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SCHOOL OF BUSINESS, ECONOMICS AND LAW

THE INTERNATIONALIZATION PATTERN OF A SWEDISH FASHION COMPANY

-A CASE STUDY OF LINDEX

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Preface

We especially want to thank a few people that have contributed to the procedure of our thesis. Firstly we want to thank our three respondents from the Lindex organization, Peter Andersson, *Country Manager of Central Europe*, Johan Isacson, *Franchise Manager* and Michaela Schirmer *Visual Merchandiser* who has contributed with their experience and knowledge of internationalization. Finally, we especially want to thank our supervisor Anna Jonsson for all the support and feedback given during the whole process.

Gothenburg, 2013-06-06

Jacqueline Tradefelt

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Abstract

To internationalize has become an increasingly common means for growth as the developed markets in Europe exhibits a highly competitive environment leading to saturation in their domestic markets. With the emerge of the globalization and the rise of emerging markets new opportunities arise, which is positive for smaller countries like Sweden that are dependent on international activities. Furthermore, the Swedish fashion industry is becoming increasingly recognized in the international arena as world-famous companies like Swedish H&M has influenced and inspired the Swedish fashion industry.

The purpose of this study was to investigate why and how Swedish retailers within the fashion industry expand to new markets with special emphasis on knowledge gained from previous establishments.

The results of the study suggest that Lindex expansion pattern lies both in knowledge and experiences gained from the German market failure during the late 1990s, but also to a large extent in the external factors as regard to the establishment in the Czech Republic, Slovakia and Poland. Moreover, the results indicate that the internal factors, referring to the knowledge and experience of Lindex's new owners, Stockmann, were the driving force behind entering the Russian Market. Lastly, we have also been able to conclude that a previous establishment regardless of how successful will affect subsequent expansion decisions, since the knowledge gained from every establishment is brought with the organization to the next expansion decision.

Keywords:

Internationalization, knowledge, low-cost fashion garment segment, Swedish fashion, foreign expansion, Central Europe, Russia, the Middle East

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1 Introduction

The first chapter introduces the reader to the researched area as well as relevant background information for a further understanding. This is followed by a problem discussion that results in our research questions aiming to fulfill the purpose of our thesis. Lastly the delimitations of the thesis and a reading guide are presented.

1.1 Background

With the increased globalization, the emerge of new more open markets and the enhancements in information technologies, the need for knowledge and understanding in an international context and thus the process of internationalization have become essential for the companies themselves as well as for researchers world-wide (Vida & Fairhurst, 1998; Tatoglu, Demirbag & Kaplan, 2003). At present, the highly developed European economies are witnessing saturation and intense competition in their domestic markets, which has led to that foreign expansions have become increasingly common as a means for growth (Lopez & Fan, 2009). Furthermore, the global integration is contributing to the increased easiness of conducting foreign business activities due to the lowered trade barriers and transportation costs, yet increasing the competitiveness (Wikner et al. 2007). For smaller countries, with a small population the market can be considered as limited. Therefore, we would like to argue that it would be logical for companies to search for new potential markets to expand their operations and gain larger profits. Thus in relation to the Swedish nation, a small yet open country the dependence on international business activities and trade is significant (Samuelsson & Rickardsson, 2012; Wikner et al. 2007).

As regards to the retail sector, the industry has barely experienced international operations until the 1980s (Hasty & Reardon, 1997), still the phenomena of expanding operations internationally as a way of achieving growth is highly present in the industry today (Lopez & Fan, 2009; Simpson & Thorpe, 1999; Pellegrini, 1994). Furthermore, in today's globalized world there are not solely large retailers that internationalize successfully as concepts like franchise and joint ventures offers access to a foreign market at a reduced cost (Hutchinson, Quinn & Alexander, 2005; Palmer, Owens & De Kervenoael, 2010; Treadgold, 1988). While large enterprises seem to have enough assets to enter a wide range of markets mostly expanding by wholly owned subsidiaries, small and medium sized enterprises (SME) often

lacks the financial assets and management experience to follow the same pattern (Leondiou, 1995; Morgan & Katsikeas, 1997).

Even though the world economy has experienced recession during the last years due to the financial crisis the retail sector has demonstrated growth since 2010. In 2011 the 250 largest retailers in the world approximately exhibited a 5% growth in revenue, which accounted for almost 4.3 trillion USD, demonstrating the significant size of the industry (Deloitte, 2013). Moreover, the retail industry can be described as a fast changing industry where new products and services constantly are introduced and the technological advancements further push for changes (Widerstedt et al. 2006). Similarly, the fashion retail industry and thus fashion markets are fast-changing as well, characterized by high volatility in demand and therefore also short-life cycles where products are designed to satisfy the trend at present (Christopher, Lawson & Peck, 2004).

Turning our attention to the Swedish retail industry with focus on garments, the sales of clothes in 2008 accounted for just over 60 billion Swedish crowns, thus 5 % of a Swede's disposable income was spent on fashion items that year. This might not be a surprise since the Swedish population and in particular the younger generation is considered to be very fashion conscious. However, following trends can be an expensive story leading to that the fashion conscious younger part of the population tends to buy and demand for low-cost fashion (Swedish Chambers, 2009). An important low-cost fashion company that has influenced the Swedish fashion industry is the world-known H&M serving as a source of knowledge and inspiration for a further development within this industry. Furthermore, Scandinavian design has become a well-known concept and recently Swedish fashion designers have become more and more recognized within the industry (Svengren Holm, 2013). Yet, the Swedish fashion retail industry is highly influenced by foreign competitors increasing the existing competition (Swedish Chambers, 2009).

1.2 Problem background

The phenomena of internationalization has been widely highlighted the last couple of decades and a lot of research has been conducted within this field (Blomstermo & Sharma, 2003). The main driving force behind internationalization is said to lie in the wish to earn larger profits than what can be accomplished in the domestic market (Williams, 1992). Since

new inventions have been discovered and custom unions have been developed it have contributed to ease the trade and transport between countries (Dicken, 2011). With the increased desire to expand into foreign markets the question of which market to enter becomes a central question. As regard to this, models have been created in order to explain the internationalization process of a company (Johanson & Vahlne, 1977; Dunning, 1988). The majority of models, well recognized within this topic are constructed to fit into a manufacturing company's context, an industry considerably different from the retail industry (Vida & Fairhurst, 1998; Sternquist, 1997; Dawson 1994).

Firstly, *the Uppsala internationalization model* created in 1977 by Johanson and Vahlne, describe how different level of knowledge and experience affects the level of commitment in the hosting country, which gives a dynamic explanation of the internationalization process. Furthermore, the empirical evidence conducted for this model, based on manufacturing companies demonstrated a pattern where companies tend to move to nearby countries that exhibit low psychic distance compared to the domestic market. Another Swedish study, however focusing on the fashion industry, describes that a company is highly aware of their competitors' move into the international arena, thus prefer to enter markets where other Swedish companies already are established (Svengren Holm, 2013).

However, since industries grow and become more and more important for the economy, new models are developed to describe a certain sector or industry. For example Dawson (1994) describes a need for further research in the retail sector since it is substantially different from the manufacturing sector. Other researchers have further contributed with models explaining the phenomena of internationalization in retailing firms (Alexander & Myers, 2000; Sternquist, 1997; Vida and Fairhurst, 1998). The model proposed by Vida and Fairhurst is one of those, focused on retail, which emphasize the importance of internal factors as promoters for international expansion. Yet, the model also includes the dynamic nature in which learning is transferred to the next expansion decision. Even though many studies have been conducted based on large retailers, in recent years the internationalization of retail SMEs has also been recognized (Hutchinson, Quinn, Alexander, 2005; Ruzzier, Hisrich & Antoncic, 2006). Within the field there have also been studies conducted, focusing on the entry-mode of retailing firms. For example, Doherty (2000) investigated in seven large UK fashion retailers choice of entry-mode. Additionally, there have been a number of studies focusing on UK retailers' internationalization (Doherty, 2000; Burt, 1993; Hutchinson, Quinn & Alexander,

2006). However, the number of studies within the internationalization field focusing on the Swedish fashion retail sector is to our knowledge very limited. One exception is Svengren Holm (2013), investigating the internationalization process of Swedish fashion companies such as ACNE, Filippa K, Tiger of Sweden, etc. companies that can be considered as more luxurious brands compared to H&M, Gina Tricot and Lindex.

One study based on Swedish firms as already mentioned is the Uppsala internationalization model, which has been well recognized and cited in later studies but also criticized (Reid, 1983; Forsgren, 1989; Hedlund & Kverneland, 1985; Engwall & Wallenstål, 1988). For example it has been claimed that psychic distance has decreased as the globalization has made the world more homogenous and therefore the importance of this factor in explaining the internationalization has decreased (Johanson & Vahlne 1990). Furthermore, as the developed economies are witnessing saturation in their home markets investors are seeking for new markets to invest in. This has made emerging markets like Southeast Asia, Africa, Latin America and Eastern Europe highly attractive. These markets are considered as highly volatile but also markets where one can earn large profits thus see long-term potential as the competition there is not as developed as in the domestic markets (Campbell, 1995). Additionally, Arnold and Quelch (1998) discovered advantages with being a first-mover into emerging markets such as gaining relationships and employing the most talented managers. Thus, we believe that it could be logical for companies to overlook factors as psychic distance that previously have been important. However, differences among countries still exist and are recognized in the internationalization field of research. The recognition of experience and knowledge transfer, in which knowledge also can be generalized from the home country to similar countries is also acknowledged in the literature and might be an explaining factor in expanding to nearby countries (Johanson & Vahlne, 1990).

When looking at the Swedish fashion retailing and further into three of the largest Swedish companies that can be considered as “Low cost fashion garments companies”, chains that sells fashionable clothes mainly attracting younger and fashion conscious persons to a considerably low price (Swedish chambers, 2009), namely H&M, Gina Tricot and Lindex, we were fascinated when we found intriguing differences in their foreign establishments of stores. As regards to the foreign expansion of H&M, the company opened up their first store outside Scandinavia in 1976, in Great Britain. The foreign expansion continued with the establishment of stores in both Germany and the Netherlands during the 1980s (H&M, n.d).

In a similar manner, Gina Tricot has chosen to enter the German market (Gina Tricot, n.d) and the CEO of Gina Tricot have stated that the company desires to enter the Dutch and Belgian markets as a next step in their internationalization (Nylund, 2009). Thus, both of these Swedish low cost fashion garment companies have started their foreign expansion by penetrating markets in Western Europe.

However, turning the attention to Lindex, a Swedish company, within the same segment of fashion retailing, attracting similar customers a resembling pattern of foreign expansion might have been a good guess? Well, actually it would not. This, since in contrast to H&M and Gina Tricot, Lindex compass of expansion has pointed in an eastern direction as Lindex during the 2000s expanded outside Scandinavia. This was accomplished by setting up stores in the Baltic countries, the Czech Republic and later also in Russia, Slovakia, the Middle East and the countries located on the Balkan Peninsula (Lindex, n.d, a), countries that could be considered as emerging markets or possibly countries with higher psychic distance than Western Europe.

Out of these observations in the literature as well as the findings in the case of Lindex we have formulated two research questions:

- 1. Why does Lindex's expansion pattern point in an eastern direction?*
- 2. Does a previous establishment of stores in one country affects the choice of the next market to further expand the chain of stores to?*

1.3. Purpose

The purpose of our research is to investigate why and how Swedish retailers within the fashion industry expand to new markets with special emphasis on knowledge gained from previous establishments.

By fulfilling the purpose of the thesis we will contribute with a better understanding regarding the internationalization of a Swedish fashion retailer and what factors that influences the international expansion by propping a model. Furthermore, as mentioned earlier there is a gap regarding internationalization of Swedish fashion retailers with special emphasis on the low cost garment segment, which this thesis is aiming to contribute to.

1.4. Delimitations

The study will be delimited to investigate the fashion retail sector with special focus on the low cost fashion garment segment, where we merely look at the foreign establishment of stores, not involving the internationalization of other departments within the organization, such as production facilities, purchasing offices or research and development units. These delimitations are mainly due to the strict timeframe to conduct a wider research.

Furthermore, a possible research approach to answer our research questions could have been to look into marketing theories. Previous research conducted by Porter (1981) and Kotler and Zaltman (1971) introduces market analysis, to distinguish what markets that are favorable to enter. These models however focus on external market forces that companies in a very limited range can affect, and does not involve the internal factors that are important to consider in explaining internationalization behavior of retailing firms (Burt, Dawson, & Sparks, 2003).

1.5 Disposition

To ease the reading and increase the transparency of this thesis, it has been divided into six chapters, each explaining a certain process.

In chapter *one* the reader is introduced to the idea of internationalization followed by the internationalization of retail. This information is further discussed and degraded in the problem discussion and summerized in two research questions that the thesis aims to answer. Chapter *two* describes the methodology used to conduct the information to this thesis. In this chapter the reader will find out how the thesis has been created, what has been done as well as why it has been implemented this way. The *third* chapter presents the theoretical framework consisting of two theories regarding the internationalization process, in both a general and a retail specific perspective. Out of these theories a conceptual framework is presented that will serve as a base for the analysis. Chapter *four*, consisting of the empericial findings, introduces the reader to the organization investigated in this thesis. Firstly giving a brief introduction about the company followed by describing its internationalization process in a cronological order. In chapter *five* the empirical evidence presented in chapter four will be analyzed by using the conceptual framework presented in chapter three. In the last chapter, chapter *six*, the thesis is tied together by concluding our findings made in chapter five in order to fulfill the purpose of the thesis. The reader will also be able to read our suggestions for further research.

2 Methodology

This chapter aims to explain how the research has been conducted and on what basis these actions have been motivated. The chapter will firstly describe the methodological considerations followed by explaining how the data has been collected and processed to finally discuss the credibility of the research.

2.1 Methodological considerations

It is important, when choosing among the different research strategies to consider what type of research questions the study aims to answer (Yin, 2003). When the purpose of the research study is to find answers to “how” and “why” questions, case studies are a preferable approach. Furthermore, case studies are beneficial when desiring to understand a complicated or complex social phenomena and the strategy is often used when investigating in organizational occurrences (Yin, 2003). Since the research questions of the thesis are aiming to answer why Lindex have chosen to expand their chain of stores in an eastern direction and how previous establishments affect the continued expansion, the most favorable research strategy for us is a case study. Therefore, we choose to conduct a single case study on Lindex, consciously deselecting a multiple case study since we wanted to deepen our knowledge into one case rather than comparing two or more cases. Moreover, a single case-study is appropriate when the case is unique or extreme (Yin, 2003). Relating this to our study, our case is unique in terms of Lindex foreign expansion pattern of stores when glancing at two of the other largest Swedish fashion retailers within the low-cost fashion garment segment. Therefore a single-case study is the most appropriate strategy for our research study.

Case studies have been criticized for not being appropriate for generalizing results, yet these accusations are considered incorrect as long as the study is conducted in the right way (ibid). Nevertheless, the goal of our research is not to generalize our results since the study is based on empirical findings of only one company. However, the proposed model is of a general nature since it is constructed based on other models even if the empirical findings are taken into consideration as well. Therefore, we believe that the proposed model could to some extent be generalized and used on other companies within the fashion industry. This is another reason why we chose to make a single case study, not aiming to generalize the result which, might have been more motivated by a multiple-case study (Dyer and Wilkins, 1991).

Additionally, Lindex's rather unique foreign establishments of stores were the main reason why we chose Lindex and not another company.

2.2 The Research model

2.2.1 Qualitative vs Quantitative research

A case study can be qualitative, quantitative or a mix. Sampling information through words can be derived as a qualitative approach, while a quantitative research approach tends to focus more on sampling of numbers. The qualitative research method includes conducting information regarding the empirical evidence like preferences, values and norms as well as actions (Bryman, 2012). The quantitative research is more concerned with measurements not considering the process, while a qualitative is said to give a deeper understanding of the phenomena studied (Silverman, 2005). Another argument for conducting a qualitative research is the lack of qualitative research done within the international business field. The majority of research within this field has mainly been built on theories borrowed from other fields. However the climate within the international business has changed over the years and become more and more complicated. Implementing a qualitative research within this field is very time consuming and may therefore deter researchers. Therefore Doz (2011) emphasizes the importance of conducting qualitative research within the field of international business.

Regarding the case study of Lindex, a qualitative research approach would fit best, since we would like to investigate how, why and on what basis decisions regarding international expansion are taken. We want to develop our understandings for how knowledge is transferred and what external and internal factors that are involved in the decision process. With these conditions in mind, a quantitative research approach would not have the ability to answer our questions with the same precision as a qualitative research.

Qualitative and quantitative research approaches are widely discussed. Quantitative researchers argues that qualitative research often is too subjective, since the researcher prepares the study according to its own preferences, both when it comes to choosing theoretical framework, making the interview guide as well as selecting the respondents. A qualitative research can also be hard to replicate without involving personal reflections, which may bias the result as the researcher will interpret the information conducted in a way that he or she will believe is appropriate (Bryman, 2012). However, by motivating the decisions

made and actions taken during the process it will increase the transparency of the thesis and hopefully decrease these deficiencies.

2.2.2 The deductive, inductive and abductive view

The deductive and inductive views are two different processes in which the research study takes its point of departure and finally ends in conclusions. The deductive view is based on theory within the researched field and the findings made are compared to the theory to make conclusions that might or might not lead to a revision of the theory. The inductive view on the other hand is of the reverse, since it takes its point of departure in the findings and the outcome is a theory (Bryman, 2012).

However, we have chosen to take on an abductive reasoning which could be said to be somewhere in between a deductive and inductive since the abductive reasoning is aiming to develop the existing theory rather than confirm or generate theories. Therefore, the abductive view is preferable when wanting to find new relations or new variables and it also allows us to take advantage of both the characteristics of the theoretical framework as well as the empirical findings. Consequently, we have taken our point of departure in the theoretical framework combining it with the empirical findings as well as theoretical knowledge gained through the process in order to develop an own model. The developed model has then been compared with the empirical findings and thereby analyzed in order to answer our research questions (Dubois & Gadde, 2002).

2.3 Data Collection

When conducting a research it is important to collect the appropriate data to be able to get a reliable and qualitative outcome. There are two ways of collecting data, either through primary or secondary data (Bryman, 2012).

2.3.1 Secondary and Primary data

Secondary data is characterized by being collected and processed by a person other than the researcher. Therefore a disadvantage is that you do not know how the information has been gathered and you must bear in mind that the secondary data has been collected for another aim than the research you are conducting. However, some advantages are that the collection of secondary data is both cost and time saving compared to primary data (Hollensen &

Schmidt, 2006). Contrariwise, primary data is data collected first-hand, that is, by the researcher himself through techniques like interviews, observations or questionnaires. This ensures that the data collected is aimed for the actual research (Bryman, 2012).

2.3.2 Primary data – Conducting interviews

We have used a semi-structured interview method with open questions where we followed an interview guide (see Appendix 1) covering our main topics. This method leaves room for supplementary questions as well as room for the respondent to speak free (Bryman, 2012). When creating an interview guide it is important that the guide does not leave room for misunderstandings since we wanted to be able to compare the answers. Therefore we used simple questions, ensuring that the questions only could be perceived in one way. In order to further decrease the risk of misunderstanding the interview questions, we conducted pilot interviews on different people, which allowed us to test the function of the interview guide (Kvale & Brinkmann, 2009). Furthermore questions can be led by the interviewer and may give a biased result. To decrease this possibility we used neutral and open questions in order for the respondent to talk free (Eriksson & Kovalainen, 2008). Our interview guide was mainly constructed with respect to the models that we have based our conceptual framework on and aims to find out factors that can be relevant for the Lindex case; it also considers other questions relevant for the purpose of the thesis. When conducting our interview guide we divided our questions into sub categories regarding psychic distance, learning, internal and external factors, to ensure to cover questions that are connected to our theoretical framework. These sub categories were not visible in the interview guides sent to our respondents, since that might lead them to answer in our favor.

Our aim was to conduct face-to-face interviews as far as it was possible due to that these would give us the possibility to read the body language of the respondent and adjust to the situation. Thereby we were able to detect moments where supplementary questions could give us a deeper answer. Furthermore, by doing interviews we gained deeper dimensions of information that might be left out in secondary data (Bryman, 2012).

Before each interview we sent the respondents our interview guide in order for them to be able to prepare themselves. During the interviews we recorded the conversation, after approval by the respondent, in order for us to have the ability to recall the conversation

afterwards as well as to be able to focus more on the conversation during the interview rather than writing down everything said. Finally, after the interview we sent the respondents a respondent validation of the interview for them to approve in order to eliminate the chances of misunderstandings (Silverman, 2006).

2.3.3 Respondent Selection

It has previously been said that a well-executed qualitative research should include more than 20 cases. However, when the aim of the research is to gain deeper knowledge in a specific case it will be more favorable to have a few in depth interviews with respondents sharing their personal expertise and experience. It could be said that conducting 20 brief interviews will increase the validity to a research, however it may not be relevant to a single case study, since brief interviews may not be able to answer the questions deep enough or with the same precision (Crouch & McKenzie, 2006). As regards to the selection of respondents for the interviews, they come from different parts of the organization and have carefully been selected due to their experiences in international expansion. The main argument of interviewing people with different positions in the organization is to see the employees' different experiences regarding internationalization, which helped us to get a more holistic picture.

A face-to-face interview was conducted with Michaela Schirmer, yet due to that Michaela is stationed in Hallsberg one of the authors were present face-to-face and the other via telephone. Michaela has been working within the Lindex organization for 13 years. Over the years she has been working as a Visual Merchandiser which has led to that Michaela has been given many opportunities to work abroad, helping Lindex setting up new stores in Germany, Czech Republic, Latvia and Slovakia. However, Michaela is not involved in the decision-making process and therefore, it is important to point out that this interview only reflects the thoughts, experiences and opinions of Michaela herself.

Our second respondent, Peter Andersson, began his career at Lindex in the year of 2000 as Chief Financial Officer and in 2009 he became responsible for expanding the Lindex organization within Central Europe, which today means responsible for Lindex stores in Czech Republic, Slovakia and Poland. At present Peter works as Lindex's Country Manager of Central Europe and is stationed in Prague, which forced us to conduct a skype interview,

reflecting a face-to-face interview best. Furthermore, Peter will this autumn possess the role as director of finance and expansion for Lindex and he has during the last 13 years experienced both expansion failures as well as abroad successes.

Thirdly, we conducted a face-to-face interview with Johan Isacson who has been working at Lindex since 2001 in different positions and today possesses the role as Franchise Manager at Lindex. Today Lindex is present through Franchise partners in six markets including Saudi Arabia, United Arab Emirates, Iceland and the Balkan area, which also represents the markets that Johan is responsible for. His twelve years at Lindex and his special expertise in the above mentioned markets served as a good complement to the other two conducted interviews.

2.3.4 Analyzing the data

Our processes of analyzing the interviews started with firstly compiling the interviews and interpret the data collected to see if the answers were what we believed they would be or if there were any surprising answers, as well as to see if the answers were relatively consistent. Secondly, we reflected over what information that was useful for us and if the information was enough for our forthcoming analysis. The information was also mixed and compared with secondary data available. In the end, the output of this process became the foundation for our analysis. With this output from our empirical findings, we could compare it with our conceptual framework, consisting of our own model, in order to see if the empirical pattern were matching the pattern of our model. This analytical strategy, known as pattern matching is considered as a good strategy to use for an analysis and it was helpful as it guided us in our analysis to know what we would analyze and why (Yin, 1994; Trochim, 1989).

2.3.5 Secondary data

To get a general knowledge in our research field of internationalization we read overviewing books regarding this topic. This facilitated our further data gathering as we continued with searching in databases provided by the University of Gothenburg. Through the databases we were able to collect scientific articles regarding a broad perspective of internationalization as well as articles that consider internationalization in the retail industry. When selecting the scientific articles to use for our study we have considered if the articles were peer reviewed or frequently cited as a stronger measure of reliability and furthermore how well suited they were for our study.

As a complement to our interviews with respondents from the Lindex organization, we have used internet to collect a range of secondary data that are available through newspaper articles, information provided on Lindex website as well as annual reports. This use of different sources of data in order to corroborate them with each other is known as triangulation, a strategy frequently used by qualitative researchers in order to improve the credibility of the study (Silverman, 2005). Therefore, the secondary sources were useful for us in order to aim for a more reliable view upon the investigated phenomena since this gave us two sources to consider and compare when collecting data to our empirical findings.

2.4 Discussion of Credibility

When conducting a research it is important to gain credibility to the study. Credibility is associated with two main concepts, validity and reliability. In turn, validity is concerned with the degree of veracity of the study or how to collect the right information for the purpose of the study. Reliability, which is the second main concept of credibility, is concerned with the possibility to replicate the study at a later occasion and still get the same results (Silverman, 2006).

2.4.1 Validity

In qualitative research the problem of anecdotalism is frequently highlighted. This is due to that it is difficult for qualitative researchers to ensure that the findings are critically processed and not based on subjectively chosen examples in order to get the results that the researcher expects or wishes (Silverman, 2005). In order to avoid this problem, thus gaining validity to the study we have sent out a respondent validation to each respondent for them to approve the findings of the interview, which is argued to be an appropriate way of achieving validity in a qualitative research (Silverman, 2006). The use of different sources of data known as triangulation has also helped us gain validity to the research study as we have been able to crosscheck them with each other. Furthermore, through describing and motivating all the steps made in the creation of the thesis, the study gains transparency enabling the reader to review if the thesis is conducted as stated. This is another aspect that helps to increase the validity and reliability of the study (Silverman, 2005).

In addition to interpret the accumulated data from ones own reality is logical and lies in the nature of human beings. Therefore, we are also aware that the respondents will interpret the questions out of their preferences and thus also possibly respond in a way that presents the company in a good daylight, since they all are employed at Lindex. To be able to avoid such biased information; we could have conducted interviews from external persons, like consultants that are engaged with internationalization. However, the limited amount of time has forced us to only involve employees within the organization; therefore we have chosen persons with different experiences that do not work together on regular basis. By interviewing employees from different departments, rather than only interviewing one employee could increase the credibility of our empirical findings as the information collected from our interviews will be compared to one another in order for us to detect a pattern in answers.

2.4.2 Reliability

As stated earlier, the replicability of a qualitative research has been criticized and we are aware that our own perceptions and preferences will affect what we chose to concentrate on and the interpretations made (Bryman, 2012), and thereby also decrease the possibility of replicating the study.

However, by doing pilot interviews, in order to ensure that the questions are understood in the same way is a means to increase the reliability of the study as suggested by Silverman (2006). Furthermore, the data conducted from the interviews have been analyzed by both researchers of this thesis, which is an additional means to achieve a higher degree of reliability (Silverman, 2006). Thirdly, by recording the interviews we were able to gain more reliability since this is satisfying the low inference descriptors criteria, which includes giving as truthful reproduction of what the respondent says as possible, decreasing own influences (Silverman, 2006). We are also aware that the respondent might be affected by the interviewer's body language known as the interviewer-effect, thus respond by saying what the interviewer wants to hear (Svenning, 2003).

3 Theoretical Framework

This chapter aims to highlight internationalization theories, both in a general as well as in a retail concept, to finally result in a conceptual framework in which a new model of explaining internationalization of retailing firms will be proposed.

3.1 Introduction

As mention earlier the phenomena of internationalization has been widely studied and with the increased globalization, easiness of conducting business across borders, attractiveness of emerging markets and the saturation in developed economies internationalization has become a common way for firms to grow (Lopez & Fan, 2009; Vida & Fairhurst, 1998). However, internationalization is a rather complex phenomena and a main challenge in internationalizing its operations is the need for an understanding of the foreign markets in order to succeed (Burt & Carretero-Encinas, 2000). As regards to this, the literature reveals an emphasis on learning and experience as regards to models explaining the internationalization process of firms (Blomstermo & Sharma, 2003; Johanson & Vahlne, 1977; Eriksson et. al, 2007; Reid, 1981; Cavusgil, 1980). However, considerably amount of earlier studies have been based on manufacturing firms (Johanson & Vahlne, 2007; Reid, 1981; Cavusgil, 1980) thus the need for research regarding the relatively complex situation of internationalization of retailing firms has been acknowledged (Dawson, 1994; Akehurst and Alexander, 1995; Brown and Burt, 1992; Whitehead, 1992) and developed (Vida & Fairhurst, 1998; Sternquist, 1997). One of the most recognized theories within the field of internationalization in general is the Uppsala internationalization model, a theory that is frequently cited and discussed in later studies. Furthermore the model is argued to be more developed than other process theories and moreover adjusted to be applicable to both small and large firms. (Andersen, 1993)

3.2 The Uppsala Internationalization Model

In the late 1970s a model explaining internationalization as a dynamic process was proposed. The model, shown in figure 3.1, became recognized as the *Uppsala Internationalization model*, constructed and based on empirical studies on international Swedish firms in the manufacturing sector (Johanson & Vahlne, 1977). The empirical studies at the University of Uppsala began in the 1960s as a response to the Swedish firms' dependence on international

markets as well as the increased integration of the European markets due to further cooperation within the European borders (Blomstermo & Sharma, 2003).

The empirical findings suggest that firms tend to follow a pattern of expanding their operations to countries with low psychic distance, that is, low differences in language, level of education, culture and ways of conducting business (Johanson & Vahlne, 1977). The pattern suggests that Swedish firms firstly expand operations to another Nordic country and possibly later also to the remaining Nordic countries. They then continue its foreign expansion into psychically close markets such as the German, British or Dutch market (Blomstermo & Sharma, 2003). Furthermore, the imperialistic findings have also demonstrated another characteristic pattern of Swedish firms where they tend to start with exporting to foreign countries and then continue its foreign involvement by establish sales subsidiaries in the host country to possibly start manufacturing as a third step (Johanson & Vahlne, 1977).

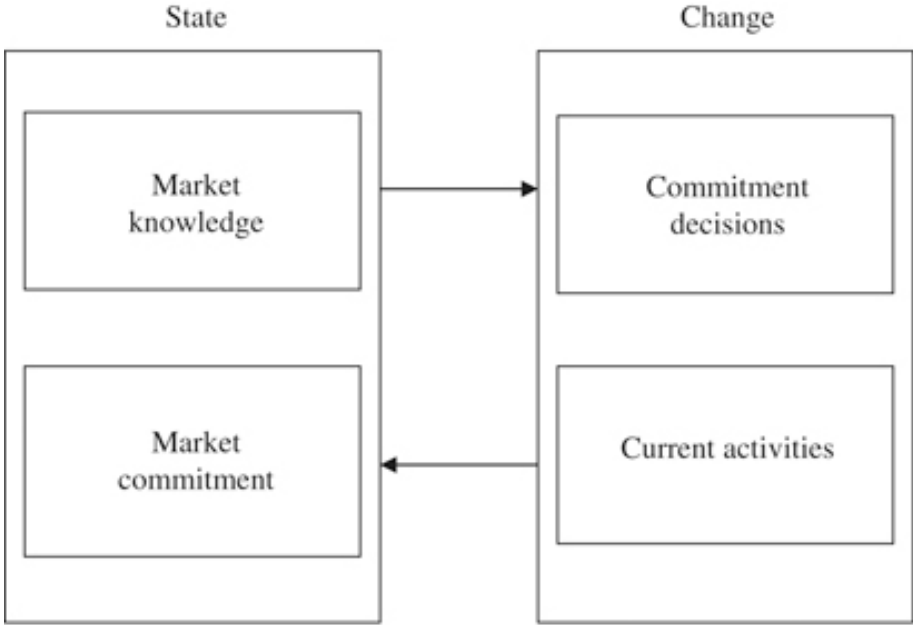


Figure 3.1 The Basic Mechanism of Internationalization- State and Change Aspects.

Source: Johanson & Vahlne, (1977:26)

Out of the empirical finding the Uppsala internationalization model was created, based upon two aspects, the *state* and the *change* aspect. In turn, the state aspect in the model consists of market commitment and market knowledge, that is knowledge of and commitment to overseas markets. Regarding *market commitment* both the degree and amount of

commitment is considered in the model and it is important to notice that domestic capacity for a foreign market is also included in the market commitment, not solely resources directly committed in a certain foreign market. Regarding *market knowledge*, there are two ways of gaining knowledge, either through objective knowledge that can be taught or experiential knowledge, which is knowledge learned through own experiences of operating in the host country market. The knowledge serves as a base for commitment decisions and in this sense the experiential knowledge is deemed to be a crucial factor in the decision-making of foreign operations as well as for the detection of business opportunities in those foreign markets (ibid).

Respectively, the change aspect consists of commitment decisions in the foreign market as well as the current activities conducted. In terms of *commitment decisions* the model suggests that both business opportunities and issues are based on experience and are mainly detected by the persons operating in the markets or possibly by persons in companies interacting with the internationalized firm, for example in the form of business proposals. This in turn will lead to that decision alternatives are related to the current foreign operation and thus current foreign markets. Concerning the *current activities*, these contributes with experience of the host market as well as the firm itself, thus the largest scope of experience can be gained from these activities. However, this experience takes time to establish therefore a way to speed up the internationalization process is to hire or employ people that already have the experience of the market (ibid).

The model is of a dynamic nature where the internationalization process is seen as a cycle, in which the output of a decision is transformed to the input of the next decision or next cycle. Explaining this within the model, the propose is that the knowledge and experiences of foreign markets as well as the current foreign commitments will have effect on decisions regarding the next commitment and thus also affect current activities. On the reverse current activities performed abroad and commitment decision taken will affect what the organization knows about the market (market knowledge) and how much the organization commits to foreign markets (market commitment), due to that new commitments will lead to increased knowledge. This means that a firm will incrementally increase its foreign operations as the knowledge and experience that the organization gains of operating in foreign markets increases due to increased foreign commitments. This also means that the state aspects will influence how business opportunities and risks are understood and therefore affect the change

aspects of the model. Furthermore, the most critical factor presented in this model is knowledge with special attention to experiential knowledge, which can facilitate internationalization or constitute a large obstruction if not enough gained in order to precede the process of internationalization. With a high level of knowledge of the host market the level of uncertainty will decrease in the case the market is stable, as a result the commitment to the intended market will increase thus expanding the business activities conducted there (Johanson & Vahlne, 1977).

3.2.1 Criticism of the model

However, the model has been criticized (Reid, 1983; Forsgren, 1989; Hedlund & Kverneland, 1985; Engwall & Wallenstål, 1988) and therefore also revised to adapt to new findings and circumstances in the business environment. Johanson and Vahlne (1990) argue that the psychic distance between nations has been lowered due to the globalization and thus markets have become more similar to each other. In this later study the authors also has revealed three new circumstances regarding the internationalization process. Firstly, firms with substantial resources can internationalize faster through skipping steps within the internationalization model due to that they can afford to take higher risks. Secondly, knowledge and information about the foreign market can be accumulated in other ways than with experiential knowledge if the considered market exhibits stability. Furthermore, Eriksson et.al (1997) claims that experiential knowledge is not a matter of country specific knowledge as argued by Johanson and Vahlne (1977) but rather firm specific, important for all markets. Lastly, the authors also discovered that a firm can generalize its experiences and knowledge from one market to another due to the similarities between them.

Even though the Uppsala internationalization model is applicable to all sizes of firms and widely recognized in explaining internationalization, the empirical evidence is collected from manufacturing firms, which has been considered rather different from the internationalization of retailing firms (Dawson, 1994). Furthermore, as retailing has become more important in an international context, studies have recognized certain aspects that are of significant for retailing companies and their internationalization (Vida & Fairhurst, 1998; Sternquist, 1997).

3.3 A Model of factors influencing the retail internationalization process

Due to the relatively poor understanding regarding the internationalization of retail firms the model in figure 3.2, proposed by Vida and Fairhurst in 1998, aims to be a point of departure for future studies in the area of retail internationalization. The model takes its point of departure in the Uppsala internationalization model as this model also is of a dynamic nature, in which the outcome of the previous decision cycle affects the antecedents of the next cycle. The model of retail international expansion suggests three categories of factors that will work as promoters or inhibitors towards internationalization for a retail firm, namely the external environment, the characteristics of decision-makers and the characteristic of the firm.

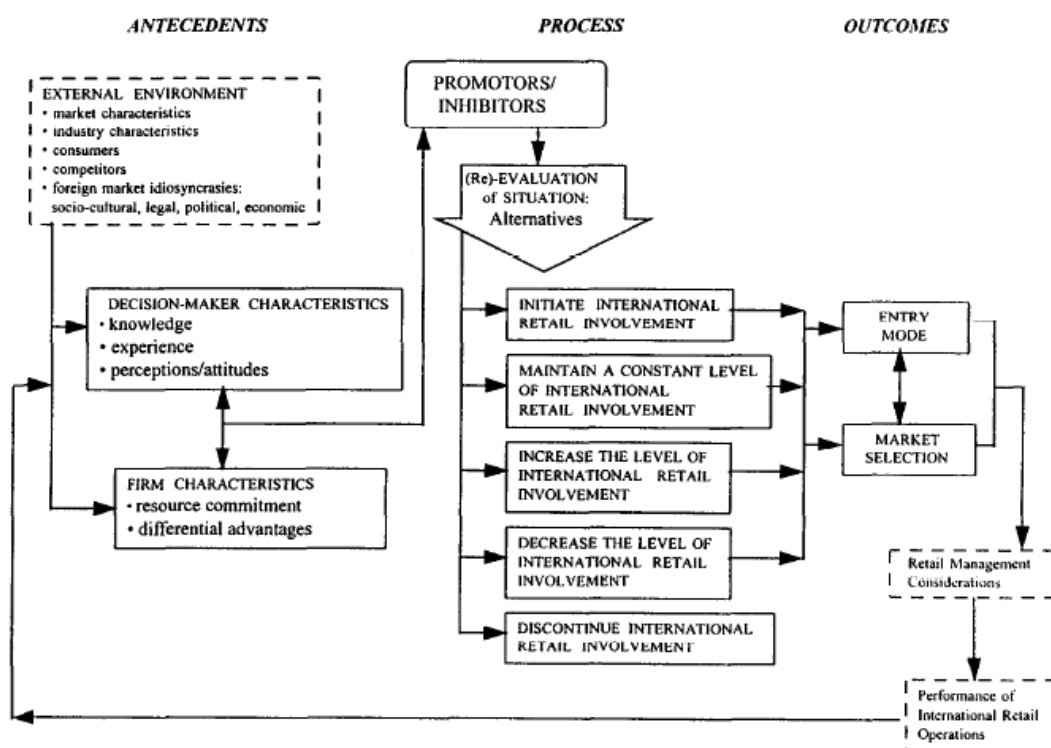


Figure 3.2 A Model of factors influencing the retail internationalization process.

Source: Vida and Fairhurst (1998:145).

Firstly, the *external environment* is recognized within the model even though these factors are seen as less important since the management of the firm will subjectively interpret them. Still, the external environment should not be forgotten since you obviously will not enter a

market where there is no demand or no customer base for the product. Factors included in this category are characteristics of the market and the industry, the consumer environment, competitors, as well as the socio-cultural, political, regulatory and economic environment in the host country, which are believed to be the largest difference between the host and home country (ibid).

Secondly, the authors (ibid) present two internal categories of factors that are considered to be the main forces behind the model, namely the decision-makers features and the firms' features. As regard to the *characteristics of the decision-maker* thus speaking of the management, earlier studies have identified the importance of the quality of the management as regards to internationalization. Furthermore, a study on UK retailer has revealed that the management's absence of enough knowledge and its ethnocentric posture can lead to an underestimation of hinders as well as commitment of a reactive rather than proactive approach (Williams, 1992). Three decision-maker characteristics influencing the retail internationalization process are observed. First, the *knowledge* of the decision-maker, relating to aspects as background, knowledge of both the foreign business environment as well as knowledge of internationalization in a retail aspect and moreover the ability to detect opportunities when they arise. Second, the decision-maker's previous *experiences* of international activities are noted to lastly consider the *attitude* towards aspects such as risks, cost, potential in the market and complications associated with internationalization (ibid).

Thirdly, the other internal category is the *characteristics of the firm*, which includes resource commitment and differential advantages. Resource commitments include financial and human assets while differential advantages include aspects as price, image or a differentiated product compared to the competitors. These differential advantages are believed to be able to serve as promoters for international expansion even though the amount of knowledge, experience and economic resources might be constrained especially in the beginning of a firm's internationalization. Furthermore, the financial assets assigned to international activities might be lower in the initial cycles, while a positive outcome will lead to that more financial assets are assigned to subsequent cycles of international involvement (ibid).

As earlier stated these three categories of factors; external environment, decision-maker features and firm characteristics have the effect of either promoting or inhibiting the decision regarding international retail expansion. Based on these factors a decision will be taken to

start international retail expansion, maintain a constant level, increase, decrease or retract involvement in international retail activities thus, if the promoting factors exceeds the inhibiting the firm will start or increase international operations. If the decision is to start or increase international retail operations the firm will face to main decisions videlicet what market to enter (market selection) and how to enter that market (entry-mode). These two decisions will be taken based on both the internal and external factors presented along with the dynamic process of internationalization of the firm (ibid).

Regarding how to enter the chosen market there are several *entry-modes* to consider. The choice of entry-mode is closely connected to how much risk and control the firm desires. The suggestion of the model is that in the initial stages of internationalization the retail firm will use a entry-mode that requires less risks but also less control which often is due to inhibiting aspects of an internal character such as a low degree of experience, knowledge and commitments in the host market. In later stages on the other hand, when the firm has gained more experience the decision regarding entry-mode will be based on both internal and external aspects (ibid).

Concerning what market to enter, known as the aspect of *market selection* the model proposes that the psychic distance between markets is of importance, which is in accordance with the finding from 1977 by Johanson and Vahlne. However, it also states that there is no clear evidence for psychic distance as the only variable affecting market selection. Therefore, the model claims that in the earlier cycles of retail internationalization, when inhibiting internal factors are affecting decisions, the firm will start internationalizing to psychically close countries. However, the model also acknowledges that external factors might have a more essential role in later decision cycles (Vida & Fairhurst, 1998).

When all decisions has been made, that is when a decision to start, maintain, increase, decrease or withdraw international activities followed by decisions regarding market selection and entry-mode, the management will consider the level of adaptation and standardization as regards to the foreign operation. Thus, the output of the model including what market to enter, how to enter that market as well as how to manage the foreign operation will lead to an assessment of the performance. Based on this assessment of the performance the antecedents of the model will be affected, which in turn will affect subsequent decisions regarding international expansion. This demonstrates the dynamic nature of the concerned model (ibid).

3.4 Conceptual framework

3.4.1 Background to the proposed model

The Uppsala internationalization model is well-recognized in the literature of internationalization and the dynamic nature in which the model explains how experience, knowledge and commitment about foreign markets affects the perceived business opportunities and thus also future and current commitments is significantly interesting for our research study. In relation to Johanson and Vahlne (1990), the discussion of the significance of psychic distance in explaining the internationalization in today's globalized world is another interesting aspect that could help us explain the choice of foreign market to expand the chain of stores to, when the market seems to be less close in terms of psychic distance. Furthermore, Johanson and Vahlne's (1990) three exceptions with special attention to the two latter regarding *knowledge generalization* and *new ways of knowledge accumulation* is further aspects that is interesting for the purpose of our research study.

However, the Uppsala internationalization model is focusing on the internal factors and is based on manufacturing companies which might mean that the model lack certain aspects that are of importance for retailing firms. Therefore we have investigated another model created by Vida and Fairhurst (1998), explaining the internationalization of retail firms, in which both internal and external factors are considered as influencing. The model takes into account both management characteristics as well as firm characteristics in which the aspects are specified in more detail within each category and it also includes the external factors which the Uppsala internationalization model do not emphasize.

Furthermore, the external factors are especially interesting in a retail context since these firms are more dependent on the environment and purchasing power in the host country compared to a manufacturing company, in which the amount of production does not necessarily reflect these external factors (Dawson, 2000; 2007, Elg, 2003). Furthermore, following the majority of literature within the field of international business, the importance of understanding the foreign country is highlighted in which the features of the external environment will serve as promoters or inhibitors for foreign expansion (Vida & Fairhurst, 1998; Williams, 1992; Salmon & Tordjman, 1989). Thus, it is important to consider the external environment of the

foreign country, as you will obviously not enter a market if there is not potential or demand for the product (Vida & Fairhurst, 1998).

Nevertheless, the model proposed by Vida and Fairhurst states that the internal factors are of greater importance as regards to influencing the internationalization, since the decision makers will interpret the external factors. Yet, with the globalization and the rise of emerging markets new attractive external factors might be more considered and thus also play a more significant role in the decision making process.

3.4.2 Presentation of the proposed model

Taking this into consideration the proposed model in figure 3.3 is an extended version of the Uppsala internationalization model in which we maintain the Uppsala internationalization model intact, also incorporating parts that we consider relevant from the model proposed by Vida and Fairhurst (1998). Even though the model proposed by Vida and Fairhurst has the same dynamic nature as the Uppsala internationalization model, it also considers aspects not relevant for our study. In addition the model is rather complex and therefore we have chosen to combine the simple and recognized idea of the Uppsala internationalization model with the internal and external factors from the model created by Vida and Fairhurst (1998), relevant for retail companies.

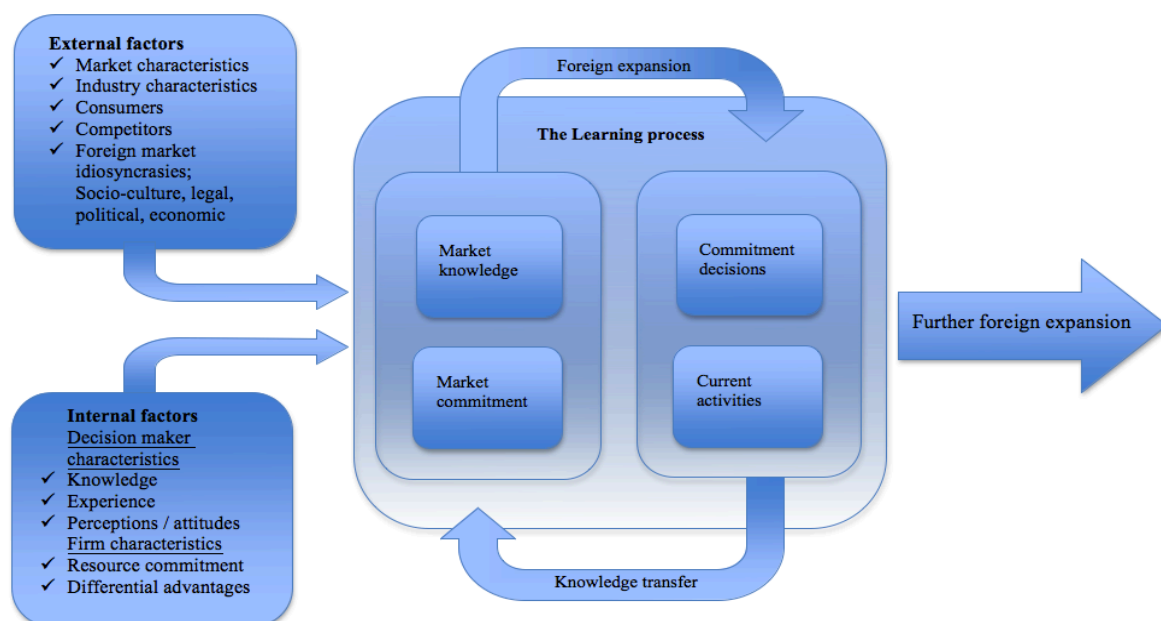


Figure 3.3 The internationalization process model of fashion retailers. (Bergsten & Tradefelt, 2013)

The proposed model, *the internationalization process model of fashion retailers*, draws on the Uppsala internationalization model maintaining the dynamic nature and therefore suggests that firms will incrementally commit resources to foreign markets as demonstrated by the upper arrow (*foreign expansion*). This is a result of the increased experience and knowledge in foreign operations, which will be transferred to the left box in the learning process (see figure 3.3), thus affecting the next foreign expansion as demonstrated by the lower arrow (*knowledge transfer*).

The intact idea of the Uppsala model will thus be remained, but in our model and from now on, we will call it *the learning process* in order to facilitate for the reader as well as for the fluidity of the text. Additionally, our model considers market knowledge gained in a foreign country as generalizable to other similar countries and it is also arguing that knowledge can be gained in other ways than with experiential knowledge as argued in Johanson & Vahlne's article from 1990.

The internationalization process model of fashion retailers further suggests that the characteristics of the external environment, see figure 3.3, such as competition, consumers, economic, political, legal environment etc. in a foreign country, also affects the decision of what foreign market to internationalize to (Vida & Fairhurst, 1998), thus not primarily what the organization learns and experiences in the current host countries (Johanson & Vahlne, 1977).

Furthermore, the decision-maker and firm characteristics are added from Vida & Fairhurst's model (1998), see figure 3.3. This is due to that the decision-maker's knowledge, experiences and attitudes towards foreign markets as well as the firm's differential advantages and resources to commit to foreign expansion are further factors that the proposed model suggests affect internationalization decisions, thus the choice of foreign market to commit to. Moreover, the model argues that the external factors will be valued equal to the internal in influencing the internationalization decisions, since the rise of emerging markets possibly have created new attractive external factors that play a more significant role in the decision making process.

Given the elements of our proposed model we are continuing with explaining how these elements function together, creating the outcome. *The internationalization process model of fashion retailers* proposes that the external environment of a foreign country and the decision-maker's own experiences, knowledge and attitudes as well as the firm's characteristics (Vida & Fairhurst, 1998) will interact with the learning process of the model and have affect on the internationalization of fashion retailers. This means that the external and internal factors together with what the organization has learnt from operating abroad will lead to a decision to further enter and commit resources to a certain foreign market, which is symbolized with the arrow situated on the right side of the model.

4 The Internationalization story of Lindex

This chapter introduces the reader to the low cost fashion garment company Lindex, the organization investigated in this thesis. The chapter aims to describe Lindex's international expansion in a chronological order, by highlighting factors relevant in this process as well as how knowledge and experiences are transferred. Furthermore, this empirical evidence will serve as the base for the forthcoming analysis.

Today Lindex is one of the largest chains in Northern Europe as regards to fashion retailing (Lindex, n.d, b) operating within the segment of low cost fashion garment and the company is providing its customers with a wide assortment of lingerie, women and children wear as well as cosmetics and accessories. The company is today physically present in 16 countries with approximately 470 stores stretching from Scandinavia to Central Europe and the Middle East (Stockmann, 2013). Furthermore, Lindex is reaching out to all member states within the European Union and Norway through the use of e-commerce (Lindex, n.d, a).

4.1 The initial expansion

It all began in 1954 when Ingemar Boman and Bengt Rosell started the lingerie company Fynd in the city of Alingsås. A few years later they acquired the Gothenburg-born company Lindex and from this day on the company have been operating under the brand Lindex. The small company started expanding in a small scale on the domestic market opening five stores during the 1960s. During the same decade Lindex also tested their concept on the Norwegian market by establishing the first Lindex store outside the Swedish border, which proved to be a successful move. The expansion continues on the Norwegian and Swedish markets and during the 80s Lindex's expansion is record high, opening a new Lindex store every second week in the year of 1987. New foreign markets such as Denmark, Finland and Great Britain become targets for a further expansion of Lindex stores. However, at the end of 1980s Lindex decides to solely focus on the Swedish, Norwegian and Finnish markets (Lindex, n.d, a).

4.2 The German market failure

In 1998 Lindex once again expanded outside the Scandinavian border to seek success in Germany, the largest market for fashion in Europe. In this market the management saw huge potential, which led them to rapidly establish a lot of wholly owned stores, with the vision of

reaching break even after 12 months (Ericson, 2006). However, at that time the German market was well developed using discount stores, a concept that Lindex also had. Even though Lindex used the right concept at the right time they were outcompeted by already established German companies. Together with incorrect and expensive store locations on high fashion streets Lindex did not attract the intended customers. As Michaela Schirmer (Visual Merchandiser) states: *“We went to big and to the wrong store locations, we do not appeal to the same customers such as Prada and Hugo Boss.”* This is further developed by Peter Andersson (Country Manager of Central Europe):

“We went to the German market with a concept that the German companies were extremely good at, and choose locations and sites where we established on Kurfürstendamm, which is one of the most expensive streets in Europe [...] hence, it were a lot of things that were wrong.”

This led to an extended and expensive story, forcing Lindex to withdraw from the market due to huge losses (Ericson, 2006).

However, the market failure in Germany has been very instructive for Lindex as the company stopped their expansion a couple of years in order to reflect and learn from the failure. Two important lessons that Lindex learned from the failure are the importance of scanning the demand to be able to adjust the assortment to some extent and the significance of right store locations.

Furthermore, during this time Lindex made their rebuff by improving the supply-chain management, renewing the IT communication system as well as encouraging and educating the employees to think in new and different ways. These efforts developed the whole organization with a first class thinking, a superior supply chain as well as a whole new Lindex concept, which made Lindex ready to once again expand their chain of stores. Furthermore, knowledge transfer is claimed to be of great significance for Lindex and the company has carefully preserved the knowledge and experiences from earlier establishments. Consequently Peter Andersson (Country Manager of Central Europe) states that: *“One of the major reasons why we look a little different today compared to many others, is the fact that we learned from the German failure.”*

4.3 The international re-launching of Lindex

After entering the German market grandly, with a rather unconsidered strategy it took Lindex approximately ten years before the company once again was ready to take on new foreign markets.

4.3.1 The discovery of Central Europe

When resuming the international expansion in the middle of 2000s after the market failure in Germany, Lindex decided to look in an eastern direction, entering the Baltic countries and the Czech Republic more or less simultaneously later followed by Slovakia and Poland. By entering the Czech market Lindex were able to use some knowledge gained from the German market due to that the Czech Republic geographically is located in the former parts of Germany. Peter Andersson (Country Manager of Central Europe) explain the background to the choice of entering Central Europe by arguing that: *“In 2005-2006 the competition in the Czech Republic, Slovakia and those countries were lower than what it was and still is in for example Germany, England and France.”* Thus, Lindex saw advantages in the considerably lower competition compared to the saturated and mature markets of Western Europe, in which locations and labor comes at a higher price than in the Baltic countries and Central Europe.

Furthermore, the decision to expand in this direction also lied in the desire to be present at an early stage in a growing market where the purchasing power were and still is on the rise. In these emerging markets new shopping malls are continuously popping up and thus new opportunities arises. As regards to this Johan Isacson (Franchise Manager) states: *“It is always positive to enter a market in an early stage when the market is developing.”*

Another benefit that Lindex saw in entering the Czech Republic was the geographical advantage, which is contributing to the proximity to the rest of Central Europe, and furthermore in this area there have been investments to improve the infrastructure to the rest of Europe and also a growing number of logistical units are facilitating the business environment.

Even though Central Europe might be considered as culturally, linguistically and behaviorally different compared to Western parts of Europe this does in a very low grade affect Lindex's decisions regarding foreign expansion, since people demand similar fashion globally. This is

emphasized by Peter Andersson (Country Manager of Central Europe): *“Fashion and trends in itself is international today.”*

Even though differences in culture, language and preferences do not considerably affect Lindex in the choice of market, these factors cannot be ignored. Therefore, Lindex to some extent adapts parts of the assortment only to fit the preferences and culture of that country by for example adapt to preferred colors and adjust sizes. This is further explained by Johan Isacson (Franchise Manager): *“We work with international fashion, not Scandinavian fashion, but we have Scandinavian influences in our fashion, which do not function on all other markets... the basic assortment is maintained but we deselect some parts that does not work.”*

Furthermore the cultural differences, language barriers and the behavioral aspects do affect the establishment of stores in a new country. However, this is something that Lindex want to prevent by creating an own Lindex culture, not reflecting a Swedish or Nordic company. Still, some differences can be detected when establish a new store and may lie in different norms and behavior of the employed in the host country, which might not reflect the Lindex culture. This is further claimed by Peter Andersson (Country Manager of Central Europe):

“We want to reflect a Lindex culture [...] but you have to understand the culture in the country you enter [...] I have to make sure that they feel safe in knowing what I expect from them [...] in this perspective cultural differences are important to understand.”

Furthermore, the importance of being able to employ English-speaking staff in the host country is highlighted since English is the official language within the organization. Thus being able to understand and adapt to the Lindex culture. Yet, it is important for the management to understand the culture of the host country, thus the foreign employees, in order to appropriately incorporate them into the Lindex culture.

The external factors have been pointed out as important for decisions regarding the expansion of Lindex. However, the respondents believe that these external factors have been mixed with experiences and earlier knowledge gained, and in that sense the internal factors also have had an important effect on the expansion decisions.

4.3.2 The influences of Stockmann as new owners

In 2007 the Finnish Stockmann group acquired Lindex, which came to be an event shaping the future for Lindex. The new owners helped the company to rapidly and successfully enter the Russian market in 2008, taking advantage of the network and knowledge that Stockmann had built in Russia over the past 20 years. Due to that the legal and administrative environment were judged to be complicated, Lindex probably would not have been able to enter the Russian market without the help from Stockmann. This is further argued by Peter Andersson (Country Manager of Central Europe): *“I do not believe that we would have been there yet [...] the bridge we have there today is definitely due to them.”*

In addition, the new owners also encourage a more long-term way of thinking about expansion, not focusing on quarterly results, as was more the case when Lindex was on the Swedish stock market in which they were constantly observed. By being a part of the Stockmann concern Lindex is not as analyzed as before, which creates a calmer environment for decisions regarding expansion, enabling Lindex to be opportunistic and see chances to expand when an interesting opportunity in an interesting market has been given.

4.3.3 Franchising, a complementary approach for a further expansion

In 2008 Lindex was given an opportunity to enter the Middle East through a franchise agreement in which the franchise partner was willing to invest largely in this area. The management welcomed this opportunity as they saw franchising as an opportunity to access markets that might be too small like the Icelandic market, too different or too far away like Bosnien Herzegovina, Serbien, Croatia, Saudi Arabia or United Arab Emirates. In the two latter mentioned markets the cultural differences could be considered even more different and in order to meet this, Lindex for example offer a wider range of white shirts since Saudi Arabian children wears this in school as well as recognizes celebrations by offering formal wears and special campaigns during the time for Ramadan.

At the same time the franchise concept was a complement to the expansion of wholly owned stores, which today has resulted in that Lindex has around 30 stores opened through franchise agreements (Stockmann, 2013). For example, Lindex has stores established through franchising in cities as Mecca and Medina, which are cities that non-muslims are prohibited to visit. Advancements in technology have allowed Lindex to more easily monitor the stores,

which has made it possible to make establishments in these cities. Furthermore the franchise concept is seen, as a good solution when legal obstacles make it impossible to enter the market with wholly owned stores (Hill, 2012). Even though, the Franchise concept involves less financial risk, only risking the reputation of the company compared to setting up wholly owned stores, Lindex today has become more secure in taking faster decisions and seeing opportunities.

4.3.4 The continued expansion into Central Europe

In 2009 Lindex continued its foreign expansion in the Central parts of Europe as they entered the Slovak market, starting to establish stores relatively close to the Czech border. The choice of the Slovak market came quite naturally as Lindex after the opening of several stores in the Czech Republic could benefit from generalizing the knowledge they had gained there, transferring it to Slovakia, which is considered to be very similar. The opening of the first store in Slovakia is further explained by Peter Andersson (Country Manager of Central Europe): “[...] it was opened as just another store and here you can see the benefit of opening seven to eight stores in one country and then just roll over the boarder to the next country, when they are so similar.” In this way Lindex could just roll over the border to Slovakia as well as Poland, which also is considered to be similar in order to further expand their chain of stores, yet Poland is exhibiting a more competitive environment. By using generalized information Lindex saved a lot of time and money, but this kind of information also have to be carefully considered and mixed with some external information since the countries naturally differs in certain aspects.

Furthermore, a success in one market is believed to make the management more willing to dedicate resources to the concerned market if they see further potential. Lindex starts foreign expansion cautiously by manage most of the activities from the headquarters to after some time, when the foreign operation expands, employ people to manage more of the operations locally. Lastly, the goal is to make the stores self-sustaining in terms of both financial and human resources. However, it has also been highlighted that increased resources is not always a sum of good results and success in a market but can also be derived from opportunities and the curiosity in new and considerably unexplored markets.

4.4 Future prospects

Today Lindex analyzes the flow of orders from the online stores in every country, every week and the information conducted is not used as a base for decision-making regarding the foreign expansion. However, one of our respondents says that an increasing flow of goods through e-commerce could serve as an indicator of the markets potential in the future. This in turn may lead to an increased presence on that market. As a first step Lindex could nationalize the online shop and if this contributes to further success it may lead to physical stores in the future.

Regarding the future, the country Manager for Central Europe states that Lindex's vision is to establish stores in one or more "world and fashion" metropolises, yet where and when are uncertain. Even though the previous years of expansion has given Lindex experiences and knowledge regarding foreign markets and foreign expansion, they still have more to learn in order to be able to make such an investment successfully. Gazing towards "world and fashion" metropolises also opens up for a re-establishment of stores in the western parts of Europe, where cities as London, Milan, Frankfurt and Paris are mentioned as possible targets.

5 Analysis

In this chapter the empirical findings will be analyzed with the help of the conceptual framework, consisting of our own proposed model. The model includes three different elements: the external factors, the internal factors and the learning process (fig. 3.3) in which the three elements in varying degrees interact with each other in the process of internationalization.

5.1 The learning process

The learning process-element within this model, based on the ideas of the Uppsala internationalization model created by Johanson and Vahlne in 1977 and the revised findings from 1990, are recurrent throughout Lindex's internationalization.

As Lindex at first lacked any experiences regarding internationalization, their initial expansion started into psychically and geographically close countries. Firstly the organization entered Norway and later also focused on the Finnish market, in which Lindex could use the knowledge they had gained from operating in the domestic market. This initial way of expanding is in line with the ideas of the learning process (Johanson & Vahlne, 1977) as this suggests that when market knowledge and market commitments are limited it will be reflected in the expansion decision leading to that the organization will take small internationalization steps into psychically close countries.

The expansion into the neighboring countries proved to be successful and with this prosperity Lindex gained further knowledge and experiences of operating in international markets. Since the learning process in the proposed model claims that increased foreign knowledge due to increased foreign commitments, lead to gradually increased internationalization steps (ibid); it probably made Germany an obvious target with their huge population and psychical proximity. However, with incorrect and expensive store locations, intense competition and a rather optimistically large investment the German venture failed. This failure is something that we believe could have been prevented by more closely consider the external factors on the German market, such as the competitive situation and other characteristics of the market, rather than focusing on the potential of a being present in Europe's largest market for fashion.

When resuming the international expansion in the middle of 2000s, the organization had increased its foreign knowledge through operating experiences in Germany, Norway and Finland, which led to that they were once again ready to increase its foreign commitments, thus ready to take the next foreign expansion step (ibid). This time also aware of the importance of the right location as well as the significance of the external factors in the host country, which was clearly reflected in the choice of expanding into Central Europe, locating their stores in areas where the intended customers are strolling.

The knowledge Lindex gained in Germany became an important factor that influenced the forthcoming expansion into the Czech Republic, since it to some extent could be generalized and applied to the Czech market. However, this experiential knowledge could also have been used in other neighboring countries as suggested by Eriksson et. al (1997). Therefore, when establishing stores in the Czech Republic the decision seems to have lied more in what the Czech market had to offer Lindex compared to other neighbouring countries, rather than the experiential knowledge gained in Germany.

5.1.1 Other ways of gaining experiential knowledge

Furthermore, the learning process in our suggested model argues that in order to be able to operate on a market, an organization's experiential knowledge is crucial (Johanson & Vahlne, 1977), however new ways of accumulating knowledge has also been recognized (Johanson & Vahlne, 1990). This is also recognized in the proposed model. Applying this to our empirical findings it has been revealed that Lindex has been able to internationalize their chain of stores to countries that differ from Sweden on many levels, without own experiential knowledge. Even though the psychic distance to regions like the Middle East is high and Lindex's experiential knowledge regarding these kind of markets were and to some extent still is very limited, Lindex has been able to successfully expand into these markets, using franchising. By using this concept, Lindex has been granted access to experiential knowledge through the Franchise Partner without being there physically. This new way of accumulating knowledge supports the suggested idea of the proposed model.

Moreover, this mode of entry is associated with risking the reputation of the brand (Hill, 2010) and is still common among retailing firms today as advancements in technology has

made it easier to rely on and monitor the external partner. Even though franchising involves lower risk than wholly owned stores we believe that it is a new way of conquering the significance of psychic distance when choosing country of establishment. Moreover, this way of growing is in accordance with the internationalization process model of fashion retailers, as the Franchise Partner could be seen as the organization's extended arm in which, the franchise partner's knowledge of the current market (Eg. Middle East) becomes Lindex's experiential knowledge. This, together with the external factors observed and the internal factors that Lindex possesses could then lead to a further foreign commitment.

5.2 External factors

As mentioned earlier the decision to enter the Czech Republic in the middle of 2000s lied to a large extent in what the Czech market had to offer Lindex, as the competition was low, the economy was on the rise and new opportunities along with new shopping malls continuously popped up. This suggests a consistency with the idea of the importance of the external factors in promoting or inhibiting international expansion (Vida & Fairhurst 1998; Salmon & Tordjman, 1989; Williams, 1992). By choosing to expand in this direction Lindex could take advantage of the characteristics of the external factors in Central Europe, characteristics that the western parts of Europe not could offer them.

Even though these Central European countries might differ more in terms of psychic distance compared to Western Europe, this assumption does not hold as regards to consumer behavior for fashion retailers, since *"Fashion and trends in itself is international today"* (Peter Anersson, Country Manager for Central Europe, 2013-04-30). However, the cultural differences might be of importance for Lindex when entering a new market, since the values, norms and language skills of the employees in the host country in some grade affects the daily work. These cultural differences do not affect the choice of market, rather influencing the managing of the foreign operation, in order to incorporating the employees to the Lindex culture. This indicates that the only aspect that could be a possible obstacle within the fashion retail industry in terms of psychic distance is how to manage the employees of the foreign store, not what the consumers demand. These findings from later expansion steps regarding fashion retailers cannot to any large extent be deduced to the suggestions of both Johanson and Vahlne (1977; 1990) and Vida and Fairhurst (1998), claiming that psychic distance is affecting the choice of foreign markets.

The continued expansion into Slovakia and Poland, exhibited a similar pattern as in the initial expansion, in which the knowledge gained from Sweden were applied on Norway and Finland. In this expansion step Lindex used the knowledge gained from the Czech Republic generalizing it to Slovakia and Poland, firstly establishing stores close to the Czech Republic border. This action of generalizing knowledge to similar countries indicates that the knowledge and experience an organization has gained through foreign operations affects the next commitment decision, which once again is in accordance with the ideas of the learning process of the proposed model (Johanson & Vahlne, 1990). Furthermore, when entering a similar country on the basis of generalized knowledge, the external factors from the current host country will be generalized to the similar country (ibid), and therefore the investigation of the external environment will supposedly be less extensive. The approach of generalizing knowledge might be risky since it often is a rapid process, which might leave little room for considerations. Therefore, it has been important for Lindex to ensure that the information is correct and enough in order to enter the concerned country successfully.

Even if the external factors were not extensively investigated, these factors could still be assumed to be of great significance in this expansion step. This is due to that, when Lindex entered the Czech Republic the characteristics of the external environment were the driving force and therefore the external factors most certainly were of great significance when expanding into Slovakia and Poland, as the three markets' external characteristics were assumed to be similar to each other.

As Lindex entered these markets due to the characteristics of the external factors such as low competition, they do not believe that their differential advantages affected the choice of foreign market. Yet, we believe that a link between low competition in the host country and Lindex's differential advantages can be detected as the low competition within Lindex segment also means that the Lindex's concept would be rather unique in these countries. Thus, this indicates that the differential advantages might have had an affect on this expansion decision.

Furthermore, in these expansion steps the internationalization process model of fashion retailers' internal factors, meaning the decision-makers and firm characteristics (Vida & Fairhurst, 1998) seem to have been less significant in explaining the choice of foreign

countries. This is since the driving force has lied more in the characteristics of the external environment as well as the organization's learning process, in which knowledge and experiences from foreign establishments has been accumulated and used in subsequent expansion decisions.

5.3 Internal factors

In some foreign expansion occasions the internal factors such as the decision-makers' own experiences, knowledge and attitudes plays a more significant role (Vida and Fairhurst, 1998), disregarding the learning process of the organization and the external factors. One such occasion was when the Finnish Stockmann group acquired Lindex in 2007, an event that affected Lindex's continued expansion. The new owners enabled Lindex to expand their chain of stores into the Russian market, allowing Lindex to take advantage of Stockmann's knowledge, experience and network in the otherwise rather complicated business environment of Russia.

This further eastern expansion step was mainly affected by the characteristics of the decision-makers' (ibid), as Stockmann's own experiences and knowledge of the Russian market became the clearly decisive motive for entering the market. Moreover, Lindex's own market knowledge gained from the current host markets and through the process of internationalizing the organization (Johanson & Vahlne, 1977) played a very limited role. This due to that the Lindex organization itself at that time was not ready and did not possess enough market knowledge to enter such a market by themselves. Thus, in this occasion the learning process in the proposed model was breached by the decision-makers' own knowledge and experiences of the concerned market.

Furthermore, Stockmann as new owners has contributed with a long-term attitude towards foreign expansion, which has led to that Lindex has been able to see opportunities in countries that at first sight might not have been an obvious choice. We believe that one example of the long-term attitude was when Lindex expanded into the Middle East, a region in which the management saw large potential, yet a region that is considerably different on many levels. Even though this expansion step was implemented through a Franchise partnership, which involves less risk it might give some indications for the future expansion. This is since the decision-makers' long-term attitude might indicate the willingness to establish stores in

countries considered to be more different and risky, where they see long-term potential, not solely entering “different and risky” countries through franchising but also with wholly owned stores. This proposition could also be supported by the model created by Vida and Fairhurst (1998), as the model proposes that in early stages of internationalization a retail firm will enter markets using a low risk approach and later after gaining more experiences also willing to take a larger risk using wholly owned stores.

5.4 E-commerce, a new influencing factor in future expansion decisions?

Out of our empirical findings we have been able to discover that e-commerce until today has not been an influencing factor for Lindex in the choice of foreign market to expand to. However, the information Lindex read from their online stores in all the EU-countries and Norway such as sales figures could be considered a “new” type of knowledge. This knowledge could in the future serve as an important indicator of some of the characteristics of the external environment of the host country, thus possibly in the future also influence the choice of foreign market. Therefore, the findings once again are in accordance with the proposed model as it argues that an organization can gain knowledge without physically being present, this time using a virtual distribution channel. Since this is speculations regarding the future and has not yet proved to be relevant in the case of Lindex, the proposed model does not consider this aspect. Still, if the aspect in the future proves to influence the internationalization we believe it would be appropriate to add e-commerce in the proposed model.

5.5 Summary

In summary we have seen that the reason behind Lindex expansion pattern could be derived from both external as well as internal factors as suggested by Burt, Dawson & Sparks (2003) together with the learning process, in influencing this decision. Firstly, it should be mentioned that Lindex actually tried to enter the Western parts of Europe, which was in accordance with the more western expansion pattern demonstrated by Gina Tricot and H&M. However, this expansion step failed, yet providing Lindex with knowledge and experiences that came to play an important role in their choice of resuming their internationalization in the opposite direction. Apart from this, the external factors of the Czech republic, Slovakia and Poland

were driving forces as regards to the choice of host markets since these markets exhibited low competition, rising purchasing power and attractive opportunities in being present at an early stage, factors that the more Western part of Europe could not offer. Furthermore, we can see that Stockmann as new owners had a substantial effect on the choice of entering the Russian market, thus expanding the chain of Lindex stores even further east.

Furthermore, one could say that a previous establishment of stores in one country will affect the next expansion decision (Johanson and Vahlne, 1977), regardless if the outcome was successful or less successful. These experiences and knowledge gained from previous establishments have played a very significant role for the Lindex organization as a failure, like in the case of Germany led to reorganization, helping Lindex to become as successful as they are today. The majority of establishments abroad has been successful and helped the organization feeling more comfortable making decisions regarding internationalization, thus being able to increase the “length” of each expansion step (ibid), as indicated by starting the internationalization in Norway to now being present in Russia. Not only the learning process of an organization will affect the next market to enter, sometimes legal obstacles will prevent an organization from entering a new market, forcing the organization to use an alternative approach (Hill, 2010). By using a franchise-partner Lindex was able to enter a new market without having any experiential knowledge, using the franchise partner as an extended arm gaining more market knowledge on the behalf of Lindex, also being able to take the expansion of Lindex further through franchising.

6 Conclusions and Reflections

This sixth and last chapter presents the conclusions that have been drawn from the foregoing analysis, aiming to answer the research questions as well as fulfilling the aim of the thesis. Moreover, the reflections made regarding suggestions for future research will be demonstrated in this final chapter.

6.1 Concluding remarks

The purpose of our research was to investigate why and how Swedish retailers within the fashion industry expand to new markets with special emphasis on knowledge gained from previous establishments. The research was made through a case study, investigating a Swedish fashion retail company.

The empirical findings and the proposed model in figure 3.3 resulted in the analysis in which we have been able to find out that the different elements within the model has been of different importance during different expansions steps. The result reveals that the driving force behind the initial expansion steps lied to a large extent in the learning process of the firm, resulting in expansion into psychically close countries in which the so far gained knowledge could be used. However, in later expansion steps the majority of the expansion decisions have been emphasising the significance of the external factors of the host country in which being present at an early stage in a rising economy, has led to a Central and Eastern direction of expansion.

The study also reveals that the learning process of the organization has played a significant role throughout almost every decision made, regardless if the outcome was successful or less successful. This was very evident in the resumed expansion after the German market failure, as the organization did not make the same mistakes, thus taking advantage of their experiences. Moreover, when continuing the expansion the knowledge gained from previous establishments were used in subsequent expansions by generalizing it. Therefore, out of the results we can conclude that what you experience and learn when operating abroad will be brought and used in subsequent expansions.

The investigation also shows that in rare occasions, foreign expansion decisions have been made mainly due to the decision-makers' own experiences and knowledge of a foreign

market. In these expansion decisions the internal factors have been very decisive, disregarding the importance of considering the learning process and the external factors which otherwise seems to have been the driving forces through the internationalization process of Lindex.

Lastly, we have discovered that the importance of psychic distance as regards to fashion retailers is considerably low, as fashion and trends have become more and more international today, leading to that consumer preferences are more or less global.

6.2 Reflections regarding suggestions for future research

Out of our empirical evidence, the analysis and conclusions we have detected some fields that we suggest highly appropriate for further research.

To our knowledge there is a lack of research regarding the link between e-commerce as a source of knowledge affecting the choice of what foreign market to expand the chain of stores to. Research has rather been focusing on aspects as e-commerce adoption (Daniel, Wilson & Myers, 2002), and real retailing versus virtual retailing (Burt & Sparks, 2003). Furthermore, the empirical findings suggest that e-commerce in the future could be an influencing factor in the choice of foreign market for establishments. Therefore, we argue that there is a need for further research on the significance of e-commerce as an influencing factor in foreign expansion decisions and how the information gained through a virtual establishment is used in the internationalization process of physical stores.

Moreover, the importance of psychic distance is widely discussed in the literature of international business (Johanson & Vahlne, 1977; 1990; Vida & Fairhurst, 1998) yet seem to be relatively accepted in explaining the choice of foreign country. Since our results have suggested that the importance of psychic distance is lower for fashion retail firms as fashion is global, we suggest further research on the actual correlation between psychic distance and the internationalization of fashion retail firms.

Furthermore, a lot of research has been conducted within the internationalization of both US- and British retail firms (Doherty, 2000; Burt, 1993; Hutchinson, Quinn & Alexander, 2006). However, since the US and Great Britain are countries with different potential than Sweden, regarding market size and competitors, it would be interesting to investigate how retail firms, founded in a small country like Sweden acts on an international arena. Thus we propose that

future studies on retail companies in general should focus more on smaller countries like Sweden in order to deepen and broaden the knowledge of the internationalization of retailing firms in smaller countries.

Finally, as Swedish design and thus Swedish clothing companies become more recognized on the international arena (Svengren Holm, 2013) whether they are involved in low cost garment or high fashion, the investigations regarding the Swedish fashion retail industry is to our knowledge very limited. Since our investigation includes only one Swedish retail company being involved within the low cost fashion garment segment, we suggest more multiple-case studies regarding companies within the same segment as Lindex. A multiple-case study within this segment, on Swedish firms, would be interesting in order to be able to generalize the results, something that we have not been able to do in this thesis.

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Appendix 1

Interview guide Lindex

1. What is your role within the Lindex organization and how are you involved in the process of establishing stores abroad?
2. What are your previous experiences of international expansion?
3. How does the process, from the choice of a market until a store is established look like?
4. Do you believe it is easier to succeed in a market that is more similar to the Swedish market in terms of cultural differences, language, preferences and ways of conducting business?
 - b) Is this something that affects Lindex's choice of market?
5. Western Europe is said to have lower cultural differences, lower language barriers and similar preferences like Sweden. Eastern Europe on the other hand is said to have greater cultural differences, greater language barriers and different preferences than Sweden. In contrast to this, your expansion pattern shows that you have ignored this, how come?
 - b) Lindex also has stores in the Middle East where the cultural differences, language barriers and preferences can be considered even greater. Which were the underlying factors for choosing this market even though the presence of these differences?
6. What factors were important for Lindex's choice of market to establish stores in outside the Swedish borders?
 - a) What factors on the host market were important?
 - b) Do you think that the decision-makers experiences and knowledge have affected the choice of market?
7. Which one of the internal or external factors do you believe has affected the choice of foreign market to establish stores in the most?

8. In 2007 Stockmann became new owners of Lindex. Do you believe that this has affected the choice of the next foreign market to establish store in?
9. How risk averse would you say that the decision-makers of foreign expansions are?
10. When it comes to financial and human resources assigned for commitments to a foreign market, what affects the amount of resources to the different markets?
11. How is the amount of resources to a market affected by a previous success in that market?
12. How does Lindex perceive the Western versus the Eastern European consumer markets?
 - b) What advantages did Lindex see in Eastern/Central Europe as they did not see in Western Europe?
13. Do you experience that Lindex has differential advantages compared to the competitors in the foreign market, in which Lindex has stores?
 - b) If yes, does the differential advantages affect Lindex`s choice of market?
14. How come Lindex has chosen different forms of establishments? (Wholly-owned vs. Franchise)
15. Does Lindex primarily generate knowledge regarding a certain foreign market through own experiences on that market or through external knowledge?
 - b) What source of knowledge, own experiences or external knowledge do you consider the most important as regards to foreign establishments?
16. How has experiences and knowledge from earlier foreign establishments affected the choice of next market, to further expand the chain of stores to?
17. Knowledge that the Swedish co-workers derive from the opening of a new store abroad, how is this knowledge preserved?
 - b) How does it affect future decision?

18. We have read that Lindex has opened stores in Germany and Great Britain but is no longer present in those markets today, how come?
19. How has previous experiences from market failures affected a continued establishment of stores? What have Lindex learnt from this?
20. Knowledge gathered in one country could be generalized and used in a country that is considered to be similar. Is this something that Lindex has done? If yes, can you give an example?
21. Today Lindex is using e-commerce in EU's member countries. Does the information that Lindex can discern through e-commerce affect the choice of next country to establish stores in?
22. Why do you believe Lindex has succeeded on the East/Central European market?