
International manufacturing strategies: experiences from the clothing industry

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Introduction

Global competition urges firms not only to develop a strong commercial presence in the world market, but also to assume an international configuration with regard to operations. Today this challenge tends to concern the majority of firms, including small and medium ones. The internationalization of manufacturing activities presents complex questions to both researchers and managers: “why” to pursue a global production strategy, and “where” and “how” to redeploy production processes. In recent years several works have faced these questions, both in the managerial[1-5] and economic literature[6,7]. As these studies testify, a “single theory” appears to be inadequate to explain all the possible internationalization patterns, as well as the identification of a “best way” seems to be unlikely. In fact, empirical evidence proves that reasons and decisions related to a global manufacturing strategy can be extremely differentiated, at national, sector, and also firm level. Consequently, theories and models used to describe or manage the internationalization process have to be contextualized to the reality of the single firm.

In general, empirical studies have concerned sectors with a high intensity of R&D and/or large companies[1,3]. These studies often focus on the strategies and operational solutions of a specific firm[8,9], thus raising the question of how the suggestions derived from these experiences can be applied in radically different situations.

In this sense, the traditional consumer goods sectors are interesting examples, because they show heterogeneous and even conflicting cases. In industries like clothing or footwear, the strong incidence of labour cost and the few opportunities for automation have caused in the last decades a downsizing in employment in almost all the advanced countries. In the presence of a stable demand and an ageing technology, the migration of industrial activities to low-wage countries has been considered unavoidable[10]. Subjected to the growing

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competition of developing countries, many firms have left the market or have redeployed production to low-wage nations[11]. Nevertheless, there are specific situations that deserve a deep investigation. This is the case of the Italian clothing industry which, in contrast with other advanced countries, has seen employment remain quite stable. In fact, despite a lasting commercial presence on international markets, the production activities have been generally maintained in Italy. Hence, the process of manufacturing internationalization is a recent phenomenon[12], which only now is reaching a remarkable dimension, involving both large and small- to medium-firms.

The paper is aimed at examining the international manufacturing strategies of Italian clothing firms, and verifying how concepts and models derived from other studies can be applied to this specific case. The results of an empirical research on the Italian clothing industry are presented and analysed, focusing on:

- the industry and country specific factors that have influenced the internationalization of firms;
- the extreme variety of firms' behaviours, and the associated advantages and problems;
- the main factors which have affected the single company global strategy, and the resulting specific foreign commitment and operational decisions.

The study has been conducted through the preliminary collection of general information about the sector, to draw the international competitive position, the key strategies, the technological and manufacturing problems. Various sources have been used: sector experts, trade associations, international statistics and specialized literature. On the basis of this information, a multi-case study has been carried out on a sample of 14 firms, selected from among the best known and successful in the industry (Table I). This number was sufficient enough to include companies which were different with regard to size, product/market strategy and technological competence; the influence of each factor on the international strategy of the single firm has been examined.

The data on the international manufacturing experiences of each firm have been gathered through unstructured interviews to the companies' managers, where elements like the geographical destination of production redeployment, the final markets, the organizational solutions and the success and problems of the international experience have been collected.

Internationalization of production: why, where and how

Why

According to Porter[13,14], the rationale of a global strategy stands on the competitive advantages it assures. Where the Italian clothing industry is concerned, it is worth noting that its success has levered on factors as: product innovation and differentiation, superior quality, and high service. Nevertheless, from the beginning of the 1990s new competitive arrangements have been emerging. In particular the process of market globalization is compelling Italian

Name of the firm	Main business area	Turnover (billion of lire, 1992)	International manufacturing strategies
Benetton	Casual wear (medium quality)	2,512 ^a	73
Marzotto	Formal wear (medium quality)	1,952 ^a	
GFT	Fashion wear (medium-high quality)	1,555 ^a	
Stefanel	Casual wear (medium quality)	472 ^a	
Zanella	Informal wear (medium-high quality)	170	
Diesel	Casual wear (medium quality)	165	
Forall	Formal wear (high quality)	152	
Corneliani	Formal wear (high quality)	146	
Belfe	Sports wear (high quality)	127	
Pepper	Informal wear (medium quality)	125	
Sanremo	Formal wear (medium-high quality)	115	
Hitman	Formal wear (medium-high quality)	63	
Henriette	Formal wear (medium quality)	57	
Sportswear International	Informal wear (high quality)	32	

Note: ^aGroup balance sheet

Table I.
List of observed firms

firms to face a growing number of competitors. Also consumer behaviour is rapidly changing: while the griffe (i.e. the label of a famous stylist) is losing its appeal, the importance of the intrinsic quality and of the quality/price ratio has grown. All this undoubtedly is making it more difficult to preserve the success obtained by the Italian style.

These conditions are causing a growing competitive pressure inside the industry; many firms are still searching for their future strategic moves[15]. The reinforcement of the presence in the international market will be surely crucial, but this will probably be coupled by: a rationalization of the offered items (more targeted products with an adequate price/quality ratio); a focalization on core competences; a stronger attention to cost reduction; the adoption of a flexible and lean manufacturing organization able to give a quick response[16] to the market.

In this framework, Italian firms have begun to consider carefully the advantages offered by a global manufacturing configuration[12,17]. The first reason is obviously the possibility of achieving cost savings, but this motivation is not unique and, for some firms, not the most important. In fact, many goals may be pursued through international manufacturing, as the fundamental classification of Dunning, which identifies various generic types of international operations[6], highlights:

- *Natural resource seekers* invest abroad to acquire specific resources at low costs. In our case, low-wage labour is the most demanded resource, both for domestic and for foreign market production. This occurs for

clothes (informal wear and casual wear) requiring less specialized competence but implying an intensive use of manpower, or for standardized formal products (men's shirts). By contrast, high quality and fashion garments request specialized competences which are unlikely to be found abroad.

- *Market seekers* invest in a particular region to supply goods in the same or adjacent areas; this is the first goal for firms aiming at penetrating into new or rich markets. This strategy requires not only to contain freight and logistics costs, but, above all, to overcome protectionist or cultural barriers that are very relevant in some countries (e.g. Japan).
- *Efficiency seekers* consider foreign investments as a way of rationalizing the existing structure, thus gaining from the common governance of geographically dispersed activities (e.g. through scale and scope economies, or risk diversification). A typical situation occurs when a high-quality product line is complemented with casual, low-cost lines manufactured abroad.
- *Strategic asset seekers* promote their long-term strategic objectives by acquiring the assets of foreign corporations. Examples are the acquisition of trade marks and the commercial agreements in specialized segments, or the search for specific managerial or technological competences.

Obviously, the operative decisions of each firm about location (where) and configuration (how) of the international production system are related to the strategic goals; nevertheless the identification of this relation deserves a careful analysis, since many alternative options exist (Figure 1).

Where

The main factor affecting the location of production activities is the availability of nation-specific resources[13,14,18]. In the case of clothing, unskilled, low-wage manpower is the most sought resource. It can be found in North Africa, South America and some areas of the Far East.

Location also depends on tradeability issues[19]. Delivery times, logistic costs, tariff barriers, government and trade incentives may favour specific sites. These factors can justify the manufacturing location in advanced countries like Japan or USA, or in developing countries which are close to the major customer markets: Mexico, for example, can be considered as a "springboard" for North American markets, as are some Far East countries (China, India, Korea) for the Asian market. The site decision can also be influenced by other managerial considerations, such as differences in culture, communication problems and so on. For example, cultural and organizational affinity and a good quality level of production (jointed to a favourable cost differential) favour the relocation of production in some east European countries such as the Czech Republic and Slovenia.

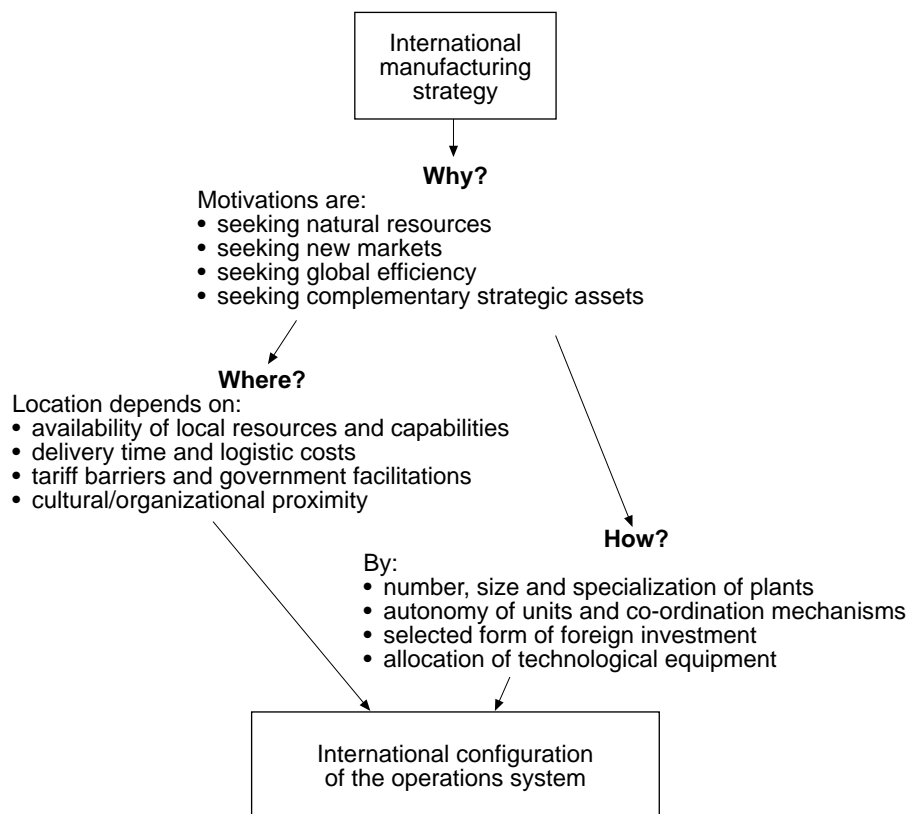


Figure 1.
Questions in defining
international
manufacturing
strategies

How

To implement an international manufacturing strategy effectively, substantial decisions about the configuration of the global operations system, the co-ordination mechanisms and the allocation of the technological equipment are required[13,20].

Configuration of the production resources. This concerns plants (number and size) and operational flows. Since the clothing manufacturing process includes many phases (Figure 2), characterized by different techno-economical features, not all the production activities can be conveniently relocated abroad. In particular existing links along the value chain, and benefits deriving from the close proximity among different activities can offset the advantage of an offshore location[7]. The search for scale economies and the complexity of material flows suggests the localization of the entire process in a unique plant or country; instead, when flexibility and reduced political-economic risks are pursued the sharing of manufacturing among different units may be preferred. The design phase, where qualitative and fashion attributes are defined, is generally done internally given that it plays a substantial role in the firm's success. Fabric cut is nearly always done internally or outsourced to expert

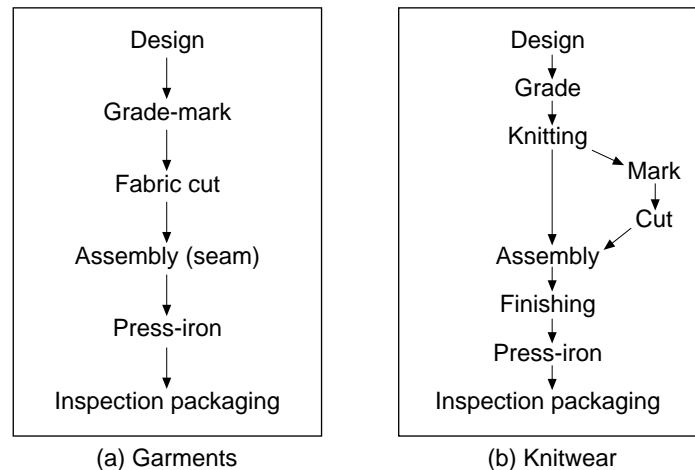


Figure 2.
Manufacturing process

domestic subcontractors, since it affects the quality of the finished product unrecoverably. Furthermore, the complexity of the co-ordination flows can question the delocalization of small production batches. On the contrary, when quality is not a critical factor, cutting can be putted out, together with the assembly phase, thus limiting logistic problems. Assembly (seaming) and, in part press-iron, are the most labour-intensive and hence the most indicated for relocation in low-wage countries. Difficulties emerge in high quality goods, or when time is a critical factor. Knitting and finishing are capital-intensive and require high ability in the use of technology; their performance largely affects the whole process in terms of quality, time and material consumption; all these factors hamper their international delocalization.

Co-ordination mechanisms. They regard: autonomy allowed to foreign plants; global and local planning criteria; personnel management; industrial engineering; product design; quality control policies. In general, Italian firms send their technicians abroad to control and govern the foreign plants locally. In any case, the degree of control over the foreign activity is linked to the selected investment form. Direct investments may be needed in countries with an insufficient presence of local enterprises; they are also adopted to pursue a strategy of strong market penetration. The hold of a majority of equity permits a total control, that means the maximum operational efficiency; the availability of a fixed production capacity; a good control on quality performance. However, not only high financial and managerial resources are necessary, but also high switching costs emerge.

International subcontracting is an important form of investment for Italian clothing firms, which has been favoured by a long experience of domestic subcontracting. It implies no equity in the local firm, and means low switching costs and reduced risks related to the political instability of a country. Problems involve the research of appropriate partners, and the transfer of managerial and technical competence.

Joint ventures with local producers or distributors and licensing arrangements of trademarks, are used frequently to facilitate access to local markets. They require low investments and can also be used by firms with scarce financial or managerial resources. A limited control on partners and a reduced profitability are however implied.

Technological investments. Even if automation has regarded the clothing manufacturing process only in a small part[21], for some specific phases there are technologies (automatic cutting and computerized knitting machines) that have a radical impact on cost structure and time efficiency, and allow high quality. Their adoption generally implies considerable investments and a deep process re-engineering. Insofar as these technologies are labour saving, their diffusion can limit the competitive advantage of low-wage countries.

Other phases of the process, instead, including important operations as seaming or ironing, are still labour-intensive. Some innovative machines allow the automation of single operations, but they have a limited impact in the process and do not really affect the cost structure. It is worth noting, however, that, since they incorporate implicit skills and formalize tacit know-how, these devices may help in overcoming questions raised by the transfer of manufacturing competences abroad.

Finally, support information technologies such as CAD and telematics, can impact on the single phase and on the whole process. CAD systems not only increase the efficiency of design, but also the opportunities of integration with the manufacturing process (i.e. with automatic cutting). Telematics can allow a better management of information flow; they could make the co-ordination of worldwide activities easier[22]. However, their use is still problematic; a major limit for the diffusion derives from the high investments involved and the resulting effects on organization. Telematics also require the automation of information flow, which is very difficult in the case of the clothing industry, where exchanged information is largely characterized by tacit and informal contents.

Why, where and how in the experience of Italian clothing firms

In this section the experiences of each surveyed firm are described briefly, in order to single out the why, where and how of their international strategy. Empirical evidence proves the plurality of aims, the variety of employed instruments and the large number of the geographical areas involved (Table II). One of the most active companies in the international arena is undoubtedly Gruppo Finanziario Tessile (GFT), which during the biennium 1988-89 undertook 27 international ventures. Strongly oriented to the foreign market (about 67 per cent of its turnover), GFT has developed a considerable international presence; first through exportation, then through commercial branch houses and finally through direct investments. In the GFT strategic vision, the purchase and the creation of production plants abroad follow a market seeker logic, as the acquisition of the US company Riverside, and the control of the German Baumler (1,800 employees, three production plants, seven

Firm	Why	Where	How
Belfe	NRS	North Africa	Cutting and assembly; subcontracting
Benetton	MS NRS	Far East, Latin America Turkey, Tunisia	Joint venture and subcontracting Only assembly; subcontracting
Forall	MS MS (Europe) and NRS	Japan, Korea Poland	Joint venture; entire process Direct acquisition
GFT	MS (Europe) MS (Asia) and NRS	Germany, France China	Direct investment Direct investment
Henriette	NRS	Hungary, Tunisia	Joint venture
Hitman	MS	Germany, USA, Japan, Latin America	Licensing
Marzotto	SAS	Scotland	Knitwear only; direct acquisition
	SAS; MS	Germany	Formal wear; direct investment; acquisition of specialized competences
	NRS	East Europe	Formal wear; assembly only; subcontracting
Pepper	NRS and ES	North Africa	Sportswear (complementary lines); assembly only; subcontracting
	SAS	France	Direct investment; manufacturing of a specialized product line
Sanremo	NRS	East Europe, Portugal	Subcontracting
	NRS NRS (ES)	East Europe East Europe, Portugal	Direct investment; strong control Sportswear only; subcontracting
Sportswear International	NRS	East Europe, Morocco	Only assembly; subcontracting
Stefanel	NRS	China	Joint venture

Notes: NRS: natural resource seeking; SAS: strategic asset seeking; MS: market seeking; ES: efficiency seeking

Table II.
International
manufacturing
initiatives of the
surveyed firms

labels) testify. Very important co-operative arrangements with glamorous foreign stylists (e.g. Dior, Montanà, Donna Karan) have also been established, with the aim of approaching the offer to the local tastes. A production agreement in China for the assembly of men's suits is instead aimed at both exploiting low-wage labour (natural resource seeking) and more simply at serving the Asian markets (market seeking). International production is also supported by an intense effort of technological improvement; telematics, for example, is used to support the electronic linkage between subsidiaries and headquarters.

Another big formal wear producer, Marzotto, maybe due to its national focus, has been in the past less dynamic in the international arena. Its production activities were mainly internal, and marginal decentralization regarded

sportswear products. Only in the last years, with the acquisition of Hugo Boss, a large and strongly export-oriented German firm very skilled in foreign subcontracting, Marzotto reached a global dimension. In this case, the logic of strategic asset seeking has been followed, with the aim of acquiring the competence of Boss. The growth of international manufacturing activities now involves various initiatives, and is also supported by an intense technology transfer through the engineering division, whose mission is to supply turnkey contracts all over the world. This “technology transfer” concerned Egypt, Slovakia, Romania, India and was often combined with subcontracting agreements. Investments in East Europe have been mainly decided because it was possible to couple the use of skilled workers with low labour and freight costs; a high productivity is the aim: a Slovak plant assembles 400 suits daily, and in a Romanian firm Marzotto has planned to produce respectively 600 suits/day for Marzotto and 700 for Boss. Very different from this is the Marzotto manufacturing strategy in the case of sportswear labels (in particular Marlboro), where quality is less critical: assembly is totally outsourced; for example, in Tunisia and Morocco.

Also medium-small formal wear producers have been involved in international experiences. Sanremo, a strongly integrated firm whose production is kept in directly owned plants for quality reasons, has followed the same organizational model in its international strategy. Foreign manufacturing, mainly devoted to natural resource seeking, is subjected to a strong control in three directly-owned production plants (France, Hungary and Bulgaria). Subcontractors, both domestic and international, are involved only in the informal wear, lower-quality products, and are in any case controlled by Sanremo technicians.

Two competitors of Sanremo have adopted different strategies. Like Sanremo, also Forall prefers to keep a strict control over the whole process, but its foreign experiences, mainly in the logic of market seeking, are aimed at exploiting the prestige of its brand. Forall participates in a joint venture with a Japanese enterprise to produce and market the Forall Club label, and has also developed agreements with Korean and Spanish partners. Also the “Pal Zileri made in Poland” project, which involves the establishment of a production plant near Warsaw, is aimed at producing garments for the East European markets. Some foreign initiatives of Corneliani are instead oriented to obtain cost savings. An example is a recent venture in East Europe for assembling its diffusion line Via Ardigò.

As concerns informal wear makers, in principle the production of informal and casual products, especially when a lower quality is implied, could be easily delocated to low-wage countries. However, this does not always occur. Benetton, for example, is particularly dynamic on the international scene, but especially with regard to the commercial activities. The major part of manufacturing, in fact, still remains in Italy (about 92 per cent of the total production in 1993), where a wide network of domestic subcontractors assures high productivity and flexibility. In addition, some phases have been internalized through the

adoption of sophisticated technologies (CAD, automatic cutting, computerized knitting machine, dyeing equipment). Since its organization model is difficult to reproduce abroad, the international initiatives of Benetton have mainly aimed to exploit single investment opportunities. In some cases (e.g. China and India), where the target is the local or regional market (in a broad sense), all the production process is executed there. In other cases (Turkey, Tunisia and more recently Egypt) only seaming operations are delocalized, trying to obtain a more balanced costs mix. It is worth noting that Benetton uses a worldwide telematic network, but this essentially regards the distribution activities.

Also, the international activities of another well-known informal wear producer, Stefanel, regard the commercial side. As at Benetton, Stefanel's production is mainly based on a large network of domestic subcontractors. Nevertheless, the interest for international production is growing, especially in order to improve efficiency of labour-intensive production phases. A joint venture in China is being projected; other collaborations in eastern Europe are still in the planning phase.

Pepper, even if its size is smaller than Stefanel and Benetton, has set a thick web of production agreements abroad. Investments in east Europe are mainly aimed at natural resource seeking, i.e. cost savings, especially in garment production (knitwear production, instead, still remains in Italy for technological and quality reasons). The firm was involved in the reorganization of a weapons plant in Bulgaria, presently used as an exclusive subcontractor. In Hungary, Pepper has a co-operative arrangement for the assembly of men's and women's trousers, shirts and jackets. Several small Portuguese subcontractors are used to assemble plush products. The outsourced activities are managed by means of several technicians which, with turnover, stay abroad. Another important investment is the acquisition of the French company Moncler. In this case, a logic of strategic assets seeking has been followed, since Pepper aimed both to acquire the specific competence of Moncler in highly specialized products (ski jackets) and to complement its sportswear lines.

The international subcontracting of two other medium-sized informal wear producers is totally in the logic of cost reduction. Belfe has experienced both Morocco's (with unsatisfactory results) and east European partners. Even this firm strictly controls external activities, aiming at the continuous selection of the most reliable partners: a detailed technical chart is used to evaluate the performance of each subcontractor periodically. Analogously, Zanella, for its sportswear label Henry Cotton's, started several subcontracting collaborations in North Africa and Mauritius, and even in South America.

Another informal wear producer, Diesel, working in the casual segment, prefers Italian subcontractors which are stimulated and supported in their continuous technological improvement. Moreover, thanks to advanced technical solutions that can be used for standardized productions (in particular efficient sewing machines for five-pocket jeans), Diesel is able to assemble an article in a relatively short time and consequently with a relatively low labour rate. For all these reasons the path of international production has not been undertaken.

Also very small firms are interested in the process of international manufacturing. The internationalization strategy of the Hitman company, the clothing division of the Cerruti Group, is based on a wide licensing activity. Licensees are worldwide: Germany, USA, Japan, Brazil, Argentina. Hitman also owns a high-quality knitting plant in Scotland, which has a wide autonomy. Through this strategy, Hitman, even if it maintains a very diversified product range, is able to focus its manufacturing competence on formal men's suits. Sportswear International, licensee of famous Italian griffe Krizia and Moschino, decentralizes part of its assembly activities to the nearby Slovenia and Croatia and even to Morocco, where it sends technicians to control the assembly operations.

Henriette, a medium quality formal, womens wear producer, has shared in two production joint ventures in Hungary and in Tunisia. While the first is still giving good results, the second has been extremely difficult to manage, consequently inducing the firm to leave.

Conclusions

The investigation of the experiences of Italian firms allowed us to point out the extreme variety of strategies and solutions, and the lack of a unique way to arrange global manufacturing. Through a detailed examination of the main elements characterizing the firms' experiences, some considerations about the rationale of an international manufacturing strategy and of the adopted operational solutions are possible.

Why

The research of cost-based advantages is an important goal. Given that the clothing industry remains labour intensive the opportunities offered by low-wage countries are still strong. Many Italian firms try to combine their traditional competitive factors, based on product innovation and differentiation, with a manufacturing strategy able to assure relevant cost savings. However, the delocalization is strongly affected by the characteristics of the specific product. High-quality clothes for example, need specialized skills and assets and also imply a high incidence of raw material costs in comparison with labour. Hence, in high-fashion segments, firms prefer to maintain in-house production. But even when low quality is involved (as for informal wear or casual wear makers), the production may be so standardized and require so little labour that it is still convenient to keep it in Italy. However, there are many firms which combine their main lines with supplementary items of lower quality that are assembled in low-wage countries.

In any case, firms are not looking only for immediate cost benefits, given that many international moves are related to market seeking, in order to penetrate protected markets. This strategic goal is very relevant, also for many small and medium firms. In general, the effort is to reduce the distance between production and local distribution. Also, the seeking of strategic assets, i.e. technical or managerial competences, may be a motivation to go abroad.

Substantially, the internationalization strategy of a firm is often a trade-off among a combination of different goals, so that the same firm may adopt a multiform configuration. Furthermore, it is worth noting that the dimension of the international configuration does not depend exclusively on the firm's size: as it has been underlined, there exist small firms that manage wide international manufacturing networks and, at the same time, large companies with a small propensity to internationalization.

Where

Location in a particular country depends on the specific scope of internationalization, and it is influenced by a combination of factors such as labour costs, political-economic risks, availability of distinctive capabilities, geographical and cultural proximity to the headquarters and/or to the final markets. The decision is also affected by the firm's cultural/organizational characteristics, and by its previous experiences. Therefore, the same destination may answer different motivations, as well as firms having similar characteristics and goals may prefer to locate production in different countries. At present, many Italian companies prefer east European partners, especially in the formal wear segment. These, in fact, already offer acceptable quality levels at a reduced labour cost, and can count on a long and widespread textile tradition. Also, the cultural and social environment, in addition to geographical proximity, appears a favourable element. North African partners (Morocco and Tunisia) are involved exclusively when low labour cost is sought, especially in the case of sportswear; the initiatives in Africa are relatively few, because of quality and management problems. Far East partners (China, India, Korea) and Latin America are also chosen when an insider strategy on adjacent markets has to be developed. Advanced countries are not excluded by the internationalization process, especially when specific assets are searched for, or when the aim is a strong penetration in that market; North America and Japan attract more than one-third of the total number of initiatives, the aim is to overcome the well-known protectionist constraints.

How

There are a variety of possible system configurations. When reduced labour costs are sought, decentralization regards assembly, the most labour-intensive phase and less frequently cutting. However, when high transport costs and complex material flows are implied, the whole process can be localized abroad. Design activities remain in-house; this avoids the transfer of the firm's core competence to the local partners who could become future competitors.

In general, firms tend to maintain a strong control over operations. Italian technicians are often sent abroad to manage the delocalized activities. However, the adopted solution is affected by the investment capability of the firm, the geographical distance between partners and the fiscal and legal regulations. Direct investments, generally used when a strict control on the manufacturing activity is needed, are privileged by major enterprises and big groups; instead,

medium-small firms prefer subcontracting and co-operative agreements, because they do not possess the financial resources for direct interventions. The dynamics of subcontracting used by the Italian firms are surprising, considering that it more than duplicated during 1993. Licensing and joint ventures are also employed when insider strategies are pursued, especially in the Far East.

When technology is considered, it is worth noting that the adoption of capital intensive technologies (particularly in cutting and knitting) generally limits the resort to international manufacturing. Also CAD systems, largely diffused in the industry, have a great importance in the internalization of design activities. Instead, telematics could ease the control over international, widespread activities; but their use is still problematic and the present applications generally concern commercial activities and only in part manufacturing.

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