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# The internationalization process of Italian fashion firms: the governance role of the founding team

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## Abstract

This study aims at exploring the process of internationalization in the Italian fashion firms, focusing on strategy-structure fit and the governance role of the founding team in providing such a fit. It does so with a single case study of a leading fashion firm. It suggests that classic deterministic theories about strategy-structure fit in growing firms offer poor guide. The strategy is entirely “emergent” and inspired by the specific talents of the founding team. Evidence confirms the causal link between strategy and structure: company structure is network based and evolves according to the emerging strategy. However, the development route does not follow any deterministic model: Uppsala’s model of incremental and cognitive internationalisation, especially in its revisited and network based form, appears to be the more appropriate reference for the case, characterised by creative dynamics that are constantly evolving, following the vision and strategy that are constantly provided by the founding team.

**JEL classification:** L20, L21, F23, M10

**Keywords:** internationalisation, founding team, fashion industry, network, strategy, structure

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## 1 Introduction and theoretical background

This study aims at exploring the process of internationalization in the Italian fashion industry, focusing on the strategy-structure fit and the governance role of the “founding team” (Beckman, 2006) in providing such a fit.

A coherent fit between strategy and structure is considered, in fact, a necessary condition for firms’ growth and it is among corporate governance main responsibilities (Chandler, 1962). In fast growing SMEs such governance role on the strategy-structure fit is provided by the founder or by the founding team (Loane *et al.*, 2007). The issue is especially critical for growing, internationalising SMEs in the Italian fashion industry because of the special relevance of change that characterizes both the process and the industry.

The role of the founding team in the growth of the firm has been especially investigated in technology-based ventures and empirical support has been provided for some findings: Eisenhardt’s seminal work on USA semiconductor ventures has verified significant main and interaction effects for the founding team on firm growth (Eisenhardt, 1989), with specific reference to “previous joint work experience”, “founding team size” and “variation in the industry experience of the founding team”; others have focused on commitments and resources: “In technology-based start-ups, the competitive advantage of a start-ups is determined by the *founding team* partners’ commitments and the resources that an entrepreneur possesses” (Wu *et al.*, 2009, p. 345); or university education: “In accordance with competence-based theories, the econometric estimates show that the nature of the education and of the prior work experience of founders exerts a key influence on growth. In fact, founders’ years of university education in economic and managerial fields and to a lesser extent in scientific and technical fields positively affect growth while education in other fields does not” (Colombo and Grilli, 2005, p. 795); “Our results show that founding team experience enhances both new venture survival and sales, but that the effects are non-linear, and vary with venture age” (Delmar and Shane, 2006, p. 215); also extra industry social capital seems to be important and “extra industry network ties shapes the relationship between entrepreneurial orientation and new venture performance” (Stam and Elfring, 2008, p. 97); Beckman has proved, for a sample of 170 young high-technology firms in California’s Silicon Valley, that “founding team prior company affiliations predict whether a firm pursues exploratory and exploitative behavior, and they also suggest that firms whose founding teams have both types of affiliations are more likely to grow over time” (Beckman, 2006, p. 753).

In a large scale study of all types of manufacturing firms in Denmark (Rasmussen *et al.*, 2009), the founding process of different types of firms is anal-

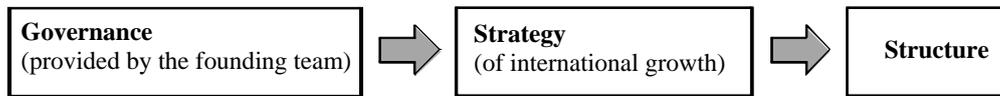


Fig. 1 – The casual links among governance, strategy and structure within a single firm, based on Chandler’s tradition.

ysed and it emerges that “a small number of founders have had connections with their previous employers during the founding process and extremely few have had contact to organizations, research institutions, etc. The interviews [...] show that the task of building a network during the foundation years is very important and quite difficult. Many founders expressed that they felt isolated. Their contacts were primarily to suppliers and customers and not to other firms in the same situation as themselves”. The founders’ profiles that emerges in Danish manufacturing firms is already different from the typical stereotype from the high tech ventures, where the founder is expected to be a highly connected individual, highly educated in science or management and especially connected to previous employers and research institutions. The profile that emerges is that of a lonely individual, focused on the difficult task of building a network step by step, and whose main contacts are primarily to suppliers and customers and not to other firms. The founders of fast growing SMEs in the Italian fashion industry may be even more different from the high tech ventures’ stereotype. Our hypothesis is that their main qualities are innate talents and governance ability to manage an emerging strategy and its fit with an evolving network structure.

As far as the strategy-structure fit is concerned, it has been a main issue in management theory for many years but there is striking distance between the most classic, deterministic theories (Chandler, 1962) and empirical evidence from fast growing, export oriented Italian SMEs (Lorenzoni, 1990). In fact, the process of internationalisation and growth in the Italian fashion industry cannot be explained with traditional, deterministic models. The strategy-structure fit these firms develop in their international growth seems to be very peculiar and dependent on founders’ talents.

The theme of the relationship between strategy and organisational structure was first laid out in the work of Chandler (1962), where a direct connection of causality is identified - the strategy determines the structure through changes in the organisational design - in the succession of four strategies: 1) expansion of volume and needs of administrative functions; 2) geographical expansion and distribution of the same function in more units that are further apart; 3) vertically integrated business even with decentralised functions; 4) divisionalised company. Following Chandler’s study on US industry

and that of Channon (1973) on British industry, others have adapted the model to the individual national specifics (Suzuki, 1985, for Japan, Pavan, 1976, for Italy).

Italian researchers have examined the subject of the relation between organisational structure and strategy looking through an environment that is characterised by small size and industrial districts and pushed progressively forward towards a concept of the firm understood as a “network” (Lorenzoni, 1990; Boari *et al.*, 1989). Local systems and districts systems, in fact, prove to be the basic axis of Italian exports, even showing the capacity to experiment with new forms of organisation, like the multi-located district (Zucchella, 2006).

Researchers operating in small and open economies, such as the Nordic European countries, were especially interested in SMEs’ international growth. The Swedish school, particularly with Uppsala’s model of internationalisation (Johanson and Vahlne, 1977), brought attention to the importance of the cognitive processes on the incremental decision-making mechanisms and on the associated gradualness of the emerging courses of internationalisation. The underlying assumptions of that approach are uncertainty and bounded rationality and its purpose is to explain empirical observations that contradicted the established economics and normative international business literature of the time: that literature was based on optimizing the mode for entering a market, analyzing costs, risks and resources.

According to the empirical observations that Johanson and Vahlne collected, given certain cognitive conditions, businesses typically begin to expand internationally with direct export to a single country, through an agent; they later establish a sales subsidiary and finally, in some cases, a production establishment. This “establishment chain” however “is not part of the model, but rather a summary of the empirical observations on which we based our inductive theoretical arguments” (Johanson and Vahlne, 2009, p. 10). The core argument of the model is that firms change by learning from their experience of operations and current activities in foreign markets and the commitment decisions they make to strengthen their position in the foreign market: “experience builds a firm’s knowledge of a market, and that body of knowledge influences decisions about the level of commitment and the activities [...]: this leads to the next level of commitment, which engenders more learning still” (Johanson and Vahlne, 2009, p. 2). Another feature of the pattern is that internationalization frequently starts in foreign markets that are close to the domestic market in terms of *psychic distance*, defined as factors that make it difficult to understand foreign environment.

Many efforts have been made to further test and refine these ideas (Morgan and Katsikeas, 1997; Ren *et al.*, 1997; Eriksson *et al.*, 2000; Peng, 2001;

Knight and Liesch, 2002) and although some empirical evidence has been provided, critics have emerged, both at the theoretical level, because of its supposed deterministic stage based approach (Reid, 1981; Andersson, 2000), and at the empirical level, because many firms today do not follow this traditional pattern, such as the so called “born global” firms (Rennie, 1993; Knight and Cavusgil, 1996), “international new ventures” (Oviatt and McDougall, 1994) and “global start-ups” (Oviatt and McDougall, 1995). As far as determinism is concerned, we have already said about the fact that the “establishment chain” is not really part of the model or its core argument, and it hardly possible to define a casual relation between experiential learning and resource commitment as deterministic. As far as the new “born global” firms are concerned, they do not create a problem to the model: “knowledge and relationships might indeed be in place prior to the formal founding of the firm [...], *that* might accelerate the process. If a firm starts from scratch though [...], the process of learning and building commitment will take time” (Johanson and Vahlne, 2009, p. 11).

Others have focused on the different international pattern of high technology based firms (Autio *et al.*, 2000), small business firms (Chetty and Blankenburg Holm, 2000), and firms in service industries (Coviello and Munro, 1997). Despite that, we argue that the Uppsala’s model is still very adequate and grounded in order to analyse fast growing SMEs in the traditional Italian fashion industry.

Recent Italian studies, using Uppsala’s model of internationalisation as a basis, and taking into account the described specifics of the Italian reticular production model, have created a model of internationalisation in stages, based on the model of sub-supply; by analysing the processes of relocating the fashion sector towards Eastern Europe they encountered three different phases: 1) traditional sub-supply; 2) co-ordinated sub-supply; 3) relocation of the supply system (Camuffo *et al.*, 2006).

Another way to investigate internationalization within a stage-based process approach is to use the concept of network as the starting point since it provides an appropriate framework for understanding firms as embedded actors in business networks (Johanson and Vahlne, 1990; Johanson and Mattsson, 1993). The network perspective builds up from the Uppsala model and, as we have already said, is coherent with the Italian management tradition. It is especially effective for analysing a typical fast growing Italian SME, viewed as a set of interlinked relationships connecting it with other firms in a more or less tight and evolving structure, embedded in a local clusters or district.

These studies highlight that the Chandlerian causal connection between strategy and structure remains valid: the flexible and reticular structure of

fast growing Italian SMEs adapts itself constantly and rapidly to the strategies of internationalisation of businesses. However, the evolutionary path of the strategy-structure relationship in the fashion sector does not follow the historical model described by Chandler for the motor and chemical sectors: Uppsala's model of incremental and cognitive internationalisation appears to be the most suitable reference for the Italian "industrial networks" of the fashion sector (Johanson and Vahlne, 2003) especially in its recently revisited form "with a business network view of the environment faced by an internationalizing firm" (Johanson and Vahlne, 2009). The core argument of the revisited Uppsala model has two sides: the first is that "markets are network of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns"; the second is that "relationships offer potential for learning and for building trust and commitment, both of which are preconditions for internationalization".

The revisited Uppsala model extends to the international markets the network approach that has been applied to the firm (Tichy *et al.*, 1979; Snow *et al.*, 1992) and has proved fruitful in analysing some of the most successful and typical experiences in the Italian industry (Lorenzoni, 1990). In that sense we believe that it can be a suitable model for understanding the international growth of Italian SMEs, especially in fast changing and market driven Italian industries.

What is missing in the revised Uppsala model, with its "business network view of the environment faced by an internationalizing firm", is a "network view of the internationalizing firm itself" that is so typical of the Italian industrial tradition and the governance role of an entrepreneurial founding team in shaping both the strategy and the network structure. This research aims at filling this gap.

## **2 Methods: hypotheses setting and research design**

This work adds a contribution to the study of the internationalization process of export oriented businesses in the *made in Italy* fashion industry, focusing on the strategy-structure fit and the governance role of the founding team.

The choice of the fashion sector was motivated by its current relevance to the Italian balance of payments (it represents 11,5% of Italian export, that is 41,9 billion euro, based on the last available data by ISTAT; the sector is second only to machineries) and because it represents a sector in which Italian small and medium-size enterprises could maintain a competitive advantage in the future, because of the existent resources and competences and because of the reputational capital and image of the country in the sector.

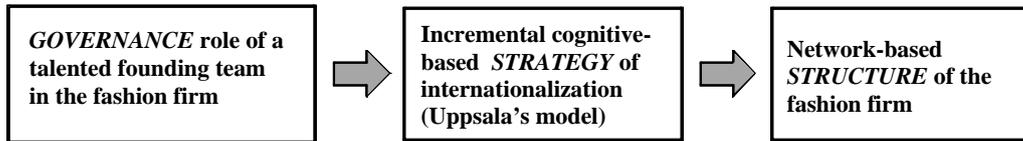


Fig. 2 – Our theoretical framework for the internationalisation process of a fashion firm: Chandler’s causality is integrated with the Uppsala’s model of incremental internationalisation and with the governance role of the founding team.

As can be seen from the literary review of the previous paragraph, the role of the founding team has not been investigated in traditional sectors like the fashion industry and there are reasons to believe that it may be different from technology-based ventures. Ph.ds, years of university education in economic, management or science, experience in the field, resources and competence may play a very poor role in the fashion industry.

Our *first hypothesis* is that, unlike the high tech new ventures, a talented founding team, with no special connections or formal education in the field, may have a key governance role in crafting an emergent internationalisation strategy and keeping it coherent with firm’s structure.

Our *second hypothesis* is that the classic deterministic models of internationalisation, do not adapt themselves to the “industrial networks” of Italian businesses in the fashion sector: Uppsala’s model of incremental internationalisation appears to us to be the most suitable interpretative paradigm (Johanson and Vahlne, 1977, 2009) for the internationalisation of these businesses.

With regard to the methodology of research, we believe that the process of internationalisation and the governance role of the founding team, in crafting strategy and keeping it coherent with structure, are complex phenomena that cannot be investigated with a variable oriented approach or separated from the environment, because the boundaries between the firm and the “network environment” are blurred. It is for this reason that we intend to contribute to the debate with a *case study* carried out during the course of 2007.

The research strategy is that of Yin (1989) and the unit of analysis is Sixty Group (from now on “Sixty”), a fast growing business in the *made in Italy* fashion sector, located in Central Italy. The choice of Sixty is determined by its accessibility and its significance to the subject of internationalisation: a case of a fast growing Italian business in the fashion sector, which managed to grow and go through a process of structural change for internationalisation.

Several data sources were used: (1) corporate materials, balance sheets, internet sources, business publications; (2) repeated non structured interviews with executives, top and middle managers; (3) informal follow-ups

with e-mails, phone calls and observations. Nine field visits and twenty one interviews of an open-ended nature, with top and middle manager, have been carried out in 2007 in Sixty. The interviews ranged from 45 to 90 minutes and covered the main areas of responsibility of each informant (CEO, CFO, COO, Sales VP, Marketing VP, Style Director and others). Interviews were not taped and anonymity was promised to some in order to favour candour and easiness.

The study has no objectives of inferential generalisation with regard to the population of Italian businesses in the fashion sector. Instead it seeks to provide an *analytical generalisation* within the case study itself, with the aim of examining whether the two formulated hypotheses are to be proved correct or invalid within the case study itself.

If the internationalisation process of Sixty verifies the above mentioned hypotheses this work will have contributed to confirming the interpretative validity of the Uppsala model and to understanding the role of the founding team in the international development of an Italian business in the fashion sector that knew how to grow beyond its small size.

It is hoped that further studies apply the same hypotheses to other business cases within the fashion sector.

### **3 The case: founding team, strategy and structure**

Sixty, whose first company was established in 1989, is currently a very important player within the Italian sector of planning, production and marketing of clothing articles in the segment commonly referred to as “casual wear”.

Sixty is the producer and distributor of brands including Miss Sixty, Murphy&Nye, RefrigiWear, Energie, Killah, Sixty, Richlu, Dake, Waxxy, Baracuta, Kblost, Bandits du Monde and more recently, Roberta da Camerino.

The group distributes all over the world with the exception of a few minor Asian countries and the African continent (where it is only present in Egypt, Morocco and South Africa). Its retail outlets in the world, including owned shops, franchising and multi-brand independents, are estimated at 7000 units distributed over 90 countries.

The total turnover of the group on 31<sup>st</sup> December 2006, including also minor companies, was around 700 million euros. The total of employees and collaborators was around 1500 individuals.

Sixty represents a success story in the Italian small and medium-size industries of *made in Italy*. Started in 1989 with only the energies and talents of two entrepreneurs, without any significant initial investment, the company has progressively grown as far as achieving, within the span of

fifteen years, an important place in the fashion industry and in the market: at the very beginning in the city of Rome, then in Central Italy and the national market, later in Western Europe, spreading progressively to Eastern Europe, USA and, finally, to non-European markets and Far East. It has followed a typically *psychic distance* pattern.

From the beginning, the company's strategy was not calculated but "spontaneous" (Mintzberg and Waters, 1985) and seems to confirm that "knowledge of opportunities or problems is assumed to initiate decisions" (Johanson and Vahlne, 1977, p. 27). The entrepreneurial idea begins, in fact, casually in Rome, with the meeting of a creative talent (Wichy Hassan) and a managerial talent (Renato Rossi). As Wichy Hassan recalls in an interview for Mig Pig on 2<sup>nd</sup> February 2004: "*I was doing something completely different. I was attending the academy, I was painting. I had an exhibition. I didn't sell anything. I tried doing something else, I used to go to Porta Portese on a Sunday to sell things, then to another market. After going through all of this, I opened a shop. My partner saw that things were going well and he made me open another*".<sup>1</sup> Initially the business dealt with the import of articles popular in the USA that were not yet widespread in Italy: "*In 1982, '83. I started buying popular things because everyone was wearing the same clothes, the same brands. It was the time of the first All Stars, I was the only one in Lazio that sold them, I had the exclusive. The first Timberlands, the first Levis' 501, that no-one had yet. All imported stuff. The first Fruit of the Loom T-shirts, sweatshirts with hoods. Many were American imports, clothes that you could not see around, when dinosaurs still roamed, years and years ago*".<sup>2</sup> Then the desire to find innovative solutions and the creative ability pushed the business from commerce to handicraft: "*I could no longer find the things that I needed, so with a seamstress from the shop, the one that did repairs, I tried some things. I had some old used jeans, very small sized Levis'. I had made some material inserts, ethnic, a bit Mexican. The trousers widened, they increased in size and they were very unusual. They worked. It was 1984, '85*".<sup>3</sup> The success of the handicraft products and the strong demand from young people rapidly produced an industrial activity with the creation in 1989 of Sixty S.r.l., then Sixty S.p.A. but the spirit and strategy of the company remain unchanged: "*We work mainly by intuition, spontaneously, on the strength of the energy that is unleashed. It's a lot about the enthusiasm, the excitement that grows, explodes and excites you. I am*

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<sup>1</sup>In "Mig Pig", <http://pigmag.com/it/2004/02/02/wicky-hassan/>, 2<sup>nd</sup> February 2004, last access 10<sup>th</sup> July 2010.

<sup>2</sup>Ibidem.

<sup>3</sup>Ibidem.

*careful with every piece that I create. We try, even today, to do everything unconsciously without being weighed down by anxiety over sales. We try to keep ourselves 'light and irresponsible'".<sup>4</sup>*

"Lightness" is a constant factor in Sixty's strategy: satisfying the clothing needs of teenagers through the constant application of innovation and creativity, remaining "light" within the production structure and always ready for change.

As Renato Rossi recalls: *"I started almost as a joke, opening a store in 1975 in Rome in Via Cola di Rienzo, in the Prati district, selling only jeans. It was a small shop, but actually very innovative in the clothing landscape of the time. At first I cared only local production, reaching maximum central Italy. Then the turnover has grown, and it is then that in 1983, I met Wichy Hassan, who had just created Energy, one of the clothing stores that has made history for his experimental and innovative character, its links with culture and art exhibitions: shop windows were created in an original way by contemporary artists, and soon it became the benchmark for all young people who even came from outside Rome. At first it was just a working relationship between supplier and customer, and later on, the encounter between the creative spirit of Wichy Hassan and the entrepreneurial skills of Renato Rossi produced a true partnership that in 1989 gave birth to the Sixty Group".<sup>5</sup>*

The "founding team" was originated by a supplier-customer relationship between two very differently talented individuals: a creative talent and an entrepreneurial talent; both self employed, with no previous employers or special connections in the fashion industry; their education (painting in the case of Wichy Hassan and a degree in engineering in the case Renato Rossi) was neither in management studies nor in any subject specifically related to fashion.

The two founders have been governing the firm from the very beginning and they currently sit in the board of directors as President of the Board (Wichy Hassan) and CEO (Renato Rossi): they are still in charge of all the main decisions in the firm regarding strategy, structure and internationalization, each one according to its innate talents, so that Wichy Hassan is company style Director and Renato Rossi takes care of running the business.

Product creation and commercialisation, from the two respective entrepreneurial souls of the founding partners, remain the main activities in Sixty's value chain. Product industrialisation has, in fact, maintained the handicraft spirit through constant research of ideas and products capable of

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<sup>4</sup>Ibidem.

<sup>5</sup>In "Specchio Economico", <http://www.specchioeconomico.com/200612/rossi.html>, December 2006, last access 10<sup>th</sup> July 2010.

satisfying the ever-changing clothing needs.

The business strategy, focused on the innovation needs of the final consumer, has required a socio-technical structure that is as flexible and light as possible, that draws from outside the human and production resources that are constantly more appropriate, whether these be creative talents, brands to release or productive efficiencies of sub-suppliers. Client demand and the positive performance pushed Sixty to buy new brands and new production capacities. The three main companies that joined Sixty S.p.A. in the course of time were started to purchase individual brands to be re-launched (Sixty Active S.p.A.: turnover of 100 million euro, Murphy&Nye brand; Cruz S.r.l.: turnover of 40 million, RefrigiWear brand) or to buy manufacturing capacity (Sixty Factory S.p.A: turnover of 70 million) to keep separate from the core business of product planning and commercialisation.

The management of acquired brands through separate companies allowed for a reduction in risk to the company, a more focussed monitoring of the brand's economic character and strategies, helping to keep Sixty S.p.A.'s main structure "light".

Sixty S.p.A (the turnover on 31st December 2006 was 470 million euro) had a typical functional structure. The other companies of the group only had main functions and depended on Sixty S.p.A., through service contracts, for the remaining functions (control of management, finance, strategic marketing, management of personnel, *operations*).

Industrial activity and co-ordination of the chain of sub-supply are concentrated in Chieti while creative activity is entrusted to the style office in Rome. Asked why the headquarters were settled in Chieti, Renato Rossi declares that "*It was a choice determined by the need to be close to our production sources. That area is, in fact, advanced with regard to the denim industry: there is a connective tissue of small firms, such as laundries and printing houses, which responded to our needs for product research*".<sup>6</sup> The main objective of the style office in Rome is to anticipate, in a systematic way, the seasons of fashion to keep ahead of changes in taste of the new generations. The objective is reached through a continuous turnover of young talent from all over the world, with curiosity and with different points of view, to experiment. This has allowed the group to create collections of great originality that are a reference point for young consumers.

Sixty has recently entered into the shoe wear sector with the brands of Miss Sixty, Energie and Killah and it co-ordinates the technical and stylistic image respective to leather goods, glasses and perfumes. In June 2007 the group purchased the historical Venetian brand "Roberta di Camerino" and

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<sup>6</sup>Ibidem.

set up “Roberta di Camerino S.p.A” in Venice, thus entering into the luxury goods sector for the first time.

Sixty’s spontaneous strategy was an incremental process of opportunities development, based on experiential knowledge more than rationalistic planning: “on the basis of objective knowledge it is possible to formulate only theoretical opportunities, experiential knowledge makes it possible to perceive ‘concrete’ opportunities - to have a ‘feeling’ about how they fit into present and future activities” (Johanson and Vahlne, 1977, p. 28). Such a strategy produced an evolving, light and flexible network structure, based on the gathering and connection of opportunities, such as new brands, new plants, markets or creative talents, all of them under the governing role of the founding team.

#### **4 The international growth: the new structure and the governance role of the founding team**

Sixty’s process of internationalisation was also spontaneous and not planned. After an early beginning in Rome and in Central Italy, at the end of the ’80’s and at the beginning of the ’90’s there was a commercial expansion, especially in the national territory, thanks to the deep knowledge of the domestic market, the geographical proximity and cultural affinities between producer and consumers. Later, the success on the national level led to increased exports to culturally similar countries and progressively further away, first in Europe and North America, and then in the East and the rest of the world. The sales make-up between the Italian market and exports on 30th September 2007 was the following: 29% Italy, 42% Europe, 13% United States, 11% Far East, 5% other countries. Recent trends showed a growing weight of the foreign component compared to the national one.

The production installations and production agreements followed the commercial penetration and occurred first in the national territory, then in Eastern Europe and the Mediterranean basin, and finally in the Far East, with the increasing importance of the Chinese market.

A distinctive feature of the Chinese “casual wear” market is *price competition*. This is caused by both the extensive low cost local manufacturing base and the exponentially growing supply of foreign brands that normally use the price variable in the launch phase. Foreign luxury brands are able to maintain a price differential with regard to local brands but in the case of “casual wear” prices tend to level out to those of local brands and *made in China* international brands. For the above reasons, Sixty’s strategy in China opted both for the acquisition of the historical Venetian brand of the lux-

ury goods sector “Roberta di Camerino”, and for the outsourcing to China of production of some brands of “casual wear”. The biggest financial effort is currently positioning of the brand image, necessary to justify a price differential with regard to local products.

The structure that has been in charge of commercial penetration and production installations in China since 2003, is “Sixty Far East Ltd”, based in Hong Kong. This company controls: 1) the retail network with retail outlets in the main cities; 2) the wholesale business with a network of commercial agents; 3) production outsourcing. Because of the restricting provisions in force and because of the information asymmetry with local competitors, a partnership with an operator that is locally rooted and already equipped with production and retailing capacities was considered as necessary; a company subsidiary assigned in Hong Kong, endowed with legal status, was in charge of the establishment and relationship with the Chinese subsidiary.<sup>7</sup> The Chinese subsidiary employs a very streamlined structure: a central management; a retail area; a wholesaling area; an area dedicated to “product sourcing”; and some functions to support three areas (accounting and administration, marketing, IT and graphic design). The commercial presence in China of the Sixty group has developed strongly from 2003 to today and the company numbers dozens of retail outlets and a good basis in the wholesale sector. Development prospects are especially linked to profitability, in relation to which the expansion of *product sourcing* activities is central.

The rapid international growth of the company both by the internal route, with the expansion of Sixty S.p.A. and by the external route, with the establishment or acquisition of Sixty Active S.p.A., Sixty Factory S.p.A. and Cruz S.r.l., has highlighted a greater need for co-ordination between the functional structures of the different companies. In the course of the group’s development, in fact, in the absence of a more structured integration, the activity of co-ordination has been carried out by Sixty S.p.A., drawing to itself some of the more relevant functions.

During the course of 2007, with the aim of making the organisational

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<sup>7</sup>At the start of Sixty’s commercial penetration in China in 2003, the People’s Republic of China’s regulations provided strong restrictions in the retail sector. Specifically it was not permitted that foreign companies wholly own retail operations in the internal market. It was therefore necessary to establish a Chinese legal company in situ, owned by fiduciary subjects and in charge of wholesale and retail marketing activities. The preferred technical solution, used by the Gruppo Sixty itself, is that of establishing a company in the city of Hong Kong with special tax regulations, owned by the Italian mother house (Sixty Far East Ltd., in our case), which in turn establishes a company in the rest of China (generally in Shanghai), owned by local fiduciaries and dedicated to wholesale and retail marketing (“Sixty China” in our case).

structure of the company more efficient, the need arose to merge Sixty S.p.A with some minor companies<sup>8</sup> and to reorganise the latter according to the description that follows.

The principal weakness in the previous structure was in fact, that many of the main company functions were duplicated and scattered in the different company structures of the group.

With regard to the sales function, the emerging need was that of a reorganisation through the appointment of a *Sales Vice President* for each one of the three main sales areas (Italy, Western Europe, developing countries and North America), with the aim of avoiding an excessive concentration of responsibility on a single manager and making the impact more efficient on a more homogenous and limited area. Each *Sales Vice President* is in charge of a sales division made up of *branches* involved both in *retail* and in *wholesale* and of one or more *Area Sales Managers*.

The new organisational structure identifies in fact, four *Brand VPs*, three *Sales VPs* and one *Operations VP*, all subordinate to the CEO (the founder, Renato Rossi) and, in the case of the *Brand VPs*, also to the creative figure of the *Group Style Director* (the founder, Wichy Hassan) who manages the “Ufficio Stile” in Rome. *Brand VPs* are responsible for *brand strategy*, style, communications, R&D and brand marketing.

With regard to the reorganisation of retail, a *Retail Manager* was appointed to be the central figure and the link between the CEO and all the VPs. Responsibility for the following activities is allocated to the *Retail Manager*: analysis of sales, order and stock related data; company design and image; merchandises; retail operations (store information data base, policy); planning, control and contracts related to the whole retail sector (franchising contracts, rent monitoring); editing the corporate *Retail Plan*.

To summarise and compare the main duties of the individual figures, we have the following picture:

- *Retail Manager*: proposes the retail strategies for the individual brands and geographical areas; draws up the corporate Retail Plan and is in charge of its implementation; is involved in developing the retail net-

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<sup>8</sup>The group performed a merger, effective from 31<sup>st</sup> December 2007, between Sixty S.p.A., Sixty Active S.p.A. and Cruz S.r.l., thereby reducing the group’s fundamental structure to two main companys, Sixty S.p.A., with nearly complete management of the brands and the group’s central body of staff and Sixty Factory S.p.A., with a narrower industrial function. On June the 30<sup>th</sup> 2010, Sixty Factory S.p.A. is merged with Sixty S.p.A. so that Sixty S.p.A. remains the only main company in the group. There remains however, an autonomous business entity, Roberta di Camerino S.r.l. given the specifics of the luxury goods sector.

work; co-ordinates the retail sector on behalf of the CEO.

- *Sales VP*: discusses and collaborates in drawing up the Retail Plan supplying the Retail Manager and the Brand VPs with information with regard to branch performance and retail in the mentioned markets; drives and controls branch performance with support from the Area Manager.
- *Brand VP*: draws up the Retail Plan for the brand and sets brand objectives according to the strategic guidelines provided by the Retail Manager; discusses and collaborates in drawing up the corporate Retail Plan providing the Retail Manager and the Sales VPs information regarding brand performance; elaborates opportunities for the brands and recommendations for new shop locations that come from the branches.
- *Branch Head*: is responsible for profits and losses in the assigned area.
- *Area Manager*: is the linking element between several branches and one Sales VP.
- *Operations VP*: is the industrial development of the product, purchasing, production and logistical functions.

With regard to the logistic function, the *supply chain* was put to the test by the rapid success of the group, and the need rose to adjust from a traditional functional approach to a management by processes able to better adapt itself to the periodic launch of collections. In the new structure, the *supply chain* is managed by the *VP Operations*, at the head of which are already existing units (purchasing of raw materials, raw materials warehouse, production, general purchasing, shipping) and new units (supply chain management, operations costs management, planning). With regard to relations between the two macro-areas of business, sales and production, that is between *Operation VP* and *Sales VP*, the latter directly negotiate with the former, on a contractual basis, all that concerns logistics and production, so as to have a clear allocation of responsibilities.

A central finance and administration office was made necessary because of the growing number of reports and communications between the administrative offices of the different companies. The new structure introduces the figure of the *Chief Financial Officer* (CFO) who leads the accounts department, the management control department and credit department with the associated responsibility of the credit policy. Gathering all of the accounts and financial information within a sole department and under a sole head should increase the co-ordination, generate economies of scale in the individual administrative activities, eliminate duplications, increase efficiency of

functions as a whole, facilitate the control of basic macro-variables (circulating capital, commercial credit) and introduce a sole financial interlocutor towards the outside.

As is evident from the new structure, that has been implemented in order to favour the international growth, the founding team, through the organizational positions of CEO and Group Style Director (in addition to President of the Board), keeps a central governance role of an emerging strategy-structure fit and is in practice the main body of the governance.

## **5 Analysis of the internationalisation process**

The development of Sixty's strategy-structure fit in the internationalisation process confirms our first hypothesis, that is, unlike the high tech new ventures, a talented founding team, with no special connections, formal education or experience in the field, may have a key governance role in crafting an emergent internationalisation strategy and keeping it coherent with firm's structure.

The strategy geared towards satisfying the ever-changing clothing needs of young people, through continuous research of creative and productive solutions in outsourcing, determines a light organisational structure with a flexible sub-supply network, both in the initial phase of domestic development and in the following one of internationalisation. In the phase of national and European growth, the structure is organised around individual brands, with separate companies and with the co-ordination of a leader firm, to encourage maximum flexibility. In the following phase of international development outside Europe, the structure is reorganised, on a geographical and brand basis, to encourage the co-ordination of a more complex international strategy.

Structural development cannot be entirely traced back to any classical British or North American paradigm (Chandler, 1962; Scott, 1971; Channon, 1973). Sixty's evolution is in fact to be read with the theoretical references of the Italian national tradition and in that peculiar configuration of business networks and leading businesses (Lorenzoni, 1990), territorially rooted and geared towards export that may constitute the only distinct and original elements of the Italian industrial tradition.

Sixty's structure, intended as inclusive of the suppliers' manufacturing base can effectively be read with the concept of the "network" company (Thorelli, 1986), with a variety of subjects, stability of transactions and structured exchange, due to the coordinating role of the leading company (Lorenzoni, 1990).

The first phase of the group's development from 1989 to 1993, with the

creation and growth of functions within Sixty S.p.A., facing a rapid expansion in volume, could be traced back to the first stage of the Chandlerian model but already from 1993 the progress follows a different route of external growth with the establishment of Sixty Active S.p.A. Scanty rewards of internal growth, whether regulatory or financial, and operative advantages push the group from the beginning toward external growth and a reticular configuration of the manufacturing structure, made up mostly by a network of independent manufacturing suppliers, co-ordinated by the group head.

The stage of development through vertical integration (Chandler, 1962) is instead absent in Sixty's growth. One of the Group's secrets of success was actually that of remaining light and flexible, never internalising either the manufacturing base (organised season by season, according to needs and thanks to an international, national and local production fabric, already rich of manufacturing expertise and operative flexibility) or the creative base, also open to welcoming the younger and original talents in the market.

Continuous research of originality, transparency toward the outside, openness toward new ideas and personalities, according to contractual forms that are always flexible even in the more purely organisational and managerial roles, "lightness" are values at the base of Sixty's culture and they are not very compatible with the Chandlerian model of vertical integration and "hierarchy".

In the fashion sector, market transactions appear to be both more efficient and more effective than hierarchy based transactions and it is this that generates organisational networks rather than big companies integrated in the classical Chandlerian tradition and typical of its industrial sectors (motor, oil, chemical, large scale retail trade). The fashion sector is often considered a "traditional" industry as the motor, oil and chemical industry are but its structure is entirely different. It is not the lack of capital or a managerial culture suitable for the management of big business but the actual essence of transactions in the fashion sector and the continuous pursuit of creativity and flexibility that defines non hierarchical network structures (see Cerruti and Harrison, 2006, for an analysis of Gucci's structure).

Coase's perception (1937) and his conceptual approach grasp the nature of these transactions. These have a low level of "specificity" (the same machinery of the manufacturing supplier can be used for different brands and productions), a controlled and programmable "frequency" (launch of collections and new information instruments of production management allow the effective management of large networks of manufacturing suppliers that are external to the company) and low "uncertainty" (many manufacturing suppliers available on the Group's side, many groups needy of manufacturing services on the suppliers' side) and therefore they are more manageable with

market transactions. If it is true that the harmonisation of the contractual interfaces that bind the parties, in such a way as to influence adaptability and promote continuity, is a source of real economic value (Williamson, 1986), and this occurs mostly within companies, the same result is reached in a large part of the Italian fashion sector from market transactions, thanks to both their repeated and systematic character and a mutual “trust” (Dei Ottati, 1994) of socio-territorial origin capable of reducing many of the typical market transaction problems (limited rationalisation, opportunism, information asymmetry and moral hazard).

The process of restructuring, with the merging of three of the main companies, following their constant and strong growth, and the internal reorganisation described in the preceding paragraphs also eludes analysis using the classical models. In place of the divisional structures provided with autonomy, foreseen by the Chandler, facing growing international volumes and diversification, we have mergers and rationalisations of company functions. Once again the Chandler’s model of internal growth does not occur. Scott’s (1971) distinction between “divisionalisation”, as the choice of an efficient structural typology and “decentralisation”, or the different stages of development, tied to production portfolios, foreseen by Channon (1973), do not adapt themselves to analysing forms of businesses that emerge from the market and that continue to use market transactions even when under the management of the same economic entity. In Sixty’s new structure, for example, the *Brand VPs* negotiate on a contractual basis with the *Operations VP* and a large part of the manufacturing activity is externalised and regulated contractually.

The most efficient key to read Sixty’s development remains that of the industrial network that, according to the nature of the transaction costs involved (frequency, specifics, uncertainty) reorganise and remodel itself, pursuing efficiency and effectiveness, in a structure that is always flexible, never crystallized in the impossible pursuit of “controlling” the creative processes that in the fashion sector tend to be “uncontrollable” on account of their nature and open to external contamination.

Functions such as administration, finance, accounting and purchasing were better managed by individual companies during the launch phase of new brands where the safeguard of initiatives required separating said functions from the main brands’ ordinary activity, through assigned partnership structures. Growth in size and internationalisation generate instead, duplications and losses of opportunities in terms of economies of scale and specialisation. Hence the need of merging and reorganising functions to regain efficiency and effectiveness.

Sixty’s process of internationalisation confirms our second hypothesis with

regard to the interpretative superiority of Uppsala's model (Johanson and Vahlne, 1977, 2009) in describing the internationalisation of "industrial networks" of Italian companies in the fashion sector. The described modalities of internationalisation were a necessary consequence of the reticular structure: they were incremental and on progressive levels of engagement and learning, linked to purchasing times and processing of knowledge and connections on behalf of the network. The stages were those typical of Uppsala's model of internationalisation (Johanson and Vahlne, 1977): commercial penetration through indirect channels, direct export with their own agents, marketing branches, production agreements and, finally, their own production establishments.

The choice of countries was tightly linked to reasons of cultural affinity, *psychic distance* and geographical proximity: firstly the domestic and European markets, then the North American, and lastly the Chinese and Eastern markets with their different approach to "casual wear".

What is special in the Italian fashion industry in respect to the revised Uppsala model and its "business network view of the environment faced by an internationalizing firm" (Johanson and Vahlne, 2009), is that the internationalizing firm itself is a network structure and not just the environment outside. The boundaries between market and firm are blurred and constantly changing and the governance role of the founding team is critical in keeping the strategy-structure fit.

## 6 Conclusions

The present case study makes a contribution to research on the internationalization process of firms in the *made in Italy* fashion sector, focusing on the strategy-structure fit and the governance role of the "founding team" in providing such a fit.

The case proves our *first hypothesis*: unlike the high tech new ventures, a talented founding team, with no special connections, formal education or experience in the field, may have a key governance role in crafting an emergent internationalisation strategy and keeping it coherent with firm's structure, as it is in our case study.

The case proves our *second hypothesis*: the classical deterministic stages of business development of the Chandler's tradition do not adapt themselves to our case; the casual link between strategy and structure is still true but Uppsala's model of incremental learning and internationalisation appears to be the most effective explanatory paradigm (Johanson and Vahlne, 1977, 2009).

In our case study international growth is an incremental learning process, based on cultural closeness and on building networks and relationships with suppliers and customers (this was, for example, the sort of relationship between the two founders before the founding of Sixty), where “the internationalising firm is initially engaged in a network which is primarily domestic” (Johanson and Vahlne, 1990, p. 18) and even inside a city in the early beginning our case study. In successful fashion companies the strategy is an emergent (Mintzberg and Waters, 1985) and adapting one but it would be entirely wrong to underestimate the existence and the driving force of a founder or a founding team with a clear strategy and business view: “At the surface it might seem that it is easy to network just as climbing a ladder from relationship to relationship. The building of business network relationships is a complex and delicate matter, which requires resources and time as well as responsiveness to the interests of partners” (Johanson and Vahlne, 2003, pp. 98–99). Mutual “trust” (Dei Ottati, 1994) of socio-territorial origin and the “industrial atmosphere” embedded in Italian industrial district (Becattini, 2000) may still help to create trustworthy relationships and networks, but a talented “founding team”, able to keep a strategy-structure fit in a changing environment, is what makes the company we have analysed a “leading company” (Lorenzoni, 1990), capable to growth beyond the national borders and lead its own “industrial networks” towards a successful internationalization in foreign markets. The company we have analysed represents, in fact, a typical “leading company” (Lorenzoni, 1990) in the fashion industrial networks.

Uppsala’s model, in fact, that well fits the internationalisation process in our case study cannot be considered a different deterministic model, with a different and international focus, in respect to Chandler’s and other classical models, as it is all about “learning and commitment building or, more precisely, on the interplay between knowledge development and increasing foreign market commitments” and “is not the ‘establishment chain’, going from ad hoc exports to the establishment of manufacturing subsidiaries. This was the empirical phenomenon we observed, giving the impetus to construct the model” (Johanson and Vahlne, 2006, p. 166). Despite the fact that in our case we observed a very similar empirical phenomenon and “establishment chain” as Johanson and Vahlne did, we believe that the most interesting point is not the “establishment chain” but the “incremental process of internationalisation” in relation to a driving and “emerging strategy”. We entirely agree with their recent statement about the model: “So, we claim our model is not deterministic. [*ldots*] As we now see it, the incremental internationalization process is about exploiting the opportunities identified at the moment” (Johanson and Vahlne, 2006, p. 175). We add that their

model fits with our case of fast growing SME in the Italian fashion industry.

“Literal replies” and “theoretical replies” (Eisenhardt, 1989; Yin, 1989) of this and other business cases will be necessary before drawing theoretical conclusions on the processes of internationalisation of firms in the Italian fashion sector and the governance role of the founding teams. This case has provided an empirically based “analytical generalization” (Yin, 1989) to be verified in similar firms. The subject is of great relevance for the governance of many internationalising SMEs in the fashion sector that have difficulties in finding a strategy-structure fit capable of opening them up to the new and huge opportunities of emerging markets. A more thoughtful understanding of the processes of internationalisation of firms in the Italian fashion sector and the role of the founding team may help to identify the most effective concepts and models for their governance.

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