LEARNING IN INTERACTION AND LIABILITY OF FOREIGNNESS. THE CASE OF AN ITALIAN FIRM IN RUSSIA

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Abstract
The aim of this paper is to discuss the relation between liability of outsidership and liability of foreignness focusing on cultural learning processes in interaction. The constructs of "liability of foreignness" and "liability of outsidership" are studied with reference to the internationalization process of the firm. The liability of foreignness is related to the concepts of psychic and cultural distance, while the liability of outsidership has to do with the uncertainty and difficulties associated with being an outsider in relation to a certain network. Our focus is on the shift from the liability of foreignness to the liability of outsidership, as proposed in the literature, and we hypothesize that this may be studied as a shift of focus from the importance of distance to the importance of interaction. The paper contributes by providing an understanding of learning in interaction as a way to overcome the liability of outsidership, and the possible implications on the liability of foreignness.

Keywords: liability of foreignness; liability of outsidership; culture; psychic distance; Italy; Russia;

Tipe of paper: competitive

INTRODUCTION

The internationalization of the firm has been the main topic of a huge number of academic studies in the last decades. From the theoretical point of view, in this paper we first propose a literature review, starting from the contributions on the internationalization process of the firm (Johanson and Vahlne, 1977, 2009). Within this literature, the internationalization process is first described from a learning and evolutionary viewpoint and it occurs in a context of high degrees of uncertainty: the difficulties with the internationalization and entries in new countries are discussed in terms of the liability of foreignness, that is to say firms doing business abroad have to face problems arising from the unfamiliarity of the environment, from cultural, political, and economic differences, and from the need for coordination across geographic distance, among other factors. The shift from the liability of foreignness to the liability of outsidership occurs in the light of the development of many contributions on international marketing and purchasing. Following a business network view of the environment faced by an internationalizing firm, markets have been theorized as networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. In particular, the researches carried out by the IMP Group have enabled the emergence of a representation of the 'market as a network' (Ford et al., 2008), in which the interaction between actors plays a central role. Moreover, the IMP approach have recognized the importance of international issues since its origin (Håkansson, 1982). On the basis of these contributions, in a later version of the model (Johanson and Vahlne, 2009) the internationalization process is then assumed to take place in a business network context. The focus is on gaining knowledge on the foreign market and thereby opportunities as a result of relationships and interactions in the network, as pointed out in some of the studies of learning in relationships (Håkansson and Johanson 2001). Hence, the liability of outsidership becomes relevant since outsidership from business networks may be fatal for firms that want to expand their processes and markets abroad. We argue that the focus shifts from the liability of foreignness to the importance of being an insider in relation to a business network and interacting with the actors of the networks, with implications on the liability of foreignness itself. The paper proposes a case of interactions between a company in a developed country and a business partner in an emerging country. In particular, we use the case analysis of a successful Italian firm that has undertaken a rapid process of internationalization over the years: we focus on its retail expansion into Russia and the role of the relationship between the firm and a Russian entrepreneur in entering the Russian markets, learning in the interaction and overcoming some relevant liabilities.

THEORETICAL FRAMEWORK

The internationalization of the firm has been the main topic of a huge number of academic studies in the last decades. In this section, we propose a review of the literature concerning the internationalization process of the firm, starting from the model of the School of Uppsala. The theory on internationalization is combined with the IMP theory on learning in interaction. Johanson and Vahlne (1977) theorized the Uppsala model, describing internationalization from a learning and evolutionary viewpoint. This approach has its theoretical fundamentals in the behavioural theory of the firm (Cyert and March, 1963; Aharoni, 1966) and describes internationalization as a process in which the firm gradually increases its international involvement. The Uppsala model was developed to explain the internationalization process of the individual firm: the model is dynamic and the internationalization process comprises the sub-processes “commitment decisions” and “knowledge development”. These sub-processes have an impact on the status of the firm in terms of its stock of market knowledge and market commitment, which in turn, have an impact on the continued sub-processes of knowledge development and commitment decisions. In its first version, the model had this structure because the internationalization process was believed to occur in a context of high degrees of uncertainty in which the firm knew little about the new market and the relevant actors of the new market knew nothing about the foreign firm; the difficulties within the internationalization and entries in new countries were discussed in the context of the liability of foreignness. In a more recent paper, Johanson and Vahlne (2009) described commitment decisions as concerning mainly business network relationships, and knowledge was not only a matter of market knowledge but also of knowledge about business opportunities that are identified and developed out in the market networks. Consistent with the business network perspective, market commitment as a state of internationalization was replaced by network position. The authors also introduced the concept of liability of outsidership, that is the uncertainty and difficulties associated with being an outsider in relation to a certain network, as outsidership from relevant business networks may be fatal for firms that want to expand their processes and markets abroad. The Uppsala model published in 1977 presented internationalization as a learning oriented process. The model emphasized a gradual and incremental approach to internationalization with the underlying assumptions of uncertainty and bounded rationality. The model explains the gradual steps made by firms in their internationalization process as a learning process, in which market knowledge enforce commitment decisions, and where the current activities of a firm affect the market commitment. According to the model, internationalization frequently starts in foreign markets close to the local market in terms of psychic distance. The psychic distance is in turn defined as the factors that affect the difficulty of understanding a foreign environment, including factors such as culture, politics, language, educational systems. This approach to internationalization considers the perspective of the single firm assuming that firms tend to incrementally overcome the psychic distance through gradual learning processes (Johanson and Wiedersheim-Paul, 1975). The difficulties within the internationalization and entries in new countries have been discussed in the context of the liability of foreignness, that is to say firms doing business abroad have to face problems arising from the unfamiliarity of the environment, from cultural, political, and economic differences, and from the need for coordination across geographic distance, among other factors. A greater psychic distance implicates a higher degree of liability of foreignness. The concept of psychic distance needs to be analyzed in depth since its importance in the internationalization process of the firm. The term psychic distance was first used by Beckerman in 1956 and later by Linnemann in 1966, before it became well known thanks to the contributions of the School of Uppsala in the 70s and since then, the definition of this construct has been widely debated and revised. As discussed in the Uppsala model, firms entering a foreign market must be prepared to face difficulties due to the many differences between the country of origin and abroad, such as the spoken language, habits and behavior, culture and legislation. In the marketing literature, these differences between countries are included in the concepts of psychic distance and cultural distance. They both refer to the sum of the factors that hinder or prevent the flow of information to and from the market (Johanson and Vahlne, 1977; Nordstrom and Vahlne, 1994; Eriksson et al. 2000): these factors include the above-mentioned differences between the country of origin of the company and the foreign country in terms of language, culture, politics and economic development (Johanson and Wiedersheim-Paul 1975). The distance is a concept that exists in the mind of the individual and depends on how he perceives the world; the term "psychic" refers to what is in each mind (Evans et al. 2000). The psychic distance can therefore be defined as the individual's perception of the differences between the

country of origin and a foreign country. Nordstrom and Vahlne, in their contribution in 1994, emphasize the individual's perception of psychic distance with reference to the decision makers of firms: "... how decision makers within firms actually perceive the world in psychic distance terms". Thus, the level of analysis in which it is possible to measure the psychic distance is the individual: the individual's perception is in fact an interpretation of reality and therefore highly subjective and influenced by personal experiences (Sousa and Bradley, 2008). The cultural distance is in turn closely related to the concept of culture. The cultural dimension is therefore complex but over time gradually assumed a great importance in the analysis of internationalization processes. One aspect of the cultural dimension is related to the idea that people of a nation have patterns of behavior and distinctive and relatively permanent personality characteristics. Hofstede (1980, pg.25) defines culture as "the collective programming of the mind" distinguishing the members of one group or category of people from others. In the case of cultural distance, therefore, you do not have to do with individual perceptions, but the right level of study is national, which means that countries, rather than individuals, are considered as the unit of analysis. Several studies consider the terms "cultural distance" and "psychic distance" interchangeably (Eriksson, Majkgard and Sharma 2000; Fletcher and Bohn 1998). However, the use of the two terms as synonyms is questioned by the results of Nordstrom and Vahlne (1994), which show that the two concepts indicate different phenomena, although being connected together. The basic hypothesis is that cultural differences between the home country and the foreign countries create a distance which in turn influences the activity of firms in the international arena: it is believed that similarities are easier to manage than differences, and therefore one might expect that firms have greater success in markets similar to that of origin. Many studies (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Cavusgil, 1980) confirm this hypothesis. Similarly, both concepts have been used to explain the sequence of foreign direct investment, supporting the theory that firms are less likely to invest in countries culturally and psychically distant (Grosse and Trevino, 1996). Finally, psychic and cultural distance are, as argued before, the idea proposed by the Uppsala internationalization model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne 1977) that pointed out how firms select first markets considered closer to the country of origin in terms of psychic and cultural distance.
Since the Uppsala model was published, it has been evident that it needed to be developed, and it was also criticized by other scholars. Most of the criticism of the internationalization process model is based on the observation that company behavior has changed since the model was built (Hadjikhani, 1997). The Uppsala internationalization process model is revisited in the light of changes in business practices and theoretical advances that have been made since 1977. Subsequent research on international marketing and purchasing in business markets has introduced a business network view of the environment faced by an internationalizing firm. The core argument of the revisited model is based on business network research, and has two sides. The first is that markets have been theorized as networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. A large-scale empirical study of international marketing and purchasing of industrial products (the IMP group) that was carried out in the late 1970s and early 1980s was based on the interaction approach (Hakansson, 1982). Work done during the project demonstrated that close and lasting business relationships between suppliers and customers are indeed important, be they within a given country or between countries. A number of studies since then have shown the importance of relationships in the internationalization process (Bonaccorsi, 1992; Erramilli and Rao, 1990). Hence insidership in relevant networks is necessary for successful internationalization, and so there is a liability of outsidership. Moreover, relationships offer potential for learning and for building trust and commitment, both of which are preconditions for internationalization. In the article "The

Uppsala internationalization model revisited: From liability of foreignness to liability of outsidership" (Johanson and Vahlne, 2009), it is discussed that problems and opportunities that may occur for a company in international business are less and less related to country-specificity question, but rather they become a matter of relationships and networks: it was this network approach that Johanson and Vahlne did not consider in 1977. In the revisited article published in 2009, Johanson and Vahlne update and further describe their view of internationalization in the light of the importance of business networks. The lack of knowledge of who the business actors are, how they act and most importantly how they are linked to each other is crucial. There is a shift from the liability of foreignness, that is mainly related to culture, to the liability of outsidership that has to do with networks. As the liability of foreignness is the main problem with a foreign entry, the liability of outsidership is the main difficulty, and as the liability of foreignness is a problem of internationalization, the liability of outsidership can also represent a difficulty in the home market. A firm, that is not an insider, will suffer from lack of business opportunities as a consequence of lack of relationships. The liability of outsidership refers to problems linked with being outside an important business network of relationships and contacts in a new market. In the same way as it is crucial and necessary to be part of a business network and enjoy relationships in the home market, it is essential to penetrate such networks in foreign markets to be successful; the business networks can also be seen in a wider perspective over regions and over markets. The main problem of liability of outsidership is how to become a group member, or in other words, an insider. Hence, the liability of outsidership is a question of gaining knowledge and thereby opportunities as a result of relationships. As discussed above, the internationalization process is often viewed as a step-by-step process of development and understanding. The business network approach challenge these discussions by involving and adding the fact that relationships are involved: firms may move and internationalize faster and, most importantly, adapt faster, due to a direct link, made of relationships and trust, into the network of the new environment. The challenge is to become an insider in each and every business network in which a company has activities. As such, Johanson and Vahlne considered the firm to be a unit involved in exchange processes with other units of the same kind. Thus, by having a wide network with other units or entities, a company can be considered to be an "insider" and if it doesn't it is an "outsider" (Paoli and Guercini 1997). As an outsider it is impossible to conduct business because it is through relationships that firms gain knowledge, trust and commit to further commitment, that is the essence of the internationalization process. A company trying to enter a market where no network or "insidership" is established will suffer from the liability of outsidership where liability of foreignness is a factor making it more difficult to get on the inside (Johanson and Vahlne, 2009). In a networking environment, an important role is played by the creation and development of knowledge. The Uppsala model, since it was first presented, deals with knowledge acquisition and of course with learning. How the organizations learn and how their learning affects their behavior are the central issues of the model (Johanson and Vahlne 1977, 1990): the main emphasis is on experiential learning through the ongoing activities. This issue has been further developed in many researches during the two last decades, which indicate that organizational learning includes several dimensions (Forsgren, 2002). For instance, it has been pointed out that, through their business relationships, organizations can gain access to the knowledge of other firms, without having to go through exactly the same experiences as these firms (Eriksson et al., 1997). With a wide network of relationships the knowledge base increases and the relationship partners create an indirect web of relevant business information in terms of possibilities, needs and capabilities of others firms in the surrounding environment. The firm may create new knowledge through exchanges in its network of interconnected relationships and the process of creating knowledge is not separate from other activities in business relationships, rather it is embedded in them. Knowledge does not arise only from the firm's own activities, but also from the activities of its partners, and since those partners also have other partners with whom their activities are coordinated, the firm is indirectly engaged in a knowledge creation process that extends far beyond its own horizon. Thus a network of business relationships provides a firm with an extended knowledge base (Kogut, 2000).

The revisited model of Johanson and Vahlne has some important implications. First, internationalization is in direct relation to a firm's relationships and networks. Thus, a firm is much likely to go abroad based on its relationships with its partners. A firm is also likely to follow a partner abroad if the partner has a valuable position in a foreign network. In particular, the general question "where will an internationalizing firm go?" has two possible answers. The first is where it sees opportunities: with relationships, these are much more likely to arise than without. But if there are no relevant relationships, a firm is likely to go where it might be easy to find such partner. For example, an initial step might be to link itself with an agent or a distributor. When relationships are established, the firm might bypass its initial contact and establish its own subsidiary. Short psychic distance will facilitate the establishment and development of relationships, which is a necessary but insufficient condition for identification and exploitation of opportunities. A second answer could be following a partner: when a relationship partner who is going abroad, or already is abroad, wants the focal firm to follow; by following the partner abroad, the firm demonstrates its commitment to the relationship. Another point is the development of a relationship that is described as a bilateral and informal process between two counterparts who sequentially commit, trust and learn from one another: the original Uppsala model did not include the importance of mutual commitment for successful internationalization. To further integrate the term psychic distance as explained earlier in this paper, the difficulty of building new relationships is set in relation to the mutual understanding between the counterparts; therefore, a greater psychic distance implicates a greater difficulty of new relationships, all other things being equal. In the light of these aspects stated, outsidership from a relevant business network makes it difficult, if not impossible, for a firm to internationalize. Johanson and Vahlne argue that insidership is a necessary but insufficient variable for a successful development of a business (Johanson and Vahlne, 2009). If a firm tries to enter a market in which it does not have an insider position within the relevant business networks, the liability of outsidership will be the suffering factor. The liability of foreignness will however be a further more complicating factor in trying to penetrate the relevant network and becoming an insider; when the learning, trust-building and commitment building processes start, the position as an outsider can be turned into a position as an insider. The focus is on the liability of outsidership and the importance of relationships and learning to become an insider of relevant business networks, and the liability of foreignness seems to have the role of complicating factor. In the light of what has been said, a first research question can be formulated as follows:

Q1 – Is there really a shift from the importance of psychic distance to the importance of interaction?

We argue that learning in interaction has a twofold role: it allows to reduce the liability of outsidership since the firm becomes an insider of the network of the partner; it allows to approach and learn a culture and consequently to reduce the psychic distance and therefore the liability of foreignness. This issue can be formulated as a second research question:

Q2 – Does learning in interaction reduce both liability of foreignness and liability of outsidership?

When the psychic distance and the liability of foreignness are reduced, the firm gains knowledge and is more familiar with the culture of the foreign country. Moreover, when the firm becomes and insider of the network of the partner, new business opportunities can be

identified as a result of relationships. The third research question in this paper can be put forward as follows:
Q3 – Is the reduction of both liabilities a way to have the opportunity to begin new interactions and learning processes, opening new networks?

RESEARCH METHOD

The objective of the paper is to analyze in depth the relationship between liability of foreignness and business interactions in internationalization. The topic is addressed by using a case study method in order to provide some indications regarding the previously outlined research questions. According to recent literature in management research, the case research is relevant to generate and test theory (Eisenhardt, 1989). Case study is a method commonly used in industrial marketing research, in which the units of analysis are organizations and relationships that have a complex structure: industrial marketing researchers argue that case research in this area is different because of the nature of the phenomena studied (Piekkari et al, 2010). A case study can provide a great deal of data, mainly qualitative, and offer insights into the nature of the phenomena (Easton, 2010, p.118). In particular, we present a case study conducted within one organization over the last three years. The case presented in the paper is the result of data, mainly by means of interviews and supplemented by secondary data (documents and narratives) collected from March 2011 to February 2013. The methodological steps followed include: secondary research based on firm reports, firm website, firm data published in fashion magazines; previous case narratives with the CEO; primary data collected in a face-to-face interview with the CEO (Guercini 2004). The paper presents findings emerging from semi-structured interviews focused on the following topics: the firm's retail internationalization strategies; the role of cultural differences when entering into a new market; the role of relationships with business partners for entry into new markets; the role of relationships with business partners in overcoming cultural differences. These topics are addressed both in general and with specific regard to the process of internationalization in Russia. The case study considers an Italian luxury family business firm that will remain anonymous and from now on it will be called I-Luxury. The CEO, and son of the founder, who is directly involved in the decisions regarding the internationalization of the firm, the retail strategies and store openings abroad, was interviewed in September 2011 and in February 2013.
I-Luxury was founded in Florence in 1972 by a Florentine entrepreneur and his wife, and its target is a high-ranking male customer to which offer a full range of products entirely handmade in Italy with valuable raw materials. The activities of the company start with a collection of ties inspired by the ceilings of Florentine palaces, fully drawn and colored by the founder himself: a success, despite the fact that the market leadership belonged to the British fashion at that time. In 1974, after the participation in the event Pitti Uomo, I-Luxury, on demand of international customers, developed a collection of innovative shirts, but at the same time classic, matching the collection of ties: this was a significant change for the company, which positioned its offerings on a segment of the textile and clothing market very different from the usual ones where usually the price of the products could not exceed a certain limit. The results of the period were beyond expectations, and it was necessary to organize, in a short time, a continued productive activity, although initially small: the Fontebuoni Ltd. (production of shirts) was founded, fully controlled, through which it became possible to strengthen the product line in the luxury segment, addressed to a select clientele representative of the most affluent upper class in business and politics.

During the ’80, the I-Luxury entered the U.S. market by opening a small showroom in New York, becoming a young Florentine label object of interest of politicians and financiers, intellectuals and writers. With the aim of strengthening the presence of Italian tailoring in the international market, in 1987 the founder, together with a group of italian entrepreneurs, create the consortium "Classic Italy": the companies belonging to the consortium soon became icons of the Made in Italy and Italian luxury, with the aim of differentiating their internationalization strategies and protecting the production and processing exclusively made in Italy. In the early 90s, and parallel to the growth of production, the company decided to undertake a retail operation, opening flagship stores directly controlled: this choice reflected the need to gain greater visibility and a stronger presence in the market, in order to establish the brand in the world and build an image of absolute elegance and good taste in clothes. The first flagship store was opened in Shanghai, China in 1993. In 1994 the presence on the North American market was further strengthened by the transfer of the showroom in New York's prestigious Fifth Avenue in Rockefeller Center. In 1998, the range of products offered was extended to jackets and suits, produced by highly qualified external subcontractors, located in various regions in Italy, which had to respect strict production standards.

In 2000 a new boutique in Monte Carlo was opened, in 2001 a flagship store was opened on Rodeo Drive in Beverly Hills. Parallel with the constant growth of the brand in Asian countries, the second Chinese boutique was opened in 2002 in Beijing, inside the St. Regis Hotel, which is followed by the first licensed shop in the city of Cheng Du. Other boutiques opened in that period were in Porto Cervo, Italy, in one of the most exclusive resort of Costa Smeralda, and in Xi An, which was the third owned flagship store in China. In the same period, a rented space inside the Hotel Principe di Savoia in Milan became the showroom that hosted all customers during sales campaigns. In 2005 the three-floor store in New York's Park Avenue becomes the flagship of the Group. The shop looks like a Florentine villa from ‘700, enclosed between two skyscrapers, built upon the work of staff sent directly from Florence, in the basement of the building there is the showroom to host the American multibrand customers for the vision of collection and placing orders. In the same year, the fourth owned store was opened in China in Hangzhou. It was also granted to two local partners the right to open licensed flagship stores in Moscow on the prestigious Bolshaya Dmitovka, and in Paris, on Avenues des Champs-Elysees. In all the new stores there is the same concept already experienced in the rest of the world: briar root furniture, crocodile chairs, travertine floors, all personally designed by the founder himself and created by Florentine artisans, to provide customers a unique and exciting shopping experience.

In 2006, the turnover exceeded € 23 million, thanks to the steady increase in sales at Neiman Marcus, the most prestigious department stores in the U.S., with whom I-Luxury opened, in 2006, two shop-in-shop in Bal Harbour (Miami) and Tyson (Washington).

During the years, I-Luxury has tried to develop its market penetration through three main channels: the multi-brand stores (exclusive agreements with historic shops, located in exclusive locations with international and loyal customers), the flagship stores, owned by or licensed, the department store (Neiman Marcus, Bergdorf Goodman and Harrods). Through the opening of flagship stores, that is the strategy that the company is currently implementing more, which consist in coming into direct contact with the final customer, offering also a customized product; improve the image of the product through a professional sales service; recover the margin that is assigned to the retailer; improve visibility and the luxury image of the product. The opening of new stores is the main driver of growth, as well as the objective characterizing future strategies. At the end of 2011, the flagship stores in the world were 21, counting both those owned and licensed (approximately, the remaining 43.5% of the turnover of the company is routed to the third channel of distribution, the multi-brand customers). In 2012, a new owned boutique was inaugurated in Beverly Hills, located at 270 North Rodeo

Drive, managed by the subsidiary Luxury & Co. of Beverly Hills; it was also opened a new boutique in Paris at 34 Avenue Georges V, managed by the subsidiary I-Luxury France S.a.r.l, and a prestigious flagship store in Saint Moritz; a new licensed shop was opened in Ankara. During the same year, license contracts were signed for the opening of new boutiques in Vienna, Abu Dhabi and Shenyang (China).

In 2001 I-Luxury became the holding of a group of firms totally or partially controlled (see Table 1). The strategies pursued have proved to be successful as the Group) has seen strong turnover growth in recent years, from just over € 20 million in 2007 to 34.3 million in 2008, a small reduction in 2009, up to 46.1 million euro in 2010, and 57 million in 2011, despite the global economic crisis (see Table 2). The 96% of turnover is made abroad and it is well balanced between countries where I-Luxury is established: mainly the United States, China and Russia. In particular, in 2011 the turnover was subdivided as follows: 47% Europe (28,5% Russia); 33% Asia; 19% America; 1% Others. The company plans to continue with its strategy of business diversification: in the last few years, I-Luxury has entered the field of fine furnishing fabrics, especially after the acquisition in 2010 of "Antico Setificio Fiorentino". In 2012, the company has started a collaboration with a famous producer of yacht to create the interiors of luxury yachts.

The prevailing culture of I-Luxury is "Made in Italy": the entire production is carried out in Italy and for some products the entire production cycle takes place within the confines of the province of Florence. The creative process takes place entirely inside the head quarter of Florence, by its founder, his son, and some designers and experts for each product category, which were necessary since the company began its process of growth: in a few years, in fact employees of the Group increased from 40 to 300, and the company felt the need to rely, for some functions such as personnel management, to external partners. The marketing function, whose core business is retail and communication, however, remains in the hands of the family, in particular the founder and his sons, supported by a commercial office. The processing of some products is outsourced to market leader suppliers, with contracts in the medium/long term (typically 4 or 5 years) , and the suppliers must respect the quality standards imposed by the company. All the garments are shipped to the site in Florence where the quality control takes place, and they are re-checked, packaged and shipped to individual stores or customers. The company delivers its suppliers not only designs and models, but also the raw materials and fabrics. An example of outsourcing are the coats, which are made in Fano, a town in the Marche region, while the rest of the products are made in the province of Florence, in Emilia Romagna and Basilicata regions. The entire production of fine leather footwear takes place in Florence, as well as the realization of the ties and shirts. The link between the product, brand and territory is so strong and clear that the company has gone from the label "Made in Italy" to the label, strictly used in Italian language, "Fatto in Italia" or "Fatto a mano (handmade) in Italia" and, for some products, the label "Made in Florence".

Table 1: Controlled companies

Companies directly controlled by I-Luxury Spa	***City - Nation***	***%***
I-Luxury Luxury Stores Srl	Florence - Italy	100
Luxor Srl	Florence - Italy	100
Luxor & Co.Srl (partially owned, 30%, by Luxor Srl)	Florence - Italy	70
Antico Setificio Fiorentino Srl	Florence - Italy	100
Fatto in Italia Srl	Florence - Italy	100
I-Luxury France Sarl	Paris - France	80
I-Luxury Shanghai Trad.Co.Ltd.	Shanghai - China	85
Luxury & Co.of Beverly Hills	Los Angeles - USA	75

Companies directly controlled by Luxor & Co.Srl		
Sam Luxury Montecarlo	Principality of Monaco	90
I-Luxury America Inc.	New York – USA	100
Luxury Shanghai Int.Trading Co.	Shanghai - China	90
Luxury Macau Co.Ltd.	Macau - China	80

Source: Company financial reports

Table 2: Turnover

Year	**Turnover (Euro)***
2007	**27.779.629**
2008	**34.625.616**
2009	**34.215.290**
2010	**46.660.984**
2011	**57.121.712**

* the data refers to the Group turnover
Source: Company financial reports

THE CASE OF I-LUXURY IN RUSSIA

Luxury in BRICs

Before analyzing the case I-Luxury, we present an overview of the luxury market in BRIC countries, with a focus on Russia, trying to understand the logic of luxury in emerging markets and the importance of the Russian markets for Italian fashion and luxury brands. Worldwide spending in luxury product rose by 13% in 2010 and 10% in 2011 led by emerging markets exceeding the previous results recorded before financial market collapsed. Half of luxury goods sales are made to customers in emerging markets led by China (approximately 30% of the global luxury sales); India and Russia also have a steady boost in demand for luxury. It is expected that 2013 will be a positive year for the luxury industry, with a growth of 6-8%: approximately 90% of the growth will continue to come from consumers in emerging markets[1]. These emerging markets have protected the luxury sector from the global economic crisis, since they have not been hit as hard as the industrialized countries. The recent financial crises of 2008 revealed that luxury industry is not immune to crisis: in the past, the most important markets for luxury brands, which originate mainly from Italy and France, were USA and Japan that have been hit substantially by the crisis. The country that is actually turning around the crisis for luxury goods is China: the Chinese luxury consumers want outwardly visible and status-driven branded products and, after a long period of restriction, there is an urgent need to experience and own all the “good things in life” (Sivakumar, 2012). Russia has wealth, knowledge, and experience in luxury, with Moscow and St. Petersburg that are the cities with higher potential for luxury consumption. The Indian luxury consumers, on the other hand, are value-conscious and are constantly looking for stylish and aesthetic products and services which are complementary in nature: craftmanship and values are important for relating to an Indian consumer and thereby, creating long-term relationships. Russian consumers usually buy goods that have much higher prices than they are ordinarily sold at because they like to show off that they can spend that amount of money for a valuable product: consumers in these countries have become more and more aware and conscious of not only quality but also status. Brazil is quite different from the other countries; the luxury industry in Brazil is strengthened by the

[1] www.pwc.com

presence of ample natural resources, including precious stones, and the fashion industry is particularly dynamic and so far it has focused on the domestic market (Som, 2011). All of these countries represent a huge challenge for the luxury industry: it is important to understand the specificity of the demand as there is no global strategy for the industry in general.

Focusing on Russia, this country is one of the most important for the luxury brands, especially those from France and Italy: the price factor doesn't seem to exist, and the higher the price of a product, the more attractive the product is because it means that it is more luxurious. The growth of Russia is an important factor in helping the growth of the world market of luxury. Between 2009 and 2011, the high-end market in Russia has had an average growth of 5% per year; in terms of numbers, the situation is perhaps less impressive: the luxury market in Russia reached 5 billion euro in 2011, still far behind China, which has reached 12.9 billion euro in the same period. The Asian region accounted for about half of the global luxury market in 2011. In the fashion and luxury industry, Italy has a special position in Russia. If worldwide export of Italian footwear increased by not more than 3% in the first semester of 2012, the growth in Russia reached 17%, after 20% in 2011. The clothing industry in turn, always in the first six months of 2012, rose in value by 12.3% in Russia, compared with 5.2% in the rest of the world. The textile industry increased by 16.3% on average, while in the world even fell by 3.4%. The jewelry industry reached 8,2%, compared to 6.5%. The 29% of the imported furniture in Russia are Italian, an amount equal to twice that of Germany and superior even to China. From fashion to furniture, from car design to food, the high quality, the creativity, the taste and design tricolor, despite the global economic crisis, play a leading role in Russia. This explains why so many groups in fashion, luxury, car, furniture, and also many medium and small firms have begun to invest in this country, becoming the Russian Federation the most interesting market for Italy, both in terms of direct investment and export. In addition, Russia's entry into the WTO in 2012 allowed a development of Italian presence in this country. Commercial relations between Italy and Russia are excellent: the total value of exports from Italy to Russia in 2011 amounted to 9.3 billion euro and grew by 17.8% compared to 2010, and it is for the most part concentrated in clothing, footwear, machinery and equipment, mechanical in general, furniture and décor. Exports from Russia to our country reached 18 billion euro and for the most part are concentrated in raw materials (natural gas and oil)[2]. In the last few years there has been a phenomenon of revival of Italian brands in the Russian market after the crisis in 2008. Italian fashion brands opened stores in Moscow and St. Petersburg, but also in large and middle cities as Ekaterinburg, Novosibirsk, and Omsk, and the flagship stores and shop-in-shop in luxurious department stores are at 50% of Italian companies.

I-Luxury in Russia

The presence of I-Luxury in Russia began in 2005 with the opening of the first store in Moscow. According to the CEO "*in Russia and CIS countries, the only way to operate is through licensees*" because of the difficulties and the peculiarity of these markets, mainly related to culture, customs, laws and regulations. The decision to enter the Russian market dated back a few years ago: I-Luxury wanted to open a flagship store in a prestigious location with a high emotional impact: it was a period when the firm was opening boutiques all over the world, but it was difficult to find the right partner in Russia. They found the largest Russian distributor in fashion that wanted to open a store I-Luxury, but it would have been a shop-in-shop inside his department store in Moscow. The location wasn't the right one for one main reason: the competitors of I-Luxury had all shops with windows on the street, while

[2] www.ice.gov.it

the company was offered a 100 mq space on the inside of the department store, with no visibility from the street. The right location wasn't the only need of the firm, which also wanted to find the right partner to manage the shop not only from the accounting point of view, but also the public relations with customers, that are usually prominent persons in politics, finance and business. I-Luxury met a Russian businessman in Monte Carlo many years ago, who wanted to work with the Italian firm but at that time he was involved in other important growing businesses. The company decided to reject the offer of the distributor and wait for the partner. For two years after I-Luxury continued to look for the right location and to study the Russian market. The first flagship store was opened in 2005 in Moscow, on Bolshaya Dimitrovka, one of the main shopping street that has a great advantage: it is accessible by car, and this characteristic is fundamental for the Russian customer "*who doesn't like walking and prefers reaching the shop by car, accompanied by the driver*". The flagship store is licensed and the choice of waiting for the right partner and the right location has proved to be successful: the boutique has seen immediate positive results and it has dragged the neighboring markets.

Currently, Russia and the former Russian republic (mainly Armenia, Azerbaijan, Ukraine, Kazakhstan and Turkmenistan) represent the 30% of the company turnover, and the Russian market (together with China) has protected the firm, and the whole luxury industry, from the global economic crisis, as outlined in the previous paragraph. One more reason is the payment system in Russia: 50% in advance, 50% at delivery, completely different from the traditional payment system of the textile and apparel industry, up to 60, 90, 120, even 180 days. I-Luxury uses this system as a way to self-finance the openings of new stores in the world. Moreover, Russians have a great will to buy and satisfy their desires, and this will derives from the years of oppression and poverty experienced in their childhood. There are also aspects of the everyday life that have a connection with shopping habits: Russia is the most important target market for the footwear industry. Men and women buy an average of 15-20 pairs of shoes per season apiece, also because of a practical reason: the acid used to melt the ice erodes the shoes, so there is a great need to buy them: "*these are the typical things that you learn about the culture and habits after you go there many times, speak to your partner and know your customers*".

In its experience, I-Luxury has found difficulties in approaching the Russian market due to the cultural differences. The first difficulty has emerged in the interaction with the Russian partner during the negotiation to come up to a deal on a contract. Every point of negotiation is a conflict because "*the Russians always want to be right and follow an approach I win, you lose. This is a matter of culture and it's not related to specific aspects of the negotiation, that is usually long and tiring, up to 4-5 hours for a single contract*". The typical Italian attitude, more relaxed and friendly, can be successful in the negotiation process in softening the counterpart.

The I-Luxury partner in Moscow had an exclusive contract for the first five years, then after these five years he had the opportunity to open a store a year in other cities in Russia, or to keep Moscow and suburbs. The partner decided to keep the flagship store in Moscow so the company had the opportunity to open other stores with different partners in St. Petersburg and Ekaterinburg. I-Luxury had also 6 multi-brand in Russia, which have been converted in mono-brand (not only in Russia, but also in other places like Vienna, Zurich, Turkey): "*it's a common process in which the multi-brand must choose the main brand and focus on it, if the company gives the license*".

I-luxury has hired 4 Russian girls to better manage the Russian consumer in the stores of Milan, Florence and Saint-Moritz, while there isn't a specific training for suppliers that comes all from Italy. According to the CEO, Italian supplier are "*the best that can ensure that the wishes of the Russians are satisfied, because of the great quality and creativity of their*

work". The Russian consumer often buy very expensive things that do not meet a specific need but simply the desire for a moment. This behavior is typical of Russians not only in their homeland but all over the word: a high percentage of shopping is done by Russians in Dubai, Paris, London, New York, Milano. This means that it is not a territorial concept but a consumer concept. Chinese consumer is quite the same, the Americans not anymore: they were the ones that made the differences in the 80's and 90's, now the economic crisis has contained this impulsive behavior. "*In this type of situations, for example when a Russian consumer can spend up to 160000 $ for a coat that is not in store at that moment, the group of Italian selected supplier are the best to give a quick response without compromising quality". The "Made in Italy" is so important in Russia that many Russian designers are producing in Italy just to say "Made in Italy". Russians love Italy in general, not only fashion, but also music, films, lifestyle, and Italian products characterized by quality and creativity. For this reasons we have a high rate of loyalty between Russian consumers.*"
It's interesting to understand the content of the license agreement, because it enhances even more the "Made in Italy" that is so important for the Russians. The licensee must create a shop entirely made in Italy by I-Luxury and its craftsmen: not only the concept of the store is defined by the Italian firm, but also the design, materials, floors, furniture and accessories, that are mainly made in Florence, shipped and assembled by the workers themselves who go to Russia to assemble the store. The licensee then has a minimum purchase seasonal. The training of the store manager, hired by the licensee, is done in Italy, and the store manager in turn trains the staff. One of the managers of I-Luxury goes regularly to Russia every 2-3 months to monitor the situation. The monitoring is done through visits, daily phone calls, e-mails: the aim of the daily monitoring is to see what are the top selling items and plan the supplying.
Another difficulty is represented by the logistics, which is entirely managed by the licensee. I-luxury ships the products and the licensee does all the customs clearance procedures, that are very strict. A packing list is requested, which includes the composition of each piece, from clothes to bolts. In this highly regulated context, in which customs rules are very strict and "*you may also run into corruption or illegal practices*", the partner's role has been crucial in order to understand the rules and operate according to the law.
There has been a process of acculturation of the Russian consumer over the last 10 years: "*10 years ago Russians weren't elegant, they were all dressed in black, wearing gold watches and drinking whiskey at lunch. We have noticed that there has been an evlolution: now they are much more elegant, they wear suits made with fine fabrics, watches in white gold, they drink French and Italian wine*". This process of acculturation is due not only to the great amount of money Russians can spend, but also to the bond with Italy which has resulted in numerous trips to Capri, Forte dei Marmi, Florence, in which they have observed and then absorbed the Italian style. According to the CEO, "*Moscow has been the first to start this process of acculturation, in which the cultural distance has been reduced since the Russians have become very close to the Italian style and products. They also have a mental background very close to the Italian history of the 50s and 60s, so they are much more similar to Italians. The Chinese, for example, are a different world: the cultural distance is higher.*"
Thanks to the experience in the Russian market and the interaction with their first Russian partner in Moscow, I-luxury has learned the importance of being professional and respectful with all of their partners in Russia, spending time with them, taking time away from other commitments to spend with them a day of work and an informal dinner, gratifying them. The quality of the time spent with the Russian partner is fundamental for the development of the relationship. Another lesson learned is the importance of coherency related to the brand. The I-luxury has never done second lines, discounts or seasonal sales. This is the same all over the

world, but in Russia it becomes an important and distinctive sign for the consumer: "*The brand and the price must always be at the highest level. For Russians is essential: they search for exclusivity, they want to have access to an exclusive club. A higher price means that the product is unique and exclusive. And Russians want to show everybody how much they can spend*".

FINDINGS AND FINAL REMARKS

Based on the literature review and the case analyzed, it is possible to advance possible answers to the three research questions formulated in the paper:

Q1 – Is there really a shift from the importance of psychic distance to the importance of interaction?
The case shows the crucial importance of having the right partner in the foreign market. The cultural differences between Italy and Russia are not seen as the main problem in entering the Russian market: the main concern is related to the possibility to find a partner already established in the Russian market and to gain knowledge and access to relevant networks, through the relationship with the partner himself. The liability of foreignness takes second place mainly for two reasons: first of all, the firm has understood the potential of the Russian market for the luxury industry and has decided to penetrate the market independently from the existing differences related to culture, habits, politics, regulations and the unfamiliarity with the environment: in the view of the firm, the liability of foreignness doesn't represent an obstacle for the process of internationalization in the Russian market. Secondly, a process of acculturation of the Russian consumer has stemmed from the interview: according to the CEO, there are many influences of the Italian culture in Russia, and Italy has always been seen as a "dream land". Moreover, during their frequent trips in Italy, Russians have become more familiar with the Italian style that they have absorbed mainly in fashion, food and wine. This process of acculturation has meant that the company has confronted with a consumer closer to the Italian taste and lifestyle; the same process has affected not only consumers but also the business partner. The result is that psychic distance, and therefore the liability of foreignness, has progressively reduced without being an obstacle anymore. The frequent visits of the CEO, the founder and other managers of the firms helped to gain experience and accumulate knowledge of Russian culture, further reducing psychic distance. The reduction of psychic distance is "country specific", that is to say that the liability of foreignness is reduced with reference to the Russian market, while the same cannot be said for the Chinese market, which is still perceived as a world apart, even if the firm is consistently present in China. On the other hand, establishing a relationship with a local partner has always been the main issue for the firm that has recognized from the beginning the importance of becoming an insider of a business network in the foreign market.

Q2 – Does learning in interaction reduce both liability of foreignness and liability of outsidership?
The case of I-luxury shows how learning in interaction can reduce both the liability of foreignness and the liability of outsidership. The liability of foreignness is reduced not only by the reasons mentioned above, but also thanks to the learning process derived from the relationship with the Russian partner. The firm has learned how to behave in managing relationships with Russian business partners, and other cultural aspects of negotiation, logistics, store management, product country of origin. Learning in interaction reduces the liability of outsidership. In the case analyzed, through the relationships developed with the

Russian partner and other actors of its networks, such as local authorities, store managers, shippers, potential licensees, the knowledge base of the firm increases and the relationship partners create a web of relevant business information in terms of possibilities, needs and capabilities of others firms in the surrounding environment. The firm has gradually become a member of the network of the partner, establishing relationships with different actors and strengthening its presence in the Russian market. The role of learning is fundamental for the purposes of internationalization processes: the presence of a local partner can reduce psychic distance and at the same time it may foster learning allowing the acquisition of knowledge about the new context.

Q3 – Is the reduction of both liabilities a way to have the opportunity to begin new interactions and learning processes, opening new networks?
The overcoming of both liabilities enables the firm to begin new interactions with different partner and to open new networks. In particular, the familiarity with the environment and the existing relationships are preconditions for finding new opportunities. The case shows that after a process of learning and trust building with the Russian partner in Moscow, the firm has consolidated the existing relationship and has been able to find new partners in other cities with whom the firm has built new relationships.

The liability of foreignness and the liability of outsidership have been studied in relation to the theory on learning in interaction, through the case of an Italian luxury firm in Russia, an emerging market whose role in supporting the luxury industry is fundamental. A possible limit of the research is the single case study approach followed. The future development of the research requires a further study of the case analyzed. A first step should be an in-depth interview with the Russian partner of the firm, in order to ensure the data triangulation. A second possible future development is the analysis of different cases of Italian luxury firms that have undertaken a process of internationalization in Russia – following a multiple case approach – to compare the results obtained.

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