

Analyzing the Role of Dynamic Capabilities in the Internationalization of Gradual Global SMEs

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Abstract

Internationalization represents an obligatory path for firms in order to compete and survive in the current competitive environment. However, many enterprises, especially the SMEs, sometimes lack the necessary resources to grow and succeed in international markets. Several authors argue that SMEs constantly need to create, adapt and reconfigure their relationships and network resources to remain competitive in an international environment, that is, they need to develop dynamic capabilities. The aim of this paper is to analyze the international growth of gradual global SMEs by adopting the dynamic capabilities framework. Through the case study of a firm from South Italy, this paper aims to analyze the role played by dynamic capabilities in the growth and success of a gradual global SME in international markets. The results show that the capabilities to perceive opportunities and threats in the international context, to seize opportunities through adaptation, reactivity and reconfiguration, have been fundamental for the international success of the company analyzed.

Keywords: gradual global, dynamic capabilities, case study, internationalization, SMEs

1. Introduction

The dynamics triggered by the current phase of globalization have determined an increasing complexity in the economic system, able to modify organizations' competitive conditions and perspectives. In this scenario, companies are encouraged to continuously analyze the influencing factors in global markets, in order to address the strategic choices in line with the context variability. Among those strategic choices, international development is considered an inevitable process for companies, in a certain sense "forced" to operate on a global scale regardless of their potential and the available resources. However, for many SMEs, internationalization represents a challenge, a difficult and demanding path that requires resources, skills and sizes that often they do not possess.

The traditional theories on competitive advantage, such as the Resource-Based View (Penrose, 1959), are therefore not sufficient to explain the international success of these companies. The positive results achieved by many SMEs in international markets could partly derive from their flexibility and adaptation to the variety and variability of the environment - at the endogenous and exogenous level - and from their ability to positively face the emerging challenges.

Dynamic capabilities, defined as the ability of firms to create, adapt or modify their own resources and skills (Teece, Pisano & Shuen, 1997), are fundamental in the responsiveness of companies to rapidly changing contexts (Teece, 2014). In recent years, those capabilities have been investigated from different perspectives aimed at analyzing their influence on improving performance and results at international level (Jantunen, Puumalainen, Saarenketo & Kylaheiko, 2005; Evers, 2011; Prange & Verdier, 2011). However, the reference literature focused on the study of multinational companies and born global enterprises, neglecting other types of companies that characterize the European business system. Based on those considerations, the aim of this work is to investigate the role of dynamic capabilities in the internationalization process of gradual global SMEs (Moen & Servais, 2002).

This paper adopts the model of Teece (2007) as its theoretical framework, which identifies three macro-categories of dynamic capabilities:

- Sensing - the firm's capability to identify opportunities and threats in the environment through research activities, tests and experimentation, aimed at understanding the expressed or latent needs of consumers, the responses of suppliers and competitors as well as the structural evolution of markets and the opportunities for innovation and technological development;
- Seizing - the firm's capability to seize the opportunities identified by adapting the sizing of its offer, its business model, its boundaries, and by critically analyzing the errors made to redefine its decision-making processes;
- Reconfiguration - the firm's capability to recombine and reconfigure its assets according to the changes in the environment, particularly through the adaptation of the organizational structure, the knowledge management, the collaboration with other companies and the exchange of best practices for innovation.

Through a qualitative research based on the case study method, this work analyzes the emerging dynamic capabilities in the internationalization process of an Italian SME in order to answer the following research questions:

RQ1. Are dynamic capabilities able to support the internationalization of a gradual global SME?

RQ2. Is there any link between an SME's dynamic capabilities and its competitive advantage in international markets?

RQ3. What are the most important dynamic capabilities for the international growth of gradual global SMEs?

This paper is organized as follows: firstly, the literature on dynamic capabilities and internationalization is analyzed, with a focus on the internationalization of gradual global SMEs; secondly, the method adopted to conduct the case study is described, showing the identification of indicators to detect the dynamic capabilities of the selected company; thirdly, the results of the study are discussed, with a focus on three categories of dynamic capabilities and their links with the internationalization process; finally, conclusions, implications and limitations are presented.

2. Literature

2.1 *Dynamic Capabilities and Firms' Internationalization*

Several authors tried to explain firms' internationalization processes by elaborating theoretical models. Since the early 90s, this topic generated an extensive body of scientific literature, mainly based on two research lines. The first, of Anglo-Saxon origin (Hymer, 1976; Dunning, 1981; 1988; Buckley & Casson, 1976; Rugman, 1981), generated various contributions almost exclusively referring to large enterprises. The second, of European origin, generated different strands of research, among which the dominant paradigm is the Uppsala model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977), which distinguishes four different steps for entering an international market. Other models focused mainly on the born global (Oviatt & McDougall, 1994; Mc- Dougall, Shane & Oviatt, 1994), or on the participation of firms in international networks (Hadley & Wilson, 2003; Coviello, 2006). Several authors argue that these theories do not provide exhaustive explanations for the discrepancies in results achieved abroad by firms in terms of growth and survival (Sapienza, Autio, George & Zahra, 2006; Zahra, 2005; Prange & Verdier, 2011). According to Crick (2009), the theories mentioned above overlook fundamental factors such as entrepreneurial orientation, managers' international experience and capability to sense and seize opportunities - factors that can have a significant impact on the formulation of strategies and on performance in a global environment.

With this in mind, several authors have started to analyze internationalization processes from a dynamic perspective (Chang & Rosenzweig, 2001; Luo, 2002; Sapienza, Autio, George & Zahra, 2006; Tallman & Fladmore-Lindquist, 2002). This perspective allows to scrutinize aspects such as learning, integrating, building and reconfiguring internal and external competences (Teece, Pisano & Shuen, 1997) that, once adapted to a firm's specific internationalization processes, suggest a predefined path for developing distinctive capabilities.

According to Pitelis and Teece (2010), managing a firm in a global economy characterized by greater volatility and dynamism requires flexibility, agility, entrepreneurship, learning and smart investment choices; all central aspects in the dynamic capabilities' framework. Several authors believe that an effective internationalization process can be largely explained by a firm's dynamic capabilities (Dunning & Lundan, 2010; Pitelis & Teece, 2010; Teece, 2014). Teece (2007), for example, states that owning difficult-to-replicate assets is not enough to gain a competitive advantage for enterprises operating in complex competitive environments with a high number of activities to be managed globally, and that those enterprises need unique dynamic capabilities, such as the ability to orchestrate the assets and exploit co-specialized and complementary resources at the global level

(Katkalo, Pitelis & Teece, 2010). The greater the dynamism of the environments in which a firm operates, the more dynamic capabilities become critical (Augier & Teece, 2007) and their effect on performance prominent (Fang & Zou, 2009). Therefore, the impact of dynamic capabilities is more obvious in international enterprises (Frasquet, Dawson & Mollá 2013) that operate in environments volatile by nature (Pehrsson et al., 2015).

The processes of enterprises' international expansion require the development of two distinct levels of dynamic capabilities, defined by the literature as generic dynamic capabilities and specific dynamic capabilities. Generic dynamic capabilities are needed to start and support internationalization processes, and serve to build and support specific capabilities related instead to each strategy adopted by the enterprises in those processes.

Frasquet, Dawson & Mollá (2013) gather classifications from previous authors and identify three main types of generic dynamic capabilities: international entrepreneurial orientation, learning and adaptation. International entrepreneurial orientation is defined as the dynamic capability to sense and seize international opportunities in an innovative, visionary, proactive and timely way, with a market orientation (Knight & Cavusgil, 2004; Weerawardena et al., 2007; Cavusgil & Knight, 2015). Learning consists in acquiring, integrating and exploiting all information acquired during the internationalization process (Villar et al., 2014), and turning it into knowledge (Luo, 2002; Prange & Verdier, 2011). Adaptability is the reconfiguration of resources and processes according to changes in the environment and to national differences (Knight & Cavusgil, 2004), in order to keep a constant balance between the firm's routines and local needs (Frasquet et al., 2013). Jantunen et al. (2005) and Evers (2011) empirically demonstrate that the dynamic capability to adapt, combined with international entrepreneurial orientation, facilitates the overcoming of the difficulties met in the various markets and improves a firm's performance.

A first large group of specific capabilities can be identified in the marketing dynamic capabilities (Day, 1994; Knight, 2000), defined as the ability to adapt, integrate and appropriately reconfigure marketing tools and strategic competences to identify a value proposition for the customer and efficiently distribute it on international markets (Weerawardena, Mort, Liesch & Knight, 2007). They represent strategic capabilities as they are closely associated with the ability to supply products in an efficient way, align the offer with the solutions sought by customers, grasp market signals and sustain the competitive advantage by identifying the relevant market (Krasnikov & Jayachandran, 2008; Moretta Tartaglione & Formisano, 2018). Integration and reconfiguration of internal and external organizational skills, of resources and functional skills, including developing new products, new pricing, distribution and communication policies (Griffith, Yalcinkaya & Calantone, 2010; Bruni & Verona, 2009) allow a more efficient reaction to the changes that are taking place ever more quickly in a competitive environment (Murray, Gao & Kotabe, 2011).

Using the Uppsala model, Cunningham et al. (2012) identify other types of specific dynamic capabilities that are important for the growth in international markets: (1) the capability to identify growth opportunities and to use relevant resources both within the company and within other firms involved; (2) the capability to approach and develop different markets and countries under different circumstances (defined as the capability to internationalize); (3) the capability to build, maintain and coordinate relationships in a reticular context (also called networking capabilities or relational capabilities).

Luo (2000), on the other hand, focuses on a firm's capability to allocate and exploit its distinctive resources among geographically dispersed and globally coordinated units, defining it as the dynamic capability of resources allocation.

2.2 The Dynamic Capabilities Framework for the SMEs' Internationalization

Most of the works on the dynamic capabilities in internationalization processes study multinational enterprises (Pitelis & Teece, 2010; Teece, 2014; Chakrabarty & Wang, 2012; Gooderham, 2007; Vahlne & Johanson, 2013; Augier & Teece, 2007; Michailova; & Zhan, 2015). Other works focus on born globals (Teece, 2012, Oviatt & McDougall, 1994; Weerawardena, Mort, Liesch & Knight, 2007; Sharma & Blomstermo, 2003; Zhou, Wu & Barnes, 2012). There is instead a noticeable gap in the literature on the dynamic capabilities in the processes of internationalization of gradual global SMEs. This gap is particularly relevant because, while multinational corporations have an advantage in terms of size, resources and managerial know-how, and the born globals have an advantage in terms of superior technology, unique products and advanced marketing skills (Chen & Chen, 1998), gradual global SMEs often face several challenges such as scarcity of financial resources, difficulties in exploiting technology, limited managerial skills, limited production capacity and regulatory constraints, which are aggravated by a global system and a technology-dominated environment.

Several authors argue that SMEs constantly need to create, adapt and reconfigure their relationships and network resources in order to remain competitive in an international environment (Eberhard & Craig, 2013; Naudé

Zaefarian, Tavani, Neghabi & Zaefarian, 2014), which means that they need to develop dynamic capabilities.

According to Prange and Verdier (2011), when analyzing dynamic capabilities for internationalization, it is necessary to distinguish between the incremental internationalization of traditional SMEs, which is supported by dynamic exploitative capabilities, and the accelerated internationalization of the born globals, which is supported by dynamic explorative capabilities. Borrowing from March (1991) the notions of exploitation versus exploration, capabilities deployed in incremental and accelerated internationalization processes are clearly different (O'Reilly & Tushman, 2007). Exploitation is mainly based on previously acquired knowledge, on local research and recycling of existing routines (Vermeulen & Barkema, 2002; Baum, Li & Usher, 2000). The aim is to reduce the uncertainty and the risks associated with internationalization (Flatten, Engelen, Zahra & Brettel, 2011) by transferring across borders business models refining existing processes, products, services and markets (Drnevich & Kriauciunas, 2011). Dynamic explorative capabilities, on the other hand, refer to exploring, risk taking, planned testing, flexibility and innovation (Prange & Verdier, 2011). They aim at exploring and exploiting new opportunities by developing new knowledge, new solutions (Shane & Venkataraman, 2000), new processes and new routines (Zahra & George, 2002). Currently, firms are increasingly facing friction between exploiting existing capabilities and exploring new ones (Raisch & Birkinshaw, 2008, Simsek, 2009). Both capabilities are essential, but combining them (ambidexterity) is a hard task. Barkema and Drogendijk (2007) suggest choosing exploration when entering culturally distant foreign markets, and exploitation for culturally closer countries.

3. Method

Through the case study of a firm from South Italy, this paper aims to analyze the role played by dynamic capabilities in the growth and success of a gradual global SME in international markets. The firm subject to study was selected based upon certain criteria: small and medium-sized - based on the EU Recommendation 2003/361; greater than 60% export percentage on total turnover; presence in several markets (at least 10 countries); continuous and consolidated presence in foreign markets for at least a decade. The study was carried out applying the triangulation technique (Yin, 2003), i.e., through gathering, analysis and comparison of multiple sources of data. Secondary data were acquired from various company documents such as the last available budget, Company Registration Report, firm's reports, website. Primary data were acquired through a semi-structured interview with the firm's Marketing Director as suggested by Yin (2003), who regards interviews as one of the most important sources of information in case studies.

The case study method is the most used in the literature on dynamic capabilities. In fact, in this field, the research is mainly qualitative and based on case studies, with just a few applied quantitative methods (Wang & Ahmad, 2007, Ambrosini & Bowman, 2009). Many authors recognize the difficulty in operationalizing dynamic capabilities (Mosakowski & McKelvey, 1997; Priem & Butler, 2001; Williamson, 1999), since this framework is considered tautological (Arend & Bromiley, 2009) or otherwise difficult to measure (Williamson, 1999). However, Eriksson (2013) and Teece (2014) argue that dynamic capabilities can be measured and several authors have tried to do so by proposing several dimensions for them, although they have been met with criticism about their validity (Wu, 2010, Protogerou, Caloghirou & Lioukas, 2012; Chang, 2012; Drnevich & Kriauciunas, 2011; Wang & Ahmed, 2007). In this paper, indicators to identify dynamic capabilities in internationalization processes have been identified and used as guide for the interview. The indicators were drawn from the work of Teece (2007), in which the author, in addition to splitting dynamic capabilities into three levels (Sensing, Seizing, Reconfiguration), identifies the nature of capabilities themselves and the firm's key activities linked to them. Identifying the key activities that characterize each type of dynamic capability allows setting indicators to measure a firm's level of implementation of those activities, built from time to time according to the research specific targets¹.

The interview has been structured in different sections: i) general information about the enterprise; ii) information about the firm's internationalization; iii) capability to sense opportunities and threats in foreign markets; iv) capability to seize opportunities in host countries; v) capability to manage threats and reconfigure itself during the internationalization process. The indicators set by transforming the key activities from the Teece model (2007) are listed in Table 1.

¹ For example, Cao (2011) uses activities identified by Teece (2007) to carry out an empirical research in the retail sector.

Table 1. Indicators used for conducting the semi-structured interview

Dynamic capabilities	Indicators
<i>Sensing</i> Sensing opportunities and threats in foreign markets	Investments in research activities Market research Information system set-up Trials and tests Use of innovative tools and techniques
<i>Seizing</i> Seizing opportunities in host countries	Offer adaptation Business model adaptation Redefining enterprise's boundaries Investments to seize sensed opportunities Decision-making errors analysis Decision-making processes redefinition
<i>Reconfiguration</i> Threats management and reconfiguration during the internationalization process	Organizational structure adjustment Organizational structure decentralization Decision-making power delegation Strategic choices about centralization and decentralization Incentives and rewards Knowledge management Co-operation with other firms Exchange of best practices with other actors

Source: adapted from Teece (2007)

4. Case Study

Isaia & Isaia S.p.A. (hereafter "Isaia") is a Neapolitan firm that operates in the men's clothing sector as clothes, sportswear and accessories manufacturer and retailer, globally recognized as a lifestyle luxury brand. Isaia is a firm with a strong family vocation, and counts 125 employees with a turnover of around 46 million euro. The company is the Global Ultimate Owner of a Corporate Group that includes five companies with a total turnover of 63 million. Isaia counts 7 shareholders, 6 subsidiaries and 10 branches in several countries. It was founded in the '20s as a fine fabrics emporium and a craft workshop. Production increased over time and the '80s led the brand to a successful process of industrialization and expansion through which the firm established itself as one of the Italian tailoring icons in the world. The garments, produced by highly specialized manpower, are divided into two main lines of business: "packaged" and "tailor-made" clothing, to ensure high product customization, and are exclusively made in Italy at the Casalnuovo di Napoli plant, in a borough of ancient sartorial traditions dating back to the Bourbon era. This strategic choice allows the company to constantly monitor each stage of the production process and oversee the product quality at all stages of production. Isaia's goal is to merge the excellence of the Hand Made in Italy (or better, as highlighted in the communication campaigns, the "Made in Naples"), the respect for tradition and the taste for innovation, preserving the image of a family-run post-artisanal firm, and identifying itself in the concept of "Contemporary tradition". On the commercial level, a selective and targeted distribution policy is pursued through the multi-brand and mono-brand wholesale channel, while the retail channel is managed via directly run stores.

Isaia sells its products almost exclusively on international markets, recording a 96% turnover in a dozen countries outside Italy, where it managed to establish itself by operating persistently and steadily since 1970. The reasons for such a pronounced internationalization are surely to be found in the stagnation of the domestic market, where the reduction in disposable income in recent years has reduced the demand for items labelled as luxury clothing, which are therefore quite expensive. The firm exports 10% of the total production to Western Europe, another 10% to Eastern Europe, 6% to Eurasia, 3% to Japan and 50% to the USA.

It had to focus on industrialized countries, and especially on those countries sharing a common dressing style, quality, sophistication and high disposable income. In each country, the company identified a segment of transnational demand characterized by a high purchasing power and a predilection for high quality clothing items (for example, a suit can cost around three thousand Euros).

A country's approachability in terms of artificial barriers and potential demand is certainly the most influential factor for the firm when choosing target countries.

The firm started establishing relations with the North American market due to its high purchasing power and a slightly similar liking for refined clothing. To begin with, Isaia launched its brand in men's luxury department stores (Saks, Barney's, Neiman Marcus, Bergdorf Goodman). Then it set up a wholly owned subsidiary (Isaia Corp.) and opened a local branch in order to quickly respond to the market and customers' needs. The choice to

entry that geographical area proved successful, and that motivated the firm to look at other markets. The search took to the East, and in particular to Japan. Initially the firm recruited an agent, and then it replicated what it did in North America by setting up Isaia Japan Ltd, a subsidiary wholly owned by the Isaia family. In any case, choosing how to enter a country takes into account available resources and risks as well as the country's features, such as distance, local distribution models, market attractiveness and country risks.

In addition to the Milan and Capri flagship stores in Italy, Isaia is present with the same distribution formula in Azerbaijan (Baku), China (Beijing, Hong Kong), Japan (Tokyo), Mongolia (Ulaan Baatar), Russia (Moscow, Yekaterinburg, Kazan, Nizhny Novgorod and Saint Petersburg), Ukraine (Kiev), United States (New York, Los Angeles and San Francisco).

Even if the company has staff dedicated to internationalization, decision making remains strongly centralized and exerted by the owners, who follow a proactive approach to strategically plan international development.

4.1 Capability to Sense Opportunities and Threats in Foreign Markets

This section of the interview aims to detect the firm's capability to sense the environment and the context in order to plan international strategies, i.e., the organizational capability to scan, filter, monitor, evaluate, interpret, understand and fine-tune opportunities and threats in foreign markets.

The study on the selected enterprise shows that Isaia relies on research to identify opportunities and threats in foreign markets. The ongoing search for and gathering of information has proved to be a key tool when choosing a destination country as well as to survive and grow in it.

Isaia runs a first search with secondary information sources for an overall survey of a country's attractiveness in terms of potential demand, consumer spending, company products' compatibility, per capita income, nature of the artificial barriers (first of all, duties). Since the firm mainly exports its products directly through single-brand stores, the main actor they gather information about is the consumer. In fact, most of the success comes from the presence in a foreign country of a satisfactory share of potential customers who can be associated with that particular transnational segment identified by the firm. Only at a later stage Isaia sends its export managers on a regular basis to the target country to identify commercial partners. In addition, the firm set up an internal information system to collect primary data and competitor analysis.

4.2 Capability to Seize Opportunities in Host Countries

This section of the interview aims to probe the organizational capability to seize potential opportunities through new products, processes or services, namely to identify the firm's strategic choices to adapt the offer according to each source of competitive advantage.

In particular, the interviewee was asked to describe the activities carried out by the company in order to put together and manage a valuable offer, calibrating the choices in relation to the competitive environment, the management and the entire enterprise; and how relevant these processes are to internationalization. To this end, particular attention has been given to factors such as business model adaptation, firm's boundaries redefinition and decision-making process enhancement.

Isaia adapts the offer to a host country by taking into account market and social factors such as employment dynamics, income availability and consumer spending, and the power of communication and new media (for example, the influence of social media on people's lives). Moreover, Isaia states to pay adequate attention to the complexity of social dynamics, such as immigration, crime, politics and the crisis of values while weighing up the choices related to the value proposition in a foreign country. As stated by Isaia's Marketing Director: "*if you want to seize opportunities in emerging countries with a relative political stability, those opportunities have to be seized upon a series of pre-assessments that lead you to a cautious management of the process with no room for improvisation. Therefore, there are opportunities but you need to act with maximum caution. If we think of a country like Ukraine, we have to take into consideration very complex social dynamics. In Turkey, we have to consider political, operational and instability risks. Therefore, we are there in less engaging ways such as the launch in the wholesale channel of a shop in shop in Istanbul*".

Since it started the internationalization process, Isaia has revised its business model several times, changing some elements and keeping others, or rather protecting them. For example, clothing for women designed by the firm in the early '60s were abandoned ten years later, when the firm began to expand across borders, allowing it to specialize and focus on producing clothing for "man". Depending on the country it entered, the firm had to adapt the cost and revenue structure and the value proposition from time to time, as well as having to identify new key partners. In addition, Isaia has created an internal e-commerce channel and set up ad hoc functions for its management. What the firm has always protected and never changed is communication - a clear, bursting,

sarcastic and self-deprecating communication. From that point of view, the firm is not very receptive to change, focusing exactly on communication as a way to obtain competitive advantages.

During the internationalization process, Isaia redefined its boundaries by adopting a lateral diversification strategy aimed at developing and producing new products linked to those already designed by the firm itself, in order to gain a greater capability to adapt to new markets. The firm, specialized in the production of outerwear, trousers and shirts, has allocated the production of knitwear, footwear and accessories to highly specialized firms, thus expanding the range of products offered and maintaining a high degree of flexibility through outsourcing to other Italian companies. The most successful diversification project on foreign markets is the "Saracino" bracelet that resembles the brand logo and is produced by a coral supplier from Torre del Greco, the coral and cameo capital of the continent. Besides being distributed through the same distribution channels, that product acts as a fashion accessory characterized by a strong image. The firm also has carried out a downstream vertical integration by opening direct stores and proprietary flagship stores, with the aim to get close to consumers and reinforce the brand image.

In order to seize market opportunities offered by host countries, Isaia has made specific investments that are decisive for the success of internationalization strategies. Those investments were mainly made in new technologies, research for specific products, production of complementary goods, and to hire or train managers for the supervision and coordination of functional activities. Those investments represent fundamental assets of dynamic capabilities: innovation, complementary assets and learning.

Isaia issued two mini bonds on the Italian stock market and used the proceeds to finance further development abroad and open direct sales points in the US (New York and Los Angeles), the United Kingdom and Japan. Investments have also been made in product innovation, improvement of the technology applied to fabrics - suede with anti-stain treatments, improved yarn and cashmere quality.

Isaia admits to having made mistakes in decision-making, mainly with regard to product pricing, customer relationships management, product offering and product standardization/adaptation. However, it claims to have reacted by increasing consultations at top management level with partners and managers of international stores, or through data analysis from market researches planned ad hoc or purchased elsewhere, in order to avoid or overcome mistakes when making decisions concerning internationalization.

4.3 Capability to Manage Threats and Reconfiguration During the Internationalization Process

This section of the interview aims to probe the firm's ability to modify activities and organizational structure through reconfiguration and continuous adaptation, according to changes in the environment.

Reconfiguration and adaptation mean the firm's ability to regularly call into question the management, the strategic choices and the organization, in order to safeguard competitiveness in turbulent and ever-changing markets through processes of adaptation and decentralization of the organizational structure, knowledge management, incentives for staff and partners, and more.

Isaia's internationalization process resulted in an organizational structure adjustment through the introduction of a marketing strategy aimed at the foreign market as well as through a rethinking of the distribution structure, as stated by the firm's Marketing Director: *"Internationalization is a long process that has to be constantly reviewed, adjusted, corrected, to try and conform to a variety of cultural, social and economic differences that required various adaptations, especially in the distribution structures. If we look at the continuous innovations in the two different realities of wholesale and retail trade, they created a need to produce an ad hoc structure that can take care of every detail, and to identify a global marketing direction overseas that has been entrusted to a manager who lives in the USA."*

The internationalization process has also required the decentralization of decision making, although Isaia have always preferred for strategic decisions to be taken by the CEO. Following international expansion, decision-making is shared with family business partners and the firm's managers, in a system where delegation and integration play an essential part. The governing body has always been intent on bringing on board managers with proven international experience. For example, the interviewee has five years of experience in the Warnaco Group, a licensee of the Calvin Klein brand where he covered the role of Export Sales Manager, and was chosen by Isaia to develop the wholesale network and strengthen the relationships within the retail business.

While centralizing most of the decisions in consideration of the structural differences of the countries in which they operate, the firm uses marketing tools, leaving some decision power to foreign subsidiaries to help them build their own relationships with local partners. To this end, Isaia has decentralized the decision-making concerning distribution channels and customer relationships. However, it deemed vital to keep decision-making

centralized with regard to logistics, brand and image, pricing, and level of product standardization or adaptation.

In order to empower the parties involved in the strategic choices on internationalization, Isaia has implemented an incentive and bonus scheme for the results achieved. It also provides its employees with a positive environment and continuous training.

For Isaia, knowledge management has proved to be crucial for the success of internationalization strategies. Isaia deems taking part in fairs and congresses very important. The firm has always been present at trade fairs such as Pitti Uomo, but in the last year it changed strategy and stopped taking part in the international fair to create an ad hoc event for its clients, to be able to "pamper" them in a direct and personal way, and show them the Isaia collection. In order to manage knowledge in an appropriate way, Isaia has allocated funds for safeguarding its intellectual property and for training courses, most of which are aimed at middle management. The Marketing Director states that *"knowledge is widespread, i.e., it is not the parent company's exclusive prerogative. The knowledge that comes from Isaia's experience and the ability to share it are factors that help also the subsidiaries' managers to undertake initiatives of cooperation in the markets in which they operate, creating a knowledge cross-fertilization that brings benefits at a global level. Moreover, the partners' experiential knowledge in "particular" markets from a cultural point of view (e.g., Russia and China) is an important factor that allows acquiring information about the actual innovative needs and in terms of demand, supporting the company's process of internationalization in similar markets and representing a resource that increases value and is strategic for the whole enterprise"*.

To overcome the difficulties associated with internationalization in a highly competitive and global environment, the firm started collaborating with other companies. Isaia has joined the Altgamma Foundation - which since 1992 brings together the cultural and creative high end of the Italian industry, companies recognized as authentic ambassadors of the Italian style in the world - and the National Chamber for Italian Fashion. Being part of such organizations increases competitiveness, widens knowledge about specific foreign markets, expands the professional network and certainly represents a key element in the internationalization process.

According to Isaia, collaboration with different actors such as managers, suppliers, local partners or even consumers, has been a great motivation to innovate logistics, human resources, image and brand.

5. Conclusions, Implications and Limitations

This paper highlights the strategic role played by dynamic capabilities in achieving competitive advantages in an economy characterized by increasingly complex, dynamic and global markets. The literature points out that dynamic capabilities are considered essential for enterprises' international development as they improve performances and results in foreign markets. However, the literature lacks empirical research on the relationship between dynamic capabilities and performance in international markets, especially with regard to gradual global SMEs.

The case study analyzed in this paper confirms the strategic role of internationalization for the survival and the growth of companies in a global environment. Internationalization, at times forced by external factors such as the contraction of the domestic market or the international competition, at others by internal reasons, is in any case a source of advancement and competitiveness but also a great challenge, to which the studied firm showed to respond to through capabilities of adaption, reaction and transformation. In the analyzed case, learning and innovation processes, relationships and collaborations, adaptations and reconfigurations were fundamental to overcome the obstacles to the internationalization process, usually caused by the limited size and scarce resources of SMEs, proving the importance of dynamic capabilities.

At the initial stage of expansion abroad, volatility, risk and lack of previous international experience have been dealt with research activities, information gathering and knowledge expansion, essential to the choice of the target markets, the way to approach them and the strategies to implement. The firm has not always been able to satisfy its need for information and knowledge on its own, so it used external sources to fill the blanks. In some cases, needed information on the relevant market was missing so reports and surveys from research institutes were purchased, consulting companies or export managers were hired, or local distributors and partners' knowledge was exploited. On other occasions, the need for information demanded a more active involvement of the firm in seeking inter-firms collaboration in the same industry. In any case, sensing capabilities allowed the firm to sense opportunities and threats in distinct markets, taking it to set out its internationalization processes during which a series of capabilities that can be related to the seizing capability category have been deployed. The firm has in fact adapted the offer according to the different markets in order to meet the local demand, thus gaining a successful position for its products.

Firm's boundaries have been redefined through diversification strategies aimed at expanding the range of products offered across borders or at protecting the firm from the typical fluctuations in demand in some sectors, and through vertical integration strategies aimed at achieving a greater contractual power and reducing sales risks. In particular, the importance of exploiting complementarities as well as of direct investments to better penetrate a local market and the neighboring ones emerged.

However, the same interviewee admits that mistakes were made in decision-making, caused mainly by excessive optimism or, at other times, by a low risk propensity. However, the company has shown also in those circumstances capability to react, scrutinize errors and revisit decision-making processes, allowing not only company's managers but also external figures such as partners and international clients to play a part in decision-making.

Lastly, the capability to transform itself was essential for the company that, although having to change its organizational structure in order to adapt to international contingencies and, in some cases, decentralize decision-making, was able to maintain its family-run nature with strong ownership centralization.

The firm's international success can certainly be attributed to the relational and networking skills developed by taking part in industry trade fairs and conventions, and through productive collaborations with other players that let Isaia access those resources, knowledge, skills, distribution channels, areas of specialization, products or complementary assets it needed but it could not, or that at least would not have been convenient to develop internally.

Thanks to these dynamic capabilities applied in the internationalization process, in the last 5 years the company has managed to increase its turnover and the number of employees by 41% and the Shareholders funds by 55%, obtaining a value of intangible assets around to 3.5 million euros.

Based on this study, we come to the conclusion that it is not possible to draw boundaries for SMEs' success in foreign markets in terms of size, resources or corporate structures if those have the dynamic capabilities to adapt, reinvent themselves, innovate and open up to the outside world. If a firm is small-sized, it can expand its boundaries through trade agreements; if knowledge is limited, it can draw on other actors' experience by developing relationships; if resources are scarce it can, for example, enter a network or implement vertical integration processes if the economic and financial situation allows it.

In short, it does not seem possible to identify in a deterministic way a virtuous path, a recipe to follow, a list of strategies to be implemented. Targets set for expansion on foreign markets can be achieved via several strategic routes (Moretta Tartaglione, 2018). It has been possible instead to identify those capabilities that marked the internationalization process of a successful SME, such as the capability to set up an information marketing system, capability to learn, orientation towards innovation, receptiveness to change, flexibility, adaptability, networking skills and ability/willingness to systematically call itself into question, breaking the established routines.

This paper provides empirical evidences about the importance of dynamic capabilities for the international growth of gradual global SMEs. However, the principal limitation of this work is that it is based on a single case study, thus not allowing the generalization of the results. Future researches are aimed at analyzing multiple case studies, maybe referred to companies belonging to different countries and sectors, in order to consider also the country of origin effect and the influence of the business sector in the investigation of the influence of dynamic capabilities on the international competitive advantage. Moreover, studying multiple cases would allow to empirically validating the indicators used in this work and attempt an operationalization of dynamic capabilities.

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