

A coevolutionary approach to explaining how firms create customer value in the footwear industry: the role of offshoring

ABSTRACT

Our study uses a value creation perspective to propose a model to explain the coevolution between the business environment and firms' strategies, that is, both how the business environment affects firms' strategies and how these strategies shape the business environment. In order to assess this mutual influence between firms and the business environment we have considered offshoring strategy. Offshoring has been the key to enabling successful firms to survive in a sector that social agents have for decades perceived as permanently in crisis: the footwear industry in Alicante (Spain). In a period of great changes, these firms have not only fought to survive by maintaining activities with a high added value in the countries of origin but have also in some cases based their strategies on maintaining production activities in the same region in order to generate a high value for rapid response to the market.

KEYWORDS

Coevolution, offshoring, resource-based view, value creation.

INTRODUCTION

Coevolutionary approaches suggest that forces of selection from the business environment and forces of adaptation from business strategies are interrelated and should be explained by reciprocal causality (Volberda and Lewin, 2003). Both adaptation and selection interact continually to configure and reconfigure an arena in which business opportunities and threats

coexist and regenerate in an ongoing way. Research on coevolution needs to be tested through longitudinal analysis, while taking into account both firm and industry levels. Flier et al. (2003) analysed coevolution through interactions between firm-level adaptation and selection at industry level, suggesting that interaction effects explain deviations from the approaches of population ecology, institutional and managerial intentionality. In the literature, we do not find studies that explain coevolution from the postulates of the resource-based view perspective. This perspective contributes to the literature, as it provides a dynamic perspective of firm resources in shaping consumer value.

In recent years, the fashion industry has faced many changes in the areas of supply chain management and consumers' attitudes (Barnes and Lea-Greenwood, 2006). This industry is characterized by aggressive competition levels, high volatility and unpredictable demand (Christopher and Peck, 1997). The footwear industry, as one section of the fashion industry, is a traditional industrial sector in Alicante, the region with the most important footwear industry in Spain. This sector has evolved in the last 30 years due to the globalisation of the fashion industry. Over three decades, hundreds of firms have emerged, expanded, consolidated or disappeared. Firms have adopted multiple strategies to face market and environmental forces. The globalisation of the industry has changed the way managers understand the footwear business and has affected their strategies (Pyndt and Pedersen, 2005). A bundle of corporate and business strategies has also developed. Some strategies have changed the regional sector and enabled firms to adapt to the new conditions, while others have caused firms to disappear. Hundreds of employees have been fired, while some surviving firms are offshoring their activities around the world and hiring foreign workers with a specific profile.

In this paper, we first review the main contributions of coevolution theory and a contingent resource-based perspective in order to integrate both theories in a model to explain adaptation and selection processes. Second, we suggest an analytical model, using the user/buyer value creation perspective. The propositions will be assessed using data from three levels of the footwear industry: the evolution of global and regional factors and the evolution of firm strategies. Results and discussion will offer a view of the mutual influences between environment and firms.

BACKGROUND

The literature on organizational change shows two main opposing perspectives: a selection perspective and an adaptation perspective (Lewin and Volberda, 1999). The selection perspective claims that the determining factor of change is selection at the population level. The adaptation perspective suggests that organizational change can be explained by changes in the strategies and structures of individual organizations in response to environmental changes. The level of analysis for the selection perspective is the population of organizations, and one of the theories that promotes this perspective is organizational ecology (Hannan and Freeman, 1989). Organizations cannot adapt individually to environmental change. Instead, organizations with poor fit with the environment disappear, while new organizations with structures adapted to the environment replace the old ones.

From the adaptation perspective, the level of analysis is the firm, which tries to adapt to environmental change. Contingency theory (Daft, 1983; Burns and Stalker, 1961), strategic management theories (Miles and Snow, 1978), and theories of organizational learning (Levinthal and March, 1984) are some examples of theories that share this perspective.

The theories outlined above seek to explain survival through different lenses. Population ecology uses environmental selection and contingency approaches through managerial adaptation. Lewin and Volberda (1999) recommend coevolution theory as a “unifying framework for research in strategy and organization studies and for reinterpreting, reframing and redirecting the selection-adaptation discourse” (p. 528). They define coevolution as the joint outcome of managerial adaptation and environmental selection. Organizational change is explained by both adaptation and selection and is rooted in sociology, economics, and strategy and organization theory. Most theories provide single-lens perspectives, since they focus on characteristics of adaptation or selection to explain firm survival. In contrast, coevolution approaches address the interrelationships between processes of firm-level adaptation and population-level selection pressures. Since this approach focuses on interactions of firm and population levels, it becomes a holistic perspective that requires the integration of different perspectives.

The resource-based view is one of the most recent influential theories that explain performance through internal characteristics (Priem and Butler, 2001). The major contribution of Wernerfelt (1984) was to enhance understanding of resources as important antecedents of firm performance. Barney (1991) explains sustained competitive advantage through organizational resources that comply with some requirements: valuable, rare, difficult to imitate and non-substitutable. Teece, Pisano and Shuen (1997) adapt evolutionary approaches to the resource-based view in order to study sustained strategic advantages through dynamic capabilities. Eisenhardt and Martin (2000) define dynamic capabilities as processes related to the coordination of resources. Both the static and the evolutionary perspectives explain firm performance primarily through the companies’ internal characteristics.

Recently, some papers argue that the RBV perspective is sensitive to explaining how firms create value (Sirmon, Hitt, Ireland, 2007). Based on the integration of RBV, contingency theory and organizational learning, the authors propose a model of resource management to create value in dynamic environments. To create value, firms should structure the resource portfolio, acquire resources to build capabilities, and leverage capabilities to exploit market opportunities. Dutta, Zbaracki and Bergen (2003) consider the pricing process to be a key capability in creating value for the consumer and in appropriating this value. Firms create value through resources and capabilities and appropriate it mainly by fixing the right prices.

To define value creation, researchers distinguish between use value and exchange value (Bowman and Ambrosini, 2000; Lepak, Smith and Taylor, 2007). Use value indicates the quality of a product/service as perceived by users in relation to their needs. Exchange value refers to the monetary amount the consumer actually pays. Priem (2007) distinguishes value creation from value capture, which is defined as “the appropriation and retention by the firm of payments made by consumers in expectation of future value from consumption” (p. 220). Integrating *use value* and *exchange value*, Lepak, Smith and Taylor (2007, p. 182) suggest that value creation “depends on the relative amount of value that is subjectively realized by a target user (or buyer) who is the focus of value creation and that this subjective value realization must at least translate into the user’s willingness to exchange a monetary amount for the value received”. Linking this description to the perspective suggested by Adner and Zemsky (2006), we can define consumer value as the sum total of benefits a customer is to receive in return for his or her patronage and the associated payment (or other value transfer). Consumer value can also be defined as a fair return or equivalent in goods, services, or money for something exchanged. Customer value is thus composed of two dimensions: what the customer receives (goods and/or services, quantity, quality, design, image, functions...) and

what the customer gives as contractual obligation (money, other goods and/or services, time...). These dimensions can be operationalised through a fraction in which the numerator represents what the customer receives and the denominator what the customer must give as compensation. Figure 1 synthesizes the dimensions of value from the user's or the buyer's perspective, along the lines of the competitive strategies with the competitive strategies of Porter (1980), where a firm can be a differentiator or a cost leader. From a resource strategy view, Adner and Zemsky (2006) suggest that differentiators hold a product resource, while cost leaders hold a process resource. According to Porter (1980), a continuum of positions from differentiation to cost leadership delineates a diagonal framework. However, Kim and Mauborgne (1997) and Besanko, Dranove and Shanley, (2000) observe that there is an interesting position from which to gain competitive advantage when a firm pursues cost and differentiation advantage simultaneously. This strategy could be called a resource generalist strategy (Adner and Zemsky, 2006) or a high value strategy if we follow the framework of Hoopes, Madsen and Walker (2003), who define consumer surplus as use value (V) minus exchange value (P). In Figure 1, use value is what the user receives, and exchange value is what user gives.

INSERT FIGURE 1 ABOUT HERE

Taking this matrix as a framework, we focus on a specific regional industry to determine how firms are affected by global changes and at the same time configure a new local business environment. We chose the fashion industry because in recent years it has witnessed some important changes in the global arena. The main attributes of the fashion market are high seasonal characteristics and high impulse purchasing attitudes. The sales period of an article can be two weeks or two days, and customers' buying decisions are taken in the stores in

response to available on-shelf articles (Christopher and Peck, 1997). The main sectors of the fashion industry are the textile, apparel and footwear industries. Due to the particular characteristics of each sector, research across a broad industry such as fashion could produce confusing conclusions. So, we have focused specifically on the footwear industry. The global arena in market and manufacturing activities is producing some important changes in the footwear environment. There have been increasing price pressure and growing demand for fast fashion. Customers increasingly want customized, comfortable products with specific designs as well as particular brands and fashions (Clutier, 2007). Global strategies respond not only to opportunities facilitated by political deregulation and technology development, but also to pressures from competitors, clients and suppliers (Pyndt and Pedersen, 2005)

The levels in the fashion industry are haute couture, ready to wear (prêt-a-porter) and mass production (Waddell, 2006). At the haute couture level, the main characteristics are design, quality, skilled labour and a small range of articles. At the ready-to-wear level, the customer can choose among a wide variety of articles in different styles, colours and sizes. Production methods are similar to those of mass production but the firms try to maintain exclusive designs and high quality. At the mass production level, design and quality are lower than in the first levels, and the volume produced can reach millions of items at a lower cost. Nowadays, these levels can be reflected in market segments such as luxury, high street and supermarket/outlets (Bruce and Daly, 2007). These levels are in line with the value components matrix that appears in brackets in Figure 1.

The resource-based view suggests that firms intend to generate and maintain competitive advantage by trying to acquire and monitor key resources and promote capabilities that help firms to expand the fraction of customer value (Adner and Zemsky, 2006). Low labour costs

can be translated into low prices for customers. Having excellent designers, a renowned brand name, prominent engineers, etc., allows the firm to improve the dividend of the value. In industrial sectors that are intensive in manpower, labour costs and thus human resources are key resources. In sectors where fashion is paramount, renowned brand names are key resources. Here, firms must have human resources with the ability to design goods that meet customers' expectations. Doh (2005) suggests that offshoring constitutes a firm-level capability and a resource.

Pyndt and Pedersen (2005) define offshoring as the performance of internalized (or externalized) activities in foreign countries. According to these authors, "companies that offshore can reduce costs, thereby enhancing their competitiveness and enabling a shift to more productive, higher value activities" (pg. 13). In the footwear industry many firms are offshoring some value activities in order to reduce the cost of production and subsequently obtain a competitive advantage by enlarging the quotient between the numerator and the denominator of the value formula. Offshoring is a mid-to-long term decision that is not easily reversible. Once a firm achieves lower costs, return to the original state is difficult. At the same time, this decision is widely imitable and not unique to a firm (Doh, 2005). Offshoring is a strategic decision with important consequences for the organizational and cost structure of a firm. It focuses particularly on reducing the divisor of the fraction of value and then improving value for the customer. For Levy (2005), it is a source of value creation. According to Farrell (2005, pgs. 678-679), "the changing global landscape offers enormous value creation opportunities for companies, and competitive pressures will create intense forces for change in the supply chain". Firms that seek to improve customer value through expanding the dividend do not rely on offshoring as a primary option. Such firms will focus on branding, innovation, design, etc. For Pyndt and Pedersen (2005), offshoring becomes attractive when

products and services requires a high degree of labour and in highly standardized products or processes, as they do not require specialized human resources. This is the case of footwear industry. Following the mathematical reasoning that improves the perceived value formula, we suggest the following propositions, taking into account that production offshoring is a strategy intended to reduce the denominator, in combination with the vectors that drive the adaptation selection process:

$$\text{Perceived_Value} = \frac{\text{Branding / Innovation / Design}}{\text{Cost}}$$

Selection

Proposition 1. Global market pressures in the footwear industry select out firms oriented to mass production in regions of high labour costs.

Proposition 2. Global market pressures in the footwear industry select out firms oriented to ready to wear production in regions of high labour costs.

Proposition 3. Global market pressures in the footwear industry have no influence on firms' oriented to haute couture/bespoke production in regions of high labour costs.

Adaptation

Proposition 4. Under global market pressures in the footwear industry firms oriented to mass production will offshore production in order to reduce costs and, at the same time, they will keep design, marketing and distribution activities in their regions of origin.

Proposition 5. Under global market pressures in the footwear industry firms oriented to ready to wear production will offshore production in order to reduce costs, and at the same time, they will keep design, marketing and distribution activities in their regions of origin.

Proposition 6. Under global market pressures in the footwear industry firms oriented to haute couture/bespoke production will not offshore production as they do not need to reduce costs

and, at the same time, they will keep design, marketing and distribution activities in their regions of origin.

METHOD

Using an exploratory methodology we assess the propositions. The footwear industry combines the need for lower costs with the demands of fashion: design, quality, and innovation. We will focus on a particular region of Spain where this industry is paramount. In fact, an entire city emerged in the 1970s due to development of this industry. Spain is the third producer of shoes in Europe, and Alicante is the region of Spain that produces and exports the most shoes.

The method followed to analyze the propositions will be based on the analysis of data from the footwear industry at global and regional levels using a sample of firms from the Spanish region with most of the footwear production in Spain.

In recent years, the footwear industry has been undergoing significant changes on the global level. It is a sector related to fashion, where firms compete every season (and even over shorter periods of time) to launch new designs and acceptable levels of quality at competitive prices. The complexity and dynamism of the sector is quite well known, especially with the emergence of Asia in footwear production, which is restructuring the industry world wide. Choosing the correct strategy is of vital importance for survival and has forced firms located in industrialized countries to subcontract and to incorporate new technologies, designs, and product differentiation.

Table I shows that European participation in global footwear production has been decreasing (from 56.5% in 1987 to 25.9% in 1996), while production in Asia increased in the same decade from the mid 80s to the mid 90s (from 26.8% in 1987 to 60.1% in 1996). This result is due to the fact that footwear is labour-intensive, causing low salaries in Asia to act as a stimulant. Worldwide we also see that production grew in the 80s but that starting in 1990 it begins to decline slightly, indicating that the sector is in the maturity phase. World production of pairs of shoes in 1996 (3748 million pairs) is slightly lower than in 1987 (4227 million pairs).

INSERT TABLE I ABOUT HERE

Table II presents some data from the main countries that produce shoes on the two continents that produce the most shoes, Europe and Asia. With data from 1990, we see that China represents 26.8% of world production, making it the main producer in Asia (74%). The second Asiatic country is India (4.4% of global production). On the European continent, Italy stands out with 7.1% of world production, although it loses weight from 1990 to 1997. Spain, which produces 117 million pairs, represents 2.6% of world production and 8.2% of European production.

INSERT TABLE II ABOUT HERE

The footwear industry in Spain is concentrated primarily in the region of Valencia, specifically in Alicante. Looking at both the number of firms and the number of employees in the sector, production decreased from 1988 to 1992 (Table III). In Spain, the industry

decreases from 2250 firms in 1988 to 1800 firms in 1992 (a 20% reduction). This reduction is lower in the region of Valencia, which represented 60% of national production in 1992. As for number of employees, for the same time period, we see a reduction of 20% in both Spain and the region of Valencia, where 50% of the employees in the sector are concentrated. Working from home in the region of Valencia increases 20%, from 3689 employees to 4423. This statistic is significant, for working from home has constituted one way of lowering costs, since these employees work without contracts. Further, the figure included in the table may be considerably lower than the real one, as it is difficult to measure the number of people who work in their homes. The average firm size decreases, particularly in the region of Valencia, but one must take into account that in this region there is a significant amount of work at home, making it one of the areas in Spain with the greatest rate of underground economy.

INSERT TABLE III ABOUT HERE

In Table IV, we would underscore that in slightly less than 5 years (1988 to 1993), the costs of manual labour increase 25% (from 7886.8 to 10,595.1 euros per person), while productivity only increases 15% (from 14,724.1 to 17,047.7 euros of added value per person). Finally, to focus on the most immediate environment of the firms analysed, we include Table V, where we can see that over 90% of the footwear industry in the region of Valencia (in both employment and number of firms) is concentrated in the province of Alicante, where the firms analysed in this study are located.

INSERT TABLE IV ABOUT HERE

INSERT TABLE V ABOUT HERE

The previous tables enable us to identify some of the key years in the footwear industry, from 1989 to 1991, the period of the greatest reduction of footwear production in Europe (a decrease from 50.5% to 35.9%) (Table I). Precisely in these years, the volume of production of pairs of shoes in Asia increases, China being the main force driving this growth. In 1990 alone, China managed to produce almost the same number of pairs of shoes as Europe (Table III). This period coincides with the greatest increase in labour cost per person in Spain, an increase of 25% between 1988 and 1992 (Table IV).

The establishment and consolidation of the footwear industry in Spain, and more specifically in the region of Valencia, dates back to the 70s. As Spain was emerging from autarchy, traditional footwear-producing countries like the United States and Germany fixed on Spain as the country with cheap manual labour. In the footwear industry, the cost of manual labour represents 30-40% of the total cost of a pair of shoes. Since 1970, the sector has undergone three large crises. The first occurred in the mid-80s, caused primarily by the decrease in the exchange rate between the Spanish peseta and the U. S. dollar, which caused exportation to Spain to decrease by half, from 50.9 % of total exports in 1985 to 21.2% in 1991 (Table VI). If we add to this crisis, which began in the mid 80s, the crisis in the early 90s caused by the eruption of new footwear producers (primarily in Asiatic countries), we can explain why the volume of exports changes from 834.75 million euros in 1985 to a historic minimum of 472.40 million euros in 1992. The volume of exports is reduced by nearly half. However, from 1993 onward, a significant recovery of exports begins, which by 1998 surpasses the figure of 950 million euros (Table VI).

INSERT TABLE VI ABOUT HERE

Now that we have analysed the information from the sector on the world and regional levels, we can analyse the evolution of the footwear companies in the province of Alicante in the time period of 30 years that we are studying. Footwear firms in Alicante are small, with an average of 12 workers (Table III) and an average turnover volume of 5 million euros. The largest firms in the area have up to 160 workers and can bill up to 60 million euros in the production of 1.5 million pairs of shoes. The great fragmentation of the sector does not allow firms in times of crisis to use a growth strategy of buying competing firms. The level of debt is high, which creates high risk, as this sector is related to fashion. Before each of the two seasons (Fall-Winter and Spring-Summer), entrepreneurs must bid for the production of models that they hope will be accepted in the market. These bids for new designs twice a year require a large quantity of financial resources. If market acceptance is low, the firm can be forced to suspend payments or declare bankruptcy. With the help of managers and industrial consultants we classified regional footwear firms into mass production, ready to wear and haute couture.

From the above information and a mortality/nascence analysis (Figure 2) in the region based on data from the SABI database (2008), we find strong support for proposition 1 (Global market pressures in the footwear industry select out firms oriented to mass production in regions of high labour costs) as firms oriented to mass production are focused on low costs. The regional crisis in 1984-85 generated a sharp drop in footwear start-ups between 1985 and 1986 and caused the closing of many firms in 1985. But the effects of this crisis, which lasted for five years, caused an important restructuring of the sector in the 90s. Until 1996, the number of shoe firms created gradually increased, although this growth was accompanied by a large percentage of firms that closed. Most of the firms that closed were manufacturing

firms oriented to production and low- or mid-range quality standards, as well as firms without ownership of a brand name. Similarly, we found strong support for proposition 3, which suggested that global market pressures do not affect firms oriented to haute couture/bespoke, although most of the currently active firms oriented to haute couture/bespoke started business in the 90's. From the analysis performed and the categorization of the firms performed with the help of experts, we do not find sufficient evidence to support proposition 2. Global market pressures in the footwear industry selected out some firms oriented to ready-to-wear production in the region analyzed, however other firms redefined their strategies and restructured their production activities.

INSERT FIGURE 2 ABOUT HERE

To analyze the propositions related to adaptation, we performed an exploratory analysis through 15 interviews with different experts and entrepreneurs in the footwear sector. We chose 5 firms representing each of the 3 main value creation strategies.

After a qualitative study the using the Delphi method and addressed to different interest groups in the footwear industry (manufacturers, traders, retailers, and some managers of associations for the footwear industry in Europe), we find that the key firm resources and capabilities that enhance customer value are: price, design, quality and branding. We asked these experts to use the time period from 1970 to the present to identify the years in which the firms began to pursue clearly defined strategies (differentiation, cost leadership and high value). Figure 3 shows the results. We can see that the decade of the 90s experienced the most strategy changes among firms in the sector. In the mid 90s, footwear firms in the province of Alicante began to depart from their orientation to low price, as they could not compete with

firms in countries with low labour costs. Many of these Alicante firms closed, and some of their owners became importers of shoes from firms in Asiatic countries (Figure 4). Further, these firms had serious difficulties in maintaining their competitive advantage and even resorted to offshoring. Some firms that had established their own distribution channels preferred to become importers and to use their possession of the distribution channel as their only competitive advantage. The results do not support proposition 4, which asserts that footwear industry firms oriented to mass production will offshore production while keeping design, marketing and distribution activities in their region of origin. The evolution of the environment has eliminated a large number of firms that claimed to create value for the consumer via prices but could not move their production to low-cost countries. These firms disappeared and some of their owners became importers-wholesalers, taking advantage of the commercial network already at their command. Therefore, we cannot affirm that the firm adapts, but find instead that sometimes its members change their own business from manufacturing to importing. In fact, the only valuable resource that was difficult for new producers to imitate was the activities of distribution and market access, as the design and marketing activities that tend to create brand image were nonexistent.

INSERT FIGURE 3 ABOUT HERE

INSERT FIGURE 4 ABOUT HERE

Many firms in the footwear industry in Alicante had since their origins pursued an orientation to quality and sought to stimulate activities directed to increasing the input for the client (what user/buyer receives). The sector's crisis in the 90s led many firms to adopt offshoring as a means of countering the drastic reduction in sales and exports that they were experiencing. In

Figure 3, we see that there is a certain correspondence between the crisis in the early 90s and the recourse to offshoring of production activities. During this time, some of the firms that continued the strategy of differentiation tended to strengthen their activities by increasing the value for the customer in quality and design in order to maintain their market and to avoid entering into conflict with the shoes from countries with lower labour costs. These firms adapted to the new market conditions by trying to strengthen what they could maintain in the market: quality, design, brand and distribution (Levy, 2005). Based on this qualitative and exploratory information, we find empirical support to proposition 6, which indicates that firms oriented to differentiation (more specifically, to haute couture/bespoke) can survive by strengthening their activities that tend to create value for the customer by increasing their inputs (for the client). These are firms that continue to maintain their production activities in Alicante. Despite the fact that they have stayed on the margins of direct competition with firms with low costs (mainly Asiatic), some of these firms have been disappearing. This is due less to reasons of cost, however, than to errors in their strategy for staying in the market—problems of design, distribution, erosion of brand prestige, etc. In Figure 4, we see that these firms represent 70% of manufacturing firms, although they currently share only 50% of the turnover in the sector.

Finally, some of the firms that were oriented to differentiation chose offshore production activities, while also stimulating their brand image. The first pioneering firms to carry out this strategy influenced the way that the footwear industry functioned in Alicante, to such an extent that many other firms imitated them. Although they represent 30% of all footwear manufacturing firms in Alicante, they have managed to achieve 50% of the volume of footwear production in the province. Thanks to these firms, the level of exports in Spain in 1998 exceeded the volume of Spanish footwear exports in 1985, the year in which the drastic

reduction of exports began. These firms did not change the sector on a global level, but they did succeed in changing the sector dynamic in the region of Alicante, also enabling Spain to continue as one of the main three footwear producers in Europe, along with Italy and France. The phenomenon of offshoring destroyed the footwear industry in other countries in the world, as in the prominent cases of Germany and the United States. However, we found that some firms oriented to ready-to-wear production (or high street) have not offshored production. Managers of these firms have commented to us that their production strategy is oriented to quick response, with the objective of accelerating the seasonal change (fast fashion). These firms keep most production activity in the region as this organizational structure lets them accelerate the fashion retail seasons. Based on the divergent strategic orientation of footwear firms of Alicante oriented to high street fashion, we see that proposition 5 is not supported. Firms that oriented their strategic effort to increasing value for the client by increasing the numerator while reducing the denominator changed the way of continuing in the business. These firms maintain activities of greater added value (design, innovation, branding, and distribution) in the region of Alicante, but not all of them engage production activity in Asiatic countries.

CONCLUSIONS AND DISCUSSION

We thus conclude this article by observing that there are mutual influences between the evolution of the environment and the evolution of the firms' strategies. Sector evolution at the global level has meant the disappearance of many footwear firms in the area studied and has also changed the regional structure of the sector. Firms oriented to low prices have disappeared. The offshoring strategy did not enable them to find a place in the market, since the structural costs that they had to maintain in Alicante did not allow them to compete with

footwear firms in low-cost countries. However, some of these firms shifted from production to distribution activity, taking advantage of the distribution network they had already formed. As a result, a new industrial environment has formed in the area, with the emergence of exclusively import firms. This transformation of producers into distributors, of shifting from one link in the chain of value to another, has given the regional environment a very specific character, where many of these importers in turn export shoes to third countries. What is more, some of the importers (traders) try to enrich their value chain by incorporating design activities and creating their own brands.

The strategies implemented by the firms have exercised an important influence at the regional industrial level. The strategic flexibility of many firms in using offshoring as a means of increasing value for the customer has shaped a regional environment in which offshoring becomes a common strategy for the firms that seek to compete in ready-to-wear fashion. These firms concentrate design activities, innovation and marketing in the area of Alicante, while offshoring or outsourcing production to third countries. But not all firms oriented to high street fashion have offshored production. Some of them have found that quick response and braking fashion retail seasons could be the strategic orientation that enables them to keep production activity in the region. While firms with offshore production have to guess what the style will be in the next 6-12 months (next seasons), firms that keep production in the region can change seasonal fashion within weeks. Further, as the haute couture/bespoke level has very limited production quotas (as designers intend), and labour costs represent a small amount in the final customer price. As Pyndt and Pederson (2005) suggested, offshoring is one strategic option among many, and companies take into account many variables such as market growth rates, transportation costs, proximity to customers, suppliers flexibility—not only labour costs.

Based on the rationale of value creation from the user/buyer perspective we have suggested six propositions: three suggesting the influence of the global environment on firms, and three addressing the influence of managerial discretion in the configuration of a regional environment. With this study, we have shown by means of a quantitative analysis at the industrial level and a qualitative one at the firm level that the processes of selection and adaptation coexist in the recent evolution of the footwear industry. The coevolutionary theory, with the help of the contingent resource-based view, explains the constant evolution of firms and of the industrial environment by means of mutual influences. The strategic flexibility of firms to reorient their activity to the value creation of users/buyers constitutes a fundamental quality of the firms that survive in a sector, not only because they adapt to the environment, but also because they represent the intentional element of the managers, who have the capacity to modify the environment in which they develop their activity.

A contingent resource-based view and dynamic capabilities theory extended and opened the internal perspective of the resource-based view to the environment by considering the firm as an open system that both influences, and is influenced by, the environment. We propose a coevolutionary resource-based view in which the key resources and capabilities of a firm are in continuous change due to the mutual influence between individual and population levels.

An integrated perspective suggests that both environment and firms are continuously changing because each influences the other. Through innovation, marketing actions, strategic alliances, price strategies, market power, offshoring, etc., firms can shape the particular environment in which they will survive. The configuration of the business environment is a result of the actions of multiple agents (competitors, customers, suppliers, trade regulations,

cultural change, etc.) with asymmetric driving power. Some firms can control the evolution of the environment. Others will be able to adapt to the changing characteristics of their specific environment. Still others will be selected out of the industrial sector. From a coevolutionary perspective, each industrial sector is shaped by living individuals who continually act and react in response to the environmental opportunities and pressures created by other individuals. Therefore, mutual influences change the environment as the agents of a particular industrial sector are changing each other. This coevolution of environment and firms is manifested in changes in resources and capabilities that are valuable or key from a strategic perspective. What is valuable, rare, difficult to imitate and non-substitutable depends not only on the firm's capability but also on the environment, whose changes can render key resources worthless, common, easy to imitate or substitutable. If Spanish labour costs were a valuable resource that made Spain an attractive country for production in the 70s and early 80s, political deregulation, technological developments and the evolution of economic macro-magnitudes have ended this leading role. While some firms diverted their production to other countries, others have made proximity to the customer a competitive weapon to break the seasonality of fashion, making fast fashion their main competitive objective.

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Table I. World production of shoes by areas

Area	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Africa	4.80	3.40	3.50	3.30	3.50	3.30	3.10	3.40	3.40	3.30
North America	7.20	6.80	6.50	5.80	5.80	5.70	5.60	5.80	5.30	4.80
South America	3.80	3.80	4.10	3.70	4.40	4.60	5.30	5.50	4.70	5.80
Asia	26.80	33.70	33.30	36.20	44.10	50.00	53.30	56.20	57.60	60.10
Europe	56.50	51.50	51.80	50.50	41.70	35.90	32.30	29.10	28.90	25.90
Australia	1.00	0.80	0.80	0.50	0.50	0.40	0.40	0.10	0.10	0.10
Total production *	4227	4227	4565	4493	4487	4128	4043	3725	3789	3748

% of total

* Millions of pairs

Source: Industrial Commodity Statistics Yearbook. Production and Consumption Statistics. United Nations.

Table II. Main producers in Asia and Europe

	1987	% Area	% Worldwide	1990	% Area	% Worldwide
Asia	1131			1.624		
China	618	54.70	14.60	1.201	74.00	26.80
India	194	17.20	4.60	198	12.20	4.40
Europe	1580			1.421		
Italy	343	21.70	8.10	320	22.50	7.10
France	183	11.60	4.30	194	13.70	4.30
Spain	109	6.90	2.60	117	8.20	2.60
United Kingdom	124	7.90	2.90	92	6.50	2.10
Total Worldwide	4227			4493		

Millions of pairs

Source: Industrial Commodity Statistics Yearbook. Production and Consumption Statistics. United Nations.

Table III. Footwear industry in Spain and in the Region of Valencia

	Number of firms			Employment			Average firm size		Work from home
	Spain (1)	R. of Valencia (2)	(2)/(1) %	Spain (1)	R. of Valencia (2)	(2)/(1) %	Spain	R. of Valencia	R. of Valencia
1988	2250	1249	55.50	31,445	16,737	53.20	14.00	13.40	3689
1989	2543	1443	56.70	33,624	18,474	54.90	13.20	12.80	5120
1990	2199	1236	56.20	31,473	17,024	54.10	14.30	13.80	6080
1991	2032	1146	56.40	29,090	15,740	54.10	14.30	13.70	4175
1992	1800	1068	59.30	25,106	13,143	52.40	13.90	12.30	4423

Source: Industrial Survey of the National Institute of Statistics

Table IV. Productivity and cost per person in Spain

	Added Value (1)	Employee costs (2)	Number employees (3)	Productivity (1)/(3)	Cost/person (2)/(3)
1988	463	248	31,445	14,724.12	7886.79
1989	476	273	33,624	14,156.55	8119.20
1990	478	284	31,473	15,187.62	9023.61
1991	476	280	29,090	16,363.01	9625.30
1992	428	266	25,106	17,047.72	10,595.08

In millions of euros

Source: Industrial survey of the National Institute of Statistics

Table V. Footwear industry in the Region of Valencia 1993

	Number of firms	%	Employment	%
Alicante	1724	92.10	16,246	92.30
Castellón	90	4.80	858	4.90
Valencia	57	3.00	505	2.90
R. Valencia	1871	100.00	17,609	100.00

Source: Valencia Institute of Statistics

Table VI. Spanish footwear exports by main markets

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Germany	14.68	18.79	21.96	21.58	20.44	22.39	25.00	24.16	23.57	20.94	20.71	20.19	17.42	17.62	18.79
USA	50.98	42.62	36.00	31.73	31.58	25.76	22.47	21.23	20.21	22.54	19.47	18.68	18.99	18.17	16.43
France	6.62	8.44	9.43	10.69	10.01	11.04	13.48	14.46	14.26	12.79	13.07	13.77	14.25	14.12	16.27
United Kingdom	9.88	10.24	10.79	14.13	15.04	15.39	12.94	12.11	11.82	13.63	13.19	11.14	11.14	11.52	12.39
Others	17.84	19.91	21.82	21.87	22.93	25.42	26.11	28.04	30.14	30.10	33.56	36.22	38.20	38.57	36.12
Total value *	834.75	714.30	682.75	619.58	582.26	618.44	525.28	472.40	532.38	743.33	754.75	790.27	951.88	952.06	897.19

In % by markets

* Total value in thousands of millions of euros

Source: Inescop

Figure 1. Value from the user/buyer perspective

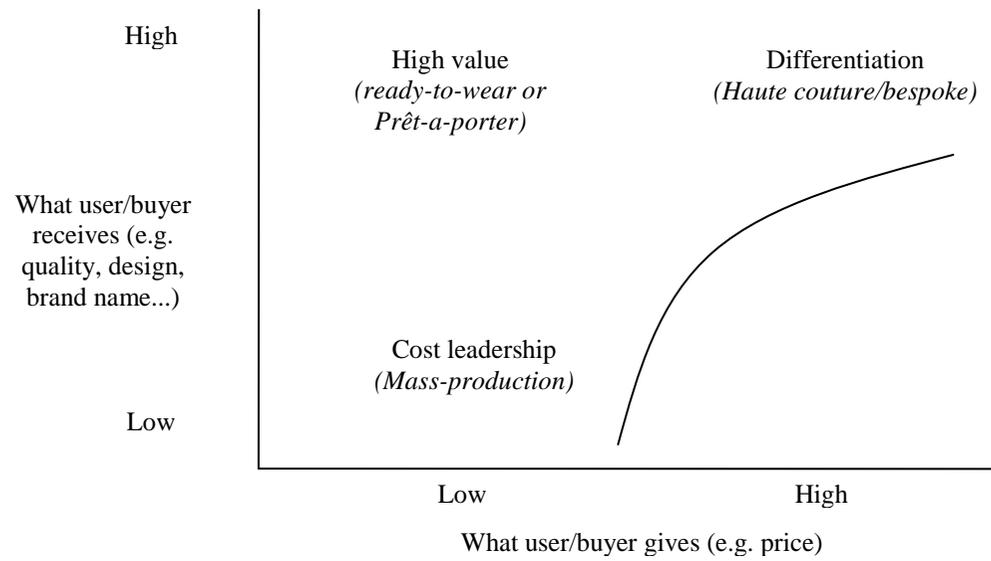
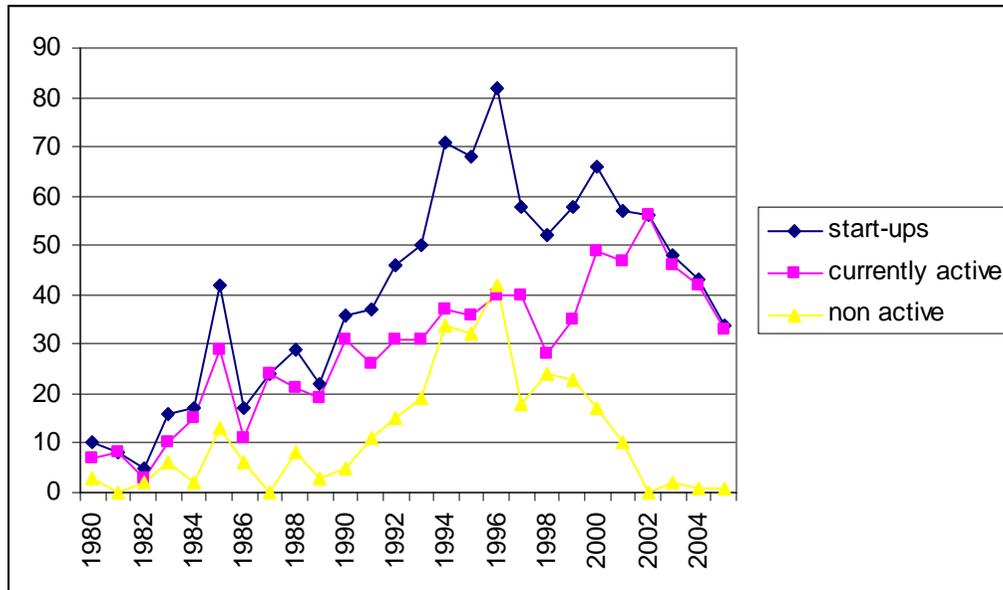


Figure 2. Number of footwear start-ups per year and firms currently active/non active



Source: SABI database (2008)

Figure 3. Paramount strategies per period.

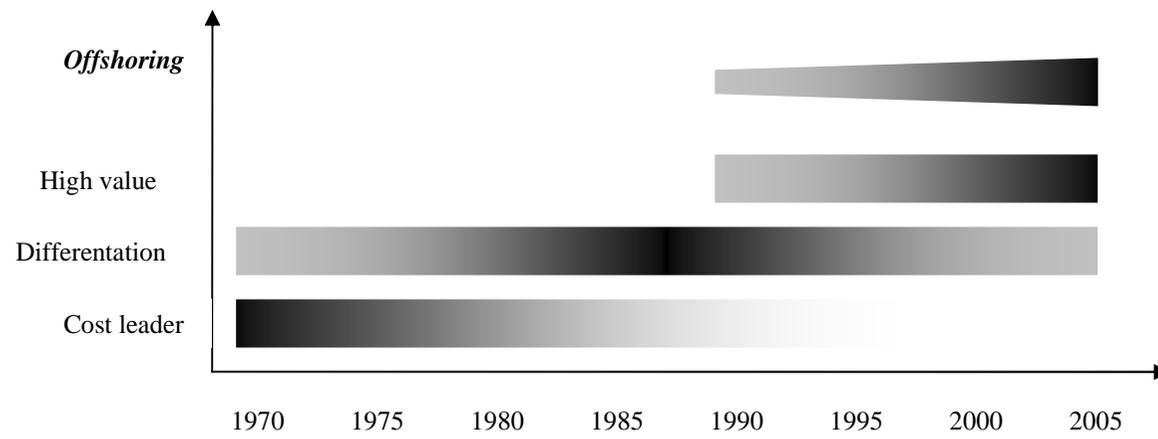


Figure 4. Firm strategies of shoe industry in Alicante

