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Supplier evolution in global value chains and the new brand game from an attention-based view

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Abstract

Research Summary: Suppliers from emerging economies have been particularly active in acquiring brands from advanced economies. We analyze changes in the global value chain (GVC) of the sports shoe industry and show how hollowing out the asset bases of brand-holding firms through increasing outsourcing has enabled the emergence of rising power firms, as well as a new brand game and a market for brands. These developments in the GVC might be a future challenge for traditional brand-holding lead firms. We show that managers focused on branding and distribution issues were myopic towards the strategic initiatives of suppliers. Managers need to pay attention to the potential long-term consequences of outsourcing and offshoring activities, as suppliers could become competitors or acquirers of their order-giving firms, leading to the question: Are we approaching a state of dual GVC leadership, or do lead firms risk being kicked out by their suppliers?

Managerial Summary: We explore the emergence of rising power firms from the peripheries of GVCs. An increasing number of major brand-holding companies from traditionally industrialized economies have been acquired by suppliers from newly industrialized economies due to some fundamental changes. First, the emergence of a market for brands makes brands more volatile. Second, continuous outsourcing and hollowing-out of the lead firm's asset base has reduced their ability to control the GVC. Through a longitudinal case study analysis, by adopting an attention-based view, we investigate the behavior of the traditional lead firms. Lead firms were not only myopic to the activities of their suppliers, but their focus on downstream activities created increasing opportunity spaces upstream for rising power firms while weakening the defense capacity of brands.

KEYWORDS

attention-based view, global value chains, lead firm, market for brands, rising power suppliers, supplier evolution

1 | INTRODUCTION

An increasing number of major brands from established industrialized economies have been acquired by suppliers based in emerging economies. Those suppliers have been participating for years in global value chains (GVCs). The GVC view concerns all activities necessary to bring a specific product from conception to end use (Gereffi & Fernandez-Stark, 2011). GVCs are orchestrated by a lead firm (Mudambi & Venzin, 2010), and the lead firm strategically directs the activities of the value chain (Jarillo, 1993; Lorenzoni & Baden-Fuller, 1995). Two generic GVCs derive from the typology of the lead firm: producer-driven and buyer-driven (Gereffi, 2001). In a producer-driven GVC, firms with a high degree of production activity are the lead firms; in a buyer-driven GVC, production appears to be dispensable, and the lead firms are the brand-holding firms (Pananond, 2013). We view a supplier acquiring the brand of a lead firm as an extreme case of rising power firms from the periphery (Lee & Gereffi, 2015), illustrating position shifts in GVCs through supplier upgrading (Pananond, 2013, 2016). The emergence of giant suppliers is indeed surprising, considering the fact that the end of immense manufacturing facilities has been declared for decades (Appelbaum, 2008). These rising power firms aim at challenging the position of the lead firm (Yamin & Sinkovics, 2015). As the study of rising power suppliers has been neglected (Appelbaum, 2008), these changes call for more attention to global GVC management (Sako & Zylberberg, 2019).

Participation in GVCs is seen as a fundamental precondition for supplier upgrading because GVCs are where learning happens through interaction with (initially) more advanced actors (Gereffi, 2001). Mere participation does not automatically lead to upgrading (Humphrey &

Schmitz, 2001). On one hand, the degree of upgrading depends on the firm's position within the GVC (first tier, second tier, etc.), which is essentially its proximity to the lead firm; on the other hand, the governance structure of the GVC determines how and if a supplier will upgrade. The literature on governance structures assumes that the lead firm controls authority and power in the GVC. This kind of control would make supplier upgrading unlikely (Sako & Zylberberg, 2019). Indeed, studies have suggested that lead firms place limits on the suppliers' development by governing relationships in the GVC, thus creating a glass ceiling for suppliers (McDermott & Corredoira, 2010).

This view, however, might be a little short-sighted. For instance, in the mobile phone industry, four of the top five firms in terms of sales are former suppliers, whereas Apple is the only firm without a production base. Moreover, the operating profits of advanced suppliers have been consistently higher, but brand control has been viewed as essential (Dedrick, Kraemer, & Linden, 2011).[1] More fundamental changes over time might be underway. First, there is a new "brand game" at play. Our analysis of the sports shoe industry suggests that outsourcing activities of brand-holding firms has, in the first place, created GVC and, in the second place, a market for brands. Research suggests that, starting from the 1980s, there has been strong growth in brand trading (Lechner, Lorenzoni, & Tundis, 2016): The argument brought forward is that a market for brands can emerge if brands can be somehow disembodied from upstream activities, such as manufacturing and design, as is typical in buyer-driven GVCs. Data collected specifically in the sports shoe industry shows that suppliers are highly active in this new brand trading game (Lechner, Lorenzoni, & Tundis, 2018).[2] Over the decade between 2006 and 2015, suppliers accounted for 24% of all brand acquisitions or more than 100 transactions; investors, who were buying brands as tradable assets for future resale, for 23%, and distributors for 13%; however, the top 10 brand holding firms (in terms of sales) only account for about 5% (Lechner et al., 2018).

Overall, brands are increasingly being traded, and suppliers appear to be most active in acquiring brands from original brand holders. The substantial market for brands and therefore the frequent trading of brands, then makes defending the brand more difficult. Indeed, in the sports shoe industry, spending in brands is relatively high, including advertising and sponsoring activities, as brand-holding firms tend to have fewer types of differentiating strategic assets (Merk, 2004). Besides the top two firms in this industry, where advertising spending has increased proportionally with sales, most of the other firms saw their brand spending over-proportionally increasing throughout the previous decade, as illustrated in Table 1. High brand volatility through a vibrant market for brands and increasing brand spending means that a specific brand matters less.

Second, lead firms' control, and thus their power in the GVC, has been declining, leading to the emergence of rising power firms (Lee & Gereffi, 2015). To illustrate here, we only would like to anticipate one example (supplier evolution will be discussed in more detail in the section on the case setting as well as in the Appendix). Adidas, one of the main footwear sports brands, announced that it would close down their Speed Factories in Germany and the United States by the end of 2019, which had opened only in 2017. These speed factories were small, highly automated factories that allowed for smaller batches of specialized shoes to be produced very quickly. The speed factories will be handed over to one of their first tier suppliers, since that is where institutional knowledge resides. Adidas considered these factories to be a great learning experience, but the home reshoring attempt was ultimately a failure (Toffel, McNeely, & Preble, 2019). Third, rising power suppliers started to occupy lower segments that were "left over" by the lead firms in the end

TABLE 1 Selected financial data—Rising power supplier and lead firms

	Brand					
Performance metric	**Yue Yuen**	**Nike (and converse)**	**Adidas(and reebok)**	**New Balance**	**Asics**	**Puma**
Total Sales Footwear 2017	US$ 9,121	US$ 21,081	US$ 12,427	US$ 3,067	US$ 1,972	US$ 1,037
Net Profits 2017 Footwear (after tax)	US$ 550	US$ 2,586	US$ 683	US$86	US$64	US$ (10)
RoS 2017	6%	12.2%	5.5%	2.8%	3.2%	(1%)
R&D to sales 2017	2.5%	NA	0.9%	1.1%	1.1%	NA
Brand spending to sales 2017	NA	11%	13%	20%	20%	25%
Brand spending to sales 2008	NA	12%	13%	15%	17%	12%

Source: Annual Reports 2017 (financial data in thousands).

markets of emerging economies (Sinkovics, Sinkovics, & Yamin, 2014) before entering potentially global markets (Oleniacz, 2014).

Both the brand trading game, along with less control in the GVC, can become an increasing concern for lead firms. Historically, the development of GVCs is the result of the strategic actions of the lead firms. As such, how can we explain the reduced ability of brand-holding lead firms to control the GVC? Why did lead firms not prevent the emergence of more powerful suppliers? Lead firms appear to react relatively passively to the actions of their suppliers (Anderson & Jap, 2005; Connelly, Ketchen, & Hult, 2013); however, we have a very limited understanding of the reasons for this passivity. Therefore, the main focus of our research is: how did the behavior of the lead firm enable supplier evolution and the emergence of a market for brands?

The starting point for our study is the existence of a dispersed value chain, in terms of both activities and geography. "Dispersed" means that it is distributed among a large number of specialized actors in different locations (Kano, Verbeke, & Drake, 2015). The central idea of the dispersed GVC model is that most of the strategic action (i.e., integration, dis-integration, and orchestration) is at the lead firm level. The phenomenon of our study concerns the emergence of rising power firms coming from the supply side in a buyer-driven GVC.

While suppliers' actions are strongly rooted in the literature on GVC management and supplier upgrading, we adopt the attention-based view to assess the partial inability of the traditional lead firm to impede the emergence of rising power firms from the periphery. A firm's strategy represents how its managers view the world (Gavetti & Rivkin, 2007); thus, given limited managerial attention, a firm's strategy is driven by focused attention (Ocasio, 1997). GVC changes can be related to the limited attention of individual actors over time. We argue that this focused attention creates what we call *attention myopia* for issues that are not on a firm's strategic agenda.

To explore the phenomenon, we decided to pursue a historical analysis of the development of the sports shoe industry. Since the early 1970s, major industry players in North America and Europe have engaged in outsourcing and offshoring activities by partnering primarily with companies located in Asia. As in the apparel industry, the sports shoe industry is a setting where GVC changes happened relatively early (Gereffi, 1999). The long-term effects of these changes can be appropriately investigated in this buyer-driven, distant, but regionally concentrated, GVC.

This research is relevant for several reasons, contributing to the GVC literature. First, we provide a long-term view of the outsourcing perspective, while most managerial and academic discussion is focused on short- to mid-term effects (Herrigel, Wittke, & Voskamp, 2013). Second, we show how hollowing out the lead firm's competence base through continuous outsourcing helps to identify changes in GVCs as long-term and/or evolutionary that could ultimately transform GVC governance and enrich the literature on rising power firms. Because the literature on supplier upgrading largely focuses on suppliers' actions, we change the focus to the lead firm. As such, third, we develop insights about why opportunity spaces are created by the lead firm's attention myopia, then exploited by actors from the periphery, leading to an altered GVC configuration by applying an attention-based view of strategy (Ocasio, 1997).

In the following section, we synthesize the relevant literature on GVCs and supplier upgrading, as well as on the attention-based view.

2 | SUPPLIER UPGRADING IN GVC AND THE ATTENTION-BASED VIEW

Two key concepts are of particular interest for research on GVCs: governance and upgrading (Lee & Gereffi, 2015): Governance refers to how the lead firm controls the dispersed activities of the GVC in a top-down process. Upgrading concentrates on the attempts of firms to improve their position in a bottom-up process (Humphrey & Schmitz, 2002).

2.1 | Governance in GVC

In order to answer the question of who controls the GVC, one key construct is the governance structure that defines authority and power relationships between the lead firm and other actors in GVCs (Connelly et al., 2013; Gereffi, Humphrey, & Sturgeon, 2005; Hernández & Pedersen, 2017; Mahutga, 2012). A primary question concerns which activities characterize the lead firm, leading to the distinction between buyer- or producer-driven GVCs (Gereffi, 1994). A second question concerns the power that the lead firm can exercise. In the captive mode, suppliers work under the conditions and control of the lead firm. In the relational mode, however, the interaction between the lead firm and its suppliers is necessary in order to carry out activities in the lead firm's sense. Finally, in the modular mode, suppliers perform (almost autonomously) a variety of activities according to the lead firm's specifications (Gereffi et al., 2005). The emergence of a specific governance mode is influenced by transactional characteristics, including supplier capabilities, the complexity of information exchange, and codifiability of knowledge (Gereffi et al., 2005).

Another factor for power is the position of actors within a GV,C based on the type of activities performed. They can be categorized in three activity sets: upstream (exploiting raw materials, research, and design), middle-end (manufacturing and logistics), and down-stream (close to the customer, such as marketing and distribution, branding, and after-sales service) activities (Mudambi, 2013). We could identify three prototypical actors: distributors, brand owners, and suppliers. In GVC research, there is a generalized assumption that lead firms preside over at least the downstream activities in which value added is high. Depending on the lead firm's scope of activities, this leads to buyer- or producer-driven value chains (Gereffi, 1999). In producer-driven value chains, the lead firm has core activities in manufacturing; in buyer-

driven value chains, the lead firm is a (large) retailer or brand holding firm that sets up and governs the value chain (Gereffi, 1999; Mahutga, 2012). In a buyer-driven GVC, the lead firm could be a firm owning a brand with strong competences in design, marketing, and R&D. High-value added activities are considered to be related mainly to downstream (marketing and distribution) and upstream activities (R&D, design), while manufacturing in the middle appears dispensable, an idea expressed by the so called "smiling curve" (Mudambi, 2008). This leads to increased investment in intangible assets (Haskal & Westlake, 2018) and an increasingly factory-free economy in developed countries (Fontagné & Harrison, 2017). Strategic decisions about which activities to externalize (i.e., outsourcing decisions) and where these activities should be performed (i.e., offshoring decisions, in the case of remote locations) have led to the emergence of an industry architecture in which a lead firm "orchestrates" a globally dispersed value chain (Herrigel et al., 2013; Kano et al., 2015). The configuration of the GVC is the result of the lead firm's attempt to concentrate on its firm-specific competitive advantages and enrich them by capitalizing on location-specific comparative advantages (Mudambi & Venzin, 2010). Doing so results in a core-periphery structure (Aversa, 2015), where the core (i.e., the lead firm) tends to be located in an industrialized nation and peripheral members tend to be located in countries with emerging economies.

The persistence of the role of the lead firm is generally explained by environmental conditions (Kano et al., 2015), superior competences (Brusoni, Prencipe, & Pavitt, 2001), and high value-added activities performed by the lead firm (Mudambi, 2008), as well as the constrained action autonomy of the other value chain members due to a lack of power (Kaplinsky, 2004) or incentives (Kano et al., 2015) to increase competencies and to self-organize. As such, limits to supplier upgrading appear to persist (Sturgeon & Kawakami, 2011). These limits are: limited management capacity on the supplier side (Asmussen, 2009), limited integration capacity (Mudambi & Venzin, 2010), and lack of design and branding competences (Kaplinsky, 2004). Some literature has proposed that lead firms set a glass-ceiling for supplier upgrading by governing the GVC (McDermott & Corredoira, 2010). This stylized view, however, largely neglects actual changes within GVCs (Sturgeon & Kawakami, 2011).

2.2 | Supplier upgrading in GVCs

Suppliers trying to improve their conditions vis-à-vis the lead firm are engaging in upgrading initiatives (Staritz, Gereffi, & Cattaneo, 2011). On the firm level, there are three relevant mechanisms for supplier upgrading: (a) functional, when suppliers increase the activities performed, moving into higher value-added activities; (b) process-related, when they increase their efficiency; and (c) product-related, when suppliers are involved in activities related to higher priced products (Humphrey & Schmitz, 2002).[3] There is evidence that some suppliers are successful in upgrading, and even that upgrading exceeded expectations (Alcacer & Oxley, 2014; Gereffi, 1999; Gereffi et al., 2005; Herrigel et al., 2013; Sturgeon & Kawakami, 2011). Given the assumption that there are low barriers of entry, as well as rapid diffusion of upgrading practices (Mahutga, 2012), countries and firms might not be able to appropriate the value created through upgrading (Kaplinsky, 2004; Sako & Zylberberg, 2019); therefore, value is offered by more actors, which does not allow individual firms to capture value (Baldwin, 2015).

How suppliers become competitive brand holding firms is not well understood (Pananond, 2016; Staritz et al., 2011). Successful supplier upgrading is highly relevant (Gereffi & Lee, 2012),

as the takeovers of brand holding, formerly order-giving firms cannot be downplayed as exceptional events (Pananond, 2016; Sturgeon & Kawakami, 2011).

2.3 | The attention-based view and changes in GVC

The question of what impacts strategic decisions have on a GVC can be addressed by looking at a firm's strategic decisions along with the reactions of the other actors in the GVC. The attention-based view tries to explain why and how firms undertake some strategic decisions instead of others. Strategic initiatives reflect an organization's focused attention (March & Olsen, 1976), which is strongly shaped by proximate mental models that reflect existing competences and competitors within a firm's contextual framework (Gavetti, 2012).

An organization's attention, understood as its focus of time and effort on issues based on a repository of solutions, is characterized by three dimensions: the organization's *focus*, its *situated attention*, and the *structural distribution* of attention (Ocasio, 1997). What does not fall in the focus of attention will not be part of an organization's strategy. Due to cognitive limitations in terms of strategic attention and relational capability (Lechner & Dowling, 2003), organizations selectively focus their attention on a subset of issues (Gavetti, 2012): These issues are largely determined by contextual factors (Tripsas & Gavetti, 2000) and direct competition (Mol & Kotabe, 2011), which leads to situated attention. Strategic initiatives are based primarily on a firm's own competences and activities, rather than on other firms' competences and activities. Finally, attention on strategic issues is located at the top management level, while handling other issues is defined by the structural distribution of attention within the organization (Ocasio, 1997).

While the literature on supplier upgrading has identified the emergence of more powerful suppliers and changes in GVCs, this research largely fails to explain dynamic changes in GVC governance (Sturgeon & Kawakami, 2011), neglects the potential of manufacturing as an essential competence for upgrading (Pisano & Shih, 2012), and has hardly explored how long the change processes in GVCs last (Connelly et al., 2013). Moreover, scholars have expressed concerns that a better understanding of when suppliers are perceived as a threat is necessary (Alcacer & Oxley, 2014), which could benefit from an attention-based approach that examines how radical changes in GVCs happen (Hernández & Pedersen, 2017).

3 | METHODOLOGY

Researchers use a qualitative approach "to make sense of, or interpret phenomena in terms of the meanings people bring to them" (Denzin & Lincoln, 2008, p. 4). Thus, it is particularly appropriate for understanding processes and developing new theories about how phenomena occur (Creswell, 2012). For the complex phenomenon of changing GVC configurations, we opted for a longitudinal, embedded *industry case study* approach (Garud & Rappa, 1994); the object of study is not a specific firm, but an industry as an empirical setting from which data are collected over time in order to answer the "how" and "why" questions (Eisenhardt & Graebner, 2007) with the aim of drawing theoretical conclusions from the cases (Eisenhardt, 1989; Yin, 1984). We adopted a theoretical sampling approach (Eisenhardt, 1989; Eisenhardt &

Graebner, 2007). We decided to pursue a historical analysis of the development of the sports shoe industry, in which the units of analysis are different GVCs, from a long-term perspective. We chose this industry for two reasons. First, firms in this industry began to outsource activities relatively earlier than those in other industries (see also Gereffi, 1999; Humphrey & Schmitz, 2002).[4] Second, acquisitions have been frequent in the sports shoe industry (Lechner, Lorenzoni, et al., 2016). For traditional lead firms, that is, the original brand-holding firms, theoretical sampling is expressed on three levels: *relevance*, *geography*, and *timing*. One dimension refers to the ranking of firms in terms of sales. Two of the case firms represent market leaders, one represents a runner-up (e.g., a firm that ranges in terms of market share between number 3 and 5), two are mid-size firms among the top 20 brands, and two are smaller firms in the Top 50. Overall, three firms have sales way above €1 billion, two firms have sales between €250 and €500 million, and two firms have sales between €100 and €150 million. Therefore, we capture the traditional lead firms of GVCs, and we cover the relevant firm categories in the industry. Their differentiation allows for commonalities, as well as the differential impacts of changes, to be identified. In terms of geography, one firm is from the United States, and the other six are from Europe, with the European firms coming from Germany and Italy. With the exception of Japan, these are the regions that have been dominating the industry, and in the beginning of the industry, also represented the production base. Time is equally important for the sampling strategy. One firm already started with an outsourced model in the 1970s, another two began in the 1980s, two in the early 1990s, and the remaining firms outsources in the late 1990s. We cover, therefore, the four relevant waves of outsourcing occurring in the industry. The sample logic is illustrated in Figure 1.

For suppliers, we sampled on three levels. First, we focused only on first tier suppliers, as they appear to be the most likely to successfully upgrade (Humphrey & Schmitz 2002). Second, we focused on Chinese firms because they are the major producers of sports shoes in the world. Third, we chose one large, one mid-size, and one small supplier in order to cover the relevant segments of producers.

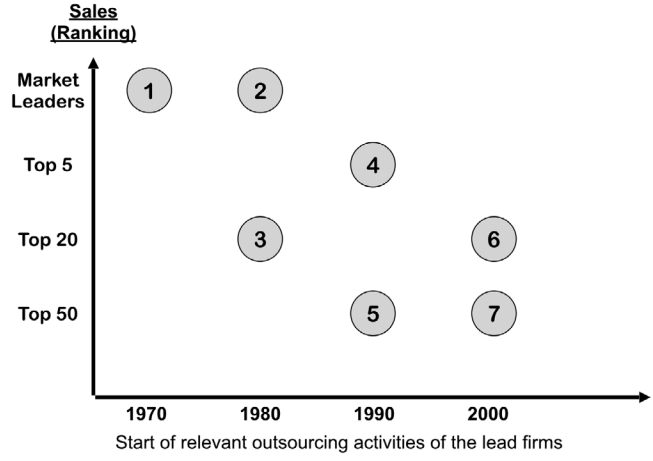

FIGURE 1 Case selection based on sales (ranked) and timing of outsourcing of the lead firm
Source: Annual reports, EDM

3.1.1. | Data collection

We collected most of our narrative data through semi-structured interviews (Rouse, 2016) with CEOs and managers from six lead firms for a total of 45 interview hours in four waves of face-to-face interviews in 2008, 2012, and 2014, as well as telephone interviews in 2016; all interviews were transcribed or summarized using detailed field notes. While these interviews comprise the core data for the research question, they are embedded in a vast dataset of more than 400 field notes gathered over a period of 30 years (from 1984 to 2014) through interviews with CEOs, top managers, and supply chain managers of leading sporting goods firms on an annual basis between 1985 and 1995, and in the years 1998, 2002, 2006, 2008, 2010, and 2014 at the ISPO, the industry's largest trade fair held in Munich, Germany (interviews with the US-CEO and top managers took place on these occasions). The questions to CEOs and Vice Presidents circled around relevant industry issues, major challenges faced by the firms, the organization of supply chains, and competitor analyses in order to understand their attention focus and their view about the governance and development of GVCs. Questions with supply chain managers, production controllers, and purchasing managers focused on what their exact role was, with whom and how they communicated within the firms, and how they viewed the development of suppliers. Paris-based EDM Publishing provided access to the leading industry information database, SGI, from which we analyzed more than 4,000 industry- and company-related documents covering the period between 2005 and 2015. Following a systematic approach of real time data collection (Garud & Rappa, 1994), we completed the data with factory visits in the years 2008 and 2012, which enabled the authors to observe the quality control practices of brand-holding firms.

For the supply side, a native research assistant analyzed the company reports and websites of 50 Chinese suppliers and conducted face-to-face interviews with the CEOs of one large, one mid-size, and one small supplier in China for a total of 12 hr. We obtained additional supplier information from Alibaba, globalsources.com, and Made-in-China.com for the period between 2007 and 2019. We were thus able to estimate the initial number of suppliers, as well as their sizes and price points, which we triangulated using secondary data from SGI, as well as primary data. On the supply side, the questions were about their relationships with brand holding firms, upgrading practices, and their strategic actions concerning value chain integration, but also branding, in order to understand how the firms moved along the value chain. We also requested quotes for components and shoes from a sample of eight suppliers to validate the information. Following similar approaches in other research (Garud & Rappa, 1994; Herrigel et al., 2013), we also systematically built a specific, longitudinal dataset of publicly available information. We consulted the top 15 brand-holding firms' websites to access 150 annual reports, as well as other financial data and corporate social responsibility (CSR) reports, which contained relevant information about GVC management.[5]

3.1.2. | Data analysis

We analyzed our field notes, archival data, and other publicly available data to construct the case and trace the evolution of the sports shoe industry and the emergence of central players from the periphery. Going back and forth between the literature and the qualitative data enabled us to develop the data structure from which we developed the final theoretical

model (Locke, 2001). Specifically, we followed the three steps outlined by Gioia, Corley, and Hamilton (2013). After constructing the theoretical constructs, we explored and identified relationships between the constructs by taking into account the time dimension in order to develop a coherent process model as a theoretical framework (Pratt, Rockmann, & Kaufmann, 2006).

4 | THE SETTING: THE CASE OF THE SPORTS SHOE INDUSTRY[6]

Since the 1970s, the sports shoe market has developed into an important global industry that includes major global brands such as Nike, Adidas, Puma, and Reebok (Merk, 2004). The two most important firms had about 60% of the global market share, while a dozen other brands controlled another 25%. The remaining 15% is divided among firms with less than 1% market share (Merk, 2004). Major brands' strategies have led to a market that is basically divided into two industries: the marketing and selling of sports shoes, and the manufacturing of sports shoes. These brand-holding firms are the traditional lead firms from advanced economies that orchestrate GVCs.

The industry analysis offers a long-term view of activities that were initiated by major brands and subsequently followed by basically all players in the sports shoe industry (see Figure 2). At the dawn of the this industry in the 1960s, brands usually covered a large part of the business system that was linked to production activities. In other words, original brand manufacturers (OBMs) performed all activities from raw materials to branding, just like a traditional MNC. They were highly integrated, and independent distributors and resellers handled product distribution and sales, meaning that this value chain was producer-driven.

Nike, which implemented an externalized business model while other competitors continued to build production capacity (e.g., Asics in Europe until the beginning of the 1980s),[7] marked the start of this change (Donaghu & Barff, 1990). From that point forward, other brand-holding firms also began to outsource production activities in several waves. By the year 2000, global brands owned almost no manufacturing facilities. After the first wave of outsourcing, the business system became highly distributed, with firms specializing in single activities in multiple locations (Merk, 2004). The resulting value chain largely resembled what has been described in the literature as a "dispersed GVC," in terms of both geography and activities, consisting primarily of small production units, thus transforming it into a buyer-driven GVC with a captive governance mode.

This GVC configuration appears to have only been valid for a snapshot in time. Changes were driven partly by the progressive outsourcing activities of lead firms, and partly by suppliers' desires to beat their competitors. As in any competitive setting, some firms developed their businesses faster than others by augmenting their production volumes and production bases. This, in turn, led to the emergence of different strategic groups of manufacturers, as well as a relational governance mode as interactions between lead firms and first tier suppliers increased.[8]

Moreover, production capacity became largely concentrated over time when it had been initially more distributed (Locke, 2013). Asian firms eventually monopolized sports shoe production activities, even for brands with relevant production capacities, in their home regions (Merk, 2004). This pattern mirrors developments in other industries (Lee & Gereffi, 2015). The continuous race between Asian manufacturers to outpace competition by increasing the installed production capacity led to strong manufacturing overcapacity for sports shoes (Feng,

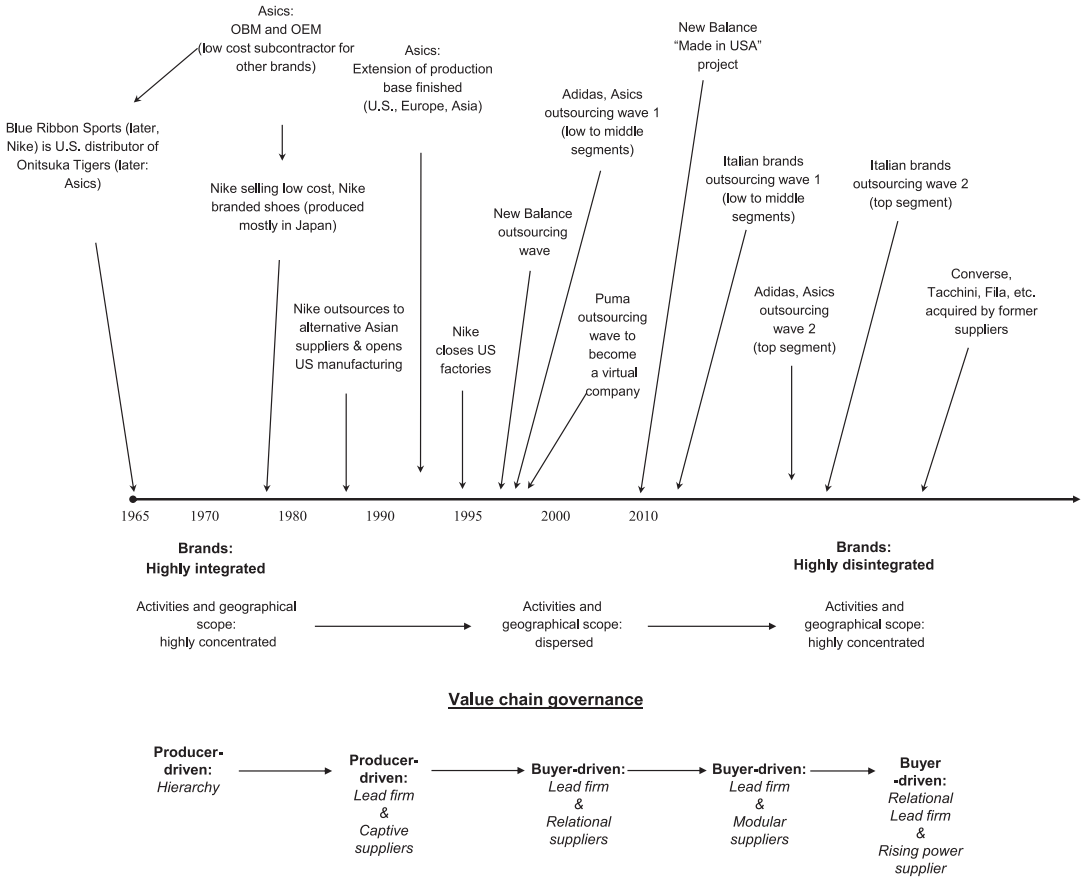

FIGURE 2 Global value chain events in the sports shoe industry and governance modes
Source: Field notes of the authors, Calvelli, Calvelli, & Cannavale, 2018; For Nike and Asics: Annual reports, Rikert & Christensen, 1984, Barff & Austen, 1993, Donaghu & Barff, 1990, Knight, 2016, Korzeniewicz, 2019;For New Balance: Bales, 1999, Bowen, Huckman, & Knoop, 2008, Brodeur & Van Assche, 2014, Toffel et al., 2019; For Adidas and Puma: Annula reports; Acquisition announcements: EDM

Yan, & Hao, 2018). More than 90% of all sports shoes were produced in China, Vietnam, Indonesia, and Thailand, with about 60% in China alone (Merk, 2008).

Throughout this lengthy process, a strategic group of integrated suppliers has emerged, changing the very nature of the industry (see Figure 2). These highly integrated suppliers have largely coordinated other complementary suppliers, both horizontally and vertically (e.g., a large supplier would control component suppliers upstream, as well as smaller original equipment manufacturers [OEMs] that were producing specific product lines). At that point, the governance mode has changed into modular.

As a final step in this evolutionary process, suppliers started to offer design and prototyping services, plus distribution services, in Asia. By 2010, large, first-tier suppliers had generally been granted some distribution licenses. In addition, suppliers started to propose new designs, developing relevant innovations in core components of the manufacture of sport shoes. As a consequence, rising power suppliers have emerged. Their rather proactive approach for design and

innovation would indicate that the governance mode had moved beyond the stylised "modular" form (where suppliers are largely autonomous but reactive). The largest suppliers were generally larger in terms of employees and sales than most of the brands themselves (excluding the no. 1 and 2 brands in the industry) and the most successful suppliers have been consistently more profitable than the brand-holding firms (Merk, 2004). The outsourcing and offshoring wave at the industry level led to a pure buyer-driven GVC, which lasted about 20 years (1975–1995). Once this teaching and learning period concluded, a co-driven GVC and a concentrated GVC on the supplier side was established in less than 10 years. The changes in competencies are also noteworthy, as in the New Balance case,[9] which shows that, in little more than a decade after the first outsourcing wave, supplier upgrading exceeded the upstream and mid-end competencies of the order giving firms. While the process of shifts in the GVC can be reasonably reconstructed by the actions on the supply side, and also be partially related to the existing literature on supplier upgrading, the question remains of why the traditional lead firms did not see or react to the emergence of the more powerful suppliers.

5 | FINDINGS

5.1 | Preamble: The emergence of rising power firms from emerging economies

First, suppliers have been increasingly offering full service packages to their clients, from design, prototyping, and manufacturing, to marketing and distribution in emerging countries (see also Appelbaum, 2008). Second, innovation capacity for advanced suppliers has been substantial, and fuelled by strong investment in R&D (see also Jean et al., 2017). Third, rising power suppliers have emerged with the potential to change governance in GVC (Lee & Gereffi, 2015).

5.2 | Why did, or how could, traditional lead firms not prevent the emergence of rising power firms from emerging economies: An attention-based view

Why and how did traditional lead firms not foresee or prevent the emergence of rising power firms from emerging economies? The attention-based view sees the anticipation of, or reactions to, changes in the organization's environment as a function of the organization's attention to issues; it is characterized by the organization's focused attention, situated attention, and the structural distribution of attention (Ocasio, 1997). An organization's strategy is its selective focus on a subset of issues and its influence over resource allocation. Generally, attention is goal driven and follows a top-down logic (Hoffman & Ocasio, 2001). Organizational attention reflects the attention of its top management. In our case, lead firms, and thus their top managers, focused their attention on branding and distribution issues (i.e., predominantly downstream activities), whereas production issues were hardly mentioned as first order issues. Production was considered a cost factor, and outsourcing was seen as a means to decrease costs. We present illustrative quotes from CEOs and top managers of lead firms that reveal their attention focus in the 1990s and 2000s.

Focused attention on downstream activities: Customer focus and competition as reference	Source
"We work with associations and clubs and test our products with them. The customer is our only focus."	CEO of B, Field Notes, 1991
"We involve top athletes but also other lead users in product development. This is why we still produce our top line in Italy."	CEO of E, Field Notes, 1991
"The credo today is being close to the customer. Our main competitor is focused on relationships with distribution channels and pre-sales counseling. We need to improve distribution relationships with the channels, also because we had some delivery problems."	CEO Europe of C, Field Notes, 1992
"As we started as a distributor, we were always focused on branding and relied on distributed manufacturing."	Vice President (VP) Marketing of C, Interview, 2014
"We were reborn in the 1990's as a virtual company to avoid bankruptcy: We had to lay off half of our employees; the motto was no assets, customer focus and outsourced production."	CEO of I, Field Note, 1992
"You have to realize, around 1990, we shipped every week containers of tennis shoes from Europe to China. We were popular in China but too expensive for the wider market. So we asked one of our apparel subcontractors (Note: Apparel manufacturing had already been largely outsourced and represented a marginal activity) to set up shoe manufacturing for the lower segments. They should copy design not technology."	CEO of F, Interview, 2008

As far as strategy is concerned with firm performance, top management tends to focus its attention towards downstream activities, rather than to mid- or upstream activities (Vuori & Huy, 2016). By the mid-1980s, most firms had finished the extension of their production bases in the United States, Europe, and Asia. Then, those brand-holding and producing firms started out-sourcing in the early 1990s.

Focused attention on downstream activities: Issues in the distribution system and competition as reference	Source
"We still do prototyping in Italy but prefer to open our own mono-brand shops to reach better our final customer. This is what other competitors are also doing."	CEO of E, Field Notes, 1995
"Concentrated moves in the distribution system became our top priority. Foot locker became a dominant force; Intersport reorganized its system; specialized chains emerged. Decathlon is getting bigger and bigger. Distribution ratio and brand awareness are our key metrics, and distribution is the issue."	CEO of A, Field Notes, 2002

The initial customer focus was increasingly replaced by issues in the distribution system, as a new subissue of downstream activities while outsourcing continued. They were largely determined by contextual factors (Tripsas & Gavetti, 2000), and appear to be consistent over time, creating continuous situated attention.

Focused attention on downstream activities: Consistent distribution system issues	Source
"Efficiency and effectiveness in distribution is critical today. We need to focus on being fast-to-market because continuous change is what the customer asks for. We work hard to improve the old system with national distributors that work with regional distributors that work with local agents who work with the shops. We need to speed up the distribution system."	CEO of B, Field Notes, 2010
"Not a single brand-holding firm in this industry has the capacity to create its own global distribution system. So we have to resolve this issue with distribution licenses and are dealing with new actors in the distribution system."	CEO of A, Field Notes, 2014
"E-commerce eliminated multi-sport shops and mono-brand shops in Europe. The new reality: one sport, multiple brand shops. Only the top two brands can somehow sustain their mono-brand stores. Ten years ago when AC Milan took the flight to a Champions League Game, our football manager was sitting in the plane with the club's top management and the players. Today on Manchester United's plane is sitting the manager of ProDirect. ProDirect is the new soccer bible. It's e-commerce; it's our key concern."	CEO of B, Interview, 2014
"A myth has crumbled. We had 20 years of domination of the large-scale retail trade as the traditional system of distribution. The final markup had increased from 100% to 300%, but the internet has been blowing it all away."	VP Marketing of C, Interview, 2014
"Our key issue? Tennis Warehouse, the most serious e-commerce provider of tennis goods. And then we need to deal with potential tensions with physical distribution channels."	CEO of D, Interview, 2014

While distribution and logistics, as general topics, have been issues on which firms initially focused their attention, distribution on a global scale, in the first place, and e-commerce, in the second place, have become fundamental issues on the corporate agenda. As a result, firms have outsourced more product lines and activities (such as prototyping and design of some product lines). As top management's attention focus sets the strategic priorities, their perception and views are decisive for organizational action (Gavetti, 2012). Attention was focused on the degree to which top managers' subjective representations are dominated by limited core issues (Nadkarni & Barr, 2008), thereby defining core and peripheral issues (Nadkarni & Nayaranan, 2007). The strategic priorities mentioned by top management were consistent over time, focusing on downstream activities. Focus, however, also means being myopic to other activities, when the organization would actually need a wider lens (Adner, 2012). We understand *attention myopia* as seeing sharply what is close, but vaguely seeing what is distant. The concept of myopia has been used to explain limits to learning (Levinthal & March, 1993), and therefore, to questions of technology exploration (Miller, 2002). In finance, the term has mainly been used to explain short-term focus (Laverty, 2004; Stein, 1988). In its initial conception (Levinthal & March, 1993; Miller, 2002), myopia was divided into *temporal myopia* (i.e., short-term focus) and *spatial myopia* (i.e., lack of awareness of more distant options). It has, however, not been applied to attention as a more general concept. Focused attention also explains what is not in focus, but is only vaguely perceived by top management (Ocasio, 1997), representing the other side of strategic priorities under the assumption of bounded rationality. Myopia can be understood as the tendency to overvalue core issues and undervalue peripheral issues (Laverty, 2004).

Indeed, upstream activities were never mentioned by any of the interviewed firms as a strategic priority. Outsourcing of activities increased.

Focused attention on downstream activities: Neglect of manufacturing	Source
"Selling is vital, manufacturing is optional".	CEO of C, Interview, 2008.
"The brand matters most. We stopped sending containers to China and started receiving from China, finally we stopped sending containers to any place. We received all quality segments from suppliers. We stopped caring about production. 'Designed in Italy' should be enough."	CEO of F, Interview, 2008.

Proposition 1 *Focused, top-down driven attention to downstream activities can generate upstream attention myopia while increasing outsourcing of activities.*

5.3 | Sequential attention and supplier concentration

Our first proposition states that the traditonal lead firms were too focused on downstream issues, thus becoming myopic to production activities. Following the logic of the smile curve (Mudambi, 2008), they were managing a large number of suppliers. Consistent situational and focused attention explains this continued attention, as well as the firm´s strategy and inertia (Gavetti, 2012). Sequential attention means that firms will focus their attention on issues as long as they are not resolved (Greve, 2008). In the industry case, downstream issues continued to persist, and competition did not diminish. These issues could be perceived as relevant and urgent; in other words, they had to be resolved in the short-term, creating a form of temporal myopia.

The persistence of relevant and urgent issues forced top management to focus even more of their attention on these issues and to dedicate less attention to peripheral issues. As a consequence, firms also tried to simplify mid- and downstream activities. Increasing outsourced activities and simplifying the GVC lead to spatial myopia with a focus on competitors and customers. CEO D described how his organization made decisions about the organization of the GVC:

> "We segment suppliers per price point. In the top segment, we look for dominant suppliers even for multiple product lines." (Field Notes, 2008).

Some of the progressive reduction is also linked to CSR efforts; some suppliers disqualified themselves due to noncompliance issues. The increased selectivity of lead firms induced stronger competition among suppliers for better positions in the GVC:

> "In the 70s and 80s, you had suppliers and you could sell a product. In the 90s, everything has changed: you have partners and it is all about packages. You need to deliver a package not a product, a full range of colors and styles. It is all about combination and services. You have to have a package and you have to have it right the first time." (Buying Agency H, Field Notes, 1999)

> "We started as a buying agency in textiles but we also wanted to become a buying agency for shoes. Our client told us, if you want to be in the shoe business, you also need to produce. So we bought a local shoe manufacturer." (Supplier I, Field Notes, 2009)

As such, lead firms first reduced the number of suppliers, then increased the range of outsourced activities in order to focus the organization on downstream issues. Assuming that suppliers are in competition with each other for orders, they have, contrary to traditional arguments (Kano et al., 2015), incentives to upgrade. The outcome of competition will be that location specific advantages do not accrue for all firms (Hennart, 2012). There is evidence that first tier suppliers, those working directly with lead firms, have been in a privileged position to develop firm-specific advantages (Pietrobelli & Saliola, 2008). Successful supplier upgrading is therefore based on firm specific advantages for those firms that exploit this location specific advantage in the first place (Hennart, 2012).[10]

When traditional lead firms decided to generally reduce the number of suppliers, being an upgraded supplier (both in terms of quality, range of activities, and efficiency) with large-scale production created a sustainable competitive advantage.[11] In conclusion, suppliers have incentives to: (a) upgrade their competencoes compared to their direct competitors to address quality and scale issues; and (b) increase activities compared to competitors in other locations. The initiatives of the most active suppliers from the periphery prepared the ground for rising power firms.

Mid- and upstream activities that would require bottom up processes to receive top management attention were neglected, begging the question of why these changes did not arrive at top management. The attention-based view assumes that attention through bottom-up processes is based on existing communication channels (Bouquet & Birkinshaw, 2008). Moreover, organizational attention is distributed, meaning that it is comprised of a complex network of attentional processes.

Structural distribution of attention: Operational issues	Source
"Today we have C's quality controller in the factory. He is over there. He needs to send his reports to the regional purchasing office."	Supplier Visit, Field Notes, 2005
"The regional purchasing offices collect the production control reports and send them to global purchasing. Global purchasing reports are sent to controlling. Controlling is a staff function for top management, it is a support activity."	VP Marketing of C, Field Notes, 2008
"We aggregate individual quality observations from purchasing."	Supply Chain Manager of D, Field Notes, 2008

Supply relationships are handled at lower management levels. In such cases, GVC management has not been anchored in the top management of the organization. Historically, supply issues of outsourcing activities has been transferred to purchasing, or to local quality controllers. The employees in relationships with suppliers were not reporting directly to the top management of their organization, and were also usually not in contact with the top management of the suppliers. As a CEO put it: "We negotiate the price, we care about the quality, we control for the quality. That's it."

These outsourcing decisions have transformed a potential strategic issue, originally based on in-house competencies, to a merely operational issue, which, by design, would not receive top management attention.

Structural distribution of attention and communication channels	Source
"A consultant called me, informing me that one of your main suppliers sold our tennis shoes with our logo under their own brand on his Chinese website. I informed purchasing. They told me they only check quality of products and supply chain relationships. I called marketing. They told me they do not check suppliers and competitor analysis is focused on the USA and Europe. We are now engaged in legal litigation with them, but I see that we monitor suppliers only in terms of product delivery."	Head of Legal Office of F, Field Notes, 2009
"In our business, there are three management areas: Brand management, distribution management and production management. Related to the three areas is the product development competence. Brand and distribution management is handled by top management and it is my priority. Production management is handled by middle management. My nephew is taking care of production control, so I am somewhat informed."	CEO Europe of B, Interview, 2014

Attention is a sort of competition for representation. The attention-based view assumes that subsidiaries can get headquarter attention through weight (of the activity or market) and voice (Bouquet & Birkinshaw, 2008). In this sense, an outsourced activity has no weight and no voice, so how can mid-stream activities gain organizational attention? Rare and radical events (Rerup, 2009) appear to receive organizational attention if they are brought forward by external stakeholders (Hoffman & Ocasio, 2001). If the issues receive widespread media attention, and the media attention threatens the firm's reputation, and therefore potentially the selected strategic issues, then it will capture the organization's attention and lead to changed behavior (King, 2008). The implementation of CSR measures is a good illustration:

> "When the 'foul ball' campaign involving ILO (the International Labor Organization), UNICEF, and Save the Children, hit the media, we needed to react." (CEO B, fieldnote 1998)

> "After the 'foul ball' initiative, production processes of all sporting goods came under public attack and received a lot of media attention. We and our competitors joined the FLO (Fair Labor Organization), however the falsification of information on wages and working hours is common practice in Chinese factories." (CEO A, fieldnote 2004).

> "When Ma Jun's quote diffused from Hong Kong to the media of the rest of the world, it was for us the final signal: we started to drop high-polluting suppliers and systematized CSR practices in our company." (CEO C, field note 2001).[12]

Besides rare and radical events that first receive the attention of external stakeholders, however, mid-stream activities remain unnoticed.[13] What emerges from the interviews is that GVC

management consists of assuring the timely delivery of quality products, while the strategic actions of suppliers are hardly monitored.

> "I have the impression that suppliers are constantly evolving. Checking only sporadically suppliers, my info is also only partial. I have voiced these issues in informal talks to the CEO but I feel top management is not as concerned as they were for CSR issues." (Production Controller at B, interview 2014)

The concept of sequential attention states that, as long as principal performance issues are not resolved, organizations will continue to focus attention on these issues (Greve, 2008). Moreover, only radical changes (Rerup, 2009) voiced through external stakeholders (King, 2008) will reach top management's attention (Hoffman & Ocasio, 2001) in the absence of weight and voice. Our case study, however, extends this theory by one important element: not only does the situational consistency of down-stream issues channel the organization's attention towards these issues, but an organization's attention myopia (both temporal and spatial) continues, even when consistent threats continue over time and evolve to serious threats, as they do not enact attention-receiving processes. This structural distribution prevented top management from sufficiently receiving messages to change course, meaning that gradual changes upstream remained unnoticed. Furthermore, their competitive focus was geographically tied to Europe, Japan, and the United States, where the traditional lead firms had their headquarters. Because Chinese firms were not yet active in the home markets of the lead firms, competitive battling occurred mainly in home markets. In emerging markets, suppliers were increasingly involved in distribution in China. Managers also appeared to be myopic in the sense that this type of arrangement could lead to repeated issues in the future; however, these decisions indicate a limited capacity for global distribution.

Spatial myopia and partial outsourcing of distribution	Source
"Our suppliers (in China) are really fast. They will set up for us 300 mono-brands stores in 5 years in China. We could not do it, it's opportunity."	CEO of F, Field Notes, 2002.
"Our main manufacturing partner has thousands of multi-brand stores in China. They take care of most distribution in China."	VP Marekting C, Interview, 2008.
"It took us six years to get our own brand licence back for the US market. Now we can back into the US on our terms. In China, we rely in the next years on our full service provider for distribution."	CEO of I, field note, 1998.

When asked about types of brand acquisitions that pose major threats to traditional lead firms, the CEO of B stated:

> "There is this Mike Ashley (founder of Sports Direct, one of largest Uk retailers) with his distribution channels: he had bought most of the important Uk brands." (CEO B, interview 2014)

Some years before he had commented on the acquisition of its traditionally closest rival, a company that had its headquarters only two miles away and was located in the same sporting goods cluster:

> "The industry is in trouble, a lot of concentration is going on, and they (the rival company) were in trouble." (CEO B, interview 2008)

Ironically, this competitor was bought by a supplier, meaning that while radical changes within the attention focus, such as the acquisition of brands by downstream actors, captured attention, there was still attention myopia for the same activities of upstream actors. Explanations have circled around general contextual factors. The decision to outsource upstream activities shifts the attentional perspective (strategy, agenda), and thus focuses selective attention towards downstream activities, leading to spatial attention myopia over time.

Proposition 2a *Situational and sequential attention leads to temporal myopia and makes organizations vulnerable to long-term, incrementally evolving threats such as reduced control of the GVC or the emergence of a new competitor through brand acquisition.*

Proposition 2b *Situational, sequential attention and altered structural distribution of attention reinforce the attention focus to down-stream activities and leads to spatial myopia. Spatial myopia results in a simplification of upstream activities.*

In conclusion, the reduction of the number of suppliers, combined with ceding regional distribution rights, were drivers for the emergence of large-scale suppliers.

5.4 | Attention to downstream issues and myopia of GVC governance

From a firm level perspective, the previous propositions argue that the traditional lead firms were focusing on downstream activities. On a macro-level, this convergence of strategic actions led to an industry architecture (Herrigel et al., 2013) that was initially a buyer-driven GVC with a core-periphery structure. This core-periphery structure defined the core-periphery issues for organizational attention; then the lead firms raised the glass ceiling for suppliers. This behavior facilitated the upgrade of the most capable suppliers. The perception of the situation and relevant issues, however persisted, as illustrated by the following quotes:

> "We fully outsourced production in 2000, relying on specialists on each production stage also because this is how the industry is organized." (CEO of A, Interview, 2014)

> "The turn-around of our competitor E in 1990's was the transformation to a virtual company. E had ceded all their assets and concentrated on marketing and setting up their own shops. We followed this approach, these are the rules of the game." (CEO of D, Interview 2014)

> "This is a disintegrated industry. That is the only thing that make sense. Focus on selling." (CEO of E, Fieldnote 2014)

Top management did not receive the message of changes in the GVC due to the lack of "weight and voice" (Bouquet & Birkinshaw, 2008) of middle managers concerning outsourced activities. Suppliers were not only upgrading, but even "downgrading." We understand supplier downgrading as adding activities that are perceived as lower-value added compared to the activities already performed by an actor, or at lower tier positions in the GVC. Indeed, suppliers added lower tier activities mid-stream, thereby increasing control over the remaining GVC activities. This finding extends the current knowledge on supplier upgrading (Humphrey & Schmitz, 2002; Pananond, 2013, 2016).

In our case study, the best-positioned suppliers started to orchestrate parts of the GVC by vertically integrating activities, developing in-house competencies to manage additional activities, acquiring lower-tier suppliers, and/or by setting up foreign subsidiaries in lower cost countries (see also Appelbaum, 2008). If one supplier begins to integrate more and more activities in the GVC periphery, then those activities become concentrated, not in the network of the traditional lead firm, but hierarchically in the network of the supplier. While the higher degree of vertical integration has been noted in the literature (Hennart, 2012), it has been related to inefficient markets rather than to the strategic decisions of specific suppliers.

The continued focus on downstream issues, and therefore spatial attention myopia towards relevant changes in the GVC, was reinforced by focus on competition. Indeed, cognitively more distant opportunities appear to be less contested due to the local shaping of a belief system resulting from systemic cognitive failures (Gavetti, 2012). This meant that the perception of an industry architecture, and thus a GVC governance, persisted among top management, but had, in reality, ceased to exist.

Proposition 3 *The (brand-holding) lead firms' consistent focus on downstream issues reinforced the spatial myopia of changes in the GVC giving the illusion of stable governance. However, supplier upgrading and 'downgrading' by means of vertical integration by a peripheral actor increases the probability of the emergence of a rising power firm (from the periphery to the core).*

As a side note, once rising power firms have taken more control of GVCs using a hierarchical governance mode similar to that of the beginning of the industry, they started to outsource some of their activities, moving partially to a governance mode with captive suppliers, almost mirroring the initial coordination pattern of the traditional lead firms. Moreover, rising power firms increased their activity buying intangible assets (Hennart, 2012; Peng, 2012), including brands (Pananond, 2016). Control of the GVC is related to the diffusion of best practices (Kaplinsky, 2004), existing property rights, and other strong barriers to imitation. It not depends not only on a lead firm's willingness to create opportunity spaces in the first place (Staritz et al., 2011), but also the willingness of suppliers to act (Sako & Zylberberg, 2019), as well as on the limited capacity to re-engage in activities after ceding them to other firms.

> "We set up a small production lab at our headquarters. Quality controls at the supplier site are not sufficient. Indeed, we need to build stronger control competences by understanding the production process better. We produce small batches for non-commercial use, for learning." (Purchasing Manager of C, Interview, 2012)

> "We brought a small part of shoe production home to Italy. It concerns a few retro line products. We still have the old machines here. Made-in-Italy sells well, but we also figured out that we need to learn from producing to move forward." (CEO of D, Interview, 2014)

5.5 | The emergence of rising power firms and the development of a market for brands from an ABV

Under what conditions could rising power firms become a lead firm, or GVCs shift towards a dual leadership, for example, a GVC governed by traditional lead firms and their rising power

suppliers? Since the only asset the rising power firm is missing is a brand, available opportunities depend on its capacity to develop or buy a brand (Sturgeon & Kawakami, 2011). Brand trading has strongly increased since the 1980s and there is a significant relationship between increasing vertical disintegration and the emergence of a market for brands (Lechner et al., 2016a). In our case industry, suppliers are the most active category for buying brands. Some suppliers have bought their former clients, thereby directly replacing the lead firm. This option has some advantages for the supplier because it usually has already been designing, prototyping, and manufacturing the lead firm's branded products; in other words, the overlapping strategic assets are highest (Lechner, Soppe, & Dowling, 2016). Moreover, in some cases, suppliers had already distributed and marketed branded products in licensed monobrand shops (or their own multi-brand shops) for their former clients. As such, ODMs already had developed competences for managing regionally specific brands. The existence of a market for brands made late entry downstream possible, contrary to the general assumption of the traditional lead firms' management, helping suppliers overcome the potential liability of origin in consumers' expectations (Bartlett & Ghoshal, 2000). Between 1990 and 2015, the number of brand transactions grew exponentially; many brands are now available at reasonable costs, which is a factor that has been largely underestimated in current research on GVCs.[14] Indeed, suppliers appear to be particularly active in the market for brands by acquiring brands (Lechner et al., 2018).

By becoming OBM's, some former suppliers became competitors, while other large suppliers without brands increased their bargaining power. The end result for brand holding firms is: reduction of margins, increase of marketing budgets, that is, a less attractive industry for most of the players (see Table 1). Research suggests that increasing brand spending that reduces profitability is a sign of the brand holding firm's weakness and vulnerability (Tackx, Rothenberger, & Verdin, 2017).

When we combine the elements of how different forms of attention myopia emerge and drive increasing outsourcing with the existence of the market for brands, we can derive a theoretical process model for the emergence of rising power firms as shown in Figure 3.

After a first phase of outsourcing (see also Figure 2), situational attention focus to downstream activities has led to a second wave of outsourcing activities. Sequential attention, as downstream issues have continued to dominate the corporate agenda, led to temporal myopia of GVC issues and pushed firms even further towards outsourcing. The consistent focus on downstream activities (competition and distribution) created a form of spatial myopia (for suppliers). This attention focus, combined with the structural distribution of attention, meant that lead firms did not realize fundamental changes in the GVC. Instead, lead firms favored supplier concentration, which induced more outsourcing to increasingly evolving suppliers. In the long run, outsourcing augmented both the scale and scope of suppliers' activities.

This long-term, ongoing, and increasing outsourcing has led to a hollowing-out of the firm's asset base. Therefore, some lead firms' control of the GVC has been partially reduced, making brand defense increasingly difficult and at the expense of firm performance, favoring the emergence of a market for brands in this industry. In this sense, the long-term outsourcing process has enabled, on one hand, the emergence of rising power firms, and on the other hand, the development of a substantial market for brands. These two combined effects have a strong impact on power in the GVC.

Proposition 4 *Attention focus on downstream activities and attentional myopia to GVC evolution has led to a long-term process of increasing outsourcing by the (brand-holding)*

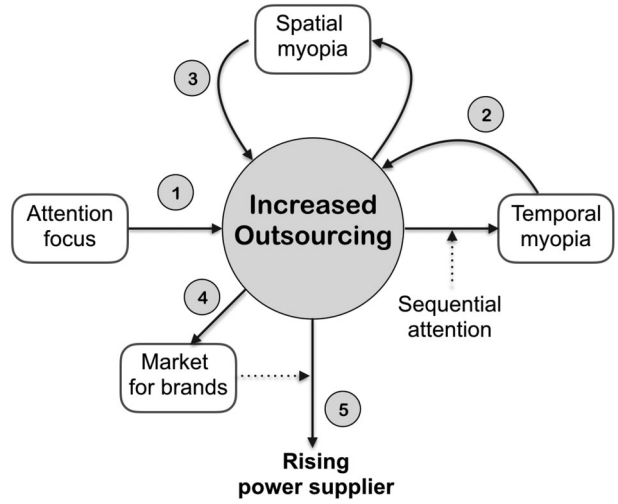

FIGURE 3 The emergence of rising power suppliers from an attention-based perspective
Source: The authors

lead firms. This process favored a major focus on brands as competitive lever but also the tradability of brands and, eventually, the emergence of a market for brands.

6 | DISCUSSION

Research on GVCs and the power of lead firms has concluded that the "losers are the factory owners" (Kaplinsky, 2004:88). A decade later, rising power firms were declared as challengers of lead firms (Lee & Gereffi, 2015). Lead firms' power was initially explained, for instance, by their focus on high-value added activities, such as brands and R&D (Mudambi, 2008). In our case, rising power suppliers are outpacing lead firms in R&D, have partially taken over distribution, and are active in acquiring brands. Suppliers supposedly had limited integration capacity (Sturgeon & Kawakami, 2011); however, rising power suppliers have not only increased scale and scope, but have even hierarchically integrated these activities. Moreover, the lack of design and branding competences (Kaplinsky, 2004) had been partially offset by the emergence of a market for brands. Thus, the position of the lead firm appears to be challenged by rising power suppliers.

6.1 | Macro mechanisms and GVC changes

Recent contributions provide evidence of suppliers' increasing determination to play a more central role in supply chains by moving upstream from the periphery (Aversa, 2015). We have witnessed different outsourcing waves that have led, in the first place, to a dispersed GVC controlled by a brand-holding firm, moving the governance mode from a hierarchy to producer-driven, and then finally to a buyer-driven value chain, similar to other research (Gereffi, 1999; Gereffi & Lee, 2012; Sturgeon & Kawakami, 2011). Further supplier evolution has led to the emergence of rising power firms and, in some cases, to substitution through brand acquisition (Pananond, 2016). Three fundamental changes have occurred. First, the emergence of a market for brands makes brands more volatile and lead firms more vulnerable

to competitive attacks. The tradability of brands broadens the set of actors that might aim to become lead firms. Powerful distributors have bought brands, as well as powerful suppliers, so defending brands becomes more difficult. Second, and related to the first point, continuous outsourcing and hollowing-out of the lead firm's asset base has reduced the ability to control the GVC. Third, the consequence of these two processes had negatively impacted the performance of most lead firms, while rising power firms were able to improve their performance. While these consequences might differ from industry to industry (Lee & Gereffi, 2015), evidence from the automotive industry supports this trend, where suppliers tend to have, on average, higher operating margins than the final car makers (Foy, 2014). These developments in the GVC might be a future challenge for traditional brand-holding lead firms.

6.2 | Lead firm behavior and attention myopia

An analysis from the automotive industry reached the following conclusion: "The car makers actually forced the suppliers to become big enough ... and created this group of mega-suppliers. They had asked for it. It's a self-created problem" (Foy, 2014, p. 3).We adopted an attention-based view in order to understand why the traditional lead firms in GVCs did not prevent the emergence of rising power firms, and therefore the emergence of a market for brands. While research on supplier upgrading offers relevant insights into the actions of the suppliers, the missing piece of the story is the behavior of the lead firms from a managerial perspective (Sako & Zylberberg, 2019). There is evidence that lead firms are relatively passive to the actions of suppliers (Anderson & Jap, 2005; Connelly et al., 2013); as such, we offer some explanations for this behavior.

Lead firms in the buyer-driven GVC in the sports shoe industry are brands that are positioned between distributors (downstream) and suppliers (midstream). Attention in organizations is generally top-down, and focused attention defines a firm's strategy (Gavetti, 2012). As the lead firms' strategic focus was on downstream activities (branding), the actions of distributors have been on the corporate agenda, whereas those of suppliers remained largely unnoticed. These operational issues have been considered dispensable, and thus subject to increasing outsourcing. Capturing the attention of top management through bottom-up processes is a function of the weight and voice of lower level units in already established communication channels (Bouquet & Birkinshaw, 2008). Lead firms, however, had designed a core-periphery structure of activities that was subsequently reflected in core and peripheral issues of attention and resource allocation. Vertical disintegration increases focus on downstream activities and eliminates both weight and voice from up-stream activities. More immediate threats on profitability increase attention (Greve, 2008) on down-stream activities. Upstream activities gain attention (Hoffman & Ocasio, 2001) if, one, they are brought forward by external stakeholders in the case of rare and radical events (Rerup, 2009) and two, if they are aligned with current issues, such as profitability or reputation (King, 2008). Repeated, similar, consistent, immediate threats lead to routinized attention. Thus, outsourcing and offshoring decisions lead to routinized attention on "urgent" downstream activities (temporal myopia), while creating spatial myopia for upstream issues. Attention myopia persists even if the continuous supplier's evolution can threaten the entire reason for the lead firm's existence in the long run.

Our main contribution to studies on the dynamics in GVCs is rooted in the application of the attention-based view to GVC research, which helps to explain the behavior of traditional lead firms over time. Our research contributes to the attention-based view: Attention focus, which remains an under-researched topic (Nadkarni & Barr, 2008), so far has had rather

positive connotations. For one, it enables the definition of a firm's strategic issues. We add to the attention-based view the concept of attention myopia. We use myopia—the other side of focus—to explain why firms are so vulnerable to evolutionary changes. If focus is "ying," then myopia is its "yang": to consider both sides increases the explanatory power of the attention-based view as a theory, and thus firm behavior in practice.

We apply myopia to the more general concept of attention. So far, temporal and spatial myopia have been treated independently. We propose, however, that temporal myopia, through sequential attention, will drive spatial myopia, as organizations dedicate even more attention to very restricted core issues. This attention is reflected in the resource allocation process. The accumulated allocation of resources defines the competences of firms over time, leading to path-dependency (Mahoney & Pandian, 1992). The paths taken by lead firms may lead, in the long run, to a point of no return, for instance making outsourcing decisions irreversible.

6.3 | Additional insights on supplier evolution

Size in itself becomes a competitive advantage for suppliers, since it constitutes the major barrier of entry for smaller suppliers. Supplier downgrading is also part of the story of the emergence of rising power firms, as supplier downgrading increases control over more activities in the GVC. Finally, vertical integration by the suppliers assures hierarchical control for those integrated suppliers. Thus, we contribute to supplier upgrading and changes in the governance of GVCs in two ways. Suppliers play a growing role by increasing scope; therefore, adding lower value-added activities can make strategic sense. This finding also complements research on supplier upgrading. Additionally, vertical integration reduces traditional lead firms' control over the GVC.

6.4 | Rising power firms and the market for brands

The changes in GVCs that have resulted in the emergence of rising power firms and a substantial market for brands have put lead firms in a more vulnerable position. These changes could lead to: (a) powerful suppliers from the periphery replacing traditional lead firms, thus creating a single lead firm system on a lower level of the GVC; (b) vertical coopetition; or (c) increasing power with positive performance effects for rising power firms due to mutual interdependence (in this case, the supplier remains a supplier and does not become a brand-holding competitor).[15] In any case, the existence of a substantial market for brands will continue to be a challenge for lead firms, as it influences the defense of the firm's valuable assets, gives options for different actors to acquire brands in times of corporate downswing, and especially favors downstream activities of rising power firms. Given that both distributors and suppliers are very active in the market for brands, GVC governance modes might become more fuzzy as distinguishing between buyer and producer driven GVCs might be more difficult and more complex.

6.4.1 | Limitations and future research directions

Our study has to be seen in the light of its limitations. A longitudinal case study provides advantages, but conclusions can only be drawn from the case to the theory. We focused on the

emergence of rising power firms (suppliers) from the periphery in a specific industry with an initial buyer-driven GVC in which outsourcing patterns had been in place for over four decades. In this context, we found negative effects for the order-giving firms, which is a contrary result to other research that had been conducted over the mid-term in industries with more complex products (Herrigel et al., 2013). Hollowing out the asset base might create long-term threats for the lead firm. Replication in other contexts, and with different time horizons, would be useful for validating the emerging patterns.

Moreover, we analyzed the interactions between two groups of actors: lead firms and their suppliers (peripheral actors) as well as distributors, with lead firms coming from advanced economies, and the suppliers coming from emerging economies in Asia (the majority from China). We treated these two groups as internally consistent, thus neglecting country-level differences. In our case study, we only observed the replacement of medium-sized, brand-holding lead firms by suppliers.

Attention myopia partially explains why suppliers can exploit opportunity spaces; however, once aware of the consequences, traditional lead firms have the option to react (Kalasin, Dussauge, & Rivera-Santos, 2014). Strategic decisions, in general, have an impact on the organization as a whole and not easily reversible (Grant, 2016). The strategic decisions determine the resource allocation process. Therefore, the distinction between strategic and operational issues is already critical. Operational issues might become strategic in the long run, but for lead firms, it might be too late to turn back. Despite deliberate attacks from suppliers, traditional lead firms try to reinforce brand recognition and begin with insourcing activities (by trying to buy close suppliers before their main supplier). The threat of re-integration might be another option, but in the long run, this option appears less plausible, despite some firms' initiatives to back-shore activities (Kinkel, 2012). So far, the main reason for back-shoring that appears in the literature is the failure to establish a functioning supply relationship or short-lived comparative advantages in host countries (Kinkel, 2012). As such, they are concerned with relatively "fresh" offshore, outsourced activities, wherein the processes of knowledge gain on the supplier side and knowledge loss on the lead firm's side have not yet set in. Our case highlights lead firms' difficulties in reappropriating certain activities. The emergence of giant suppliers makes integration threats increasingly more difficult. Clearly, more research is needed in this area.

Our research regards one industry case with an initial buyer-driven GVC. Substantial differences in GVC governance might exist between industries (Lee & Gereffi, 2015). We are aware that market fragmentation or concentration, as well as the degree of integration of the lead firms, are influential factors. A resource dependence approach (Pfeffer & Salancik, 1978) might be an appropriate lens for studying differences in GVC governance.

We argue, however, that lead firms in buyer-driven GVCs might be vulnerable in general. In buyer-driven GVCs, attention and resource allocation is focused on brand activities; thus, integration going forward should be easier for suppliers to because there is less proprietary knowledge. One way to generate proprietary knowledge is research and development. While the relative R&D investment of lead firms has been low, it was much higher for powerful suppliers that became substantial drivers for innovation. Therefore, future research could investigate the relationship between the comparative level of R&D investments and the emergence of rising power firms.

The concept of attention myopia might also help complement other research, such as research on disruptive technologies, where part of the substitution process is related to a steady performance improvement of inferior technologies (Christensen, 1997). In general, more research on attention myopia in different contexts is needed. Processes of structural attention

distribution are also worthy of study. How the increasing presence of a chief operating officer (COO) in MNCs changes top management's attention towards mid- and up-stream activities, and therefore impacts GVC changes, poses another interesting research question.

Psychological studies on individuals' visual attention showed that the abrupt appearance of a new object captures attention, but that gradual and continuous changes without disruption do not; even large changes remain unnoticed (Simons, Franconeri, & Reimer, 2000). Therefore, attention myopia exists in the presence of visible changes. As top managers decide the firm strategy, experimental research could try to better understand to what stimuli managers react. Attention focus and myopia drive organizational behavior, but are essentially rooted in the perceptions of the firm's top management. Research could investigate how cognitive biases (e.g., confirmation bias, anchor bias, conservatism, overconfidence, etc.) moderate managers' attention myopia.

Investment in technology and brands form a firm's intellectual property. Investments in branding (development or acquisition) have surpassed investments in technology, making branding the most important investment destination (Graham, Marco, & Myers, 2015). Changes in the resource allocation process for intellectual property is therefore a fruitful path for inquiry concerning the emergence of more powerful actors in GVC.

Finally, while researchers (Lipparini, Lorenzoni, & Ferriani, 2014) have shown how the periphery becomes more strategic as it moves towards the core, we have gone a step further by showing how the periphery becomes core by reconcentrating activities. The centrality of peripheral actors is facilitated by the existence of a market for brands. The increase in outsourced activities reduces the asset base of the lead firm, so, in an extreme case, the lead firm focuses only on branding activities, reducing the firm's assets to the brand. This evolution made brands tradeable, and allowed for the emergence of a market for brands (Lechner et al., 2016a). Ultimately, this phenomenon defines, and will keep defining, the industry's evolution.

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ENDNOTES

[1]Most of the branded mobile phone firms analyzed by Dedrick et al. (2011), namely Nokia, Motorola, Palm, RIM had been bought and usually ended in the hand of suppliers such as Palm acquired by Chinese supplier TCL in 2013, Blackberry by TLC in 2016, Motorola by Lenovo in 2014. Nokia was acquired by Microsoft before it was resold again.

[2]Data was collected from industry newsletter announcing brand buy/sell—events in the Sporting goods market during the period 2006–2015 from the Sporting Goods Intelligence Europe database, a business newsletter owned

by EDM publications. Buyer, and the brand targeted were identified for a total of 439 announcements of brands acquisitions involving 310 firms and 389 brands. Buyers were classified into suppliers, distributors, investors, and brand holding firms.

[3]Functional upgrading leads to different typologies of suppliers who are, in the simplest form, assemblers working according to specifications received and components provided by the buyer. An original equipment manufacturer (OEM) is a manufacturer who purchases the inputs and provides all manufacturing, packaging, and delivery services, while the buyer provides the design and gives indications for all the activities to be performed. An original design manufacturer (ODM) is a supplier involved in design, product development and coordinating OEM activities. And an original brand manufacturer (OBM) is a firm that fulfills branding and marketing activities for a lead firm in specific regions or for a manufacturer with its own brand.

[4]For instance, Nike began operating under an outsourced business model in 1972, when both scholars (e.g., Williamson, 1973) and firms focused heavily on integration (Grant, 2016).

[5]For example, Adidas published a list of (almost) all of its first- and second-tier suppliers.

[6]Additional case information can be found in the Appendix.

[7]Nike has set up facilities in the United States in 1978 but closed it down in 1985 (Korzeniewicz, 2019).

[8]There were several development patterns for becoming a sports shoe producer. Successful OEMs had quickly integrated components and raw material production, while more advanced firms became original design manufacturers (ODMs). Some ODMs eventually launched their own brands, added distribution, and opened their own branded shops. Small and medium sized producers were usually coordinated by larger suppliers and ceased to have a direct relationship with the brand holding firms. The Appendix illustrates some typical suppliers and their development.

[9]The New Balance case is described in detail in the Appendix.

[10]Partially, the growth of suppliers was additionally fuelled by the rise of larger retailers who also worked with these suppliers (Appelbaum, 2008). So while the lead-firms were focused on the growth of giant distributors, they did not connect it to consequences on the supplier side.

[11]Chinese, Vietnamese and Indonesian suppliers accounted for 93% of Adidas's shoe production in 2016. Adidas had reduced its number of second-tier suppliers and licensees for shoe production, from about 1,000 factories in Asia in 2005, to just 60 first-tier factories, 161 second-tier factories, and only eight licensees. These factories have ties to just 15 manufacturing firms (the number of factories is misleading, since most are subsidiaries of one firm) and two licensees. Similarly, five firms are responsible for 75% of Nike's shoe production.

[12]The "foul ball" campaign was a concerted action of different NGO's and associations to address child labor in the production of soccer balls. Ma Jun, was a journalist a South China Morning Post and is the director of the Institute of Public and Environmental Affairs and a prominent environmentalist; the following quote has been attributed to him: "To know the fashionable color for this season in the West, you have but to look at the color of the rivers in China."

[13]Both interviews and the analysis of CSR reports indicate that firms have difficulties knowing all the members of their GVC, especially as most of them are coordinated by large scale suppliers. This means that the availably of strategic information concerning upstream activities is limited and fragmented.

[14]Beyond brand acquisition, suppliers might decide to become OBMs, since the threat of retaliation is rather limited, despite risking competition with the order-giving firms, when resource independencies increase (Sturgeon & Kawakami, 2011). Interestingly, this type of behavior might actually explain the emergence of vertical coopetition—situations in which a supplier is also a direct competitor—which remains poorly understood (Lechner, Soppe, et al., 2016; Soppe, Lechner, & Dowling, 2014).

[15]It is reasonable to assume that the likelihood of replacement of the traditional lead firms is a function of their sales volume, spending in R&D and branding. The defense of a brand is largely a function of marketing expenditures. As shown in Table 1, only Nike has expenditures for branding that do not compress profitability below the profitability of successful suppliers. The costs of runner up firms for brand spending has: (a) increased in the last decade; and (b) led to very low levels of profitability. Those firms are vulnerable for take-overs. In addition, R&D spending has reached relatively low levels.

[16]The following section is based on the field notes of the authors, annual reports, EDM unless otherwise indicated.

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APPENDIX A: SUPPLIER CASES AND DEVELOPMENT[16]

Large producers

361°

In a little more than a decade, 361° has become one of the top 10 sports brands in the Chinese market (Moon, 2019). Situated in the Chinese shoe production cluster of the city of Jinjiang in Fujian province, 361° was established in 1994 as a contract manufacturer for the Italian brand Diadora. The company rapidly acquired other clients (e.g., Brooks, New Balance) as an OEM manufacturer and developed from a small workshop into an enterprise with 25 production lines with a production capacity of more than 30 million pair of shoes a year and more than 5,000 employees. 361° is engaged in three main activities: original design manufacturer (ODM) contract manufacturing, manufacturing its own brand's shoes and apparel, and distributing 361° products, mainly in China, through company-owned and franchised 361° mono-brand shops. Having upgraded their R&D and increased the size of their design department, 361° controls activities encompassing the entire global value chain (GVC), from prototyping to final product delivery.

While being one of the main suppliers for Diadora and Brooks, 361° launched its own brand. In 2007, 75% of its manufacturing activities were related to creating products for other brands; from 2007 onwards, contract manufacturing had been constantly declining. In 2003, the brand group was created and made an IPO in 2009 at the Hong Kong stock exchange. The 361° brand and manufacturing were organisationally and in accounting terms separated. That means that 361° is a publicly traded company and owns its manufacturing facilities by 100%, which are privately held firms. In terms of production capacity, 70% of their own shoes was internal (with goods produced either in the company's factories in China or by subsidiaries in other Asian countries) while the rest was outsourced to other original equipment manufacturers (OEMs). As the financials of the brand group and the subsidiaries are not consolidated (manufacturing costs are reported as internal or outsourced), sales figures for third party manufacturing is not reported by the 361° and not available. Not only had 361° become a

leading domestic brand that was distributed in more than 7,000 shops in China, but the brand began sponsoring NBA stars in the United States and exporting 361° branded products to the United States, Brazil, and Europe (Olsen, 2011). The brand sales of 361° (branding sport shoes and apparel) had reached $ 725 million in 2017, with a RoS of 9% (better than any other brand but Nike), a brand spending (in terms of sales) of 9.8% and R&D of 3.4%. The manufacturing subsidiaries continue to produce for Brooks, NB and Diadora. Interestingly the 361° brand has overcome in revenues both Brooks ($ 434 million in revenues for footwear) and Diadora (about $ 200 million in revenues) while New Balance has estimated shoe sales of $ 3 billion in 2017. Producing mainly top line athletic footwear for the brand clients, their OEM activity can be estimated (according to industry sources from China) to produce additional $300 million in revenues.The option to develop a house brand appears costly, but feasible, as the case of 361° shows. Developing a distinctive brand and maintaining decent supply relationships with other brand-holding firms, however, would also require the firm to be able to develop distinctive designs and features; 361° was involved in a series of infringement lawsuits with its clients due to a lack of product distinctiveness. Indeed, the first 361° branded shoes were rather copies of at least fuelled by the lead firms' innovation. This situation has been reversed. The emerging attractiveness of Asian markets increased market competences and eventually led to the development of sophisticated design and manufacturing competences, first locally, and then globally. The technologies of the Group's running products have won further recognition from the global market. SPIRE 3, 361° cushioned shoes, won the ISPO Global Design Award in Munich, Germany in February 2018, and the Running Products Award 2018 and Newcomer Shoe of the Year awarded by The Nordic Edition in May 2018. It was also elected by Runner's World US as the best shoe for stability. 361° has developed the “qu!ck foam” technology (Cohen, 2019). While between 2000 and 2015, the 361° shoes were identical to Brooks and NB shoes and driven by their customers' innovations, we could argue, today, that the innovation capacity of 361° drives the innovation of their clients. The 361° case also shows how suppliers become rising power firms, as they gained increased control over the GVC and even began to expand beyond the Asian market.

Hembly

A similar but different path was undertaken by the Hembly Group. In 2000, the company was established to provide GVC services for an Italian sports group. Shortly thereafter, the firm established a joint venture with the fashion brand Morgan as its provider of supply chain services. In 2004, Hembly began operating as a wholesaler and distributor of apparel and shoes under the brand Stonefly. In 2005, the company established a joint-venture with Stonefly and Lotto for product distribution in Asia, and supply chain services for both apparel and shoes. In 2006, the company went public and was listed on the Hong Kong Stock Exchange. In 2007, Hembly acquired Sergio Tacchini, an Italian tennis brand and former client, to save it from bankruptcy (Kwong, 2008). In 2008, the Hembly Group attempted to buy UK soccer brand Umbro, for which it was a full-service provider, including design, prototyping, and manufacturing, but also distribution within a series of regional brand licenses. Nike, however, anticipated Hembly's move; it did, however, not change the GVC configuration after their acquisition.

Hembly's business consists of two main complementary activities: supply chain services for apparel and footwear, and distribution and retailing. Hembly's valued-added supply chain services cover a whole range of services, from product design and development, to raw material sourcing, production management, quality control, and logistics services. Hembly has adopted a

flexible dual operation model of outsourcing and in-house manufacturing that enables the company to deal with potential production capacity constraints, diversify its range of products, and fulfill the varying demands of different brands. In-house production needs are covered by Hembly's production bases in Nanjing and Yangzhou in Jiangsu Province, China.

Hembly's development is emblematic: while some groups began as manufacturers, others began as buying agencies (sourcing suppliers for brands) or trading partners (regional distribution and retail organizers for brands). While the company's reason for existence was initially to be the supply chain service provider for Lotto, it quickly moved into retail and distribution for the same client. The next step was widening the customer base, getting into manufacturing, and finally getting into the licensing business. In addition, the group began to buy brands. Within a timespan of less than 10 years, the company covered the whole spectrum of sourcing, retailing and brand management. The group acquired brands and acted as a system integrator.

Extra-large producer: Yue Yuen

Yue Yuen produces more than 300 million pairs of sports shoes annually for large global brands, making it the largest sports shoe manufacturer in the world. If a person is wearing a pair of sports shoes, the chances are high that they were produced by Yue Yuen, even if the shoes are branded as Adidas or Nike. Among all brand segments, Yue Yuen produces 20% of all sports shoes worldwide, and about 80% of shoes in the top segment. Yue Yuen's R&D budget (which includes both process and product innovation activities) is comparable to that of Nike, the leading sports brand in the world. In 2017, about 350,000 employees were working on about 400 production lines in its plants.

In 1969, the Tsai family, originally from Taiwan, founded Pou Chen to manufacture canvas and rubber shoes. In the 1970s, Pou Chen began to manufacture sports shoes for brands that were seeking to take advantage of the country's emerging market. The company's first contracts were with New Balance and Adidas. The rising cost of labor in Taiwan and inflation of the Taiwanese dollar led Pou Chen to relocate to cheaper areas. Yue Yuen was officially founded in 1988 in Hong Kong by the Tsai family through its Taiwan subsidiary, Pou Chen Corporation. That same year, the company established its first Chinese factory in Zhu Hai, followed by others in Dong Guan and Zhong Shan. In 1992, Yue Yuen became listed on the Hong Kong Stock Exchange as a joint venture of Pou Chen and opened its first factory in Indonesia. The company wanted to establish Yue Yuen factories in countries other than China, so as to reduce potential risks and to take advantage of lower labor costs. In 2002, following a reorganization of the group, Yue Yuen acquired 67 companies engaged in activities encompassing all stages of the production of sports shoes: production machinery, raw materials, components and manufacturing. At the same time, the company established a chain of retail stores, Yue Yuen Sports, to sell sporting goods in China. Originally Yue Yuen was an OEM, but gradually, the company acquired almost all of the competences involved in manufacturing sports shoes. Over the years the company has evolved from an OEM into an ODM for the most recognized shoe brands in the world, such as Nike, Adidas, Reebok, New Balance, Timberland, Rockport, and so on (Yiu, 2018). The company manages the entire process from R&D to production to delivery.

Yue Yuen's manufacturing process is highly integrated. The company owns the largest tannery in the world which treats over 8,000 cow hides from Brazil every day. The company even produces its own shoeboxes. Its factories, notably those in China, have all the equipment necessary to remain autonomous, including dormitories, canteens, electricity generators and water treatment plants. In 2016, Yue Yuen worked with and coordinated 1,900 different suppliers.

Over time, activities along the GVC has been consistently expanded. Yue Yuen entered in retail operations and by 2017, about one third of revenues derived from retail sales.

We contextualize Yue Yuen's performance by comparing it to the performances of the largest brands in the world. Besides Nike, no other brand-holding lead firm has higher sales and net profits. The financials (e.g., return-on-sales) seem to suggest that the idea of shifting low-value added activities to peripheral players may be short-sighted. The emergence of Yue Yuen is thus an extreme case that illustrates the emergence of a new lead player.

Small and medium-sized producers

Overall about 7,000 firms with more than 14,000 factories are active in China (IbisWorld, 2019). Small and medium-sized producers (SMPs) are throwbacks to the distributed GVC system. They act as buffers in an otherwise more concentrated system. SMPs generally work for other order-giving firms. Among assemblers, for instance, medium-sized suppliers tend to work on products for the middle segment, while small producers tend to work on products for the lower market segment or are somewhat specialized. Although SMPs act as buffers, by 2017 most of them appeared to not have direct relationships with the brand-holding companies, but to be orchestrated by larger suppliers (Table A1).

The New Balance "Made in the USA—project"

New Balance is the fifth ranking company in sales of sports equipment and the third for sports shoes alone. The product range focuses on running. We can estimate that New Balance outsources 75% of its production abroad (Asian countries) where most competitors outsource 100%. The final assembly of shoes can be carried out in one of New Balance's five factories in the United States, or its factory in England (Bowen et al., 2008). It was during the 1980s that New Balance began to outsource to Asian countries (Vietnam, Indonesia, Taiwan, Bangladesh

TABLE A1 Characteristics of typical contract manufacturers

	Size		
Characteristic	**Small**	**Medium**	**Large**
Shoe production volume in units	500,000–1,500,000	2,000,000–7,000,000	10,000,000–15,000,000
Number of employees (range)	101–500	501–1,000	>1,000
Number of R&D employees	0–5	10–20	60–100
Average price for pair of sport shoes	$8	$10	$12
OEM/ODM	OEM	OEM/ODM	ODM
Integration (% of parts and stages of the final shoe)	40–70	60–90	80–100
Average number of factories	1	3–4	7–10
Distribution (%)	44	9	9

Abbreviations: ODM, original design manufacturer; OEM, original equipment manufacturer.
Source: Estimates from the authors; Raw data extracted from alibaba.com for prices, numbers of employees, unit volumes; triangulation for average number of factories, distribution, number of employees, unit volumes from IBISWorld (2019).

and China in the 90s). In the '90s, the Federal Trade Commission refused to allow New Balance to use the "Made in the USA" label, as a large portion of the footwear components came from abroad (Bales, 1999). Through the support of various lobbies, New Balance has continued to use the label (given the fact that at least 70% of the added value is American). A large part of the value added in the United States is linked to the higher labor cost in assembly. New Balance's initial idea had been to reconstruct a complete value chain in the United States; however, New Balance found itself incapable of finding or developing the knowledge in the United States for certain components (especially shoe soles), making it impossible for them to produce modern, top-line shoes in the United States (Brodeur & Van Assche, 2014). In fact, most of the high-end sports segment is actually produced by Yue Yuen and subsidiaries of 361°. Most of the lines that are produced at a high proportion of value added in the United States are, in terms of technology and quality, rather mid-segment, in terms of prices—about $50 more expensive than top-line shoes. Out of 1,076 different shoes offered by New Balance in 2019 (retrieved from new balance United States website, December 2019), 32 are made in United States or UK. Of the 338 models offered for boys and girls, not a single model is made or assembled in the United States or UK. Not single model of athletic shoes (running, tennis, etc.), that is, those embedding latest technology and mode of production are made in UK and United States. The UK and United States model are all featured in the lifestyle category.