A Relational View of Resources-based Theory: The case of Internationalization of Li & Fung Group

Jeng-Min Wong, Department of International Trade and Logistics, Overseas Chinese University, Taiwan

ABSTRACT

The relational view of resources-based theory argues that an individual firm is often unable to cope with the challenges from global competition by its own resources and capabilities. Therefore, except for enhancing their own core competencies, enterprises also have to seek out cooperations with other firms to establish relational networks for mobilizing external resources. Especially in the process of internationalization, developing relational networks in the international market to obtain resources and access market is the key issue for internationalization operations.

This study draws on the relational view of resources-based theory to examine how Li & Fung Group can cultivate its core competencies dynamically in the face of environmental changes and expand its relational networks globally to create value and maintain its competitive advantages in the process of internationalization. Through the case study of Li & Fung Group, the essay verifies the strategic implications of the relational view of resources-based theory and provides valuable experience for firms to deliberate on their internationalization strategies.

Keywords: Relational view of resources-based theory, Relational networks, Li & Fung Group, Internationalization, Supply chain management

INTRODUCTION

In the era of globalization, most firms are unable to cope with the rapid changing market competition on its own resources and capabilities. Therefore, except for enhancing their own core competencies, firms should keep long-term relationship with business partners to cultivate relational networks for mobilizing external resources (De Man, 2004). Meanwhile, as market-opening and international division of labor gain momentum, internationalizing its operation has been an important strategy for a firm to pursue sustained growth.

The process perspective regards the internationalization process as a process through which an enterprise develops network relationships with its partners in the foreign market (Holm, Eriksson & Johanson, 1996). How to develop relational networks in the local market, where a firm invests to obtain resources and access to the target market, is the key issue for internationalization operations.

The relational view of resources-based theory integrates the perspective of resources-based theory and relational network theory to explain the competitive strategies of firms (Dyer & Singh, 1998). In this study, Li & Fung Group (Li & Fung Limited, 2011) is taken as a case to examine how it can cultivate its core competencies and expand its relational networks globally to seize market opportunities and create value throughout its internationalization process.

The case of Li & Fung Group verifies the strategic implications of the relational view of resources-based theory. Besides, the case of Li & Fung Group also provides valuable experience for firms to deliberate on their internationalization strategies.
LITERATURE REVIEW

Relational view of resource-based theory

Resource-based theory (RBT) has been one of the dominant theories in strategic management research since the 1990s (Acedo, Barroso & Galan, 2006). RBT argues that differential firm performance is due to firm heterogeneity. A firm owns resources that are rare, valuable, non-substitutable, and difficult to imitate will achieve sustained competitive advantage (Barney, 1991, Peteraf, 1993).

Over the years, RBT has derived several branches with various assumptions and perspectives (Acedo, Barroso & Galan, 2006). The “relational view of resources-based theory” extended the core tenets of RBT by integrating the perspective of RBT and relational network theory to explain how inter-firm cooperation can generate sustainable competitive advantage. Relational view of resources-based theory argues that the resources generating competitive advantage can span firm boundaries and embedded in inter-firm relations. Therefore, the sources of competitive advantages are not only from the internal resources owned by a firm itself but also from the external resources in the relational networks (Arya & Lin, 2007; Dyer & Singh, 1998; Lavie, 2006).

Internationalization and relational networks

The internationalization of a firm is the process in which the enterprise gradually increases its international involvement (Johanson & Vahlne, 1990). Holm, Eriksson and Johanson (1996) indicated that foreign market entry seems to be a process in which the entrant firm develops relationship with partners in foreign networks. The process is driven by the firms’ efforts to create value through coordinating their activities.

The relational networks potentially provide a firm with access to resources, markets, information and technologies; with advantages from scale and scope economies; and allow firms to share risks and outsource value-chain stages (Gulati, Nohria & Zaheer, 2000). Overall, the strategic implications of relational networks for firms’ internationalization are: (1) It allows firms to specialize in core businesses of the value chain, the “division of labor” improves efficiency and provides scale and scope economies; (2) Firms in the network enjoy the added flexibility of not having fixed commitments to activities which are not essential to them, the flexibility enables firms to act quicker than rivals; (3) Transactions costs can be significantly cut down due to the mutual awareness and trust among the network members resulting from their long-term cooperation; (4) It allows firms to access key resources from its environment (Jarillo, 1988; Johanson & Mattsson, 1988).

Global supply chain management in the globalization era

In the globalization era, an increasing number of firms farm out their production and/or distribution activities to overseas business partners. Lots of small and medium enterprises with niche are integrated into the global production and distribution networks of large multinational enterprises. As a result, outsourcing, offshoring and global supply chain management have come to be seen as key areas for firms to gain competitive advantage in international business (Friedman, 2005).

Multinational enterprises such as Li & Fung Group, Nike, Dell, and Wal-Mart et al. are all excellent patterns, which, under effective global supply chain management, outsource their production activities to overseas suppliers in their relational networks (Friedman, 2005). For example, Li & Fung Group doesn’t have its own factory but acts as the “network resources integrator” who effectively coordinates diversified activities in value chains and grows to make itself a global trading group supplying high-volume,
time-sensitive consumer goods such as fashion accessories, furnishings, gifts, handicrafts, toys and sporting goods (Fung, Fung & Wind, 2008).

**CASE STUDY: LI & FUNG GROUP**

With more than 100 years of history since 1906, Li & Fung Group has grown from a small trading firm to a multinational enterprise expert in “global supply chain management” by cultivating its core competencies dynamically in the face of environmental changes and expand its relational networks globally. Li & Fung seizes the trend of customer’s needs, selects qualified designers, reliable raw materials supplier and processing plants to provide satisfactory products to customers at a reasonable price through its global relational networks and advanced information systems. Resources in the relational networks are optimally integrated by efficient supply chain management (Li & Fung Research Centre, 2008; Magretta, 1998).

Currently, Li & Fung Group operates an extensive global relational networks including over 15,000 suppliers around the world and more than 200 offices and distribution centers in over 40 economies (Li & Fung Limited, 2011).

The internationalization process of Li & Fung Group took place in four stages driven by environmental changes. Table 1 illustrates the prime business, opportunities and/or threatens, core competencies, and relational network positioning in each stage.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime business</td>
<td>Export business</td>
<td>Regional sourcing agent in Asia</td>
<td>Offering “cross-border manufacturing” solutions</td>
</tr>
<tr>
<td>Opportunities and/or threatens</td>
<td>Language barrier between local factories and foreign customers</td>
<td>The capabilities of customers and suppliers improved</td>
<td>China began to open up to trade, and the Asian tigers emerged</td>
</tr>
<tr>
<td>Core competencies</td>
<td>Language proficiency in both English and Chinese</td>
<td>Familiarity and knowledge of the region, and partnership with Asian suppliers</td>
<td>Providing best solution of dispersed cross-border manufacturing</td>
</tr>
<tr>
<td>Relational network positioning</td>
<td>Exporter, intermediary between foreign customers and local suppliers</td>
<td>Sourcing agent, intermediary between foreign customers and Asian suppliers</td>
<td>Manager of the dispersed multinational production network</td>
</tr>
</tbody>
</table>

### Stage 1: Export trading company (1906 - 1968)

(1) The business environment

In 1906, Fung Pak-liu and Li To-ming their respective names “Li” and “Fung” mean “profit” and “plentiful” in Cantonese founded a small trading firm in Guangzhou (South China). The company was one of the first Chinese-owned exporters at a time when the China trade was controlled by foreign

---

36  *The Journal of Human Resource and Adult Learning Vol. 7, Num. 2, December 2011*
commercial houses. In Ching dynasty, the Western merchants spoke no Chinese. As the founder (Fung Pak-liu) spoke fluent English, which allowed him to act as an intermediary between the Western buyers and Chinese factory owners. Li & Fung flourished as an exporter of jade, porcelain, silk, fireworks, bamboo and rattan wares, and handicrafts. In 1937, Li & Fung Limited is formally established in Hong Kong.

(2) Strategic objectives and core competencies
  Matching trades between Western customers and local Chinese factories to earn commissions on language proficiency in both English and Chinese.

(3) Primary business and activities of internationalization
  Export porcelain, fireworks, decorative carvings, clothing, toys and electronic products to American and European customers.

(4) Relational network positioning
  Act as the intermediary between foreign customers and local suppliers.

Stage 2: Regional sourcing agent in Asia (1968–1970s)

(1) The business environment
  As the language ability of foreign customers and local suppliers improved, buyers were more inclined to bypass the middleman and deal directly with the manufacturer. The margins of traditional trading companies were squeezed.

(2) Strategic objectives and core competencies
  Through its knowledge of the region and long-term partnership with Asian suppliers, Li & Fung established regional sourcing network in Asia to choose appropriate suppliers for customers.

(3) Primary business and activities of internationalization
  In 1968, Li & Fung established its first overseas office in Taiwan, and successively in China, Korea and Singapore. Li & Fung expanded its sourcing network throughout East Asia and provided a package from the whole region rather than a single product from Hong Kong.

(4) Relational network positioning
  Act as the “regional sourcing agent” in the sourcing network throughout Asia.

Stage 3: Dispersed cross-border manufacturing (1980s – 1990s)

(1) The business Environment
  With China began to open up to trade, and the increasing of production costs in Hong Kong, Taiwan, South Korea and Singapore, Li & Fung gradually lost its competitive advantages as a production base.

(2) Strategic Objectives and core competencies
  Adopt the “dispersed manufacturing” approach by breaking up the value chain (production process) and optimizing each step to conduct efficient cross-border manufacturing.

(3) Primary business and activities of internationalization
  By the late 1980s, Li & Fung had gradually made the transition from middleman to program manager. Once a customer had an idea of the product it needed, Li & Fung would create prototypes for the customer, set up contacts for each step of the supply process and develop a production schedule. Li & Fung outsourced labor-intensive activities to China, while design, quality control, packaging, and other technically advanced manufacturing activities were performed in Taiwan, South Korea or Hong Kong depending on each country's industrial strengths. In this stage, Li & Fung became expert at finding the best solution for each step in the manufacturing process.
(4) Relational network positioning

Li & Fung had gradually transited from a “sourcing agent” to the “manager and deliverer of manufacturing programs.”

Stage 4: Manage the global supply chain (2000–)

(1) The business Environment

With the emergence of e-commerce, firms would bypass middlemen and buy products online. The Internet is supposedly going to eliminate the middleman.

(2) Strategic Objectives and activities of internationalization

Li & Fung decided to make itself indispensable by capitalizing on the Internet to strengthen communications with customers and branch offices. Li & Fung developed the “global virtual production” model through information technology, relational network and global supply chain management to offer best solution for customers.

(3) Primary business and activities of internationalization

Li & Fung signed trade contracts with customers directly and outsourced production activities to overseas suppliers in its relational networks through effective global supply chain management. Li & Fung manages and coordinates the entire value chain of product: from market survey, product design, material sourcing, production management, quality assurance, customs clearance to logistics and financing. Through the application of information technology and the linkages of the global supplier network, Li & Fung plays the role of “network resources integrator.”

(4) Relational network positioning

Li & Fung positioned itself as global supply chain manager and acted as “network resources integrator” in the relational network to coordinate and configure the resources in the global value chain.

ANALYSIS AND DISCUSSION

The internationalization process of Li & Fung Group shows that the company has constantly adapted its business model in response to the changes in the external environment. The major strategies throughout the internationalization process of Li & Fung is to cultivate its core competencies dynamically and expand its relational networks globally which contributed to the company’s emergence as one of the world’s leading trading companies. The key successful factors of Li & Fung Group are summarized as follows:

1. Specialize in core competencies: Firms with remarkable core competencies are liable to find resource-rich partners for value creation. By leveraging its core competencies of global relational networks, market knowledge, and advanced technology of information systems, Li & Fung has the capacity and flexibility to respond rapidly to drastic challenges of global competition.

2. Global supply chain management: As a global supply chain manager, Li & Fung provides a total value-added package for customers: from product design, material sourcing, production management, quality assurance to shipping consolidation. With the ability to directly export products from supplier to customers worldwide, Li & Fung offers a complete customizing supply chain service for its clients.

3. Strategic relational networks: Li & Fung cooperates with thousands of partners around the world to offer optimal supply chain solutions for customers by its “global virtual production” model and meanwhile acts as “network resources integrator” in the relational networks to configure resources in the global value chain. Li & Fung’s case verifies the strategic implications of the relational view of resources-based theory and explains how inter-firm cooperation can generate sustainable competitive advantage.
CONCLUSION

In the era of globalization, success is less about what the company can do itself and more about what it can connect to. The relational view of resource-based theory indicates that inter-firm cooperation in relational network enables firms to specialize in core businesses, to outsource value-chain stages, to act quicker than rivals, and finally to achieve sustained competitive advantage. The case study of Li & Fung’s internationalization in the essay verifies the strategic implications of the relational view of resources-based theory. Besides, the evolution of Li & Fung from a traditional trading company into a multinational enterprise also provides a good example and valuable experience for firms to deliberate on their internationalization strategies.

REFERENCES


