

Interaction and liabilities between native and immigrant firms

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Abstract

The aim of the paper is to analyse the interaction between native and immigrant firms in local systems focusing on the case of Chinese immigrant firms as a business community settled in a specific territory, that of an Italian industrial district in which native and immigrant entrepreneurs coexist. Such coexistence may represent a fertile ground for the emergence of liabilities, namely the liability of outsidership, a concept borrowed from the literature of management and international business and defined as the difficulties that must be addressed by those who are external to the most effective and important international networks, distinguishing outsiders from insider actors (Johanson & Vahlne, 2009; Schweizer, 2013).

Thus, the perspective can be twofold: on one hand, immigrant Chinese firms, despite being insider to global networks, can perceive a liability of outsidership in the local network; on the other hand, native entrepreneurs can perceive a liability of outsidership in the global network in which immigrant entrepreneurs are embedded. Native culture firms can experience a relative outsidership with reference to the new global networks dominated by Chinese immigrant companies settled in the same territory. Interacting in business networks, according to the IMP approach (Håkansson et

al., 2009), can offer an important perspective to explain the possible exploitation of opportunities as a result of interacting and facing local liabilities.

The paper proposes a case study approach in which the empirical setting is represented by an Italian manufacturing area that has experienced huge immigration flows and the establishment of a large Chinese community of people and firms active in the textile industry. The study of interaction patterns allows the authors to highlight the liabilities that may emerge locally, where a transnational oriented business network established by Chinese immigrants and local business networks established by native entrepreneurs coexist.

The paper shows that facing (and possibly overcoming) liabilities in interactions between companies based in the same geographical area can boost the development of new combinations of local and transnational business relationships; the interactive perspective adopted in the paper highlights that opportunities, and liabilities, stem from the creation of interactions among migrants and natives actors with specific resources combinations and activity structures at a local and transnational level.

Introduction

Industrial districts (IDs) have remained a focus of the economic debate in Italy and still play a central role in the Italian industrial system, although it is evident that they are suffering under the pressure of globalization. An emerging strand of literature is looking at whether industrial districts are in fact reacting to the new challenges of globalization and investigating the directions in which they are evolving within today's rapidly changing international context. Challenges that IDs are facing today are due to several factors such as globalization and its effects on the firm population of IDs and their fabric of inter-organizational relationships, the emergence of a multi-ethnic society within the local manufacturing area as a result of the phenomenon of worker immigration, the sociocultural discontinuity induced by generational turnover, and greater industry heterogeneity within the production structure of the local territories (De Marchi & Grandinetti, 2014). The workforce in industrial districts became increasingly multi-ethnic and heterogeneous from one district to another. The textile district in Prato, Tuscany, represents a particular case (Dei Ottati, 2009): alongside the original district, a second one has developed consisting of businesses founded by Chinese immigrants, and there are no connections worthy of note between the two districts, or sub-districts. Prato is specialized in textile production and is characterised by a production model based on small businesses with a strong division of work processes: in brief, the Prato industrial district has long been a workhorse of the Italian fashion industry (Guercini, 2004).

Anyone who visits the industrial district of Prato today will however come face to face with a substantial number of company placards in Chinese. In fact, a growing share of the district's companies are Chinese owned. When the first immigrant workers arrived in Prato from the eastern province of Zhejiang in the early 1990s, they represented a tiny exception to the district's overwhelmingly Italian population. some hundreds of people vs. the almost 50,000 already engaged in various textile-related activities throughout the area. In 2015, the Prato Chamber of Commerce registered more than 4.000 Chinese-owned companies, that represent more than 50% of companies in textile and clothing activities based in the district.

Thus, the industrial district of Prato sees the coexistence of native and immigrant firms, the latter forming a "parallel district" and the integration and interaction between the two communities are still weak and far from a satisfactory level. Within this framework, the paper focuses on the single firm as unit of analysis and on the interaction, where this exists, between native and immigrant firms focusing on the case of Chinese immigrant firms as a business community settled in a specific territory, that of the Italian industrial district of Prato in which native and immigrant entrepreneurs coexist. Such coexistence may generate liabilities, namely foreignness and outsidership, concepts borrowed from the literature of management and international business and defined as the difficulties that must be addressed by those who are external to the most effective and important international networks, distinguishing outsiders from insider actors (Johanson & Vahlne, 2009; Schweizer, 2013). The paper draws on the hypothesis that in cases like that of Prato immigrant entrepreneurs can perceive a liability of outsidership in the local networks, but at the same time are insider to global networks dominant in specific industries and markets. Native culture entrepreneurs can experience a relative outsidership, and suffer from elements attributable to foreignness, with reference to the new global networks dominated by the immigrant entrepreneurs settled in the same territory. In other words, when two communities of persons and companies coexist within the same context, liabilities such as foreignness and outsidership are produced locally by the forces of globalization. The interaction approach (Håkansson et al., 2009), can offer an important perspective to explain the possible exploitation of opportunities as a result of interacting and facing local liabilities.

The paper employs a qualitative methodology, that of case study, analysing the case of a family business founded in 1987, in Prato, focused upon womenswear manufacturing and able to produce up to 500.000 items per year. Such company can be considered a virtuous case of interaction with locally settled immigrant firms, mainly Chinese suppliers of manufacturing activities. The case analysis shows that facing (and possibly overcoming) liabilities in interactions between companies embedded into a local context can boost the development of new combinations of local and

transnational business relationships; the interactive perspective adopted in the paper highlights that opportunities, and liabilities, stem from the creation of interactions among migrants and natives actors with specific resources combinations and activity structures at a local and transnational level.

Theoretical background

Liability of foreignness and liability of outsidership are concepts that originate from the literature of management and international business. Much attention has been given to the liability of foreignness (Johansson & Vahlne, 1977; Zaheer, 1995), defined as as costs of doing business abroad (Hymer, 1976), in the sense that foreign firms incur additional costs when operating internationally, compared to local firms that have better information about their country, economy, laws, culture, politics etc.. More recently the literature of international business has stressed the growing importance of the liability of outsidership (Johansson & Vahlne 2009) from business networks in internationalization, defined as the difficulties that must be addressed by those who are external to the most effective and important (social and business) international networks, distinguishing outsiders by insiders actors. There can be a liability of outsidership both in the internationalization process of the firm and in the domestic market in the presence of problems of information constraints and uncertainties regarding network developments and opportunities that emerge in networks and business relationships (Hilmersson, 2013). The liability of outsidership (LOO) is a situation when a firm enters a business environment without knowing who the business actors are, or how they are related to each other.

While liability of foreignness can be broadly defined to include all additional costs for the foreign entrant, such costs can be distinguished into two types (Calhoun, 2002): costs that may be easily identified and quantified and costs that may not be as easily identified. The majority of the work on liability of foreignness has focused on the former, while only few papers have focused on culturally driven aspects of the liability of foreignness. The question becomes how cultural differences manifest and impact on the foreign firm differently from native firms and differently in the different countries in which the foreign firm is operating. The attention given to the less identifiable sources of liability of foreignness generally refers to the fact that firms enter countries that are culturally similar as measured by concepts such as psychic distance or institutional distance. Johanson and Vahlne (2009) maintain that the larger the psychic distance - defined as factors, such as language and culture, that make it difficult to understand foreign environments – the larger is the liability of foreignness. And the larger the psychic distance, the more difficult it is to build new relationships, thus there can be a liability of outsidership as an effect of the liability of foreignness.

In other words, foreignness and outsidership show the role of culture and cultural differences in building new relationships and knowing who the business actors are, or how they are related to each other, with consequences on the development of business opportunities. When discussing the Industrial Marketing and Purchasing (IMP) paradigm on interaction, relationships and networks, (Håkansson, 1982; Ford, 1997; Håkansson et al., 2009), Fang and Kriz (2000) argue that if the focus is on relationships and interaction, the reality is that culture always exists in the background through its fundamental impact on the behaviour of people who are at the centre of business relationships, and “[...] no account of business relationship is complete if culture is not sufficiently studied” (Fang & Kriz, 2000, p.3). Research focusing on the importance of culture in managing cross-cultural business relationships within the IMP Group is relatively limited (see Fang & Kriz 2000; Amelingmeyer & Moehringer 2002; Lowe et al., 2002).

When dealing with the Chinese culture – which views concepts such as connections i.e. *guanxi* and connected networks i.e. *guanxiwang* as key success factors for business - many Western managers are still failing to manage business relationships in the Chinese-culture dominated markets (Björkman & Kock, 1995; Itthipassagul & Blois, 2000), and intercultural differences have been identified as one of the main reasons of failure in business relationships with Chinese companies (Ghuri & Fang, 2001; Battaglia et al., 2004). According to Lowe (2001, p.3). “...Chinese networks [...] are not understandable outside of a discourse, which both accept culture as a network concept and networks as a cultural phenomena”.

Following this line of reasoning, when two communities of persons and companies coexist within the same context, such as the above mentioned area of Prato, the result is a cross-cultural business setting where culture has an impact on the formation, success/failure of business relationships and on interaction processes among native and immigrant firms. A cross-cultural business setting thus becomes relevant object of research on liabilities, namely foreignness and outsidership, when immigrant entrepreneurs can perceive a liability of outsidership in the local networks, and native culture entrepreneurs can experience a relative outsidership, and suffer from elements attributable to foreignness, with reference to the new global networks dominated by the immigrant entrepreneurs settled in the same territory. Interacting in business networks, according to the IMP approach (Håkansson et al., 2009), can offer an important perspective to explain the possible exploitation of opportunities as a result of interacting and facing local liabilities.

Methodology

Our objective is to apply a case-study method in order to analyse in depth the interaction between native and immigrant firms settled in a specific territory. Recent literature in management research

has stressed the importance of case research to generate and test theory (Eisenhardt & Graebner, 2007). Case studies can be useful when investigating a specific phenomenon and there is a need to better understand processes (Easton, 2010); we selected the case study for the learning potential it offers and the approach at this level is mainly descriptive and interpretative and in this sense we include some parts of the systematic combining process (Dubois and Gadde, 2002).

In particular, we present a single case study of a manufacturer located in the Prato textile district: Alpha, which was followed over the last four years. The case is the result of data collected mainly through interviews, supplemented by preliminary case study data (documents and records collected in the same period). The paper presents the findings emerging from semi-structured interviews organized in order to collect a large amount and variety of information on interaction between a native firm, Alpha, and immigrant firms, more specifically Chinese-owned companies settled in Prato from the beginning of the 90s. In a preliminary step, we analysed data collected from interviews with local textile associations representatives conducted by the authors in 2016 to ensure a more fine-grained analysis of the issues addressed. In particular, the Director and a manager from the local CNA (National Confederation of Crafts and Small and Medium Sized Enterprises) were interviewed as expert informants since their efforts over the years in studying Chinese entrepreneurship in the textile district and facilitating integration and the development of business relationships between Chinese and native firms. The interview lasted 2 hours and was recorded and transcribed.

The study of Alpha started in 2012 with two semi-structured interviews with the CEO, a third interview was done in 2016 with the CEO, after the suggestions that we were given by the Director of CNA, as Alpha is considered in the textile district a case of virtuous interaction with Chinese companies. Secondary data from the company annual report and website, and other documents, such as press articles, textile association literature/records, and so forth, were also collected to ensure data robustness and triangulation (Guercini, 2014).

Case background: Chinese immigrant firms in Prato

The presence of Chinese immigrant firms in the industrial district of Prato is only the most visible component of a more complex phenomenon that has affected many Italian industrial districts in the late '80s and in the '90s, with migration flows from many different countries, but with relevant specific aspects of entrepreneurship when these flows have been from China. The area of Prato has therefore experienced this phenomenon since the late '80s, when Chinese migrants began arriving in the district giving rise to the birth of Chinese firms specialized mainly in goods typical of the fashion industry (knitwear, garments, leather products), with typical positions of sub-contractor. In

an area, that of Prato, specialized in textile manufacturing – yarns and fabrics – Chinese immigrant firms focused on the apparel sector operating as subcontractors and garment makers (Guercini 2002; Milanese et al. 2016).

Chinese migrants have resulted in the start up of new firms, typically Small and Medium sized Enterprise (SME), with specific characteristics of family business, entrepreneurial and self-employment dynamics. The Chinese working capability, mainly in the field of sewing, and generally as garment maker, has been an essential element in the development of ready-to-wear apparel, especially fast fashion for women, in the context of what had been until then a traditional wool textile district. The characteristics of Chinese immigrants, their manufacturing skills, the propensity to develop their own independent business, flexible and cheap access to workforce through family and community relations, were compatible with the characteristics and needs of the industrial district.

This situation of coexistence of Chinese and native firms within the same territory has resulted in the creation of a “parallel district” and the integration and interaction between the two communities are still far from a satisfactory level. Reasons are twofold. On one hand, many Chinese immigrant firms still operate under conditions of illegality (clandestine work, tax evasion to cite few), that led native entrepreneurs to have attitudes of discrimination and lack of trust. On the other hand, some typical cultural traits of Chinese entrepreneurship, profit-oriented in the short term, and generally suspicious of members not belonging to the community of origin, have disadvantaged the creation of long-lasting and stable relationships with native firms. Moreover, most Chinese immigrant firms import fabrics from abroad (China and Turkey for example) and don’t rely on local producers.

Despite these difficulties, the case of Prato is different from that of other Italian fashion districts, since only in the Tuscan city at a later stage the condition of subcontractor of Chinese immigrant firms is exceeded and there is the development of manufacturing firms operating as “final” firms, which integrate design and have, as direct customers, other firms that control distribution channels and brands. This evolution concerns only a minority of Chinese immigrant firms, most of which continues to work as subcontractor for other Chinese garment makers or other Italian companies located outside the area of Prato.

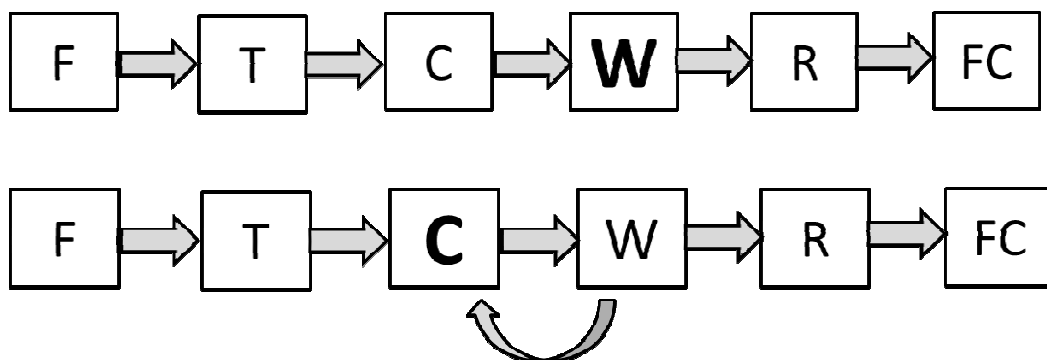
Case description

Alpha is a family business, founded in 1987, in Prato, Tuscany. It is surrounded by a number of highly specialised companies dealing with the whole fashion design and production process. The

company is focused upon womenswear manufacturing and it is able to produce up to 500.000 items per year. The high level of manufacturing standards and quality control are pillars to the company aiming to lift the quality control system up to 100% of items. The supply chain policy guarantees the full Made in Italy (from fabrics to craftsmanship).

In 1987, the year of its foundation, Alpha worked as a wholesaler in womenswear. Aware on one hand of the next crisis of wholesalers in fashion, and on the other hand on the potential of investments in retail, the company started to open in a few years six stores, supported by the production of garments in house. In the early 2000s Alpha decided to focus primarily on manufacturing activities and in 2005 the last store was sold. Between 2004 and 2011 the creative department and the logistics are created and consolidated within the company. In 2011 the cutting department is introduced, with 2 cutting lines and four employees: the decision and the corresponding investment in the purchase of ad hoc machinery are undertaken mainly because the cutting phase is the most exposed to the risk of imitation - having to provide contractors all specifications of a clothing model - and therefore it is preferable to carry it out in house.

Figure 1. The evolution of Alpha in the textile and apparel supply chain



Key: Fiber manufacturer (F); Textile manufacturer (T); Clothing manufacturer (C); Wholesaler (W); Retail (R); Final customer (FC).

Source: Author's elaboration

To date, the company has 18 employees and a turnover of 9 million euro (data updated to 2014), up 25% over the previous year.

The business model adopted by Alpha has changed over the years. From a production of garments primarily for street vendors, shopkeepers and small chains of wholesalers, to a planned – or semi-planned – model following the timing of major customers (2 annual seasons, spring-summer and autumn-winter, in addition to flash collections to be delivered in less than a month). Thus, the

company is also able to provide seasonal capsule collections thanks to the organization of manufacturing process flow and to the short production cycle.

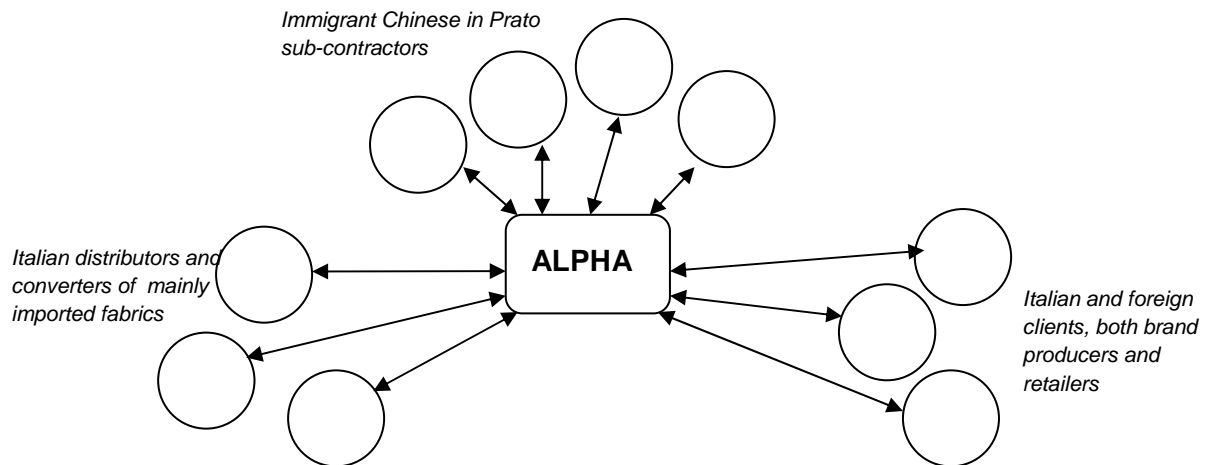
Table 1. Company profile 2010-2014

	2014	2013	2012	2011	2010
Turnover	8.976.736	7.071.245	6.538.456	7.521.701	5732089
Total Assets	6.001.252	5.665.767	5.131.223	7.159.085	6.251.293
Net Profit	95.230	37.700	45.498	91.982	77.126
Employees	18	18	17	15	13

Source: Alpha annual report

Customers have been reduced over the years, from around 150 to just over 30, according to a precise choice of qualified and well-positioned retailers as preferred customers that would guarantee orders for large quantities. Relationships with these customers are stable and with a strong fiduciary component, and involve a high level of customization. To this end, a fundamental role is that of the creative department, which offers every year to customers 500/600 models. The innovative and creative capacity characterize Alpha and widely different from other competitors in the area, especially from locally settled Chinese garment makers mainly characterized by the ability to imitate and not to create. In summary, design, collection development and production are core services offered to high level fashion brands as well as to the most prestigious retail companies.

Figure 2. Alpha business networks



Source: Author's elaboration

Alpha has maintained stable relationships for the past 12 years with Chinese subcontractors located in the Prato district. In particular, compared to a reduction of the number of customers, there has been a reduction in the number of suppliers. To date, Chinese immigrant firms with which Alpha works stably are four, all family businesses founded in Prato in the early 2000s; among these, one is a large company with 120 employees. Exclusive contracts imply that the Chinese suppliers can't work for other companies similar to Alpha for positioning, type of products offered and customers served. The supplies mainly concern complex manufacturing and ironing. Other processes such as sewing buttonholes and buttons are done by Italian subcontractors.

Alpha is characterized by strong ethical principles that have resulted in an ethical supply chain involving also Chinese companies, which have had to adapt over the years to high quality standards, the regularization of employees and respect of safety laws at the workplace. These elements are related to problems among Chinese enterprises in the district in terms of illegal labour, exploitation of workers and tax evasion, to name a few.

Alpha's effort in this regard assumes that at the basis of integration between native and immigrant companies there must be a "cultural revolution" of Chinese immigrant firms, with a view not only to comply with regulations, but also to fully enter in district dynamics and strengthen relationships with native companies and local institutions, rather than develop a parallel district. The profit orientation regardless of compliance with the rules, the orientation to transaction rather than lasting relationship, the instability of labour relations are just some typical features and cultural traits of the way of doing business for many Chinese entrepreneurs. The interaction with Alpha brought major changes in terms of: changing the approach to the stability of labour relations between employees

and employers as a result of the continuity of work guaranteed by Alpha; qualification of Chinese companies as suppliers of native companies from the Made in Italy tradition; dissemination of legality.

Discussion and final remarks

The case analysed shows the interaction between a family business located in the area of Prato, and locally settled immigrant firms, mainly Chinese suppliers of manufacturing activities.

The case confirms the existence of transactions between native and immigrant firms, mainly in the clothing sector than in the textile sector. The proposed case is not representative of what currently happens in the area of Prato in terms of interactions between native Chinese immigrant and native firms, which are limited especially in the textile sector, but it is a case, as confirmed by representatives of local institutions, of positive business relationships established over the years with Chinese suppliers.

Chinese companies with which Alpha has significant relationships, namely the four subcontractors mentioned, by the very fact of having business relationships with Alpha, have embarked on a process that will differentiate them from other immigrant Chinese firms in the Prato area. This path takes the form of interaction, in which the main changes concern the Chinese suppliers that are placed in a learning position with respect to Alpha that in a first observation keeps a role of teaching. However, even Alpha has implemented a process of learning about cultural and relational specificities of Chinese actors. If on one hand Chinese suppliers start interactive processes with Alpha, on the other hand the same suppliers differ, as a result of the changes put in place, from the other Chinese immigrant firms. In addition, the four Chinese suppliers have implemented organizational and cultural changes that make them non-representative of the totality of the Chinese immigrant firms settled in Prato.

Interaction with native firms requires an adaptation of organizational processes, but also of the business culture and lifestyle (for example, stabilization of labor relationships and the achievement of a good level of quality of the workplace). Such adaptation is required by the native firm itself, in line with company policy, and according to a principle of consistency between buyers, suppliers and positioning of the entire supply chain, in a long-term policy aimed at influencing suppliers sometimes at the expense of profit. Interaction with some actors, however, doesn't result in a reduction of liability of outsidership. While it is active the mechanism of teaching and learning, this does not seem sufficient to give a real insidership nor to the Chinese immigrant firms in the local network, or to native firms in Chinese business networks. Relationships appear as weak ties

(Granovetter, 1973) which have a bearing on the level of individual actors, but the overlap between networks of different actors remain weak.

Therefore a persistent psychic distance, related to the liability of foreignness, remains, in addition to a lack of familiarity, which is acquired in the relationship with the individual supplier but does not imply the achievement of an insidership position, and discriminatory attitudes (see Eden & Miller, 2001). The case seems to show an intermediate position between the lack of interaction and the achievement of insidership. It could therefore be assumed that the process is underway, but since relationships have existed for a long time, it's more reasonable to imagine that it is a non-temporary condition.

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