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Regional Business Networks and the Multinational Retail Sector

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ABSTRACT

In this paper we examine the network relationships of a set of large retail multinational enterprises (MNEs). We analyze under what conditions a flagship-network strategy (characterized by a network of five partners – the MNE; key suppliers; key partners; selected competitors; and key organisations in the non-business infrastructure) explains the internationalisation of three retailers whose geographic scope, sectoral conditions and competitive strategies differ substantially. We explore why and when retailers will adopt a flagship strategy. The three firms are Tesco and The Body Shop, two U.K.-based multinational retailers, and Moët Hennessy Louis Vuitton (LVMH), a French-based global retailer. We find evidence of strong network relationships for all three retailers, yet they embrace network strategies for different reasons. Their flagship relationships depend on each retailer's strategic use of firm-specific-advantages (FSAs) and country-specific advantages (CSAs). We find that a flagship strategy succeeds in overcoming internal and/or environmental constraints to cross-border resource transfers, which are barriers to foreign direct investment (FDI). We provide recommendations on why and when to use a flagship-based strategy and which type of network partners to prioritize in order to succeed internationally.

Keywords: international retailing; flagship strategy; networks; LVMH; Tesco; The Body Shop; multinational; firm-specific advantages; regional strategy.

INTRODUCTION

It is well known that the retail industry is one of the least internationalised among leading economic sectors. Indeed, in 2000, the world's top twenty retailers held no more than 26% of their assets overseas. In contrast, foreign assets accounted for 78% of tobacco manufacturers' total assets, 50% of chemical multinationals' total assets, and 40% of pharmaceutical companies' total assets[1]. This reflects the highly specific constraints on the transfer of retailers' capabilities across national borders. These constraints persist in spite of the opportunities offered to retailers for internationalisation by increasing regional economic integration in North America, Europe and Asia[2]. Slow sectoral internationalisation coupled with the recent remarkable international achievements of a few retailers has renewed interest in international retailing[3].

In retailing, sometimes more than in manufacturing, internationalisation is not risk free, as the frequently discussed troubles of Wal-Mart and Toys R Us in Europe, Royal Ahold in the United States, and Carrefour in China have highlighted[4]. Retailers have two major strategic choices in internationalisation. First, they can transfer their resources by creating a proprietary network of foreign subsidiaries, i.e. through foreign direct investment (FDI). This strategy involves either greenfield development strategies (the firm sets up its operations from scratch), or acquisitions of existing local players or a combination of both. In this article we call this an internalisation strategy[5] . Alternatively, to limit their capital and physical exposure, retailers can internationalise by building networks with local and regional partners, such as key suppliers, key retail partners, key competitors and non-business infrastructure organisations that perform different value added activities in partnership with the retailer. We call this alternative a flagship-network strategy[6]. Here, we focus on the latter.

Our research takes an exploratory case study approach to investigate to what extent and in which circumstances retailers will rely on a flagship strategy to overcome their resource and capability transfer limits, to reduce their liability of foreignness, and to sustain internationalisation[7]. The cases investigated are Tesco, Moët Hennessy Louis Vuitton (LVMH) and The Body Shop, selected for their important strategy positioning and sectoral differences.

Across the three retailers we find evidence of successful internationalisation correlated with the implementation of a flagship strategy. Yet they embrace a flagship strategy in different degrees and for different reasons. These differences depend on the transferability of their resources and capabilities and on their use of country-specific advantages (CSAs). We find that, contingent on these dimensions, a flagship strategy based on long-term collaboration and learning with network partners is the best strategy to overcome internal and/or environmental constraints to cross-border resource transfers, which are barriers to FDI. We highlight the managerial implications of these findings.

THE FLAGSHIP SRATEGY

We investigate when and why retailers will opt for a flagship internationalisation strategy. We propose that MNEs facing internal and environmental constraints to their internationalisation—i.e. some limits to the transfer of their competencies across border—are better off entering certain foreign markets by building networks of local and regional key partners than by adopting a go-it-alone FDI strategy. Among the multiple “network” configurations described in the literature, the flagship strategy alone highlights the benefits of a corporate-planned, long-term based internationalisation strategy which involves one central multinational and a web of selected partners. In contrast with many studies which highlight bilateral relationships in retailing[8], the flagship goes a step further by enabling firms to leverage multidirectional network effects.

Figure 1 presents the flagship-network five partners framework. The rationale for the MNE to develop a flagship strategy is to reduce uncertainty while internationalising and increasing learning. The first member is the network's strategic centre, i.e. the MNE which acts as a flagship in terms of strategic control and direction for the entire network. The MNE relies on four types of cross-border partners to increase its international expansion rather than on bureaucratic vertical integration.

FIGURE 1 here

Key suppliers are those whose inputs are critical to the development of the flagship's competitive advantage. The flagship recognises in them the ability to produce value added inputs and services in an efficient manner. *Key customers* are businesses specialising in distribution and intermediation with final consumers. *The non-business infrastructure (NBI)* is made up of non-profit organisations that are relevant to the flagship firm's competitiveness across borders. These partners can be government agencies, universities, research centres or trade associations. Finally, *key competitors* are those firms that the flagship may select to form alliances of joint ventures in the cases where the economic risks to be borne are greater than one party alone can support.

The flagship MNE provides the strategic vision and coordination to lead the network through successful international expansion. All five partners interact freely and openly with each other and the complementarities of skills necessary to improve the overall network performance are coordinated by the flagship through a multi-directional information flow. Although the upstream and downstream partners, the key distributors and the key suppliers relinquish strategic direction to the flagship (strategic asymmetry), they gain additional decentralised value-added activities of their own. All relationships are long-term and knowledge-sharing agreements. Key partners specialize in achieving commonly agreed tasks. Relationships with key suppliers rely on international benchmarking rather than on competitive tendering.

All these traits make the flagship strategy quite distinct from other network strategies in the literature. While some network studies focus on social relations between individuals and organisations but without any specific strategic intent and others have a strategic management purpose, few address international business issues. To recognize the contribution of flagship strategy to the international management field, it is important to differentiate the flagship framework from multiple and heterogeneous definitions of networks.

As underscored in **Table 1** which contrasts these different views with the flagship, sociological accounts of networks either emphasise the network landscape in which firms are broadly embedded (see Nohria's work for instance[9]), or inter-personal networks where the structure and the nature of ties between individuals is the object of study (see for example Burt's or Krackhardt's developments[10]). These views have only indirectly emphasised the benefits of networks for firms' innovation, competitive advantage creation, and learning.

In contrast, the strategic management stream to which the flagship strategy belongs emphasises strategic networks geared toward innovation, flexibility, learning, and capability development. This work models firms as internal networks, such as the 'heterarchy' (proposed by Hedlund[11]), and the 'differentiated network' by Nohria and

Ghoshal[12]. Yet they have focused on the intra-organisational level. At the inter-organisational level Lorenzoni and Baden-Fuller's '*strategic centre'* is the closest to the flagship concept since it stresses the role of one lean firm, the strategic centre[13] which coordinates a web of multiple partners, both upstream and upstream to share risks, innovate and gain flexibility. However, this configuration, and others,[14] are not internationally oriented. They neglect one crucial challenge facing managers contemplating internationalisation: how to overcome barriers to FDI when the firm has limitedly geographically transferable capabilities (i.e. when it lacks the capabilities needed to operate in foreign markets, and/or when host-environments are hostile.)

The Håkanson and Johansson's framework does consider these internationalisation challenges (in addition to innovation-enhancement), but in contrast with the flagship, Håkanson and Johansson's '*industrial networks*'[15] do not feature a strategically leading multinational firm that acts as a strategic centre for all the partners. Instead, their network configuration consists of several strategic centres and peripheral firms such that they emphasise power rivalries between different sub-networks. In the flagship strategy, however, no partner is the rival of the others, which limits political clashes. The flagship strategy is also distinct from typologies of locally based clusters of cooperative firms (Porter) which can also cooperate across geographic boundaries (Nachum and Keeble) but which are analyzed at an aggregated industry level, and therefore make the benefits for each firm difficult to disentangle[16].

In addition to its specific focus on MNEs' strategy, a flagship strategy presents two other distinct features. First, the flagship network relies on 'strategic asymmetry' between the flagship MNE and its partners. Strategic asymmetry is the network's key governance mechanism to curb the risk of opportunism incurred by coordination outside the hierarchy. While most studies emphasise the common participation of all partners to strategy, in the flagship strategy, independent partners relinquish the strategic leadership of the network to the central MNE for those activities relevant to the network's scope. Indeed, strategic asymmetry increases the network stability through shared inter-organisational purpose based on a constant agreement on a well-defined strategic agenda. If all partners participated in strategy formulation, competing objectives between partners would undermine trust and shared purpose. It also helps the development of a 'common language' necessary to inter-organisational learning. The flagship is the coordinator/facilitator of learning.

Second, the flagship strategy is based on consistent multilateral and multidirectional partnerships. Where other studies consider one or two types of partners at a time (vertical or horizontal), the flagship strategy stands on the interactions of all key business partners. The flagship strategy is also distinct by the important role it attributes to non-business infrastructures.

Overall, the flagship strategy presents unique configuration traits which can help MNEs to internationalise more effectively and efficiently when they lack transferable resources to do so, or when they face high environmental pressures in host markets. When FDI is risky and difficult, MNEs are advised to coordinate a web of key partners in which they act as the strategic centre.

Before we turn to the case analysis to determine whether these privileged links exist in retail and why, we now introduce the rationale of our case selection and of our research methodology.

TABLE 1 here

METHODS

Sample selection

Our population of interest is the world's forty-nine largest retailers in the world's 500 largest firms.[17] Because our central concern was to pinpoint the existence of different causes of flagship network inception, we selected three of these retailers, embedded in three different competitive contexts to maximize the probability of capturing sufficient variance in the retailers' network strategies: (i) the retailer's strategic position, (ii) the retailer's level of internationalisation, i.e. its geographic scope and (iii) the sectoral/environmental drivers of competition.

First, the *retailer's strategy and positioning* refers to different generic strategies competitive strategies and therefore to the unique way the firm creates a competitive position in an industry; the way it configures its internal environment (resources) to cope with the influence of its external environment; and the way it defines its internationalisation goals[18]. According to this logic, different interactions of economic and environmental forces should help determine the transaction costs and resource reasons for choice of network partners by retailers while internationalising. We found that while Tesco was competing on a cost-leadership strategy driven by a constant growing market share in the U.K. and several other European countries[19], LVMH the world's leading luxury conglomerate was a differentiator[20] and The Body Shop (TBS) a focuser on one limited range of products: medium-range cosmetics. In Calori and colleagues' international competitive strategy terms adapted by Leknes and Carr for retailing, Tesco was a 'continental leader', LVMH a 'global luxury niche player' and TBS a 'world-wide specialist'.

Secondly, the *internationalisation scope* refers to the MNE's geographic coverage. The international literature has always highlighted the challenges that geographic diversification imposes on MNEs in terms of resource transfer, regional responsiveness, economic integration, and performance[21]. Recent empirical evidence in international business has shown that most of the world's 500 largest MNEs are not global but home-region based; very few are bi-regional; and only nine out of the 500 are global with significant sales in the three regions of the triad[22]. More specifically, the extent to which a firm crosses the boundaries of its home-region appears to increase the necessity to adapt to different market and institutional conditions, (as so few large MNEs achieve some global activity). Tesco is very home-region oriented (92% of its sales were derived from Europe and 8% from Asia in 2002). TBS is also home-region oriented with 53% of its sales in Europe, but it has significant operations in the two other regions of the triad (22% in Asia Pacific and 25% in the Americas). LVMH is truly global (34% of its sales in Europe, 27% in the United States and 30% in Asia Pacific).

Finally, several *sectoral* and *environmental factors* help determine the conditions of cross-border transfer of retail firms' capabilities. In the grocery retail segment, national taste; cultural, religious and shopping pattern variations; local planning regulations; and the perishability of products impose constraints[23]. These constraints apply to Tesco. In the luxury retail segment, cross-border differences for elitist products and brands are minimal as the same sort of products appeal to the global jet set[24]. This different set of environmental conditions applies to LVMH and affects its internationalisation strategy. In the cosmetic segment there are some consumer taste differences and distributional complexities caused by rising cosmetic market-share of competing General Merchandise Stores (GMS). Such environmental constraints apply to TBS.

The main differences across the three selected firms, susceptible of triggering different causes of flagship network inception, are summarized in **Table 2**.

TABLE 2 here

Data gathering and analysis

We used a multi-method data-gathering process. First, to assess whether these three retailers have different international networking strategies we conducted pilot interviews at senior managerial positions. These first respondents then directed us to a series of key partners and to other internal respondents. In total we conducted twenty interviews in 2003 at senior managerial levels within the three retailers and across their network partners: upstream (private labels and general suppliers), downstream (franchisees and concessionaires), selected competitors and non-business institutions such as business schools and trade associations. On average, each interview lasted an hour, was tape-recorded and transcribed. From the interviews, we inferred a hierarchical structure of five nodes and forty seven codes that led to the analysis presented below[25]. To help reduce any retrospective bias and control for the bias present in the interviewer-interviewee relationship[26] we triangulated the different interviews with one another across the network and also with both internal and secondary sources. This method generated a rich multi-faceted view of the phenomenon.

THE THREE CASES

In this section, we explore two research questions. First, we consider evidence for the existence of flagship network strategies and of their correlation with the three retailers' international success. Second, we examine whether different factors explain their network strategies.

i) Evidence of different levels of flagship-network relations across the three retailers

As summarized in **Table 3**, the careful selection of cases led to the observation of interesting differences in the degree of flagship network strategies coordinated by the three retailers. But according to the retailers, the flagship strategy significantly contributes to their current international success.

Tesco, the leading British GMS retailer has been the least flagship-oriented of the three cases but it increasingly relies on this strategy. In Europe, it has used an FDI internalisation strategy to enter Hungary, Poland, the Czech Republic, the Slovak Republic, and Ireland. In Asia, for reasons detailed below, Tesco has increasingly relied on partners (joint-ventures) and in the UK it has successfully diversified its formats and services with key partners. The estimated proportion of revenues generated by these joint activities increased from 3.3% in 2001 to 4.8% in 2002. In real value, its estimated partnership-based sales growth (almost 67% in one year between 2001 and 2002) outperformed the total group revenues growth (11.3% in the same period). Tesco also has key partnerships with branded and private label manufacturers. As the supply chain director made clear: '*We know that we cannot win alone. Building partnerships is part of our culture. We value our suppliers and service providers as much as our customers*'. We also observed important collaboration with some non business infrastructures but none with direct competitors. Partly due to its flagship strategy, Tesco's share of international sales nearly doubled in five years from 9.8% to 18% of total sales (from 1998 to 2002). The nature of these relatively new relationships, summarized in **Table 3,** which confirms the existence of strategic asymmetry in the network, along with the importance of non business infrastructures, leads us to define Tesco as an *emerging flagship.*

LVMH is the world's leading luxury retailer. Merryl Lynch estimated its global market share at 21% in 2001. Its sales were €13,168m in 2002. It is thus three times smaller than Tesco. But with brands such as Christian Dior, Louis Vuitton, Moët & Chandon, and Hennessy Cognac, its aura is international. LVMH operates in all regions of the triad. The LVMH Fashion Group on which we focused, presents a much higher degree of flagship strategy than Tesco especially downstream. This is explained by the very high reliance on concession stores in Japanese and American department stores. In total, we estimate that 28% of the fashion group's turnover is realized through concessions in partnerships, which may have been up to 10% of LVMH's total annual revenues in 2002. This proportion is high and unexpected if one considers that LVMH's strategy is often portrayed as relying exclusively on a wholly integrated distribution network[27]. Upstream, LVMH has reduced its reliance on a handful of critical key franchisees which cleverly complement the product offering. Like Tesco, LVMH has no alliance or networking relationships with direct competitors except through the Comité Colbert, an association which promotes French luxury houses' interests in the world. However, the group has recently started a JV with DeBeers for the retail distribution of diamonds. Finally, LVMH actively relies on several non-business infrastructures to improve its international competitiveness (see **Table 3**). With this network in place, LVMH is the only Fortune 500 retailer to have become global. Its international sales even rose from 81 to 83% of total sales in 2002. In sum, LVMH is a *well-running flagship*.

TBS is the smallest of the three retailers studied here with €563.5 million sales revenues in 2002, yet it is the most flagship-network oriented of the three retailers. Although TBS's networking business model has been well documented[28] our study shows increasing reliance on network ties. Indeed, its model relies on the coordination of 1,392 franchises across the world, which generated 64% of the firm's total turnover; 15 key suppliers, which accounted for 95% of the total input/output of the firm; and on relationships with the non-business infrastructure, which are critical to support the elasticity of the network and to promote TBS leadership in corporate social responsibility. As expected in a flagship strategy, TBS acts as a strategic leader for all these partners. But like the two other retailers and at odds with the "ideal" flagship strategy, TBS does not cooperate with direct competitors. Its horizontal relationships with other retailers are with non-direct competitors. While in 1998 33% of its sales were international, this share reached 61% in 2001. This progress is explained by a redefinition of its flagship strategy. Indeed, as detailed below, the TBS network model has helped the firm to overcome a severe crisis and to turnaround from 1999 to 2001. For this reason, we call it a *flagship in transition*.

As developed in the next section, these differences in the degree of flagship strategy are explained by diverging causes of flagship network inception. The following analysis also helps us to identify converging patterns of flagship relations across the retailers which confirm that they follow a flagship strategy, but also traits which diverge from the "ideal" flagship strategy, indicating retailing specificities.

TABLE 3 here

ii) **Evidence of different factors underlying network strategies**

TESCO

In its race against more internationalised competitors such as Carrefour and Wal-Mart, Tesco has increasingly relied on network links to sustain its rapid pace of internationalisation. According to a recent IGD report, at its current pace of growth, Tesco should leapfrog both Metro and Ahold by 2010 in terms of overall sales and its international sales should peak at 29% of its total sales.[29] This flagship strategy is predominantly influenced by high normative, coercive and isomorphic institutional impediments to internationalisation and by the institutional context of transactions in both home and host-countries.

Relationships with its external environment significantly influence Tesco's needs for multi-directional cooperation. Different sources of institutional constraints force Tesco to become more nationally and socially responsive. Regulatory pressures have pushed Tesco into creating joint ventures with Samsung in Korea and with Sime Darby Berhard in Malaysia for the development of its retail chain. Invariably, these pressures create coercive isomorphism among foreign retailers that are led to adopt the same entry and cooperative strategies. In doing so, new entrants choose a key partner and start creating local political and supply connections. In Korea, Tesco chose Samsung, a prominent actor. As explained by Tesco's corporate development director:

'The point of partnering with Samsung is that you are dealing with one of the biggest Korean companies which understands the Korean establishment inside out and if you need to get something done, can help you to do it: real estate development, creating the right business climate, making sure that sensible legislation emerges. It has an influence of all sorts'. She added: '' *In Korea, it is a massive help on the recruitment of head-office people that we are linked to Samsung because if you are a Korean graduate, working for a Samsung joint venture is a great CV thing to do; working for an unknown foreign retailer might not be. So it influences the kind of people you can recruit, and it is fundamental. The unobvious factor is making sure that you are going to be a place where people want to come and work. And there is a kind of social responsibility thing, so you are not a faceless foreigner but you are part of a community. We invest in a community in the same ways as we would here'*.

To further shape this politically acceptable image, in each foreign country, Tesco joins local trade associations whose actions are also political and legal. This relationship places Tesco as an equally credible player as local competitors in the eyes of the government and suppliers. Tesco derives further network synergies since Samsung also provides it with the legitimacy to convince local suppliers to organize and operate in the Tesco's way. Tesco literally coaches local suppliers in all domains showing high strategy asymmetry: hygiene, lead-time, supply chain management, quality controls.... With Samsung behind, suppliers know that Tesco is in Korea for the long run; they accept the costs of new investments. As supply quality and predictability improve, Tesco and Samsung increase their market grasp.

Upstream, Tesco provides leadership to its whole supply chain, including the UK. Complying with strong ethical and financial normative pressures for applying the Efficient Consumer Response (ECR) programme of cooperation with suppliers, Tesco has gone beyond it in partnership with its key suppliers. Under Tesco's leadership, for example, cooperation has led to the revolutionary "dollies", an industry innovation system of rolling pallets which can be automatically placed into store aisles without unloading and loading and which has tremendously increased Tesco's efficiency. Dollies required considerable process innovation by the suppliers which, in return, also reduce their costs and achieve a new competitive advantage. These programmes (which also include private-label manufacturers such as Geest Plc or McBride) have not been without tensions, but both suppliers and Tesco recognize that these tensions are sources of innovation and efficiency-enhancement which provide them all with superior and exportable competitive advantages. As a senior director of Geest Plc, one of Tesco's leading suppliers of private label fresh and ready meal solutions commented:

'Tesco ranks us on the ECR score on a business unit basis, not on the overall company basis. We do an evaluation on a market by market basis with their buyers. It is a very good two way process to understand how things can get better'.

The data also show that these institutional sources of network orientation are in fact subordinated to the economic context of transactions. For example, Tesco is careful to foresee the institutional stability that will sustain its contractual relations in the alliances *before deciding* to enter some countries through alliances. Tesco carefully monitors other competitors' entry strategies in so-called risky countries. In China, where the joint venture is the entry mode-must, Carrefour's 2001 troubles have made Tesco cautious to enter this market, where it is still absent today. Even if it is public knowledge that Tesco will soon enter China, it has taken much more time to check the situation there and establish the safeguards that will minimize its transaction risks.

As summarized in **Table 4**, Tesco's flagship approach is based on strategic asymmetry and synergies throughout the network. Downstream and NBI partners help to raise its legitimacy in host markets, which convince governments and suppliers of its serious economic intentions. This leads to more efficient supply-chain relationships and more store opening authorizations which foster Tesco', Samsung' and their suppliers' revenues. Here, exogenous, societal and institutional barriers to internationalisation play the main role in explaining this flagship strategy.

LVMH

As shown above, LVMH sustains its global leadership and differentiation strategy partially through network ties that selectively complement its internalised strategy. In this section, we find other types of internationalisation challenges which explain these ties. We also show why, once coordinated, these ties create a flagship network.

In contrast to Tesco, LVMH relies much more on external partners. Furthermore, it has fewer legitimacy and institutional pressures in foreign countries because of the nature and the format of its expansion and because of the particular nature of its products which satisfy local consumers' self-esteem aspirations. Like Tesco, the legal institutional context is an important incentive for networking and setting privileged links with some partners but unlike Tesco, resource-based factors explain why the group opted for a flagship strategy to become global.

First, the nature of LVMH's knowledge and skills affect the risk of key capability leakages and its internalisation/de-internalisation choice. LVMH products are primary targets of the counterfeiting industry. Consequently, LVMH not only decided to actively cooperate with the Comité Colbert and its other 69 leading French luxury members (direct competitors) to pool resources and coordinate a global fight but also, in markets where the counterfeiting industry is particularly dangerous, not to rely on any licensees. Upstream, in the late 1980s, Christian Dior used to have 300 licensees across the world. Dior recently downsized this pool into a handful of 40 privileged licensees (including Christofle or Sàfilo) that it is finally able to follow, monitor, support and stimulate. The situation pinpoints a flagship sharing of roles: the best practice partners produce what they are good at, but in accordance with LVMH's creative directives and recommendations (strategic asymmetry). Moreover, licensees and other LVMH's distribution partners benefit from LVMH's cooperation with the Comité Colbert to crackdown on counterfeiters since these actions defend its brand image and limit falling sales.

Second, gaps between the tasks to perform and LVMH's internal resources are drivers of flagship links, since they are sources of interdependence and strategic alignment. To reach customers that it could not reach through its own stores, LVMH adapts to local retail structures and relies extensively on department-store concessions mostly in North America and Japan since these other triad-markets are highly department-store driven, contrary to LVMH's home-region markets. Consider the complementarities between LVMH and Selfridges in the UK. On the one hand, Selfridges brought a new type of clientele. As Selfridges' chief buyer explained:

'*What LVMH people saw is that we were then getting access to customers who had high disposable income, who were young and fashionable but who maybe didn't have the self-confidence, the drive or desire to push a very heavy door with a guard in a Bond Street boutique'.*

On the other hand, LVMH contributed to "re-launch" Selfridges:

'If you had visited Selfridges' ground floors four years ago [1999]*, you would have seen brands with limited attractiveness in international standards. We have created their ground floor because we came in with Vuitton, Dior, Fendi, Céline, Loewe—the most beautiful brands in the market. Following us, the others have invested: Prada, Gucci, Burberrys. Consequently, this has caused a transformation of their store because we attracted another level of customers; customers who buy accessories of a certain*

level will also purchase cosmetics of a certain level, and fashion of a certain level"- LVMH Fashion Group director United Kingdom

To promote links with the NBI, LVMH has teamed up with leading academic institutions such as ESSEC (where it has been sponsoring the LVMH Chair in Management of Luxury Brands since 1991), INSEAD and the London Business School on a quasi exclusive basis. These institutions help LVMH to acquire primary and applied research before its competitors. The research projects commissioned by LVMH on international marketing, brand leadership, consumer behaviour, etc., coupled with privileged access to top class human resources, improves LVMH strategy and increases its brand value. This improves the overall commercial network's sales and revenues (franchisees, licensees and department stores included).

LVMH presents significant evidence of a flagship strategy with multiple synergies and strategic asymmetry. This strategy is mostly explained by capabilities and resource development barriers to internationalisation combined with opportunism minimization concerns (see **Table 4)**. Win-win exchanges explain the long-standing and quality aspect of these relationships. This is also why the number of these partners must be limited to be properly managed.

THE BODY SHOP

In contrast with Tesco and most retailers, TBS pioneered and built its reputation on corporate social responsibility (CSR). CSR was not an exogenous pressure which drove legitimate expansion overseas or at home. It was an internal strategic choice directed by its founder who had a new vision of doing business. In contrast with LVMH, whose products could generate up to 48% of operating margin, TBS never had the resources to build a costly network of concessions within department stores or to invest in advertising in the three markets of the triad. TBS illustrates how a modest niche retailer can achieve a high international profile by building flagship ties with a number of key partners, while imposing what is now a norm to succeed in the retail industry: CSR. It is because the evidence shows that the network is closely articulated and multilateral that we call it a flagship. But we found that TBS flagship-based expansion has been mainly internally driven. Internationalisation has sharpened internal governance choices between internalising and de-internalising, which the flagship strategy has helped to solve, while also meeting TBS's founders' ideals of entrepreneurship and ethical trade.

To internationalise, TBS opted for a full flagship strategy after considering that it would be more economically efficient to rely on long-term relationships based on trust with key partners rather than (fully) vertically integrate. This trade-off includes multiple elements. As TBS retail director put it for downstream operations:

'The main risk TBS has to evaluate is to induce franchisees to invest regularly into the network to keep the pace of innovation and competition. Another challenge we take into account is the over-development by some head franchisees in some countries where the network is close to saturation, with some risks of overexposure of the brand and even internal cannibalization. This can lead us to buy-out a franchisee, which is a hidden cost of trust[…] On the benefit side, we assess that key partners provide excellent leadership for the brand. They have high profile and exposure in local political life. They are high impact people, which is always good to promote the business. They also are influential in the press.'

In 2000, to show further commitment and enhance trust by increasing responsiveness to franchisees TBS changed structure. It has created regional headquarters. These centralize supply chain management and decentralize operations from the headquarters to shorten lead-times of new product introduction. They also enhance multidirectional feedback communications between franchisees, TBS and its suppliers, to the benefit of the overall network. Thus, this new structure which balances centralisation and decentralisation helps it to strengthen its strategic leadership between network partners.

The new structure is also meant to solve the internal governance tensions which had gradually developed in the 1990s. Throughout the 1980s and early 1990s, the weight of the U.S. division had gradually risen to the point of causing inefficiencies and management inconsistencies between the U.S. subsidiary and the headquarters. For example, it resulted in the proliferation of the number of suppliers and in costly overlapping capacities.

Besides the changes of relationship with the U.S. subsidiary, in 1999, the company opted for renewed flagship ties with fewer, global suppliers. It decided to exclusively focus on retailing and to spin-off all its production facilities. It centralised its global supply chain, and drastically cut down the number of suppliers; now down to fifteen. In this trade-off, TBS calculated that it would become much more marketing, cost, and operationally flexible by de-internalising its expensive manufacturing capabilities and by relying on trust and long term partnerships with some key global suppliers. Recently, missions and reciprocal expectations have been clearly and contractually stipulated. However, suppliers are also important for innovation. Paradoxically, clear contracts have contributed to enhance trust and flexibility between the partners. The key suppliers' satisfaction and dedication have risen because of greater sales following this overall restructuring. TBS conducts over half of the R&D efforts and predefines future strategic areas. In 2003, this reorganisation around key suppliers had already generated €1.5million savings in the supply chain (1% of 2003 turnover; 6% annual decrease of inventory).

TBS also chose a flagship strategy for the network synergies which help it to sustain its CSR leading profile. TBS has pioneered fair trade by asking its suppliers to source raw ingredients from forty-two trading business communities in the developing world. However, the company also needs to be market-responsive and to follow product life-cycle evolution. In 2001, it needed to terminate six relationships with these communities. This would have been ethically very embarrassing if TBS had not partnered with its network of NGOs. Working with TBS Oxfam, the Fair Trade Consortium, and other NGOS, found alternative customers for these communities. Thus, close links with such NBI have maintained the viability of some weak suppliers, while enabling TBS to stay market responsive and protect its core CSR values.

TBS is the most flagship-driven company among the three retailers studied. It chose this model to overcome the costly governance consequences of internationalisation. It also shows clear evidence of strategic leadership in seeking to coordinate resources and flexibility for the benefit of the overall network (**Table 4**).

Besides highlighting clear flagship patterns based on multidirectional network synergies, strategic asymmetry, and the role of NBIs, the case analysis discloses some variations with the “ideal” flagship strategy framework. It underscores two weak types of flagship relationships.

(i) Downstream, ‘key customers’ are in effect other retailers which are often potential competitors at the same time. They can perform the operations in lieu of the retailer. In Tesco’s case, the two conglomerates—Samsung in Korea and Sam Darby Berhad in Malaysia—are also big retailers. For LVMH key department store partners are also possible rivals. When LVMH launched Sephora in the United States and Japan, it clashed with its key department store partners there. Ultimately, Sephora pulled out of Japan, partly to retain these good relationships. Some of TBS’s retail partners are not always ‘typical’ key customers either but potential competitors. This is the case of

AEON/JUSCO in Japan which was the world's 196th largest firm in 2002 and fifty times larger than TBS. These are risks to manage.

(ii) Direct alliances with competitors are rare. Alliances take place with other small or large multinationals, specialized in specific services. They facilitate diversification but avoid domain overlaps. Thus, this research confirms previous studies on the extreme competitiveness and anti-cooperative attitude in retailing, especially in the grocery segment[30]. At the same time, it contributes to contextualise the original flagship strategy framework.

LINKING FLAGSHIP THEORY TO THE FSA/CSA MATRIX

The previous section shows that when network-based strategies are chosen by retailers to internationalise, they emerge for different reasons. In this section, we go further in this direction by showing that these apparently heterogeneous sets of causal factors can be organized in an orderly way. We show that the conditions of flagship-network inceptions in turn depend on a retailer's firm-specific advantages (FSA) and country-specific advantages (CSA). Thus, our research uncovers the link between the flagship network theory and a classic international business strategy framework: the FSA/CSA framework.

The FSAs are the strengths of a firm as a result of its brand name, personnel, capital, innovation and technological capabilities. In international business vocabulary, FSAs are the same as the rare, valuable and non-imitable capabilities of strategic management,[31] but they predate the latter. FSAs are considered strong when they are superior to those of rivals. With GMS retailers who are disadvantaged in this respect compared to life-style retailers, there is poor cross-border transferability of FSAs (highly location-bound). The former have difficulties in realizing the desired economies of scale to compete on costs and scale compared to the latter. The transferability of resources (not the absolute value of knowledge and capabilities possessed by a firm in its country of origin) can be called the geographic reach of FSAs.

In contrast, the CSAs are the location-bound, exogenous factors in an MNE's home-market. The CSAs result from the home country's economic and institutional environments (labour force, factor endowments, government policies, national culture, productive reputation, institutional framework) or from the share of the home market in the MNE's FSA deployment.

The resulting **Figure 2** is an international strategy matrix. We will now position the three firms in this matrix based on our interviews and analysis. However, our strategic positioning, dealing with the international aspects of the FSAs, and with CSAs, should not be confused with positioning using financial performance measures. The latter are reviewed in **Table 5**. This shows that Tesco leads in most overall performance categories, but we have found that it has had relatively more difficulties to transfer its FSAs internationally than the two other retailers, as we now discuss.

When starting up in a foreign country and the more remote this country is (for instance the Asian countries), **Tesco** does not enter with a well-known brand name which places it at an advantage with local competitors. Its liability of foreignness is high and it needs to adapt considerably its marketing and different elements of its value-chain to local conditions. The conditions of resource transferability from the home-to the host markets are difficult. For these reasons, the geographic reach of Tesco's FSAs is weak. However, its successful cost-leadership which has knocked off the former British leader Sainsbury gives Tesco a very strong and cash wealthy home-base. Tesco has strong CSAs. Thus, Tesco is placed in quadrant 1 of the **Figure 2** matrix. For the reasons already explained the nature of Tesco'operations makes it more prone to institutional challenges and thus to operational adaptations when going overseas than LVMH or TBS. Thus, if we link the factors previously developed with each retailer's competitive position we find that in spite of its wealth generated by its powerful position in its home-market (strong CSA), Tesco cannot easily transfer its FSA (its privileged internalised operating patterns and its brand name) across borders because these FSA components are too UK location-bound to overcome institutional impediments in host-countries This is why we found that the prevailing factors leading Tesco to adopt a flagship strategy were mostly country-based (strong in CSA, low in FSA).

With its global and prestigious brand-portfolio, **LVMH** can push forward a universally praised product universe with minimal adaptation (strong non location-bound FSAs) and exploit the universal prestige of the French savoir-faire for luxury goods (strong CSAs). LVMH enjoys an ideal strategic competitive position. It is placed in quadrant 3 of **Figure 2** matrix. To complement its existing resources with upstream and downstream partnerships, it needs to make sure first of the institutional feasibility of these arrangements (mostly contractual) and second of the feasibility of long-term strategic interdependent relations. These factors are both firm-based and country-based (high in both FSA and CSA)

In 1997, an Interbrand global survey ranked **TBS** the 28th world top brand. Clearly, TBS has strong non location-bound FSAs, especially marketing-based. However, unlike LVMH with France, TBS does not rely on a 'made in the U.K.' advantage. Unlike Tesco whose 82% of sales are generated in the U.K., TBS home-country accounted for no more than 39%. In other words, TBS had weak CSAs. TBS is placed in quadrant 4 of **Figure 2** matrix. Thus, to compensate for this weakness, TBS has to strengthen the global reach of the FSA, e.g. its marketing advantages, while placing a special emphasis on its cost control. It can do so by adopting a focused strategy based on network interactions. Therefore, the factors that matter are firm-based (high in FSA and low in CSA).

FIGURE 2 here

In addition to the new links established between the two strategic frameworks and the evidence of some weak flagship by contrast with the "ideal" flagship strategy framework, we find that the contingencies explaining flagship network inception have clear identifiable roots in the general management, organisation theory, strategic management and international business literatures. Indeed, these contingencies are clearly rooted in transaction costs economics, institutional theory, and the resource-based view of the firm. Thus, research in retailing is perfectly compatible with these theories, contrary to what certain retail scholars argue[32]. The analytical lenses used in this paper and the contributions to the academic literature are synthesized in **Table 6**.

TABLES 5 and 6 here

STRATEGIC IMPLICATIONS

Bearing in mind the small number of cases studied, which is a possible limitation to this research, we now turn to the main managerial implications of the findings. We draw recommendations for both flagship MNE managers and network partner managers.

(i) **Choose a de-internalised international expansion path based on your initial competitive advantage position.** In international business terms, this position is the product of the retailer's combined FSAs (most importantly of its international brand name) and CSAs (its home-country competitiveness) as shown in the matrix of

Figure 2. This framing helps the retailer to determine its most likely sources of barriers to internationalisation, and to decide upon its entry-mode, internalising/de-internalising governance, and choice of partners.

First, when its brand name is unknown abroad (weak FSA) but when it has strong leadership in its home-market (strong CSAs, quadrant 1 situation), the retailer will predominantly choose a flagship strategy if it needs to develop a high profile and adapt its value chain to institutional contingencies (economic, legal, isomorphic). If this is the case, active cooperation with suppliers and non-business institutions such as host governments and trade associations will be crucial to becoming nationally responsive and economically efficient. In contrast, an internalised strategy is needed when contracts and property right enforcement regimes are too weak to control for external opportunism.

Second, when a retailer's brand name and CSAs are both strong, i.e. when it has a quadrant 3 mix, the retailer is indifferent between an internalised or a de-internalised strategy. The retailer can choose or adopt both. But if it aims to become global, as opposed to staying regional or local, it will hardly achieve sourcing or distribution economies of scale on a 'go-it-alone' basis. Therefore, the retailer will opt for a flagship mainly to complement rather than substitute for its internal growth. This choice will be led by some strategic factors: avoid key knowledge leakage, and reduce the risks or capital exposure by leveraging external parties' capabilities and resources if some complementarities and interdependencies with existing players are worth pursuing. In crafting this flagship strategy, the decision-maker will mostly concentrate efforts on partners that enhance the retail network scale (downstream partners).

Third, when the retailer starts internationalising with modest CSAs, its purpose will be to compensate this weakness by developing stronger FSAs such as excellent marketing skills. In this quadrant 4 situation, it will likely opt for a flagship strategy if the trade-off between an internalised expansion through M&A or organic growth (which requires not only high resources but also favourable incentives and asset complementarities[33]) and the costs incurred to build trust with possible partners leans in favour of the latter. When it is cheaper to build trust, the manager will evaluate which resources and which partners to prioritize.

(ii) **In the flagship network, create synergies between all key partners.** This point is essential to create trust since it is by facilitating synergistic benefits that flagship MNE managers show and stimulate commitment to and from all partners. In assessing which kind of partners the firm should prioritize, the retailer should be careful to avoid two pitfalls. First, it should avoid excessive alliances. These networks are carefully built over time and going too fast makes the whole construction fragile. The three case studies demonstrated that the number of key partners must be very limited. Each partnership requires time, good communication, monitoring and bi-lateral investments to nurture trust. Second, once there is a focus on one group or partners, the retailer should not neglect to create links with other types of partners. NBI turned out to be very important, yet it is too often neglected in the firms' strategy. Indeed, in flagship networks, each group of partners creates synergies for the whole to become more than the sum of its parts. One NBI partnership can have an impact on the cohesion with the other partners. So it is not merely one type or direction of linkages but rather a very complex web of relationships which sustains the retailers' internationalisation and competitiveness through positive synergies.

Reciprocally, network partner managers will seek to play a proactive role vis à vis the flagship and even other network partners. By showing commitment, by providing market intelligence and by constantly renewing their capabilities, they are essential to help the flagship construct the overall strategic vision.

(iii) **Give time to go international.** LVMH and TBS seem to be two outliers in the international retail industry. Very few retailers are global or even semi-global. Perhaps other GMS retailers will move from quadrant 1 to quadrant 3 and internationalise further, for instance by becoming at least bi-regional actors. As their international life-cycle matures, they will need partners more for strategic than institutional reasons, which was a cycle experienced by LVMH in the late 1980s to the early 1990s. As their brands and operational practices become more familiar, they will face fewer institutional pressures. It is striking that Tesco is still at an early stage of its internationalisation compared to LVMH and TBS. The implication is that there are life-cycle dynamics underlying a flagship strategy and the manager ought to be alert to changing operational conditions with the passage of time.

These managerial implications are synthesized in **Table 7**.

TABLE 7 here

CONCLUSIONS

The study has highlighted the value of the flagship strategy to overcome firm-specific and exogenous barriers to internationalisation. In so doing, it supports a growing body of international business literature emphasizing the gradual opening of MNEs' boundaries across borders with an increasing network-form of organisation and structure.[34] Traditionally, the literature has emphasised the role of trust to enter cooperative relationships. Our research suggests that trust often comes second to contracts. Good relationships will necessarily evolve beyond contracts but managers should not be afraid to develop contracts.

Second, since there is a constant trade-off between endogenous and exogenous pressures on a retailer, we do not suggest that flagship strategy is a universal panacea. Indeed, we note several associated risks. One risk is complacency. Flagship MNEs cannot tolerate inter-partner complacency and when they fall into this trap (which was the case to some extent at TBS in the late 1990s before their restructuring), they risk failure. The flagship MNE provides guidance, assistance, long-term vision and business stability for its partners to invest and improve their skills. These partners must be prepared to face pressure on their route to excellence caused by the new challenges imposed by their leading MNE. Partners must deliver operational benefits in return for membership in a valuable network. Thus, the flagship strategy is based on demanding partner relationships. Partners may also run a 'locked-in' risk. A difficult challenge is to build relationships for the long-term while avoiding being locked into undesirable strategic positions. This may require enlarging the network, confirmed diplomatic skills, and the periodic changing of the network.

Third, the flagship strategy is an important but not the only path of successful internationalisation in retailing. Finding a broader set of institutional factors usefully complements transaction costs economics, and indicates that property rights are important factors in the strategic choices undertaken by retail managers. When it is not possible to develop flagship relationships, there is a rationale for internalising.

TABLE 1 – FLAGSHIP STRATEGY IN CONTEXT

	STRATEGY							SOCIOLOGY	
	Flagship Strategy **(Rugman & D'Cruz, 2000)**	*Industrial Networks* **(Håkanson & Johansson, 1988)**	*Geographic Cluster Networks* **(Nachum & Keeble, 2003)**	**Strategic Centres (Lorenzoni & Baden-Fuller, 1995)**	**Networks (Thorelli, 1986)**	**The Dynamic Network (Miles & Snow, 1986)**	*The Heterarchy* **(Hedlund, 1986)** *The Differentiated Network* **(Nohria & Ghoshal, 1997)**	*Networks* **(Nohria, 1992)**	*Network structures* **(Burt, 1992, Krackhardt, 1992)**
Scope									
International Management, foreign entries(with focal firm)	X								
International Management (multiple firms, intra- industry level)		X	X						
Strategic Management (SM): innovation, flexibility, risk-sharing, long-term cooperation	X	X	X	X	X	X	X		
SM with focal firm	X			X					
Intra-organisational only							X		
Inter-personal									X
Network structure (ties, positioning)								X	x
Knowledge-sharing	X	X	X	X	X	X	X	X	X
Configuration									
One strategic centre	X			X					
Vertical partners	X	X	X	X	X	X	X	X	X
Horizontal partners	X	X	X	X	X		X	X	X
Non-business infrastructures	X								
Emphasis on multidirectional synergies	X						X		
Governance									
Strategic asymmetry	X								
Strategic symmetry				X			X		

TABLE 2–SAMPLING VALIDITY: LOOKING FOR SUFFICIENT VARIANCE BETWEEN THE CASES

	TESCO	**LOUIS VUITTON MOET HENNESSY**	**THE BODY SHOP**
1) Size (in sales revenues; € m, 2002)	39, 200* (25.8% grocery market share in the UK)**	13,168 (21% global market share in 2001***)	564
2) Sampling criteria			
Degree of internationalisation (% of total sales in 2002)	18	83	66
Degree of regionalization (% of total sales in 2002)			
Europe	10	34	53
NAFTA	0	27	22
Asia Pacific	8	30	25
International strategy (Rugman & Girod 2003)	Home-region player	Global actor	Quasi bi-regional actor
Competitive strategy (Porter 1980, Calori, et al, 2000; Leknes & Carr, 2004)	Cost leader and “continental leader”	Differentiator and “Global luxury niche player”	Focuser and “worldwide specialist”

***** Note: Tesco’s fiscal year closes on February 22. For comparability reasons with the two other retailers and since most of fiscal year 2003 reflects 2002 operations, we refer to 2002 for Tesco as well.
****** *Tesco Account Watch*, 2003, Institute of Grocery Distribution (IGD)
*** Merryl Lynch, *European Luxury Goods,* Sector Upgrade, 2001.

TABLE 3 – DIFFERENT DEGREE OF FLAGSHIP STRATEGY

	TESCO *"The emergent flagship"*	**LVMH** *"The smoothly-running flagship"*	**THE BODY SHOP** *"The flagship in transition"*
Current strategy	Growth model primarily based on internalisation (acquisitions and greenfield growth in continental Europe).	Growth balanced between internalised and partnership strategies.	TBS fully restructured its operations in 1999 and 2000. The new growth model is fully based on flagship network links.
Downstream	- Flagship links mostly in Asia where internalisation is difficult; in Korea with Samsung, in Thailand (and the UK) with Exxon for *Tesco Express*, and in Malaysia with Sam Darby Berhad. - Estimated partnership-based sales revenues accounted for 4.8% of total sales in 2002. - While Tesco's total sales growth was 11% between 2001 and 2002, partnership-based sales grew by 67% (estimates).	- Flagship links have helped LVMH to become global: access to major department stores' customer base in North America and Japan (e.g. Saks, Takashimaya, Selfridges…). - For Vuitton, Dior and Givenchy 47% of stores were concessions within department stores in Japan and 51% in the USA. - Estimated partnership-based sales revenues accounted for 28% of the fashion group's sales and 10% of total LVMH sales in 2002 (double of Tesco's).	Key role of franchisees (1,392 in 2002): they accounted for 64% of total group sales (more than 12 times Tesco's and more than 6 times LVMH's).
Upstream	10 key private label manufacturers (e.g. Geest, MCBride) and 20 national branded good suppliers increasingly important for Tesco's cost leadership strategy and private label range	40 key selected licensees or suppliers are in charge of the design and manufacturing of technical products where LVMH/Dior does not have core competences (E.g., Christofle for tablewear and Safilo for eyewear).	- TBS' s exit from any manufacturing activities in 2000 consolidated the role of 15 key suppliers that account for 95% of TBS's total input (e.g. Cosi). - Reduction of 13% in the number of trading communities in the developing world between 2001 and 2002.
Direct competitors	No alliances with direct competitors but JV with the Royal Bank of Scotland (Tesco Personal Finance) and with O2 (Tesco cell phones)	No alliance with direct competitors but JV with DeBeers in diamond retailing.	No alliance with direct competitors.
Non-business infrastructures	Local trade associations ➔ *Modest but growing flagship links*	Comité Colbert, LVMH chair at ESSEC, INSEAD, London Business School. ➔ *Strong and stable flagship links*	Non-governmental institutions (Oxfam; Fair Trade Consortium) ➔ *Increasing and stronger flagship links*

TABLE 4 – RETAILERS' FLAGSHIP STRATEGIES

	TESCO	LOUIS VUITTON MOET HENNESSY	THE BODY SHOP
Flagship strategy contribution to internationalisation	Between 1999 and 2002 (Tesco entry in Asia and launch of *Tesco Express format*), the share of international sales in total sales has jumped from 9.8% to 18%	LVMH is the only global retailer among Fortune 500 retailers	New market entries, new network repositioning and innovation have boosted international sales from 33% of total sales in 1998 to 61%
Causes of inception Different internal and external barriers to internationalisation to overcome	- Legitimacy and status enhancement - Structure or transaction context - Property right enforcement regimes	- Nature of capabilities and knowledge - Resource gap and dependency - Strategic interdependence	- MNE's structure - Governance costs trade-offs - Corporate Social Responsibility
Key flagship features for success			
Main observed network synergies	- From downstream partners to Tesco, suppliers and government - From trade associations to Tesco, suppliers and the government	- From business schools to LVMH and downstream partners, suppliers and franchisees	- From NGOs to trade community suppliers - From franchisees to suppliers via TBS - TBS is moving toward a more upscale brand positioning. Learning from AEON operations in Japan have been important. Repositioning led by TBS elsewhere in the network
Most influential non business infrastructures	Local trade associations	Business schools for applied research and human resource supply	Non-governmental organisations
Strategic asymmetry	- In Asia, Tesco keeps running all operations. Samsung provides political clout. - Leadership in innovation and new market exploration; suppliers specialize in cost improvements and quality enhancement - Coaching of suppliers in emerging markets of Europe and Asia	- Coordination of a very limited number of franchisees specialized in highly creative and high quality fashion goods. But LVMH provides market guidance and collection orientation. - LVMH leads the research agenda with business schools. They lead the teaching	- TBS conducts the bulk of R&D and provides future market guidance to suppliers. - TBS innovates, launched new products, coordinate local and regional marketing; local head franchisees help in PR, store location and investment. - TBS coordinates overall repositioning
Observed deviation from flagship strategy framework	- Downstream some key partners can become potential competitors (large local retailers such as Samsung or Sam Darby Berhad) - No partnerships with direct competitors		

TABLE 5 – PERFORMANCE BENCHMARKS

Performance Ratios	Tesco	LVMH	The Body Shop
Return on capital employed- Latest 5 years average (%)	11.5	5.8	10.0
Return on sales- Latest 5 years average (%)	5.6	10.2	3.8
Sales growth over last 5 years (% pa)	80	72	25
Share price increase over last 10 years (%)	+23	-8	+17
Overseas sales in percentage of latest published figures (2003)	19.7	83	77

Source: Thomson Analytics. We acknowledge one of the two LRP's referees' kind input.

TABLE 6 –KEY ACADEMIC FINDINGS

KEY FINDINGS	• The flagship strategy is a viable strategy of internationalisation and foreign operations management for multinational retailers. This confirms previous studies on the current trend in boundaries opening among multinational enterprises. • However, in contrast with the "ideal" flagship strategy framework, the specificities of this industry lead to uncover weak flagship relations. This makes the framework more contextual. • The FSA/CSA international management framework is found to be useful to explain the causes of flagship network inceptions. The causes of network inception are not serendipitous. This has important managerial implications for the trade-off between a choice of internalisation or partnership strategies. • Contrary to what is sometimes read in the academic literature on retailing, the analysis confirms the relevance of several main stream theories to explain network inceptions: these theories are transaction costs economics, the resource-based view of the firm, institutional and contingency theories. • Contingency and institutional factors where not present in Rugman and D'Cruz's flagship framework. This research shows that the sources of theories which underpin flagship networks can be usefully enlarged.
OPPORTUNITIES FOR FURTHER RESEARCH	• This research is exploratory only. Larger scale confirmatory research needed within the three retail segments studied to check the consistency of patterns of flagship network inception as predicted by the FSA/CSA framework. • If larger scale studies identify clusters of retailers with similar FSA/CSA configurations, will we find the same degree of reliance on flagship network strategy? This research is based on an assumption of managerial intentionality seeking economic efficiency maximisation. Theory explains that other rationales explain managerial behaviour. So which other factors will explain the differences: path-dependency, internal politics, opportunity, etc.?

TABLE 7 – LESSONS FOR MANAGERS

- In addition to being a useful strategy to manage long-term network cooperation, the flagship strategy is useful to overcome different internal and exogenous barriers to internationalisation.

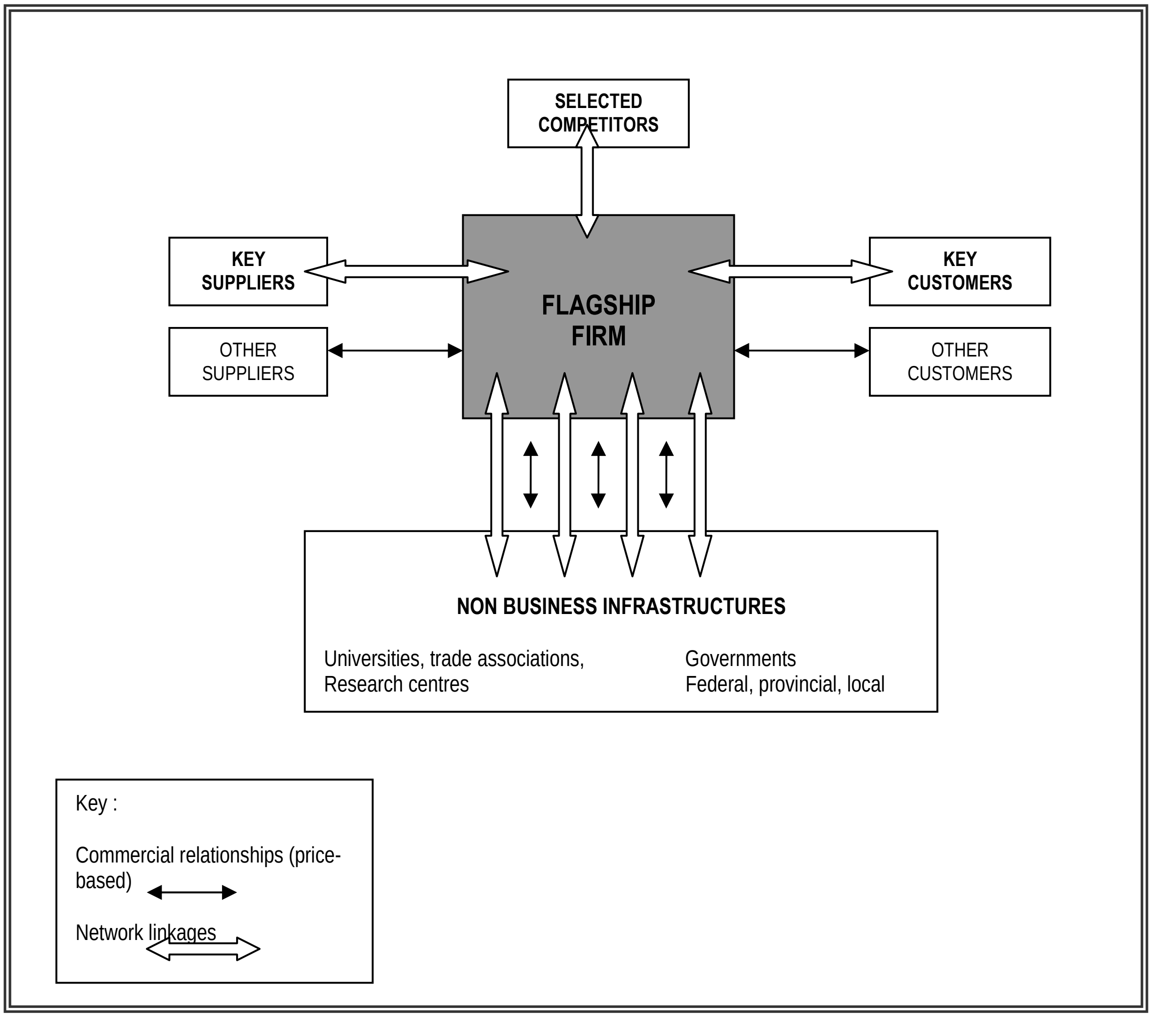
For flagship MNE managers

- Choose your internationalisation strategy (trade off between internalisation and de-internalisation) in function of your initial competitive position (determined by the FSA/CSA combination).
- Consider contracting; although they are not compulsory, good relationships can be managed contractually at first; with time you will make them evolve to fully trust-based relationships. We find that contracts are an important first step towards trust creation.
- Create trust by showing commitments to all network partners and by constructing effective network synergies for the benefit of all partners.
- Select a very limited number of partners. The flagship MNE cannot disperse its time and energy in supervising and providing impetus to a host of partners.
- Select your partners on the basis of the complementarities they offer to the flagship and on the complementarities and synergies that they can build with one another.
- Do not confound strategic asymmetry with tyranny: remain open to sharing of ideas and prospects; they are source of opportunities for innovation.
- Don't forget non-business infrastructures
- Anticipate the risks: avoid complacency, don't remain locked into undesirable strategic positions; renew or enlarge the network. With the passage of time, as your FSA evolve, you will need new partners matching your new requirements.

For other network partner managers

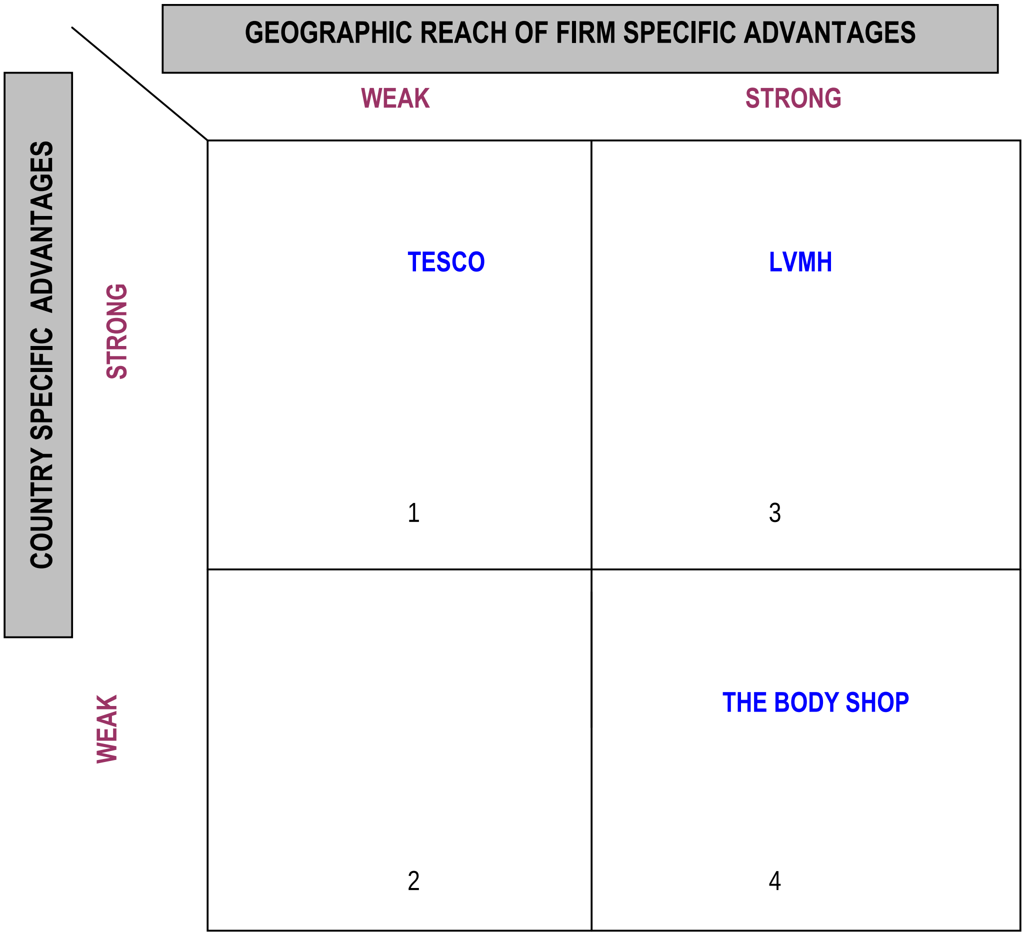
- Constantly improve and renew your capabilities.
- Be proactive towards the flagship MNE and towards the other network members

FIGURE 1 - THE FLAGSHIP FIVE PARTNERS STRATEGY



Source: Rugman & D'Cruz (2000). *Multinationals as Flagship Firms.* OUP

FIGURE 2 – THE INTERNATIONAL STRATEGY MATRIX



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