Global Supply Chain Management Strategies of Born-Global Firms in the Fashion Industry: A Conceptual Model

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Abstract

The study examines the influence of trust, culture, and Web-enabled information technology on global supply chain management strategies of born global firms in the fashion industry. The paper seeks to provide insights into the success (or otherwise) of such entrepreneurial firms as they manage their business network alliances in the design, production, delivery and marketing of a fashion product—a product that is characterized by a very short fad/fashion product life cycle. The authors develop a conceptual model that links partnership formation, contracting processes, and global supply chain management strategies to the firm’s performance. Future research efforts need to empirically investigate the conceptual model on a sample of born global firms in the fashion industry.

Keywords: born-global, national culture, supply chain management, entrepreneurship opportunities, international markets

1. Introduction

The born-global firm must rely on its business network, or “supply chains”, of foreign business partners in order to enter new international markets (Chetty & Campbell-Hunt, 2004) and achieve the performance that it desires for entrepreneurial opportunities. Because the born-global firm lacks resources or does not have the time to develop its global network, it has to rely on outside independent firms. It is dependent upon its supply network of licensees, dealers, and distributors operating in various host countries outside of its domain in order to enter new international markets and exploit global entrepreneurial opportunities. To sustain competitive advantage, the born global firm must effectively and continuously manage its supply chain for international growth, while balancing key factors that reside outside of its direct control.

This is particularly critical in the fashion industry where the born-global firm as the focal company tries to position its brand which has a very short product life cycle. This involves working with a host of foreign suppliers and distributors who collectively have a myriad of differing cultural values, norms, and philosophical underpinnings. Advances information technology offers the born-global firm an opportunity to quickly implement a strategy to address international market challenges and needs. With demands of and astuteness of the various dimensions of cultures (Hofstede, 1992), including those country-wide as well as regional, the born-global firm must possess or quickly acquire the organizational capabilities (Knight & Cavusgil, 2004). These capabilities — management and technological — are needed to minimize the impact of culture while enabling the born global to successfully manage its supply chain(s) for international growth and performance.

2. Literature Review

2.1 Origins of Born-Global Firms and Their Fit in the High-End Fashion Industry

Since the term “born-global” entered the academic research vernacular, there has been unleashing of theoretical articles on the capabilities required of these new international ventures known as born-global firms. The bulk of academic research attention on born globals has gone into research from a resource-based view of the firm (RBVF) focusing on resource, or more specifically, management and organizational capabilities required for competitive advantage (Wernerfelt, 1984; Penrose, 1959). There has been an effort to apply entrepreneurial success factors to international ventures in explaining the characteristics of a born-global entrepreneur (McDougall & Oviatt, 2000).
The attempts to relegate the born-global firm to a smaller version of a multinational firm or even to posit the born-global firm as an entrepreneurial firm that one day had an epiphany of going global misses a key aspect for the success leading to the success of a born global—development and sustainability of a diverse global supply chain. While expanding our knowledge base on born globals, these efforts fail to recognize the born-global firm as unique to traditional multinational firms that created large domestic markets before venturing into international markets. Then there are those valuable, rare, inimitable, and non-substitutable resources described as leading to sustained competitive advantage as conceptualized in RBVF (Wernerfelt, 1984; Barney, 1991).

The resource-based view of the firm (RBVF) in its purest form is static. Such efforts fail to capture the essence of what it means to be “born global”. The born-global firm must possess or quickly acquire what Teece et al., (1997) refer to as dynamic capabilities. This is because the born-global firm operates in a very fluid global marketplace and must have a high level of absorptive capacity (Cohen & Levinthal, 1991). The born-global firm must constantly reinvent itself in order to stay relevant in existing international markets and enter new international markets. In this case, it is often the strength of the born-global firm’s product brand and customer experience in international markets that keeps customers coming back for more.

2.2 Problem and Gap in the Literature

Hofstede (1992) observed that the culture of any country or even region has many dimensions that any firm will find challenging. This is true for the small to medium-sized firm such as the born-global firm that often lacks the human and financial resources of the large corporation with an international presence. The large corporation, particularly a multinational corporation, will typically have legally-binding contracts and resources to offset cultural differences across their supply chain network. Yet, the born-global firm must act quickly to build trust with its business partners to take advantage of the entrepreneurship opportunity in the international markets that is motivated by the forces of competition and technology (Oviatt & McDougall, 2005).

There are many studies in the literature on large corporations’ entry into foreign markets and their performance, some eventually becoming multinational corporations (Xu et al., 2006; Evans & Doz, 1992; Doz & Prahalad, 1992). Some have focused on small businesses in particular industries such as information and communications technologies (ICT). From these studies we learn how companies such as Apple, Inc., Yahoo, and Google, Inc., fueled by technological innovations of firms (Utterback, 1971) become global conglomerates through strategic alliances (Ohmae, 1989). Early on, Levitt found that interests in international markets grew rapidly from globalization of markets (Levitt, 1983). There are a few studies on individual elements of trust, culture, and technological innovations for born-global firms where the focus is on the born global’s organization (Zhang & Tansuhaj, 2007). Yet, little is known about the effects of the supplier’s culture on supply chain network for international growth and performance of the born-global firm. Several case studies have advanced some aspects of culture and SCM. However, there is dearth of research on the trust, culture, and advances in information technology and their influence on the supply chain management strategies employed by the born global firm in successfully managing its business network alliance partners.

2.3 Importance of Topic, Questions, Contribution, and Focus

The born global firm appears to adjust its strategies on an ad-hoc basis where little is known about the impact of culture and the application of supply chain management strategies for the born-global firm. This implies that for each new market, the born global firm is reconfiguring its supply chain management strategies, practices, or activities, any of which could affect the bottom-line. By understanding the impact of trust, culture, Web-enabled ICT on supply chain management strategies for new market entry and growth, small businesses with prospective international entrepreneurship opportunities can apply a set of guidelines to help gain born global characteristics and innovative spirit for competitiveness. Examples of several general research questions that we are interested in addressing in this paper are listed below:

- Why would suppliers and distributors in the various countries want to do business with a born-global firm? How does the network supply chain relationship maintain mutually beneficial strategic and operational goals? For example, what is in it for the business partners? What type of relationships does the born-global firm have with bigger more established players in the fashion Industry?
- How is the business network managed? How does the born-global firm decide on an appropriate supply chain management strategy and practice? For example, what type of supply chain management control is needed, and under what condition or circumstance? Do supply chain management strategies vary over the different types of born globals (“Responder”, “Opportunist”, “Experimentalist”, and “Strategist”…Freeman & Cavusgil, 2007)?
- What influence does trust have in the born-global firm’s management control strategy?
• What influence does culture have in the born-global firm’s supply chain management control strategy?
• What influence do advances in ICT have in the born-global firm’s supply chain management control strategy?
• How is performance of the born-global firm measured? What is the significance of flexibility as a performance goal in the management of the born-global supply chain?

3. Research Focus and Conceptual Model

3.1 A Typology of the Born-Global Firm in the Fashion Industry

This paper focuses on small to medium-sized born-global firms in the fashion industry who are very successful—$1 million to $10 million in gross revenue, where more than 50% of sales or 50% of production and/or services are produced through members of the supply chain residing in a one or more foreign countries. A typology of the born-global firm is examined to better understand the evolution of born globals from organizational behavior, internal/external environment, network evolution, foreign market selection and entry models (Freeman & Cavusgil, 2007). Using this criterion, Freeman and Cavusgil classify born globals into four entrepreneurial attitudinal states for accelerated internationalization (Freeman & Cavusgil, 2007) as: The Responder, The Opportunist, The Experimentalist, and The Strategist. The typology is summarized in Table 1, next page.

3.2 A Model of Trust, Culture, and Web-Enabled IT for BG-GSCM

In Figure 1, we present a conceptual research model to study the influences of trust, culture, and Web-enabled information technology on global supply chain management strategies of born global firms in the fashion industry. Our conceptual model links partnership formation, contracting processes, and global supply chain management strategies to the firm’s performance. While our model is designed to bring insights into born globals in the fashion industry, it is hoped that such insights will be useful to the study of other born global firms in a similar highly creative service-manufacturing industries.

The model is set for the high-end fashion and apparel industry where the born global designs high fashions that must be tailored to accommodate local and regional market overlapping stylistic appeal while remaining chic across various key international markets. In such cases, the born-global fashion design house must cultivate partnerships of varying cultures, built upon a sensitive balance of contracts, trust, and the use of advanced technologies for its global supply chain management strategies. While study of financial performance on born globals is of potential value, our model and study focuses on the convergence of the aspects noted above to assess high performance in terms of acceptance of and adapting to fashion trends complemented by learning, speed, efficiency, and cost reduction.

Table 1. Classification of entrepreneurial attitudinal states

<table>
<thead>
<tr>
<th>The Responder</th>
<th>The Opportunist</th>
<th>The Experimentalist</th>
<th>The Strategist</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Behavior Orientation</strong></td>
<td><strong>Behavior Orientation</strong></td>
<td><strong>Behavior Orientation</strong></td>
<td><strong>Behavior Orientation</strong></td>
</tr>
<tr>
<td>Low personal and indirect interactions</td>
<td>Medium-low personal and indirect interactions</td>
<td>Medium-high personal and indirect interactions</td>
<td>High personal and indirect interactions</td>
</tr>
<tr>
<td>Low adaptive and self-oriented behavior</td>
<td>Medium-low adaptive and self-oriented behavior</td>
<td>Medium-high adaptive and self-oriented behavior</td>
<td>High adaptive and self-oriented behavior</td>
</tr>
<tr>
<td><strong>Internal and External Environment</strong></td>
<td><strong>Internal and External Environment</strong></td>
<td><strong>Internal and External Environment</strong></td>
<td><strong>Internal and External Environment</strong></td>
</tr>
<tr>
<td>Not proactively seeking international involvement</td>
<td>Developing understanding of internal/external forces</td>
<td>Proactively willing to internationalize long-term</td>
<td>Proactively seek key partners in lead markets and regions</td>
</tr>
<tr>
<td>International awareness</td>
<td>Interested in international commitment</td>
<td>International trial</td>
<td>Internationalization is innovative with absolute commitment</td>
</tr>
<tr>
<td>Relies on domestic market for comfortable existence</td>
<td>Interested in international commitment</td>
<td>Perceive domestic market as too small</td>
<td>Proactive, and risk taking in interactions with the external environment</td>
</tr>
<tr>
<td></td>
<td>Inconsistent with suppliers and customers</td>
<td>Switch from outward to inward activities in response to perceived temporary external environmental downturn</td>
<td>Enormous efforts made to adapt to needs of large foreign customers</td>
</tr>
</tbody>
</table>
Development of person-centered networks
Few high-level, key decision-maker contacts in large key global firms
Prefer a fairly distant transactional type of relationship
Less inclined to use effort and commitment to manage closer type of relationships
Self-oriented network behavior

Search for information through various networks about how to internationalize
Little knowledge about foreign markets because top management lacks high-level contacts in large global firms
Gradually building networks through personal relationships

Information available through various networks built up over time
Pace of internationalization increasing as well-developed person-centered and organization-centered networks evolve
Develop close and long-standing person-centered networks that facilitate connections to foreign customers and suppliers
Build trust and is adaptable

Continually build network links to lead markets and regions in an industry
Carefully selected and well-developed person-centered networks for locating key foreign customers and suppliers globally
Develop network contacts to hedge international process for any inward, outward, or linked activities
Build trust, reciprocity, and adaptability with closest, long-standing, person-centered networks that facilitate further connections
Strategically sophisticated partnership behavior
Focus on high-tech research and development and seek global partners for assistance
Proactive, collaborative self-oriented network behavior
Benevolently manipulative with customers/suppliers and competitors to preserve network

3.3 Partnership Formation Based upon Culture, Cognitive Processes, and Web-Enabled IT Capabilities

The born-global firm must minimize the impact of various national cultures of the foreign countries and regions where it is seeking entry in order to sustain growth. Its ability to apply its resources and organizational capabilities (Grant 1991) to accomplish the above through rare, valuable, inimitable, and non-transferable capabilities (Barney 1986) will help the born-global firm achieve sustained competitive advantage. Hofstede’s landmark work on national culture (Pucik et al. 1992) is generally defined around the four dimensions of cultures as listed above as it relates to international market entry (Kogut & Singh, 1988)—(a) power distance, (b) uncertainty avoidance, (c) individualism—collectivism, and (d) masculinity and femininity.

a) Power Distance. The degree of inequality of power within a country and the degree of acceptance by members of that country.

b) Uncertainty Avoidance. Societies whose members are not comfortable with ambiguity and situations with unknown outcomes or consequences; they seek high risk avoidance.

c) Individualism—Collectivism. The spectrum of this dimension ranges from a culture and society with more of an “I” attitude where it is about “me” and my needs, wants, and attitude as the individual to one focused on “we” and group cohesiveness and consensus—collectivism.

d) Masculinity—Femininity. This spectrum is about assertiveness with ranges praising material success and higher pay, masculinity, which is similar to capitalism over fundamental promises of social justice and environmental stewardship—femininity.

In our model, partnership formation is critical for the born-global firm in the fashion industry. Specifically, there are two categories of elements that are antecedents to contracting process needed to build trust with suppliers. The first category is designed to capture the following: national culture; norms, values and underlying behavioral assumptions; cognitive processes; and non-cognitive processes of suppliers that influence the development of
trust (Doney et al., 1998). Suppliers who value individual accomplishment – *Individualism culture* – emphasize capability that positively influences trust-building process. However, the risk is that these suppliers may act in a calculative untrustworthy way by acting on their own. Suppliers who value joint venture and group rewards – *Collectivism culture* – are predictable and offer greater opportunities for trust from the born-global firm. The second category is designed around Web-enabled dynamic capabilities (Wheeler, 2002; Straub & Watson, 2001) of suppliers which consist of technological and organizational knowledge and skills needed to use web-enabled information technology. Suppliers with high web-enabled capabilities are able to use advanced information and communications technologies (ICT) via the Internet to conduct e-Commerce, effectively and efficiently.

3.4 Contracting Process Built upon Trust and Legally-Enforceable Contracts

There are two key aspects that must be present in the contracting process for the born-global firm: (a) trust and (b) contracts. While a contract is an elementary basis for co-operation, one of the most important elements of the contracting process for the born global firm is trust (Blomqvist et al., 2008). In our study, we apply examine trust from the behaviors associated with trust-building between the born global and the supplier across five categories (Doney et al., 1998).

![Conceptual research model](image)

Figure 1. Conceptual research model

1) Calculative. Trustor calculates the costs and rewards of a target acting in an untrustworthy way. Suppliers in this category are opportunistic and seek to maximize self-interest

2) Prediction. Trustor develops confidence that a target’s behavior can be predicted. The behavior of suppliers falling under this category is consistent and predictable

3) Intentionality. Trustor evaluates a target’s motivation. The behavior of suppliers who fall in this category is geared toward meeting the needs of others, as opposed to themselves. They are motivated by mutual gain.

4) Capability. Trustor assesses target’s ability to fulfill his or her promises. Suppliers falling in this category differ in their competence, ability, and/or expertise and thus, the ability to deliver on their promises.

5) Transference. Trustor draws on proof sources from which trust is transferred to a target. Suppliers falling in this category have demonstrated that they can be trusted through their long-term strong and reliable connections in the supply chain network.

A contract in this study refers to a written agreement between the born-global firm and the supplier. Trust and contracting are intertwined especially for technology-intensive firms (Blomqvist et al., 2008). In addition to a
trusting relationship, the born global engages in a contract as essential, complementary, or supplementary for facilitating a trusting relationship with the supplier. The degree of complexity and utility of the contract is dependent upon culture and web-enabled capabilities of the supplier in addition to trust that the BG holds for the supplier.

3.5 BG SCM: Contract, Contingency, E-Commerce, and Lean Management Considerations

The born-global firm—that targets and operates in international markets from its inception—relies on networks of business partners because of the needs of customers in that market and lack of financial and human resources to build its own sales, distribution, and manufacturing facilities in the international markets (Chetty et al., 2004, Knight et al., 2004). These business networks are referred to as supply chain networks, or simply, supply chains (Maloni & Benton, 2000; Anderson et al., 2007; Fisher, 1997). Born-global firms are as likely to target numerous foreign markets in different ways, simultaneously, through various supply chains, as they are to target a single International market in only one way.

The success of the born global firm rest on its ability to adapt a supply chain management approach (Mentzer et al., 2001) and related practices (Anderson et al., 2007) for international market growth. Managing a business using a supply chain approach is where strategy, operations, technology (Hayes et al., 2005), information, tacit knowledge (Polanyi 1966) and explicit knowledge (Nonaka, 1991) converge through organizational capabilities and learning (Huber, 1991); linking every function and process of the business that adds value to the customer (Maloni & Benton, 2000); while balancing conflict between the customers’ needs and the need for growth and profitability of the focal business and other members of the supply chain (Anderson et al., 2007).

The born-global firm’s typically lack of mental barriers to its new target country enables the firm to take a fresh perspective of the situation (Knight et al., 2004). The born-global firm applies existing knowledge or learns (Nonaka 1994) through imitation and innovation (Kim, 1998) from its in-house knowledge base or by transforming and exploiting new knowledge that is acquired and assimilated—via absorptive capacity (Cohen & Levinthal, 1990; Zahra & George, 2002). In a world economy stemming from the globalization of markets (Levitt, 1983), suppliers in various countries and the born-global firm have a mutual recognition and understanding that they collaboration is the key to success in this global marketplace (Anderson & Narus, 1990).

The supplier in the form of a distributor, assembly shop, or retail outlet in conjunction with the born-global firm has come to terms with the fact that both the supplier and born-global can reach and satisfy more customers than either could do separately. The born-global firm offers the supplier a unique opportunity to participate in an emerging business venture leading to more growth. This is because the born-global firm attracts customers from a larger market based upon the strength of its product brand or operational know-how. This relationship puts the supplier in a more relative dependent state to that of the born-global and hence the supplier is more receptive to requests and amenable to changes (Frazier & Summers, 1984).

3.6 Measuring Overall Organization Performance of GSCM Strategies of the Born Global Firm

Knowledge of the firm has been found to be a major competitive advantage (Grant, 1996) or more precisely for the born-global firm—knowledge of the founder and key employees of the firm. Knowledge possession and creation (Nonaka, 1994) is crucial to the success of the born-global firm with respect to the firm’s administrative and technical innovations (Knight et al., 2004; Daft, 1978) and organizational learning capabilities (Huber 1991). However, without speed (Stalk, 1988) and flexibility (De Meyer et al., 1989), the firm would not be able to become born-global.

Key growth orientation performance measurements are: time lag between the founding of the firm and speed of firm’s subsequent international growth (Autio et al., 2000). Time lag is equal to the time index for the first international sales minus the time index of the founding of the born-global firm. Speed refers to how rapidly the firm increases its international sales once an initial commitment to go global has been made. Other measures fall under growth orientation which is comprise of the following variables: maximizing profitability, maximizing sales growth, maximizing technical superiority, maximizing value of the firm for eventual acquisition, maximizing stability and longevity of the firm, growing as rapidly as possible, and aiming for rapid growth.

3.7 Insights for the Global SCM of the Born Global Firm

There are two primary ways in which a focal company in an international supply chain can apply management controls. One way is through trust. The other is through legally-binding contracts. The dependency structure between the born-global firm and its suppliers will influence the type of contract—either explicit or normative (Lusch & Brown, 1996). In order to secure long-lasting relationships with its suppliers in high bilateral dependency, the born-global firm may seek to implement normative or “soft” contracts. This type of relationship
requires trust and trust is built around non-opportunistic behavior. This gives both the born-global firm and the supplier(s) flexibility to apply techniques and processes that are mutually beneficial in terms growth performance. When problems arise, the born-global firm and its supplier(s) can handle disputes outside of legal courts even if explicit contracts exist.

References


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