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Integrating embeddedness with dynamic capabilities in the internationalisation of fashion retailers

Marta Frasquet[a,*], John Dawson[b,c], Haydeé Calderón[a], Teresa Fayos[a]

[a] University of Valencia, Facultat d'Economia, Av. Tarongers s/n, 46022 Valencia, Spain
[b] University of Edinburgh, Business School, Edinburgh EH8 9JS, United Kingdom
[c] Institute for Retail Studies, University of Stirling, FK9 4LA, United Kingdom

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ABSTRACT

The paper presents an integration of the theoretical approaches of embeddedness and dynamic capabilities. Based on in-depth interviews with key informants of international fashion retail companies we show that dynamic capabilities enhance different types of embeddedness at different levels. Generic dynamic capabilities of adaptability and knowledge management play a role as they affect retailer-specific capabilities and societal, network and territorial forms of embeddedness. Integrating the two theoretical approaches provides new and deeper understanding of the nature of retail internationalization.

1. Introduction

The development of global networks of sourcing, selling operations and management knowledge have provided managers with many new and difficult strategic challenges. This is evident from the burgeoning research on global production and consumer facing networks (Coe & Yeung, 2015). As part of these wider themes, an active research theme has emerged that analyses organisational changes in the internationalisation of retailing (for examples see Wrigley, Coe, & Currah, 2005; Coe & Wrigley, 2009; Alexander & Doherty, 2010; Dawson & Mukoyama, 2014a). The Deloitte studies (Deloitte, 2017) show that 22.8% sales of the top 250 retailers were from foreign operation in 2015 and whilst this is not high in comparison with many sectors it is almost a doubling over the 2000-15 period with over two thirds of the sample operating stores internationally. Many of the most dynamic, prolific and successful international retailers are apparel retailers (Wigley & Moore, 2007; Schröder, 2015). They are undertaking rapid and extensive globalization of their supply chains, store networks and management (Lu, Karpova, & Fiore, 2011; Guercini & Runfola, 2016). Despite fashion retailers being in the forefront of multi-channel operation, the organisation and management of their multiple channels in international markets has received less attention than other sectors of retailing. International fashion retailers design and manage different combinations of channels in international markets to generate multi-format and multi-formula strategies (Dawson & Mukoyama, 2014b) that expand the effective size of target markets so accelerating their overall internationalization process (Frasquet, Dawson, & Mollá, 2013).

Research on international retailing has produced many descriptive studies that use established concepts of entry mode choice (Swoboda, Elsner, & Olejnik, 2015), the structural paradox of standardisation versus adaptation (Aoyama, 2007), psychic distance (Evans & Mavondo, 2002; Mohr & Batsakis 2017) and sourcing and supply chain relationships (Tokatli, 2008; Guercini & Runfola, 2016). Several recent studies, however, have argued strongly for more nuanced retail based and stronger concept based explanatory frameworks to understand the internationalization activity of retailers (see literature reviews by Dawson, Findlay, & Sparks, 2008; Swoboda, Zentes, & Elsner, 2009). In order to address the complexities associated with the spatial and multi-channel expansion of international activity new frameworks have been advocated. These frameworks draw on concepts from knowledge management (e.g. Wang, 2005; Palmer, 2005; Jonsson & Elg, 2006), strategic management (e.g. Lowe & Wrigley, 2010; Jonsson & Foss, 2011; Siebers, 2011, 2017; Moatti, 2009), dynamic capabilities (e.g. Frasquet et al., 2013; Cao, 2011; Lowe, George, & Alexy, 2012; Schu & Morschett, 2017), and embeddedness (e.g. Coe & Lee, 2013; Wood, Coe, & Wrigley, 2014; Burt, Johansson, & Dawson, 2015; Wood & Reynolds, 2014). Each of these approaches has provided new insights but have been presented largely independent of each other despite the concepts being applied to similar issues. Eriksson (2004) calls for a more holistic understanding of dynamic capabilities and argues that researchers should question the direct impact of dynamic capabilities on performance. Combining concepts allows deeper exploration of the processes by which retailers become established in new geographical markets.

Based on the benefits of integrating concepts that offer different

* Corresponding author.
E-mail addresses: Marta.frasquet@uv.es (M. Frasquet), John.Dawson@ed.ac.uk (J. Dawson), Haydee.calderon@uv.es (H. Calderón), Teresa.fayos@uv.es (T. Fayos).

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viewpoints on a phenomenon, the objective of this paper is to understand how and which dynamic capabilities of a retailer aid its embeddedness in an international market. To address this issue we pay attention to three dimensions of embeddedness suggested by Hess (2004), i.e. societal, network, and territorial, and consider the role of generic and specific dynamic capabilities (Eriksson, 2004; Frasquet et al., 2013). The approach of integrating concepts of dynamic capabilities and embeddedness provides foundations for a view of retail internationalization nuanced by sector. Burt, Johansson, and Dawson (2017) have pointed to the need to consider the specific features of the different retail sectors in studies of this type. We use data collected from interviews with key informants to integrate concepts from embeddedness and dynamic capabilities.

The paper is structured as follows. The next section presents our theoretical framework, drawing on the embeddedness and dynamic capabilities literatures. Then we explain our research methodology using qualitative information from mid-sized retail fashion firms. Section 4 discusses the evidence on how dynamic capabilities contribute to retailer embeddedness. Finally, we conclude with discussion of the contribution of our study to the literature and to the management of international retail firms and we suggest further research.

2. Theoretical framework

2.1. The concept of embeddedness and its application to international retailing

The concept of embeddedness is built on the argument that business activity can only be explained by considering the network of non-economic relations, alongside the economic ones, that firms establish in the markets in which they operate. The concept originated in economic sociology (Granovetter, 1985) but has considerable relevance for international management (Heidenreich, 2012a, 2012b; Mainela & Puhakka, 2008). The idea of embeddedness questions the concept of firms as rational entities in search of purely economic goals and argues that firms' behaviour also aims at sociability, approval, status, and power. Halinen & Törnroos (1998, p88) define embeddedness as "companies' relations with, and dependence on, various types of networks" whilst Hess (2004, p176) elaborates embeddedness as "the social relationships between both economic and non-economic actors (individuals as well as aggregate groups of individuals, i.e. organizations)." The contribution of Hess (2004) is particularly relevant to our study as it re-conceptualizes and grounds the concept by identifying forms of embeddedness, that have been shown to be relevant to the study international retailing (Coe & Lee, 2013; Burt et al., 2015; Siebers, 2017; Buckland-Wright, 2016). We subscribe to the position of Hess and build on it to increase the utility of the concept as an empirical framework for better understanding processes in retailer internationalisation.

Hess re-visits the seminal contributions of Polanyi (1944) and Granovetter (1985), introducing the spatial dimension that was not explicitly contemplated in earlier studies and so makes the concept more applicable in international management. Hess (2004) incorporates into embeddedness the development and changes over time in the spatial configuration of networks of relationships. The use of the concept of embeddedness is particularly appropriate in studies of retailing generally and specifically in international aspects of retailing because of the structural characteristics of the retail sector: the network of sales points in many socio-economic spaces and the requirements to control this spatially disaggregated network, the local nature of consumer-retailer relationships, the globalisation of supply chains and sourcing, the use of widely diffused but centrally controlled branding, frequent non-tariff barriers and market imperfections and the strong link of retail firms into local, regional and national political economies (Dawson, 2003; Dawson & Mukoyama, 2006). Hess's re-conceptualisation of embeddedness has been employed to analyse the strategy of Tesco in the USA and South Korea (Wrigley et al., 2005; Coe & Lee, 2006, 2013; Lowe & Wrigley, 2010; Wood et al., 2014), of a wider sample of retail transnational corporations in China (Tacconelli & Wrigley, 2009), and, in combination with the business model concept, to analyse the internationalization of IKEA (Burt et al., 2015). Hess proposed three types of embeddedness: societal embeddedness, network embeddedness and territorial embeddedness.

- Societal embeddedness. "Societal embeddedness relates to how the history, culture and institutions of the firm's market of origin has enabled or constrained the emergent business model that is used in a new market." (Burt et al., 2017, p3). Hess describes societal embeddedness as akin to the 'genetic code' or 'DNA' of the organisation generated by the background (cultural, political institutional and economic) that shapes the actions of individuals and organizations in the home market. Whilst accepting societal embeddedness as an attribute of the firm that results from external factors in its home market and from internal agency, we suggest that the analogy Hess makes with DNA is somewhat misleading in failing to reflect not only the dynamism as a firm changes in its home market but also the importance of factors external to the firm in generating societal embeddedness. This is reflected by Burt et al. (2015) who state that, "An important feature of societal embeddedness is the constant evolution in the home operations of the organisation, with these evolutionary traits transferred to a foreign operation." (p717). Societal embeddedness, with its foundation in the home market, affects processes of transfer, to the host market, of the business models and business culture, established in the home market (Pioch & Gerhard, 2014).
- Network embeddedness. This refers to the structure of relationships among individuals and organizations. The architecture, durability and stability of the relationships, both formal and informal, at home and abroad, determine network embeddedness. This form of embeddedness is an outcome of trust building amongst agents. Whilst Hess emphasises the networks with external agents, in building on the concept in a retail context we suggest the intra-firm networks are also important because many retailers are themselves networks of sales point and channels. Network embeddedness is related to issues of connectivity, heterogeneity and change. It is a dynamic dimension and it is not restricted to a territorial perspective although there is often an overlap with territorial embeddedness. Wrigley et al. (2005) and Tacconelli and Wrigley (2009) show how the relationships within supply chain and logistics networks, and real estate networks have a territorial dimension and can be influenced by local institutions and commercial cultures. Guercini and Runfola (2010) provide a case study from the Italian fashion sector to illustrate the interaction of vertical networks from production affecting territorial based store development and horizontal network development in international expansion into China.
- Territorial embeddedness. This relates to the anchoring of the firm in particular territories or places, as the firm absorbs or is constrained by the economic and social activities and institutions that govern those places. When the firm undertakes activities in local territories that require hiring local human resources or interacting with local social networks, including consumers, the firm becomes territorially embedded. Territorial embeddedness emphasizes the localization of activities in the host countries and, as Tacconelli and Wrigley (2009) point out, involves adaptations to local consumers, local suppliers, and real estate markets. Territorial adaptations influence many aspects of managerial agency, including employment practices, marketing actions and product development and involves adaptation to local institutional policies (Owens, Palmer, & Zueva-Owens, 2013; Juuse, Endresen, & Kattel, 2015).

These studies show the high levels of investment by retailers to become embedded in the host markets, this being a distinctive