



Danish fashion retail and globalization

Case study: IC Companys A/S

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I. Introduction

Considering the waves of changes worldwide in business, globalization is a mandatory process to be observed in all MNEs today. The thesis will be investigating the globalization's effects on Danish fashion retailers, looking at the lead companies. Due to rapidly changes that affect this specific industry and increased competition, fashion multinationals focus on building competitive advantages to overcome this challenge, by expanding in other markets for new opportunities and reduce their dependence on home market. Being part of growth strategy by moving into foreign markets, globalization creates challenges considering international expansion.

1.1 Research questions

- *Can the selected theories of internationalization, be a guideline towards expansion of fashion retail by answering the 5Ws?*

- *In the light of economic globalization are there challenges that pose the fashion retailer industry in Denmark?*

1.2 Research design

The following structure will help the author of this thesis to guide the reader as well as to create a flow between the chapters and their understanding.

The first chapter will introduce the main research questions that this project aims to answer as well as the problem investigated.

The second chapter will give a more in depth understanding of the literature available and the research that has been done until now in this area of investigation.

The third chapter is represented by the methodology selected for this thesis. The methodology will present the methods used for data collection, as well as for the entire research design.

The fourth chapter describes the theories of internationalization and how they can be used in this research along with the chosen mix of theories.

The fifth chapter is the analysis part in which the two research questions will be answered and have a better understanding to applicability of theories on the case study.

The last chapter will be a conclusion summary of the project along with reflections, more limitations and observations being introduced in the overall project.

II. Literature review

Having laid out the philosophical research, methodological approach and research design, the author will treat this chapter as a transit from the methodology chapter. As it was mentioned the theoretical foundation is one of the factors that influences the choice of paradigm and further on the view upon the methodological approach in this thesis.

As the system approach is the methodological approach, that author choose to work with, it is to believe that there is a need for grasping the existing literature of business relevant to the phenomenon of globalization.

2.1 Strategic influence of globalization

This part of thesis is meant to give a proper identity to certain key words that are essential to be introduced, guiding the reader through a pipeline that gets closer to the problem statement and understanding, giving more clarity to it.

2.1.1 Globalization as a key word today

Globalization is not just a word that people use today in economic environment, but a phenomenon requiring a special attention and study in the field of international business economics. Whilst many researchers with different perspectives have tried to write about globalization, this chapter will focus on taking in consideration the most relevant and reliable work in the field of international business.

International business deal with many issues addressed to economic globalization. Whether we talk about scholars or international managers, there are many question marks next to globalization term. Multinational or small and medium size companies, try to survive in their domestic market or focus on global expansion by being competitive in other emerging markets. Even if the attention today is mostly on BRIC countries, where it can be seen the

highest level of interest from MNCs, whether we talk about pharmaceutical companies, retail, as well as other businesses, internationalization is seen everywhere. Looking at one side of globalization research that has been done is tempting not to praise and cheer for the benefits of this phenomenon.

I cannot exclude to talk about the first business visit on Grundfos headquarters, in my first semester at Aalborg University, where I have seen a multinational with focus on building water pumps. Our questions for one of the managers, were about their expansion in other markets, where they believed of having competitive advantages and a market in need for this instrumental machineries that has led in showing us how they grow economically in countries such as Africa, where the lack of clean water represents the top problem. It can be seen the advantage of blurring barriers in order to provide for emerging markets. Nevertheless, their services are correlated with the improvement on people's welfare.

In pursue of defining globalization, a great abundance of work has been done from where to choose of. Starting with competitive strategies in order to produce with low prices, crossing competition and marketing more markets (Porter, 1980, Hout et. al. 1982), arising concepts as global markets, global firm, global strategy (Hamel and Prahalad, 1985, Levitt, 1983).

Moreover, being present on a highly basis in foreign markets, creates advantages that firms can achieve competitive forces, whether we talk about mergers and acquisitions or strategic alliances, localization is well-known as a pillar in the outlook of internationalization (Bartlett and Ghoshal, 1991).

Globalization has proved to be an interesting and challenging topic in the business literature over the last decades, and it still of great importance in all fields. But what makes globalization attractive is the identity of the firm, whether is a MNC that expands their business model geographically in search of new profits or smaller constrained firms that feel the need to grow in spite of low resources to do so, looking for new niche markets by making use of ad-hoc strategies (Hall, 1995). Going further with understanding globalization, OECD (1996, p.9) sees it as: 'The international expansion of firms'.

Global markets' accessibility is an ease for companies to produce at a lower rate, exchange, to access technology, financing and capital, exports, labor, knowledge; this is of great

importance for any company that allows and incorporate global strategies, to expand on global markets (Ghemawat, 2003, Czinkota et. al. 2009).

The access to global markets allows firms to sustain themselves, because a large firm needs a large market. Globalization has made it possible, not only but the law of monopoly itself to be altered. As the main rule of monopoly is for a company to have a bigger share than the rest of the companies in a specific market, this ‘invisible hand’ of world market diminishes directly the innovation (J. Stiglitz, 2007, p. 202). This is the case of Microsoft that has become the ‘ruler’ over PC market with 87 percents in August 2005. Why globalization is not working properly in order to demonstrate that the world which is nowadays interconnected and interdependent, but in other words (J. Stiglitz, 2007, p.63):

‘...liberalization of trade leads to rich countries with poor people...’

2.1.2 What does globalization really mean?

One simple search on Google, about globalization exceeds hundreds of thousands of hits. It’s simply overwhelming in its nature. Maybe this whole notion erupted into a big cloud that today leads managers, researchers, governments and countries into unknown directions. I shall honor Susan Strange, a top political economist that wrote in 1995 an interesting article named “The Limits of Politics.” in which she states that:

‘a term used by a lot of woolly thinkers who lump together all sorts of superficially converging trends in popular tastes for food and drink, clothes, music, sports and entertainment with underlying changes in the provision of financial services and the directions of scientific research, and call it all globalization without trying to distinguish what is important from what is trivial, either in causes or in consequences’.

Whether someone might say that what is old is underrated, I tend to think the opposite and agree with Susan S., even though this was stated in 1995. Industries has fallen and rise over

time, counting many ‘casualties’, economically speaking. In the same mass it’s included also the clothing industry that will be discussed later on.

The truth behind this is that everything of what happens in this very moment, every decision, and every bankruptcy; every won, impacts economies or individuals in other geographical places. And all this is gathered under a big roof named ‘globalization’ (P. Dickens 2011, J. Stiglitz 2007). In nature, globalization is good, transforming the borders into a forgotten notion rather than a reality, with so many advantages that have a direct trajectory to the top class instead of sharing. Although this dissertation is focused on economic globalization and not political, the term implies to look at all the trends in order to see a future perspective. Looking back at the main motto of the French revolution in Europe: Liberté, Egalité, Fraternité!, which is translated as 1)liberty (political rights, rights of free entrepreneurship, free entry to the market, freedom of choosing between alternate goods and services); 2) Equality; 3) Fraternity or Solidarism (J. Kornai, Harvard business review, 2010). With this in mind, the author will discuss in the following part the theoretical background of internationalization theories and put them in practice in a deeper analysis.

III. Methodology

3.1 Introduction

The necessary steps towards knowledge research and creation is done by engaging into the methodological methods, stated out in this very chapter. There is no perfect approach for each type of problem in any field of research but by mentioning and explaining various methods of research, I will be trying to use the most appropriate for answering the research question which will be linked to choice of theory, for a more precise outcome.

As is it used to be called in social science, methodology is a plan or a blueprint of the entire research. The design helps the researcher to get the knowledge he is looking for and guides him to do so.

3.2 Social science paradigms

Even though there is no general definition for a paradigm, I will choose to look for authors specified in references chapter and their view over the concept. It is of absolute relevance to begin with the author that studied and introduce first the term of paradigm in social science: Thomas Kuhn, (1970), argues the characteristics that constitutes a paradigm is that every field of research has a common understanding of the phenomena, Kuhn's understanding of philosophy of science is built on how the researchers answer their questions and how they interpret the results (Kuada, 2009 p.5)

A paradigm is defined as “*A philosophical and theoretical framework of presumptive and guiding principles which are governing knowledge and the creation of knowledge, but which cannot be empirically or logically tested*” (Abnor&Bjerke, 2009 p.424).

Understanding the paradigm definition characteristics, results in choosing an actual paradigm that is built from beliefs and perceptions of the researcher in relation to the field of study. There are many methodological approaches that can be chosen for this study.

Every choice for the approach on each study is directly influenced by factors; factors that must be in the same line with philosophical stance of the researcher, the linkage between theories and research, the actual researcher beliefs about reality, whether reality is seen objective or dependent of the actors (Bryman&Bell, 2007 p.27)

As mentioned above the most appropriate research taken into consideration for this dissertation must be in accordance with author's belief and philosophy in the process of knowledge creation and the study area.

Even though it is clear that every research approach must be in concordance with the two factors, there must also be fit with the problem of investigation. There are studies that need different research approaches, i.e. studies that aim to investigate behavior and studies that aim to understand the reason behind the phenomenon. In the vision of Bryman&Bell (2003, pp. 7-14), there are two opposed studies, the first one that starts from the theory in order to test them in real environment, under the name of deductive studies. The second category is opposed to the deductive, so the name inductive. These studies start from observation and statistically research in order to generate theories further on.

Grasping the research approach, one factor that influences the findings, is the philosophical stance and beliefs of researcher, which is split in two major views whether the reality is seen as objective/subjective. Whereas the researchers see the social entities objective, and reality is independent of the actors or the researchers that state, reality is dependent on actors of social entities, being the subjective view (Bryman&Bell, 2007, p. 20).

This subchapter is linked to the previous one above, stating the various paradigms elaborated of Abnor and Bjerke. As mentioned there are so many different views on how to approach a research, even though there are many, social scientists elaborated similar views on reality, also named paradigms or concepts. Bearing this in mind the following six main groups of paradigms enumerated by Abnor&Bjerke, is trivial in order to understand the process of knowledge creation (Abnor&Bjerke, 1997, pp 25-34)

The first common concept is the group of researchers who sees the reality objective and measurable in an accurate way. These researchers believe that every subject is predictable and reacts to stimuli; therefore in their approach they use stimuli-response models to help them in their findings.

The second group of researchers has another concept in their minds when starting a research. They see the environment as organically evolved ongoing process, and subject is directly influenced by it.

The third category is not so slightly different than the second one, in which the reality is seen as a continuous process. The researchers see the subjects evolving with the environment and adapt to it, their findings are based on by analyzing the adaptation of the whole system of relations.

The fourth view on how to approach a problem is that each situation is different. Therefore each study is draw from different situations, because the researchers of this category see the reality built upon a set of human interactions and actions.

The fifth category is subjective in their relation with the view upon reality. Here the reality is made up of social construction and in each research people must be willing to understand the methods and processes of which is made the subjective reality.

The sixth group of researchers is based upon the concept of the group number five, with few adjutants. Here reality is seen as a manifestation of human intentionality and the world is constructed of individuals.

The logic in this order is to see that as we move from the first category to the last one the reality is flows from objective to subjective. In simple words, researchers on the objective side tend to look for answers in their empirical data collected, which are very strong. The researchers on the subjective side will look to understand from their findings, looking for specific answers and not generalized data.

3.3 Methodological approach

As it can be seen from all the six paradigms categories, classified on the basis of the two main views upon reality, next phase in the process of choosing the right methodological approach will be based on Abnor and Bjerke approaches. Starting from the left side with the first one the Analytical Approach, on the objective part, being followed by the Systems Approach, this is a mixed approach, both objective and subjective; nevertheless the Actors Approach consistent in the subjective part.

The six concepts from the above can be summarized into the six overlapping paradigms also seen in the Figure 3.4 (Abnor&Bjerke 2009, pp 44-46.):

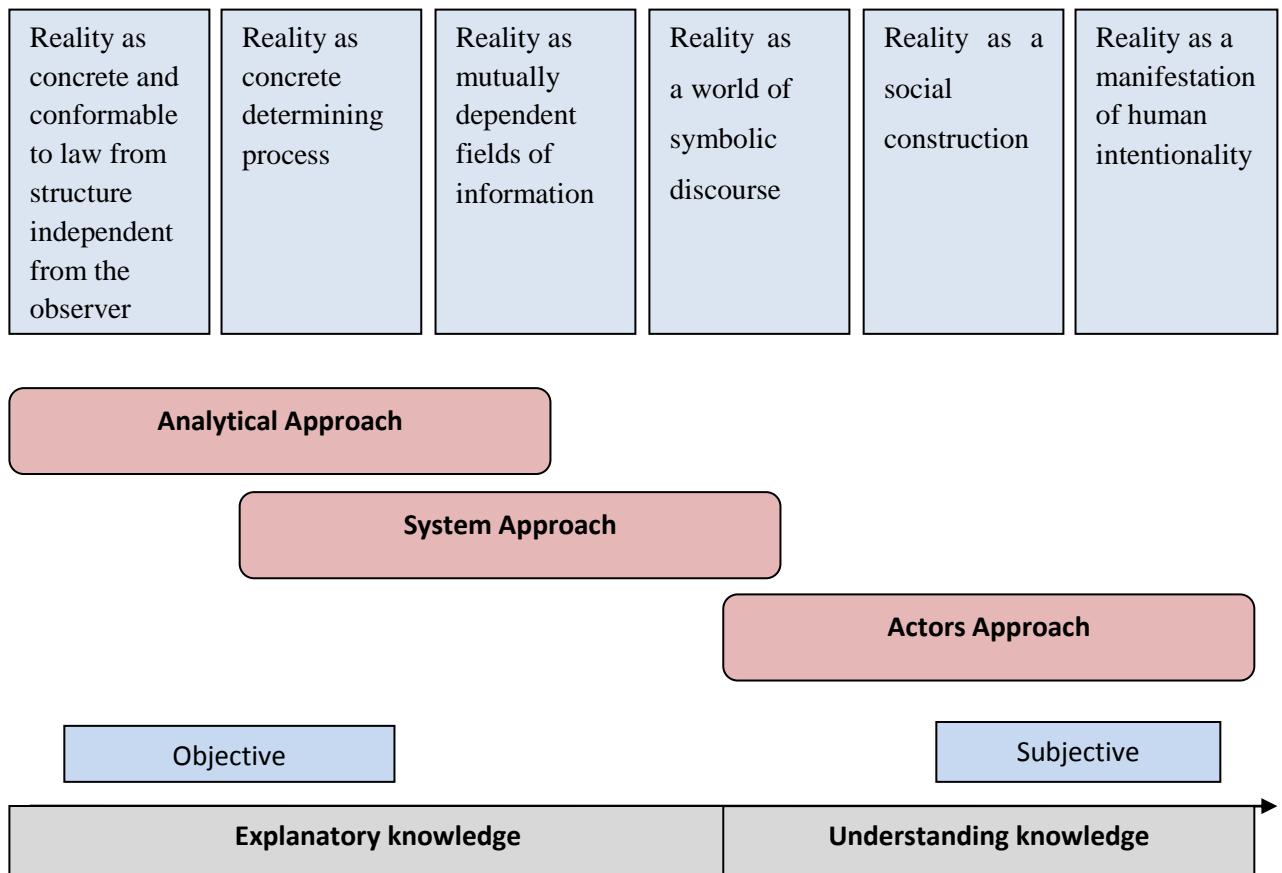
Objective reality

1. Reality as concrete and conformable to law from structure independent from the observer
2. Reality as concrete determining process
3. Reality as mutually dependent fields of information

Subjective reality

4. Reality as a world of symbolic discourse
5. Reality as a social construction
6. Reality as a manifestation of human intentionality

Figure 1 Methodological views in relation with overlapping paradigms



Source: adapted after Abnor & Bjerke (2009, p. 51)

3.3.1 The Analytical Approach

As it can be seen in the Figure 3.4, the analytical approach is the first of the three methodological approaches that Abnor & Bjerke has been developed; this one is considered by scholars the “extreme objectivism”. Extreme objectivism end has at core the ontological assumption that reality is a hard, concrete thing independent and external to individuals, where the human nature is seen as a response to stimuli in the environment. Here the preferred methods of the researcher for knowledge creation is well seen in empirical data, forms of objectivism knowledge, relying on statistically hard data, looking at causality and laws in order to get an overall picture of the world. If to remember the work of Burrell and Morgan

(1978) the epistemological stance here is well-characterized by positivism, suggesting that knowledge requires structure in a concrete actuality.

The methodological Analytical Approach is sought to work with quantitative techniques of research as statistical tools, interviewing, and gathering of valid data in order to give the best generalized answer to the problem faced. The Analytical Approach has a summative effect over the findings, the knowledge created helping to complete the picture of the phenomenon (Abnor&Bjerke, 2009, pp 36-38).

3.3.2. The Systems Approach

If I mentioned before about the “extreme objectivism” end, the following approach is a mixed technique to build up a research design. The mix is between the two views over the world, objective with filled facts systems structures and subjective opinions over reality considered as well as facts. The Analytical Approach is distinct from the other two by being summative; a characteristic of the analytical researcher is that he cannot see how the two realities can be combined in such a way that the different reality parts will be influencing each other. Here the researcher aims to look at the problem and explain it, in its context. When researchers start from the context seen as a system, it looks at “patterns, interactions and relations” but also bringing to the context different aspects that adds to the whole. This approach is the most common method seen in the research of social science and business papers, most likely for its result that describes and explain by providing an understanding over the reality. In order to start from the right context, researchers looks first in the related problem investigations, that has been done in the same study area, well-known today as literature review, this being just an optional factor that adds to validity of the report (Abnor&Bjerke, 2009, pp 39-41).

3.3.3 The Actors Approach

On the other hand, the Actors Approach is the “extreme subjectivism” end, whereas the knowledge creator seeks to observe and find the dialect between the relations of different

parts. The collection of qualitative materials is primordial, purely subjective, looking at reality as a social construction, focusing on meaning and understanding. Each finding with the help of this approach is unique in relation to other related findings due to each human being that shapes their own reality. A particularity of this approach is that it offers a limited validity.

3.4 Choice of methodological approach

Judging from the discussion above, this part will be focusing on choosing the actual approach that this research will follow in the research design. This is based as mentioned on the philosophical stance of the knowledge creator and his beliefs and the study area. The author's paradigm is important because it represents his view upon reality; and in order to study a phenomenon the reality cannot be just objective on its own, but it requires looking at the relationship between parts, to the totality. The author sees the reality as presumed to be built up holistically, and therefore it will be making use of the System Approach in this paper. This approach has been chosen to work with because it is a methodology of knowledge creation which seeks to explain and understand the reality.

Even though the author gave an explanation of the System Approach, is still to believe it needs to ensure a full understanding, therefore this particular approach needs to be grasped in the following discussion.

System Approach, has been discovered in 1950s, being the second one historically (first was the Analytical Approach), seen as a "recreation" from the Analytical Approach. The main assumption of this approach is not different from Analytical Approach, where the reality is made of facts, and the difference between them being that System Approach view is that reality is not summative, in the words of Abnor and Bjerke (2009, p 53): *'The reality is arranged in such a way that the whole differs from the sum of its parts. This means that not only the parts but also their relations are essential.'*

Since its appearance, it has been used in many business investigations, being the most dominant thinking in carrying business researches. The advantage of using the System

Approach is that the amount of material used are primary as well as secondary data, being in accordance with the author's assumption and believes and the study area in this thesis. By working with both quantitative and qualitative data, the methodological approach will bring the author closer to an understanding and explaining of the findings, discussion provided will be on the case study of IC Companys A/S. Giving that the company used will not be at a full cooperation, the only qualitative material will be from the interview conducted and their reports.

3.5 Research design

The role of this thesis is not to obtain a new theory but rather to understand the theories and put it in practice; therefore this research will be using a deductive approach. Being limited by the collaboration with other companies, the research design could have been on a multiple case studies from where to obtain a comparative result and a more reliability. However, the author will be focusing on a more detailed analysis of one single unit case study reported to industry level, going from general to a more narrow particular process.

The collection of quantitative data will be made through internal and external data from the company; an interview will be the major input where the author will be analyzing each answer, the questions constructed in accordance with the problem statement. The transcript of the interview will be placed in the project as well. The fact that the author want to emphasize is that the specific case study and industry of apparel, is in a very sensitive and changing environment, consequently the results of the interview will not be repeatable because is made in the current context.

3.6 Diagnosis

In the methodology of social science, understanding the context and perspective in which the actor is in, is called hermeneutics. Hermeneutics was first used in the study and understanding of biblical text, the school of hermeneutics being positioned according to the chosen paradigm for this project, in the light of the main views: subjectivism and objectivism. Abnor and Bjerke (2009, pp. 139-141) have an interpretation of their own, naming this phenomenon the diagnosis (Abnor&Bjerke 2009, p. 419):

“A way to interactively interpret and understand actors in situations of everyday life through deeper inside and broadened perspectives.”

Since the diagnosis has a great impact in this thesis, and the purpose of this is to acknowledge and understand the current context (see problem formulation), the process of knowledge creation and understanding is synthesized and ordered so that the diagnosis character is to be exemplified even more.

Abnor and Bjerke (2009) diagnosis, is divided into three steps in the interactive understanding process: pre-understanding, understanding and post-understanding:

Pre-understanding is the actual linkage between the creator of knowledge and the actors, where the foundation of dialogue is set in place, developed only in a specific study situations where it will be associated with.

Understanding is the second stage in the development of diagnosis, where the actual dialogue and relation from the pre-understanding step is developed and further used to develop the knowledge in the specific field.

Post-understanding is the final stage where the relation used and the communication language created in the understanding stage will influence and be an integral part of creators knowledge.

Even though it is clearly associated with the actors view, the author will not be using this view but instead the system view. The diagnosis is mainly subjective, giving me the reliability to use the subjective paradigm that I have chosen for a legit approach of this research.

3.7 Limitations

The following discussion is based on the limitation of this project. The limitations are necessary in order to ensure the focus on the actual concept that the author tries to emphasize and understand. Some areas related to the field introduced in the first part of the thesis, will not be investigated, solely for unambiguous results and reliability issue.

The first limitation is in connection with the phenomenon of globalization investigated, where in relation to the economic globalization other sides of globalization as political, cultural factors could be taken into consideration. Even though discussions of political and cultural factors are clearly connected with the globalization phenomenon, they will only be considered as relevant but not as a part of the analysis.

The second limitation of this research is mainly the validity and reliability purpose of the author on the collected data. Mainly for quantitative data, the tool used will be the interview with the key director of the company but for the lack of collaboration with other companies in the field, a single unit case study research design will be chosen.

The results of this study are in pure connection with the current context of the problem investigated and the case study in place, making the result unique for this situation.

4. Theoretical foundation

Reaching this point in the thesis represents the cornerstone of the research. Globalization makes economists, governments to ask themselves what future holds but there is only uncertainty. There is no theory that can explain perfectly why companies make use of certain strategies in decision to enter foreign markets, or even introduce the concept of second home market (Andreas N., 2013) as a possible entry mode for companies that can make use of their advantages in a foreign market.

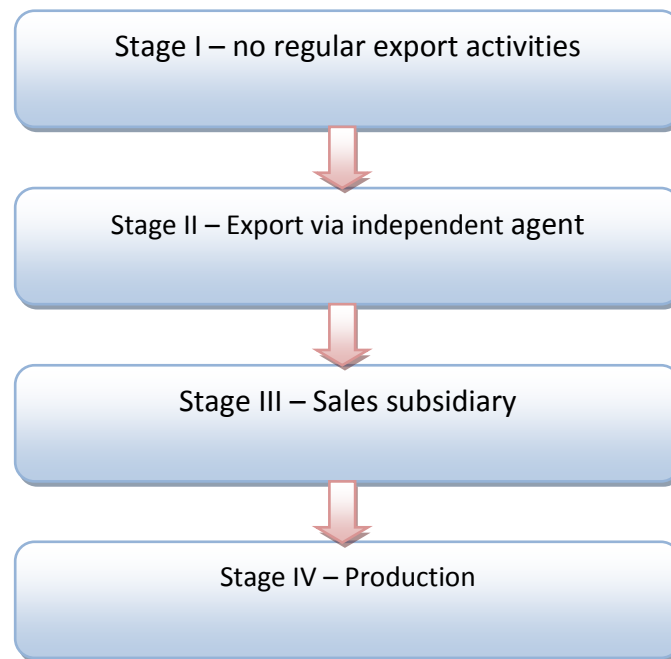
4.1 Uppsala theory

Understanding how globalization works on the entry modes in today's business environment would take years of studies and measurements from researchers. Even today with the most advanced technological and informational speed, the phenomenon of globalization cannot be fully understood. It would have been great to review all the theories of FDI or internationalization for the reader to gain a deeper acknowledgement. Consequently because of the use of mostly secondary data in this thesis, the author will try to create a rather mix of theories and their assumption in order to highlight the decision to answer the problem formulation.

In Hollensen's vision about entry modes (1991), he sees them as real issues strategies for SMEs that gradually wants to internationalize. Furthermore, the reluctance of companies to change their strategy entry mode represents a tough decision since many companies institutionalize their entry mode and run on inertia. Hollensen (2009) argues that most companies see their incremental internationalization as serious as choosing their first entry mode, since it affects along the way how this companies are seen by customers, their direct relation product – customer, competition for example. Buckley and Casson (1998) argue that entry strategy decision involves two variables: location and type of control.

The first time mention as a stage model in internationalization process was in the Uppsala model. Uppsala model remains famous as the research of entry patterns in the internationalization process (Johanson and Vahlne, 1976). Based on this model, in 1975, Johanson and Wiedersheim, identified four stages of the latter of internationalization shown in Figure 2, further modification being brought in 1977 in their final research.

Figure 2 Sequential stages proposed by Johanson&Wiedersheim 1975



Source: Own creation based on Johanson and Wiedersheim-Paul 1975

What was proposed later on based on this model is a more dynamic latter which influence decision commitment when choosing a market. The assumption behind this first model was that market knowledge and market commitment affects the decision. On the other hand the dynamic model emphasize that firms decision in marketing a foreign country is based on the same market environment, especially the way they perceive this psychic distance.

Hollensen(2011) comes in help defining the psychic distance and making a deliberate distinction between cultural distance and psychic distance used in the stage model. The explanation is that cultural distance looks at a macro level of culture in a specific country that can alter the flow between the firm and host market. On the other hand psychic distance looks

more closely at the actor; from a manager stand point of view over the host market and home market, more specifically between the cultural, political and language systems. In order to reduce the psychic distance of the manager it needs to be assessed, therefore the psychic distance cannot be measured or numerical analyzed, being more subjective but of real help regarding managers psychic distance towards foreign market.

Later on, according to Root (1994), the entry strategy and decision commitment are influenced by risk factors. In Root (1994) vision, entry modes are seen as “*a comprehensive plan which sets forth the objectives, goals, resources and policies that guide a company’s international business operations over a future period long enough to achieve sustainable growth in world markets*”. He also states that a company is influenced by the domestic saturated market in the decision process of internationalization, where foreign markets have a changing environment and make use of this opportunity. Not only Root (1994) but also Czinkota (2001) draw attention upon the vital process that these companies should choose an eligible entry mode. Never the less, the main basic entry modes in Root (1994) are through exporting, contractual and investment operations, all this depending on how much risk the company can afford to take and the level of control.

4.2 Entry modes

4.2.1 Export mode

Exporting represents the first entry mode and the easiest way to internationalize. Certain characteristics of export mode, makes it attractive especially for small firms as SMEs due to lower resource commitment. Doole and Lowe (2004) divide the export in two categories: indirect export and direct export. Hollensen (2009) adds another classification of export mode as a third category: cooperative export.

1. Direct export occurs when the company is directly involved in the export process instead of using an export house, distributors as independent intermediaries. The advantage of direct export is that the producing company has more control over the sales and operations in the host market.

2. On the other hand, indirect export is the most common method of exporting, this occurs when the producing company has no implication in any export operations, activities of export are being in control of a trading company, Doole and Lowe (2004), points out that this method has a great impact in lowering the risk but as a disadvantage the manufacturer loses control.

3. Cooperative exports are represented by strong collaboration with a group of firms that handles the export activities.

As part of the export entry mode, Gibbs (2005) draw attention that each company should asses their export partner in order to protect and further enhance the brand in the host country, measuring the partnership mindset in three set of drivers: trust and commitment, common purpose and mutual interest, the third driver being collaboration. Each of this one can be measured and acknowledged for a desired partnership and development of international experience. As seen, the majority of SMEs can grasp their involvement in international markets by exporting, in such a way that leads to profits, resources and experience that may gradually lead to other types of entry modes, as Uppsala model shows in the pattern of internationalization. Globalization is seen in this stage as a benefactor in terms of taking down barriers, trade tariffs, shortening the way from manufacturer to the final foreign costumer (Hollensen, 2009, pp 335-350).

4.2.2 Intermediate modes

Contractual modes are the second in the stage of internationalization entry strategy, also known in literature of business as intermediate entry modes. The diversification here is at its large: licensing, franchising, contract manufacturing, joint venture (Hollensen, 2009; Czinkota, 2011).

Licensing is the actual export but of intangibles. In this mode transfer of knowledge, technical know-how, transfer of skills, trademark and patents, are transferred to a partner under the name of licensee. This transfer is also known as royalty, with no capital investments, therefore sourcing or setting a local production in the foreign market. Czinkota (2011, p.442) definition

on licensing, is “*An agreement in which one firm permits another one to use its intellectual property in exchange for compensation*”. In other terms, the licensor allows the right to produce a product which is protected, i.e. under a patent, to a licensee in return of an agreed royalty. When a company choose the licensing mode, to enter a foreign market is not only because of profits or low risks that are involved. Certain advantages as leverage in case of regulations from host governments, eliminates the R&D failure or patent violation. At most, manufacturer companies can test the foreign market through minimum or no capital investments under licensing resulting experience and research in the foreign market. Even though this entry mode might be exactly what companies with smaller resources undertake in internationalization process, can prove to be an enemy when it comes to failure in control over the product itself, the manufacturer partner through contract controls the manufacturing process and sales activity. In terms of future market expansion this type of entry mode cannot ensure in totality, most of the times the mother company fails to expand in the host country (Czinkota, 2011, pp 442-443; Hollensen, 2009, pp 358-360).

Czinkota (2011, p. 444) defines franchising as “*a form of licensing that allows the distributor or retailer exclusive rights to sell a product or service in a specified area*”. This method was introduced in Europe in 1970, where a significant growth in retail and service companies applied this mode in order to disperse their product or service. Apart from licensing, franchising actually use not only the trademark or know-how, but the entire business concept/model of the domestic company, products, sells activity, marketing. In other words it represents the embodiment of a whole company into the franchisee, therefore the bar of control is raised and a lower risk is taken by the mother company. Several advantages of this spread type of entry model are in the risk area. The distinction between licensing and franchising is that the parent company protects the brand in a more implicative way. In order to remain and keep a long partnership with the franchisee, the franchisor needs to be collaborative and be active in the long term strategy, adapting the service or product to the specific market, i.e. McDonald’s franchising in India where a food-retailer must adapt their products to national requirements, in this case religion based. One specific aspect that should be underlined is that the parent company products/services should be recognizable and well known. Even though is sounds as a recipe of success, it has its disadvantages such as failure in a too fast expansion, brand and logo infringement (i.e. Starbucks law process with a Chinese

firm using their green logo under Chinese letters), unqualified staff that leads to lacks of standards. One solid argument that can be brought upon the Uppsala model is that a parent company interested in franchising into another foreign country with a bigger psychic distance can be an overall success through finding a possible franchisee interested and making large investments (Hollensen 2011, pp. 361-365, Czinkota 2009, pp. 444-446).

Contract manufacturing remains one entry mode commonly used by a large number of companies to produce their product with the help of a foreign production company (outsourcing), under a contract agreement and in exchange of payment. This method is used for companies that instead of producing in the home market choose over a foreign production with low costs in manufacturing. This way the parent company keeps the R&D in the house, marketing, sales activities, distribution (see Grundfos case 2011), while the local manufacturer present in the foreign country has the responsibility to produce to a certain level of standards and in agreement with human labor laws. Most retailers in the textile industry make use of outsourcing, responsibility of production in accordance with the contract agreements without even knowing the whole system of production, the human labor conditions involved in production process, i.e. case of Zara (Inditex brand), Gap in India. The disadvantage of working a way to foreign sourcing is represented by the terms agreed in the contract between the parties. Most of the times, many foreign parties do not intend to meet the terms and the lack of quality is overall high, delivery terms cannot be meet which in a fashion retail system and industry level, have negative performances upon businesses. International experience and routine diligence could be the key factors in leveraging brand sustainability (Hollensen 2011, pp. 356-357; Czinkota 2009, p. 448)

The final entry mode in the intermediate strategies is under form of allegiances. Well known as joint venture, it is very similar to the form of licensing but with more control from the parent company in the resulted joint venture. In normal parameters the outcome of a joint venture results in a partnership with a common business objective, even though the companies can be more or less different in terms of resources, technology know-how, marketing and sales activities, R&D, international experience, human skills. Therefore, in a joint venture there should be an understanding from which the whole number of parties should profit from. In order not to mix the strategic alliances and joint venture, a further discussion about the two

will be reviewed. A joint venture is more or less a strategic alliance, the unique characteristic being the whether the parent company invests into alliance. When the company wishes to contribute equity to joint venture it becomes a strategic alliance. An equity joint venture results in creating a new company where the ownership is shared by the both parties (foreign and local); while a non-equity joint venture it results in just sharing through contractual agreement the risk, the investments and profits by all parties. The key of every partnership is to work with commitment and trust under one main driver: the same objective. Many of the well known joint venture or strategic alliances fail due to lack of complementary forces. Often choosing a company with the same forces in the value chain, might lead to breakthrough or knocking each other (Melinte&Semga, 2013). This strategy of entry mode is becoming a benefit in the pocket of markets with high import barriers, a high psychic distance apart from other barriers as: governmental factors, cultural discrepancy, all with the help of a partnership where the foreign partners are presumed to be having developed experience in the market, a developed network among business local actors and relations, allowing the parent company to continue and further make use of FDI for a wider internationalization outlook, by creating competitive advantages (Hollensen 2011, pp. 366-369, Czinkota 2009, pp. 445-447).

4.2.3 Foreign Direct Investment

Foreign direct investment consists of a long term commitment (investment) in management skills, technology and physical assets in a local foreign subsidiary (Richard Lynch, 2006). If any SME would struggle to find ways to enter a market as the entry strategies enumerated above, FDI is the next level in internationalization process. By next level, the author refers at companies with resources and a clear international strategy as multinational and transnational, where the company always has to control 100% of the ownership in committing into FDI. When the parent company does not have full ownership, the export and intermediate entry modes are the options. Through FDI the company can fully control the entry mode, but few distinctions are observed. One of them is a disadvantage for the company, the case being liability of foreignness. This issue can be the consequence from the restraint of governments to multinationals exposure in the foreign market, or from inside of corporation, where the

management top positions are filled by expatriates. This problem is in the differences of communication, perception, cultural, know-how between the local employees and expats.

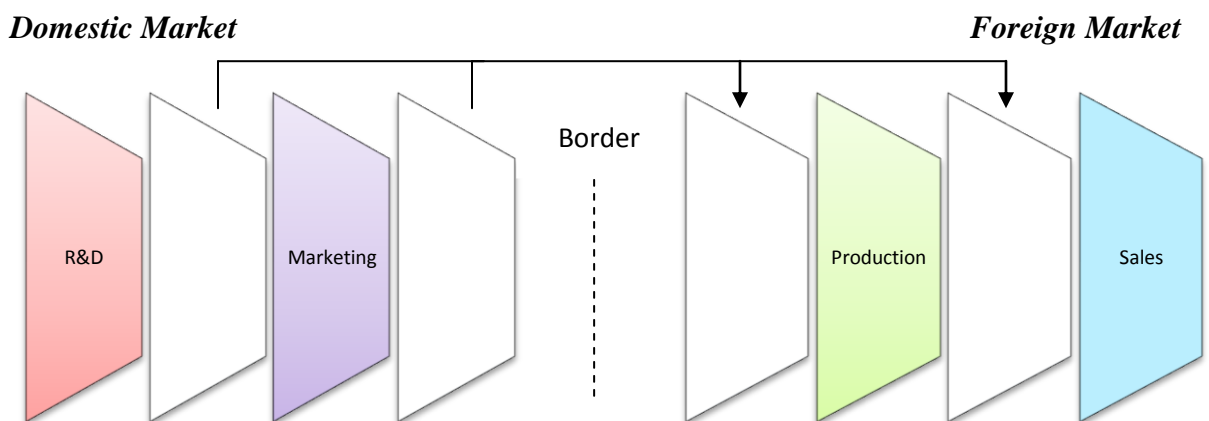
Hollensen (2011) presents four main entry modes consistent in foreign direct investment which are best seen in the value chain system and makes it more comprehensive:

1. Sales and production subsidiary
2. Resident sales representative/sales subsidiary/ sales branch
3. Regional center
4. Transnational

Apart from these entry modes, there are other two entry modes that require acquiring a company in the foreign market, whether to buy the company and work with already existing developed management, brand, reputation, and local channels or to start from scratch and build a new company there.

1. Sales and production subsidiary requires a large investment of money and time. Investing into a subsidiary like this can take a long period of time frame in which the purpose and objective is met.

Figure 3 Sales and production subsidiary in value chain perspective



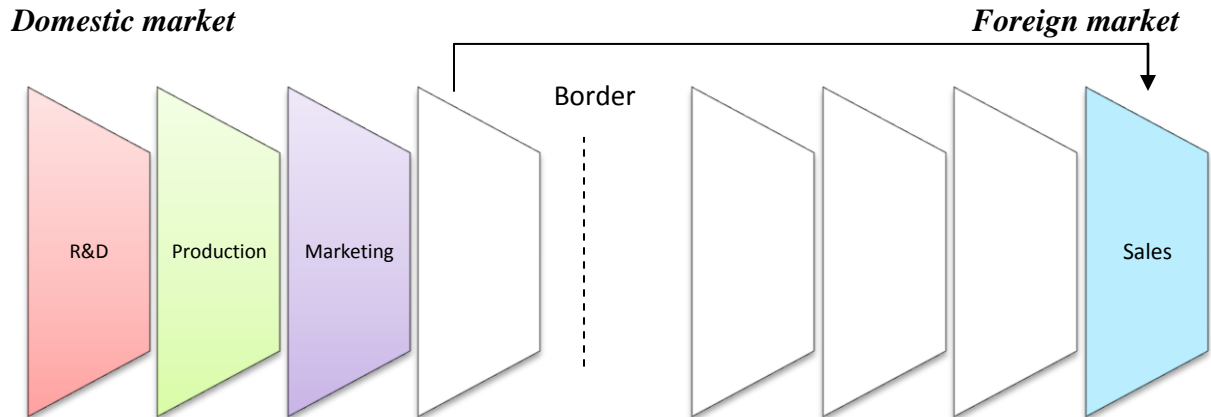
Source: own creation adapted after Hollensen (2011, p 386)

Nevertheless in order to reach the customers in the foreign market there must be a commitment when establishing a sales and production subsidiary. The reputation of the company among customers or government needs to be clear so that no factor can intervene to disinvest. This particular strategy has a high bar of risk as the foreign government perceives that all the capital is exported from the country, therefore an intensive struggle can be a characteristic of this entry mode. The reasons for choosing this entry mode are in terms of saving costs, i.e. moving production into a country with low prices on human labor, low production costs, price of materials. Establishing a manufacturing point in the foreign market results in new insights for customers and it shows reliability, making it, a more sustainable buying decision.

2. Resident sales representative / sales subsidiary / sales branch

This entry mode is seen as a more focused on selling the product / service to customer. While the sale activity is performed by a chosen resident sales representative where customers can be more willingly to buy the product, a domestic based sale representative that actually travels in the foreign market to sell the products can be interpreted as low interest. The consistency of a subsidiary that enables the sales activity in that country is of high awareness. If to establish a sales branch with a resident agent, the market can be tested in order to see if there is a positive response to service or product and from that point it can be transformed into a wholly owned sales subsidiary. The product represents another driver that might influence the company whether to establish wholly owned sales and services subsidiary or a resident agent, i.e. extensions of the main product which require a more commitment relation with the customer.

Figure 4 Resident sales representative/sales subsidiary/ sales branch

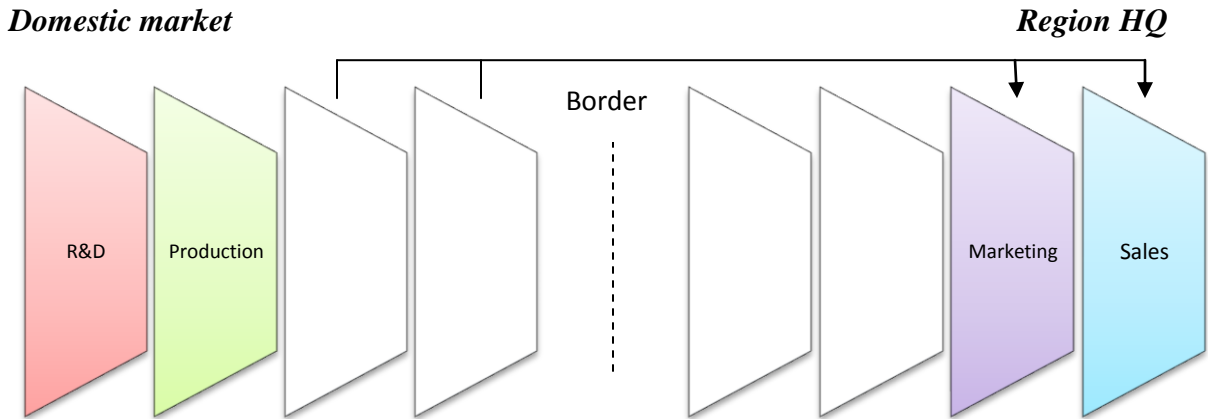


Source: own creation adapted after Hollensen (2011, p 386)

3. Region centre

As the world continues to change geographically and becomes smaller, this effects translates into regions, the assumption behind this entry mode is particularly different from the other modes, as its focus is on more than one country. This hierarchical mode is seen in practice as two versions, where the functions in the value chain moves over to the region. Hollensen (2011) identifies them as the first being *the downstream region centre* followed by the second one acknowledged as *the fully fledged insider*. By working with this mode companies can initiate to form a regional headquarter that serves the downstream function or being fully integrated within the value chain. Not only these two variants have different setting in the internationalization mode, but gives different advantages as well. The downstream region centre assumes that the marketing and sales activities have been transferred to the region headquarter while the mainstream functons as production and R&D to be implemented in a more suitable country (can also be the main domestic market), this can be seen in the Figure 5. The advantages resulted from this variant of tapping into internationalization are seen in the relation with the regional customers, while production and research and development can be coordinated within countries where economies of scale, low taxes, governments committed to collaboration, low costs labor (Hollensen 2011, pp. 391-392).

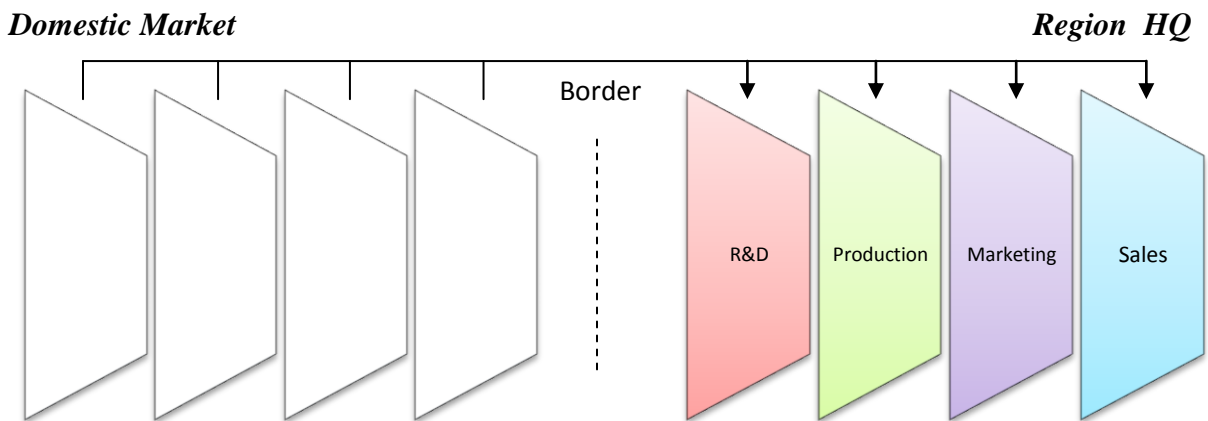
Figure 5. Downstream regional HQ



Source: own creation adapted after Hollensen (2011, p 386)

On the other hand the fully fledged insider, as the name itself sends to, this variant allows the company to move all its value chain to RHQ and coordinate the subsidiaries from the region with the regional headquarter. The result is translated into transparency shown by the multinational, being closer to the needs of regional customers, allowing further extension over the service or product to be built as a response for serving local customers. Being present with all the value chain allows the RHQ to synchronize all the process to its full potential, reaching the targets and have direct access to customers. This can be understood much simple in the Figure 6.

Figure 6. Fully integrated insider



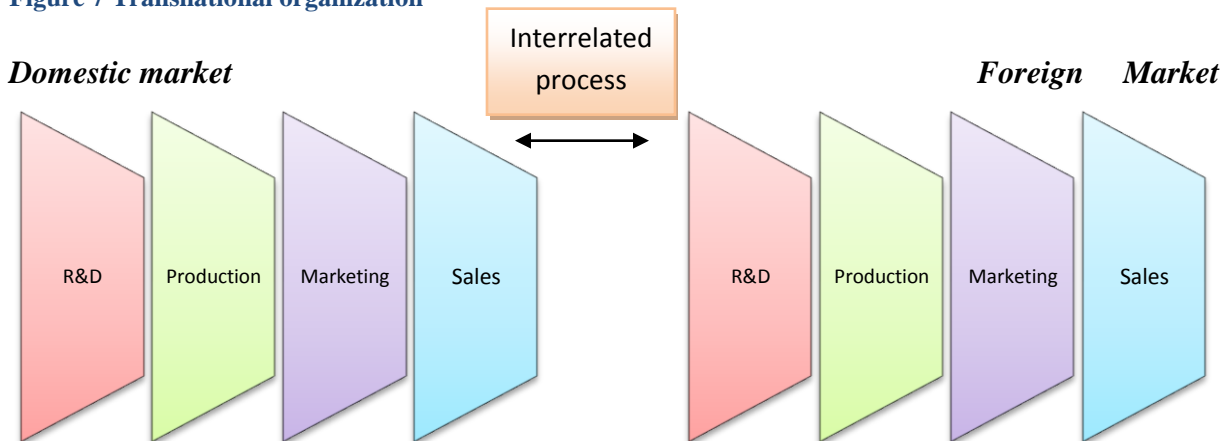
Source: own creation adapted after Hollensen (2011, p 386)

4. Transnational organization

At this certain point companies find themselves in the position to coordinate and integrate the entire value chain process across national borders in order to achieve commitment on a global scale. Being a transnational organization requires the ability to link the differences of different cultures, making the employees part of global network that they can be identified with, transforming resources into a global competitive strength. While companies choose to upgrade and develop at this level in the internationalization process, staying on top requires more control and administrative work, therefore only a small number of companies are identified as transnational. One characteristic in the view of Hollensen (2011) is that these transnational organizations tend to have major exchange of employees and a common R&D future.

As it can be observed in the Figure 7, the influence of integrated value chain does not move from the domestic organization to the foreign market, therefore the border has been taken out from the equation allowing a more clear administrative process. Even though this stage can be outlined a globalization effect and identify with the definition of globalization, still many companies have not reached this top position, due to major influence in infusion of capital to the host market or the applicability within the area of business. If to add, Hollensen (2001) argues that there is no ideal entry mode for the fashion retail, therefore hierarchical modes of entry represents a part of this theoretical synopsis within internationalization management.

Figure 7 Transnational organization



Source: own creation adapted after Hollensen (2011, p 386)

4.3 Dunning's Eclectic approach to internationalization

As an extended part of the foreign direct investment theories, Dunning paradigm also known as OLI framework (Dunning 1988), has the potential to explain internationalization process and show the actual conditions that are needed so that companies can gain more advantages and better performance in the foreign market.

This framework along with the other theories of internationalization presented in this chapter aims to create a concept of internationalization that will make the result more reliable and test the actual theories. The assumption behind OLI framework is that firms can engage and increase their international manufacturing if they base their strategic decision to meet the following three conditions (Hollensen 2011, p. 73):

1. Ownership (O) factor deals with the internal part of the firm, tangible and intangible, in terms of competences, technological knowhow, brand equity and recognition, financial resources, as well as firm size. Dunning (2000), provide a more selective approach to ownership advantage, seeing it as an asset with financial income that helps the firm to engage into the host country for production. Another view over this advantage is as follows: owning the foreign production generates more ownership advantages, which can be seen as being more competitive comparing to other nationalities competitors. The ownership advantages look at competitive capabilities inside a firm, which helps the company to expand into foreign markets but nevertheless this particular factor can decide how successful the expansion will be.

2. The ownership (O) assets presented above can only be harnessed with the help of the second factor, and that is location (L). Location plays a deep roll into the act of internationalization. Whether we talk about country risks and tariffs, import taxes, political and cultural matters, or communication channels, technology and products costs, transport costs, they all are trivial in selecting the country most advantageous to the company. Every resource that can be found in a country cannot be exact same found in other countries, therefore the location factor is actually the motivating factor in continuing to manufacture in a foreign market. Locational factor somehow includes many different aspects but in theory it

should provide an opportunity for the MNE that wishes to proceed with foreign production (Dunning 1980, 2000; Hollensen 2011).

3. Internalization (I) is the conclusion of the first two factors, the primary characteristic being strategic choice. This includes whether the multinational should continue to use its advantages in such way that is beneficial and profitable for them. If not, the options will be to sell the rights for use, i.e. patents; or to sell these advantages to other firms. Even though the eclectic theory of FDI does not include a guidance to a certain entry mode, the last variable (I) sends to certain entry modes as partnership or licensing. By the choice to sell the rights, if the company is to be high tech manufacturer or a drug company for example, these forms of entry modes can lead to leaks of the manufacturing process or technology used, formulas or design, furthermore to competition in the region, putting the company in great danger. By internalizing, a company can create protection for their brand, and therefore the advantage of expansion considering the other two variables of ownership and locational advantages (Hollensen 2011; Dunning 1980).

Dunning's eclectic theory simply was chosen because the assumption behind was to measure and differentiate aspects of productivity in the foreign markets by making use of the three factors. Furthermore, OLI assumption is actually looking at aspects of foreign productivity within multinational companies, which this thesis is going to analyze as well, testing its theoretical base (Dunning 1958).

4.4 Theoretical stand point

By looking at the problem statement of this thesis and the questions that needs to be answered, economic globalization is the process in which companies rapidly expand their markets, reaching their global clients and mostly due to the breakthrough of communication and the evolving technology than connects geographical points. Therefore the appropriate measure for this approach in this thesis was to collect theories of internationalization and create a concept that will be tested in the analysis. However the reason for picking more theories and not just one, regarding internationalization and present their assumptions will help the author to have a better perspective on the topic and further more present a reliable result.

5. Analysis

This chapter will be divided into two main parts that serves the analysis purpose. The first part will be analyzing the selected theories of internationalization while the second one will be making use of the case study and data collected for a complete understanding to the extent of globalization process of fashion retailers in Denmark.

5.1 Testing the theories

As the main assumption about the selected theories of internationalization were presented, OLI paradigm, Uppsala model and supplementing with choice of entry modes, in this section the author will apply theories to respond to the first research question:

- *Can the selected theories of internationalization, be a guideline towards expansion of fashion retail by answering the 5Ws?*

5.1.1 Reason behind firms expansion

In order to find out the reasons, there are five primordial questions needed to be answered, therefore it is of great importance to respond to *when* companies should internationalize, *why* they should think of expansion, *where* should they go in order to be profitable, *what* kind of competitive advantages should firm hold in order to internationalize, *which* activities they should internationalize.

Since globalization has direct involvement into global economy, geography and politics, there is also expected to have a large contribution in the apparel (fashion) industry as well. Since 2005, when the Multi-Fibre Arrangement (MFA), the organization that governed the textile and garments trade was abolished, the advanced textile countries make their way to produce even more in the developing countries, since the quotas on amount of import from developing countries were gone. Many of the developing countries were affected by the removal of MFA, due to the quota protection they were working on, now fearing the largest manufacturer country: China (P. Dicken 2011). Therefore in the light of this shift of textile and apparel

industry, there is the need first to answer the primary questions and see how the selected theories answer them.

When and **why** should firms engage into expansion? Well timing is a key factor for firms to think about internationalization, to be able to synch the need for internationalization with the firms need represents the first step into a strategic decision. When grasping the specific entry modes for international involvement, a series of internal and external factors were emphasized regarding the question of *when*. Part of internal factors is the firm size, here the interest for internationalization arise when the firm can be able to commit to equity involvement with a higher control level as pointed out. On the other hand, many of the SMEs struggle with resource availability, therefore instead they make non-equity commitment to enter foreign markets but as seen in the discussion above, the level of control is shrinking, the chosen entry mode being the export in this particular case. There is a strategic angle to have the best timing, many firms wanting to affirm first on host markets and increase their brand recognition and control over the market, by being the first to make the move and consolidate their position there (Peng 2006).

The Uppsala theory does not give a more complex timing of when commitment for expansion should be made, but it has its direction:

- The firm will follow the path for internationalization in the early stage when it gains enough knowledge about the foreign market where they wish to enter, in other cases the lack of knowledge is replaced by level of trust in a middleman that has been representative on the foreign market;
- The decision is as well determined by the home country competition, saturation, share;
- The opportunities found in the foreign market play a strategic and commitment role.

The OLI theory by John Dunning discusses on short the initiative for internationalization and its timing, but there is no clear and defined way to look at it:

- Why to internationalization? Dunning (1977, 1988, 1993) explains the motives behind internationalization:
 - Market seeking is one determinant factor for the firms that have a saturated domestic market, the case of fashion retailers can be an example as well but

another angle to it represents the foreign sales. When foreign customers follow the brand and is proven in sales, the need for entering that foreign market is well satisfied.

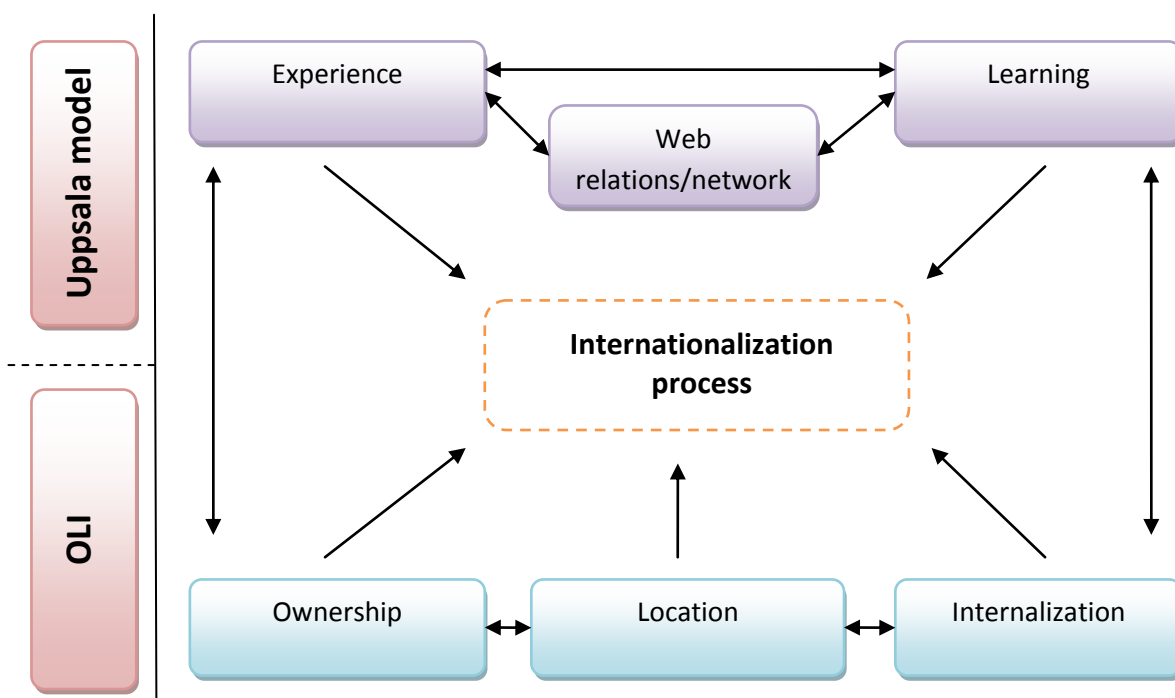
- Resource seeking firm looks at any type of foreign advantage they may have, i.e. production with cheap materials, cheap labor and different costs that they can gain from. Retail companies are one of major players in engaging into developing countries, benefiting from their foreign environment.
 - Efficiency seeking or global strategic considerations firms take advantage by the effect of economies of scale, as well as increase in brand recognition and equity, being present on a foreign market can be compared to a growth tool for firms.
- The OLI looks at timing of internationalization from a stage perspective. When firms are in their early stage and it's a result of a saturated domestic market, or in the latter stage due to the foreign demand that can result in a profitable foreign presence.

What sort of competitive advantages are needed for engaging into internationalization? As competitive advantages are the result of core competences of a firm, in the path to internationalization there is a need for sustainable competitive advantages. Another characteristic that Hollensen (2011) emphasize is the manner of transferability of competitive advantages from the domestic market to a foreign market. Moreover a firm with competitive advantages is seen by Nordström and Valhne (1992) as a more favorite entrant rather than one without.

The Uppsala theory implies that the firms have a general competitive advantage and is firm specific based on resources and capabilities of firm. From the competitive advantages point of view, Uppsala model talks less about it, therefore the author consider that a different *what* question should be considered in this case. Further on, looking at what influential factors contribute to internationalization presented in the Uppsala model:

- Experience
- Learning

Figure 8 Influential factors seen in analytical framework



Source: own production based on Eclectic paradigm and Uppsala model

Figure 8, constitutes the integration of the main factors from the Uppsala model with the three conditions implied by J. Dunning, resulting into a analytical framework that will be used later on to analyze the case study of ICC (IC COMPANYS).

Knowledge of a company can be built in two ways. Penrose (1995) affirms that the firm can be taught an exponential degree of so they acquire knowledge in order to find direction in the internationalization process, or through personal experience that Uppsala model underpin in recognizing and selecting the appropriate opportunities. Experience factor is a trivial step in the process of internationalization, through experience comes knowledge, without it the competitors may identify opportunities instead of the firm in subject (Agnadal & Chetty, 2007). The idea of translating knowledge from experience in the foreign marketplace is also backed up by Brockman and Anthony (1998), claiming that this type of knowledge is helpful

in solving issues as well as identifying options within internationalization process. Furthermore (Johanson & Vahlne 1977) the Uppsala process model is built upon the assumption that a firm's current activities translate into experience, the focus being on the firm and not the external actors. Globalization changed the business environment face, making it more alert to the web of relations with other players, therefore (Johanson & Vahlne 2009) the revisited Uppsala model consider the importance of network and how learning from others can outcome in experience (Bonnacorsi, 1992; Hadley & Wilson, 2003).

I will further analyze the OLI in the perspective of what kind of competitive advantages should the firm have in their portfolio. The OLI paradigm (Buckley & Casson, 1976; Dunning 1977) states that the firm must have ownership advantages in the indigenous market and the ability to transfer these advantages, enabling the firm to compete in the foreign market. When entering new foreign markets is important to have sustainable competitive advantages, this can be the result of reinvesting into new resources or develop the existing resources. If to expand the view over the competitive advantages Hymer(1976), claims that foreign direct investment often take place due to monopolistic advantages owned by influential multinationals, i.e. a great multinational will control their subsidiaries better than local competition will.

Both the OLI paradigm and Uppsala model do not share much of what competitive advantages should the firm meet before engaging into internationalization, the OLI paradigm being more influential in this matter and guiding mostly. Nevertheless there is space of research in this matter and the conclusion here is that it needs to be first identified the firms motivation. Whether is resource seeking, market seeking or specific-asset seeking, the competitive advantage should give firms power to compete in the foreign market.

Where to and **which** entry mode, are the last two questions to continue, to tests the theories regarding the development of internationalization process for the fashion retail market.

Where to invest has always been a problematic question for both researchers and firms. Location represents another factor that influents the internationalization process, represented as well in the Figure 8, the analytical framework I will further use for the analysis chapter.

Choosing the right location to enter through FDI or other types of entry modes, it is as well crucial for the firm to take advantage of the level of resources in that country. As observed, the fashion retailers in their pursue to reduce the costs, they enter foreign markets, more concrete developing countries, with a low real cost of the market's resources such as low cost for raw materials, cheap labor and other types of comparative advantages.

Uppsala model recommendations for where to initiate and how, are more general and conclusive in the same time. In the initial phase the recommendation is that firms should access countries with short psychic distance, through export mode. This is only in the incremental stage of internationalization. As the firm follows its path of internationalization and continues to have international operation, they accumulate experience and become part of a network of actors in that market (Johanson & Vahlne, 2009). Through time and learning experience from their activities, firms will act at this stage as mature enough to enter markets that are more different from their indigenous base market, in other words with high psychic distance. I will still emphasize that firms outside the network will react differently than the insiders (those who are part of a network), the outcome affecting the firm under the name of liability of foreignness, which is a perceive cost of having operations and foreign production in another country. By which entry mode to be selected, it is a matter of management decision, although Uppsala model concludes that export mode should be chosen in the initial phase of internationalization.

What Dunning has created in the OLI stands to have a more extended impact based on the motives behind internationalization in the first place. When firms decide to enter a market through a certain type of FDI, they are aiming to use this in their advantage. Of course, an almost similar set of action is seen in Uppsala model, but here the risk factor is the one that has more influence and set the bars in lowering it.

The resource seeking firms choose FDI in order to obtain resources at a particular lower price which cannot be done and met in their home country; therefore these firms would go for foreign markets where these resources can be achieved differently, whether we talk about low costs labor or physical resources, organizational and managerial skills. In the same order the location is also important for market seeking firms, even though this is more particular firms that are looking and should look for high location (L) advantages. When this condition is met

in a foreign country, the question where to, is already answered. Any other reasons behind internationalization will be demanding a location that is good enough to suit the firm and establish FDI. The type of entry mode, that OLI emphasize, is the foreign direct investment, which acts as a better way to achieve the advantages of which a firm would likely benefit from, as well as a better way than trade mode. The reason for this is that through FDI firms obtain a much higher control over the entire foreign operations and can accumulate the profit by itself, rather than trade where the profit is divided to importer and exporter.

As seen from questioning the selected theories of internationalization, both of them have extended work over offering a set of guidelines for firms, which in the mist of globalization companies should be prompted to make use of what the theories provide. For the same reason, the fashion retail is a sensitive industry that requires a closer look in forms of trend and trajectory. Now that the theories were expanded to answer the first research question, there is need to analyze the Danish fashion retail and further on to apply the analytical framework on the study case.

5.2 Danish fashion retail industry

This following discussion of the analysis will be focused on the Danish fashion retail market that this thesis has dedicated its investigations. Something that needs to be pinpointed here first is when referring to fashion retail industry, the author is simply translating this into apparel and footwear retail market. Key indicators as macroeconomic data available and reliable, using valid sources as Euromonitor, Danish national statistics, OECD, World Bank, WEF and WTO reports, as well as various trade articles (newspapers, business magazines), will be used to create the structure of the industry in the review period will be from 2008 until 2013, as well as the outlook for it.

5.2.1 General summary

Even though Denmark is a small but developed market characterized by high levels of living standards, throughout the turmoil of economic crisis, the economy contracted which made the focus of many firms to be redirected to the most important channels so each resource should be taken advantage in the most profitable way. Many of the investments according Euromonitor (2014) have been faced and reduced with the change of business strategy. Many small fashion retailers still run low on resources or force to declare bankruptcy.

In the process of recovering from the economic crisis, the average Danish consumer has become more and more perceptive to money paid for important commodities such as food, clothes, vacations destinations, eating out. Consumer behavior is one factor that has always contributed to the trajectory of apparel and footwear retail. During the pre-crisis the Danish consumer performance increased being more optimistic in terms of buying decision. Globalization influence in technology and information, led to a more active online retail, more developed and a more positive online activity. A recent study by Google shows that the average Danish consumer spends approximately 4.4 hours as leisure time, on electronic devices such as laptop, mobiles, TV, tablets, allowing companies gain more from being present on e-commerce channels, strengthening the brand through different online channels, as well as retaining online customers. Year 2013 has been a positive year for some of the companies in apparel and footwear retail, especially for BESTSELLER, IC Companys, DK

Companys, ECCO, Hennes&Mauritz, Nike, Adidas, Zara showing investments in the online environment, brand strengthening, initiating and focusing more on innovation and development (Euromonitor report, 2014).

5.2.2 Macroeconomic key indicators and key trends

According to World Bank publication - *Doing Business* 2014, Denmark is ranked from 189 economies as the 40th which measures the ease of starting and doing business in a country.

Economic globalization is also seen in the light of ease of doing business, where reforms in reducing or eliminating the starting minimum capital for a firm, has created many opportunities for entrepreneurs around the world, some advantages as more registered companies and firms satisfaction play a key factor in employment growth. As a response to this measure is not observed in any publication of World Bank or Euromonitor but just local Danish business newspapers, the Danish government has made it even easier to do business in this developed environment. Consequently, from 1st of January 2014, a new law was in charge, allowing entrepreneurs from all places to invest just 1 Kroner (Danish currency), as starting capital in a good corporate legal instrument, abbreviated IVS (Iværksætterselskab), a limited entrepreneurial company. This start up firm has the ability in time to change its legal structure and be transformed into and ApS and later on an A/S (Borsen.dk). Not only this solution will have a positive outlook from an entrepreneurial stance, it also makes Denmark a location that is easier to access and resulting in inward FDI.

The Danish industry is one optimistic market, especially in 2013 where it can be seen a small growth in GDP% which in this thesis is still considered to be an important indicator for the development of a healthy economy.

Table 1 Denmark development indicators

Indicators	2008	2009	2010	2011	2012	2013
GDP current US\$	343,8 b	310,5 b	312,9 b	333,7 b	315,1 b	330,8 b
GDP growth%	-0,8	-5,7	1,4	1,1	-0,4	0,4
Population total	5,493,621	5,523,095	5,547,683	5,570,572	5,591,572	5,613,706

Source: World Data Bank

OECD states that “*Economic growth remains subdued, but is expected to gradually pick up as export demand rises, monetary and fiscal policies remain supportive, and confidence returns*”, a growing positive trend noticed in 2013, where the economy is forecasted to have a real GDP growth by 2018, with no fear of double-dip recession (Euromonitor report, 2014).

Nevertheless, the competitiveness of a country is a direct window into productivity and prosperity, being targeted for further development and inflow of FDI in the advantageous industries. According to World Economic Forum, their worldwide report on level of national competitiveness in May 2013-2014, assessing 148 economies, ranks Denmark on the 15th place in 2014, three places lower than the GCI (global competitiveness index) shown during 2012-2013 with a weaker macroeconomic environment. Same report review Denmark as a market in the development stage of innovation-driven along with other 36 important economies as Germany, France, Finland, Norway and United Kingdom. From a total of 148 economies, innovation and sophistication factor considered by investors, place Denmark’s market on the 11 place worldwide. Apart from other Nordic countries, Denmark’s advantages are also represented by a well functioning labor market which ranks it on the 13th place, with one of the most efficient labor markets on international context. Other important rankings that add value to the proficiency of Denmark are also represented in the table 2. The reason for selecting the most appropriate factors represented in the table below is to have a better understanding of the Danish market in general and how different aspect represent the location advantages of the country.

Table 2 Denmark competitiveness index

Global competitiveness index	Rank (out of 148)	Score (1-7)
GCI 2013-2014	15	5.2
GCI 2012-2013	12	5.3
GCI 2011-2012	8	5.4
Basic requirements (20.0%)	21	5.5
Institutions	18	5.2
Infrastructure	23	5.5

Macroeconomic environment	42	5.3
Health and primary education	32	6.2
Efficiency enhancers (50.0%)	16	5.1
Higher education and training	14	5.5
Goods market efficiency	24	4.9
Labor market efficiency	13	5.0
Financial market development	36	4.6
Technological readiness	5	6.0
Market size	53	4.2
Innovation and sophistication factors (30.0%)	11	5.1
Business sophistication	11	5.3
Innovation	11	5.0

Source: WEF, adapted from *The Global Competitiveness Report 2013-2014* p.170

5.2.3 Apparel and footwear market development

Apparel and footwear retail in Denmark regained more trust during the economic post-crisis period, i.e. in 2013 the number of bankruptcies lowered since the beginning of crisis in 2008. During the turmoil effect, a fast number of bankruptcies in the area of clothing industry while the lead companies gained more share and value on the Danish market.

Table 3 Bankruptcies 2008-2013

	2008	2009	2010	2011	2012	2013
Number (total)	3,709	5,710	6,461	5,468	5,456	4,993

Source: Euromonitor report *Apparel and Footwear 2014*

As expected, the strongest companies have used their influence and power during the crisis to solidify their position and gain market share even more. As mentioned above, the lead companies in Denmark's fashion industry have had a positive performance during the economic crisis, most of the new brands in the market, being developed by Bestseller, IC Companys, H&M, ECCO or DK CO. However, most important bankruptcies in the fashion

industry happened in 2013, after a long fight for survival with limited resources. Katvig A/S known as a children's wear domestic brand that later on in November 2013, was bought by a larger company of childrenswear, Joha A/S. It is of great importance for further observation how firms react in an uncertain economic environment, making it easy to see a trend into a company's strategy. One example is Denmark Companies abbreviated DK Co. that practiced an aggressive brands acquisition strategy in order to strengthen Group's position and gain market share (Euromonitor report, 2014). One important fact that will also be brought later and extended on is that the study case company for this thesis, IC COs Group have had 11 brands in its portfolio in the review period, when in March 2014, the 4 Mid-Market division brands constituted by Matinique, InWear, Part Two and Soaked in Luxury as well as the store concept COMPANYS were sold to DK CO., the emphasis being not that IC COs has been restrained by resources during crisis and post-crisis, instead the Group wishes to have a better vision and focus on the Premium brands in their portfolio, the process for selling the brands being divestment.

A very important aspect, which evolves from what has been discussed until now, is that the strongest companies have gained share and change focus, concentrating on their core brands as well as core markets while smaller companies disappeared or lost terrain to their stronger competitors.

Table 4 Sales of Apparel and Footwear Category 2008-2013

DKr mil	2008	2009	2010	2011	2012	2013
Apparel	32,117	30,759	30,257	29,726	29,651	29,619
Footwear	6,471	6,469	6,624	6,632	6,374	6,340

Source: Euromonitor report Apparel and Footwear 2014

As a summary to what have been said, the expected growth into an improved macroeconomic environment will lead to growth in sales, the growth percentage of sales during 2008-2013 in total being of -6.8% followed by an improvement but still keeping a negative pace as for 2012/13 with -0.2% value growth. The forecast value growth for the period 2013/18 is expected to grow from -6.8% to -2.3% which is doable with a growth of the consumer's confidence and revitalization of fashion retail industry (Euromonitor, 2014).

As this thesis is trying to observe and understand the phenomenon of globalization in the Danish fashion retail development, more information is needed to create a complex and broad picture. The starting point will be to identify the main lead companies in the industry, which have Denmark as their home market. According to Euromonitor report in 2014, the main national companies is Bestseller A/S with a market share in 2013 of 16,2 % from a total of 100% and IC Companys with 5.8%.

5.2.4 Challenges for fashion retailers

Even though Denmark is characterized by being a developed country driven by innovation, there are still challenges along the way. With a new direction and focus changed as an overall strategy for most of the companies in this sector, due to economic crisis which affected at a global range many economies, recovery and revitalization of the industry is to be seen in the forecasted years.

For many SMEs and MNEs in the fashion retail business, using the available resources in the most profitable way is a clear mark. Many of the investments are refocused on the company's needs, expansion to foreign markets being a not so good moment in the actual time for struggling companies. Even though globalization has led to many advantages for companies for development and expansion, the crisis effect has influenced at a global level many firms. As a response to this cause, it can be observed that a number of firms in apparel and footwear retail have chosen to expand more on their home market and gain more share. Other benefited from the strong contraction, eliminating small competition by acquiring their brands later on.

With this in mind the main challenge that is among the fashion retailers in Denmark is to become more and more experienced in internet retailing. Giving that a Danish consumer according to Google study spends more than 4 hours in a day on electronic devices and simplify their life by purchasing online, this customer experience must be offered at its best. 2014 is to be considered a year in which technology and innovation changes the way business interact with customers or with each other, the shift of fashion retail is now to be accessible at any time through online platforms that allows the customer to have a virtually purchasing experience. Still the challenge here is for small companies to react in time for reaching a

market that is substantial, according to Danish statistics, in 2013 internet retailing had 16% value share from the total value sales in apparel and footwear industry. This booming of internet retail by 2018 is expected to account for 18% of value sale in apparel and footwear business (Euromonitor report, 2014).

Giving to an advanced internet user a purchasing experience in which the whole value of the brand is enhanced will be the key factor in making the final decision of purchase. However, the demand today in the online environment is rising, from foreign markets as well as in the domestic market. This is a challenge that asks for building competitive advantages of any firm, investments in the right segments and a more close relation between the customer and the physical firm.

To conclude the discussion and to respond to the second research question of this thesis, it was needed to be sorted out only the right and useful information available. Timing in an outgoing process and uncertain economic environment is trivial, but being the in the right place at the right time is not enough today for a business in fashion retail. There is a demand for more tools and mixed strategy to confer to each customer class a high end experience that will make him return to a physical store or to a virtual platform and to interact more.

Danish fashion retailers in the light of globalization do have their specific obstacles and challenges, the most important of them being emphasized in the discussion above. Yet this is just an understanding and observation by analyzing the industry, therefore it asks alone for more research in the area, each review revealing something new that companies face through a certain time.

5.3 IC Companys in Danish retailing

This part of the analysis will put even more the theories of internationalization to test, by making use of the analytical framework of factors in the internationalization process. In order to have a more reliable and valid conclusion of globalization and Danish fashion retailer development today, an interview with the CEO Mads Reyder, which hold this position for over an year now in IC Companys, was conducted and analyzed. An interview with Bestseller's CEO or Investor Relations Manager was scheduled but unfortunately the attempted cooperation failed.

5.3.1 Key facts

Share capital 169,428,070	Address IC Companys A/S
Number of shares 16,942,807	10 Raffinaderivej
Share classes One class	2300 København S
ISIN code DK0010221803	Denmark
Registration number 62816414	Phone: +45 3266 7788
	Fax: +45 3266 7703
Reuter ticker IC.CO	E-mail: hqreception@iccompanys.com
Bloomberg ticker IC DC	Homepage: www.iccompanys.com

IC Companys A/S is a Danish established company through the merger that took place in 2001, consisted of two fashion retailers: Carly Gry International A/S and InWear Group A/S.

As from March 2014, the company divestment led to reducing their brands portfolio from 11 brands to 5 main brands. I will not be focusing on tracking the other brands that were sold to DK CO., the focus will be only at present time company's status and operations.

The 5 brands are divided into two main business segments:

- Core business segment:
 - Premium brands – Peek & Performance, Tiger of Sweden and by Malene Birger;
- Non-core business segment:
 - Designers Remix from which IC COs holds 51% share and Saint Tropez which operates on its own platform.

According to their Annual Report 2014, the revenue is at a value of 3.3bil DKK (Danish currency), selling their brands through their own stores and franchise stores which results in almost 240 stores, in more than 25 countries. The business is also focusing on selling the brands through e-commerce and via 4.300 distributors worldwide (company's press release in March 2014).

As identified in the first part of the analysis, placing production in countries with manufacturing advantages is a plus for many companies in apparel and footwear retail. According to latest company presentation, IC Companies have their sourcing offices in China, Hong Kong, India and Romania with an overall experience for more than 40 years.

5.3.2 Strategic consideration

As part of their new focus, the CEO Mads Ryder commented on their new strategic consideration as ***“We wish to set the foundation for realizing to a larger extent that potential which our Premium brands hold – this must be achieved by having an even more clear focus. Instead of being good at many things, we must be the best at one thing”*** (Press release, 27 March 2014).

Nevertheless, the strategic focus area has shifted as seen also in the challenges faced by fashion retailers in the Danish market. Now the focus is set upon the Premium brands which are divided in two categories: Contemporary and Outdoor; company's strategy being well characterized by ***“Growth through increased market penetration and internationalization to improve both revenue and earnings”*** (Company's presentation September 2013).

The outlook of IC Companies is expected to be after the divestment a more homogenous organization with an improved focus in the light of globalization as CEO Mads Reyder

commented *“This marks yet another long step forward in the right direction. Having completed this divestment, we are now ready to lead IC Companys into the next stage. And as we are able to focus completely on the Premium segment in the future, we consequently have the best basis for making IC Companys a success – with future growth and improved earnings”* (Press release, 27 March 2014).

IC COs internet strategy can be summarized as a different platform for each brand owned, despite the fact that their bigger competitor Bestseller A/S sells their all 13 brands in one whole basket. By allowing each brand to control its own value chain, e-commerce, franchise stores gives full responsibility to the brand; therefore it acts as value creator specific for each type of brand owned. Of course the investments efforts are mainly poured into expansion of the primarily Premium brand, the value being constant at 70-90 mil. DKK

Through constant work on developing relations with different trade organizations and regulations, which also protects the labor work force conditions, IC Companys is having a high social responsibility policy as a strategic and corporate responsibility.

5.3.3 Competitive position

The Group IC COs, keeps a leading position as the third in position according to Euromonitor report (2014), during this time the consolidation of the firm was made through divestment of Mid segment brands. This means a more focus strategy on expanding in core markets and follow internationalization with the Premium brands that represent 69% of total revenues. With this in mind, IC COs is trying gain more share on the high end segment and have more focus on development and innovation (Annual report 2012/13).

5.3.4 International exposure

As a lead company among the Danish fashion retailers, IC COs is selling their Premium Outdoor brands in the Nordic region which constitutes 67% of sales; the rest of the EU countries sales commit 29% and other countries 4%. As for the Premium Contemporary the Nordic region represents 78% of sales, the rest of the EU countries 15% and other countries 7% of sales (Annual report 2012/13).

As part of sourcing, IC COs works with 314 suppliers, where production in China represents the majority of sourcing suppliers accounting for 63% of whole production, whereas the rest of Asia accounts for 10%, Europe sourcing counts for 23% and Africa for 2%.

5.3.5 Analytical framework and interview guideline

Factors in internationalization process	IC Companys A/S in Denmark
Location advantages	Increase of market share through different market strategies; Market seeking where combination of price, quality and supply stability is best;
Ownership advantages	Scandinavian design resulting in high quality assessment; Sustainable Premium Brands, technological and innovative know-how;
Learning	By making use of different approaches to internationalization; Entering low psychic distance countries, whereas learning through experience; Predefined frameworks of doing business and well defined structures in case of implementation and development;
Experience	Sourcing more than 40 years in developing countries; Acquisition of brands; Penetration of core markets; International presence through wholesale distribution channel in Nordic countries;
Network	Since all the brands have their own value chain responsibility, each brand is marketed through its own network, through different channels.

The interview guideline and answers are presented in this part due to usage of the data collected in the analytical framework.

1. What are the steps for IC COMPANYS, in the process of expansion in foreign markets?

CEO Mads Reyder: *“We have a pretty sorrow long process where we of course different business units need to fill in an investment plan for 3-5 years in advance, and if it is within our investment frames and from management approved, we have the queue. But in terms of much bigger investments we need our board to approve. That is basically our process when expanding in other markets”*

2. What strategic measures are IC COMPANYS using to overcome challenges meet abroad?

CEO Mads Reyder: *“We do meet challenges, so depending to what country we might choose to enter, we do different assessment mix to provide substantial integration from day 1, but if we choose from example Korean market we need to do sizing, refitting, but I cannot tell you that we have a specific model that we go through but is more like considerations”*

3. As one of the top Danish fashion retailers with a vast international experience, what do you consider to be your competitive advantages, when entering foreign markets?

CEO Mads Reyder: *“Difficult question but in the same time what I see as most important is our design, the fact that we are Scandinavians is pretty important, so quality and design.”*

4. Globalization has lowered the trade barriers making it easier to access the developing countries. Therefore, given that IC COMPANYS runs its production through sub-suppliers in China, India, Sri Lanka and Vietnam, do issues as quality control, distribution and supply pose a threat to IC COMPANYS?

CEO Mads Reyder: *“Yea, you can say that, cooperation with external suppliers can cause a number of risks in the manufacturing and distribution process, but each brand works with the best suppliers in the right country.”*

5. Does IC COMPANYS change its internationalization strategy with the selling of the mid segment brands that took place in June 2014?

CEO Mads Reyder: *“No, definitely not. At the moment we don’t want to expand internationally, we want to further expand in our core markets and penetrate more.”*

6. Conclusion and Reflection

The purpose of this thesis is to get an understanding of how globalization has implications in the process of internationalization, with remarks to the Danish fashion industry. In the writing process the author of this thesis selected the main theories of internationalization and put them to test the data that has been collected through different channels.

What has been observed and analyzed, is that many retailers that have struggled with the turmoil of economic crisis, have changed business strategy or the focus. This change came as a response to build competitive advantages so they can effectively stay on the floating line. Globalization still lends a hand for further development and expansion from which the company should benefit, but as seen the majority of fashion retailers in Denmark prefer to stay comfortable in their home countries due to external unknown macroeconomic environment that might affect their investments. However, on small markets such as Denmark, the important players will eliminate competition or acquire them; therefore there is no escape than to expands to foreign territories and acquire international experience, knowledge for further development and modernization, learning and developing competitive advantages so, at the right time and right place with the right tools, to support growth strategies and large revenues, by maintain the highest possible flexibility. As a result of analysis, the most important challenge has been described as achieving online presence and expanding internationally to reach online customers worldwide. The reason for choosing this challenge is that globalization has played an important role as making economies more integrated, into a homogenous market where the speed of information represents the key to grow a business, in a more innovative and international environment.

This thesis outcome is expected to influence more students' researchers for further studies, whether deductive or inductive researchers, looking at a sensitive and thin layered industry as fashion retail. Further research with more quantitative data would give a more validity and a more objective perspective, not just for one part of the retail but for the whole retail market.

Even though many researchers try to look at the original theories of internationalization and apply them within areas of international business, there is no single theory to explain internationalization or to guide it in every step. It is further believed that by making use of a

mix of theories of international expansion, new theories could emerge and replace the old ones with new ones.

While trying to answer the research questions, the present theories of internationalization have helped aiming in the right direction the researcher of this thesis.

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