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Innovation Patterns In The Design-Driven Industries:

Opening Up The Made In Italy

Doctoral Dissertation

Supervisor:

Dr. Zoltán Szántó Ph.D.

Budapest, 2015
COLLECTION OF THESSES

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Background

I enter allegedly different fields, the production of tangible and intangible products. What combines the two is my approach of deconstructing the semantics and production of these artifacts and bringing it forward to a common platform of organizational behavior demonstrated in innovation patterns. I hope my straight line of argumentation in the realm of modularity/production/innovation theory persuades the Reader of the soundness of the findings presented, despite the swirls and roundabouts of discussion with which I explicitly intend to deepen our understanding of the fields discussed. I am not less eager to challenge, and at some points even entertain by adding dimensions to flat writing. I invite the Reader to jump into this book drawing on their scholarly experience, however opening the eye, senses and adding their imagination as the objects of discussion come from a magical field: the entourage of objects and services designed to serve, beautify or ease our everyday needs.

I also open doors for further discussion, which I intend to explore in-depth in further essays illustrating them with abundant examples, however in this current book I am streamlining the argumentation to lead the Reader through a lean architecture.

The theoretic framing relies on scholarship of three main strands of institutional economics and organizational science:

• innovation [with a special focus on open innovation]

• theory of the firm [organizational behavior]

• modularity

In addition to this skeleton of main three theoretic inputs I draw on further fields to complement the understanding of the notions this study deals with:

• design-driven industries

• technology and management

My approach lies in and is inspired by evolutionary economics framing the above-listed main strands this study relies on. This implies that economic dynamics allow for seeing industry dynamics from a timely perspective; that agents interact in a process of evolution, they learn by accumulating knowledge, and strive for survival by adapting to and being adopted by the environment, moreover they struggle with uncertainty, have a bounded rationality, and do not go for an abstract optimal-solution in decision-making [Alchian 1950, Alchian and Demsetz 1972, Penrose 1952, Schumpeter 1934, Schumpeter 1950, Nelson and Winter 1982, etc].
In the chapters of the book I illustrate, dissect, abstract and suggest a frame where the real focus is not the agents themselves but the dynamics of innovation, where core concepts evolve, processes open up, visual or dramatic elements interact with production forms, and platforms create ecosystems, and finally, where innovation flows across players, contexts and disciplines.

**What is This Book Not About?**
I do not refer to any other discourses outside the scope of this book, explicitly for the sake of a lean structure and argumentation as I stressed above. Hence, I demonstrate the power of the above theories backed by empirical findings, while leading the reader along a path full of adventurous challenges, not losing sight of the clearly defined direction at the same time. That said, I am explicitly not working with sociology or anthropology of arts, social behavior, theories of class, any scholarship related to social behavior as I rely on behavior of economic agents, neither I rely on neoclassic understandings of supply-demand, growth, or strategic behavior.

If one searches for the grand theories or the arguments of brilliant and classic scholars in these realms, hardly will find any of them in this book, due to the above exposed reasons. However I do indicate the legacies of theories from where the theoretic frame and argumentation of my work derives from closely.

**Problem and Relevance of the Research**
Objects are created, but how to construct them to be valued? Design is a set of rules on how an artifact shall be made [Baldwin and Clark 2000], but where do these rules come from, and how are they defined to be feasible to produce?

A craftsman creates with his tools inspired by surrounding objects, needs and visual elements. If designing and producing for the masses, one needs to take into account economies of scale and available resources. But where does knowledge on what is valued by the users come from? How to bring in line the tapped and perceived needs, production possibilities and adjust the boundaries of the firm? How do different cooperation forms emerge, and what is exactly what scholarship refers to as openness? How can constant innovation prevail at the same time? In search for answers to these pertaining problems I needed theories that explain innovation from broad toward the close up, here I give a brief overview.

**Innovation as Adaptive Behavior and Evolution of Technology**
Economic change, specifically how economic players adapt to the uncertainty of the environment, and how the fittest are being adopted by the environment has been long theorized and researched. New industries emerge crowding out old ones, where some
branches survive through mutation as they change their organizational form of production, or develop new products/services. Creative destruction [Schumpeter 1934] replaces the old with new firms and industries. Innovation as a result of trial and error in adaptation strategy fosters the economy.

Organizations follow a conscious adaptive behavior, where choices of firms on survival strategy differ bringing variability within the population, and enhancing the fitness of the industry as a consequence. In sum, creating new forms and carrying out new combinations lies at the heart of innovation driving the economy [Schumpeter 1934, Penrose 1952, Cohen and Levinthal 1989].

Scrutinizing firms from a close up, and looking for genes, Nelson and Winter define innovation as change in routine of the organization [1982, p. 128], where considerable diversity of behavior is assumed. Alongside the conservative firms in the economy, forrunners are adapting to the constantly changing environmental setting. Those who deconstruct the existing patterns, and learn through trial and error take a considerable risk [Alchian 1950]. This investigation entails to highlight open and participative forms of the innovative process that stretch organizational boundaries and modifies routines.

Organizational routine is a pattern of actions carried out by a set of actors within the organization [Nelson and Winter 1982]. These various actors share complementarities in behavior, which are reflected in the organizational routines (in other words linked behavior), and enhance capabilities. Routines themselves show complementarities, and the different actions internal and external to the organization are interdependent. We know, that an intelligent collective action emerges based on reciprocal interdependencies where the individual actors’ behavior is not optimal [Levinthal 2000]. An effective adaptive system is able to link individual behaviors into larger assemblies of action where hierarchy and authority create subassemblies of action [Levinthal 2000, p. 365]. Changing routines can raise the capabilities of a firm by shifting the boundaries of knowledge, thus meeting the challenge of innovation [Henderson and Clark 1990]. Companies [in the sector of knowledge-intensive business services: KIBS, see later] for example delivering innovation and design as a service, foster this change of routines within the firm.

The capability theories of the firm investigate organizational routines, capabilities, and competencies to explain inter-firm comparative differences [Fujimoto 2000, p. 246]. These knowledge-based theories of the firm introduce dynamics, but still lack the capacity to grab the constantly shaping formations overarching firms. Here we leap toward more dynamic frames capturing the fluidity of industries, and innovation dynamics with the theory of modularity.
The perspective of technological change and evolution of industries has been present in literature for long [Schumpeter 1934, Schumpeter 1950, Nelson and Winter 1982], where technology management [Henderson and Clark 1990] interplays with innovation and industry evolution [Malerba 2005].

Modularity Scholarship and Innovation
Scholarship on modularity has extensively covered the problems of modular systems of production, the trade-off between modularity and integrality, challenges of protecting intellectual property rights related to modularized open systems, as well as how and when do organizations mirror the modularization of production (the mirroring hypothesis) [Langlois and Robertson 1992, Sanchez and Mahoney 1996, Colfer and Baldwin 2010], in addition the connection between the modularization of industry structure, and product architecture [Parnas 1972, Simon 1962, Baldwin and Clark 2000, Ulrich 1995, Sanchez and Mahoney 1996].

Moreover, industries are not what they used to be, we saw a shift toward de-verticalization of production for example in electronics and computer industries [Langlois 2007, Baldwin and Clark 2000]. There is a paradigm shift in what we understand where innovation comes from as might be the user [Von Hippel 1976, 1988] or a community of innovators despite the classical theorizing about the producer’s role [Baldwin and Von Hippel 2011]. Furthermore, through modularization and free revealing [along with encapsulation] platforms can organize industries [Gawer ed. 2009]. We also know that enterprises produce brands rather than goods, as the production of goods is organized through supply networks or outsourced as a pattern [Klein 2000] in the US. Outsourcing is related to the increasing needs for specialized knowledge in design, manufacturing and production, that reshapes the coordination of knowledge of the enterprises, and questions again the boundaries of the firm as well as the traditional way of approaching them from transaction costs analysis, suggesting to see an organization as a network of firms cooperating in design, manufacturing, and marketing [Brusoni, Prencipe, Pavitt 2001].

The main problem this research tackles within the connection between modularity and innovation is how openness and modularity create entry points for innovation. My analysis focuses on the artifact designed both on a semantic level and from the production side. Studies on the history of design do use the notions of modular, mass produced and the role of the designer or coordination process of design and production [Mañá 1973, de Fusco 1993, Koenig 1981, Bersano ed. 2009, Aurichio 2012, Casciani 2014]. There is also scholarship on collaboration of firms [Pisano, Verganti 2008, Dell’Era Verganti 2010], on the emergent form of self-production or open design and innovation [Bianchini, Maffei 2013, Maffei], making and co-design [CoDesign: International Journal of CoCreation in Design and the Arts].
The gap here I address is the systemized approach of understanding innovation and design openness [the problems of free revealing, permeability of the firm, property rights and boundaries of the firm] from the perspective of modularity. I chose the field of design-driven industries of Made in Italy, as it was not scrutinized from this view. My examples come from the classics of design, as well as today’s production, with a special focus on furniture (arredamento), and with an open eye on other fields: some examples come from architecture, or everyday objects. I also draw on the different shades of innovation openness from the perspectives of permeability of the firm toward the outcome of innovation as a public good. I rely on different forms of production, that of the established enterprises ranging to self-production.

Methodology

Innovation scholarship measures innovation through technological, qualitative change, and change in organizational routines and capabilities. Despite the vast literature on measuring innovation activity in different sectors of production, creative industries challenge scholars in this respect, due to the symbolic value to be measured.

My methodology used in this book is based on a previous study conducted in the field of performing arts in Budapest, Hungary. Despite the valuable results of that work, finally I decided not to include them here due to various reasons, but first of all to keep one track.

My approach thus relies on a combination of tools: direct observation, unstructured conversations, and constant reading at the first phase, which is followed by a more target-oriented data collection based on primary and secondary literature, and semi-structured interviews. After mapping a series of cases, I narrowed my attention to some of them, which are included in this book. The cases to be included and analyzed were chosen according to how they fit the line of argumentation. Some cases were selected after running the interviews, and some cases did not fit this book due to various reasons, but mostly due to streamlining the architecture of the discussion. Specifically, I was looking for cases illustrating and at the same time stretching the empirical findings presented in related scholarship. I focused on examples of collaboration, open innovation, as well as I intended to highlight different colors: from makers to established companies of production. The chosen case studies illustrate a phenomenon analyzed and to reveal a process [Siggelkow 2007], so they suited for exploring organizational and managerial processes.

We also know that case study is a

“research strategy which focuses on understanding the dynamics present within single settings” [Eisenhardt 1989, p. 534].
Moreover, we know, that atypical cases offer opportunity to learn [Stake 2003, p. 152]. As already said, I rather focused on grabbing various cases than searching for the general.

As this research focused on “how” and “why” questions, and the focus was on a ‘contemporary phenomenon within some real-life context’, the cases presented are explanatory ones as striving to look behind the “hows” [backed by exploratory and descriptive approach [Yin 2003, p. 1]].

**The Toolkit**

I interviewed designers, scholars in the field, managers, curators and creative directors representing companies and venues in Milan, Italy. I relaxed the semi-structured interviews adjusting to the experience of the interviewees and their willingness to talk about the projects, or activities.

To kick off an interview is suggested with “a question, which the interviewee can answer easily and without potential embarrassment or distress”, while another approach relies on the tradition of “request for factual or descriptive information can be useful opening questions” [King 1994, p. 21]. In this realm and due to time constraints of the respondents, carving out their time from their busy schedules, were asked to provide with their own understanding and definition of design.

As my case studies were different, and I was interested in their specific details and context, there were no identical interviews neither in respect of the set of question, nor how the interviewees approached their answers. Noting, that a good case study investigator shall “ask good questions” and be “a good listener” and “adaptive and flexible” at the same time to interpret and not to be trapped by own preconceptions [Yin 2003, p. 59]. The questions themselves were unfolding adapted to the flow of conversation, of course always keeping in mind the structure that I elaborated previously. The discussion itself in many cases continued after stopping the recorder, sometimes important information laid there: not recorded. In these cases I jotted down my observations in a diary afterwards. As the interviews were taken in Italy I preferred running them in Italian. This served several purposes: to relax the respondents from the constraint of answering in a non-native language, and most important to allow for the toolkit of definitions and notions specific for Italian design as it is used in the discourse on design in Italy [see forthcoming in the next Chapter].

The toolkit developed in this analysis is based on different sorts of qualitative traditions. In its stance aimed at understanding, exploring, ‘the world’ through not just observation and interpretation it can be connected to the ‘interpretivism’ tradition of qualitative social research. Weber “proposed two types of understanding: direct observational understanding,
and explanatory or motivational understanding” [Ritchie, Lewis 2010, p. 7]. This research pulls the benefits of both types of understandings: the participative observation, and conducting the semi-structured interviews provided means of a holistic understanding of the field, its actors, their environment. Content analysis of the texts provided floor for conceptualization and introducing theory in the deconstruction and then in the process of building up the mechanisms, and causal relations. I relied on the text of interviews as a substantial source for theory building extending the adapted theoretical frames [of innovation literature, modularity theory, and theory of the firm]. At the same time I relied on the reconstruction of the cases/ projects mostly based on the information provided by the companies, and the field, where problems of data validation emerged, that I will reflect upon in the forthcoming columns. The case study of Valcucine was based on a field visit to Pordenone, Italy. I used 27 interviews all in all with art directors, academics, journalists, designers and managers. Many times these roles overlap as one might work in several functions during his/ her career.

I used data triangulation to explore the case, and to add validity [Arksey and Knight 1999, pp. 21-31] for including secondary data collected from the websites of the companies at stake and from the materials provided by the companies themselves. An important constraint of the research was time and money for heading for a more profound or broad interrogation. Another constraint stems from the structure of this book. As I was willing to picture a colorful map of design in Italy, a more profound and focused analysis of a specific type of company, or practice in production is not investigated on a large series of data. It is also connected to the fact that I was explicitly aiming at exploring, mapping, understanding rather than testing a specific set of hypotheses. I consider this research an explorative, qualitative one, twisted with a clear-cut analysis based on the theoretic frames exposed at the beginning. I spend some words on relevant methodological questions in each related chapter.

Limitations, Obstacles and Opportunities
There were further obstacles to this research. First of all, contacts for interviews had to be collected on spot, in the showrooms, as in several cases websites do not give direct access to communication managers, who are usually responsible for handling interview requests. The path within the hierarchy of these companies goes through the responsible for communication/ PR of the company. Even if I explicitly mentioned that I would love to have access to several layers within the production and design departments, those are arranged by the communication department. This was mainly true for the furniture/ lights/ etc. companies. In the case of KIBS the situation was easier, as contacts are available on the website, where one almost directly gets to the level responsible for design [researchers, art directors]. I
contacted my interviewees through email, presenting the project and requesting an interview with a possible site visit. Responses in many cases were scarce, and it took several further emails, reminders, in some cases telephone calls, to humbly draw attention to the request. In many cases the companies were not available for an interview and asked me to send the questions in written. As this research was aiming to explore and mine out information beyond what can be obtained through a questionnaire with diverse cases, these I decided to eliminate from this scope of research, and get back to them in a further one [possibly with questionnaires]. In other cases it took some months to get an appointment [after several reminders in email and in person at the showroom in Milan]. Companies did not make it possible to access their financial data, reports, documentation. However they were very available for providing me with their booklets, and catalogues, that are handled over to their business partners, or journalists. Within the framework of this research, thus, there was no opportunity to go beyond these information by spending a considerable amount of time on site talking to designers, and digging documentation. Some of the companies have their museums [museo d’impresa: enterprise museum] telling the innovation story with objects exhibited and guided tours. Some of them maintain a library collecting considerable documentation on design [for e.g. Alessi] available on appointment. Campari for e.g. provides with the innovation story of its communication strategy and branding [as the liquor itself has not changed]. Museums provide opportunities for events for outside companies: reception, conference, etc [Campari in Milan, or Cimballi or Kartell in the outskirts of Milan], which generates revenue, and adds to the branding strategy. Guided tours are on appointment and free of charge. In contrast, for e.g. Alfa Romeo, or Versace [to bring an example from fashion] collects and entrance fee, and Alfa Romeo provides guided tour for a considerable fee. In the case of Alfa Romeo, the museum itself follows a different path than the above examples: the exhibition is curated to give an ‘experience’, to provide the service of entertainment to the visitors [with a 5D movie trailer at the end], while Versace does not bother for constructing a narrative of evolution/ change, rather focuses on presenting its selected clothes. Others present their stories on their curated websites [like in the case of Valcucine or others in furniture design]. Companies contribute to the construction and documentation of the history of design [documentation center at Alessi, or the finely curated exhibition on the history of coffee-makers of Cimballi, presenting several brands and producers, providing with a broad overview of the sector]. The innovation stories of these companies analyzed here are thus constructed relying on the narrative provided by the company itself. There are also available books on the story of kitchen design, fashion etc. that are sold on the book market and backed/ or in some cases published by the companies themselves. These editions, exhibitions, museums, events, etc. are the bricks of the
constructed story of design and innovation, produced by the companies themselves. Following a rather critical approach the researcher might decide to look beyond the significance and checking the reliability of the presented data, aiming to reconstruct the actual significance of these innovations back in time and their impact on the industries and the market. This line of research would add a verification and possibly a deconstruction of the narratives created by the companies. This research however, did not follow this line, in that it simply relies on the discourse available at hand. What I did in this situation, is I added the frames derived from theory to understand and focus on the dynamics, openness and type of innovation to the stories provided by the companies and field.

However to add some critical shade, I used expert interviews [academics, journalists, designers] to understand the discourse on Italian design, and to progress with sampling.

What Was Gained by the Obstacles?
The above-mentioned obstacles of data validation however, brought about some valuable results. As the perspective shifted from the critical reconstruction of stories of innovation toward the analysis of the stories stemming from narratives of the companies [nested in the discourse], values communicated by the companies could be taken into account and brought in line and analyzed how they relate to innovation. One important theoretic contribution, procedural innovation [see later], was possible to find exactly by understanding what was communicated by the company [Valcucine] on its own innovation and communication strategies. This perspective brings this study closer to relate to the field of company strategies, and branding in this respect.

Traditional Italian firms look back to decades spent in the frame of family capitalism. Today, generations have changed, managers are invited to lead the firm, or descendants, relatives of the founders. During the decades there was also a shift in how design is perceived, and what the roles the designer takes. The classic role of the designer-entrepreneur [designer-imprenditore] is challenged by this constantly restructuring scene. The designer-entrepreneur takes financial, managerial and organizational decisions, has and represents vision on design backed by a thorough knowledge and overview of all aspects and constraints of the firm. For innovating, and keeping/ raising the capacities to innovate firms rely on different strategies:

- open innovation
- acquire external management
- acquisition of other companies: developing an international/ global portfolio
- being brought under an umbrella of other companies
• inviting KIBS firms for innovation and design

• different partnerships with other producing firms [see chapter on open innovation for the borders of the firm revisited, and the detailed analysis of the case studies].

I also pointed out the different roles designers take and its implications on innovation strategies, from the designer-entrepreneur toward portfolio of designers, open innovation, relying on KIBS firms, or design table methodologies. I dedicated a special focus on different forms of open innovation and how they are related to modularization, thus how modularization creates entry points to innovate.

The Contribution of This Research

Main Empirical Findings
This research contributes to innovation and modularity scholarship by shedding light on empirical findings in a less explored field, broadening the scholarship on modularity and [open] innovation beyond the realm of technology-intensive industries [computers, semiconductors, automotive sector, open source software development, etc].

By exploring architectural innovation [Henderson and Clark 1990] I found that core design concepts that define the direction of technological improvements enter the conceptual frame of innovation:

• What was interpreted as ‘values’ by the company defining the design are proven to be core design concepts in the conceptual frame, as they define here a technological and conceptual [stylistic] frame.

• Thus, architecture draws here a semantic and aesthetic frame of conveying meanings. [Not just merely defining the technological construction of the artifact described by the interaction of the elements].

• Procedural innovation [coined by me]: the effort that evolves around the main objective to most efficiently elaborate on the core design concepts in technological, and semantic realms.

Further findings of the case studies suggest that open methodology of design and innovation is prone to come from third parties to established firms:

• open design methodology as a communication strategy that contributes to innovation practices of the company, and not as a conscious strategy coming from the other way round.
Here technological and communication tools are intertwined, as they are conveying meanings defined by the core design concepts

• it created a hybrid model of involving incentivized maker communities to channel in their knowledge in digital fabrication.

Moreover, enterprises might face obstacles in innovation, design and even branding, where they turn to third parties, KIBS [knowledge-intensive-business service providers] that might even reshape their organizational routines not just taking over and delivering the required function. Companies might rely on third parties to innovate and design their new products or redesign the organizational routines in order to create fertile environment for innovation. Knowledge-intensive Business Services are rendered in the form of innovation and design. Services are prone to be modularized in their being productivized:

• These schemes create patterns of client co-creation toward co-design

• there is a demand for knowledge on how to innovate [know-how].

These findings invite for a re-examination of firm boundaries from the perspective of the knowledge-based strand of the theory of the firm.

Linking the Global to Local

As an implication for further research, the problem raises: companies rely on a web of external parties for design and production, answering global needs of the global market. However, locally since the past decades higher education institutions providing a variety of courses in the field created an abundant pool of creatives. The interviews reviled that young designer have difficulties in finding jobs/ work due several reasons: 1) companies work with global portfolios of designers, 2) they have their own defined vision on design and production, 3) hence not open for prototyping the designs and ideas of young designers coming from outside of the company. On the other hand 1) technological advancement, 2) cheap prototyping opportunities, 3) and diverging (local) user needs and (global) production created the field for self-producing, and makers. Designers can individually prototype their artifacts, and even produce small-scale. There is a growing supply of products that can be configured by the individual user online applying the app of the designer, and then have it printed either in a local fablab, or receiving it by mail from the designer/ self-producer. To this field are connected the makers who have different backgrounds, but mainly related to design. They form communities, offline communities co-creating and sharing knowledge in local fables, however connected to global nets of makers, digital fabricators.

A further research outlook would be on one hand to see the connection of creative class, and local creative capital within the globalized production and design in Lombardy. On the other
hand, an interesting question to look at is how these pools of knowledge could be connected to the enterprises by creating and strengthening local institutions. Makers have their advantage being connected globally: thus reaching global communities, and access a global pool of knowledge, and yet acting locally through fablabs providing infrastructure for fabrication sharing and collaborating, furthermore valuable connection to third parties. Developing collaboration schemes of local firms that need solutions and fablabs mobilizing maker communities could be a field for local authorities to invigorate, or an opportunity for fablabs to grow.

**Adding to theory**
The above-mentioned empirical findings were backed by a concise summary on:

- open/ user/ collaborative innovation scholarship
- links between modularity and innovation
- and understanding the relationship of modular design in the history of design and architecture;

also elaborating the:

- Semantic frame of innovation: where the product is an architecture of meanings
- Framework for understanding stylistic realm of conveying meanings and innovation
- Linking modular design of products as a conceptual approach [aesthetics] and linking it to production from an evolutionary perspective

**Implications of this research on how we understand:**

**Openness**
I systemize the available scholarship on openness covering open innovation, user innovation, collaborative (open) innovation and beyond. First of all, I systemize this scattered field based on the locus of innovation, transaction costs, organizational arrangements, and the outcome of innovation. By this I develop a framework of analysis, that I apply to the cases scrutinized here. Second, as the analyzed cases bring into forth hybrid arrangements and forms of innovation openness, I make my suggestions on understanding these emergent forms.

**Innovation Scholarship**
The locus of innovation turns out to be the hardest to find. Innovation does not seem to exist in its crystallized form of a mere adjustment and improvement of a product, or shaking the ground with radical solutions stemming from a producer. Neither style and technology exist in
their separate ways: stylistic and technological innovation can complement each other, being intertwined, or substitute each other in a dynamic perspective of firm performance. In the production of such goods, as kitchens for example the push for launching new products creates the need for quick response, where finding and elaborating new technological solutions require far more time, in these cases style gains more focus, while technological design takes its time.

Organizational Theory
The fieldwork in Italy approved the stance of an enterprise being a node of design concepts and marketing communication, where branding plays a crucial role. We know that the idea behind enterprises of US in the global context in the last decades is to produce brands, not products [Klein 2000]. From an institutionalist perspective the firm is a nexus of contracts with suppliers, distributors, showrooms and a portfolio of designers. What I found is that production, marketing, distribution and even design is done by third parties, where core design concepts [values] are defined by the enterprise. These findings call for a reexamination of the boundaries of the firm: what are the core capabilities and functions. What scholarship calls producer for the sake of clarity in theory is as a matter of fact a brander thus a coordinator or producer of design concepts in line with the strategy and meaning of the brand. The perspective here shifts on the importance of brands, rather than production.

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Under Review:


Book review