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Organizational choices and financial performance: the case of company-owned stores, franchisee-owned stores and stores-within-a-store among French fashion retailers

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Abstract

This paper deals with the governance and financial performance issues in the context of French Fashion retail companies. In this study, we analyze the influence of the organizational choices on the financial performance at the network level. We consider three forms used in isolation (company-owned stores, franchisee-owned stores and stores-within-a-store), three dually-organized forms (dual forms mixing two of the three forms) as well as a combined form associating the three ones. 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 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 networks combining company-ownership, franchising and stores-within-a-store generate better financial performance, up to a certain point.

Key-words

Organizational form, financial performance, plural form, combined form, store-within-a-store, franchised store, company-owned store

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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 had been rarely studied and the empirical evidence on this issue remains sparse (Madananoglu & al., 2011; Fadairo and Lachimba-Lopez, 2012; Kosova et 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 the empirical evidence of the impact of an organizational form on a company's financial performance. In 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 concerns 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 (restaurants, hotel) 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 regarding the explanations of financial performance outcomes of various

organizational choices. The conceptual framework we adopt in this research, presented in figure 1, consists in considering the benefits and drawbacks of the three main organizational forms operated by retail companies as well as 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 to be inserted here

Networks operating a dominant organizational form and financial performance

Among the variety of organizational forms to develop retail networks, retailers most commonly embrace company-ownership, franchising and store-within-a-store (SWS hereafter) arrangements (Mossinkoff and Smit, 2002; Netmeyer et al., 2012). Concisely defined, a company-owned network refers to a network in which units are owned by the parent company and managed by the employees of this company. A franchised network 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 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 have been extensively studied, mainly in the light of three theoretical views – the resource scarcity theory, the agency theory and the resource based view – that are synthetically presented in table 1. The SWS arrangement has attracted very little attention from a governance perspective so far (Kim et al., 2011). Yet its interest as an innovative retail business model to

generate customer value has been demonstrated (Mossinkoff and Smit, 2002; Sorescu et al., 2011) and 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-stores (Jerath and Zang, 2010; Netmeyer et al., 2012). Hence retail networks are becoming more and more complex in terms of governance structure.

Table 1 to be inserted here

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 uniformed image (Chang and Harrington, 2000), thus providing a high brand value and 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. Being a governance structure according to which a full business system is transferred to a franchisee who operates an independent business under the marketing and managerial guidance of a franchisor, this organizational form (i) eases the leverage of value creating resources leading to rapid growth, (ii) reduces the cost of efforts 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 et al.,

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2003; Aliouche and Schlentrich, 2009) enriched by 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 et al., 2011) or self-reported measure (Gillis and Combs, 2009), and finally. 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 result 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 et al., 2013a), a SWS arrangement 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, SWS arrangements 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 et al.,

2013b), lowering the operational efficiency of the network. On balance, these arguments lean towards a negative effect of SWS on financial performance.

Therefore, considering these arguments, 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]

Networks operating dual forms and 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 et al., 2013). Dual forms associating company-owned stores and SWS and franchisee-owned stores and SWS are mentioned in the retailing literature (Burt, 1993; Moore and Fernie, 2000) but not studied in the management 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, presented in table 2, 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.

Table 2 to be inserted here

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, franchisee-owned units gather new information and exploit local opportunities while company-owned units benchmark best practices and maintain consistency. Such respective benefit of each form in a given network should result in a higher financial performance as the value of the various assets can be best leverage thanks to each organizational form (Mitronen and Möller, 2003; Gillis et al., 2013). Besides these indirect evidence of the impact of a plural form on financial performance, several research have recently addressed the issue of financial outcomes of a plural form, deriving 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 et al., 2009; Chabaud et al., 2009; Perrigot, 2009).

The two other dual form mixing either company-owned stores and SWS or franchisee-owned stores and SWS can be analyzed in the light of the theoretical arguments that support plural form organizations. In the light of the complementary perspective, a benefit of managing a dual form mixing company-owned stores and SWS 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 SWS who better know their local market. The synergies between franchisee-owned units and SWS are less obvious since their capabilities are close while a main drawback can be in network inconsistency as none of the units exhibits control capabilities. Our sense is that, on balance, the benefits generated by 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

SWS 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 SWS;**

(*H2.2.*) **a lower financial performance in the case of a network mixing franchisee-owned stores and SWS.**

[COS-F networks> wholly-owned networks / Franchised networks; COS-SWS networks > wholly-owned networks/ networks operating SWS; F-SWS networks < Franchised networks; networks operating SWS]

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 SWS exist but are less important than between company-owned stores and franchisee-owned stores. Indeed, operating SWS 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 SWS seem to generate problems of consistency in the networks.

Therefore, we could hypothesize:

H3. Networks operating plural form will generate a higher financial performance than networks operating both company-owned stores and SWS which in turn will

generate a higher financial performance than networks operating franchisee-owned stores and SWS.

[Networks operating a plural form> networks operating company-owned stores and SWS> networks operating franchisee-owned stores and SWS]

Networks operating a combined form and financial performance outcomes

The advantages and draw-backs of forms associating the three organization forms has not been analyzed in the literature so far. Yet, it is very common that retail companies choose an organizational form mixing these three forms rather than a single or a dual form. 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 management 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 et 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 to increasing substantially the flexibility of the 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 problem of operational efficiency with a network being too dispersed and requiring

too much capabilities. Therefore we expect to observe a decreasing return of synergies when the network diversifies too much.

Therefore, we could hypothesize:

H4. There is an inversed U shaped relationship between combined form 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.

Sample

We focus on one industry to control for sector effect and strengthen the research validity (Aliouche and Schlentrich, 2009; Madananoglu et 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 et al,. 2013) thus allowing to study the variety of predominantly-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 et al., 2011).

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 SWS) 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. This database, constructed by Bureau van Dijk (www.bvdep.com) provides audited financial information on a large number of French listed and non-listed companies. Amadeus and Orbis are its European and World counterpart. This database has already been used in franchising research (Barthélémy, 2008). In the end, we had a cross-sectional sample for the year 2009 that consisted of 170 French retail networks (n= 170), for which complete data were available.

Independent variable: analysis of the geometrical structure of the ROF

The ROF has two dimensions:

  (i) the nature of the organizational form: company-owned stores (COS), franchising (F), store-within-a-tore (SWS).

  (ii) the degree of concentration or diversification in these organizational forms.

The issue consists in distinguishing these two different dimensions in a coherent manner. To achieve this, we follow a two steps approach: 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. The relevance of this procedure is demonstrated thanks to the representation of the ROF in an equilateral triangle.

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: % of stores that are Company's own store, F_i % of stores in Franchising

and SWS$_i$ % stores in Store-within-Stores. This triplet can be represented in an equilateral triangle (see figure 2).

Figure 2 to be inserted here

In this triangle we use polar coordinates where every point in the triangle is defined by the distance to the origin O, noted r, and the angle with the horizontal axis, noted θ. We have thus found a measure of concentration/diversification of the ROF, r_i and a measure of nature of the ROF θ_i (see figure 2).

Additionally, using θ, we want to define several groups: 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)) or 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)), mixt (COS-SWS) (angular sector defined by the points (0.8, 0, 0.2) and (0.4, 0, 0.6)), mixt(F-SWS) (angular sector defined by the points (0, 0.8, 0.2) and (0, 0.4, 0.6)) (see figure 3). Behind these definitions of groups are the distinction between dominantly franchised networks (percentage of franchised stores > 80%), dominantly company-owned networks (percentage of company-owned stores > 80%), networks operating dominantly SWS (percentage of SWS > 60%). The threshold for the latter organization form is lower because it seems that when networks operate dominantly SWS, 60% of the units is already a threshold above which there is no doubt that it is not a hazard.

Dependant variables: financial performance measures

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

(1) the profit margin ratio (PMR): 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): is equal to profit/divided by invested capital. It measures the overall profitability of the company.

Control variables

To demonstrate the unique influence of ROF on financial performance, we used various control variables:

- **firm size** (SIZE), **capital intensity** (CAPINT), and **combination between capital and labor** (K/L) as they are considered as important determinant of performance in a meta-analysis (Capon *et al.,* 1990) and by previous empirical studies on retailing performance (Cronin, 1985; Srinivasan, 2006; Madanoglu *et al*., 2011);

- leverage (LEV) because it has a negative impact on performance in empirical studies (Hsu and Jang, 2009, Srinivasan, 2006; Madanoglu *et al*., 2011);

- **age** (AGE) because younger companies may not yet benefit from experience effects (Alon, 2001; Perdreau *et al.*, 2011; Madanoglu *et al*., 2011);

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

Data analysis

Descriptive statistics and ordinary least squares (OLS) regression model are used to test the hypotheses and empirically examine the influence of the organizational forms on the financial performance at the network level.

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

3. EMPIRICAL RESULTS

3.1. Descriptive statistics

Figures 4 and 5 describe the ROF of companies in the sample and their financial performance (PMR in figure 4 and ROA in figure 5). Each point represents one company. The "Y" divides the triangle into regions in which each organizational form (COS, F or SWS) is more frequent than the two others. Although a great number of points are located on the company-own stores, franchising line, a significant number of points are located almost everywhere in the triangle justifying the choice to include SWS as a dimension of ROF. Performance measures are divided in quartiles with 1 indicating the lowest performance quartile and 4 indicating the highest performance quartile (0 is used for missing data). Inspection shows that high or low performance is not associated with a special location in the triangle. Moreover one can observe the variability of performance in the three zones delimitated by the "Y". Finally, the order of performance is quite similar for profit margin ratio and return on assets.

Insert figures 4 and 5 about here

Details of the various ROF in our data are displayed in table 3.

Table 3 to be inserted about here.

Table 3 gives the distribution of the companies in the sample in the various organizational forms (numbers of company by organizational forms) and the mean performance (PMR or ROA) of each organizational form. The differences in performance between forms appear to be quite important, from a PMR (ROA) of 2.25% (5.51%) for the dual form to a PMR (ROA) of 7.79% (14.98%) for franchising networks. Yet, they are not statistically significant as

shown in the last column of table 3. This is explained by the great dispersion of performance inside an organizational form.

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 between the ones of the two pure forms, which contradicts previous observations (Roh, 2002; Perdreau *et al*., 2011). It is thus 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 basic forms meaning that the additional operational costs associated with SWS are more than compensated 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.

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 interest.

3.2. Impact of ROF on financial performance

From the basic model of financial performance of retail companies (the control variables in the performance equation), we obtained the following results. Leverage and capital intensity have a negative significant impact as in Madanoglu *et al.* (2011). The stock level has a negative impact as in Cronin (1985). Capital intensity has a positive impact as expected (Cronin, 1985; Capon *et al*., 1990). Size has a positive significant impact as in Madanoglu *et al*. (2011) and Srinivasan and Raji (2006). Age has negative non-significant impact as in Madanoglu *et 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.

Tables 4 and 5 show very similar effects of the characteristics of retail organizational forms on financial performance, whatever the performance measure used.

Tables 4 and 5 to be inserted about here.

First, the nature of ROF has no significant impact on financial performance whatever the measure of financial performance used (PMR or ROA) and the measure of the nature of the ROF (theta or the different categories). We have no evidence to show that any of the dominant or dual organizational forms generate different results in terms of financial performance confirming the conclusions of Botti et 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, franchisee-owned stores and SWS 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 in in line with the theory adapted from the international management about the combination of internationalization modes.

4. CONCLUSIONS, LIMITATIONS AND PERSPECTIVES

The research had for purpose to analyze the ultimate effect of organizational form choices on retail network 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 arrangement), dually-organized forms as well as a combined form. 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. These evidence of no direct impact of organizational form on performance suggest 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 6.

Table 6 to be inserted here

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 financial performance.

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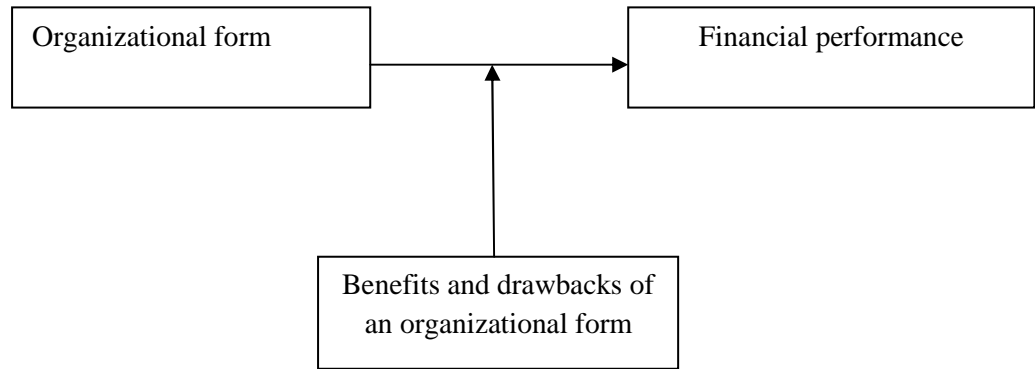
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┌─────────────────────────┐                      ┌─────────────────────────┐
│  Organizational form    │──────────┐     ┌────▶│  Financial performance  │
└─────────────────────────┘          │     │     └─────────────────────────┘
                                      │     │
                                      └──┬──┘
                                         │
                            ┌────────────────────────┐
                            │  Benefits and drawbacks of │
                            │  an organizational form    │
                            └────────────────────────┘
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Figure 1. Conceptual model

Tendency towards a dominant form			
	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 et al., 2013a)
Theoretical framework — 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, which are franchisees' local market knowledge and 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 et al., 2013a)
Theoretical framework — Agency theory	- Reduced risk of free-riding - Better control - Promote consistency across units within the network: hierarchical control to ensure quality, image uniformity and cost minimization. Maintain and reinforce brand value, no service variation between units	- 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 organisational form on performance (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 et al., 2011)	Positive non-significant impact on the profit margin ratio and positive non-significant for ROA as dependent variable (Amadieu et al., 2013b)

Table 1- Benefits of a network operating dominantly an organizational form 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 et 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 et al., 2013)
	Innovation theory and organizational learning perspective	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 with the DEA methodology(Botti et al., 2009; Perrigot et al., 2009) - Positive significant impact (Roh, 2002; Chabaud et al., 2009; Perrigot, 2009)

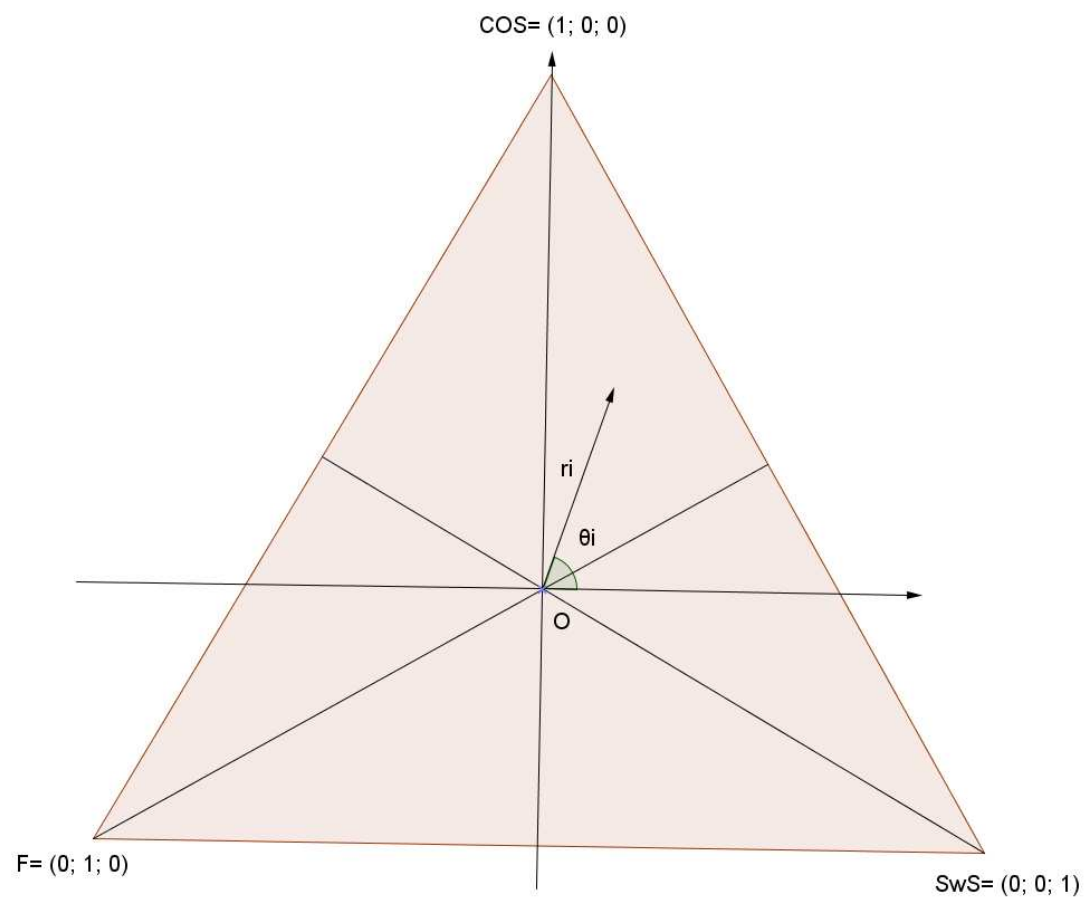**Table 2- Benefits of a dual franchising network and impact on financial performance**

Figure 2. Representing retail organizational form with polar coordinates

COS= (1; 0; 0)

80   20

40

20

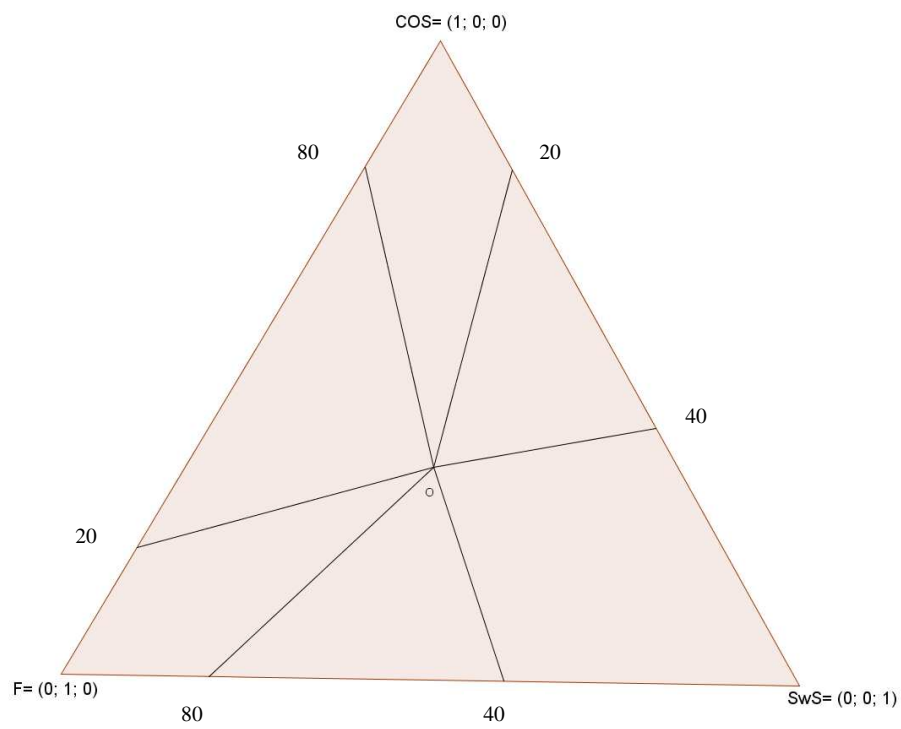F= (0; 1; 0)   SwS= (0; 0; 1)

80   40

Figure 3. Kinds of networks according to the repartition between the three retail organizational forms
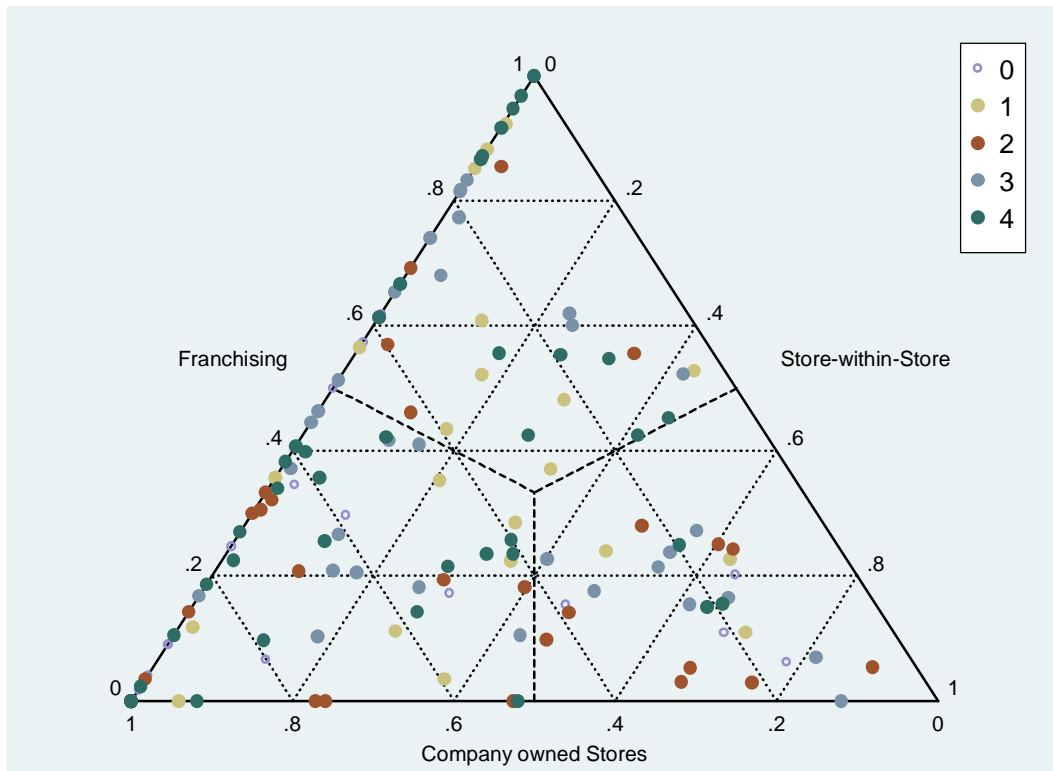
Figure 4. Profit Margin Ratio (PMR) of retail organizational forms

0: missing data

1: quartile of less performing retail companies

4: quartile of higher performing retail companies
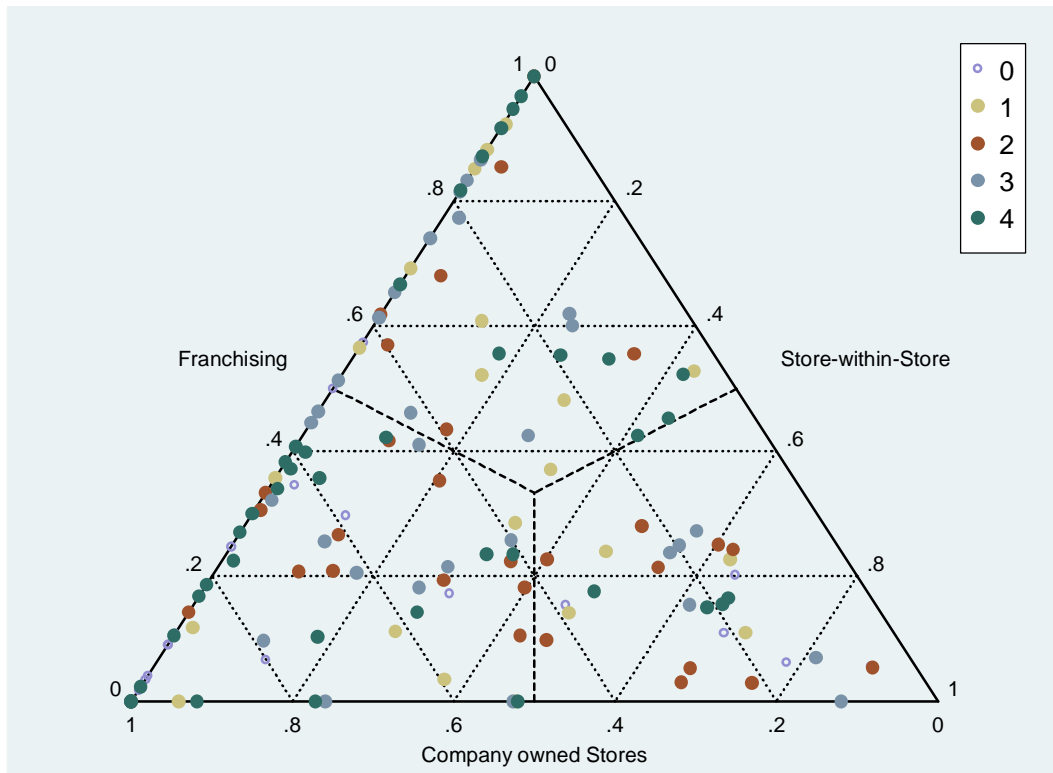
Figure 5. Return On Asset (ROA) of retail organizational forms

ROF	COS	F	SWS	COS-F	COS-SWS	F-SWS	F (pvalue)
Retail Organizational Forms (ROF) N= 170 French fashion retail companies							
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 3. Mean performance for each organizational form

	Basic Model	ROF	Model of Perf. + ROF	Model of Perf. + ROF
French companies				
OLS, robust standard error				
Dependent variable: PMR				
Level: 10% *, 5% **, 1% ***				
Leverage Stock Capital intensity K/L Size Age	-.002***(-3.10) -.122 (-1.41) -.0014 (0.07) .005* (1.86) .015** (2.51) -.0004 (-1.10)		-.0023***(-3.60) 0.027* (1.88) .020***(3.60)	-.0024***(-3.92) .038** (2.51) .019***(3.25)
ROF Concentration (r) r square Nature (theta) Theta square COS F SwS COS-F COS-SwS		28 (0.97) -.40 (-.97) .004 (0.68) -.0007 (.18)	.36 (1.29) -.52 (-1.39) -.0007 (-.15) -.0013 (-.40)	.45* (1.65) -.68 * (-1.77) .0097 (.21) .043 (.92) .004 (.08) -.006 (-.13) .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 4. Impact of ROF on Profit Margin Ratio

	Basic Model	ROF	Model of Perf. + ROF	Model of Perf. + ROF
French companies				
OLS, robust standard error				
Dependent variable: ROA				
Level: 10% *, 5% **, 1% ***				
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)		.0005 (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

Table 5. Impact of ROF on Return on Assets

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

Table 6. Retail organizational form and contingent factors of performance

APPENDIX A - Definition of variables

Description of variables		
Concept	Measure	Description
Financial performance measures		
Financial measure of commercial performance	Profit Margin Rate (PMR)	Economic profit/turnover Economic profit = EBIT (Earnings Before Interest and Taxes)
Profitability (management point of view)	Return on Economic Asset (ROA)	Economic profit/Economic asset Economic asset = Equity + financial debt
Age of the retail network		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