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Financialization, globalization and the making of profits by leading retailers

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From the beginning of the 1990s up until 2007, leading retailers experienced a slowdown of their growth in domestic markets and yet generated an opposite upward trend in return on equity (ROE). This apparent paradox is examined through an analysis of the 10 main retailers' accounts. Focusing on the links between financialization and globalization processes, this article examines a variety of complementary ways of making profits implemented within the industry to satisfy impatient shareholders: foreign expansion, financialization of assets, deterioration of suppliers' and workers' positions and the use of working capital management to transform market power into financial gains.

Keywords: financialization, globalization, retail industry, accounting, power, distribution

JEL classification: F23 multinational firms, international business, L14 transactional relationships, contracts and reputation, networks, M41 accounting

Financialization and globalization are usually analysed separately, and may even be considered alternative uses of capital, competing with investment in operational domestic activities. Milberg (2008), in contrast, suggests that globalization and financialization should be analysed as interrelated tendencies, given that off-shoring allows firms to diminish their input costs and shrink the scope of their productive activities, which reduces their productive investment and operating costs. Such reorganization frees up financial resources to increase share buybacks and dividends in order to satisfy shareholders.

This article proposes to point out other interdependencies between financialization and globalization by studying two additional aspects of these interrelated processes: the internationalization of sales operations, and the development of financial investments and operations by non-financial firms. In order to address these issues, we focus on the retail sector, since it is particularly relevant to the processes mentioned by Milberg (2008, p. 26) and also to the complementary aspects we point out. From the beginning of the 1990s until 2007, leading retailers became highly financialized firms and experts in global supply, production and sales strategies. Moreover, despite a downturn in sales growth on domestic markets, retailers increased their return on equity (ROE).

We first point out that the development of international and financial operations contributed to retailers' continuing capacity to provide high returns to shareholders. However, we argue that looking at these processes separately does not fully account for the upward trend in ROE. Their accumulation and combination over time also produce dynamic gains that sustain high levels of financial profitability for the retailers. Globalization has improved the retailers' position vis-à-vis their suppliers and their workers, allowing them to obtain more favourable organizational and financial arrangements. Financialization and globalization are thus considered combined cumulative processes that are jointly beneficial to leading retailers.

Beyond the case of retail, our results point to the mechanisms that are fuelling a global shift of economic power from workers to capital and, within capital, from industrial capital to financial and commercial capital. Financialization, we argue, both sustains and propagates itself through the power relationships framed by globalization processes. In particular, we demonstrate the crucial role played in the retail sector by management of financial relationships at the expense of stakeholders. We suggest that this phenomenon carries a more general relevance and that its identification helps to explain how financialized capitalism develops, and highlights some of its contradictions.

Section 1 presents our sample data and our initial observations. Looking at the 10 main retailers' accounts since the early 1990s,[1] we clearly observe a downward trend in domestic sales growth for almost all of them. However, their ROE followed an opposite upward trend over this period, increasing from an average level of 11.9% between 1990 and 1995 to an average level of 16% between 2002 and 2007. In 2007, average ROE reached the unprecedented level of 23.9%. This apparent paradox is presented as a 'puzzle' to be solved.

Sections 2 and 3 focus on our first set of hypotheses to solve this puzzle: the firms' entry into new and more profitable fields of activities through

[1]We end our study in 2007, on the eve of the financial and economic crises, because we believe that retailers' reactions to it could be a subject of interest for another paper to be achieved as soon as reliable data with enough length to allow for consistent conclusions become available. Unfortunately, retailers' annual reports are usually published some months after the reference year, and our experience during this present work is that the most recent information released is much less reliable than that issued the following year. Reliable information on 2008 can be found in 2009 annual reports issued in the first half of 2010. To get some longitudinal data, it is therefore necessary to wait at least until the first half of 2011 (data on 2008 and 2009) or even until 2012.

internationalization and financialization of investments and/or operations. We identify a wave of internationalization that started in the mid-1990s and then a wave of financialization that reached a peak in 2004. These two 'waves' of internationalization and financialization had transformed the industry into a highly globalized and financialized one by the eve of the 2008 crisis. However, international expansion slowed down dramatically at the beginning of the 2000s, suggesting that the most profitable opportunities had been exhausted or that financialization was then more attractive (Section 2). The development of financial activities also slowed down after 2004, just at the time when profitability entered its upward trend and reached unprecedented highs (Section 3).

We argue that if financial activities and international activities need time to be efficiently controlled and fully profitable, then the sudden growth of profitability observed for the years 2004–2007 also reflects some dynamic gains obtained through the globalization and financialization of the sector during the preceding 10 years. This second set of hypotheses is explored in Sections 4 and 5. We propose that the increase in ROE and the share of profits distributed may result from the changes caused jointly by globalization and financialization in the relationships between retailers and their stakeholders, especially workers and suppliers. We first argue that retailers have derived operational advantages—in the form of lower wages or prices, resulting in higher profits—from the increased power they acquired with globalization (Section 4). Then, we show that they also took advantage of their power position to derive financial benefits from the reorganization of the industry value chain (Section 5). While supply chain management processes and technologies have drastically reduced the amount of capital tied up in inventories, the main retailers have been able to maintain or even extend their supplier payment period, consequently retaining for their own use the huge amounts of cash that are due mostly to the suppliers, but also to workers. Free appropriation of workers' and suppliers' capital is thus used to replace part of stockholders' and bankers' remunerated capital. For an industry such as retail—where current assets management is of extreme importance for profitability—this forced funding is crucial in explaining the outstanding increases in ROE and, more generally speaking, of distributed value to shareholders (DVS) observed during this period.

The term 'financialization' is used heavily throughout this article. We should therefore define it precisely. In a general sense, financialization refers to the transformation of the relationship between financial markets and non-financial corporations. At the firm level, financialization is 'a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production' (Krippner, 2005, pp. 174–175). However, we suggest that a distinction should be made between three main dimensions: (1) financialization of objectives refers to the implementation of shareholder value norms, whose concrete consequences are an increase of the financial flows from non-financial corporations to the financial sector; (2) financialization of investment refers to the increasing share of financial assets owned by non-financial firms; and (3) financialization of operations refers to the development of financial activities and relationships, notably offered to customers and/or imposed on workers and suppliers, by non-financial firms. The forms 1 and 2 are consistent with most of the macro-analyses of the financialization process that stress the link between financialization and slow accumulation. In contrast, form 3 adds a new dimension of the financialization process that could hardly be captured at the macro level: the search for financial gains by non-financial corporations from the routine transactions conducted mainly with their stakeholders. This paper shows that retailers are becoming more and more financialized in all three senses.[2]

1. A neoliberal retail puzzle: slowdown of sales growth and increasing returns to shareholders

Our research is based on an analysis of consolidated financial accounts of a sample of the top 10 retailers by group sales published on the *Osiris* database under the so-called global detailed format (Table 1).[3] It includes the top five international retailers with consolidated published accounts available.[4] Such a sample of firms allows us to capture the financialization phenomenon for the main internationalized and non-internationalized firms. We have analysed the data from 1990, when globalization gained momentum, up to the first jolts of the global financial and economic meltdown in 2007; at the sectoral level, it is the period when consolidation and foreign expansion by leading retailers really took off.

Unless explicitly mentioned, the data are in current US$. Wherever possible, we have used ratios instead of monetary amounts in order to limit distortions related to the influence of exchange rates and inflation. Data analyses have been occasionally completed using the firms' annual reports and Euromonitor's reports on their financial and strategic situations.

[2]Hereafter, we will refer to these forms as Financialization 1, 2 and 3.

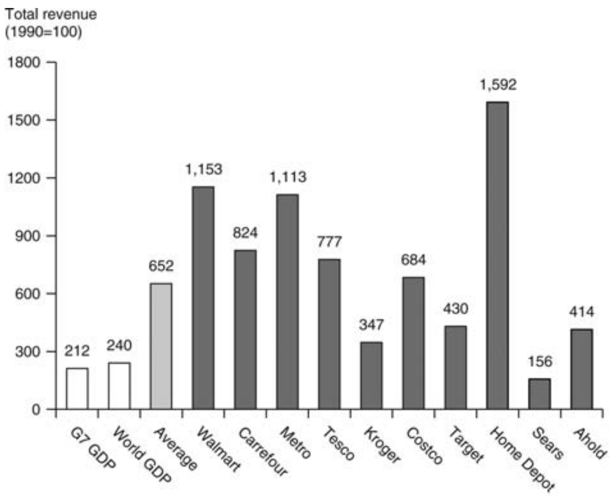
[3]*Osiris* is a database of financial information, ratings, earning estimates, stock data and news on globally listed public companies published by the Bureau Van Dijk on http://osiris.bvdep.com. All company reports were downloaded on August 18, 2008 under the 'global detailed format' in current US$. The 'global detailed format' is a global format: its presentation is the same for all companies regardless of national templates. It is also the most detailed of the formats available.

[4]That is, without Aldi, whose accounts are not consolidated, and Schwarz (Lidl), 'a company characterized by its secrecy and that does not publish accounts'; see Euromonitor International (2008, pp. 6–12).

Table 1 Ten main retailers by group sales and revenue in 2007

Rank	Name of company	Country of origin	Total revenue (US$ billion)	International sales (percentage of total, 2007)
1	Wal-Mart	USA	378.8	19.9
2	Carrefour	France	122.6	51.8
3	Metro	Germany	97	52.8
4	Tesco	UK	94.6	21.9
5	Kroger	USA	70.2	0
6	Costco	USA	64.4	15.8
7	Target	USA	63.4	0
8	Home Depot	USA	52	6.6
9	Sears	USA	50.7	0[a]
10	Ahold	Netherlands	41.4	73.5

Source: Total operating revenue and disaggregation of sales in geographic segments as provided by *Osiris*.
Notes: Total revenue includes net revenue from sales (typically more than 97%) and other operating revenues, such as rental income and franchise fees.
[a]Sears operates in Mexico and Canada, but a disaggregation of the sales in geographic segments is not available.



Notes: Total revenue includes net revenue from sales (typically more than 97%) and other revenues, such as rental income and franchise fees; GDP=Gross Domestic Product.
Source: 1990–2007 growth in total operating revenue as provided by *Osiris*.

Figure 1 Growth of total revenue, 1990–2007.

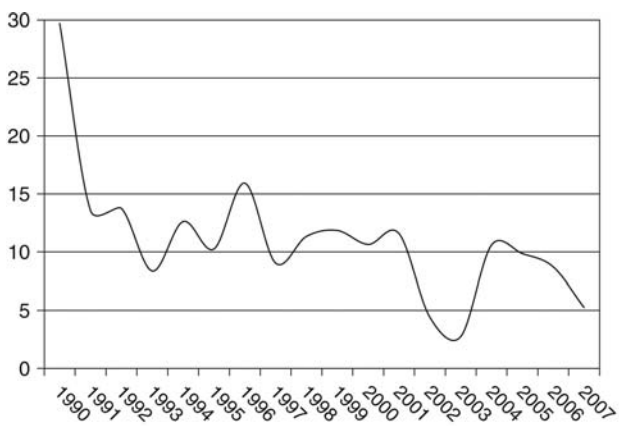
Between 1990 and 2007, the main retailers experienced a tremendous expansion of sales, amounting to an average of 550% growth, whereas the G7 GDP and the world GDP in current US$ grew by only 112 and 140%, respectively (Figure 1). This expansion of the leading retailers was driven by a powerful wave of mergers and acquisitions in 'mature' and often increasingly tightly regulated markets (see Moati, 2001; Guy, 2006; Wood *et al.*, 2006; Askenazy and Weindenfeld, 2008, for the cases of France and the UK), by complementarities between the size of the chains and the scope of their business (Basker, 2007) and by a burst of foreign direct investments (FDIs) in retail in the second half of the 1990s.

Retail expansion has, however, significantly lost strength with a slowdown in the growth of the main retailers' domestic revenues (Figure 2)—more pronounced in 2000 than in the 1990s—in spite of the numerous merger and acquisition (M&A) operations, revealed in the figure by the relatively high volatility of the series.

Moreover, international expansion did not totally compensate for the slowdown in domestic growth. As a consequence, as shown in Figure 3, total revenue growth has slowed down since the mid-1990s.

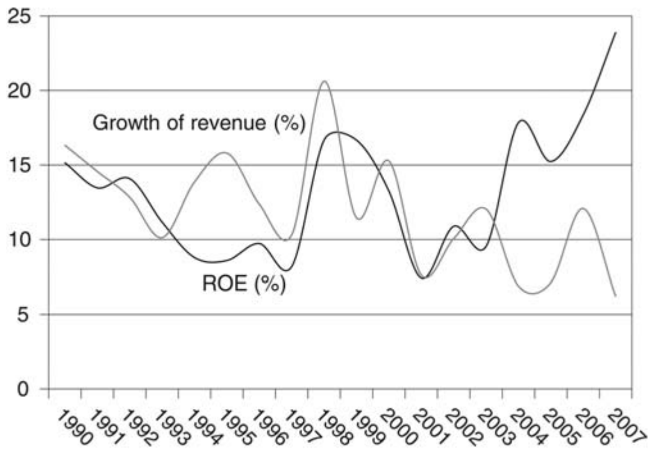
However, Figure 3 illustrates a quite surprising evolution: while there has been a clear trend towards lower rates of total revenue growth, the return on shareholders' equity has been moving in the opposite direction.

More specifically, we can distinguish three periods: first, from 1990 to the mid-1990s, a period of concomitant decrease of ROE and revenue growth; second, from the mid-1990s to the financial crisis of 2001, a temporary acceleration in revenue growth and profitability as retailers expanded sharply abroad; third, since 2003, after the turmoil of the dot-com crisis, divergent paths of profitability and revenue growth.



Note: Growth rates of total domestic sales of all firms in the panel combined.
Sources: Data by geographic segments provided by *Osiris*, except for Sears (total revenue used as proxy for regional sales), Kroger and Target (total revenue used as proxy for 1998).

Figure 2 Annual growth rate of domestic sales.



Note: Growth rates of total revenue of all firms in the panel combined and average return on investment (ROE).
Source: ROE provided by *Osiris*.

Figure 3 Growth of revenue and ROE.

Moreover, this evolution has not been created by leverage policies to increase the return for shareholders. On the contrary, on average, the companies have reduced indebtedness throughout almost the entire period. Long-term debts represented up to 43.5% of non-current liabilities in 1992, steadily decreasing to a minimum of 30.8% in 2006.

As presented in Figure A1,[5] the two leaders, Wal-Mart and Carrefour, as well as Costco and Home Depot, perfectly embody the situation presented above. The four of them faced a slowdown of revenue growth at the beginning of the 1990s. They were able to limit the decline for a while, in the late 1990s and early 2000s, and Carrefour even succeeded in reversing the trend. But since the mid-2000s, they have once again been facing huge slowdowns of revenue growth. Surprisingly, they have at the same time maintained their ROE, and even increased it in the most recent period, making the two curves radically divergent.

However, there is some heterogeneity within our sample. Tesco, Metro, Kroger and Ahold had slower paths of growth at the beginning of the 1990s. Tesco even had negative growth. The four of them improved their rhythms of growth until the mid-1990s and the slowdown of the late 1990s. Tesco, Metro and Kroger had a new, but weaker, pace of growth in the 2000s and steadily increased their ROE over the whole period. Ahold entered negative growth in the mid-2000s. Like Home Depot, its fast development in the 1990s contrasts with its present

[5]Figures A1–A16 are presented in the supplementary file available online.

situation, but both of them present among the highest ROE at the end of the period. Sears is the only one that really distinguishes itself within our sample, since it hardly grew at all during the 1990s and suddenly expanded in the mid-2000s—thanks to a merger with Kmart, which also revived after almost 10 years of negative results with a consistent ROE. Finally, Target distinguishes itself with an annual growth rate of 10% over almost the whole period (except in the mid-2000s, when it fell to 5%). Its case is, however, consistent with our general observations because this stable rate of growth sharply contrasts with the steady rise, and then acceleration, of the ROE during the mid-2000s, just when growth was slowing down.

This evolution suggests a financialization (1) of objectives in the retail industry, the concrete consequences of which are an increase in the financial flows from non-financial corporations to the financial sector (Dumenil and Levy, 2000; Aglietta and Bretton, 2001; Orhangazi, 2008). Figure A2 shows that there is indeed such a financialization of profit. Using the distinction between DVS, used, for example, by Montalban (2008), and distributed value to banks, we can show that the increase of the share of profit distributed to the financial sector mainly benefits shareholders.

Moreover, as shown in Figure A3, the share of profit distributed to shareholders reached a historical high in the most recent period (2002–2007) for all the firms in our sample except Metro, which already had high redistribution rates in the previous periods, and Carrefour, which had an intensive redistribution policy at the beginning of the 1990s.

The acceleration of financial flows from retailers to the financial sector while growth is slowing down appears to be quite paradoxical, confronting us with a puzzle that calls for further explanation.

2. Internationalization as a temporary substitute for domestic growth

The late 1990s witnessed a powerful wave of retail internationalization (Figure A4), as leading retailers from Europe and the USA entered new markets, especially in developing countries (Coe, 2004; Dawson *et al.*, 2006; Reardon *et al.*, 2007; Wrigley and Lowe, 2007). This spectacular process was made possible by their ability to leverage their increasing core-market scale and free cash flow for expansionary investment (Wrigley, 2000). Moreover, access to low-cost capital and, most significantly, policies of full or partial liberalization of FDI in the retail sector in many emerging economies favoured such a move.

As shown in Figure A5, the main leading retailers operate internationally. This international expansion began or accelerated as the firms experienced a slowdown in their domestic sales, mostly during the second half of the 1990s (Wal-Mart, Carrefour, Metro, Ahold, Costco, Tesco). It allowed them to reduce or temporarily check the slowdown in total revenue growth. Among the firms which did not expand internationally, various explanations can be found. In the case of Sears (its operations in Mexico do not appear in the data base), it seems that the company was performing too poorly to invest abroad. The case of Home Depot is somewhat atypical: it is the importance of domestic growth prospects in its specific market (furniture and household appliances) which explains late internationalization. Kroger and Tesco grew slowly but steadily on the domestic market, with Kroger expanding the scale of its operations sharply in 1999 by acquiring Fred Meyer, Inc. Contrary to the previous decade, the 2000s have been characterized by a slowdown (Wal-Mart, Carrefour, Metro, Ahold) or even a reversal (Costco) of the dynamism of foreign operations, Tesco being the only firm to accelerate its internationalization in that period. The main period of retail internationalization was thus from the mid-1990s to 2001. Afterwards, some firms were struck by the successive financial crises in emerging countries from Asia to Argentina and by the dot-com crisis or weakened by their high level of debt. Greater priority was then given to the financial performance of international operations, with selective divestments in underperforming markets (in the case of Wal-Mart and Carrefour, see Durand and Wrigley, 2009).

In order to explain this wave of internationalization, a sectoral reformulation of the argument of the classical theories of imperialism (Hilferding, 1910; Luxemburg, 1913; Lenin, 1916) may be helpful. These theories stress that due to domestic over-accumulation, capital in general has to look abroad to find new profitable investment opportunities and new outlets. A sectoral transposition of the argument suggests that foreign expansion provides a means to pursue the accumulation of retail capital despite limited prospects in domestic markets. But such a strategy only makes sense if recycling the excess capital embedded in a specific branch in another sector appears less profitable or more risky than expanding the same business abroad. This point is particularly pertinent when capital is strongly and durably embedded in one firm, as in the case of family ownership, which plays an important role in firms such as Wal-Mart and Carrefour. Moreover, considering each firm as a pool of resources and a collective knowledge system (Penrose, 1959; Nelson and Winter, 1982; Horsmann and Markusen, 1989), internationalization appears to be one way to pursue the growth of the firm (Kay, 2000). Last but not least, the retail industry is somewhat similar to the core industries described by Crotty (2000) where the process of capital accumulation is deeply embedded in a specific sector. First, as the activity is not subject to the law of diminishing returns, there are strong incentives to increase the scale of operations, possibly through internationalization. Moreover, as the assets of the firms are significantly immobile, irreversible or specific, they lose substantial value if they are reallocated to a different industry or sold on a second-hand market. Such large economies of scale and prohibitive sunk costs prevent withdrawal from the business and constitute strong incentives to acquire complementary assets—possibly abroad—insofar as they can positively affect the valuation of the firm.

In addition to this first range of motivations, the possibility of competitive advantages deriving from 'idea gaps' in developing economies (Romer, 1993) also acts as a strong incentive for international expansion. Unfortunately, detailed information about the profitability of retailers' operations abroad is not available in the Osiris Database. However, a study by Durand and Wrigley (2009) corroborates the existence of such a skills/global-scale gap between international retailers and their incumbent competitors. Indeed, the varying fortunes of Wal-Mart and Carrefour expansions show that the 'first mover' advantage is a key element of success for international retailers entering new markets. The Mexican case provides additional examples. A comparison between the return on assets (ROA) evolution of the transnational corporation Wal-Mart and that of its Mexican subsidiary is striking (Figure A6): between 1998—1 year after Wal-Mart took a majority stake in Mexican retailer Cifra—and 2007, ROA remained almost steady at the level of the consolidated company, while it increased sharply in WalMex. This reflects the expansion of operating scale and the benefits of progressive implementation of technological know-how and management skills from the parent company. At the same time, the gap widened between Walmex and its closest Mexican competitors, who lost ground in terms of both sales and profitability, as Wal-Mart took advantage of its edge in scale and know-how (Durand, 2009).

The captive embeddedness of capital in the retail industry and the advantages deriving from the idea gap do not exhaust the motivations behind retail's international expansion. Other elements must be mentioned: the partial protection against national economic cycles through geographical diversification (Pitelis, 2000); the positive impact on the firm's innovation record of the clash between the domestic background and new market conditions (Cantwell, 1995; Dunning and Wymbs, 1999 and, for an overview on retail, Dawson and Mukoyama, 2006); and, finally, the efficiency gains as firms are partially freed from the social and political constraints linked to territorialization (Andreff, 1996; Saint-Etienne and Le Cacheux, 2005) through manipulation of internal prices and modification of the capitalization of their subsidiaries.[6]

[6]French retailers have been accused of avoiding up to 1 billion euros in taxes through financial affiliates in Switzerland (Le Figaro, 2008).

This pattern of foreign expansion, along with the wave of mergers and acquisitions in the second half of the 1990s, explains the short-lived break in the downward trend of growth rates during the second half of the 1990s and the first rise in ROE up to the turn of the millennium. The exhaustion of opportunities to exploit a first mover position and an economic environment troubled by successive financial crises in developing countries explain why the trend towards more internationalization of operations slowed after 2001. This timetable suggests that financialization of investment (Financialization 2) may be an alternative to internationalization of operations.

3. Financialization as an alternative to internationalization

The end of the 1990s marked the beginning of the rise of financial investment by retailers (Financialization 2). As shown in Figure A7, the financial assets/total assets ratio began to increase in 1997 and grew more rapidly after 2002. This acceleration occurred just after the surge of international expansion, even in a period marked by a reduction in the average share of international sales. This suggests that financialization could have been used as an alternative to internationalization for firms facing limited—or even disappointing—growth prospects abroad.

This shift towards more financial investment to the detriment of tangible investment has contributed to the prolongation of a dramatic fall of the growth rate of tangible assets from 18% at the beginning of the 1990s towards less than 10% in the 2000s. This downward trend has only been briefly interrupted by the foreign expansion at the end of the 1990s. This evolution towards more financial investments and a slower accumulation of tangible assets is consistent with the literature on financialization, which points out that firms have diverted a growing proportion of their incoming cash flows from investment in fixed capital (Dumenil and Levy, 2004; Stockhammer, 2004; Froud *et al.*, 2005; Krippner 2005; Aglietta and Berrebi, 2007; Bauer, *et al.*, 2008). The shareholder revolution and the development of a market for corporate control have led to a substantial transformation of management behaviour in order to satisfy the cash payments required by impatient financial markets (Lazonick and O'Sullivan, 2000; Crotty, 2005).

This new behaviour is detrimental to real investment through two kinds of mechanisms (Orhangazi, 2008). First, increased payment to financial markets in the form of interest payments, dividend payments and stock buybacks may hinder real investment by reducing internal funds and shortening the planning horizons of the firm management. Second, increased financial profit opportunities may diminish real investment because firms will prefer to invest in financial assets and activities. This is all the more important in the retail sector as profitable opportunities for real investments are reduced by a wide range of factors such as the maturation of markets, stricter regulations, sluggish consumer demand and increasing competition.

In addition, in a business environment characterized by a high level of uncertainty, the preference for liquid assets tends to increase. Financial investments may thus be considered a kind of 'wait-and-see' strategy.

Ahold clearly illustrates the first of these mechanisms: despite facing difficulties at the beginning of the 2000s, at the end of 2003 it undertook a vast plan of international divestment of 'non-strategic' assets to reconstitute distributing capacities. By the end of 2004, Ahold had already put 14% of its net assets up for sale, generating a huge increase in the share of financial assets. Sudden financialization may also reflect strategic choices other than international divestment. Sears illustrates another tendency of the retail sector that also involves at least brief financialization: merging. In 2004, Kmart, preparing its merger with Sears, had to gather the funds to pay a cash consideration to those former Sears' shareholders who preferred cash payments in lieu of the stock issued by the new merged company. It retained all 2004 earnings ($1.1 billion) and raised the rest of the funds needed from financial markets, adding $2.3 billion (38% of its previous total assets) to its $2.7 billion financial reserves in order to redistribute them to the former Sears' shareholders. This operation also contributed to the 2004 increase in financial assets of our sample.

The acceleration of financialization in 2004 also reflects the more indirect, long-term strategy of substitution of operational activities and investment by financial activities and investment.

First, in a period of rising markets—as was the case between 2002 and 2007—financial investments offer managers an opportunity to generate incomes and satisfy impatient shareholders. Evidence from Sears is highly illustrative of this logic: in the third quarter of 2006, the retailer earned more than half its net income from highly risky investments in derivatives, boosting profits in spite of gloomy sales (Covert and McWilliams, 2006).

To improve their profitability ratios, retailers can also develop financial activities on their own. Non-financial corporations may develop direct financial activities with their customers. Indeed, large proportions of Ford's and GM's profits have come from their financial activities, notably captive finance (Froud *et al.*, 1998, 2002; Lung, 2001, 2005). This financialization (3), which has been described as a transformation of the relationship with customers by providing them with financial services (Lapavitsas, 2009), is also relevant in the retail sector with the development of consumption credit by retailers. For example, Burt *et al.* (2006) mention the development of financial services by Royal Ahold in several countries.

For the period 2002–2007, the financial assets ratio increased for all firms, except Kroger and Metro, relative to the precedent periods (Figure A8). This suggests that financial investments and the development of financial activities have provided firms with new sources of income and profits. To discuss these arguments in more detail in the retail sector, it would be necessary to identify more precisely the financial assets held by retailers during this period and to link them with identifiable incomes. However, the Osiris database does not specify the nature of all financial assets or distinguish between all the different financial revenues.

Nonetheless, the variation between the levels of these ratios is striking: on the one hand, Carrefour and, to a lesser extent, Ahold, Metro and Target are the most financialized, with ratios between 30 and 43%; on the other hand, Kroger, Home-Depot and Wal-Mart have ratios between 10 and 13%.

Looking back to the annual reports for the two firms at the extreme positions in this ranking, Carrefour and Wal-Mart, when financialization was the strongest—in 2004—suggests the underlying rationale for this difference: financial investments and activities were profitable enough to improve Carrefour's overall profitability but may not have been profitable enough for a firm like Wal-Mart, whose operational profitability in retail was already high (Figure A9). Thus, Carrefour and Wal-Mart's financial assets for 2004 differ not only as a proportion of total assets (43.1 and 10.5%, respectively), but also in their composition. Carrefour had a wide range of financial items that were only loosely linked with its main activity, suggesting a diversification into financial investments and services; in contrast, Wal-Mart's financial assets consisted essentially of items closely linked to retail activities and strategies. This does not mean that firms such as Wal-Mart do not seize opportunities to diversify into financial activities. In fact, there is already such diversification: in Mexico, el Banco Wal-Mart was launched in 2007 to tap the huge market of unbanked Mexicans (Gelpern, 2007); Wal-Mart Canada Bank was launched in 2010; and there are similar projects in the USA.

Financialization (2) of investments and the development of financial services appear to be possible alternatives to the development of the usual operational activities. Once foreign development prospects became scarce or disappointing, these strategies were chosen as a way to improve profitability for firms that could not carry on raising high profits through their traditional activities. This is what Figure A10 shows: the most financialized firms (Carrefour, Ahold, Metro, Target, Sears and Costco) are the firms that had the least profitable assets when internationalization slowed down. Conversely, the least financialized (Tesco, Kroger, Home Depot and Wal-Mart) were much more profitable at that point. Thus, the most financialized firms were able to increase their ROA even more when the financial markets soared between 2002 and 2007.

In sum, both foreign expansion and financialization of assets have been used by retailers to cope with slower growth in domestic markets and to meet their shareholders' expectations. But it was mostly when foreign expansion opportunities vanished that financialization became more attractive, especially for the least profitable firms. Financialization of investment thus appears as an alternative strategy to internationalization to improve financial profitability.

However, it is necessary to move beyond this first result, as globalization and financialization are helping to reframe the operational and financial relationships between retailers and their stakeholders, and this reorganization produced dynamic gains that contributed to the sudden growth in ROE for the years 2004–2007.

4. Globalization and the deterioration of suppliers' and workers' bargaining power

Directly or indirectly, globalization has introduced changes in power relationships between retailers and their stakeholders, helping the former to increase their operational profitability at the expense of the latter. The shift in the balance of power in favour of the main retailers allows them to appropriate most of the efficiency gains obtained by reorganizing supply chain processes. Moreover, their development in lower-wage countries and a macroeconomic context adverse to labour in high-income economies increase their capacity to control operational internal costs, especially wages, and to capture most of the productivity gains obtained during the restructuring of their own operations. Distributive gains at the expense of consumer welfare should also be considered. But consolidated accounts are of no help here, and the literature is inconclusive. In the USA, 'an increase in price competition in product markets (...) has made the firm's [*sic*] implicit cost of raising the price prohibitively high' (Milberg, 2008, pp. 11–12), while in France the legal framework has reduced competitive pressure, allowing firms to increase their profits through higher prices (Askenazy and Weindenfeld, 2008).

During the last 20 years, the main retailers have grown through mergers and acquisitions and through international development. When expanding their scale of operation, retailers become bigger buyers and enlarge their sourcing channels, allowing them to increase competitive pressure on their suppliers (Coe and Hess, 2005; Coe and Wrigley, 2007; Durand, 2007; Reardon *et al.*, 2007; Basker and Pham, 2008; Milberg, 2008). Wal-Mart, for example, has built strong global sourcing capacities (Bonacich and Wilson, 2006) and has become the leading US importer from China, with reported imports of $18 billion in 2004 and $27 billion in 2006 (Scott, 2007). Other works on European retailers (Palpacuer *et al.*, 2005, 2006) also link the increase of shareholder pressure to deliver immediate returns and the intensification of competitive pressure on foreign suppliers. In addition, the impact of the IT and logistics revolutions in the sector (Moati, 2001, pp. 187–192; Basker, 2007) has also contributed to the pressure on supply prices because suppliers' costs are better known, and the production process is better controlled by retailers. In sum, globalization of supply chains has increased retailers' market power and, consequently, allowed them to increase their profitability, as they can obtain lower prices from their suppliers.

As well as shifting the balance of power in their favour vis-à-vis their suppliers, retailers have also benefited from a better position vis-à-vis labour. First, they have expanded their activities in low-wage countries where labour militancy is weak. Moreover, globalization (Locke *et al.*, 1995; Chesnais, 1997; Crotty *et al.*, 1998; Dumenil and Levy, 2000; Pitelis and Sugden, 2000) and the introduction of information technologies in work processes (Petit and Soete, 2001; Levy and Temin, 2007; Gordon and Dew-Becker, 2008) have worsened the position of low-skilled workers in high-income economies, fuelling a systemic rise in inequalities (Petit, 2010). Labour in the retail sector has been severely exposed to this adverse evolution because the sector is a labour-intensive tertiary industry, markedly segmented in terms of workforce remuneration and with a large proportion of low-skilled workers. Moreover, it is characterized by an important proportion of part-time jobs, a mainly female workforce and a low level of unionization, which are characteristics departing from the Fordist capital-labour compromise and limiting Fordist-style mobilization (Silver, 2003; Glyn, 2006).

In such a context, we can assume that the reorganization of work following the introduction of new technologies gives managers the opportunity to pressure labour. First, they can intensify the labour process and then obtain efficiency gains with a possible significant deterioration of physical working conditions (Askenazy, 2002). Second, they can minimize labour costs by extending working hours or limiting wages and labour compensation. This last hypothesis is based on a number of empirical elements: the anti-union position of Wal-Mart is well-known, as are its low wages and minimal labour standards (for example, Bair and Bernstein, 2006; Hugill, 2006; Lichtenstein, 2006; Basker, 2007). Furthermore, many journalistic investigations, workers' testimonies (for one of the many testimonies, see Sérange, 2006) and emerging social mobilization (Benquet, 2008) indicate that harsh labour conditions, lack of respect for legal labour standards and low wages and social benefits are general features of the sector.

Unfortunately, data published by the companies do not allow a direct assessment of the hypothesis of an intensification of worker exploitation—i.e. an extension of the ability of capital owners 'to appropriate the labor effort of the exploited' (Wright, 2005)—through the confirmation of an enduring productivity-wage gap. Indirectly, however, some indicators tend to corroborate this hypothesis. Facing limited growth prospects, leading firms seem to have followed a more intensive accumulation path. Figures A11 and A12 present the capital mobilized and revenue generated per worker and indicate a process of reorganization of work through the implementation of information technologies and an increase in physical productivity that implies an intensification of work.

At the same time, we do not observe an important increase in nominal wages in EU-based firms (Figure A13). There is even a decrease in some cases, although our index is based on current value. For US-based firms, there are no data about the cost of employment; however, some studies of the US retail markets (Foster *et al.*, 2002; Doms *et al.*, 2004) indicate strong productivity gains—without taking into account the negative externalities of suburban commercial centres—but with an erosion of wages.

In sum, efficiency gains obtained during the past 15 years by retailers within their own firms and along the supply chains have been mostly appropriated by shareholders. This has been done at the expense of suppliers, through low prices, and through an intensification of worker exploitation. The negative impact of globalization on low-skilled workers' bargaining power, which is well-established in the literature, is confirmed in the retail sector. However, we suggest that in the context of financialization, retailers do more than merely derive operational advantages—in the form of lower wages or input prices—from the increased power acquired with globalization. This shift in the balance of power has also been exploited by retailers to take advantage of the financial aspects of their relationships with their stakeholders.

5. Forced funding of retailers by stakeholders

In addition to a direct deterioration of their position, stakeholders have also suffered a worsening of their financial relationships with leading retailers. Retailers have seized the opportunity of this shift in the balance of power to improve the financial structure of their assets and their financial relationships with stakeholders. Thus, as they imposed new supply chain management processes and technologies, retailers have drastically reduced the amount of capital they need for their inventories and consequently significantly reduced—or maybe transferred to their suppliers—their need for tangible assets. At the same time, they have been able to increase their terms of payment and consequently increase the amount of cash owed to their stakeholders that they keep available for their own use.

Inventories are a form of immobilization that does not directly create revenue. Developing a way to decrease inventories while still ensuring the continuous refilling of stores is consequently critical for asset profitability. Such an evolution has been possible thanks to the implementation and diffusion of logistics and IT innovation within the sector. As a result, in our sample, we observe a 31%

reduction in the share of assets immobilized for inventories, from 49 days of sales in 1992 to 34 days in 2007 (Figure A14). This trend is shared by most of the firms in our sample and is all the more important when the weight of assets immobilized is important (Figure A15). Home Depot is the only exception with an upward trend. This is explained by the fact that the company did not begin the transition from a logistics model based on direct store delivery by suppliers to a more efficient model based on distribution centres until 2008 (SCDigest Editorial Staff, 2008; Lloyd, 2010).

These IT and logistics revolutions required substantial investment not only by retailers, but also by suppliers (*RFID Gazette*, 2007), since they had to enter retailers' logistical and information networks and comply with ever more demanding requirements for volume, place and time of deliveries. However, an even distribution of the efficiency gains within the chain is not guaranteed. Consequently, the supply chain reorganization may have been used to transfer the cost of inventories to suppliers rather than reducing it globally. A complementary longitudinal analysis of suppliers' working capital would be necessary to properly settle this argument.

Distributive gains at the expense of stakeholders are more obvious when one looks at the structure of the financial relationships that link retailers to their main partners: states, workers and suppliers. These kinds of relationships are, in fact, unique to the retail sector: as retail firms operate at the interface between businesses and final customers, they benefit from the differences in terms of payments traditionally existing between these two kinds of economic actors. As customers traditionally pay 'on the nail', and business payments may take months—depending on the national commercial standards—the trade partners' 'net' account of retail companies automatically generates current liabilities. These current liabilities have always been an important source of funding in the retail industry. However, as they have become increasingly globalized, leading retailers have taken advantage of their growing power over suppliers and have increased their average payment period. Thus, in 2007, the trade partners' 'net' account of retailers represented 43 days of sales, compared with about 30 days in the early 1990s, generating an increasing gap between the accounts receivable and the liabilities due to trade partners.

Retail firms also take advantage of the benevolence or the weaknesses of other partners—such as the state or employees—to whom they are traditionally current debtors for expenses such as income tax, social expenditures or pension funds. Current liabilities generated by these financial relationships are substantial; they rose mainly during the mid-1980s and have been quite stable since then, representing, for example, 14 days of sales in 2007. Overall, the total net current funds retailers raise from all these stakeholders have steadily grown since 1990 from 45 to 57 days of sales (Figure A14), with a similar trend for almost all of the firms in the sample (Figure A15).

Retail firms have always been able to fund their accounts receivable using their stakeholders' liabilities (Figure A16), which is why their 'net partners' account' in Figure A14 is always positive. Thanks to the double process described above, they were also able to fully fund their inventories using their stakeholders' liabilities in 1995. Subsequently, as the process continued, they were able to generate an increasing flow of short-term disposable cash from relations with their stakeholders, which surpassed the amount they needed and wanted to keep in cash and short-term investments in 1998 (Figure A16).

Once current capital needs have been satisfied, using current liabilities to fund fixed assets requires high capacities in current capital management, but it is obviously not impossible. Since the late 1990s, the current debts of retailers to their stakeholders have been globally sufficient to fund their assets immobilized in favour of these stakeholders, their assets immobilized for their inventories, all their cash and short-term investments, but also a growing and already important part of their fixed investments (Figure A16). If we consider that stakeholders' liabilities are used to fund assets from the most to the least current, as presented here, then we can estimate that for 2007, about 13% of retailers' fixed investments were funded with funds due to the stakeholders. Even more striking, funds due to the stakeholders represented 47% of the total assets of the firms in 2007 (versus 42% in 1990).

Decreasing inventories mechanically reduces the share of tangible assets necessary to maintain retail activities, thus increasing—all things being equal—profitability. The increasing share of stakeholders' liabilities can be used to increase asset profitability if the funds are used to make direct financial investments [Financialization (2) of assets] or to 'replace' banking debts or even shareholders' funds. This kind of 'forced funding'—i.e. retailers obliging their stakeholders to provide them with cash for free—means that the stakeholder–retailer relationship becomes more financialized as financial objectives are added to operational objectives.

6. Conclusion

Despite the existence of some contributions at the firm and sectoral levels (Froud *et al.*, 1998, 2002, 2005; Montalban, 2008), there is a significant lack of studies explaining how financialization is linked to organization, power structure and distribution of wealth within firms and along supply chains for specific industries. In this context, one original feature of our study is that it relies on an analysis of consolidated financial accounts in an international and comparative perspective that can capture the effect of globalization processes. However, our results still need to be related to a comprehensive analysis of corporate governance changes and heterogeneity among firms. Consumer welfare and the evolution of pricing policies along the supply chain are also key issues that are difficult to address here for methodological reasons. Moreover, our data do not allow us to explore the hypothesis of the growing importance of financial operations involving consumer credit (Financialization 3). Further research in these directions is urgently needed.

Nonetheless, looking at the links between the financialization and globalization processes, this paper points out several strategies the leading retailers have used to increase their ROE and the share of profit distributed to shareholders (Financialization 1) despite the slowdown in revenue growth. For example, we observed remarkable foreign expansion by half of the firms in the sample and significant—though heterogeneous—financialization of assets (Financialization 2). Looking at individual strategies, we suggest that financialization of assets has been a substitute for international expansion for those firms that were the least profitable when international growth opportunities vanished.

Moreover, looking for potential interactions between the globalization and financialization processes, we identify two other overlapping trends that helped retailers to increase their ROE. The first of these trends is consistent with the numerous studies that link globalization with a weakening in the position of low-skilled workers and increased competition along supply chains. This shift of power results in the intensification of worker exploitation and a deterioration in trading conditions for suppliers. More unexpectedly, we have demonstrated that management of the financial aspects of relationships with partners also became a key variable of retailers' financial performances. The generalization of what we have called 'forced funding'—i.e. working capital management used as an effective tool for transforming market power into financial gains—is common to our whole sample, and we argue that it has led to important distributive gains at the expense of the stakeholders, especially suppliers.

We suggest that beyond the retail sector, this phenomenon is central to understanding how financialization affects the power relationships framed by globalization processes. The evidence suggests that it is a general feature that follows the intensification of competition along global supply chains. A connection with the literature on Global Commodity Chains (Bair, 2009) would appear relevant to this point, as the role of financial relationships in the structuring of asymmetric relationships along the chains has so far been an under-studied aspect.

Beyond firm specificities, our study also suggests that these various sources of profitability contain significant limits and contradictions that illustrate the neoliberal deadlock.

First of all, internationalization has offered new fields of profitability, particularly through new growth prospects in countries with less vigorous competition for Western firms. The momentum of internationalization in the second half of the 1990s was related to a set of particular opportunities and does not seem to have constituted a sustainable long-term trend sufficient to preserve ROE. Moreover, the slowdown of sales growth may also reveal that consolidation—nationally and internationally—is now not so effective as a means of increasing profitability.

Second, the oligopolistic control of the relationship with consumers is the source of retailer-specific economic power. It also puts these firms at the forefront of an economic instability and weakness of consumer demand that they help to fuel. Indeed, their sources of profitability feed the slowdown of their growth prospects for several reasons. First, at the macroeconomic level, preferring asset financialization to tangible investment is unfavourable to accumulation and growth. Second, the capture of supply-chain management benefits may sustain a process of impoverishing growth (Kaplinsky, 2000) all along the supply chain that also depresses global demand through limited investments and low wages. Finally, the deleterious effects of intensifying work exploitation in terms of employment and wages also have significant macroeconomic consequences on final consumption, as retail represents a significant part of total employment.

At a third level, if financial investments may help the firms in hedging and increasing their solvency, they also introduce new risks to their balance sheets and earning streams (Orhangazi, 2009). The ongoing financial crisis should reverse this trend towards the financialization of investment and significantly weaken the situation of the most financialized retailers, such as Carrefour and Ahold.

Taking into account these general contradictions, the adverse consequences of the ongoing economic crisis for the retail industry may differ greatly from one firm to another: consumption patterns will evolve as a result of deteriorating conditions on the labour market in developed economies, and the varying fortunes of leading firms, depending on their degree of financial and operational exposure to this very harsh economic climate, may also give momentum to a new wave of M&A within the industry, following a winner-take-all pattern. In the meantime, the resilience of the developing world should lead to faster-paced differentiation between leading firms, depending on the importance of their activities in these regions.

Finally, our study suggests that the rearrangement and partial transfer of retailers' working capital to their stakeholders may have an impact on financial stability. Retailers' terms of payments and their standards of just-in-time delivery impose additional financial costs on their suppliers and increase their capital needs. When it is immobilized as working capital to cope with retailers' terms of payment, this additional capital generates additional costs, such as credit costs, without raising additional revenue for the suppliers. On top of this, when capital is immobilized productively—to cope with the demands of flexibility and just-in-time delivery—the resulting productivity gains are at least partly captured by retailers. The specificity of this kind of investment also increases suppliers' dependence on retailers and the cost of any drop in orders. Retailers' increased flexibility has partly been developed at the cost of their suppliers, leaving them financially riskier and weaker. As very few suppliers are as big as their retailers, some of the financial costs and risks of flexibility are inevitably transferred to weaker structures, increasing their default risks and, ultimately, the overall risk in terms of financial and economic stability. Such a phenomenon is all the more significant because it probably extends beyond the retail industry alone.

Supplementary material

Supplementary material is available at *SOCECO Journal* online.

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