Matilde Milanesi

LIABILITIES AND NETWORKS IN THE INTERNATIONALIZATION OF FASHION RETAILING

FrancoAngeli

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Matilde Milanesi

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FrancoAngeli

To Gianni and Cipria.
To my dearest loved ones.

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INTRODUCTION

The book is the result of a research path undertaken by the author over the last seven years. The topic being investigated is that of liabilities and networks in the internationalization of fashion retailing. The study of liabilities in internationalization is an integral part of the international business literature, starting from the first contributions on the topic between the late 1960s and the 1970s when the difficulties faced by multinational companies in their international expansion were first defined as costs of doing business abroad. Drawing on this literature, the concept of "liability of foreignness" was first introduced in 1995, and was related to the fact that foreign firms incur additional costs when operating internationally, compared to local firms that have better information about their country, economy, laws, culture, and politics. Since then, the liability of foreignness has become the subject of extensive debate in the international business domain and has attracted the interest of a large number of scholars who have laid the foundations for its theoretical development and suggested possible strategies to mitigate or overcome such liability.

An essential contribution in this area comes from the Uppsala School, which has developed a gradual approach to internationalization since the 1970s. In fact, in the initial development of the stage-based internationalization process, particular attention was paid to the liability of foreignness in relation to the concept of psychic distance. In 2009, the Uppsala internationalization process model was revised, and a network perspective was included to indicate that the problems and opportunities related to the internationalization process become a matter of relationships and networks. Thus, the focus shifted from the liability of foreignness to the liability of outsidership, which concerns the uncertainty and difficulties associated with being an outsider in relation to a certain network.

While liabilities in internationalization have been broadly studied in the context of multinational companies, research on liabilities in the internationalization of retailing is limited. The internationalization of retailing emerged as a specific area if compared to the internationalization of industrial firms. However, the theoretical debate delayed analyzing the international dynamics of retailing, leaving room for new contributions aimed at outlining its peculiarities. The store openings indeed represent one of the key elements of the internationalization of retailing. On the one hand, store openings can be seen as a fertile ground for the emergence of liabilities since the firm has to do with differences and distances, and each store can be seen as an autonomous center of innovation embedded in the local culture and consumption habits. On the other hand, the store, as a part of the value proposition of the firm, may be a firm-specific advantage to offset the difficulties that will occur in a foreign market due to the liability-problems.

All considered, the book is divided into four chapters. Chapter 1 presents the gradual model of internationalization proposed in the 1970s by researchers from the Swedish Uppsala School, trying to outline the foundations of the theoretical approach in its first formulation. To this end, the primary constructs of the model are presented, as well as some critical elements of this conceptual architecture, with particular reference to the two key concepts of the model, namely the psychic distance and the establishment chain. In consideration of this, further research trajectories are proposed, which have emphasized the role of relationships and the network perspective to study internationalization. These trajectories led to a reformulation of the Uppsala model in subsequent contributions discussed at the end of the chapter.

Chapter 2 focuses on liabilities in internationalization, starting from the debate generated after the publication, in 2009, of the revised Uppsala model. The concept of liability of foreignness is presented, and the theoretical development, as well as the operationalization and measurement issues, are discussed. In addition to the liability of foreignness, the chapter examines other liabilities that could emerge both in the domestic market and in foreign markets, in particular the liabilities of newness, smallness, and expansion. The chapter continues with the analysis of the liability of outsidership, introduced in the revised Uppsala model. The theoretical foundations and the contributions following its introduction are discussed, which in part propose criticisms and revisions to the concept, in part propose strategies to overcome the liability of outsidership and therefore acquire a position of insidership in foreign markets. Since the liability of outsidership derives from the integration of the network perspective in the studies on the internationalization process of the Uppsala School, the chapter concludes by analyzing such view proposed in the context of industrial marketing studies by researchers of the Industrial Marketing and Purchasing (IMP) group. In particular, the emphasis is on the centrality of the concept of market environment interpreted according to the “market as network approach” and its main theoretical contents, such as the role of interaction and the involvement of actors, resources and activities discussed in the ARA model.

Chapter 3 covers the main aspects of the internationalization of retailing. More specifically, the chapter discusses the literature on retail internationalization, intending to highlight the main areas of research, recurring issues, types of companies under study, and the applicability of the main theories on internationalization to the peculiarities of the retail environment. The focus then moves on to the internationalization of fashion retailing. The fashion industry represents the empirical context of the present study indeed. It is an industry in which the internationalization dynamics strongly characterize business strategies. Furthermore, the co-presence of production and retail competences within the same firm, and the emergence of new production and distribution models, make the analysis of the fashion industry extremely interesting. Moreover, the study of the fashion industry differs from most contributions on retail internationalization, which address the issue mainly concerning the grocery retailers. Thus, the chapter discusses the internationalization of fashion retailing, the entry mode strategies by fashion (and luxury) retailers, and the integration processes between manufacturing and retailing. A taxonomy of categories of international fashion retailers and retail formats is then presented, and the related studies on the process of store openings.

Chapter 4 introduces some methodological notes and presents two cases of fashion companies and their internationalization process characterized in particular by the opening of stores in foreign markets. To investigate the relationship between liabilities in internationalization, networks, and store openings, the chapter presents the primary evidence concerning the phases of the internationalization process, the difficulties encountered, the development of business relationships with local and foreign partners, the store formats adopted, the management methods, the continuation of international expansion and the organization of domestic and foreign activities. The cases presented offer evidence to support the approach analyzed in the book for the study of the internationalization of the firm. The chapter concludes with some final reflections concerning the liabilities of foreignness and outsidership in fashion retailing, with particular reference to the opening of stores in foreign markets, the networks in which firms are embedded, and the strategies to mitigate or overcome the liabilities in internationalization.

1. ON THE INTERNATIONALIZATION OF THE FIRM: FROM INCREMENTALISM TO NETWORKS

1.1. The internationalization of the firm: an overview

The internationalization of the firm is a central theme in academic studies: many contributions over the years have analyzed this topic, adopting different perspectives, as a complex phenomenon related not only to trade and economic transactions, but also to politics, society, culture. The internationalization of the firm can be represented by two dimensions: geographical decentralization of business operations, and the cultural distance resulting from the diverse contexts in which the firm operates (Guercini, 2012). The analysis of the process of internationalization implies considering a phenomenon that goes back in time, even before the industrial revolutions, in the form of mercantile exchanges. At the same time, it is a present phenomenon, since in recent years the internationalization processes have turned into an engine of integration and change of societies, fueling the pervasive phenomenon called "globalization" (Hirst and Thompson, 1996).

From the perspective of the firm, international business development tends to become a condition of existence and survival, regardless of the size or scope of activities. In other words, internationalization constitutes the fundamental feature of the early century and millennium (Nanut and Tracogna, 2011). A broad definition of internationalization is the firm's expansion outside of the home market through multiple modes, including direct or indirect export, foreign direct investments (FDIs), intermediate modes (e.g., joint ventures, licensing, franchising). However, it is difficult to provide a comprehensive definition of internationalization due to the complexity of the phenomenon that involves both large multinational companies (MNCs) and small and medium-sized enterprises (SMEs). Some researchers tend to describe internationalization as the outward movement in a firm's international operations (Turnbull, 1985; Piercy, 1981; Johanson and Wiedersheim-Paul, 1975). This common feature has been broadened further by considering internationalization as a sequential and orderly process of increased international involvement, and the associated changes in organizational forms (Reid, 1981; Cavusgil, 1980; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977). In keeping with definitions developed in the literature, Welch and Luostarinen (1988) offer a broad framework for assessing internationalization on several dimensions that take into account the diversity of international operations. According to the authors, internationalization develops along six dimensions: foreign operation methods (entry mode, entry strategy) (how?), markets (where?), product (what?), personnel, organizational structure, and finance. What appears clear is the strategic nature of the choice to internationalize, which involves several other choices: first, the decision on whether or not to become internationally involved. Second, the decision on which foreign market(s) to be involved. Third, the decision on the degree of involvement, related to entry mode choices (Andersen, 1997; Jones and Coviello, 2005).

Given these premises, the aim of the chapter is to delve into the internationalization of the firm, through a review of the main theoretical models on the topic. Specific attention is given to the gradual model of internationalization proposed in the 1970s by the Uppsala School in Sweden: this model represents one of the theoretical foundations of this work. The chapter is structured as follows: the next paragraph consists of a brief overview of the main theoretical perspectives on internationalization, namely the economic, behavioral, relational, and entrepreneurial perspectives. In the third section, the Uppsala model of internationalization is presented (Johanson and Vahlne, 1977). Internationalization is seen as a gradual process in which knowledge and learning have a central role in the development of foreign business. This conceptualization fits into the theoretical debate on internationalization at the end of the 70s, and represents one of the most influential and cited work in the field of international business (IB). The model offers a vision of the development process of the firm in international markets in incremental steps in which knowledge of foreign markets and learning by experience generate an ever-increasing investment in international activities. In addition to the concept of the establishment chain, at the basis of the model, there is the concept of psychic distance, first coined by Beckerman in 1956. The concept of psychic distance has received much attention among scholars, and the theoretical development of the concept has highlighted some difficulties due to its conceptualization and measurement, and the possibility to operationalize it. The Uppsala model has come under criticism in subsequent studies that call into question its validity in the light of changes in the competitive global economy.

In 2009, Johanson and Vahlne revised their model, formalizing several reflections that had already emerged in subsequent work to that of 1977 by the same authors (Johanson and Vahlne, 1990, 2003). In the review of the model, the incremental view of internationalization is integrated into a network perspective, in which foreign markets are conceived as a set of actors connected to each other, with which the firm must be able to establish relationships in order to operate effectively outside the home country. Relationships with other actors are, therefore, relevant to understand the process of internationalization of the firm in which, from a network perspective, the barriers posed by national borders seem to take a secondary position compared to the difficulty of building relationships with actors in the business network.

Thus, the chapter continues by presenting the main contributions to internationalization under a network perspective, such as the study by Johanson and Mattsson (1988) that describes internationalization as a gradual development of new positions in the network of relationships of the firm. However, Johanson and Kao (2012), in their review of literature on internationalization and networks of the previous twenty years, highlight some critical aspects, primarily the lack of a unified vision on the concept of network applied in different studies, and a poor conceptualization of network and relationships. In addition, the concept of relationship adopted is primarily related with business actors, lacking, in this sense, an exploration of relationships with non-business actors, such as institutions. Among other problems, there is a lack of investigation into the structure of the network and its temporal dimension, and the focus is limited to foreign market entry, ignoring other activities such as sourcing. The chapter concludes with the business network internationalization process model (Johanson and Vahlne, 2009), highlighting the contents and the main differences compared to the ‘77 version of the model, and its last revision (Vahlne and Johanson, 2019).

1.2. Main theories of internationalization

International activities of firms have been of interest to international business researchers for a long time, and still represent an expanding field of research. Studies follow four main theoretical perspectives. These are:

- the economic perspective, including theories of the MNC and FDI, in which most studies aim to explain the phenomenon of international trade and the international production of MNCs (e.g., Hymer, 1976; Dunning, 1980, 1993);

- the behavioral perspective that views internationalization as an incremental process focused on learning and commitment, based on a series of sequential stages that the firm runs in the development in foreign markets (e.g., Cavusgil, 1980; Johanson and Vahlne, 1977);
- the relational perspective within the network theory that sees internationalization as a process of initiating, developing, and sustaining relationships to establish a position in a foreign market network (e.g., Johanson and Mattsson, 1988);
- the entrepreneurial perspective on born global firms, based on smaller, rapidly internationalizing firms, also known as international entrepreneurship theory (e.g., Knight and Cavusgil, 1996; Oviatt and McDougall, 1994).

The economic perspective has long examined the dynamics and drivers of two main and quantifiable dimensions of internationalization of national economies: international trade and FDIs. This perspective origins from economic-based international trade theories where some early contributions included the classic works of the economists Smith in 1776 on absolute advantage, Ricardo in 1817 on comparative advantage, and Heckscher and Ohlin in 1933 on factor proportions (Guercini, 2012). However, these theories offer a national level view based on aggregated data; thus, they do not concern any individual firms and their behavior. The following theories, developed in the 1950s and onward, focused on the international expansion of firms through the study of FDI of MNCs. To cite a few, the industrial organization theory by Hymer (1976); the process theory of FDI, also known as the product life cycle model, by Vernon (1966); the internalization theory by Buckley and Casson (1976); and later also the eclectic paradigm developed by Dunning (1980; 1993). In particular, the industrial organization theory, developed to explain the widespread of the US multinationals, is considered by many scholars at the base of the present theory of MNCs (Kindleberger, 1969).

Hymer aims to explain the reasons why firms decide to implement FDI to transfer production to other countries, rather than keep it in the country of origin and take advantage of export flows. The approach of Hymer examines the ownership of a competitive advantage that leads to monopoly control of the market as the motivation of FDI. While not explaining the factors underlying competitive advantage, Hymer's contribution is significant as the American scholar changes the perspective of the theory of reference compared to previous contributions, since it places the focus on the firm and its choices more than the national context and the industrial context of a country.

A further step in the evolution of studies on the processes of internationalization consists in the development of the eclectic paradigm by Dunning (1980) that aims to explain international production of the multinational corporation, providing an intersection between the macroeconomic international trade theory, and the microeconomic theory of the firm. The eclectic paradigm is also known as the OLI framework based on the ownership, location, and internalization advantages of a firm. Determining these advantages, the model answers why, how, and where FDI should be undertaken.

As an opposition to the economic perspective, a behavioral stream has been developed, focusing on the firm and its process of internationalization. These models build on the behavioral theory of the firm (Cyert and March, 1963) and the growth theory of the firm (Penrose, 1959). The first and most influential process model is the Uppsala model of internationalization (Johanson and Vahlne, 1977), also known as the U-Model (Andersen, 1993). It describes the internationalization process of the firm as a "gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets" (Johanson and Vahlne, 1977, p. 23). Other process models have been developed by Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981), and Czinkota (1982), also known as the I-Models because of their view of internationalization as an act of innovation (Andersen, 1993). Such models are recognized as dynamic and have gained empirical and theoretical support (Björkman and Forsgren, 2000; Johanson and Vahlne, 1990).

The relational perspective draws partly on behavioral theory, since it emerges from the Uppsala school, and partly on the inter-organizational theory from the sociological domain. From a network approach, internationalization is viewed as a process of initiating, developing, and sustaining international relationships. Through these activities, the firm can establish a position in a foreign market network (Johanson and Mattsson, 1988). According to Coviello and McAuley (1999, p. 227), "internationalization depends on an organization's set of network relationships rather than on a firm-specific advantage". Johanson and Mattsson (1988) argue that the strength of the network approach is that it explains the development process rather than the existence of the international firm. The relational perspective has received empirical support, but it does not stand without limitations. For example, it has been criticized for being too descriptive and holistic, and thus limited in its usefulness in understanding the internationalization pattern of firms (Björkman and Forsgren, 2000).

Finally, international entrepreneurship (IE) results from the intersection of two research paths, namely entrepreneurship and international business

(McDougall and Oviatt, 2000). IE emerges from research identifying small, high-tech firms that do not follow the traditionally suggested stages of internationalization. During the 1980s, several studies have documented the existence of internationally-oriented firms right from birth due to the nature of their products. Oviatt and McDougall (1994), setting the theoretical groundwork for IE, label this type of firm International New Ventures (INV), defined as firms that right from birth seek a competitive advantage by using resources from several countries and by selling their products in several countries. Knight and Cavusgil (1996) have discussed the term Born Global for the first time in a scholarly publication.

1.3. The Uppsala model of internationalization

Among the managerial contributions within the behavioral perspective that have dealt with the internationalization of the firm, some models describe internationalization in a process-based view. The model proposed in the 70s by the Swedish Uppsala School (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) is still one of the most important process models. The model has given rise to an ongoing debate and explains the process of internationalization of the firm focusing on the role of learning and knowledge as a basis for foreign development. The model of the Swedish School descended from behavioral theories (Cyert and March, 1963) that consider firms active players in the process of internationalization. It is worth highlight the main differences between the Uppsala model and other process theories on internationalization.

A contribution in this direction is provided by Andersen (1993) who compares the Uppsala model (U-Model) with other process models focused on innovation. These are the so-called Innovation-Related Internationalization Models (I-Models), namely models developed by Bilkey and Tesar (1977), Czinkota (1982), Cavusgil (1980) and Reid (1981) that explain the internationalization process from an innovation-related perspective and concentrate on the learning sequence in connection with adopting an innovation. In other words, the decision to internationalize is considered as an innovation for the firm, drawing on the process of adoption of innovation proposed by Rogers (1962). The main differences between the four models are in the number of stages and the description of each stage. Although the number of stages varies, the authors agree that each new step represents more experience/involvement than the earlier stages. Unlike the U-Model, the authors belonging to this stream of research demonstrate that several other important factors,

actors and forces affect internationalization besides knowledge. For instance, the initial decision to start exporting could be taken in the headquarters because of a global marketing decision, and sales might be organized through its global marketing network (Wiedersheim-Paul et al., 1978).

Even in these models, as in the U-Model, knowledge plays a central role in the internationalizing firm. However, the main differences between the models are in the subdivision in phases: on the one hand, the U-Model is dynamic and based on learning; on the other hand, the I-Models interpret the internationalization as a quite rigid transition from one phase to another. Andersen (1993) states that “both the U-Models and the I-Models can properly be regarded as behaviorally oriented. Thus, the gradual pattern of the internationalization process can mainly be attributed to two reasons: (1) the lack of knowledge by the firm, especially “experiential knowledge,” and (2) uncertainty associated with the decision to internationalize. The arguments for the gradual pattern are discussed in length in the article by Johanson and Vahlne [1977]. The other authors explicitly or implicitly build on Johanson and Vahlne’s contribution” (Andersen, 1993, p. 212).

The original contribution of the Uppsala internationalization process model has been developed in the 1970s, based on empirical research aimed at understanding how firms approach foreign markets. The Uppsala model seeks to offer an alternative route to the traditional economic perspectives of internationalization, which until then were dominant. The model is fully legitimated in the contribution of Johanson and Vahlne (1977), published in the *Journal of International Business Studies*, which still represents one of the most cited and influential works in the IB domain. The model emphasizes a gradual and incremental approach to internationalization with the underlying assumptions of uncertainty and bounded rationality. It states the gradual nature of the internationalization process, in which the firm develops in foreign markets in incremental steps, moving from lower investment phases to phases in which the presence in foreign markets is more pronounced. In particular, knowledge of international markets has a central role, and its accumulation within the firm generates an increasing investment in international activities. The topic of learning is explained as experiential learning.

The study made by Johanson and Vahlne is based on four case studies of the Swedish firms Volvo, Sandvik, Atlas Copco, and Facit, with operations in more than 20 countries. In particular, the model explains the gradual steps made by firms in their internationalization process as a learning process, in which market knowledge enforces commitment decisions, and the current activities of a firm affect the market commitment. According to the model, internationalization frequently starts in foreign markets close to the local market in