The Strategy of Italian micro-small business to face the current economic difficulties

Author: Patrizio Corinaldesi

Tutor: Dr. Soniya Billore

Examiner: Dr. Rana Mostaghel

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ABSTRACT

The current economic-financial conditions in Italy are characterized by the financial crisis, decrease in demand, increase in taxation and banking credit restriction. Moreover, this aspects add up to structural problems of the Italian economy, like low level of labor productivity and high public debt. Italian industry is formed mainly by micro and small companies, that are suffering particularly this situation. This research wants to identify successful strategies for micro and small Italian companies to face actual difficulties and compete in these dynamics. To do that, the method chosen is the multiple-case and the qualitative research with semi-structured interviews to key respondents and strategic decision makers of three micro and small Italian companies. Starting from the literature review on strategic subjects, this paper wants to contribute to investigate a range of successful strategies that Italian micro-small companies could adopt to overcome current problems. The findings of this research are that part of the strategic process should be internal to companies, adopting a right size and boundaries, a good corporate culture, a rigorous financial management and a deep innovation’s process, both for process and products. Then, the more successful competitive strategy for Italian small company seems to be a hybrid strategy, mostly balanced on differentiation. Finally, a partial diversification by developing new products or/and new markets is a good strategy to diversify the high risk of the current situation and create new possibilities of success.

KEYWORDS: Micro companies, Small companies, Financial crisis, Business strategy, Italy.
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1. INTRODUCTION

The current financial crisis started in 2008 and the consequent recession in many countries in the world is affecting the business activity (Goddard et al, 2009). The impact on the new business creation is strong (The World Bank, 2010). A recent study in 2010 of the World Bank Group Entrepreneurship Snapshot shows that the financial crisis decreased the registration of new business to a global level. The advanced economies were more affected by their entry density than the emerging ones (Ibid.). These last countries were affected indirectly because the crashes of the global demand (The World Bank, 2010). The companies are in crisis. In the global market the competition is becoming ever stronger and more turbulent (Di Giacinto et al, 2012). The strategy is very important for companies to survive in the crisis and reach good performance (Ibid.). They need to improve widely the level of competitiveness, the innovation and the flexibility (Ibid.).

1.1. Background

1.1.1. The Financial Crisis

The global economic situation has been characterized during the last four years by the financial crisis and the consequent recession (Goddard et al, 2009).

During the 2000s years, the financial background had low global interest rates and a very high level of liquidity (Barrell and Davis, 2008). These two factors created a pressure on financial markets: investors had a lot of liquidity possible to invest however at that time interest rates were not enough high to do that (Ibid.). As a consequence investors have started to focus on credit investments without considering the quality of them (Ibid.). The lending to the households and the prices of asset increased widely, in particular in United States and United Kingdom (Ibid.). The higher risks were managed by the banks by relying on securitization, the creation of financial instruments, the risks shift off balance and this aspect reduced the incentive to control the loans (Ibid.).

During the 2007, the prices of houses in United States fell and defaults increased (Bellofiore and Halevi, 2011). The asset holders were uncertain of the value of their asset and the possibility of high losses on subprime mortgages was appeared (Ibid.). The system of risk managing and the securitized financial derivative-based packages did not work to nullify the risk: there were not any reliable collateral instrument (Ibid.). Banks could not securitize mortgages and loans (Barrell and Davis, 2008). Thus, they applied credit restrictions to try to solve their excessive financial leverage (Ibid.). In this uncertain situation, banks also blocked the interbank lending (Ibid.). The trading decreased and the credit access became very difficult also to take low risk operations (Ibid.).
consequence was a big demand for more liquidity, transmitted also to other markets and in this way affecting the global finance. The Central Banks offered a big volume of liquidity to try to save the situation, but the asset prices fell and the defaults on loans became very frequent (Ibid.). Banks losses were enormous (Goddard et al, 2009). An estimate of the International Monetary Fund in 2009 will talk about $2.7 Tn of asset’s write-downs in U.S. banks and financial institutions between 2007 and 2010, about $4 Tn of asset’s write-downs in all mature markets in the same period (Ibid.).

In September 2008, Lehman Brothers was not supported by the authorities and failed, and also AIG (American Insurance Group) faced deep recession (Goddard et al, 2009). Financial markets and the process of deleveraging became disorderly, the perception of the risk infect the World and the global finance (Ibid.).

Moreover, the trust to investors in banks decreased rapidly (Barrell and Davis, 2008). Also the equity market fell although it had not been main actor in crisis in a first moment (Ibid.). As a result, the crisis spreads to banks in other countries. The consequence were a partial bank sector’s nationalization in many countries (as United Kingdom, Iceland and Belgium for example) and a policy of helps to the banks in many other European countries (Barrell and Davis, 2008; Goddard et al, 2009).

Italian banks were not affected by subprime crisis (Goddard et al, 2009). In Italy there was not neither a bank nationalization process nor bank recapitalizations applied by many banks (Ibid.). However, it was necessary an activity of government’s support to reinforce the bank sector. In October 2008, the Italian government decided to use €40 billion swap facility to convert the bank debt to Treasury bill, preventing possibilities of banks crisis (Ibid.).

1.1.2. The Financial Crisis becomes Economic Crisis

The crisis in United States affected rapidly all the global economy (Anand et al, 2012). The collapse of the American economy created an important decrease in demand in U.S., all the typical exporter countries saw their economy to fall, and many firms fired employees, with the consequence of income crash and high level of unemployment (Ibid.). To face these problems and the bank crisis, many governments in Europe adopted a policy of public helps in order to support the short-term domestic demand (Ibid.). This dynamics and the consequent economic crisis affected the public balances in Eurozone (Bellofiore and Halevi, 2011). Many countries increased their public
expenditures and consequently their public debt by following these policies (Bellofiore and Halevi, 2011; Anand et al, 2012).

The current debt crisis of many countries in Eurozone is the result of this process (Anand et al, 2012). Large fiscal deficit and high public debts of many European governments entailed the fears of the default, with consequently rating downgrade of their sovereign debt, in countries like Greece, Ireland, Portugal, Spain and more recently Italy (Ibid.). The consequence for these countries is the austerity: cuts to the public expenditure and more taxation (Ibid.).

Moreover, the credit restriction of the banks affected deeply the investments and the credit access (Bellofiore and Halevi, 2011). For the majority of the firms it meant crisis. In this way, the initial financial crisis became a bank crisis and later a Great Recession in the real economy, with stagnation and also a high level of unemployment (Ibid.).

1.1.3. The Italian economic situation before and during the crisis

Italy has the eighth-largest nominal GDP (Gross Domestic Product) in the world and the fourth-largest in Europe (Anand et al, 2012). However, the Italian annualized average GDP growth during the 2000s years was inferior to the Eurozone standard and many other countries in the World (as it is showed in the Figure 1) (Ibid.). It is possible to describe Italy as a mature economy with a very slow growth (Lacina and Rusek, 2011; Anand et al, 2012).

![Real GDP growth (٪)](image_url)

**Figure 1.** The tendency of the Real GDP in Greece, Spain, Ireland, Italy, Portugal and Eurozone in percent variations. Source: Anand et al (2012), Data Eurostat (2011).
The problems of slow growth may be related to the economic performance (Bellofiore and Halevi, 2011). Italy is the second exporter in Europe after Germany (Ibid.). However, for the standardized good sectors there is the price-aggressive competition of China. For this reason, the “made in Italy” model has to renew its competitiveness and cost system periodically to face the Chinese rivalry (Ibid.). However, the analysis of the index in the 2008-2009 years shows a competitiveness deterioration of the Mediterranean countries (Greece, Italy, Portugal), Ireland and Luxemburg (Lacina and Rusek, 2011).

In Europe, the most productive countries are Germany, France and Ireland, as it is specified in the Appendix A at the end of this project. Other countries show different level of productivity. According to Gunasekaran and Cecille (1998), productivity is defined as “the ratio of what is produced to what is required to produce” and it measures the relation between outputs and inputs. Thus, labor productivity is the relation between outputs and hours worked to produce it (Gunasekaran and Cecille, 1998).

Italy has a level of labor productivity better than other countries like Greece or Spain, but much less than the Euro area standard and the best economies (Anand et al, 2012). This aspect affects the competitiveness and the exporting dynamics consequently (Ibid.). Moreover, the governments in the monetary union cannot use the strategy of devaluing the exchange rate to make more attractive the domestic prices and improve their competitiveness. This situation emphasizes the difficulties in being competitive (Ibid.). In Table 1, it is reported data from OECD related to the labor productivity indicators.

Table 1. The level of labour productivity in France, Germany, Greece, Ireland, Italy, Spain, Euro area.
Source: Data OECD (2012).

<table>
<thead>
<tr>
<th>Country</th>
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Appendixes C at the end of this project shows the labor productivity’s tendency during the period 2005-2010 about some countries that are suffering the crisis. As it is given in the figure, considering
these five years, Italy decreased its productivity instead of improving it. This may be considered as an evidence of the Italian industry’s decline. Moreover, OECD data (reported in Appendix A and B at the end of this project) also show that the Italian productivity did not have particular mutations during the previous period 2000-2005. This tendency is also confirmed by data Eurostat (reported in Appendix D at the end of this project). All these aspects may mean there was no progress in the Italian industry during the last decade.

Before the adoption of the Euro, the Italian competitiveness in export was based on the periodical devaluation of the domestic coin, the Italian Lira (Bellofiore and Halevi, 2011). After the Euro adoption in 2002, the competitiveness was already critical because it was not possible to use again the approach of the devaluation (Ibid.).

The solution to this problem seemed to be the typical Italian so-called Fourth Capitalism, characterized by small-medium size firms in a broad value network (Bellofiore and Halevi, 2011). This phenomenon has created good perspective of competitiveness for the future though the selection of the higher value activity and the support of the network for the others activity with low added value (Ibid.). However, the decrease of the international aggregate demand, the harder credit access and the higher domestic taxation affected again competitiveness and performances (Ibid.). The situation of the Italian industry and in particular of the export became very difficult with the 2008 crisis (Ibid.). Data of ISTAT (Italian National Institute of Statistics) report about a reduction of the Italian export of 2.8% during the 2008 and 17.5% during the 2009. Data related to 2010 show a little improvement.

The difficulty of the industry in Italy may be related also on the close linkages between firms and bank sector (Rajan and Zingales, 1998). As the figure 2 shows, banks adopted a hard credit restriction to the private sector in Italy during the two years 2008-2009. Banking crisis affect more the industry sector if companies need the banking funds to finance their investments (Rajan and Zingales, 1998). Italian industry is typical bank-oriented (Forte, 2012). It means that companies prefer use more the banking credit than the equity market (Ibid.). After the banking credit restriction, some Italian companies could have suffered hardly the lack of funding for new investments (Ibid.).
Appendix E at the end of the project shows that small size and minor banks decreased less than big size banks the credit, by continuing to financing the investments of the companies.

1.2. Research Problem

The economic dynamics in Italy have showed some critical points during the last years.

Firstly, the macroeconomic and the financial situation have started to suffer for the current global crisis. The public balance and debt forced the Italian government to increase the taxation and reduce incentives for industries. Companies had to take actions to handle with these difficulties related to the fiscal aspect (Anand et al, 2012). Secondly, Italian industry has a problem in being competitive that has not been solved during the last decade. The structural problems of the labor market, high costs and taxation, the monetary union and the crisis are the factors creating limits to be competitive (Anand et al, 2012; Bellofiore and Halevi, 2011; Lacina and Rusek, 2011). Companies have to find the perfect business model to compete both in a domestic market and abroad. Thirdly, the recent banking credit restriction in all the advanced economies affects particularly the Italian industry characterized by strong dependency to bank sector and low usage of equity market capital (Rajan and Zingales, 1998). The credit access is very hard and companies face problems to find capital for their investments (Bank of Italy, 2011).

In this context, it is important to understand which strategies may help the Italian business formed mostly by micro and small size companies to survive the crisis and improve their performances. In fact, European and Italian economies are mainly characterized by micro and small business and for
this reason this paper investigate this kind of firms size (Eurostat, 2008). In Europe the 91,8% of the enterprises is formed by micro-business and other 6,9% by small-sized business, in these kind of business are employed more than 50% of the workers (Ibid.). In Italy the micro-business represents the 94,6% of the total enterprises with the 46,9% of people employed, the small-sized enterprises are the 4,8% of the total with 21,6% of workers employed (Ibid.). It means that the Italian business is formed for the 99,4% by micro-and-small business and the 68,5% of employees work in them (European Commission, 2009).

Micro business is defined a company with less than 10 persons employed and not more than € 2 millions of revenues; small company is a enterprise with less than 50 employees and not more than € 10 millions of revenues (European Commission).

1.3. Purpose

The purpose of this paper is to identify successful strategies that the Italian micro and small businesses could adopt to compete in the actual economic dynamics.

1.4. Objectives

This paper uses the method of multiple-case study to understand the range of different strategies that Italian micro and small businesses can apply to face the current situation.

The focus of this research is on Strategy, trying to understand all its aspects, in particular the linkages between business problems and strategies adopted so solve them. For this reason, the perspective chosen is the one of the Italian small-sized company. As written in the background and problem discussion, Italy is one of the country that is affected by the financial and economic crisis in the last years. This economy is facing many difficulties, caused also by an already not good situation during the period before crisis.

Moreover, the purpose of this paper, to investigate strategy in all its aspects, needs a situation where it is possible to face many difficulties to analyze strategies implemented to solve them. As it is easy to understand, the small companies faced many difficulties during the last period related to their size and they are suffering more this current crisis (European Commission website, 2010). Finally, for this topic it is necessary a deep analysis of the strategy and consequently a possibility to investigate broad aspects of business. The accessibility offered by small companies also encourage to choose these units for the research.
2. LITERATURE REVIEW

This chapter includes a view of many theories and aspects of the strategy, analyzing different elements through different points of view. The literature starts with the debate on the company’s size in the paragraph 2.1. and continues in the 2.2. with strategic choices related to the company’s boundaries, vertical integration, outsourcing and value network, intermediate model. The 2.3. analyzes strategic capabilities and core competences, the fourth explore the company’s culture and its strategic implications. The paragraph 2.5. describes the innovation as a strategic decision, the 2.6. analyzes the concepts of market and market segmentation, the paragraph 2.7. explains aspects related to competitors and substitutive products. After this first part related to the company, its boundaries and context, the focus of the literature chapter become more properly on the strategy. The concept of strategy is described in the paragraph 2.8. that then describes in two subparagraphs different competitive strategies and corporate strategies, aspects related to the internationalization, market selection and market entry.

2.1. The size of the company

The size of a company is considered by different theories in different points of view. For some authors the small size could be a strategic advantage because gives to the company flexibility, less fixed costs and a better internal coordination. For others, the large size could permit economies of scale and bigger power with competitors and suppliers. In this paragraph these theories are analyzed.

The access to resources determine the possibility to survive for a company. Thus, prices, costs of borrowing and access to equity funds are key elements (Finley, 1984). These elements depend also on the size of the company, high levels of transactions usually allow companies to have advantage about that (Ibid.). In fact, there are many links between the company’s size and the access to resources to suppliers, customers, creditors and others. Suppliers prefer large customers and they usually give them higher discounts related to the quantity and more favorable terms of delivery and payment (Ibid.). Moreover, large companies can applied more moneys to the Research and Development programs, becoming more innovative and more competitive in this way (Ibid.). This theory is also supported by Schumpeter who considers large firms better in technological progress and creating innovation (Ibid.). Differently, Dorfman claims that there is not an optimal size to make innovation and technological process (Weinstein, 1994).
However, analyzing the costs of different sized firms, Finley (1984) wrote that “direct cost advantages of large competitors average 6% below their smaller competitors”. Large companies could have also less cost per customer thanks to their market share (Sharp et al, 2002; Buzzell et al, 1975). Lower unit costs production caused by high market share is the phenomenon called “economies of scale”, typically related to large companies (Ibid.). The concept of economies of scale began to be popular when economists started to study some kind of industries with a very concentrated structure and a few companies with a very high market share. In these industries, the high level of market share led companies to decrease their costs as an effect of the high levels of transactions (Schmenner, 1976). Small companies could have the limit in this kind of industries because they cannot use the economies of scale. It could be very difficult to compete in these sectors for that businesses (Brusco, 1997).

Large companies could also have advantages for advertising costs and effects if they link large size and high market share. In fact, advertising might be more useful for them than small companies (Sharp et al, 2002). Summarizing, the advantages of large companies in terms of costs are usually related to their market share that leads a better profitability (Szymanski et al, 1993).

Larger companies can usually have wider line of products supported by their structure (Finley, 1984). According to Sharp et al (2002), they also have a more stable customers base and suffer less turbulences in markets. Other aspect is that their structure can help them to find better conditions to have credit, by using more bank loans than the so-called “trade credit” that is usually higher (Finley, 1984). In fact, their structure can allow them to pay in a discount period, without resorting to this kind of credit (Ibid.).

Finally, large sized companies usually have better conditions to access to financial resources (Ibid.). This aspect is influenced by two elements: the risk perceived and the fixed cost (Ibid.). The risk perceived is linked to the return’s stability measured by Beta coefficients. According to Finley (1984), Beta coefficients are affected by firm size. Larger companies can also accede to kind of credits impossible to recourse for small companies. At the same time, higher fixed costs could be an element that increase the risk because company is less flexible (Finley, 1984).

As described before, some other theories do not consider as more efficient the large company for economies of scale and introduce critiques to this concept. According to Schmenner (1976), this relation is not natural and this concept is not always true. In fact, this author also alerts that a big structure may easily lead to organizational confusion, over-centralization and high costs of structure.
This theory explains that, even if large size companies can enjoy about economies of scale, they may face negative aspects related to a too big structure (Ibid.). Schmenner (1976) describes other elements of the economies of scale that are often not clear and that create often confusion. In fact, his first critique concerns the meaning of economies of scale because it is not clear if it is related to size of the company or volume of production. Consequently, he introduces the concept of “economies of volume”, defined as the possibility to “spread fixed costs over a greater number of units”. Following this definition, the business size loses importance because it becomes more significant the quantitative level of the production (Ibid.).

A second element analyzed by Schmenner is the scale meant as “capacity”. At this point, he considers the example of the optimal inventories. An increased capacity could actually create improvement about costs (Ibid.). Then, he states that if scale means capacity, it is possible for the large companies to have economies of scale. This author shows skepticism also related to economies of scale as “process technology”. In fact, he says that process technology is influenced by labor specialization and capital for labor substitution. For this reason, it would be necessary to consider deeper these aspects (Ibid.). He concludes that it is not always true the concept of economies of scale, it depends on singular aspects and different meaning (Schmenner, 1976).

Another diffused critique to large size company is that managers in these firms usually adopt a shorter period perspective, caring only annual profits and creating problems to the long-term business survival (Finley, 1984). Conversely, owners of small companies are usually closer to the business management and adopt longer term view (Ibid.). In fact, they are often proud of their companies and really want that businesses continue the activity after their retirement (Cohen and Quarrey, 1986). This is particularly true for family businesses and they are very often small companies (Barry, 1980).

There is another aspect that concerns managers and it is explained by Agency Theory. This concerns the relation ownership-managers and affirms the importance of the alignment between their interests for the long term survival of the company (Zahra et al, 2000). A perfect convergence of interests is possible with three different possibilities (Ibid.): when managers are also owners of the firm, they become more responsible to improve performances of the firm; when stockholders control carefully the management’s work; when the control is done by an independent board (Ibid.). This is the double aspect so-called “property and control” (Ibid.).
Another aspect necessary to consider is the “specialization” described by Marshall (Becattini, 1981). This author, as many classical authors, claimed that the large company is generally more efficient than the small one and this depends on greater level of production with consequently economies of scale (Ibid.). However, he also considered that small companies could have advantage by adopting the specialization and making only a small range of operations. In this way, also small business can become competitive (Ibid.).

Finally, there are some theories affirming that small companies can have a better organizational effectiveness (Moates and Kulonda, 1990; Schmenner, 1976). In fact, small business can be considered a good model in industries characterized by needs of flexibility (Ibid.). In particular, if this kind of company is inserted in a local context and a productive network, it can be easily efficient and competitive at an international level (Becattini, 2000). This particular situation is typical of the Italian industrial districts, as local entities characterized by a population of companies and a social environment with close interrelations (Ibid.).

2.2. The company’s boundaries

Size of a company depends widely also on choices related to company’s boundaries. They can be considered as strategic decisions (Cainelli and Iacobucci, 2009). In fact, vertical integration or outsourcing in different situations can have important effects on company’s performance, by reducing costs and improving competitiveness (Ibid.; Rothaermel et al, 2006). To understand which of these strategic choices is better to be competitive it is necessary to compare the advantages of reducing costs of market transactions by vertical integration with the costs of integration about these activities (Ibid.). In other hand, it is also necessary to compare positive aspects of outsourcing with the risks correlated (Quèlin and Duhamel, 2003).

Vertical integration is better when there is not a better competitive solution in the market of intermediate goods (Cainelli and Iacobucci, 2009). Outsourcing could be a strategic choice if the market is able to produce intermediate goods at better conditions (Ibid.). Main theories analyzing business boundaries are the Transaction Cost Economics and the Property Rights Theory (Ibid.).

In every kind of decision concerned company’s boundaries, a main aspect to consider for managers is the coordination (Gunasekaran and Cecille, 1998). Coordination between different functional areas is very important to improve productivity, performance, quality and organizational effectiveness (Ibid.).
2.2.1. Vertical Integration

According to Cainelli and Iacobucci (2009), vertical integration is identified when “*different production activities are controlled by the same firm*”. It can apply in two different directions: backward integration and forward integration (Ibid.). Backward integration concerns the internal control of the input suppliers. Conversely, forward integration concerns the internalization of buyer’s phases (Ibid.). Backward integration is usually preferred for complex inputs or situations with a high level of uncertain (Cainelli and Iacobucci, 2009). Another aspect that is considered by buyers when they analyze the possibility to integrate backward is the asset specificity, that means the possibility to use the same assets for other purposes (Ibid.).

Vertical integration has many positive aspects. It makes easier to invest in specific assets, improves coordination and permits internal exchange and integration of knowledge, also among different activities (Rothaermel et al., 2006). These elements improve also the capability of product’s innovation and new product’s development (Ibid.).

However, there are some negative aspects also. First of all, the company can only use internal knowledge whereas outsourcing allows the access to external knowledge (Rothaermel et al., 2006). Moreover, vertical integration increases managerial and bureaucratic costs related to the need to coordinate all activities (Harrigan, 1984). Finally, there is the risk of technological obsolescence and underutilization of resources (Ibid.).

Finally, Transaction Cost Economics theory introduces a concept of “spatial agglomeration”, important to consider for vertical integrated companies (Cainelli and Iacobucci, 2009). It concerns lower transaction costs about firms operating in the same environment or cluster. These contexts are characterized by less cases of opportunism and very low level of information asymmetry (Ibid.). In this case, the vertical integration could not be the best solution (Ibid.). This aspect is supported also by the theorists of the industrial districts literature, as Becattini and Brusco (Ibid.). They focus the attention on the relationship between companies in these clusters. Typical elements of these relationship are social capital and trust (Ibid.).

2.2.2. Outsourcing and Value Network

According to Quèlin and Duhamel (2003), outsourcing is “*the operation of shifting a transaction previously governed internally to an external supplier through a long-term contract*”. This strategic decision is becoming really common and ever more frequent.
Identifying activities to outsource is a very important process for the company, in particular for the top management. They have to consider many elements: increased learning, shared experience, specialization (Quèlin and Duhamel, 2003). Moreover, the company’s performance depends also on the business relations with other ones, this is particularly true for small companies (Von Raesfeld and Roos, 2008). In this perspective, outsourcing could help to create a network of relations and companies operating together (Ibid.). If they are able to manage perfectly this network, there are many positive aspects because it leads to a heterogeneity of resources and capabilities that could improve performance, innovation and quality (Ibid.). However, a good network management is not easy (Munksgaard et al, 2012). Every different company of the network could has different and specific needs and this aspect could misalign the network’s action (Ibid.).

This strategic choice is usually considered as a way to reduce costs (Quèlin and Duhamel, 2003). However, reducing costs is only possible if some particular situations exist, like for example if the supplier can use economies of scale to have better conditions (Ibid.). Moreover, this aim could be often easier to achieve simply by restructuring the firm internally (Ibid.). In fact, also outsourcing has managerial costs, as vertical integration, to coordinate and manage relations with outsourcers (Rothaermel et al, 2006). If outsourcers are many or these costs are high, outsourcing losses convenience for the firm (Ibid.).

Outsourcing is also a way to spread risks and save high investment in new business areas by applying directly other companies that are already working in that (Ibid.). However, outsourcing policy has often costs to reverse. In fact, when the company uses the market for these activities, it could probably lose knowledge, systems and possibility to develop them (Ibid.). The main risks that threaten companies about outsourcing are (Ibid.):

- Dependence from the service’s supplier;
- The possibility that supplier do not keep competitive capabilities in the future;
- The possibility to be unable to check the quality of the service supplied;
- The loss of capabilities and know-how.

Nowadays, outsourcing operations are becoming ever more complex, this choice is not totally related to cost savings criteria, but also to the risk to lose competences, reverse and failure costs, perspective of supplier’s development both in short and long term (Quèlin and Duhamel, 2003; Hoecht and Trott, 2006).
There are also some environmental aspects usually considered important for the literature to decide about outsourcing (Ibid.):

- Speed of technological changes;
- Uncertain demand;
- Timing;
- Firm’s historical evolution;
- Market maturity and degree of internationalization of the activity considered;
- Quality of the supplier’s service offered.

However, a study about outsourcing in many European companies by Quèlin and Duhamel (2003) shows that environment do not influence management in their choices. Conversely, they wrote that important aspects to decide outsourcing for managers are (Ibid.):

- Product evolutions;
- Speed of new product launches;
- Seasonal nature of the activity and market cycles;
- Uncertainty of future markets.

The main reasons to use the outsourcing are usually related to (Ibid.):

- Costs, to outsource activities could reduce operational costs of them, reduce capital invested;
- Flexibility, turning fixed costs into variable ones and having possibility to change frequently dimensions of activities (Ibid.; Hoecht and Trott, 2006);
- Competences, focusing on core competences and improve quality by using external competences.

The most outsourced areas from companies are (Ibid.):

- Information Technology;
- Maintenance;
- Waste management;
- Logistics;
- Telecommunications;

The activities closer to core competences remain usually performed internally, like for example finance, marketing, recruitment, Research and Development, production, sales and in general all the strategic ones that could give competitive advantages to the company (Ibid.). There are some
activities not very outsourced until now but that are beginning to be that, like for example accounting (Ibid.).

2.2.3. **Taper integration**

Vertical integration and outsourcing represent two extreme solutions and two tools to design the company’s boundaries. However, between these two extreme points, there are different combinations and different levels. Taper integration is one of them (Rothaermel et al, 2006). Taper integration is a kind of structure with backward and forward integration of the firm, but at the same time the outsourcing of some specific activities (Rothaermel et al, 2006; Harrigan, 1984). In this way, some activities are partially decomposed and made both internally and outsourced (Rothaermel et al, 2006). Taper integration permits to the company to access to many sources of knowledge and different capabilities, both internal and external, to have strategic flexibility and to optimize costs by using the best solution for each activity (Ibid.).

2.2.4. **The group form**

Finally, another possibility to combine vertical integration and outsourcing by mixing their effects is the group form. According to Cainelli and Iacobucci (2009), the group is defined as “a set of legally distinct units controlled by the same owner”. This form is an alternative way to have a better coordination and control activities out the boundaries of the company but without integrate them and in this way reducing risk (Ibid.).

2.3. **Strategic Capabilities and Core Competences**

In every solution related to company’s boundaries, it is not only important the kind of structure or model chosen, but it is important that this decision is made in order to have the best capabilities, available both internally and externally, and to manage perfectly the core competences (Srivastava, 2005).

In fact, first of all, internal resources and capabilities are key elements to achieve competitive advantages (Srivastava, 2005). Strategic capabilities are skills and knowledge that give to the company more activities coordination and a better use of its assets (Raymond et al, 2010). It is possible to divide them in three categories: physical capital, human capital and organizational capital (Srivastava, 2005).
At the same time, core competences are that kind of skills, knowledge, resources and capabilities, that are unique or difficult to imitate for competitors (Ibid.). For this reason, if these competences play a key role in competition, they are also able to give competitive advantages to the company (Ibid.; Raymond et al, 2010). Thus, it is clear that strategic capabilities and core competences have strategic importance for every company because allow it to have better performances and level of competitiveness (Raymond et al, 2010).

2.4. Company’s culture

Not only capabilities influence the strategy and company’s performance, but also the culture. In fact, company’s culture has a key role in organizational behavior during changes in strategy (Higgins et al, 2006). Moreover, also when there are no changes, the corporate culture and values help the implementation and the execution of the existing strategy (Ibid.).

Organizational culture is the group of “shared values, norms and practices” that distinguish different organizations (Ibid.). These aspects are the ones that members of an organization always adopt in their behavior. For this reason, a company should consider these elements and reinforce them continually in order to align culture and strategy (Ibid.). If an organization changes the strategy without change in accordance also these elements, that strategy cannot work and will fail (Ibid.). It’s easier for members of an organization or for employees to follow historical values and norms, it exists a natural resistance to change (Ibid.). It means that in case of change in strategy, the organization needs to operate to change also the culture in order to make successful the new strategy (Ibid.).

Moreover, the company’s culture has also a key role about the innovation (Kenny and Reedy, 2006). It concerns mostly in generation and application of new ideas and these aspects are closely connected to cultural factors (Ibid.). In fact, the creation of an innovative climate and the correct approach to the knowledge facilitate the innovation (Ibid.). According to Kenny and Reedy (2006), the innovative culture is a “way of thinking and behaving” that makes easier to develop new knowledge and innovative products. Thus, they could be keys to improve competitiveness and effectiveness (Ibid.).

2.5. Innovation

According to Rogers (2003), the innovation is “any idea, practice or object that is perceived to be new by an individual or other unit of adoption”. It is possible to distinguish between process
innovation and product innovation (Kenny and Reedy, 2006). According to Cumming (1998), there are three phases in the innovation’s process: the creative/invention stage, the development and the application. Innovation often means higher performance (Kenny and Reedy, 2006).

Innovation has a great importance to develop continually new products and renew competitive advantages in this way (Rothaermel et al, 2006). This activity in the company is also fundamental if it decides to adopt a strategy of differentiation (explained better later in this chapter) by improving quality and customer satisfaction. Moreover, there is an important connection between innovation’s capability and company’s boundaries. According to Rothaermel et al (2006), the vertical integration helps the company to make innovation because knowledge is perfectly integrated and coordinated in this way. Instead, according to Cohen and Levinthal (1990), the possibility to absorb or use also external knowledge by adopting the outsourcing allows the company to have a wider range of capabilities to innovate products. According to Von Raesfeld and Roos (2008), a key role in innovation is played by the network that could be an important way to create value and quality. However, it is very important to be able to manage and coordinate the network, otherwise if there are internal conflicts in it these positive aspects are less (Ibid.).

2.6. Market and Market Segmentation

Company’s capabilities and product’s innovation are key tools of a company to meet customer’s needs and to have good products to place in the market.

According to Nightingale (1978), a market is “a group of customers for a product of a firm”. Then, the market is referred to the buyers and, more in general, it is “the institution within which a firm attempts to sell his output or buy an input” (Ibid.).

According to Mahajan and Jain (1978), the market segmentation is the identification of different segments, each one with a different demand’s function. Consequently, the market is heterogeneous and it can be divided in segments, each one characterized by a different kind of demand and similar customer needs (Dickson and Ginter, 1987; Dibb and Simkin, 2009). The segmentation is a very important process to analyze the market (Porter, 2004). Different segments are different from each other both for attractiveness and competitive elements necessary to compete in them (Ibid.). However, segmentation can be different company by company. In fact, different competitors could distinguish segments for different criteria and consequently to have, as a result, different kind of segmentations (Dickson and Ginter, 1987). Thus, the segmentation process increase customer
orientation and it can be source and critical factor of a competitive advantage (Dibb and Simkin, 2009; Dickson and Ginter, 1987).

2.7. Competitors and Substitutive products

An important threat for a company is the rivalry with competitors. There are two main approaches to define competitors (Clark and Montgomery, 1999). The first approach identifies competitors as companies having similar strategies (Ibid.). A second approach, more market oriented, defines competitors on the basis of the customer behaviors (Ibid.).

Important elements to consider for a company are substitutes. They are products that offer the same kind of benefit to the customer and satisfy the same need (Porter, 2008). Substitutive products can be a threat for a company because customers could use substitutes instead its products (Ibid.). However, this threat is external to the industry because substitutes are usually products related to a different industry. This is the difference between substitutes and competitors (Ibid.).

2.8. Strategy

According to Chandler (1962), the strategy is “the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals”.

Thus, strategy has a double aspect: at a business level, decisions related to the competitive modalities in the industry chosen; at a corporate level, determination of products and markets to manage (Govindarajan, 1989).

2.8.1. Competitive Strategies

An important kind of strategy concerns how the company competes in its industry, the competitive strategy (Govindarajan, 1989). Competitive strategies are described by Porter and his theory about them is “academically well accepted and internally consistent” (Ibid.). According to Porter (1980), generic competitive strategies are three: cost leadership, product differentiation and focus (Porter, 1980; Pertusa-Ortega et al, 2009; Govindarajan, 1989).

Cost leadership concerns in placing to the market the product with the lowest price and win the competition about this aspect (Porter, 2004). To do that, the company needs to design and produce the product more efficiently than competitors to gain a cost’s advantage (Ibid.). This is possible by using economies of scale, process innovation and learning curves (Ibid.). It is very important to
adopt this strategy that the company has an efficient manufacturing and good finance and accounting department (Govindarajan, 1989).

Product differentiation is a strategy based on the satisfaction of customers needs by changing the product’s characteristics and giving to them unique or superior product’s value (Porter, 2004). This value can be real or perceived and customers are willing to pay a higher price to have it (Ibid). To be able to implement this kind of strategy, it is very important to have a strong policy of innovation and a good Research & Development department (Govindarajan, 1989).

Focus strategy concerns to adopt a narrow perspective and satisfy specific requirements of only one particular segment or market niche, in which competitors are not competitive or not interested (Porter, 2004). To do that, it is necessary that the niche is enough large for the company, otherwise this strategy cannot work in the long period (Ibid.).

According to Porter (2004), every company has to choose only one kind of strategy and concentrate on. He stated that these different strategies are incompatible each other and if the company tries to mix them it is very probable to fail the competition and become “stuck in the middle” (Porter, 2004; Pertusa-Ortega et al, 2009). Being “stuck in the middle” means that the company did not choose one specific strategy and this indecision leads to the unsuccessful strategy (Ibid.).

However, Pertusa-Ortega et al (2009) stated that differentiation and cost’s factors should not be considered as incompatible, but conversely as two dimensions among which a company can choose its position by mixing them. In fact, differentiation could lead to high market share and consequently it could permit economies of scale (Ibid.). On the other hand, costs’ efficiency could give more resources to invest in innovation and marketing, differentiating the product in this way (Ibid.). Thus, it is very important to distinguish “stuck in the middle” and companies that combine strategies in the hybrid one (Ibid.). Moreover, a pure strategy could be easier to imitate for competitors, whereas it is difficult for the hybrid; a hybrid strategy could lead also to a higher flexibility and a wider point of view (Ibid.). According to Pertusa-Ortega et al (2009), a large number of companies adopt a hybrid strategy and they have higher performances.

Another kind of competitive strategy that mixes costs and quality’s factors is the Total Quality Management (TQM). This is not only a strategy but more a philosophy and it concerns in the continuous improvement and costs reduction by eliminating waste (Deming, 2000). This strategy is typical of Japanese companies (Ibid.).
2.8.2. Corporate Strategies

Another kind of strategy that involves the overall company is the one related to “which markets and products to participate in” (Govindarajan, 1989). According to Ansoff (1957), there are four main alternatives about these aspects: market penetration, market development, product development, diversification. Market and product development are considered as partial way of related diversification (Ibid.).

Market penetration is a strategy to increase sales and market share, without any change of the original product-market model (Ansoff, 1957).

Market development is the strategy in which the company use existing products (generally with little modifications of characteristics) to enter in new markets (Ibid.).

Product development concerns the creation of new products to place in markets where the company is already present (Ibid.).

Diversification is the strategy to change all aspects, both present markets and products (Ibid.). According to Ansoff (1957), this last strategy “requires new skills, new techniques and new facilities. He stated also that there are many reasons that lead companies to diversify: to use excess productive capacity, technological obsolescence, to reduce the risk by spreading it on new products or/and new markets.

These corporate strategies depend on many evaluations about macro-dynamics, the industry, products and markets. In fact, according to Ansoff (1957), in doing that, companies should consider these factors:

- Economic trends;
- Political and international trends;
- Industry’s dynamics;
- Evaluation of the company’s strengths compared with competitors;
- Evaluation of alternative corporate strategies;
- Manufacturing costs.

The main objectives of partial or total diversification are: growth, stability or and flexibility.

Finally, it is important to emphasize that corporate strategies as well could lead to achieve competitive advantages. The creation and development of new products is a possible way for a
company to do that and to renew advantages continually (Rothaermel et al, 2006). In fact, having a wide offer of products, the company can satisfy better customers and reach a larger number of them (Ibid.). Moreover, it is necessary to have a good management to coordinate all activities related to different products. If the offer is wide, coordination is more difficult (Ibid.). According to Rothaermel et al (2006), if the coordination is not efficient, there could be problems about new products of “poor product quality and lack of necessary differentiation”. They consider the taper integration structure as the best to develop new products. In fact, a partial usage of outsourcing and the support of the network could improve capabilities and coordinate innovation (Munksgaard et al, 2012). It is also important to balance the range of products and its dimensions with the size of the demand (Rothaermel et al, 2006). However, advantages related to new products are often short and disappear early (Ibid.). For this reason, it is also very important to make continually product’s innovation (Ibid.).

Similarly, market development is a way to improve competitiveness and achieve advantages (Ansoff, 1957). One kind of market development is the access to new countries and geographical markets, the so-called internationalization (Sakarya et al, 2007). In fact, focusing on the core competences, the company can address its products to foreign markets (Ibid.). However, the process of internationalization and export is often as difficult as attractive. It is very important to put a particular attention on the product’s adaptation to have success in exportation (Hultman et al, 2009). Different contexts need adaptation or standardization or the right mix of them (Ibid.). According to Hultman et al (2009), adaptation is defined as “the degree to which the physical product differs across national markets”. This phenomenon is determined both by external-environmental and internal factors (Ibid.).

Clearly, the process of selection and choice of the market to enter in is fundamental (Sakarya et al, 2007). To do that, the company needs information related to all aspects of different alternatives, but companies are usually not so informed about markets where they are not competing in (Ibid.). It could be the reason because often companies enter in new markets close to their domestic one (Ibid.). The main criteria to analyze during this process are (Ibid.):

- Market’s size;
- Market’s growth;
- Costs factors and analysis;
- Country’s environment and institutions;
- Psychic and cultural distance between this new market and the company;
- Competition and rivalry;
- Ease of access.

Opportunities in emerging markets are connected to these factors. Examples of these countries are Brazil, China, Indonesia and Turkey, characterized by less competition, increase in incomes and large populations of young customers (Sakarya et al, 2007). Elements of these emerging markets are: high growth, high-potential and high-risk (Ibid.).
3. RESEARCH PROBLEM

During the first two chapters 1.1. and 1.2. of this paper, global and specific Italian economic situations were generally described. The principal problems for Italian companies related to the macro-context emerged from this initial analysis. The literature review related to different aspects of the strategy is shown during the second chapter. Different theories, business elements and strategic issues are analyzed after the reading of articles and books to have a general view of the subject. The development of the research concerns the effort to link in a logical way every problem found and the ones will emerge from the interviews with the strategies adopted by companies analyzed. The literature works in this sense as a display of the different linkages trough is necessary to continue the analysis.

3.1. Research discussion

A first analysis of the problems that micro and small companies are facing in the current situation led to the following starting points:

- The recent global financial crisis has caused a decrement in global aggregate demand and this aspect has created difficulties to companies;
- The new economical policy of the Italian government characterized by austerity and high level of taxation has added a difficulty more to companies;
- Banking credit restriction has affected particularly small companies because of their little financial structure and the impossibility to use the equity market;
- Italian industry is affected by a structural problem related to labor productivity and this aspect may create a problem of competitiveness;

3.2. Research questions

The research questions explains in a practical sense the analysis field of the research and which elements are required to investigate.

- Which strategies are adopted by the micro and small Italian business to face the current situation and problems?
- Which reasons lead companies to use that strategies?
- How are consequences of that strategies seen by a first perception of companies?
- Which of strategies adopted seem to be successful so far?
4. METHODOLOGY

4.1. Research Method

4.1.1. Research purpose

A research project can be done for three main purposes (Yin, 2009):

- Exploratory, with the goal to analyze deep a subject by developing hypothesis and propositions and trying to learn new aspects (typical question is “what?”);
- Descriptive, this kind of research wants to define an event or a specific subject by describing its characteristics that are already noted (“who?” , “where?” , “how many?”, how much?”);
- Explanatory, the researcher wants to investigate operational links related to phenomena analyzed (usually the questions are “how?” or “why?”) (Ibid.).

The purpose of this research is exploratory. In fact, the research questions are related to investigate which different strategies could be adopted from micro and small companies to face the problems of the current economic situation and possibly to solve them. Analyzing the strategies adopted, it could be necessary to explain the reasons because companies made decisions given or describe the process used to implement them or results achieved. However, as written before, the overall purpose is exploratory.

4.1.2. Research design

The research design is the plan to link data collected with the operational research to the initial questions of study (Yin, 2009).

The design of the study concerns:
- questions to study;
- relevant data;
- data will be collected;
- how to analyze the result (Ibid.).

This paper wants to study a specific area of the Business Administration: the Business Strategy. The perspective used wants to try to be as much realistic is possible and at the same time wants to understand strategies that can be implemented nowadays, especially during the current situation. For this reason, the research questions are principally applied to explore these strategies, to understand why companies choose to use these and which kind of problems they want to solve.
Sometimes, if it will be necessary to understand better the subject, the research would try to analyze also the process used by companies to implement their decisions.

The next step was to understand which kind of data is possible to collect to investigate the purpose of this paper. It is necessary to search information related to strategies of Italian micro and small companies, the strategic decisions they made and how they want to solve competitive problems. These data are not easy to find for several reasons. The first is that micro and small companies don’t have to publish documents related to their activity. The only document that all of them have is the balance but they don’t need to make it public according to the law in Italy. According to this, it is not useful and also it is very hard to lead this research by using secondary data as documents, reports or balances for their absence or rarity. Other reason is that there are a few articles talking about strategies or strategic choices in small business neither generally in the literature and in particular about Italian companies.

Consequently, in my opinion, the best possibility to investigate this subject is to make interviews directly to strategic decision makers. In this way, it is possible to learn directly from the main source the kind of problems that companies have and also the strategies applied to improve performances.

Thus, the units of analysis are the companies. The research uses strategic decision makers to explore and understand these organizations and their strategies. In particular, units of analysis are Italian micro and small companies, by trying to analyze the ones that faced problems related to the financial-economic crisis and other typical issues of the current situation. This paper doesn’t consider medium and large companies neither operating in other countries. The effort is try to investigate companies with almost the same situation and in this way to have a range of different strategies related to the same aspects of the business life.

After the data collecting through interviews to business strategists, for each companies there is a complete view of its strategies. It is possible to interpret data collected by linking these with the literature review at the beginning of the paper. In fact, in the theoretical chapter there are many aspects of companies in a strategic perspective and it will be possible to link the theories with the practical decisions of companies analyzed.

Finally, it is necessary to determine criteria for interpreting final results. Since that the analysis will have a qualitative approach without investigating a large number of units, a statistical criteria is not good and also could trivialize this kind of study in numbers and percentages. The criteria chosen is
to compare the different results as different perspective to make strategy, having in this way a good range of alternatives.

4.2. Research approach

4.2.1 Inductive or Deductive

There are two different approaches that it is possible to adopt during a research to link theories and findings (Bryman and Bell, 2011):

- Inductive, in this way the research and consequent findings will use to formulate and develop the theory;
- Deductive, with this approach the researcher starts from theories and create hypothesis that will be tested by findings (Ibid.).

There is also an other strategy called iterative that use different aspects of these two approaches (Ibid.).

This research will adopt a deductive approach. Starting from the reading of many articles and different theories with the aid of some statistical data, it is made the data collection and the consequent analysis with the aim to explore and understand deeper the subject.

4.2.2 Qualitative or Quantitative

There are two different kind of research related to the kind of data collected and the method used: qualitative and quantitative (Bryman and Bell, 2011). Qualitative research gives more value to words rather than number and percentages analyzing deeper a few complex situations to have a complete view of them (Ibid.). Quantitative research prefers the collection of numerical data, analyzing usually a few variables but about a large number of units (Ibid.). The results can be presented in a statistical way also trying to generalize them in a theory (Ibid.).

This paper is led by using only qualitative data. Although at the beginning some statistics and numerical data have been used during the problem discussion, this is only to define some dimensions of the phenomenon analyzed. This research didn’t want to lead to quantitative results about strategies but conversely the aim is to study deeper some specific cases selected and to understand qualitative aspects of strategy nowadays. The main tool used for this research is the interview and it is typical of the qualitative research. If at a second moment will be necessary to collect different kind of data, they will find in secondary data, other tool often used in qualitative research. If dynamics will be clear, it will be not necessary to use documents or secondary data. In
fact, in this paper the preference is to adopt the perspective of strategic decision makers gathered by interviews. However, whereas this privileged perspective, secondary data and documents will be used if they can really improve the understanding of strategic decisions. There will not be any quantitative research because this research doesn’t want to create a quantitative description of the situation but a qualitative investigation.

There are four principal critiques of qualitative research (Bryman and Bell, 2011):

- Subjectivity, in fact it is very important the impressions of the researcher and the selection of the case studied (Ibid.);
- Replication, because it is usually very difficult replicate the research, many theories claim that the researcher is the main instrument in qualitative research (Ibid.);
- Generalization, this aspect is related to the nature of the qualitative research, because the research does not collect numerical and statistical data, it is impossible to generalize single results to all the population (Ibid.);
- Transparency, because sometimes the process of data collection or data analysis could be unclear, difficult to understand or not so scientific (Ibid.).

These critiques should be faced and solved to have a good use of the qualitative research (Ibid.).

In my opinion, the first problem related to subjectivity is very difficult to solve. The method used to collect data and analyze them will be as much is possible without direct researcher’s action. This is not easy to reach because in qualitative research (during interviews for example) it is difficult to delete totally the presence of the researcher. The effort will be to lead interviews by starting from the problem discussion of this paper and later asking directly to the respondents their problems, opinions and analysis. In this way, the level of subjectivity is minimized because the problem discussion is based on statistics and articles, data are collected from respondents and they also begin to make a personal analysis. The research only has to applied data and analysis in a global final result and make the conclusions.

The replication issue is faced by trying to describe every aspect of the research and explaining reasons and methods for every different action. Moreover, the research is developed by trying to link every strategy with the relative problem and context. In this way, it will be easier to replicate the research also for single aspect of results.

As stated before, the aim of this paper is not to generalize the results to all the population of micro and small companies in Italy. This research wants to investigate different aspects of strategy in this
universe, understanding dynamics related to this so. Consequently, there is not problem related to
generalization because the purpose of this paper is totally different. The results at the end of the
paper cannot be generalized to all the universe considered.

Also about transparency, a good solution seems to be the description of every action and reason
during the research. The data collection and analysis is lead by trying to preserve the respondent’s
perspective and emphasize this. Only during the conclusions the researcher will connect different
points of view to achieve final results.

4.3. Research strategy

The strategy used for this research is the multiple-case study. In fact, case study is a good strategy
to investigate current situations and events, in particular when it is impossible manipulate the
context (Yin, 2009). The best techniques of a case study are the direct observation of events and
interviews to key respondents (Ibid.). Case study research includes both single-case study and
multiple-case study (Ibid.). In this paper, it is chosen the multiple-case study because it wants to
investigate deeply the strategies of Italian micro and small companies in their context and their
problems. Thus, to study some cases can allow a complete and full understanding of the subject.
The strategy chosen puts limits related to the kind of research that it is possible to lead. In fact, even
if there are more than one case, it is not good to make a quantitative research because the nature of
the purpose is different and it would be very difficult to have a deep analysis of the subject for
many different cases. Case studies are not a good method to understand the quantitative dimensions
of phenomena (Yin, 2009). As written before, the qualitative research should be better for the
purpose of this paper. The number of cases chosen is three different Italian micro-small companies
with almost the same size and context. Three should be a good number of different cases for this
paper because for each issue there should be different strategies, perhaps with a prevalent one as a
result.

The case study could have an embedded design or a holistic design (Yin, 2009). The holistic one
investigate only the overall nature of the case, when there are not “logical subunits” (Ibid.).
Conversely, the embedded case study focus the attention also in different subunits (Ibid.). Both of
these two design have positive and negative aspects. The holistic one permits a good global
perspective but sometimes it could be little detailed (Ibid.). The embedded design gives the
possibility to analyze different subunits but it could lose the general perspective (Ibid.).
This paper uses a multiple-case holistic design. In fact, according with the purpose and the overall sense of the strategy in every company, it is necessary to lead an examination of different cases by adopting a global perspective for each case.

4.4. Sample selection

The units of analysis in this research are Italian micro and small companies. In particular, as written before, the choice is to investigate three units.

The first step is to define the characteristic of a micro and small company. The European Commission define the small enterprise as a company with less than 50 employees and not more than € 10 millions of revenues, while the micro enterprise is a company with less than 10 persons employed and not more than € 2 millions of revenues (European Commission website). For the purpose of this paper, there is not a great difference during the sample selection between micro or small companies. In fact, the size of the enterprises is only related to identify almost the same kind of difficulties faced and possibilities to implement strategies. For this reason, the universe considered to select the three units of analysis includes both micro and small companies without important distinction. At the same time, the effort is to select three units with similarities about business characteristics. Other aspect is also to try to choose the three companies in almost the same context about environment, labor market and social aspects. In fact, analyze strategies in the same context can help to find similar difficulties and dynamics, emphasizing the range of different strategies adopted. Finally, in this paper it is not considered as an important parameter of selection the business industry. In fact, focus the attention on only one industry could minimize the investigation and give a myopic picture of the subject. At the same time, differences in strategy could not be only related to different industries. For these reasons, there is not parameter related to type of industry in the sample selection. Finally, it is not considered any limit related to the life phase of the company. In fact, considering the focus of the purpose on strategy, different phases cannot have negative effect on the research and are also difficult to define because different business could have different life dynamics.

The second step is to identify the possible units. The result of the previous criteria is that units are selected among micro and small companies, almost in the same area and with the same size, trying also to have similar kind of problems faced. The sample also does not consider companies that are ceasing the activity because it would be not useful to analyze strategy in this life step of business.
The geographic choice is the industrial area of Aprilia, a little town in the Pontine region at south of Rome. The reasons are double: the industrial high-density in this district, that is also considered part of the Local Productive System (Sistema Produttivo Locale) of the Pontine Area from the industrial regulation (Paladini, 2007); the personal knowledge of the author about this area and companies that could help contacts with them for the development of this research.

The third step is to decide the size of the sample. As written before, since that this paper uses a qualitative method and not quantitative because the aim is not to generalize the results, it is not necessary to select a large number of cases to study. The good number of the selection is three different units because at the same time it can lead to a large range of results, deeper investigation and holistic analysis.

4.5. Data collection method

There are not many previous researches about this subject in the literature. A study called “Entrepreneurship in the context of crisis: identifying barriers and proposing strategies” by Papaoikonomou, Segarra and Li in 2011 investigates difficulties and strategies of entrepreneurs in the Spanish economy. In this paper, the authors use focus groups method to collect data with a representative sample of 301 units. The results of this research led to understand consequences of crisis for small and medium companies in Spain, some problems faced and general strategies adopted. This focus is particularly crisis-oriented and the analysis is less deep. This is also consequence of the method chosen because focus groups gave surely a more quantitative and large data, but the analysis cannot be in depth.

For this reason also, in this paper is adopted semi-structured interviews rather than focus groups. The main method used to collect data in this research is interviews to strategic decision makers. In fact, it is necessary to investigate the strategies adopted by organizations selected using the qualitative research. The difficulty is that there are not official documents about strategies in small companies. For this reason, it is very difficult to collect information related to this subject. The only possible way is to ask directly to decision makers inside companies. There were many possible method to do this: interviews, focus groups and others. The choice is interviews because they seem to be the best solution in terms of costs, time and data collected. In fact, other methods would be too expensive in terms of costs or time, perhaps giving less information or not so deep about the subject.
In this research, interviews are made directly face to face to entrepreneurs or managers with key role in each company about strategy. Each interview is made in Italian and concerns in a meeting of about one and half hour. Before each interview, the researcher contacts the company to receive information about itself. This is a very important pre-phase because it is really necessary that the interviewer knows generally the business and the case he is going to investigate deeper.

Every interview is recorded and transcript in a second moment. The transcription is checked by the respondent to be sure that the concepts are corresponding to what he or she really wanted to explain. After the confirmation of the respondent, the transcription is translated in English and inserted in the paper.

A first investigation of the business context has lead to some problems for companies discussed in the paragraphs 1.1.3. and 1.2. during background and problem discussion. Anyway, this is only the starting point of the research. It is not excluded the possibility to find other problems during interviews. In that case, being the focus of the paper on strategic decisions, it will not be necessary to find real data or statistics to confirm new problems emerged. In fact, it will be enough the perception of the interviewed about the issue gathered trough the interview and the consequent investigation on the strategy adopted to solve it. Starting from the problems emerged during the problem discussion at the beginning of the paper and from a general situation of the Italian industry, the questions extend to other strategic issues expressed by companies during the interview. Each interview is done by following three main points:

- Which strategies are adopted nowadays from the company to face difficulties faced?
- What are the reasons because company chose these strategies?
- How is the company implementing these strategies and which consequences it is possible to see?

Moreover, other questions during the interview are applied to understand the perspective of the companies about the current situation, their context and dynamics.

4.6. Operationalization

The data collection method chosen for this research are semi-structured interviews with strategic decision makers of micro and small companies in Italy. The interview already has some questions to analyze themes of study. Other questions could emerge during the interview itself when new issues or subjects need to be analyze deeper. Below, it is shown the operationalization and the semi-structure used during the interview.
The first two questions are an introduction of the respondent, the company and the activity. The questions number 3, 4 and 5 are general questions related to the competitive situation in Italy and the competition with other economies, in particular the emerging ones.

Next five questions are necessary to investigate the main problems analyzed during the problem discussion and understand respondent’s perception about these themes: questions 6 and 7 explore the problem of low labor productivity in Italy; question 8 wants to evaluate the decrease in global demand and its effects on the Italian economy; question 9 asks an opinion about taxation and government policy and, finally, question 10 investigates dynamics and effects of the banking credit restriction. Then, questions 11 and 12 are related to the company’s structure and size.

After that, there are some questions, from the 13 to 17, made to investigate particular aspect of the competition: industry, market, segmentation and customers. Questions 18, 19 and 20 are made to explore the company internally. Question 21 is a general question about the specific problems or difficulties of the single company examined. Finally, last four questions ask about the strategy of the specific company, strategic decisions and future’s vision.

This structure of questions is, of course, only the starting point. Other issues could emerge from the interview and in this case the researcher will ask different questions related to specific aspects of the single company investigated.

1. What does your company do?
2. What is your role in the company?
3. What do you think about the competitive situation of the Italian industry?
4. What are the critical issues for the Italian industry in a competitive point of view?
5. How much do you consider dangerous the competition of emerging economies, like Brazil, Russia, China, India?
6. Do you think does a problem of low labor productivity exist in Italy?
7. What are the main reasons of the low labor productivity in Italy?
8. How much do you think is Italian industry suffering a decrease in global demand related to the current financial crisis?
9. Do you think taxation and fiscal government policy are influenced the actual situation of the Italian economy?
10. Do you think there is a banking credit restriction of Italian banks after the financial crisis?
11. What degree of vertical integration or outsourcing does your company have?
12. Small dimensions are a strategic decision or caused by structural factors?
13. What are the main critical factors to compete in your industry?
14. What are the different markets existing in your industry?
15. What kind of segments exist in the market you compete in?
16. Are your products differentiated for different segments or standard?
17. Do substitutive products exist for your company?
18. What are strategic capabilities, resources and competences, in your company?
19. What are the core competences of your company to improve your competitive advantages in the future?
20. What kind of innovation does your company make?
21. What are the main problems faced by your company?
22. Can you describe strategies adopting by your company?
23. Is your strategy based on differentiation or cost’s factors?
24. What are opportunities that your company could take in this moment?
25. What are the main threats for your company?

4.7. Data analysis

After the data collection, interviews and relative transcription, there is the data analysis phase. According to Yin (2009), there are four general strategies of case study analysis:

- Relying on theoretical propositions;
- Developing a case description;
- Using both qualitative and quantitative data;
- Examining rival explanations.

Moreover, using these strategies, it is also necessary to choose the best techniques to conduct the final analysis of data (Ibid.). There are five main analytic techniques (Ibid.):

- Pattern matching;
- Explanation building;
- Time-series Analysis;
- Logic models;
- Cross-case synthesis.

The analysis strategy used in this research is developing a case description. This strategy develops a descriptive structure of each case studied and it is useful when there is not an initial set of
propositions (Yin, 2009). This choice depends on the kind of research, the multiple-case study, and the absence of theoretical propositions and quantitative data. Since that there are three units of study, the best strategy seems to be describing each different case in terms of problems faced and strategies adopted, perspective on general situation and context, business dynamics. This first kind of analysis is contained in the chapter 5 Empirical Data. The main technique used in this chapter is the cross-case synthesis that concerned in treating each case separately and later, in a second moment, to compare them and discover similarities and/or differences (Ibid.).

After that, there is the Data Analysis chapter, No 6. In this chapter, all cases are compared to have a holistic and global understanding of the phenomenon, giving final results and conclusions. The main techniques used in here are pattern matching, explanation building and in part a cross-case synthesis. According to Yin (2009), pattern matching “compares an empirically based pattern with a predicted one”. Explanation building is considered a special kind of pattern matching, analyzing data to build a case study explanation (Ibid.).

4.8. Reliability and validity

The quality of a research design could be considered under aspects of validity and reliability.

4.8.1. Validity: construct, internal and external

The validity is usually divided in three elements: construct validity; internal validity and external validity (Yin, 2009). The construct validity is related to define the specific concepts of the subject studied and identify measures to match them (Ibid.). Internal validity concerns the logical system of research’s propositions (Ibid.). This logic is principally related to explanatory case studies and it is inapplicable in descriptive and exploratory studies (Ibid.). The external validity considers whether the study’s results are generalizable (Ibid.).

In this paper, the construct validity is the only one considered because the research purpose is exploratory and the strategy chosen is qualitative. The purpose of this research is to investigate three cases study and explore many aspects of strategy in these. Consequently, there is not a system of propositions that is going to be verified in this research and the results are clearly not generalizable because only three cases are studied. Moreover, this is not a threat to the validity of this paper, considering that the aim of that never was to verify something or generalize results. For these reasons, internal and external validity are not considered.

According to Yin (2009), there are three tactics to increase construct validity:
- To use a multiple sources of evidence;
- To establish a chain of evidence;
- To use key informants in the case study report (Ibid.).

In this paper it is not possible to use the first two tactics because the only source of evidence that is surely possible to use is making interviews to strategic decision makers. In fact, micro and small companies in Italy are not required to publish any documents or reports related to their strategies. The balance with fiscal and economic aspects is the only document that they have to write, but it does not contain strategic elements.

Construct validity in this paper is incremented trough many methods, but principally being helped directly and indirectly by informants with large and specific knowledge about the subject. In fact, the main element is to build a large and detailed literature review, having many different theories and points of view about the subject studied. Other elements that tested the research step by step are: the constant supervision of the tutor, the feedback from the examiner and other groups, discussions with other colleagues. Finally, the interview with the key respondents itself could be a moment to verify whether the approach to the purpose is correct or it is necessary to improve some aspects.

4.8.2. Reliability

The reliability of this paper is formed by using as much is possible quality’s sources. The literature and documents used are published mostly by primary importance institutions in economic and business fields, journals, papers, books mentioned in other articles or documents, by building in this way a network of theories and information. The reliability related to interviews is made by discussing concepts directly with the respondent during the interview itself. In this way, the interviewer can establish a clear point of view of the interviewed directly with him or her, without having any misunderstanding or concept distortions.

Moreover, the transcription of the interview is sent to the respondent who can check concepts and transcription’s quality in this way. If there would be some misunderstandings or problems, the respondent could communicate them to the researcher in order to make the transcription exactly corresponding to his point of view. Only after the confirmation of the respondent, the interview is translated in English and inserted in the paper. This phase is important to make the quality of sources as higher as possible.
5.  EMPIRICAL DATA


Ma.Gia. Pesca is a micro company created in November 2009 in the area of Aprilia (LT). It designs and sells sport fishing products in the Italian market and abroad. The main customers are wholesalers of this sector. The export of this company is increasing a lot and it is becoming an important part of activity. Ma.Gia. Pesca bases the competition on quality, product’s personalization for single customers and deep knowledge about products. The production and assembly is given in outsourcing to other small companies partners.

Ma.Gia. Pesca was formed at the end of 2009 by investing a few thousands of euro and has grown constantly despite the crisis. During the 2010 it recorded sales for about € 60.000, 70% of them in the Italian market, 22% in the European market and 8% in Extra-European markets. During the 2011 Ma.Gia. Pesca recorded sales for about € 107.000, almost double compared to the previous year, 60% of them in the Italian market and the other 40% abroad. During the first quarter of 2012, this company has already recorded sales for € 40.000, thus foreseeing another important increase in sales at the end of the year.

Appendix F shows the transcription of the interview with Marco Virzì, small Italian entrepreneur, one of the two owners and Director of Ma. Gia. Pesca. The interview starts with some general aspects related to the Italian competitive situation. The point of view of the respondent is that the competitive situation in Italy is not good and there are many problems related to high costs (depended in part also to the government action and taxation), inefficiencies and heavy bureaucracy.

Another critical aspect concerns the low level of labor productivity that this entrepreneur defines “serious” and depended by “poor professional training, lack of interest in business performance of many workers and their poor sharing of business objectives”. Moreover, according to this entrepreneur, this aspect is also caused by the labor unions’ behavior that often also protect workers in bad faith, endorsing these behaviors. However, the strategy adopted by Ma.Gia. Pesca from the beginning is the outsourcing and consequently it is not suffering this problem. In fact, many primary and secondary activities are outsourced to improve flexibility and coordination, decrease costs and outsourcing also the problem of low labor productivity. Anyway, the strategy of outsourcing is managed with constant controls and long-term relations with partners in order to guarantee quality and performance.
Moreover, there is a threat of low cost products from emerging economies for Italian small companies. This threat exists particularly for this company because Indian and Chinese competitors have almost the total market share of this industry. Moreover, it is perceived the threat that this kind of emerging economies will be able in a short time to imitate technology, knowledge and quality of European companies and, thanks to lower costs, they could become the best in competition for all aspects.

The strategy that Ma.Gia. Pesca is adopting is to improve and use capabilities related to design, technology and innovation. In fact, if price is not competitive it is necessary to offer quality and efficiency more than competitors. According to Marco Virzi, demand decreased of about 30%, but thanks to small size this company is not suffering this issue. Thus, small size of this company is caused by the usage of outsourcing and also as a strategic decision to be more competitive, flexible and coordinated.

Another problem that is confirmed by the interview is the banking credit restriction, prevented by these entrepreneurs with a low initial investment of own resources and later by reinvesting company’s profits to finance the company by itself.

Finally, a specific competitive difficulty for this company is related to higher costs than competitors that it is still the only big problem in terms of competition, considering also that there are not substitutive products for this industry, as said by this entrepreneur.

From the interview, it is emerged that critical factors of this kind of sector are: “speed and reliability to deliver products required; price of product; product’s personalization customer by customer and high quality”. Ma.Gia. Pesca bases its strategy by trying to meet and have good performances in these critical factors.

Considering that the price of products is not so competitive because competitors have really lower costs and consequently lower prices, this company is focusing on other factors and is trying to achieve competitive advantages in these. In particular, Ma.Gia. Pesca is improving the quality of the product and is giving to customers a range of services before and after the selling, with also special payment’s conditions. Strategies to do that are principally product’s innovation and high level of personalization in order to offer to every customer the perfect solution to its needs.

Another important aspect required by customers is related to speed and efficiency. The strategy to face this issue is the outsourcing adopted as a business model since the beginning of the activity.
This solution is permitting flexibility and coordination, without affecting quality and with results considered very good by the company.

For the future, Ma.Gia. Pesca will continue the competitive strategy of high differentiation, so high to lead sometimes to a specific personalization customer by customer. This company is basing its competitive advantage on this strategy and the results are good, sales are increasing continually and it seems that customers appreciate it.

Another strategy that Ma.Gia. Pesca is adopting and it will continue is the extension of the range of products in order to satisfy the market for all kind of products existing in the sport fishing sector. Finally, this company is planning to adopt a strategy of diversification in terms of markets. In fact, it is trying to improve the presence in the wholesalers market by extending sales to other geographical areas, but at the same moment Ma.Gia. Pesca is studying the possibility to experiment single accesses to some specific geographical retailers markets.

5.2. Small Chemical Company B

This company required to be anonymous for reasons related to competition, sensitive data and privacy. Being anonymous, the Director of this small chemical company accepted to answer to all questions during the interview without any problem related to the previous aspects.

This is a small familiar company with 17 employees operating from fifty years in the chemical sector and producing molds and molding of technical products. Until now, Company B has worked mainly as a subcontractor but now it is developing final products to place in the users’ market. It is certified for Systems of Quality, Environment and Safety, according with European Standards UNI-EN-ISO 9001, UNI-EN-ISO 14001 and OHSAS 18001.

During the last years, this company and its employees were rewarded with awards for quality, labor and social responsibility. The company shows a constant and good economic results with only a little decrease in 2009, immediately recovered during next years.

In the Appendix G there is the transcription of the interview with one of the owners and Director of this small chemical company. The analysis of the Italian industry’s situation shows a low competitive power, with problems related to the unfair competition both about other Italian companies and foreign. Many companies do not respect laws and standards, having in this way lower costs and consequently lower prices. In this perspective and only about costs, it is considered
very dangerous the competition of emerging economies. This entrepreneur thinks that companies of emerging countries will early produce the same level of European companies’ quality because they are importing know-how from multinationals. The solution to this problem is considered the continuous innovation and the focus on niches of market with higher prices. New ideas could keep the difference in quality and focusing on niches of market with higher price could neutralize the cost’s advantage of this company. In fact, the competition here is more related to specific factors than price and also for small quantity of complex production it is more difficult to gain cost’s advantages.

In this perspective, small size is not considered as a problem. Conversely, the point of view of the entrepreneur is that it gives more efficiency and flexibility. However, there are some structures and systems required by customers for which are necessary larger dimensions. Company B does not use a lot the outsourcing. It is used only for “finishing touch jobs” and for reasons related to keep small dimensions.

Moreover, according to this entrepreneur’s perception, the current financial crisis caused a decrease in demand of at least 30% that affected also this company. The strategy that it is adopting is double: focusing on complex productions whit a lower degree of competition because a higher level of knowledge is required; developing final products to place directly to the users’ market, eliminating problems of subcontracting and having greater autonomy in fixing price.

The entrepreneur interviewed confirms that there is a low level of labor productivity in Italy, as emerged by statistics in the problem discussion at the beginning of the paper. According to the respondent, this issue is caused mainly by a cultural problem that lead to laxity and absenteeism. In this point of view, there is another element that does not help to solve it and it is the behavior of labor unions that are often not interested in workers and their performance but only to “make cards”. Anyway, this company faced this problem and solved it successfully. The strategy used to solve this aspect was a policy of cultural change, by “training, giving motivations and involving workers”. The training made is related to a double faces, in part a technical training and on the other hand a corporate culture’s training. The consequence is “more collaboration, a better situation in the company, more quality and productivity”.

This interview confirms that there is a problem of banking credit access in Italy nowadays after the financial crisis. According to this entrepreneur, “banks became very careful and they are reluctant to give loans”. The process to access the banking credit is longer and more difficult now, a lot of
documents and a multi-years strategic plan are required. About this aspect, Company B is benefiting of a good financial management related to the past years, historical close relations with banks and a high level of capitalization, meaning that a lot of tangible assets are available within the company.

About the competition, specific problems of this company are: higher costs and prices than competitors; lacks in two departments that are becoming strategic now, as the Commercial Area and Research & Development. To solve them, Company B is trying to reduce the subcontracting inclination by developing new final products to place directly to the users’ market. At the same time, lacks in that departments are limits to do that and it is improving these capabilities by using a strategy of training and knowledge development.

Another question of the interview was related to substitutive products, but this threat is not present for this company because they are mainly subcontractor.

The current competitive strategy is the differentiation. This company cannot benefit cost’s advantages and consequently it tries to meet as much as possible the customer’s needs, in particular the most complex ones by focusing on quality and innovation. To do that, Company B is increasing continually technical knowledge, capabilities and the corporate culture. The specific attention on quality is confirmed by the Certification of Quality according to European Standards. This strategy is having good results because the company is reaching customers that give importance to the quality. This is the base of this company’s competitive strategy.

Innovation is considered as a strategic point. In fact, this company makes both process and product’s innovation. Process innovation improve efficiency and costs’ optimizations, increasing competitiveness so. Product’s innovation, instead, gives advantages in competition by being able to meet every customer’s need.

Moreover, Company B is evaluating a strategy of diversification both to enter in new markets with existing products and create new products. It is investigating if there are potential untapped possibilities, but for doing that they are developing competences in Commercial Area and Research & Development that are considered critical elements of the company now.

A disadvantage of Company B compared with competitors is considered the internationalization. To bridge this gap, this company is opening new production’s plants in East Europe and it is implementing new international commercial activity.
Considering that these last two strategies of diversification and internationalization are planning but not yet totally active, there are not yet results to evaluate if they are successful or not.

5.3. Micro Company C: MA.CO.

MA.CO. is a micro company that since 1982 designs and constructs every kind of frames, windows and doors. This company is situated in Aprilia (LT) (Italy) and operates for final users mainly in the geographical area of Rome and Province. MA.CO. is certified for Quality’s System in accordance with UNI-EN-ISO 9002, ISO 9001 and UIGQ 9707. It is also certified for the European Standard UNI-EN 124 related to classification, principles of construction and marking. Key words of MA.CO. in its presentation are quality, resistance, elegance, innovation and personalized solutions. These words already give an idea of the working way of this company and its competitive elements.

Appendix H shows the transcription of the interview with Marco Corbella, Owner of MA.CO. He is responsible in this company for all the aspects and activities, both technical and managerial.

According to Marco Corbella, the competitive performance of the Italian industry is very low. He considers as a main problem very high costs that force companies to compete only in specific sectors and for specific high quality’s products. He considers as a good strategy to reduce costs and be more coordinated the collaboration in partnership with other small companies of the same sector by using the way of the consortium. However, he tried to adopt this strategy in the past but it failed for reasons related to the individualistic mindset of the Italian small entrepreneur.

MA.CO. is a micro company totally vertical integrated, all activities are made internally “from selecting and buying raw materials, processing, assembly, laying and installation, the after-sale assistance”. This is not related to structural factors but it is a specific strategic decision. In fact, in this specific sector, it is often required a very high product’s personalization and, considering the importance of satisfy perfectly customer’s requirements, it is very important to have a perfect internal coordination and efficiency. Outsourcing is not a good strategy to meet this need, whereas conversely the total vertical integration is better considered.

Micro size is not a strategic decision in MA.CO., it is considered as a negative aspect because it often do not permit to optimize costs and be competitive for large quantity. However, according to Marco Corbella, micro size is perfect in this moment of uncertainty and low demand.
Moreover, he said that the problem of low labor productivity is different for sectors and situations. In this specific case, MA.CO. did not have this problem but he consider as a reason the close relation between entrepreneur and workers that leads to involvement and goals sharing.

Another problem examined is the banking credit restriction. Marco Corbella said that there is effectively a problem of access to the banking credit in this moment, but MA.CO. is not experimenting it thanks to a very good historical relation with banks and a mutual confidence bank-company. However, he specify also that the his requirement is about a “low amount of money” and a short refunding time.

The point of view emerged by the interview on the government action is that it is increasing taxation and costs. Moreover, there are problems in this specific sector related to the unfair competition and the lack in government controls does not solve it. The strategy adopted by MA.CO. to solve this problem is competitive: the differentiation focus strategy, by focusing on a niche of market formed by users requiring medium-high quality’s level, where price is not important and not regular competitors cannot compete.

The critical factors in this sector are “design; price; product’s and material’s quality; after-sale assistance”. MA.CO. focuses the attention on design and quality. The negative element is the price. In fact, using quality’s materials and advanced technology, this company has high costs and consequently high prices. This aspect has consequences on the kind of markets and segments served. According to the answer of Marco Corbella, this company could not reach markets of retailers and building companies because the price required in these markets is very low and MA.CO. is not competitive in them. Moreover, the segment particularly interested in low prices is not reached by this company that focuses the product on other two segments: furnishing and standard user. Design and quality are very important for them and these are the main elements of MA.CO.

The tools that this company is using to improve design’s capabilities and quality are training and innovation. The importance of capabilities is high in this sector and MA.CO. needs to improve them continually to offer always to the customer the best product’s quality. Innovation is practicing in this company both of process and product. Process innovation is related principally on technology. Product’s innovation, instead, is focusing on studying new materials and learning new techniques. The strategy of the innovation is giving good results because the level of the product’s quality
offered by this company to the market is high. This is confirmed by the fact that customers buy MA.CO.’s products despite the high price.

However, this competitive strategy is having uncertain results. In fact, the company decided to base its competitiveness on high quality, also reaching only a few segments. But after the financial crisis, decrease in demand for MA.CO. was important and almost 50% on primary products.

A second strategy implemented by MA.CO. to face decrease in demand is the product’s diversification. In fact, MA.CO. developed and is developing new secondary products with a high demand in the market to compensate the decrease in demand for primary products. According to Marco Corbella, this strategy is giving very good results because this company is not having decrease in production and sales thanks to these new secondary products, considering that demand for primary products decreased for about 50%.
6. DATA ANALYSIS

The data analysis is led by focusing on two different aspects. First, by identifying problems and difficulties faced by the three companies analyzed, describing their dimensions and dynamics. This first part is necessary to understand the context. Then, during the second part, there is the investigation about which strategies are implemented by companies to solve these problems and overcome difficulties. In this part, the structure follows research questions by identifying strategies adopted, reasons to implement them, consequences of them and finally whether they are successful.

6.1. Problems and difficulties

6.1.1. Taxation and government policy

A problem emerged during the problem discussion and presented in many articles is the increase of taxation and decrease in incentives to the industry. In particular, this problem is occurring in countries that are affected by the current financial crisis and Italy is one of them. During the interviews it was made a question about this aspect.

All respondents said that there is an increase in Italian taxation and this element creates higher costs related directly to taxes and indirectly to an increase in raw materials costs. In particular, the kind of taxes that creates problems to companies are no deductible ones, meaning the kind of taxation that does not depend on company’s performance and, also in case of bad performances, companies have to pay them anyway. For example, taxes on labor are no deductible.

This aspect is also directly correlated to the competition. In fact, many other countries have lower taxation and companies benefit of this by having less costs and consequently having the possibility to fix lower prices.

Another problem related to the current government policy and emerged by the interview is the tightening of the payment’s modality. There is zero tolerance about delays and, in this case, bank accounts are immediately blocked. If this element can be considered ethically correct, on the other hand it could create problems of operability for companies.

6.1.2. Low level of labor productivity

Another problem emerged during the problem discussion was the low level of labor productivity in Italy, showed by many statistics. Two on the three entrepreneurs interviewed answered that there is a problem of labor productivity and they had or have now this problem. Both of them talked about a cultural and motivational problem, with consequences of laxity, absenteeism, poor sharing of
business objectives. One of them also talked about a poor professional training. Another aspect of this issue is the behavior of the labor unions that, according with these two entrepreneurs, are not interested in workers performances, only want to “make cards” and protect workers also when they are in a bad faith.

Instead, one of them said that he do not have this problem and also has not had in his experience. However, during the interview, he also said that he does not have such kind of problem because he has a close relation with his workers, involving them in the job and sharing business goals with them.

6.1.3. **High costs and competitors of emerging countries**

All of companies and respondents interviewed have problems related to high costs. These are in part connected to high level of taxation, in part to raw materials prices and finally to labor costs. All these companies are affected in competition by this element. In fact, they have higher costs than competitors, in particular compared with emerging economies, like China, India and East Europe, and consequently their prices are higher. In some cases, their prices are so higher than competitors that it is impossible to compete for some specific products.

This aspect is considered very important for these companies. In fact, it creates problems for the competition but also it is a problem that does not depend on companies and their strategies. It is independent from their actions. Moreover, it is considered a problem that will not be solved and this is a threat for them.

Some respondents also show real worry about the threat that these emerging economies will becoming able to produce the same quality’s level of their companies in the future. In that case, their companies will be totally not competitive because these economies will produce the same level of quality with lower costs and consequently offering to customers the same product’s quality at lower prices.

6.1.4. **Banking credit restriction**

Statistics of important institutions show that there is a banking credit restriction in Italy. Effectively, all respondents said that banks changed this aspect and it is more difficult now getting loans.

However, all these companies are not affected by this problem. Ma.Gia. Pesca is a new company and it was started up with a low initial investment of own resources, without asking a loan to banks. The other two companies are asking loans to banks to finance their activity and investments, but
they are receiving loans. While asserting that it is becoming longer and more difficult, these companies are benefiting of good financial management during previous years. Both of them have a historical relation with banks and they have always been solvent. One of them is a very capitalized company also and this aspect helps of course to be less risky. For this reason, despite difficulties and crisis, they are receiving loans and are not affected by this issue.

6.1.5. Decrease in demand
After the financial crisis there is a decrease in demand that particularly affects companies and their performances. All these companies are experimented an important decrease, at least 30% and in one case operating only in domestic market without any export about 50%.
However, this aspect is not only related to the financial crisis. It is related also to the competition of emerging countries, China in particular, that produce at lower prices and then are more competitive for larger quantity. Thus, many productions are moving to these countries, exacerbating the decrease in demand.

6.1.6. Size of the company
Small size is considered in the literature from many authors as inefficient. In fact, according to the literature examined, small dimensions do not allow economies of scale and market power. Conversely, other authors consider small companies more efficient, flexible and easier to coordinate.

This debate is open also for entrepreneurs interviewed. In one case, the micro company MA.CO, small size is considered inefficient in costs optimization and to compete for larger quantity, but at the same time in this moment of uncertainty and low demand permit to be proportionate to the demand. The other two entrepreneurs consider small size as a positive aspect, giving flexibility, speed of action and higher level of coordination, as theorized by Moates and Kulonda (1990) and Schmenner (1976). But at the same time they talked about some negative aspects or limits: small size are not good to support systems of environmental and quality management; fewer resources to invest.

6.1.7. Substitutive products
According to Porter (2008), as said in the literature review, a possible threat for a company could be also external to the industry, like for example substitutive products. However, all respondents answer to the question about substitutive products that their company do not have this kind of threat.
6.2. Strategies

6.2.1. Vertical integration and outsourcing

All the companies examined consider the size and the degree of integration as two strategic aspects. In fact, all respondents said that both of them have important effects on the competitive capability of the company. The three units studied have totally different model and all of them for strategic reasons instead of structural ones.

The micro company MA.CO. is totally vertical integrated. It makes all activities, from the purchase of raw materials to the after-sale service. This aspect can be considered as a real strategy in a competitive point of view. In fact, in its sector, customers require high level of personalization, design and quality. To meet perfectly these requirements, the company needs to be perfectly coordinated and efficient. Every activity is part of a chain, it is necessary to manage and integrate all of them to achieve the best result. This company could not work efficiently if it not make all phases. All these aspects were theorized by Rothaermel et al (2006) and this specific case seems to confirm their theories. Moreover, for this sector and this company, the small size creates a problem of costs optimization. In this point of view, outsourcing reduces the company’s size and, in this case, would only generate inefficiency.

Company B has a mixed model, similar to the taper integration theorized by Rothaermel et al (2006), with the majority of activities made internally and only some finishing touches ones given in outsourcing. In this case, there is a double aspect: competitive and related to efficiency and costs. In part, its sector and production need very specific capabilities and knowledge to be competitive, this is the reason because the majority of the activities are making internally. On the other hand, small size is considered more efficient and flexible. Outsourcing some activities gives the possibility to keep the small dimension, without increasing number of employees and costs.

Finally, the business model is totally different in Ma.Gia. Pesca and this company makes extreme outsourcing. This company faced problems of high costs and low level of labor productivity, at the same time having also the need to be fast in actions and flexible. To solve these problems, Ma.Gia. Pesca adopted since the beginning and is continuing a strategy of outsourcing about the majority of activities, also primary. Outsourcing is so extreme that production and assembly are outsourced. The only activities made internally are the ones considered as core: innovation and design. Anyway, in this company, outsourcing is correlated to a continuous relation with outsourcers, frequent controls and collaboration. The commercial phase is applied to wholesalers. In this way, Ma.Gia.
Pesca solved problems of costs and labor productivity by outsourcing them and achieved conditions of flexibility and speed, as stated by Quèlin and Duhamel (2003).

Vertical integration is chosen for reasons related to simpler coordination and higher integration of knowledge and capabilities. In a firm with these kinds of needs, this strategy seems to be efficient and successful because consequences are a better product’s personalization and specific offer to the customer.

Outsourcing is a strategy implemented when the firm needs to be flexible, maintain small size and reduce costs, be able to compete in high speed and have more efficiency from outsourcers. In particular, this strategy seems to be good to face problems related to high costs and low labor productivity. In units analyzed, outsourcing led as consequences to reduce costs and improve efficiency and flexibility. For this reason, this strategy seems to be successful when the firm needs to work in these conditions.

6.2.2. Cultural change and training

Company B adopted a strategy of cultural change to solve the problem related to the low level of labor productivity. This is the only company that adopted this kind of strategy. Key elements of that strategy are: training, giving motivations and involving workers. The training concerns not only technical knowledge, but also and in particular information on the company’s culture. The company’s Director gave a lot of attention on this aspect because it is considered a key to improve productivity and quality. In fact, consequences of this cultural strategy are: more internal collaboration and better conditions for workers. These elements improve indirectly the worker’s performance. This case seems to confirm what stated by Higgins et al (2006) about the importance of the alignment between company’s culture and strategic goals.

Similar situation and conditions are presented in MA.CO. However, they are not the results of a specific strategy but it is possible to consider them more as a working style. Close relation between entrepreneur and workers, goals sharing and workers involvement are the key elements of this aspect in this company. Anyway, according to the entrepreneur, this way of working prevents the problem of low labor productivity in MA.CO.

Cultural change seems to be a possible strategy to adopt when the company has a low level of labor productivity and it needs to increase it. Consequences of this strategy are less laxity and absenteeism, better labor productivity, improvements in quality and performances. In cases
examined, cultural change, or cultural strategy, seems to be successful and managers are satisfied of it.

6.2.3. Innovation

As said by Kenny and Reedy (2006), innovation is often a strategy to improve capabilities and consequently company’s performances. All of cases considered make an innovation’s policy. It can be considered as a strategy because improve performances and competitiveness. Moreover, in every company analyzed, innovation is not an occasional event, but it is a long term process of improvement. All companies examined base their competition on quality, personalization and perfect meeting of customer’s requirements. These elements are critical factors of their sectors and it is very important for them to have good performance about them. In this point of view, innovation has a primary role: process innovation permits efficiency and productivity; product innovation improve quality and personalization. The wide use of innovation in order to create and improve new products confirms the theory of Rothaermel et al (2006) that this is a basic element of product’s diversification.

Ma.Gia Pesca outsources many activities, also production and assembly. Clearly, it does not have any process innovation because processes are outsourced. On the other hand, this company has an important product innovation’s policy. Research and development are made continually in a double directions: improving existing products and create new ones. In some cases, innovation is also stimulated by customers that have particular requirements and the company innovates products to meet them. Innovation in Ma.Gia. Pesca is a real process: firstly, a market research is led to identify lacks in the products offer; secondly, there is a research on new potential materials and characteristics; then, it is created a prototype and it is evaluated the market’s interest; finally, in case of positive answers from customers, the product is developed and it is placed to the market. This is also the base of the competitive capability of this company.

Company B leads both process and product’s innovation. Process innovation is related to the optimization of productive cycles and update the technology in order to improve quality and reduce costs. Also in this company, products innovation is connected to meet customer’s requirements. Company B did not have a Research & Development department and is starting now to develop new products by improving this department and collaborating with other companies and universities. According to the company’s Director, new products development will be a key element to compete in the future. Product’s innovation is increasing for degree of importance in this company and it is becoming a strategic aspect in a competitive point of view.
Finally, MA.CO. also is making innovation as a competitive key to develop tools in order to meet the customer’s needs. It makes both process and product’s innovation. Process innovation is more focused on using the best technological machines available and training for workers, in order to improve productivity and quality. Then, product’s innovation has a double aspect: better materials and new techniques. Also in this case, it is clear that innovation is a way to guarantee high quality that is the key element in this company’s competitiveness.

Factors that lead to adopt an innovation’s policy are in part related to the need of efficiency’s improvement and quality, in the other hand they are related to develop new products and guarantee future competitiveness. In fact, decrease in demand and competition with emerging economies make very important to improve company’s competitiveness both actual and future. All companies analyzed are using this policy in a strategic way, consequences are considered good and this strategy is successful for all of them.

6.2.4. Competitive strategy

As emerged by interviews, costs are critical elements for Italian micro and small companies. A competitive strategy based on low costs is impossible for them. Consequently, they implemented a strategy based on differentiation, theorized by Porter (2004), by giving to the customer the perfect solution to its requirements. All companies examined have almost the same kind of competitive strategy. They decided to not compete against competitors on price’s bases but to distinguish themselves and their products from competitors. This strategy is led on quality’s bases and personalization. Quality has a vital importance for these companies. They have to offer a high level of quality to justify the higher price that is caused often by higher costs. However, according to the theory of Pertusa-Ortega et al (2009) about mixing different competitive strategies, Ma.Gia. Pesca and Company B show a slightly more hybrid strategy because the differentiation is supported in parallel by a attempt to reduce costs.

Differentiation process is extreme for the three companies analyzed. They do not only differentiate for different segments but personalize the product for every single customer, meeting perfectly their requirements and satisfying their needs. This strategy allows them to reach all customers that want a high level of quality or personalization and that cannot find these aspects in low-cost companies.

A particular case is MA.CO. that decides to use a more focused differentiation strategy. In fact, the other two companies are trying to reach all the market by differentiating customer by customer. Instead, MA.CO. decided to focus only on medium-high quality products and reach only the kind of
customers requiring this level. During the interview with its entrepreneur, it is emerged that this company decided not to compete for lower quality segments. MA.CO. is focusing only on the part of the market that is not very interested in price and require a high level of quality and personalization. This element seems also a choose of clear positioning in the market.

Decrease in global demand, high costs and competition with companies from emerging economies are making very important to choose a competitive strategy based on quality and differentiation, instead of competing about costs and prices. For these reasons, companies examines are adopting at most a hybrid strategy, focused on quality’s improvement and extreme differentiation, that it could be possible to consider as a personalization, but also trying to make competitive costs and prices. Consequences are good. These companies are reaching customers with particular needs and requirements of quality. For this reason, this strategy is successful.

6.2.5. Diversification

Diversification is a range of corporate strategies theorized by Ansoff (1957). All companies examined are implementing a strategy of diversification to solve the problem of decrease in demand. Considering this consequence of the current financial crisis, they want diversify the risk of uncertainty in demand by extending their activity in different markets and different products, trying also to select markets and products with higher profits.

6.2.5.1. New markets and Internationalization

Diversification for new markets with existing products is led by two of the companies analyzed.

In particular, Ma.Gia. Pesca is adopting an extension to other geographical markets to increase export and sales. An international propensity and a good export’s level is characterizing the corporate performance from the beginning of its activity. This company is also planning to create the necessary structure to enter in the retailers market, not served until now. This could be considered as a strategy of development and expansion for this company, formed recently.

Company B is leading a double research of new markets. A first kind of research is about markets in which placing new products created recently, trying to enter in particularly interesting ones. In fact, this company is planning to redefine its model by leaving the condition of subcontractor and entering also in final products markets. A second kind of research is mainly geographical to extend its activity. To do that, this company is also implementing a strategy of internationalization by starting a new productive plant in East Europe also in order to reach better this market. According to Sakarya et al (2007), this is a good way to enter new markets.
Conversely, MA.CO. is not adopting this kind of diversification. It decided to focus its products only in the final users market of Rome & Province and it is continuing this decision.

Market’s diversification is a way to improve competitiveness and face decrease in demand, by extending possibilities of action. However, companies analyzed are still implementing this kind of strategy and it seems to be not possible to evaluate whether it is successful. Anyway, until now this strategy is giving them good results and they are continuing these aspects.

**6.2.5.2. New products**

New product development is a competitive aspect to face decrease in demand and uncertainty. All companies examined are developing new products to extend their offer and reach more customers. In fact, according with Rothaermel et al (2006), new products could give competitive advantages to the company. This strategy is also connected to their aim to meet perfectly customer’s needs. If the offer is not enough in this sense, these companies try also to create new products.

Ma.Gia. Pesca is extending the current range of products by making a continuous research in the market and identifying customers’ needs not satisfied.

As written before, Company B is adopting a strategy to enter in new markets with final products, but it did not have its personal final products to place in the market. Now, this company is increasing the activity of Research & Development and developing new products in order to have more autonomy in fixing price and gain higher profits.

Finally, MA.CO. met a very important decrease in demand of its primary products, evaluated in 50% by its entrepreneur. To face this problem, it studied and developed new products that they had not produced before. These secondary products are allowing this company to compensate the decrease of primary products. Considering this aspect, MA.CO. is continuing this strategy of product’s diversification.

A strategy of new products’ development is adopting mainly as a competitive way to face the decrease in demand and improve competitiveness. Consequences of this strategy are a better possibility to reach customers, have solutions to their requirements and better performance. Developing new products is considered a very successful strategy for all companies examined.
7. CONCLUSIONS AND IMPLICATIONS

7.1. Discussions

The focus of this paper is on successful strategies that micro and small companies can adopt to face the current economic dynamics and solve actual problems.

Starting from the problem discussion at the beginning of the paper and using the literature review during the data collection and analysis, it is possible to make conclusions and answer to the research questions.

The issues treated during the problem discussion are confirmed by interviews made. More and less all companies examined are facing problems related to decrease in demand, increase in taxation and in raw materials costs, banking credit restriction and low level of labor productivity. However, there are also other dynamics emerged by interviews. Small size in some cases leads to efficiency and flexibility helping companies, but in other cases this is a problem to optimize costs. Moreover, all that problems generate high costs that do not permit to micro and small Italian companies to be competitive about price, considering the competition of low cost economies and emerging countries. Finally, there is an important demand of product’s personalization and this element is often a competitive key. All these aspects converge in a big competitive issue.

A first kind of strategy to face successfully the current situation is the right choice about company’s boundaries. In fact, vertical integration, outsourcing or intermediate models, as taper integration, are partial solutions to competitive problems. This aspect depends on different industries and company’s needs. If the company needs speed of action and flexibility, outsourcing is a good strategy and it can help also to reduce costs and eliminate the problem of low labor productivity. Conversely, if the company operates in a sector where it is necessary to manage every activity, every process is closely connected with others and it is important to keep in house all the know-how, then vertical integration is the best solution.

A successful strategy to increase the level of labor productivity is the cultural change. Corporate cultural training, goals sharing and workers involvement are very good tools to solve that problem. Moreover, this is also a way to improve quality because workers are more motivated to make good performances.

Companies examined do not have any particular strategy to face the banking credit restriction. However, it is also true that they are not having this problem or not so seriously thanks to a good
financial management during previous years and a good strategic plan for next ones. Consequently, a good strategy to face this issue seems to be simply a good strategic and financial management every year.

Innovation is a strategic aspect of the company’s activity. All companies analyzed make innovation and this strategy is having very good results. Process innovation reduces costs and improves productivity and quality. Product’s innovation increases the quality of the product but, in particular, it makes the product as the perfect solution to customer’s requirements. Considering the direct relation between innovation and quality emerged from the interviews, innovation has also very important consequences in the company’s competitiveness.

After the analysis of this research, the best competitive strategies for micro and small Italian companies is the differentiation. In fact, high costs and low productivity make impossible to implement a low cost competitive strategy. High level of differentiation and, in some cases, an extreme product’s personalization customer by customer are giving very good results and are good strategic choices until now. However, it can be dangerous a focus differentiation strategy in this moment of low demand, in particular if the segment chosen is the one with highest price and then probably with lowest demand during the crisis. According to what emerged from interviews, the hybrid strategy, more balanced on differentiation but trying also to reduce costs, seems to be the best solution.

Finally, diversification both for markets and products is a successful strategy to manage this moment of crisis and low demand. In fact, this strategic aspect diversifies the risk of decrease in demand and, at the same time, creates new possibilities to compensate it with other markets or products. In this way, it is possible to face the crisis and win it by managing the markets-products portfolio. In this perspective, the internationalization process could help companies to enter new markets.

**7.2. Managerial implications**

The results of this research have implications in business administration field, in particular regarding some aspects of the business strategy in micro and small companies. Reaffirming that findings are not generalizable because of the structure of this research formed by only three cases, however there are some points on which managers could reflect on.
The first one concerns the structure of the company. Vertical integration and outsourcing seem to be different tools to apply in order to increase efficiency and competitiveness. It does not exist the perfect model, but each context leads to specific needs and it is important to understand them and find the best solution. Managers should focus on these aspects, also in micro and small companies.

Moreover, it exists a way characterized by innovation, quality, differentiation and new products development, that managers could begin in order to compete in contexts where high costs make impossible other kinds of competition. In here also, it seems to be vital an analysis of industry and different competitive factors.

Finally, focusing the attention a bit more on cultural aspects could lead managers to improve a lot the labor productivity and, in general, the working conditions in the company.

7.3. Limitations

Despite the effort to make every aspect as more reliable as possible and improve the research’s quality, this research presents some limitations that are important to consider.

Following the purpose, this study focuses the attention only on micro and small companies. There is not analysis about medium and large sized companies. If in a way this delimitation allows to analyze deeper the reality of micro and small companies that is very important in Italy and in Europe, on the other hand this is a limit because considers only one specific part of the Italian economy. Anyway, this aspect respects the purpose of this research.

All units of study are micro or small companies situated in the same geographical area and the same environment, even if in different sectors of activity. This choice is related to the necessity to have the same conditions about some elements, like for example banks or labor market. At the same time, for this reason, data and results of this research could be influenced by particular cultural, environmental, economic or social aspects, typical of the area considered. However, these characteristics and the differences related to them are not considered in this study.

Moreover, since units of study are micro and small companies, documents related to their strategic aspects are a few or often non-existent. For this reason, it would not be a good method to use documents to make triangulations with qualitative data collected by interviews. In this paper, the focus adopted is the point of view of strategic decisions makers and these information are gathered by interviews to them. At the same time, despite the importance of these sources, this research does not have other elements to collect empirical data.
Finally, the research approach of this research is qualitative, without any elements of quantitative investigation. Data are gathered through interviews only to three micro or small companies because this method allowed a deeper analysis. However, for this reason, it is important to specify that it is not possible to generalize results to all the universe of Italian micro and small companies.

7.4. Suggestions for future research

In this paper, the purpose was to analyze the range of different strategies that micro and small Italian companies can implement to face successfully the current economic dynamics. The approach to study this aspect was totally qualitative.

A possible future study is a kind of longitudinal research by analyzing same companies and same aspects after a time period. It could be interesting to examine results of these strategies in the future and evaluate their effectiveness.

Future researches could also change the focus of the purpose and the method used. In this way, it is possible to analyze deeper some specific situations. One possibility is to use a quantitative method and investigate dimensions of different strategies emerged by this research, gathering results that it is possible to generalize.

Another possibility is to extend the analysis to other size’s classes, as medium and large companies. This kind of research could lead to a wider view of the strategy but losing in depth. It is also possible to focus the study on a specific sector if there is a particular interest in these terms.

Finally, it could be possible to repeat this kind of research in another country. In this way, it would be possible to compare strategies of micro and small companies in different economies by leading a comparative design research. However, in this case, it is very important to choose a country with many similarities, otherwise the comparison would be meaningless.
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Appendix A.

Figure 3: Level of Labor productivity index in France, Germany, Greece, Ireland, Italy, Spain, Euro area.
Euro area calculate is based on the data for the following countries: Austria, Belgium, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Slovakia, Slovenia, Spain.
Source: Personal elaboration on OECD Data (2012).

Appendix B.

Table 2: Labour Productivity.
Source: OECD website (2012).

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<th>Variable</th>
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<td>G7 countries</td>
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<td>OECD Total</td>
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Appendix C.

Figure 4: Labour productivity index during the period 2005-2010 with 2005=100 in Germany, Greece, Ireland, Italy, Portugal, Spain, Sweden, Euro Area, G7 countries, OECD countries. Source: Personal elaboration on OECD Data - Appendix A at the end of the paper (2012).

Appendix D.

Figure 5: Labour Productivity.
**Appendix E.**

**Figure 6: Banking credit for size-class bank.** In black with points the best five groups (Banco Popolare, Intesa San Paolo, Banca Monte dei Paschi di Siena, Unione di Banche Italiane, Unicredit), in dark blue the big size banks, in green the small size banks, in light blue with points the minor banks, in red the total.

Appendix F. Transcription of interview with Marco Virzì, Owner and Director of the micro company Ma.Gia. Pesca.

Date: Tuesday 15 May 2012.

Time: 16:15 – 18:00.

Background: Marco Virzì is an entrepreneur of manufacturing industry and he is the owner of other small companies also. He is one of the two owners and director of the micro company Ma.Gia. Pesca that works for sport fishing products. This company was started in November 2009 during the initial problems in Italy related to the financial crisis. Marco Virzì is working in this company in the product’s project phase and he is responsible for aspects related to the production and technical characteristics.

Transcription:

Interviewer: What does your company do?

Marco Virzì: My company principally does planning and marketing about products for sport fishing.

Interviewer: What is your job in this company?

Marco Virzì: I am the member director.

Interviewer: What do you think about the competitive situation of the Italian industry?

Marco Virzì: Absolutely not good, the situation is critical. “Our” industry has difficulties to compete against other realities with low costs and very low prices, like for example the East Europe or Asia. The possibilities for the “made in Italy” are only two: working in areas and sectors where the price is not a big deal and customers pay it also if it is high; or always try to improve automation and costs cutting, but this is not always possible.

Interviewer: What are the critical issues for the Italian industry in a competitive point of view?

Marco Virzì: Critical issues are related to a system of costs and procedures that make difficult to be competitive for companies. Main aspects are a higher salary’s level than other economies, a very heavy bureaucracy, frequent controls, inefficiencies of the state system and a very complex human resources management required by the law. The majority of costs are generated by not productive elements and then they are only negative aspects for companies.
Interviewer: Do you think does exist a problem of labor productivity in Italy?

Marco Virzì: Yes, it is one of the critical issue of this system and it is very serious because often does not allow to be competitive.

Interviewer: What are the main reasons?

Marco Virzì: Poor professional training, lack of interest in business performance of many workers and their poor sharing of business objectives.

Interviewer: How much do you think is the competition of emerging economies, like Brazil, Russia, China, India, dangerous for the Italian industry?

Marco Virzì: I do not consider them as emerging economies because they are already big, they produce medium quality products with low cost in many sectors. They are very dangerous competitors and often they have more advantages than Italy in competition.

Interviewer: What do you think Italian companies could do to face this kind of competition?

Marco Virzì: The only thing possible to do it is using capabilities of design, planning, innovation, technology and quality, typical of “made in Italy”; guaranteeing also respect of delivery time and agreement conditions. Institutions should verify that products with the “made in Italy” certification are really made in Italy because some companies make the majority of the production outside and only some phases in Italy, nonetheless enjoying often of this certification.

Interviewer: How much do you think is the decline in demand caused by the current financial crisis important for the Italian industry?

Marco Virzì: Almost 30%. But this is not a big issue for my company. In fact, this is a small young company and it is not suffering a lot the decline in demand. The actual demand allows us to growth and go abroad in new markets and with new products.

Interviewer: Do you think taxation and fiscal government policy are influenced the actual situation of the Italian economy?

Marco Virzì: Yes, taxation and government policy are increasing costs for companies and also the cost of many raw material. Considering that banks are not lending money, or they are lending at very high interest rates, companies do not have financial resources to finance
investments and Research, compromising the future competitiveness in this way. Another issue is related to the labor market, often labor unions protect workers also when they are in a bad faith. This total protection influences a lot the propensity of companies to recruit new employees. It is really necessary a labor market reform and there is in fact a debate about it.

**Interviewer:** Then, is there a banking credit restriction in Italy after the financial crisis?

**Marco Virzì:** Yes, there is an important restriction. Banks do not make credit despite they are receiving a lot of helps from institutions in order to move money to companies. Companies are forced to use only their own resources and reinvest profits. However, the banking credit restriction did not affect a lot my company. We started this business with an initial investment of our personal resources about €10,000, a range of a few quality’s products and an aggressive commercial policy.

**Interviewer:** What are difficulties faced by your company recently and nowadays?

**Marco Virzì:** The main difficulties are related to the productive system and competition. Our principal competitors are Chinese and Indian, they have almost all the market share in this sector. They have very low costs, in particular costs related to labor and state bureaucracy, and for this reason they can offer lower prices than us. Nowadays they are really competitive, having appropriate machines and necessary technology for this kind of production, they have learned perfectly techniques of production and finally they have raw material to produce this products. Conversely, Italian companies have to import these raw materials from abroad and often proper from these countries. Other difficulties, but less important for my company, are the increase of taxation and raw material costs, a general lack of demand, in particular because the sector we operate it is basically a “hobby”.

**Interviewer:** Are some of these difficulties caused by factors prior to the financial crisis?

**Marco Virzì:** Yes, issues related to costs and low labor productivity.

**Interviewer:** How is your company facing these issues?

**Marco Virzì:** By outsourcing to other companies that only make production.

**Interviewer:** What degree of vertical integration or outsourcing does your company have?

**Marco Virzì:** I can say that my company is absolutely not integrated. Primary activities, like production and assembly are outsourced. We outsource also some secondary activities, like for
example accounting. Our customers are wholesalers who have retailers as customers. Until now, we have not cared these other phases to reach the final consumer.

**Interviewer:** Is the relation with your outsourcers occasional or continuous?

**Marco Virži:** The relation is absolutely continuous. We have specific relations with our outsourcers and absolute trust and collaboration. They are a basic part of our quality goal. All inputs that outsourcers use are agreed with us for technical characteristics. The producer check the quality of the production in accordance with technical data criteria and characteristics that we give them. The assembler make a sample control at the moment that it gets the products from the producer and later it make a total control on the final outputs. Moreover, there is our constant presence and checkups to these companies, producers and assemblers. This network and close relations with outsourcers guarantee quality, reliability and continuous innovation.

**Interviewer:** Why did you choose to outsource these activities?

**Marco Virži:** Because we have higher flexibility, simpler coordination and faster operations in this way.

**Interviewer:** Are you planning to change this model of outsourcing?

**Marco Virži:** No, my company started in this way and using this model, it is working well and I am not planning to change.

**Interviewer:** Your company is a micro business. Why? Is it related to a strategic decision or structural reasons?

**Marco Virži:** The small dimension depends, in a way, on the life-phase of the company, it has recently started, and in other part on our strategic decision. The choice to use outsourcing for production and assembly gives us flexibility, high speed of action and costs optimization. These are very positive aspects and we based our competitiveness on these. However, there are also negative aspects: a fewer resources to invest and less wide range of products to offer. Finally, we had to reach only the wholesalers market, we could not reach the retailers market because we cannot have a diffused commercial network necessary for this market. Resources and dimensions are correlated and this could be a problem.

**Interviewer:** What are the main critical factors to compete in your industry?
Marco Virzì: Critical factors are mainly: speed and reliability to deliver products required; price of product; product’s personalization customer by customer, both for external and technical characteristics; high quality, both for compliance with technical specifications and use resistance.

Interviewer: Can you describe strategies adopting by your company?

Marco Virzì: Our strategies are mainly based on quality and relation with the customer, in order to personalize the product for him and meet specific requirements. Our competitors usually do not care this, or anyway they have longer times and worse results. We deliver products to the customer not later than 20 days from the order, the customer can pay at the shipping moment or often also after the reception of products and this also for small quantity. This aspect makes us different from competitors, they want only large quantity orders, prepayment at the order moment and often long delivery time. Unfortunately, costs are very difficult to decrease and consequently we cannot offer the same price of competitors. Trying to improve this aspect we outsourced totally production and assembly to other companies, reducing a lot labor costs, improving flexibility and simplifying coordination and management. Another goal is to guarantee quality and personalization to the customer. For this reason, we have a continuous innovation policy and an activity of Research and Development, both for new products and for improvement to existing products. The Research is mainly made for new products, different usage of existing products and new materials in order to improve quality and performances. The innovation is generally driven by internal Research, but it is sometimes created by customer’s requirements.

Interviewer: What are strategic capabilities, resources and competences, in your company?

Marco Virzì: The main capabilities are related to the two owners, I am one of them. I have knowledge related to the product and the other owner has commercial capabilities. Personally, in addition to produce these products, I am also a consumer. Because of this, I know technically the product but I can also understand the customer requirements related to the specific usage. This aspect is good also in the commercial phase because we can offer products in a better way, understand immediately customer needs and evaluate possibility to personalize the product. The other owner has great knowledge for the commercial aspect and the company can operate perfectly. Other capabilities are efficiency in coordination of activities and flexibility. Finally,
the possibility offered to the customer to receive constant and specific technical advice, also in after sale phase.

**Interviewer:** What are the core competences of your company to improve your competitive advantages in the future?

**Marco Virzi:** Surely technical knowledge of products, then planning, design and innovation phases.

**Interviewer:** What kind of innovation does your company make?

**Marco Virzi:** Innovation is the base of our activity, it is the phase that we really care and the reason because customers choose our products. It is usually innovation related to external characteristics of the product but sometimes also for technical qualities. This is in part related to the specific customer’s need that leads us to modify the product by improving it and meeting perfectly these requirements. On the other hand, there is also a constant innovation based on Research. Initially, we start with a market research to understand lacks in the general offer. Then, we make internally a research on potential materials and characteristics, going to project new prototypes. Finally, we evaluate realization costs and the market interest in these new products. If results are positive, we insert these products in our offer and start to propose to customers. New products are often developed like that.

**Interviewer:** What do you think are competitive advantages of competitors compared to your company?

**Marco Virzi:** Competitors have lower costs and they can have lower prices for products. This is the only disadvantage that I think our company has. As said before, this is a problem difficult to solve. We partially solved it by outsourcing, but because our products are totally “made in Italy” this problem continue for our outsourcers in a way. The solution could be to produce in low cost countries, but we really do not want to give up to quality and mark “made in Italy”.

**Interviewer:** What are the weaknesses of your company?

**Marco Virzi:** Certainly too high costs. Moreover, sometimes a large use of outsourcing could create problems and unexpected issues not depending on us but from our outsourcers. This aspect could be a risk for our reliability that we offer to customers and we focus on. We manage this risk by having close relations with our outsourcers and continuous monitoring.
Interviewer: Do substitutive products exist for your company?

Marco Virzi: No, there are not substitutive products. There are substitutive hobbies and activities for final consumers. It is important to specify that our sector is only a hobby for final consumers.

Interviewer: What are the different markets existing in your industry?

Marco Virzi: There are different markets both for geographical criteria and for position in the industrial chain. Generally, main markets are three: wholesalers, retailers and final consumers.

Interviewer: What are strategic decisions and criteria used by your company to select the market within compete?

Marco Virzi: Geographically we are trying to reach all markets without boundaries. However, our customers are usually wholesalers. We do not have a diffused commercial network and we cannot reach neither retailers and consumers. For this reason, we selected the wholesalers market to compete in.

Interviewer: Are you planning strategies to enter in other markets?

Marco Virzi: Yes, we are planning to reach the retailers market in some geographical areas. In this way, we could acquire many other customers with different characteristics than the ones that we have now.

Interviewer: Are you planning to create new products?

Marco Virzi: Yes, we are trying continuously to extend the range of offered products by evaluating customers needs and the possibility to create new products to meet these needs.

Interviewer: What kind of segments exist in the market you compete in?

Marco Virzi: There are not particular segments. However, it can exist specific requirements of single customers.

Interviewer: Then, products that your company offers to the market are differentiated, not standard?
Marco Virzi: Right, our products are differentiated. Product’s characteristics are personalized to meet specific needs of single customers. The differentiation adopted is absolutely specific customer by customer.

Interviewer: Why some customers choose to buy products of competitors instead of yours?

Marco Virzi: I can say that some customers buy competitor’s products only for reasons related to lower price.

Interviewer: Is it possible to say that your company’s strategy is based on differentiation instead that low cost?

Marco Virzi: Absolutely differentiation. However, we are trying also to reduce the final price because a too large range about it could lead customers to sacrifice quality and personalization to have a lower price. We do not have to forget that our customers are wholesalers and they also suffer competition related to costs and price. If our customers pay too high prices, they have higher costs and they are forced to fix higher prices, remaining out of the competition.

Interviewer: What are opportunities that your company could take in this moment?

Marco Virzi: Opportunities are: to enter in the retailers market, by acquiring many new customers and creating a diffused commercial network; to start up partnership abroad, in particular with commercial companies to extend market share in specific geographical areas.

Interviewer: What are the main threats for your company?

Marco Virzi: The main threat is the low cost competition of Asian countries and East Europe. Another threat is the possibility that competitors will copy our technology and product’s quality, producing the same quality at lower prices, cutting us totally off the competition. It is necessary a continuous innovation to create always better products and neutralize their imitation process.
Appendix G. Transcription of interview with the Owner and Director of a small chemical “Company B”.

Date: Tuesday 15 May 2012.

Time: 19:00 – 20:55.

Background: This entrepreneur is one of the Owners and the Director of a small chemical company that works in molds and molding of technical products. The entrepreneurs interviewed has always worked in this familiar management company. In order to answer all these questions, for this company there is the need to keep private some information, as the name and some personal aspects.

Transcription:

Interviewer: What does your company do?

Director: Molds and molding of technical products in the chemical sector.

Interviewer: What is your role in the company?

Director: I am one of the Owners and Director.

Interviewer: What do you think about the competitive capability’s level of the Italian industry?

Director: The competitive capability is low.

Interviewer: What are the critical issues that affect the Italian industry in a competitive point of view?

Director: For a company that respects the law and rules it exists a problem related to the competition against other some Italian companies that do not respect these laws. Moreover, it exists a problem related to the competition against companies of other countries, in particular the low cost ones, where many European Laws are not applied, like for example the compliance for workers, medical examinations, cleaning and hygiene, work equipment, environment and safety. Other problems are related to very high level of labor costs and taxation. In particular, in this period of crisis many Italian companies are paying a lot of taxes for no deductible costs despite the balance is in loss, like for example labor costs.
**Interviewer:** What do you mean when you say that “some Italian companies do not respect laws”?

**Director:** Our company is considered by our customers as a “supplier of development” and we are a few companies able to supply products at so high level. We respect laws and rules, we care every aspect: environmental, ethics, safety, quality. There are some companies, and I am talking about Italian companies, that conversely do not respect these aspects. As a result, they have significant savings in terms of environmental analysis, neutralization of fumes, dust neutralization, safety and work equipment. All these elements are very expensive for my company but some other companies do not have costs about them. Clearly, in this case we can talk about unfair competition. This problem exists and it is serious. Some customers want our kind of quality and management, caring all these aspects and respecting laws, but at the same time they want the same prices of other competitors that do not respect these aspects. Of course we do not accept to have same prices and often customers require to my company only the most complex production that other companies are not able to make. They cannot make it because know-how is not enough, it is necessary that the worker use a particular attention to respect procedures in an extremely accurate way and it is necessary to care all the aspects that I said before.

**Interviewer:** Do you think that Italian competitive problem is only related to cost’s factors?

**Director:** Yes, I believe that Italy is seriously penalized by very high costs and this aspect become really important in particular against some economies. Clearly, reducing a lot these costs and taking off this weight, I think Italian companies would be really competitive, they make quality, there is quality in Italy.

**Interviewer:** Do you think does a problem of low labor productivity exist in Italy?

**Director:** Yes, I had this problem and I solved it by making information to workers, training, giving motivations and involving workers. We made an important cultural change.

**Interviewer:** What are the consequences of this cultural change?

**Director:** The worker is happy, there is more collaboration, a better situation in the company, more quality and productivity.

**Interviewer:** What are the reasons of the labor productivity issue in Italy?
Director: The reason is mainly cultural, we are talking about laxity and absenteeism. In many cases, workers do not have the culture of labor. However, I think it is not only an issue related to workers but also to entrepreneurs. Often workers do not work or they work bad also because some companies have confused entrepreneurs, they expect that workers already know what to do and how. The consequences are not clear assignments, vague expectations, workers working bad and not satisfied entrepreneurs.

Interviewer: Does exist an issue related to workers’ unions and their actions in Italy?

Director: Yes, according to my experience the workers’ union wants only to make cards, by dealing with companies to reach this goal, without caring effectively workers’ interests. Workers’ unions often try only to appear as the authors of benefits for workers but often this is false and within company already exists collaboration between entrepreneur and worker. Of course there are also some good syndicalist and, if all of them were like that, it would be wonderful.

Interviewer: What kind of training did you make for workers in your company?

Director: We make technical training “on the job”, made in particular by shift supervisor continuously. Then, we make cultural training in my company on the corporate culture that I believe it is very important.

Interviewer: Do you think in general are workers not technically well prepared?

Director: Yes, but I think that it is impossible that a worker could work without training. Training and goals sharing have to be made every time a new worker arrive within the company.

Interviewer: How much do you consider dangerous the competition of emerging economies, like Brazil, Russia, China, India?

Director: A lot. They have lower costs and taxation than us. I think it should exist a policy of tax reduction to prevent that many companies go abroad to produce and stop to produce in Italy, in particular large companies.

Interviewer: Is competition of emerging economies only related to costs?

Director: Absolutely yes. In particular, China does not respect none of the elements I said before, environment, ethics, waste management and quality. This “indifference” has large positive consequences on costs. However, quality is also increasing in China and, while in the
past Chinese companies often could not guarantee product’s quality and then customers wanted our products, recently this aspect is going ever less.

**Interviewer:** Does exist a threat that early also these economies will produce at the same European level of quality?

**Director:** Yes, absolutely. Multinationals are transferring there the know-how.

**Interviewer:** What are the solutions to this threat?

**Director:** Certainly the innovation, to be innovative and have new ideas continuously. And then to choose niches of small quantity and specialize our self in complex kind of productions because for them customers cannot use Chinese companies, that are more convenient for large quantity. Otherwise, another possibility is to apply directly to the market with final goods instead working for other companies in subcontracting. In this case, there would not be the problem of the price required by a specific customer and the price could be more flexible.

**Interviewer:** How much do you think is Italian industry suffering a decrease in global demand related to the current financial crisis?

**Director:** At least 30%.

**Interviewer:** Is your company suffering a decrease in demand?

**Director:** Yes, a lot of productions are made in China and our market ask to us only very complex productions or small quantity. It often happens that our customers use my company only for the first start up phase of a new production and then they produce in China for large quantity.

**Interviewer:** Do you think there is a banking credit restriction of Italian banks after the financial crisis?

**Director:** Banks became very careful, they are reluctant to give loans, also because they are having problems to harvest money.

**Interviewer:** Did your company experiment problems in banking credit access?

**Director:** Yes, and in this moment banking credit is very important. Our company had economic problems related to a decrease in demand and production. Moreover, we also had a financial problem after a payment missed about a big amount. In another period, we would not have any
problem to have a loan from the bank because this company have always had great relations with banks. However, in this moment of important banking credit restriction, the bank required us to prepare a lot of documents to have the loan and give them a plan of next eight years. We presented these documents and I believe bank will accept but only because we are very capitalized. And this because we historically reinvest all profits. Anyway, whereas in the past to be capitalized would be enough to have loan, nowadays the bank requires a strategic plan because it wants to verify that a plan to face difficulties is planned.

Interviewer: What are the main problems faced by your company?

Director: Certainly a first problem is related to the productivity, that we solved by changing the culture and training. Another issue is the decrease in demand, caused by the current crisis and low cost production in China and East Europe that many customers use instead using our production. The strategy that we implemented to face this issue is to continue to work with this kind of customers but at the same time developing our final products to put in the market, leaving in this way the subcontracting condition. Thus, an important strategy is diversification to reduce risks of demand variations. However, doing like that, we are facing our limits. We are very good in producing what our customers asked to produce, but we are not so good to understand the product to create and in particular to place the product in the market. The commercial area is something that historically did not exist in our company, it is an activity that we did not need because customers always came to search us. This is one our limit. Also when we produced our own final product, we could not be able to place it in the market.

Interviewer: Then, do you think is this one critical aspect of your company?

Director: Yes, absolutely. The commercial area is one critical aspect of my company. Another is the Research and Development area because this phase was usually made by our customers. Thus, we had only the Project Management area. Both of these critical aspects give us difficulties nowadays to decide the right product to create and place it in the market.

Interviewer: How are you solving these problems?

Director: Initially we tried to find these competences out, for example by searching a commercial director to recruit. Later, instead, we decided to change this strategy and develop these competences internally by improving our capabilities.

Interviewer: Are your products differentiated for different segments or standard?
**Director:** Our products are differentiated following different needs and requirements of single customers. This is exactly our main characteristic.

**Interviewer:** Do exist particular segments that your company serves?

**Director:** We never have made a marketing research. As I said before, we always were searched by our customers for our competences and we are appreciated for them. However, nowadays we need to understand how place our company in the market and we are working on this aspect.

**Interviewer:** Thus, is it possible to say that your company bases the competition on elements of differentiation and not on cost’s elements?

**Director:** Actually we are doing both of these strategies. In part we are adopting differentiation to meet specific needs of every single customer. On the other hand, our customers want us to keep very low prices. In this moment, we can continue like that with very low profit margins. However, for this reason we are developing our new final products to get higher profit margins. About these products the strategy is surely the differentiation.

**Interviewer:** As you told me, you are trying to make diversification in this company. What kind of diversification are you adopting?

**Director:** The diversification adopted is on many aspects. We are trying to find new markets for products that we created and refined. Moreover, we are trying to understand if there are more interesting markets than others to enter in, we are investigating and evaluating. Finally, we are making research to analyze the possibility to develop new products.

**Interviewer:** What are the main critical factors in the industry that your company compete in?

**Director:** Quality and productivity, meaning the efficiency during the production phase in order to respect the budget of the customer.

**Interviewer:** What kind of quality is required?

**Director:** The quality is very important because we produce technical products. These products must have technical characteristics and must have all of them the same characteristics. In order to make it possible, it is important to follow all the right procedures and use the same criteria. This is very hard. Our company has the Quality Certification. This element can be only a paper or can be a way to work. We do not have this certification only to have a paper. Our company was already certificated for quality by our customers before than certification’s authorities. Our
customers made audit in the company and we were certified by them. A first reason to be certified for quality is that our customers want us to be certified. We learned the quality’s culture from our customers and then we appropriate it. Later, when the system of quality’s certification was born, we have adopted this system because we need to work in quality and reduce costs of no-quality. Working in quality means to establish procedures and respect them.

**Interviewer**: What are strategic capabilities, resources and competences, that your company has to have competitive advantages in the competition?

**Director**: High level of technical knowledge, a strong attention to the quality and above all a good team that wants to achieve goals by using shared values.

**Interviewer**: What kind of technical knowledge?

**Director**: Key persons, responsible and all the management have very high technical competences. Moreover, in my opinion all the staff is at a high level. Clearly, as I said before, we miss competences about our critical aspects: commercial area and marketing.

**Interviewer**: Do substitutive products exist for your industry?

**Director**: No, being subcontractors we do not have our products and then we do not have substitutive products.

**Interviewer**: Small dimensions are a strategic decision or caused by structural factors?

**Director**: This subject is complex. There are different kind of structures for different kind of activities. In some cases, customers use our products and our company because we have a structure, I mean a system of quality management, environmental system and safety. To have this systems it is necessary a medium dimension. Nowadays, to keep to work with these customers we cannot reduce dimensions. If we would work only with our final products then we could downsize without problems. It would be good reduce our dimensions to reduce costs but this is not possible until we have some customers that require such kind of structures. The expectation now is an increase in demand and production, in this case it would be better to keep with this dimensions. Generally, in my opinion, small size give better flexibility and efficiency.

**Interviewer**: Are you outsourcing some activities?
**Director:** Yes, we have outsourced principally little kind of finishing touch by using long and continuous relationship with some companies.

**Interviewer:** What are the reasons that led to outsource these activities?

**Director:** Lower costs and we needed to do not increase too much the number of employees.

**Interviewer:** Are you adopting an innovation policy?

**Director:** Absolutely yes.

**Interviewer:** What kind of innovation are you adopting?

**Director:** We use both process and product innovation. Process innovation is mainly related to continuous improvement and optimization of the production cycles in order to have the larger possible quantity of output with the best possible quality and the less use of energies of workers. About product innovation, we make the development of customer’s requirements. What we have to do is always update the technological know-how. We are also working to create new products by collaborating with other companies and universities.

**Interviewer:** What do you think are competitive advantages of your competitors?

**Director:** Internationalization.

**Interviewer:** What kind of strategy are you adopting to compete against this competitors’ advantage?

**Director:** We are starting up a new production plant abroad in East Europe and we are improving commercial activities to reach new markets both Italian and European. Nowadays, we are suffering a decrease in demand but we believe it will become an increase when the new production site in East Europe will be active. This because we will be able to supply the complex products by using the Italian plant and to supply simple products and decrease costs by producing these at there.

**Interviewer:** What kind of opportunities do you think your company can take in this moment?

**Director:** The crisis could become an opportunity because clean the competition and force to improve. It can be possible to have a selection of the competition. Competitors that only base their competition on costs, considering that banks are not financing companies, will sweep away. Moreover, difficulties could lead us to improve efficiency, working better. Thus, I believe that if
we will be able to solve our problems, we will have more possibilities than competitors. We always have to live the crisis as an opportunity.

Interviewer: Instead, what are the main threats for your company?

Director: We are worried because there is the possibility that some financial issues will become harder. If there will not be a demand recovery and sales recovery we will face financial difficulties. However, I am sure that we are doing all we can do to solve problems and I believe we will certainly survive to the crisis.
Appendix H. Transcription of interview with Marco Corbella, Owner of the micro company MA.CO.

Date: Wednesday 16 May 2012.


Background: Marco Corbella has been an entrepreneur since thirty years ago in the industry of frames, windows and doors. He created the MA.CO. Company in 1982 and he is responsible in this company for all the aspects and activities.

Transcription:

Interviewer: What is your role in the company?

Marco Corbella: I am the Owner.

Interviewer: Which industry is your company competing in?

Marco Corbella: My company creates and sells frames, windows and doors.

Interviewer: What kind of vertical integration or dis-integration does your company adopt?

Marco Corbella: We are totally vertical integrated, we make all the activities, from selecting and buying raw materials, processing, assembly, laying and installation. We also make the after-sale assistance.

Interviewer: Why did you choose to be totally vertical integrated?

Marco Corbella: Because there is the need to coordinate all the activities and working efficiently. It would be impossible outsource some activities and keep these aspects.

Interviewer: What kind of markets do exist in your industry?

Marco Corbella: Principally three: final users, retailers and building companies. Then, there are many different geographical markets. My company works in the Rome and Province for about 80%. Then, we work in the Latina and Province and there are some occasional jobs in other geographical areas.

Interviewer: What kind of customers are you reaching?
Marco Corbella: We are reaching directly final users. We do not work neither in retailers market and building companies. In these kinds of markets we could not be competitive because they want less quality’s raw material in order to have lower prices.

Interviewer: What kind of critical factors exist in your industry?

Marco Corbella: Design, both aesthetic and for technical characteristics; price; product’s and material’s quality; after-sale assistance.

Interviewer: What kind of segmentations do you have in the final users market?

Marco Corbella: Segments are related to customer’s needs. In my opinion, there are mainly three segments: standard user, interested in quality but without particular requirements; furnishing, with particular attention on aesthetic factors; low cost. This last segment does not buy our products and it buys from other companies. My company sells to the previous two segments.

Interviewer: What do you think about the Italian competitive situation?

Marco Corbella: In my opinion, it is low, it is very hard to compete at an International level and abroad. Moreover, small companies are “alone”, we do not have incentives, investments, procurements, a central coordination from institutions.

Interviewer: What kind of dynamics do exist in your industry?

Marco Corbella: About our specific products there is a different competition, we are talking about totally different materials. Part of products in abroad markets are often constructed by using bad materials, very low quality and costs, it does not exist any competition with this kind of product. I do not have any product to place in competition with them, it is impossible to compare these two different level of quality.

Interviewer: Are you suffering the competition of these low cost products?

Marco Corbella: In this point of view there is not a big competition. All customers ask me to make an estimate of the specific job. But, then, customers buying my products choose the quality, the certification and the service. There is not competition about price.

Interviewer: Why do some customers choose products of competitors?

Marco Corbella: Only because the price is lower, also sacrificing the quality.
**Interviewer:** How can you become more competitive in your industry?

**Marco Corbella:** The Italian market is very static nowadays, then it is becoming important to enter in international markets. Another possibility could be to create consortia with other small companies of the same sector, occasional collaboration to face specific single projects. In this way, we could optimize costs and be more competitive by combining capabilities and resources. However, these kind of companies are based on one entrepreneur who created his own company by himself and then he has an individualistic mindset. Combining these companies and these entrepreneurs is very complex and difficult. We tried to do this kind of experience but there is a problem of mindset, as I explained before, that let these solutions failed.

**Interviewer:** Thus, are small size a negative aspect for your company?

**Marco Corbella:** No. Unfortunately small size give us some problems related to costs optimization and do not allow us to be competitive for some market’s requirements, in particular for large quantity. However, at this moment the demand is uncertain and small dimensions are our salvation because we are proportionate to the demand nowadays.

**Interviewer:** Do you think does a problem of labor productivity exist in Italy?

**Marco Corbella:** I do not know in general because there are various and different realities. About my company I can say no, I do not have this problem. On the contrary, there are workers in my company who are so much involved in the job that they came to work despite being sick. This because there is a close relation and contact with workers, we do the training together, they are informed about every aspect of the company, we share goals and I involve them in the job.

**Interviewer:** Has the recent government action influenced the small companies activity?

**Marco Corbella:** Yes, there is an increase in taxation, however not so high in my sector. The problem is instead a tightening of the modalities of payment and zero tolerance on delays. It could be enough a little delay in payment to cause the lock of all the bank accounts and this could create serious problems of operability for companies. Fortunately, my company has not never had these problems.

**Interviewer:** Do you think can the government action improve the competitive level of the Italian industry?
**Marco Corbella:** Yes, but in our sector it would be enough if control would make efficiently, to verify competences and qualifications of who make these activities. According to the Law, companies of the sector of windows and doors have to work following some rules of Certification C.E. (European Community). However, often, products sold in the market have the Certification C.E. but they are not constructed following these rules, often using unsuitable materials. There is a system of rules and certification but this system is not respected. The problem is that there is not control on this aspect and there are a lot of products not in accordance with rules. Unfortunately, the user do not know that and evaluate almost only the final price. But obviously companies that do not respect rules have lower costs and thus lower prices. There is a problem that we can easily call unfair competition. Many companies do not respect the mandatory of certifications and mark, consequently they have totally different prices comparing with our prices. It is impossible to compete at so different conditions.

**Interviewer:** How are you facing this problem of unfair competition?

**Marco Corbella:** The strategy that I am adopting in my company is innovation and training, always and continuously, to improve efficiency and quality. We are also informing our customers about differences in this aspect. We believe in quality and believe that finally this aspect will be rewarded in competition. Then, another strategy is to meet perfectly the customer’s needs: we design the product, personalize it and study the best installation, all of these activities to satisfy perfectly the customer and his needs. We try to offer the best quality of the product, installation, perfect technical characteristics, aesthetic and related to performances. Of course this effort does not help us about costs but give us the possibility to offer a quality’s product to the customer and it represent an added value for us. We are almost the only company that offers all these aspects, our competitors do not offer them. We focus on a niche in the market that is definitely the medium-high for qualitative criteria.

**Interviewer:** What kind of innovation is adopting in your company?

**Marco Corbella:** We make both process and product innovation. The process innovation is usually technological by using ever more advanced machines. Then, it is always made training for workers to improve efficiency and capabilities. Product innovation, instead, is made on double aspects: the first aspect by searching always better materials, in particular recently ecological and biocompatible; secondly, by studying new techniques of production and installation, starting from customers’ needs.
**Interviewer:** Did you experiment a banking credit restriction after the financial crisis?

**Marco Corbella:** Nowadays there is a difficulty of credit access, but not about my company. This company is working since thirty years ago and it has never had financial problems. Banks evaluate a lot also the corporate history. My company uses banking credit every year and it has not never had problems, neither for banks to give us money and for us to refund. However, we always asked low amount of money and the refunding times were short. Moreover, there is a mutual confidence bank-company.

**Interviewer:** Did you experiment a decrease in demand of products after the financial crisis?

**Marco Corbella:** Yes, considering the primary products of my company there was a decrease in demand of 50%.

**Interviewer:** What strategy are you adopting to face this kind of problem?

**Marco Corbella:** We developed some secondary products that we are increasing a lot. Thanks to these new products we are not suffering decrease in production and sales. Moreover, we tried to be more purposeful in the market and create new products that we did not produce before.

**Interviewer:** What are the strategic capabilities in your company?

**Marco Corbella:** Certainly technical knowledge of products and materials. Moreover, also the capability of design.

**Interviewer:** What are the core competences of your company?

**Marco Corbella:** Design and engineering of the product, selection of raw materials. These competences are absolutely the ones that differ us from our competitors and they are the reason because customers choose this company.

**Interviewer:** What kind of opportunities and threats do you think your company has?

**Marco Corbella:** Unfortunately it is very hard to evaluate opportunities with the crisis and the actual uncertainty. We cannot plan long-term programs, we are working day by day. We are adopting a six-months vision, by evaluating periodically the possibilities that we can take. The most important threat for my company is the uncertainty.

**Interviewer:** How are you facing the uncertainty?
**Marco Corbella:** We are increasing the commercial action and advertising. Moreover, we are creating new products to extend the range of products offered, thus trying to reach better customers and being more purposeful.
Linnaeus University – a firm focus on quality and competence

On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

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Lnu.se
Linnaeus University
SE-391 82 Kalmar/SE-351 95 Växjö
Telephone +46 772-28 80 00