

How can Small- and Medium-sized Enterprises (SMEs) Successfully Evolve?
Lessons learned from Apparel and Textile SMEs in Biella, Italy

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Introduction: Approximately, 95% of apparel and textile firms in the US are small- and medium-sized enterprises (SMEs). SMEs contribution to a nation's economy is significant as they account for a majority of firms and create more jobs than larger firms. Nonetheless, survival rate of SMEs is considerably low. In the US, about 50% of SMEs survive five years and only about one third survive 10 years or more (U. S. Bureau of Labor Statistics, n.d.). In contrast, Italy has one of the highest survival rates for newly born enterprises in the world – 86% survive their first year (Eurostat, 2014). Compared to SMEs in other countries, many Italian firms started as small family businesses in a district and have evolved into a global firm such as Ermenegildo Zegna. To understand how SMEs can evolve successfully, it is critical to learn from successful Italian apparel/textile firms that started as SMEs. Built on the life cycle model of new SMEs (Kazanjian, 1988), the purpose of this study is to explore the evolution patterns of successful apparel and textile firms in Biella, Italy and analyze the characteristics of successful firms.

Literature review

Why SMEs from Biella, Italy?: Italy is known for its industrial district system. About 141 districts existing in Italy altogether account for about one fourth of total employees and local production units. Each district focuses on the production of certain products. Biella, located in northern Italy, produces mainly fine wool textiles since the mid-1600s. In the district, some firms, such as Zegna, have evolved into a global apparel brand. Therefore, Biella district is a good place to examine SMEs' evolution patterns and characteristics of successful SMEs.

SME evolution patterns: According to Kazanjian (1988)'s life cycle model of new SMEs, SMEs evolve through four stages (Conception and development → Commercialization → Growth → Stability) and there are focuses and hurdles that characterize each stage. In the first "conception and development" stage, firms' primary focus is to develop a product or technology that can be commercialized. Some of the key hurdles include construction of a product prototype, securing financial resources, and developing a market. In the second "commercialization" stage, the firms now have a product that performs well and is ready to be commercialized. Firms, then, focus on creating the capability to produce and sell the product. Hence, establishing relationships with suppliers is crucial. In the third "growth" stage, the firm's focus shifts from product to manufacturing process. The major challenge is to maintain an efficient process that produces, sells, and distributes the product in a large volume. In addition, marketing becomes increasingly important so that the firm can successfully brand its own product in a competitive marketplace.

During the last stage of “stability,” the typical focus is to secure future growth bases. Firms often develop a second-generation product or try to penetrate into new geographic territories, including the international market (Kazanjian, 1988; Moy & Luk, 2003).

Method: Thirteen successful firms in Biella, Italy were selected considering three selection criteria: firms with i) growing sales revenues for the past five years, ii) varying sizes of firms, and iii) varying production activities from yarn production to retailing with their own brands. Using the European Union definition, interviewed firms include one micro firm (hires less than 10 employees), five small firms (hires 11-49 employees), two medium firms (hires 50-250), and five large firms (hired more than 250). Firm age ranged from 24 years old (est. in 1992) to 353 years old (est. in 1663). Sales volumes ranged from 2.8 million € to 1.2 billion €.

At least one executive in each firm was interviewed at their headquarters via one-on-one interview method using semi-structured questionnaire. Based on key activities in each stage identified above, interview questions included activities related to each stage; i) their production activities (1st stage), ii) manufacturing capabilities and distribution (2nd stage), and iii) marketing and branding activities (3rd stage), and iv) internationalization activities (4th stage). In addition, their v) sustainable initiatives and vi) specific innovation aspects were asked. Data triangulation was conducted with secondary data available from their websites and diverse databases.

Results and Implications: Analyses of firms’ evolution patterns revealed that all cases started with production of wool and related yarns and textiles (cashmere, camel hair, alpaca, vicuna, mohair) as small family businesses. Among them, four firms (Zegna, Cerruti, Loro Piana and Successori Reda) evolved to global apparel firms. All 13 cases have gone through all four stages; however, the firms did not follow exactly the same stages as Kazanjian (1988) suggested. However, branding (3rd stage) and internationalization activities (4th stage) that occur after building capacity and distribution (2nd stage) (Kazanjian, 1988) emerged very early in this study. From the very beginning, brand name (i.e., family name in most cases) was woven on the selvedge of fabrics or on yarn package to signify their quality in majority of cases. All 13 cases entered global markets either with their textile products or apparel brands. Time taken for their first global market entry ranged from 0 years (i.e., upon the establishment of firms) to 262 years.

Interview findings revealed that successful Italian SMEs characterize: i) ongoing innovation on their products and raw materials, ii) sustainable initiatives, iii) obtaining international environmental and quality standards, and iv) continued succession of family business (three were unanswered and one was partial). These findings collectively suggest that to successfully evolve, SMEs need to pay attention to branding, globalization, constant innovation and sustainable initiatives. While branding and globalization were mentioned in Kazanjian (1988), the latter three were newly identified in this study. Discussion of the findings, academic and practical implications were suggested further. A district system in Biella, Italy may play a significant role in their survivals; thus, further analyses in other districts in Italy and comparison with SMEs in other countries are needed for generalization.

Kazanjian, R. K. (1988). Relation of dominant problems to stages of growth in technology-based new ventures. *The Academy of Management Journal*, 31(2), 257-279.