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Parenting Advantages of Emerging Market Multinationals (EMNCs) in
Luxury Fashion Retailing

Huifeng Bai, Weijing He, Jin Shi, Julie McColl, Christopher Moore

Abstract
From an international retailing perspective, this empirical study examines the parenting advantages offered by EMNCs in luxury fashion retail sector. Through the case study of the Shandong Ruyi Group, the qualitative data was collected through ten semi-structured interviews with senior managers from both parent group and subsidiary luxury fashion brands. It is a win-win situation for the EMNCs as parent groups of Western luxury fashion brands, as the EMNCs can access critical assets including advanced brand management expertise, retailing know-how, and the services skills needed for higher income consumers. Meanwhile, the subsidiary brands benefit from a high degree of autonomy, intra-group resource utilisation, a competitive brand portfolio, and most importantly economies of scales in the value chain, particularly in production. The perceived risks of EMNCs ownership include potentially restricted autonomy and the uncertainty over corporate development activities in the future, as well as the risks of diluting brand image caused by the inconsistency between country of origin and country of ownership.

Keywords
International retailing, Parenting advantages, Emerging market multinationals, Luxury fashion brands, Competitive advantages, Value chain
1. Introduction

The birth and rapid growth of luxury fashion groups since the 1980s have changed the landscape and structure of the international luxury fashion market (Bai et al., 2018). Indeed, during the past decades, increasing numbers of private luxury fashion brands have been merged and acquired by these conglomerates, including LVMH, Kering, Richemont, as well as numerous medium sized groups such as Prada, PVH and Tod’s (Donze, 2018). All of these well-established luxury fashion groups originate from developed economies, or are owned by the families who originate from France, Italy and the US (Doyle and Moore, 2018). However, similar to other economic sectors, these established luxury fashion conglomerates have recently been challenged by emerging market multinationals (EMNCs) due to their aggressive international expansion and increasingly competitive international luxury fashion brand portfolios (Chevalier and Gutsatz, 2020). This had been evidenced by Bloomberg’s top 20 global luxury groups in terms of revenue (2018), where the four EMNCs (three in jewellery and one in fashion, from China and India) were ranked. Most recently, four EMNCs (in jewellery, from China and India) were ranked in the top 30 within the Global Powers of Luxury Goods Top 100 published by Deloitte (2020).

In parallel to the globalisation of the economy and consumption, EMNCs have been playing an increasingly important role in the global market for the last three decades (Hernandez and Guillén, 2018). McKinsey (2018) acknowledged the rapid increasing numbers and importance of EMNCs, and predicted that by 2025 about half of the Fortune Global 500 companies will be EMNCs. Meanwhile, due to considerable differences from traditional
MNCs, EMNCs have attracted the attention from academic researchers, especially in terms of internationalisation strategies. Classic international business studies have concentrated on the internationalisation strategies of EMNCs for example, the *Springboard* perspective (Luo and Tung, 2018), merges and acquisitions (Xie and Li, 2017), and outwards foreign direct investment (Li *et al*., 2016). In terms of economic sectors, a wide range of businesses have been researched, including manufactures (Gandhi *et al*., 2017), the oil industry (Andonova and García, 2018), services providers such as banks (He *et al*., 2019), high technology, particularly software service providers (Behrens, 2020) and e-commerce giants (Anwar, 2017), as well as generic and fashion retailers (Eren-Erdogmus *et al*., 2010; Ye *et al*., 2018). None, however, have focused on luxury fashion retailing, probably because EMNCs are still very new in this sector (Bai *et al*., 2021a). Moreover, the majority of EMNCs have focused on intermediate markets rather than consumer markets, which indicates that they still lack the expertise to create and maintain intangible value for consumers, particularly the higher income customer segment (Grosse, 2016).

Furthermore, the majority of the literature on international luxury fashion retailing focuses on brands and groups who originate from developed markets which have long dominated the sector (Alexander *et al*., 2018). These studies are potentially limited in value in explaining issues related to companies that originate from emerging markets, due to significant differences between the two kinds of multinational (Bai *et al*., 2017, 2021b). In particular, the understanding of how these EMNCs as parenting groups support their subsidiary luxury fashion brands which originate from developed markets, remains under developed. Therefore,
in terms of the gap in the current literature, this empirical study, viewed from an international retailing perspective, aims to examine the parenting advantages offered by EMNCs in the luxury fashion retail sector. The current literature regarding the EMNCs and parenting advantages in the luxury fashion retail sector will be reviewed and evaluated.

2. Literature Review

2.1 Emerging Market Multinationals (EMNCs)

The international market has witnessed rapidly developing and increasingly competitive EMNCs within a wide range of economic sectors during the past few decades (Yoo and Reimann, 2017). Luo and Tung (2007) defined EMNCs as “international companies that originated from emerging markets and are engaged in outward FDI, where they exercise effective control and undertake value-adding activities in one or more foreign countries” (p.482). More recently the accelerated internationalisation and considerable worldwide success of EMNCs has challenged the conventional international business literature, which primarily concentrates on traditional MNCs, utilising theories such as the Eclectic Paradigm and the Uppsala Model (Mohr and Batsakis, 2018). The Table 1 below demonstrates a series of significant differences between traditional MNCs and EMNCs.
Table 1: The key differences between traditional MNCs and EMNCs

<table>
<thead>
<tr>
<th></th>
<th>Traditional MNCs</th>
<th>EMNCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of origin</td>
<td>• Developed economies</td>
<td>• Emerging markets</td>
</tr>
<tr>
<td>Flexibility to react institutional</td>
<td>• Weak</td>
<td>• Strong</td>
</tr>
<tr>
<td>restrictions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political influence</td>
<td>• Weak</td>
<td>• Strong (e.g. former or current state ownership)</td>
</tr>
<tr>
<td>Internationalisation motive</td>
<td>• Asset-exploitation</td>
<td>• Asset-seeking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strengthen the performance in home markets</td>
</tr>
<tr>
<td>Foreign market selection</td>
<td>• Developed markets (Market-seeking)</td>
<td>• Developed markets (Asset- &amp; market-seeking)</td>
</tr>
<tr>
<td></td>
<td>• Emerging markets &amp; less developed markets (Efficiency-seeking)</td>
<td>• Emerging markets &amp; less developed markets (Efficiency-seeking)</td>
</tr>
<tr>
<td>Internationalisation speed</td>
<td>• Relatively slow</td>
<td>• Relatively fast</td>
</tr>
<tr>
<td>Internationalisation strategies</td>
<td>• Gradual and stepwise</td>
<td>• Aggressive and risk-taking</td>
</tr>
<tr>
<td></td>
<td>• Strongly influenced by psychic distance</td>
<td>• Overcome “Latecomers” disadvantages</td>
</tr>
<tr>
<td>Foreign market entry modes</td>
<td>• Low cost and low risk</td>
<td>• Expensive and risky merges and acquisitions</td>
</tr>
</tbody>
</table>

*Adapted from:* Tan and Matthews, 2015; Marchand, 2017; Luo and Tung, 2018; Bai *et al.*, 2021a
Home countries of many EMNCs have experienced discretionary and unstable economic and political policies, which have forced EMNCs to develop the ability to deal with restrictions in terms of administration, infrastructure and policies, within heavily regulated and rapidly changing institutional environments (Kotabe and Kothari, 2016). Some EMNCs have developed such abilities to their competitive advantage within a global context (Marchand, 2017). Moreover, because many EMNCs are previously or currently owned by states, they have long felt the impact of political influence, particularly policies promoting or prohibiting internationalisation (Edwards et al., 2019). In some circumstances, business activities of some EMNCs in the international market are not directly driven by profits but for political reasons and to support domestic growth (Yilmaz et al., 2015).

Further differences between traditional MNCs and EMNCs may be identified by examining their internationalisation strategies. Firstly, in order to compensate for their competitive weaknesses, EMNCs are driven by critical asset-seeking motives, rather than the asset-exploitation strategies of traditional MNCs, such as market-seeking and/or efficiency-seeking (Yoo and Reimann, 2017). Indeed, suffering from a lack of resources, EMNCs are keen to utilise international expansion as a springboard to acquiring critical assets, such as resources, capacity and advanced management know-how, from traditional MNCs who possess the necessary resources for competitive advantage in-house (Gandhi et al., 2017). More interestingly, the ultimate aim of EMNCs’ internationalisation is, at times, to strengthen their performance within their domestic market by acquiring advanced and/or critical assets from abroad (Tan and Matthews, 2015). Secondly, similar to traditional MNCs, EMNCs are keen
to choose developed markets to build strategic assets and potential markets, and less
developed markets for efficiencies such as lower cost production and/or economies of scale
(Dunning, 2000; Yilmaz et al., 2015). Thirdly, in contrast to the gradual and stepwise
internationalisation approaches of traditional MNCs as demonstrated by the Uppsala Model
(Johanson and Vahlne, 2009), the comparative speed of EMNCs’ internationalisation is faster
due to their accumulated experience, previous/current state ownership, and more recent
relaxed foreign direct investment policies (Mohr and Batsakis, 2018). Fourthly, compared
with traditional MNCs who usually adopt low-cost and low-risk strategies to enter target host
markets in order to minimise psychic distance, EMNCs attempt to overcome the
disadvantages of being Latercomers by adopting a series of aggressive, expensive and risk-
taking external expansion strategies, particularly mergers and acquisitions (Madanoglu et al.,
2017; Bai et al., 2021a).

These prior studies have contributed to the understanding of the characteristics of EMNCs by
examining their institutional environments and internationalisation strategies. However, they
are potentially limited their value to explain EMNCs in luxury fashion retailing because of
the radical differences between sectors in terms of value chain activities, management
expertise, anti-marketing branding strategies and even target consumers (Guercini and
Milanesi, 2017; Ko et al., 2019). Understanding of the business development of EMNCs in
luxury fashion retailing, especially as a parent company of developed market luxury fashion
brands, still remains under developed.
2.2 Parenting Advantage in Luxury Fashion Retailing

The term parenting advantage was initially used in the business strategy literature to explain how a subsidiary can benefit from the interventions and directions of its parent company, and how value can be created and enhanced by that relationship (Ciabuschi et al., 2017). Parenting advantage is defined by Goold et al. (1994) as “to influence the decisions and strategies of its business units, while standing between these businesses and those who provide capital for their use” (p.12). Therefore, the capacity of parent companies to create more value than any other competitors for their subsidiaries is the key to creating competitive advantage. The delivery of efficient and effective parenting advantage includes strategies such as offering a wide range of resources, knowledge transfer, economies of scale, and greater efficiencies (Kruehler et al., 2012). Goold and Campbell (2002) identified four approaches for parent companies to create value for their subsidiaries:

- **Stand-alone influence**, where value is created by making strategic decisions such as appointing a new senior management. Each subsidiary is regarded as a stand-alone profit unit in its own right, but is managed and monitored by its parent company through key performance indicators;

- **Linkage influence**, where value can be created through improved cooperation and synergy between subsidiaries;

- **Functional and services influence**, where corporate value can be created through offering centralised administrative and managerial services, such as standardised communication, image, finance and infrastructure facilities; and

- **Corporate development activities**, where value is created by portfolio management, for example changing the number of businesses in a parent company’s portfolio by buying and/or selling its subsidiaries.
Moore and Birtwistle (2005) examined parenting advantage in luxury fashion retailing through a case study of the PPR Gucci Group (current Kering Group), and demonstrated how subsidiary luxury fashion brands can benefit from four kinds of parenting advantage. Firstly, in order to maximise the group’s profits, the PPR Gucci regards all subsidiary brands as stand-alone profit units. They are thus able to control their brands and business activities, such as product design, merchandise and distribution, through a high degree of autonomy. Secondly, because of ownership advantage, the subsidiary brands benefit from intra-group supply and resource utilisation. Indeed, Gucci and Sergio Rossi supplied leather accessories and footwear to (Yves) Saint Laurent. Thirdly, the subsidiary brands are able to achieve economies of scale and economies of scope by reducing costs and perceived risks through their parent group’s centralised administration, finance, information, management talent, standardised management and supply chain. These functions and services provided by the parent company may have significant economic impact in international markets, especially compared with private luxury fashion brands such as Burberry (Bai et al., 2018). Finally, luxury parent groups can create value via developing and optimising their portfolios of products and brands through multi-brands strategies, which help to avoid diluting exclusive brand image of a single brand due to over-extension (Ahn et al., 2018).

Despite their valuable contribution, almost all prior studies in international luxury fashion retailing have focused on Western luxury fashion brands and groups rather than EMNCs, which will increasingly become their competitors (Ye et al., 2018). As EMNCs have become luxury fashion groups through their international expansion, researchers now need to
consider their international context and internationalisation strategies when examining the parenting advantages offered by the EMNCs in luxury fashion retailing (Bai et al., 2021a). Therefore, the first two research questions of this study will be:

- RQ1: How can EMNCs in luxury fashion retailing benefit from being a parent group?
- RQ2: How can subsidiary luxury fashion brands benefit from the parenting advantage offered by the EMNCs?

2.3 Perceived Risks of Being Subsidiaries of EMNCs in Luxury Fashion Retailing

Although subsidiary luxury fashion brands benefit a series of parenting advantages (discussed in the previous section) from their parent groups, they still encounter inevitable challenges. Compared with private counterparts, the autonomy of subsidiaries is relatively restricted, as their branding strategies need to be fit for the strategies of their parent groups. For instance, Helmet Lang and Jil Sander were sold by the Prada Group in order to optimise its brand portfolio (Moore and Doyle, 2010). In order to generate profit for their parent groups, the value and even brand image of subsidiaries is likely to be damaged by divergence from their core products and services (Magnoni and Roux, 2012). Moreover, luxury fashion conglomerates cannot always achieve intrinsic synergies (Kapferer and Valette-Florence, 2016). Internal conflict between subsidiaries is highly likely because of internal competition for resources, for instance Donna Karen’s separation from LVMH (Rigaud-Lacresse and Pini, 2017). As discussed earlier, because of the significant differences between traditional MNCs (e.g. well-established luxury fashion conglomerates) and EMNCs (in luxury fashion retailing), the third research question of this study will be:
RQ3: What are the perceived risks of being subsidiaries of EMNCs in luxury fashion retailing?

The next section justifies the qualitative case study methodology and research design based upon these research questions.

3. Research Methodology

An interpretivist qualitative case study was regarded as the most appropriate methodology for this study, which seeks to understand the “why”, “how” and “what” research questions for this new phenomenon within fast-moving markets (Yin, 2018). Indeed, case study has been widely regarded as an appropriate research approach for fashion and luxury fashion retailers (Moore and Birtwistle, 2005; Wigley and Chiang, 2009; Bonetti, 2014; Bai et al., 2021c).

The Shandong Ruyi Group was selected as the most suitable case company for this study because its corporate business strategies have concentrated on premium and luxury fashion as their core business. This is the key difference from other EMNCs, especially those who run luxury fashion retailing as sideline rather than as their core business such as jewellery from the Chow Sang Sang Group (Deloitte, 2020). Moreover, in order to develop into an international luxury fashion group and to establish their own luxury fashion brand, the group is developing an international luxury fashion brand portfolio, including Aquascutum, Bally, Cerruti 1881, Gieves & Hawkes, as well as Royal Ruyi. Such development has created
challenges for those who currently dominate the market. This can be evidenced by the fact that the group was ranked 16th within the Bloomberg top 20 global luxury groups in terms of revenue (2018). Amongst the four EMNCs in Bloomberg’s list, the group was the only one focusing on luxury fashion retailing in a global context. Therefore, the sampling frame for this study is extremely small and consists of a case study of one large company.

The researchers initially accessed the Shandong Ruyi Group through one author’s personal network in Shandong Province, China. The covering letter that explained the purpose of the study and provided privacy for the participants was mailed to the head office in August 2018. Thereafter, the primary qualitative data was collected through ten semi-structured executive interviews with ten directors (six from head office, four from two subsidiary luxury fashion retailers) in two phases, from October to December 2018, and from July to October 2019, at which point the researchers recognised that the sample had reached saturation. All interviews lasted between 75 and 90 minutes.

In order to strengthen the depth of insight into the parenting advantages offered by EMNCs in luxury fashion retailing, the ten interviewees (Table 2) were selected on the basis of the following criteria: they must be directors in their departments/subsidiaries; they must have been employed with the company for at least five years; and they must have been involved with decision-making for internationalisation strategies. Therefore, they were capable of providing sufficient strategic and operational experience, and the necessary information on policy making, strategic implementation, internationalisation strategies, and the relationship
between the group and the subsidiary retailers. The interview questions (Appendix A) were sent to them prior to the interviews so that they could prepare in advance.

Table 2: Profile of the executive interviews

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Head office / Subsidiary</th>
<th>Interviewee’s position</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Head office</td>
<td>Director of Marketing</td>
<td>Shandong</td>
</tr>
<tr>
<td>B</td>
<td>Head office</td>
<td>Director of International Expansion</td>
<td>Shandong</td>
</tr>
<tr>
<td>C</td>
<td>Head office</td>
<td>Director of Finance</td>
<td>Shandong</td>
</tr>
<tr>
<td>D</td>
<td>Head office</td>
<td>Director of Business Management</td>
<td>Shandong</td>
</tr>
<tr>
<td>E</td>
<td>Head office</td>
<td>Director of Research &amp; Development</td>
<td>Shandong</td>
</tr>
<tr>
<td>F</td>
<td>Head office</td>
<td>Director of Strategic Development</td>
<td>Shandong</td>
</tr>
<tr>
<td>G</td>
<td>Subsidiary A</td>
<td>Managing Director</td>
<td>Beijing</td>
</tr>
<tr>
<td>H</td>
<td>Subsidiary A</td>
<td>Retail Director</td>
<td>Beijing</td>
</tr>
<tr>
<td>I</td>
<td>Subsidiary B</td>
<td>Managing Director</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>J</td>
<td>Subsidiary B</td>
<td>Vice President</td>
<td>Hong Kong</td>
</tr>
</tbody>
</table>

Since this study seeks to examine the parenting advantage of EMNCs towards subsidiary luxury fashion brands, the two participant subsidiaries (Table 3) were selected from the group’s brand portfolio downstream rather than the whole value chain. They were perceived to be strong enough to represent all subsidiaries in downstream due to their strong brand awareness and heritage, global distribution, as well as solid international experience, particularly because they had established their operations in China in the 1990s.
Table 3: Profile of the participant subsidiary luxury fashion retailers

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Country of Origin</th>
<th>Retail format</th>
<th>Position at value chain</th>
<th>Number of countries of operation</th>
<th>Year &amp; city &amp; entry mode of China’s entry</th>
<th>Number of stores in China</th>
<th>E-commerce in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Switzerland</td>
<td>Design house</td>
<td>Downstream</td>
<td>More than 40</td>
<td>1991 &amp; Beijing &amp; Organic growth</td>
<td>Over 45</td>
<td>Yes (official online store &amp; e-commerce platform)</td>
</tr>
<tr>
<td>B</td>
<td>UK</td>
<td>Design house</td>
<td>Downstream</td>
<td>Less than 10</td>
<td>1997 &amp; Beijing &amp; Licensing</td>
<td>Over 100</td>
<td>Yes (E-commerce platform)</td>
</tr>
</tbody>
</table>
In order to fulfill the confidential agreements, all interviewees were anonymous and described via their job titles during data analysis and reporting. The primary qualitative data was analysed using thematic analysis on NVivo 10. The common themes were generated and retained in an index system so that the data could be carefully identified and explored. Subsequently, secondary data was employed and analysed using internal documents, marketing reports, and news articles published by reputable organisations. These multiple sources of information therefore allowed triangulation of data to strengthen the validity and reliability of the analysis, as well as helping to minimise researcher and interviewee subjective bias. The findings of this study will be presented and discussed below.

4. Research Findings

4.1 Advantages of EMNCs of Being Parent Companies

Examining the expansion process of the Shandong Ruyi Group helps to understand how EMNCs can mature to become into luxury fashion conglomerates. Indeed, the group has transformed from a (previously state-owned) wool textile mill to become one of the largest luxury fashion groups globally through a series of complicated international expansions (Bloomberg, 2018). Figure 1 illustrates how the group has increased its market power and created and strengthened the value for its subsidiary luxury fashion brands in three areas, including upstream (rare material sourcing), production, and downstream (retailing).
Figure 1: The development of the Shandong Ruyi Group and the value chain

<table>
<thead>
<tr>
<th><strong>Upstream</strong></th>
<th><strong>Production</strong></th>
<th><strong>Downstream</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Obtain &amp; control raw materials</strong></td>
<td><strong>A series of industrial parks</strong></td>
<td><strong>Renown Inc. (Japan, multiple brands, strategic alliance with majority stake in 2010 to acquisition in 2016)</strong></td>
</tr>
<tr>
<td>- Cubbie Station (Australia, 2012, Strategic alliance with majority stake)</td>
<td>(Africa, India, Pakistan <em>etc.</em>, between 2012 – 2016, organic growth)</td>
<td>- Trinity (Hong Kong, brands include Gieves &amp; Hawkes, Kent &amp; Curwen, and Cerruti 1881, acquisition, 2016)</td>
</tr>
<tr>
<td>- Lempriere Wool (Australia, 2012, acquisition)</td>
<td>Carloway Mill (Scotland, 2013, acquisition)</td>
<td>- Aquascutum (UK, acquisition, 2016)</td>
</tr>
<tr>
<td>- Larundel (Australia, 2012, acquisition)</td>
<td>Invista’s Apparel &amp; Advanced Textiles (US, 2019, acquisition)</td>
<td>- SMCP (France, brands include Sandro, Maje, and Claudie Pierlot, strategic alliance with majority stake, 2016)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Bagir (Israel, merge, 2017)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Bally (Switzerland, strategic alliance with majority stake, 2018)</td>
</tr>
</tbody>
</table>
In terms of the upstream development, the group has obtained full control over the quality and quantity of rare materials, cotton and wool, via the acquisitions of the Cubbie Station, Lempriere Wool, and Larundel in Australia. Because of its solid reputation in terms of superior wool and cotton, the choice of Australia was heavily influenced by its locational advantages and the availability of rare resources (Dunning, 2000). Moreover, it is ambitious to establish the largest value chain in wool and cotton products in fashion and luxury fashion, not only for intermediate markets but also for consumer markets. The ownership of top quality wool and cotton helped them to achieve competitive advantage in terms of cost focus and differentiation focus for both the parent group and its subsidiary luxury fashion brands. Five interviewees from head office confirmed such importance, for example the interviewee D explained:

“It is impossible to produce top quality products if we cannot gain top quality wool and cotton at steady prices, so wholly owned raw materials are the foundation of sustainable success for us and our brands”.

Regarding production, as a reputable OEM for a great number of well-established luxury fashion brands, the group has extended its expertise into a wider range of fabric know-how through the acquisition of the Carloway Mill (for Harris Tweed) and American Invista’s Apparel & Advanced Textiles (for Lycra). Such expansion in developed markets has been motivated by the need to obtain critical assets especially intellectual property. Meanwhile, it has also optimised its value chain by relocating production facilities to less developed markets (such as India, Pakistan, and Africa), and retaining research and development functions in China. This expansion has been motivated by efficiency-seeking, such as having
access to a skilled labour force at lower costs and economies of scale. Eight interviewees confirmed that subsidiary luxury fashion retailers could benefit from this greater production capability, for instance the interviewee F stressed:

“Our value chain has been optimised through production abroad, because we are able to plan various production functions in different countries where better efficiency exists”.

Within downstream development, in order to grow into an international luxury fashion conglomerate, the group has extended its operations into a wider range of business and marketing activities through the acquisitions of well-established luxury fashion brands. This expansion into developed markets was proactively motivated for the purpose of seeking strategic assets, especially the know-how in retailing, luxury consumer relationship management, and brand management, necessary for the development of its own high-end brands. Indeed, the establishment of its own luxury fashion brand such as Royal Ruyi is one of the most important targets for the group in terms of competitive advantage and long-term corporate strategy. Therefore, EMNCs benefit from being the parent company for luxury fashion brands through both production and downstream development.

4.2 Parenting Advantages Offered by EMNCs

Based upon the four kinds of influences offered by parent companies (Goold and Campbell, 2002), the parenting advantage provided by EMNCs is different to some extent from their developed market counterparts. Firstly, the Shandong Ruyi Group values the development of each subsidiary brands and supports their actual needs and growth strategies respectively
through stand-alone influences. For instance, SMCP went to IPO (initial public offering) in 2017 (one year after the merge by the group in 2016). Meanwhile, the Ruyi Group have managed and monitored the business performance of subsidiary brands through key performance indicators, especially market growth rate and profits. The director of finance confirmed that senior managers from the group audit subsidiaries regularly via return of investment in finance. However, different from Kering Group, such a high degree of autonomy in EMNCs is also motivated by the lack of know-how in branding strategy and retailing. This was confirmed by eight interviewees with interviewee A explaining:

“It is a win-win situation for us (as a parent group) to regard our brands as stand-alone units rather than to interfere with their business management and practices, because we are still very new in downstream markets, and still need to learn from them in terms of brand management, retailing, and luxury fashion consumer services”.

Secondly, through linkage influences, all subsidiary luxury and premium fashion brands have benefited from intra-group resource utilisation. They are thus able to extend their product portfolio through support products each other. Meanwhile, they also benefit from stable supply of rare materials and production. For instance, Gieves & Hawkes extended its product portfolio into leather accessories through support from Bally. Moreover, all subsidiaries have enhanced their competitiveness in obtaining store locations by forming up a brand portfolio and achieving economies of scales, especially in China. Therefore, the linkage influences between subsidiaries of EMNCs can be achieved across the whole value chain rather than from their traditional counterparts whose subsidiaries collaborate in the same or similar
position within the value chain (Moore and Birtwistle, 2005). This was evidenced by all four
interviewees from subsidiaries. The interviewee J explained:

“As well as steady supply of top quality materials and production (upstream), we can also
work together with our colleagues (other subsidiary retailers, downstream) to form a
competitive and attractive brand portfolio and can negotiate with landlords in order to gain
good locations for our retail stores”.

Thirdly, similar as their counterparts owned by Kering Group, all subsidiary brands in the
Ruyi Group have benefited from centralised administration functions, such as finance and
human resources, which are important to achieve economies of scale. However, local
knowledge in EMNCs’ home markets and production capabilities and diversity have been
revealed as advantages offered by EMNCs. Indeed, all four interviewees from subsidiaries
confirmed that the group’s local knowledge in China helped to accelerate expansion of both
online and offline operations. Moreover, having acquired subsidiary brands and other
subsidiaries to achieve upstream development and production, the group’s production
capabilities and diversity have been extended. In particular, they have been able to diversify
into high-tech fabrics. This increased know-how in fabrics allows them to provide expertise
in luxury fabrics to subsidiary brands. Five interviewees from head office argued that the
ultimate goal in production is to optimise the value chains of subsidiary brands and replace
their old suppliers. This is because standardised value chains offer a steadier supply of rare
material production, offering economies of scale. The benefit of creating such dynamic
processes within value chains was also confirmed by three interviewees from subsidiaries.
For instance, more recently Bally has extended their product portfolio into a wider range of
wool and cashmere products, such as ready-to-wear products and accessories, rather than focusing on core leather products only.

Finally, the parenting advantage created by corporate development activities is the key differences between Kering Group and Ruyi Group. None of interviewees from subsidiary retailers was able to confirm such benefits. Four interviewees from head office argued that they wished to strengthen their brand portfolio in luxury and premium fashion segments by acquiring more luxury fashion brands. This is because one of the core aims of the group’s business strategy is to develop into an international luxury fashion conglomerate, and become “China’s LVMH”. However, it remains very new in luxury fashion sector and at the learning stage. Therefore, its corporate development activities have not yet created sufficient parenting advantage for its subsidiary luxury fashion brands. The interviewee G mentioned: “The group still remains at an early stage of development and is learning from European groups, so I do not think we have been benefited from this”.

The following section is discussing the perceived risks of being subsidiaries of EMNCs.

4.3 Disadvantages of Being Subsidiaries of EMNCs

Despite a number of parenting advantages, three perceived disadvantages of being a subsidiary of the Ruyi Group have been identified. Two interviewees from two subsidiary retailers were concerned about the influence of and intervention from the parent group in terms of business development and retail operations. Especially at the point when the parent
group has developed into a considerable size. Because of different aims, internal conflicts are inevitable and senior management from parent group do not always have enough knowledge and expertise in brand management and consumer services to manage the subsidiary retailers. For instance, the interviewee I stressed:

“Long-term stable harmony between a parent company and luxury fashion brands are difficult to achieve, because they (parent company) invest for (short-term) profits rather than long-term constant brand image”.

Interviewee H was concerned about uncertainty caused by corporate development activities, whereby the parent company develops portfolios of brands and products by buying and selling subsidiaries. In some circumstance, luxury fashion retailers are sold by their owners because they cannot generate enough profits (Moore and Doyle, 2010). Frequent changes of ownership are perceived to be harmful to their brands. Finally, three interviewees from subsidiaries were worried that a constant and exclusive brand image is at risk of being diluted and even damaged by EMNC ownership because of the difference between country of origin and country of ownership (Johansson et al., 2018).

In summarise, it is a win-win situation for the EMNCs as parent groups of Western luxury fashion brands. On the one hand, the EMNCs can access critical assets, such as advanced brand management expertise, retailing know-how, and the services skills needed for higher income consumers. On the other hand, the subsidiary brands benefit from a high degree of autonomy, intra-group resource utilisation, a competitive brand portfolio, local knowledge of EMNCs’ home markets, and most importantly economies of scales in the value chain,
particularly in production. Nevertheless, the perceived disadvantages of EMNCs ownership include potentially restricted autonomy and the uncertainty over corporate development activities in the future, as well as the risks of diluting brand image caused by the inconsistency between country of origin and country of ownership.

5. Discussion

A series of differences between EMNCs in luxury fashion retailing and well-established counterparts are identified (Table 4). The most obvious differences are in relation to country of origin, and target foreign markets. Compared with France, Italy and the US where the majority of well-established groups originate from, the most popular countries of origin for EMNCs in luxury fashion retailing are China and India (Bloomberg, 2018; Deloitte, 2020). Well-established groups usually merge and acquire luxury fashion retailers who originate from same country or cultural zone (Moore et al., 2010). While EMNCs typically target brands that originate from different countries or cultural zones where larger psychic distance exists. These differences indicate different levels of market knowledge and luxury brand management experience between the two kinds of groups (Rigaud-Lacrosse and Pini, 2017).
Table 4: The differences between traditional luxury fashion conglomerates and EMNCs in terms of parenting advantages

<table>
<thead>
<tr>
<th></th>
<th>Traditional luxury fashion conglomerates</th>
<th>EMNCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of origin</td>
<td>• Developed markets (<em>e.g.</em> France, Italy, US)</td>
<td>• Emerging markets (<em>e.g.</em> China, India)</td>
</tr>
<tr>
<td>Country of origin of target subsidiaries</td>
<td>• Same country or cultural zone</td>
<td>• Different country or cultural zone</td>
</tr>
<tr>
<td>Psychic distance between parent company and subsidiary</td>
<td>• Small</td>
<td>• Large</td>
</tr>
<tr>
<td>Expertise in marketing and luxury brand management</td>
<td>• High</td>
<td>• Low</td>
</tr>
<tr>
<td>Internationalisation scope</td>
<td>• Downstream in the value chain</td>
<td>• Whole value chain</td>
</tr>
<tr>
<td>Production capabilities</td>
<td>• Relatively low</td>
<td>• High</td>
</tr>
<tr>
<td>Internationalisation motives</td>
<td>• Seeking market and efficiency</td>
<td>• Seeking critical assets</td>
</tr>
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The scope of internationalisation is different. Well-established groups usually merge and acquire luxury fashion retailers in order to optimise their portfolio of products and brands, developing a multi-brand extension strategy in order to avoid the diluting of an exclusive brand image, caused by over extension into inappropriate product or sub-brands (Kapferer and Valette-Florence, 2016). Therefore, most expansion activities occur within the same or similar areas within the value chain, especially downstream market retailing (Guercici and Milanesi, 2017). However, EMNCs’ international expansion happens in the whole value chain, from upstream raw materials sourcing, to manufacturing and to downstream retailing. Because of previous or current OEM experiences, being parent companies of luxury fashion retailers, the EMNCs are able to enhance their production capability and diversity by securing steady manufacturing and even replacing own subsidiaries’ old suppliers, unlike traditional conglomerates (Doyle and Moore, 2018).

The motives and importance of internationalisation are different from the perspective of seeking markets and the efficiency of internationalisation of well-established groups (Hutchinson and Quinn, 2011). EMNCs aim to develop into international luxury fashion groups and even to establish their own luxury fashion brands by using internationalisation as a springboard to access strategically critical assets (Luo and Tung, 2007, 2018), such as brand management expertise, competitive brand portfolios and distribution networks. Therefore, EMNCs can benefit by being parent companies for luxury fashion retailers through achieving economies of scales in production, and acquiring advanced brand management expertise from
subsidiaries to develop their own luxury fashion brands. Furthermore, Table 5 illustrates the parenting advantage offered by EMNCs in luxury fashion retailing.

Table 5: Parenting advantage offered by the EMNCs in luxury fashion retailing

<table>
<thead>
<tr>
<th>Parenting advantage</th>
<th>Description</th>
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<tbody>
<tr>
<td>Stand-alone influence</td>
<td>• High degree of autonomy</td>
</tr>
<tr>
<td>Linkage influence</td>
<td>• Brand portfolio</td>
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<td></td>
<td>• Fabric know-how</td>
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<tr>
<td>Functional and services influence</td>
<td>• Production capability</td>
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<td></td>
<td>• Production platform</td>
</tr>
<tr>
<td></td>
<td>• Wholly owned value chain</td>
</tr>
<tr>
<td></td>
<td>• Local knowledge in EMNC’s home markets</td>
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</table>

In terms of stand-alone influence, similar to Western luxury fashion groups, EMNCs offer their subsidiaries a high degree of autonomy, supporting them according to their actual business strategies, and monitoring their performance according to key performance indicators, particularly profits. However, a lack of expertise in brand management and high-income consumer services also motivates the EMNCs to regard subsidiary luxury fashion brands as stand-alone profit units. Regarding linkage influences, subsidiary luxury fashion brands of the EMNCs not only utilise intra-group resources (especially know-how in fabric design and development) and support design and products for one another, but they also form as a brand portfolio to obtain suitable store locations.
In relation to functional and services influences, the similarities between two kinds of parent groups are economies of scales achieved through centralised administration, such as finance and human resources. However, the key difference between those two kinds group is production capability. As discussed earlier, because of OEM experiences, the EMNCs have developed their own fully controlled value chain, which offers their subsidiaries economies of scales in terms of diversifying raw material sourcing, core competence of fabric research and development and production capacity. The depth local knowledge and local connections in the EMNCs’ home markets are another key difference from the Western counterparts, because such parenting advantage encourages subsidiary luxury fashion brands’ international expansion (Bai et al., 2021a). Furthermore, the EMNCs are not as strong as well-established groups in supporting subsidiaries through corporate development activities, because they are still developing their brand portfolio and have not reached the stage optimising the brand portfolios of the luxury fashion brands. Therefore, the important factors to evaluate and compare in terms of the parenting advantage offered by the EMNCs in luxury fashion retailing and well-established Western groups includes the lifecycle stage, functions and the experience of parent companies, as well as anti-internationalisation performance (expansion in parent company’s home country).

Since the EMNCs are still in the introduction or growth stages of their lifecycle, their subsidiary luxury fashion brands do not have to deal with the challenge of restricted autonomy (stability of stand-alone influence) and the risk of being sold (uncertainty over corporate development activities). However, when the EMNCs reached the stage of maturity
and even decline, these subsidiaries are highly likely to be required to follow their strategies and to generate satisfactory profits for the parent company. These two perceived risks are similar to the subsidiary brands owned by well-established Western luxury fashion conglomerates (Moore and Doyle, 2010). Most importantly, according to the findings of this study, subsidiary luxury fashion brands owned by the EMNCs need to consider the potential risk of diluting and even damaging their brand image which may be caused by inconsistency between country of origin and country of ownership, especially in emerging markets where solid heritage and craftsmanship for luxury fashion brands is insufficient (Ko et al., 2019).

6. Conclusion

International luxury fashion market has long been dominated by the luxury fashion brands and groups originated from developed markets (Moore et al., 2010). However, fast growing EMNCs have recently created challenges for these well-established multi-brands luxury fashion conglomerates. Understanding of EMNCs in luxury fashion retailing remains insufficient. This study offers a depth of understanding about the parenting advantage offered by EMNCs as parent companies in luxury fashion retailing in terms of stand-alone influence, linkage influence, functional and services influence, and corporate development activities. Meanwhile, this paper has enriched the EMNC literature which has mainly adopted an international business perspective by extending this understanding into luxury fashion retailing, highlighting the differences between EMNCs in luxury fashion retailing and in other sectors. It recognises the mutual benefit created between EMNCs as parenting
companies and their developed market subsidiary luxury fashion brands, as well as different internationalisation activities (Hutchinson and Quinn, 2011; Assaf et al., 2012).

The present research suggests practitioners in EMNCs, who are keen to develop into an international luxury fashion group and to create their own luxury fashion brands, to establish a wholly owned value chain through internationalisation. Because it creates competitive advantages over well-established counterparts, especially in terms of production capability. The internal harmony can be facilitated through regarding subsidiary luxury fashion brands as stand-alone profit units, and balancing corporate development strategies with subsidiaries’ business strategies. Furthermore, the subsidiary luxury fashion brands are suggested to highlight their heritage, craftsmanship, and country-of-origin image within their communication strategies.

Although the validity and reliability of the findings have been strengthened through triangulation of data collection and analysis, the major limitation of this study is related to the purposive sampling technique and the small sample size. As previously discussed, the sampling frame for this study is very limited, evidenced by the fact that very few EMNCs to date have dedicated into luxury fashion retailing and have achieved worldwide success (Deloitte, 2020; Bai et al., 2021b). The Shandong Ruyi Group is regarded as the most appropriate case company for this study because it has been widely recognised as the pioneer EMNC in luxury fashion retailing (Bloomberg, 2018). Another limitation is considered to be the institutional context within the home country China, which is perceived to be of
considerable psychic distance in terms of culture compared to other typical emerging markets, which have been heavily influenced by colonialism, such as India and Brazil (Behrens, 2020).

Therefore, based upon this paper, future studies may test the parenting advantage offered by EMNCs in luxury fashion retail sector identified by this study through quantitative research with larger samples. Qualitative studies in the future are suggested to examine the relationship and internal synergy between other EMNCs, originating from different emerging markets, and their developed market subsidiaries in luxury fashion retailing and other business sectors. Finally, the researchers may also examine the impact of ownership of EMNCs on the brand image of developed market luxury fashion retailers.

References


Bloomberg. (9th Jan 2018), “Watch Out, LVMH. China Inc. Is Coming – Shandong Ruyi already has a luxury portfolio and is unlikely to stop at Bally”. Available at: https://www.bloomberg.com/opinion/articles/2018-01-09/watch-out-lvmh-and-kering-china-inc-is-coming


Appendix A: Executive interview questions

Interview questions for the directors (head office)

Q1. We know that the Shandong Ruyi Group had achieved considerable success through internationalisation in the recent years. Could you please share your opinion regarding what is internationalisation of the EMNCs in luxury fashion retailing?

Q2. Regarding to the downstream of the value chain, what are the most important motives behind international merger and acquisition of Western luxury fashion brands?

Q3. What benefits can your group obtain of being the parent group of these subsidiaries?

Q4. As a parent group, can you please share your opinion regarding how can your group support these Western subsidiaries (through stand-alone influences, linkage influences, functional and services influences, and corporate development activities)?

Q5. Could you please share your opinion regarding what are the challenges to manage and operate these subsidiaries in the consumer markets?
Interview questions for the senior management (subsidiary luxury fashion retailers)

Q1. We know that your company is a European heritage luxury brand and solid international experiences. Could you please share your opinion regarding why did your company become a subsidiary of the Shandong Ruyi Group?

Q2. In your opinion, what kinds of expertise or advanced know-how your company can offer to the Shandong Ruyi Group as an EMNC?

Q3. In your opinion, what are the key differences between the Shandong Ruyi Group (and EMNCs in luxury fashion retailing) and the established developed market luxury fashion conglomerates, such as the Kering Group?

Q4. In your opinion, how can your company can be benefit from the parent group (through stand-alone influences, linkage influences, functional and services influences, and corporate development activities)?

Q5. Could you please share your opinion regarding the perceived risks of being a subsidiary of the Shandong Ruyi Group?