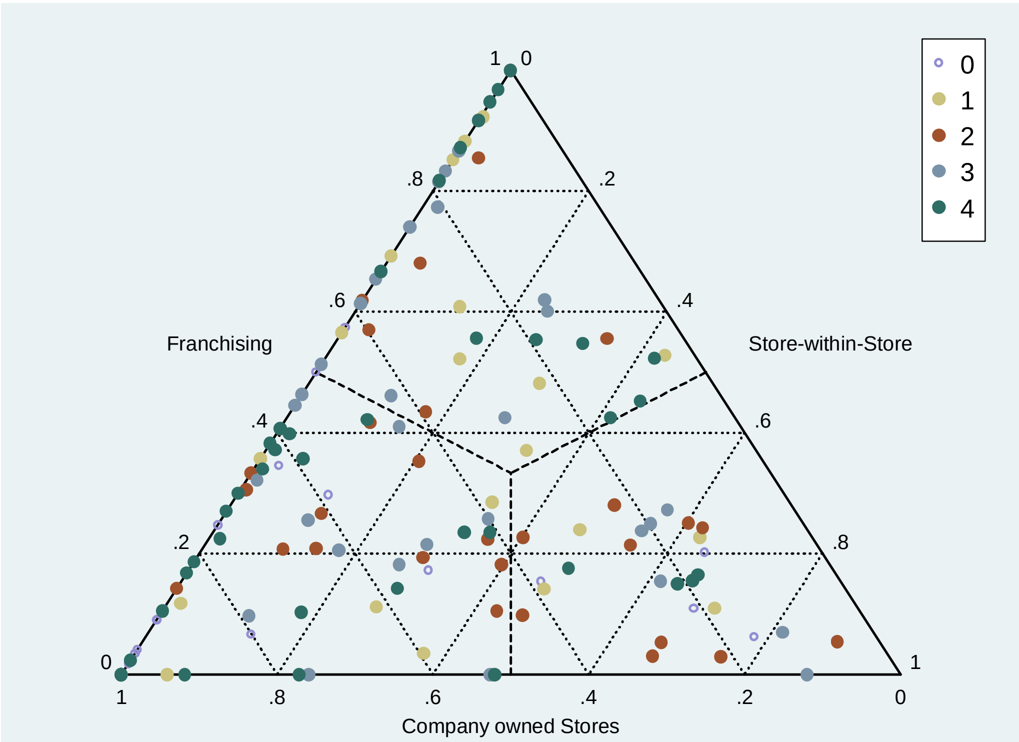
Examining the figures shows that high or low performance is not associated to any particular location in the triangle. Moreover one can observe the variability of performance in the three areas delimitated by the “Y” shape. Finally, the ranking in terms of performance is quite similar for PMR and ROA.

Figure 6. Profit Margin Ratio depending on retail organizational forms



0: missing data; 1: quartile of less performing retail companies; 4: quartile of higher performing retail companies

Figure 7. Return On Asset depending on retail organizational forms



Details of the various ROFs we have in our data are displayed in table 4.

Table 4. Mean performance for each retail organizational form

Retail Organizational Forms (ROF) N= 170 French fashion retail companies							
ROF	COS	F	SWS	COS-F	COS-SWS	F-SWS	F (pvalue)
N	54	21	25	41	21	8	
PMR	3.68%	7.79%	3.76%	4.99%	3.07%	2.25%	0.55 (.73)
ROA	6.98%	14.98%	7.14%	9.88%	8.18%	5.51%	.45 (.81)

Table 4 depicts the frequency distribution in the various ROFs of the companies in the sample and the mean performance, both for PMR and ROA, of each ROF. The differences in performance between ROFs appear to be quite important:

- from a PMR of 2.25% for the dual form to a PMR of 7.79% for franchising networks;
- from a ROA 5.51% for the dual form to a ROA of 14.98% for franchised networks.

Yet, they are not statistically significant, probably because of by the large dispersion of performance for a given ROF.

In line with hypothesis H1, we observe that financial performances (PMR or ROA) are in the following order: franchised networks> wholly-owned networks > networks operating SWS.

The dual form associating COS and F has a performance in between the ones of the two pure forms, which contradicts previous observations (Roh, 2002; Perdreau *et al*., 2011). Thus it is difficult to know if the mix of these two forms generates extra financial performance. The dual form associating COS and SWS has a lower PMR but an higher ROA than the two pure forms meaning that the additional operational costs associated with SWS are more than offset by the saving of financial resources they generate. Finally, the combination of F and SWS appears to reduce financial performance. For these two last dual forms, H2 is validated.

The performances of the three dual forms are in the expected order, confirming H3. This evidence suggests that our analysis in terms of synergies between organizational forms is of particular interest.

3.2. Impact of retail organizational forms on financial performance

Results from the basic model of the financial performance of retail companies, derived from the control variables in the performance equation, are consistent with earlier findings. Leverage, capital intensity and stock level have a negative significant impact as previously observed (Madanoglu & al., 2011; Cronin, 1985). Capital intensity and size have a positive impact as expected (Cronin, 1985; Capon & al., 1990; Madanoglu & al., 2011; Srinivasan and Raji, 2006). Age has negative non-significant impact confirming the results of Madanoglu & al. (2011) but not in line with the hypothesis.

To analyze the impact of ROF dimensions on performance, we will only use the significant variables of the basic performance model: leverage, capital intensity and size.

Results presented in tables 5 and 6 show very similar effects of the characteristics of ROFs on the financial performance, whatever the performance measure used.

First, the nature of a ROF has no significant impact on financial performance whatever (i) the measure of financial performance used (PMR or ROA) and (ii) the measure of the nature of the ROF (theta or the different categories). There is no evidence that any of the dominant or dual organizational forms yields better or lower financial performance. This confirms the conclusions of Botti & al. (2009). Consequently, from a managerial perspective, when it comes to organize a retail network, the most important decision is not in the nature of the organization form but in the fit between this organizational form and the strategy of the retail network (Yin and Zajac, 2004; Barthélémy, 2008).

Second, we observe a significant impact of the diversification measure on performance, whatever the measure of financial performance used. A network combining company-owned stores, franchised stores and SWSs exhibits a higher PMR and a higher ROA, compared to dual forms and pure forms. As the coefficient of the linear term is positive and the coefficient of the quadratic term is negative, we conclude that our hypothesis H4 of an inversed U shape between diversification and financial performance is validated. This result is in line with the theory adapted from the international management literature about the combination of foreign operation modes (Benito & al., 2011).

Table 5. Impact of a ROF on Profit Margin Ratio

French companies OLS, robust standard error Dependent variable: PMR Level: 10% *, 5% **, 1% ***				
	Basic Model	ROF	Model of Perf. + ROF	Model of Perf. + ROF
Leverage	-.002***(-3.10)		-.0023***(-3.60)	-.0024***(-3.92)
Stock	-.122 (-1.41)			
Capital intensity	-.0014 (0.07)		0.027* (1.88)	.038** (2.51)
K/L	.005* (1.86)			
Size	.015** (2.51)		.020***(3.60)	.019***(3.25)
Age	-.0004 (-1.10)			
ROF				
Concentration (r)		28 (0.97)	.36 (1.29)	.45* (1.65)
r square		-.40 (-.97)	-.52 (-1.39)	-.68 * (-1.77)
Nature (theta)		.004 (0.68)	-.0007 (-.15)	
Theta square		-.0007 (.18)	-.0013 (-.40)	
COS				.0097 (.21)
F				.043 (.92)
SwS				.004 (.08)
COS-F				-.006 (-.13)
COS-SwS				.017 (.35)
Constant	-.061 (-1.10)	-.002 (-0.04)	-.17***(-2.82)	-.19** (-2.38)
R2	0.31	0.01	0.25	0.27

Table 6. Impact of a ROF on Return on Assets

French companies OLS, robust standard error Dependent variable: ROA Level: 10% *, 5% **, 1% ***				
	Basic Model	ROF	Model of Perf. + ROF	Model of Perf. + ROF
Leverage	-.003***(-3.53)		-.004***(-4.44)	-.004*** (-4.80)
Stock	-.116 (-.72)			
Capital intensity	-.067 * (1.66)		-0.039 (-1.36)	-.023 (-.78)
K/L	.007 (1.46)			
Size	.035** (2.44)		.038***(2.96)	.036*** (2.68)
Age	-.0005 (-.74)			
ROF				
Concentration (r)		1.04 ** (1.96)	.962** (2.00)	1.14** (2.25)
r square		-1.45 * (-1.90)	-1.353** (-2.06)	-1.61** (-2.23)
Nature (theta)		.0.005 (0.46)	.0005 (0.05)	
Theta square		-.001 (-0.16)	-.004 (-0.63)	
COS				-.020 (-.28)
F				.04 (.54)
SwS				-.023 (-.33)
COS-F				-.37 (-.55)
COS-SwS				.018 (.25)
Constant	-.136 (-1.01)	-.06 (-.73)	-.293**(-2.38)	-.32** (-2.12)
R2	0.22	0.02	0.20	0.20

4. Conclusions, limitations and perspectives

The research had for purpose to analyze the ultimate effect of organizational form choices on retail networks' financial performance. It aimed at analyzing the impact of the governance structure on the financial performance of the retail networks, taking into account three dominantly-used forms (company-ownership, franchisee-ownership and SWS), three dually-organized forms resulting of the association of two forms as well as a combined form associating the three forms. The results show that none of the purely or dual forms tends to generate better financial performance than any other, even though descriptive statistics exhibit important differences in terms of performance among organizational forms. The results highlight that combining company-ownership, franchising and stores-within-a-store generates better financial performance, up to a certain point. This evidence of no direct impact of organizational form on performance suggests that further research should investigate the fit between a given organizational form and the characteristics of a retail company. Following the theoretical analysis, it seems that two characteristics are the ones to consider for appropriate fit "governance – strategy": the consistency of the retail network on the one hand and the requirements for local adaptations on the other hand. We attempt to delineate the appropriate organizational form according to these two characteristics in table 7.

Table 7. Retail organizational form and contingent factors of performance

Consistency of the retail network / Requirement of local adaptation	Low	Intermediate	High
High	**---**	**- COS-F** **- F**	**- COS-F-SWS**
Intermediate	**--**	**- SWS** **- F** **- F-SWS** **- COS-F-SWS**	**- COS-SWS** **- COS-F-SWS**
Low	**COS**	**- COS-SWS** **- COS**	**- COS**

This study is cross-sectional, over a one-year period which may not be representative of the true performance of the company. Using longitudinal data – if available – would enlarge existing empirical evidence of the outcomes of organizational forms on a retail network's financial performance.

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APPENDIX A - Definition of variables

Description of variables		
Concept	Measure	Description
Financial performance measures		
Financial measure of commercial perfor-mance	Profit Margin Rate (PMR)	Economic profit/turnover Economic profit = EBIT (Earnings Before Interest and Taxes)
Profitability (manage-ment point of view)	Return on Economic Asset (ROA)	Economic profit/Economic asset Economic asset = Equity + financial debt
Age of the retail net-work		2009 – first shop in France
Firm size		Ln(Total surface of sales)
Capital intensity	Capital necessary for 1€ of sales	Total assets/total sales
Combination of capital and labour	Capital to labour ratio	Economic asset/labour cost