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Marie-Laure Djelic, Michel Gutsatz

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MANAGERIAL COMPETENCIES FOR ORGANIZATIONAL FLEXIBILITY: THE LUXURY GOODS INDUSTRY BETWEEN TRADITION AND POSTMODERNISM

Marie-Laure Djelic, ESSEC, djelic@essec.fr
Michel Gutsatz, ESSEC, gutsatz@essec.fr

INTRODUCTION

Luxury goods are selling well and the growth of the industry has barely been slowed down by the Asian crisis (*Les Echos*, 04-30-1998, 09-25-1998; *Le Figaro*, 04-06-1998; *Financial Times*, 04-24-1999). As in many other growth markets, though, good results are coming together with a fair amount of turmoil. Many changes are redefining environmental conditions and new challenges are creating significant turbulence for players in the industry at a global level (Ecole de Paris, 1998; *Woman's Wear Daily*, 02-10-1998; *Libération*, 03-06/07-1999). Our question in this paper is whether, in the face of such global trends, luxury goods companies have reacted and attempted to adapt. We are interested by changes and evolutions with an impact on organizational structures but also by the potential redefinition of managerial roles and competencies.

In periods of severe environmental dislocation, organization theory points to the need for speed of reaction and flexibility (March, 1991; Lewin and Stephens, 1993; Brown and Eisenhardt, 1998; Volberda, 1998). In dynamic environments, the efficient management of stable sets of organizational competences is not enough to ensure organizational performance or survival (Sanchez, Heene and Thomas, 1996). There is a need to take risks, to improvise, and to follow uncharted routes (Weick, 1998; Barrett, 1998). The organizational form of the future should thus not only allow for the systematic 'exploitation' or 'leveraging' of existing competences. It should, at the same time, leave some space for adaptive 'exploration' or new 'competence building' (March, 1991; Heene and Sanchez, 1997). In this context, the meaning and role of management are likely themselves to evolve and the question still remains very much open of which managerial competencies will come to be required in tomorrow's organization.

The objective of this paper is to determine how such transformations are concretely playing out within the luxury goods industry. While luxury goods are generally intended for use, they are also characterized by their 'symbol intensity' (Ravasi and Phillips, 1998). Luxury objects are associated with intangible features or dimensions that pertain to the realm of meanings and aesthetics and give these objects their marginal value. A defining

characteristic of luxury goods companies is thus that they satisfy not only the material but also the symbolic needs of their customers. As a consequence, the luxury goods industry can be readily associated with cultural industries in general – defined as industries producing goods and services that 'are valued for their meaning rather than for any intrinsic usefulness they may possess' (Ravasi and Phillips, 1998; Crane, 1997).

The symbol intensity characteristic of cultural industries in general and of the luxury goods industry in particular makes them by necessity quite porous to pressures from the surrounding environment and quite sensitive to changes in that environment (Crane, 1997; Guillén, 1997). Performance and survival in these industries after all hinge upon a fragile fit between the worlds of meanings created by the organizations and the worlds of meaning suggested or desired outside organizational boundaries. The surrounding environment being, in our contemporary world, increasingly turbulent and in a state of permanent flux, we thus hypothesize that organizations in these industries would have to be particularly adaptive and innovative in order to survive. Thus, the luxury goods industry is not only interesting in itself. It could emerge, we believe – and this is also certainly true of cultural industries in general – as a kind of laboratory for organizational transformations and managerial evolutions where insights could be gained and lessons could be learnt of possibly much wider applicability.

Building upon the first results of a large-scale comparative study on the luxury goods industry, we identify evolutions and trends in organizational and managerial terms over the recent period in that industry. In the face of global challenges and significant environmental turbulence, we try to identify the ways in which organizations in that industry have reacted and adapted. We look in particular at organization design but also at emerging patterns with respect to managerial competencies. Part of our question is whether the global nature of challenges leads to common solutions and answers or whether different paths emerge, reflecting sectorial peculiarities or national constraints.

LITERATURE REVIEW

A classic task of organization design has been the alignment of organizational features with organizational goals and objectives. Traditionally, the relationship was defined as linear, from the rational decision-maker, at the top of the organization, to strategic planning, the latter in turn driving structure (Barnard, 1938; Chandler, 1962). In this context, the management of human resources amounted mostly to the distribution of individuals, on the

basis of their skills, knowledge, or experience, to the set of functional positions and jobs that made up the emerging structure.

In time, and ever since the 1960s, organization theorists have come to question such an understanding of organization design as being a purely internal process. Defining the organization as an open system, they have put forward the idea of a necessary fit between organizational structures and a number of contingency factors (Burns and Stalker, 1961; Donaldson, 1982, 1985). In early versions of contingency theory, the causal arrow ran from contingency factors to organizational forms, the former determining the latter (Woodward, 1965; Lawrence and Lorsch, 1967). Somewhat more complex arguments have since then been made that point to interaction and co-evolution between contingency – and in particular environmental – factors and organizational features (Koza and Lewin, 1998; Lewin, Long and Carroll, 1999). The survival and effectiveness of organizations appear to hinge, in these arguments, upon the right – and essentially dynamic – match between strategic decision making, organizational capabilities, and environmental constraints or contingencies.

To approach this issue of dynamic contingent fit, an effective theoretical framework is that of competence-based strategic management (Sanchez, Heene and Thomas, 1996; Heene and Sanchez, 1997). The organization can be defined as a set of resources. In particular environmental conditions, survival and performance depend upon the 'ability of (each) organization to sustain coordinated deployments of resources in ways that promise to help that organization achieve its goals' (Heene and Sanchez, 1997: 7). This ability can be labeled 'competence' and firms engage in 'competence leveraging' when they deploy existing resources or 'competence building' when they acquire and use new assets (Sanchez, Heene and Thomas, 1996). Resources, organizational structures, and strategies should co-evolve, the framework tells us, with environmental conditions through a feedback loop process. And they should be quite different in turbulent and complex environments from what they are in stable and simple ones.

Under stable environmental conditions, rigid and tightly coupled forms of organization could be quite efficient and allow for a systematic exploitation, or adequate leveraging, of existing resources. But in complex and turbulent environments, the literature tells us, flexible and loosely coupled organizational solutions, creating space for adaptation, exploration, and the building of new competences, are better adapted (March, 1991; Volberda, 1996; Heene and Sanchez, 1997). There is little doubt that the end of the twentieth century is a period of significant environmental dislocation. Most industries are having to function in increasingly turbulent, ambiguous, and hypercompetitive environments (Volberda, 1998; Brown and Eisenhardt, 1998). As it turns out, flexibility and competence building indeed appear to be key features in pioneering experiments today by leading firms in search of fit with their turbulent environments (Taylor, 1991; Koza and Lewin, 1999).

In fact, the organization of the future emerges as a 'nearly decomposable system' (Simon, 1996), a modular portfolio of organic and entrepreneurial entities, resources, and competences. According to Simon (1996: 193), 'the potential for rapid evolution exists in any complex system that consists of stable subsystems, each operating nearly independently of the processes going on within other subsystems'. Strategic management, in those conditions, means the close and constant monitoring of the portfolio of organizational modules, resources, and competences, in dynamic fit with changing and sometimes unpredictable circumstances. In turbulent environments, the competence of managing competences – leveraging and building them – thus becomes a higher order capability necessary for organizational survival and performance.

In this context, human resource management turns out to imply much more than job description and control (Lawler, 1994). Behind most organizational resources and competences lay in fact individuals (Zarifian, 1988; Lawler, 1997). Individuals are only partially defined by their skills, knowledge, and experience. They are themselves better characterized as bundles or portfolios of competencies, a number of which remain untapped or underutilized in most organizations. Some of these competencies may be technical or functional and thus related to a particular job. Others are behavioral, that is very much linked to personal traits and motives, social roles, and constructed self-image and as such much more readily transferable from one job to another.

A key challenge, in the organization of the future, will be the management of these individual portfolios of competencies and the next frontier for strategic management is bound to be human resource management. In effect, the adequate management of individual competencies could emerge as a way of operationalizing the 'competent organization', the ultimate objective being an alignment between individual competencies and organizational competences, in dynamic fit with changing environmental constraints and opportunities. This is only likely to take place through a full integration of strategic decision making, organization design, and human resource management (Ferrary and Trepo, 1998).

Such an understanding of organizations leads us quite far away indeed from traditional 'one-best-way' structural models (Taylor, 1911; Chandler, 1962). It also obviously implies to step away from classic definitions of leadership and management (Barnard, 1938; Mintzberg, 1973). Instead, what is needed – and what we hope to some extent to contribute in this paper – is more empirical research and theory building on managerial competencies for the organization of the future, in the context of significant environmental dislocation.

METHODOLOGY AND THE LUXURY GOODS INDUSTRY

We have launched a large-scale and comparative project on the luxury goods industry, with a two-step methodology. The first step was to create a rich database for about eighty companies worldwide. The relevant population for this initial sample was defined using the two leading studies on the industry (Eurostaf, 1998; Cerna, 1995). Different sectors or product domains were included – fashion, perfume and cosmetics, watches and jewelry, and accessories or leather goods. Compiled from a systematic press review, from annual reports and from the analysis of other available written sources of information, our database lists for each company overall turnover, sales structure by region and product category, after tax operating margin throughout the period 1995-98 as well as growth for the period between 1992 and 1997. It also plots the main events and changes that have affected each of these companies during the period – changes in ownership structure, redefinition of structure or strategy, replacement of key managers or creators and the reorganization of distribution, amongst others.

As a second step, we selected fifteen companies that altogether made up more than 50% of the overall turnover in that industry. This smaller sample included some of the companies with the fastest growth in the industry (15 to 39% per year during the 1992-97 period) but also a number of companies with very slow growth (from 3 to 8%). Table 1 provides some basic information on these fifteen companies.

Table 1: 15 companies in the luxury goods industry selected for in-depth study

COMPANY	TURNOVER 1998 Million $	1992-1997 GROWTH	SECTORS	NUMBER OF INTERVIEWS TO DATE	INTERVIEWS TO BE SCHEDULED
LVMH	7100	17.3	Perfumery & cosmetics Fashion Accessories Distribution Wine & spirits	2 2	 2
L'OREAL	4600 (luxury brands)	12.7	Perfumery & cosmetics	5	
ESTEE LAUDER	3900	8.5	Perfumery & cosmetics	2	1
VENDOME	2200	5 (93-97)	Watches & jewellery Accessories Fashion	- 2 -	1
POLO RALPH LAUREN	1650	13.4 (93-97)	Fashion	1	
TIFFANY	1350	14.4	Jewellery		1
GUCCI	1130	39.8	Accesories		1
HERMES	920	10.2	Accessories	1	
HUGO BOSS	850	3	Fashion		
ESCADA	775	2.7	Fashion		1
CLARINS	710	13.2	Perfume & cosmetics		
DONNA KARAN	650	15.1	Fashion		
VERSACE	500	28.1 (94-96)	Fashion		1
PRADA	450		Accessories		
BULGARI	360	30.7	Watches & jewellery		1
MISCELLANEOUS				1	2

TOTAL SAMPLE	27 000			15	10
TOTAL INDUSTRY	50 000				

Our objective for this second stage was to go into more in-depth studies for each company in the reduced sample, using essentially qualitative tools. We are in the process of running a series of open-ended interviews with top managers. Altogether twenty five such interviews were planned, fifteen of which have been conducted and analyzed to date. Interviews lasted between one and two hours and they were taped and typed. They were conducted using the critical events approach (Flanagan, 1954) and the interview preparation guide is laid out in table 2.

Table 2: Interview Preparation Guide sent in advance to interviewees

> "In order to prepare for this interview, which should last approximately one hour and thirty minutes and will be taped, we would like you to think about the following issues:
> 1 - What is your definition of luxury ?
> 2 - Think of the two events which have had the most impact on your professional career (one of which since your arrival in the company you are working for now)
> 3 – Can you please identify and relate in details your two main professional successes
> 4 – Can you please identify and relate in details your two main professional failures"

Our initial aim was to determine, through these interviews, the behavioral competencies that managers in the industry were finding particularly useful in their daily business dealings. Open-ended discussion around a few critical moments – revealing both successes and failures – in the professional life of interviewed managers also allowed us in the end to identify perceptions about the likely or necessary evolutions in the industry with respect to managerial competencies but also in terms of strategic orientation and organization design.

As already argued, a defining specificity of the luxury goods industry is that the marginal value of the objects produced stems from the intangible dimensions or sets of representations with which these objects are associated (Cerna, 1995; Gutsatz, 1996). While the perimeters of the luxury goods industry were fairly stable throughout a large part of the 20th century, things have recently been changing (Eurostaf, 1998). Over the past two decades, luxury goods companies have had to face a more and more turbulent environment. Competition has increased significantly and the long undisputed dominance of French firms has come to be challenged. French luxury goods companies now represent only 50% of the total worldwide turnover of the industry. Foreign competitors, mostly from the USA and from Italy, have managed to impose themselves and, from marginal players, they have come to redefine the rules of the competitive game. At the same time, the economic boom in Asia and the fall of the Berlin wall have pushed back the frontier for luxury goods companies. Characterized by an emerging elite hungry for symbols of status, the new markets have become eldorados for these companies which have had to face, as a consequence, the double challenge of an overall increasing demand and of its diversification. In the meantime, traditional markets – Western Europe and the USA – were becoming more mature and thus

more difficult mostly due to changes in customer behavior. The original elite target groups were being supplemented by a growing mass of middle class customers with quite different symbolic needs. Better educated and more sophisticated western customers were becoming increasingly able to manage their own choices and therefore much more demanding. While looking for perfect quality and in search of meaning, these customers also came to value service, price and immediate satisfaction. This undeniably represented a significant challenge, in particular for these companies that had been used to merely push their products on markets, relying on the intrinsic features of these products to trigger sales.

ORGANIZATIONAL SOLUTIONS: DIFFERENT PATHS TO FLEXIBILITY

In the face of such radical market transformation and heightened competition, luxury goods companies have had to react. A cursory scan of structural changes over the recent period shows that many have felt the need for greater organizational flexibility (Bizot, 1998; *Woman's Wear Daily*, 02-10-1998, 04-22-1998, 06-09-1998; *Wall Street Europe*, 06-11-1999). When probing further, though, we found that reactions were not exactly the same everywhere, even though the emerging challenges were global, that is common to the luxury goods industry as a whole. There appeared to be, in fact, several different paths leading to organizational flexibility in the luxury goods industry. Two main factors could help explain differences in that respect – the weight of history on the one hand and the strength of competitive and market pressures on the other. For a particular organization, the weight of history depends upon its age and upon the past notoriety of its name. It is also related to the degree of embeddedness of the organization within a professional or national tradition. The extent to which, on the other hand, competitive and market pressures are being felt is inversely proportional, in any particular case, to the capacity of firms to resist these pressures, either through organizational slack or by creating protective barriers.

These two factors could theoretically combine in many different ways but a systematic assessment of conditions in the industry shows that the dividing line cuts in fact across both national and product dimensions. Table 3 proposes a schematic typology, along these lines, of the population of luxury goods companies.

Table 3: A typology of luxury goods companies **Strength of Market Pressures**

		Strength of Market Pressures	
		High	**Low**
Weight of History	**High**	French perfume and cosmetics - French Jewelry.	French fashion French leather goods
	Low	Italian and American : Fashion, perfume and cosmetics, jewelry, leather goods	

At one end, French fashion and leather goods companies belong to long established and institutionalized professional and national communities that have historically set up around themselves solid boundaries and thus managed to somewhat buffer competitive pressures. In the face of significant environmental dislocation, these companies have been relatively slow to react and adaptation has been significantly limited by the weight of tradition and by institutional constraints. The emerging path towards organizational flexibility seems to be, in this case, what we call below the 'umbrella holding' – an organizational form that is still a few steps away from the internal network.

At the other end, Italian and American players in the luxury goods industry have been altogether much less burdened by the weight of history and much less protected from competitive pressures. French cosmetic firms and jewelers are somewhere in between, deeply embedded in a long lasting professional and national tradition and nevertheless quite vulnerable to market pressure and competition. In all those cases, environmental turbulence and competition have hit hard and individual firms have had to adapt much more rapidly. The common path to organizational flexibility that emerges here is the external network, of which we identify two variants – one more closely associated with Italian and the other with American luxury goods companies.

French fashion and leather goods: from craft organization to the 'umbrella holding'

For years, and at least until the 1960s, the luxury goods industry was clearly dominated by French companies (Grumbach, 1993). The business of designing, making, and selling luxury objects was then defined as a craft and highly labor intensive process, where goods were either custom-made or else produced in very short series. The clientele was small, loyal, and homogenous, mostly drawn from within the ranks of the French aristocracy and upper middle class (Grumbach, 1993; Crane, 1997). Fashion was undeniably the jewel of this industry and in this particular sector, the setting up of protective rules that strictly defined what was and what was not luxury fashion or *haute couture* further institutionalized the predominance of French firms. The French professional association – the *Chambre Syndicale de la Haute Couture* – was responsible for enforcing these stringent rules, significantly restricting, *de facto*, the possibility for entry into the industry (Crane, 1997).

The first mover's advantage of French firms, which they thus early on managed to institutionalize, allowed them to impose their own rules of the game on a worldwide level. French firms set the boundaries of the industry, imposed their definition of the 'luxury object' and dictated, in the process, organizational solutions as well as a particular model of leadership (Grumbach, 1993; Dumas, 1998). The French definition of luxury placed the value of the object in its own intrinsic aesthetic features. These aesthetic features, in turn, were seen to depend upon the creative power of the main designer and upon a craft-like, high quality, detail oriented and fully controlled process – from creation and design to manufacturing and distribution (Ecole de Paris, 1998). The main designer, who also traditionally often owned and ran the business, was thus in French companies the pivotal figure around whom everything seemed to revolve. As artist and craftsman, he or she ensured that the process as a whole was fully integrated (Dumas, 1998). This step-by-step monitoring, which amounted in fact to a quality control integrated upstream and rigidly centralized, was essentially achieved through a reliance on traditional *savoir faires* – or traditional craft techniques – inherited from the past. French *haute couture* houses – Christian Dior, Yves Saint Laurent, Christian Lacroix, amongst others – and leather goods producers, Louis Vuitton or Hermès, have historically exemplified this model and to a significant extent, still do today (*La Tribune*, 03-25-1998; *Libération*, 03-06/07-1999).

When tradition and the past define best practice to the extent they have done in French fashion and leather goods companies, changes are bound to be perceived as threats and external pressure as essentially a source of disturbance. And in fact, when markets and environments started to become increasingly complex and turbulent, French fashion and leather houses initially set out to change the world rather than themselves. One of their first reactions was to call upon the national government for protection and to use institutionalized arrangements, such as the *haute couture* rules and strict timetable, to keep foreign competitors out of the official industry boundary for as long as possible (Grumbach, 1993; Ecole de Paris, 1998). Another temptation was to reinforce centralized and in-house controls at all levels. Starting in the 1950s, French luxury goods companies had seen the first clear signs that their traditional customer base was shrinking, if not altogether disappearing. A number of French houses thus decided at the time to turn to licensing and partial outsourcing in order to reduce costs and to extend their product range and customer base. Over the more recent period, increasing turbulence and the emergence of challengers and competitors from quite different horizons have brought about, in a few noteworthy cases, a reversal of this strategy. Several French companies, which had, at some point, outsourced some of their manufacturing or

distribution, have recently reintroduced them within organizational boundaries – Christian Dior or Courrèges being examples amongst others.

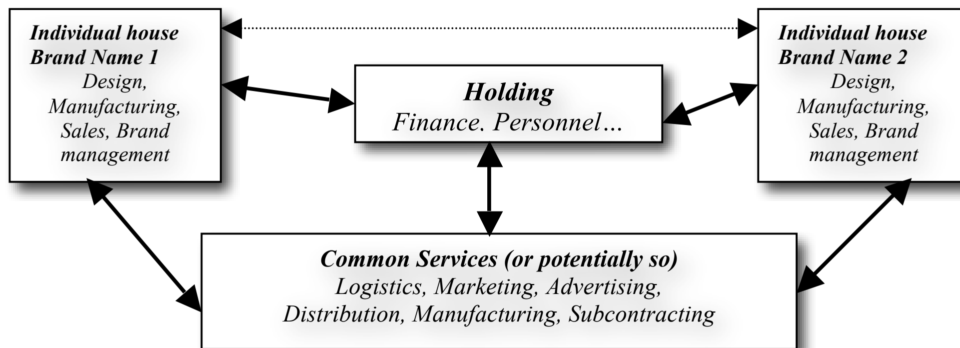
In a parallel move to tightening integration and controls, French fashion and leather goods houses have also been strongly reasserting the central place of the product, as the ultimate bearer of value – 'truth is in the product' (Dumas, 1998). The flow, over the past few years, of new creators into French companies can easily be interpreted as a series of symbolic gestures in that direction. The mission of John Galliano at Dior, Alexander McQueen at Givenchy, or Marc Jacobs at Louis Vuitton is and will be to reinvent, for these companies, the magic of the product and thus of their name. They are to create objects, the aesthetic properties of which should be their own main selling point and should drive outside desires rather than follow them. The personalization and the cult-like hype that have developed around these individuals, within and outside the fashion community, confirms that they are very much identified with and treated as the almighty and self-sufficient 'creator' of the French tradition.

At first sight, it would therefore seem that French fashion and leather goods companies have been confronting environmental challenges by essentially reasserting and protecting their traditional organizational recipes. These companies appear to have dealt with external disturbances by sealing off as much as possible organizational boundaries and limiting external dependence. At second glance, though, it is possible to identify, beyond the apparent stability, a path towards organizational flexibility, albeit a peculiar and quite original one. This path is exemplified by the construction, over the past twenty years, of the Louis Vuitton Moët Hennessy (LVMH) conglomerate or, as we choose to label it here, 'umbrella holding'. Bernard Arnault, founder and present Chairman of LVMH, has brought together, through the years, a number of formerly independent luxury houses. Under the LVMH umbrella, one currently finds luxury fashion houses such as Givenchy, Kenzo, Christian Lacroix, Céline, and Christian Dior as well as a number of luxury companies producing accessories (Louis Vuitton, Loewe), perfumes, wines, or spirits. More recently, LVMH has diversified further into selective retailing and distribution (Choez, 1998; *Le Figaro*, 03-16-1998).

As of today, LVMH is still a conglomerate in search of identity. Recent developments, though, appear to show that it is in the process of evolving into a truly flexible internal network (*Woman's Wear Daily*, 12-10-1997). Each entity within LVMH has significant autonomy and retains more or less full control over a still largely integrated process – from design to production and distribution. There is a clear awareness within LVMH that this integrated process is where the value of French luxury brands lies. At the very same time, top

managers in the umbrella holding underscore the need for systematically creating and developing interfaces between individual luxury goods houses. The idea is to realize economies of scale by rationalizing certain activities at the level of the group – marketing, distribution, or even production (Martin, 1998; *Wall Street Europe*, 03-12-1998). While the umbrella holding trajectory, sketched out in figure 1, is still very much in construction, we propose that it represents an original path to organizational flexibility. In the medium to long term and in the context of a turbulent environment, this type of internal network, allowing both autonomy and synergies, might be the only chance of survival for individual French luxury houses.

Figure 1: Organizational flexibility under constraints: the umbrella holding



The emergence of the umbrella holding model made particular sense in the French context. It reflected, we have argued, the peculiarities of national constraints and traditions. As it turns out, though, this model seems to arouse interest well beyond French national borders. Armani or Calvin Klein are openly courting LVMH and seriously considering an integration into the umbrella holding (*Financial Times*, 10-07-1999). Patrizio Bertelli, Prada's Chairman, praises LVMH's strategy and seriously considers, apparently, following it himself. He argues that, under present conditions, a possible path is 'to acquire other luxury goods brands that could not only coexist but exploit synergies wherever possible' (*Women's Wear Daily*,12-10-1997, 06-09-1998). Recent developments show that action has followed intent and that Prada is indeed in the process of constructing a group, using the LVMH umbrella holding as a model (*Woman's Wear Daily*, 03-29-1999, 08-31-1999, 10-07-1999).

Italian and American challengers: two variants of the external network

While a key challenge for French fashion and leather goods companies over the past two decades lay in striking the right balance between tradition and adaptation, new players had appeared in the luxury goods industry that were much less burdened by the weight of

tradition. These new entrants were for the most part Italian or American companies. They perceived environmental turbulence as a source of opportunities rather than threats and fostered a radical redefinition of the rules of the game that could only be to their benefit. So as to gear up for increased competition, changing markets and rapidly evolving technologies, Italian and American challengers developed original and innovative organizational solutions. To follow the expansion of markets, they significantly increased their productive capacities through mechanization and standardization or systematically relied on subcontracting and licensing. In order to handle increased competition, the greater sophistication of customers, and the multiplicity of their profiles, they designed flexible and speedily reactive structures, directly tuned into the 'world of the street'.

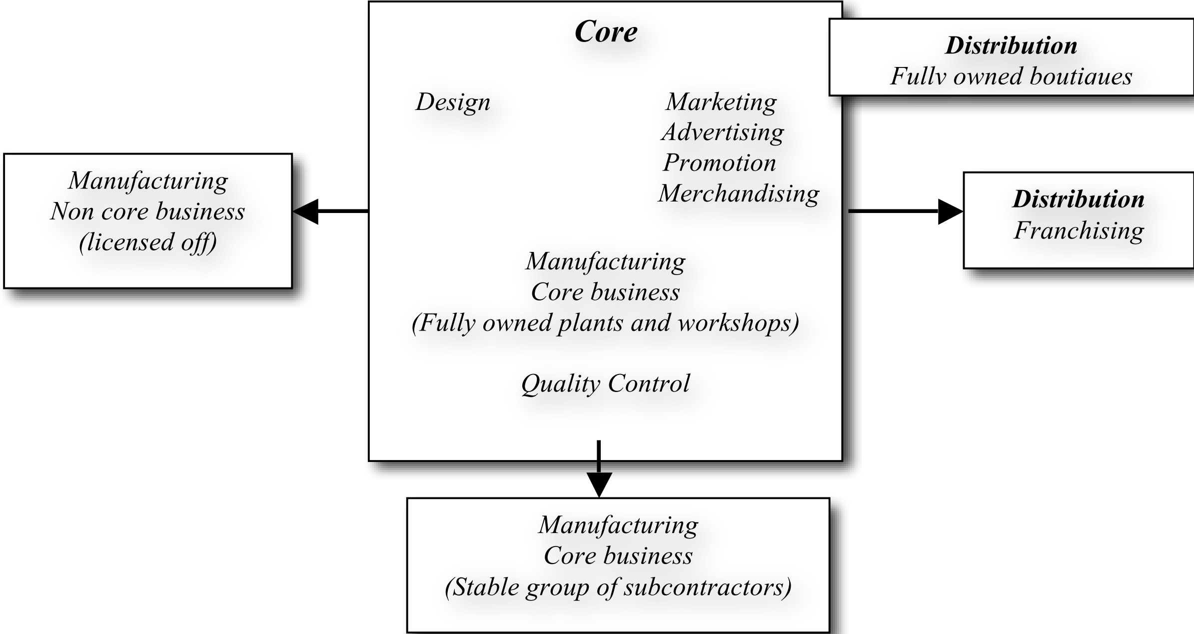
Over the recent past, the flexible external network has therefore been emerging as a new structural solution within the luxury goods industry. While most French fashion and leather goods houses have stressed in-house manufacturing and insisted upon a full control over distribution channels, their Italian and American competitors have subcontracted manufacturing or licensed distribution without hesitation. Ralph Lauren and Calvin Klein have done it for their core and non-core apparel lines, Gucci and Ferragamo for their core leather goods lines, and Tiffany's for silverware and jewelry. Probing further, though, one can point to a number of important differences between Italian and American luxury goods companies. This leads us to differentiate between two variants of the external network – one which is more closely identified with Italian and the other with American companies. These variants differ essentially along two dimensions. In the Italian variant, the networks of partners and subcontractors have tended to have a smaller and much more stable membership base than in the American variant. The extent of outsourcing, on the other hand, has been much more significant in the American variant, with only a minimal range of activities being kept in-house.

Italian companies have generally set up three layers in their manufacturing activity. The key products of their core business have been kept in-house – couture apparel for Versace, women's ready-to-wear and accessories for Trussardi, some of the leather goods for Gucci. For the rest of their core business, Italian companies have tended to subcontract manufacturing to a tight network of industrial partners and craft workshops over which they have kept strict control (*The Economist*, 04-11-1998; *Le Monde*, 10-10-1998; *Le Figaro Economique*, 05-27-1999). This particular type of flexible external network has fit in nicely with the traditional 'industrial district' organization characteristic of the Third Italy (Brusco, 1982; Goodman et al., 1989; Djelic, 1998). The foundation of trust, stemming from a

common institutional and cultural background, has made quality control and the management of interfaces a relatively easy exercise (Granovetter, 1985; Powell, 1990; Lazerson, 1995). Finally, the manufacturing of non-core products – eyewear or perfumes for example – has tended to be licensed off, in Italy or elsewhere. For distribution, Italian companies have either worked through fully owned stores or through a franchise network over which they have kept tight control.

This particular variant of the flexible external network, sketched out in figure 2, is characteristic of the Italian luxury goods industry as a whole – and in particular of companies like Armani, Gucci, Versace, or Prada (*The Economist*, 04-11-1998; *Le Monde*, 01-18-1998, 05-27-1999). But it also defines a number of non-Italian companies, particularly in jewelry (Cartier or Tiffany's) or in accessories (Coach, ST Dupont, Montblanc, Baume et Mercier). Increasingly, many of its key features are to be found, furthermore, within the French perfume and cosmetics industry (Bizot, 1998).

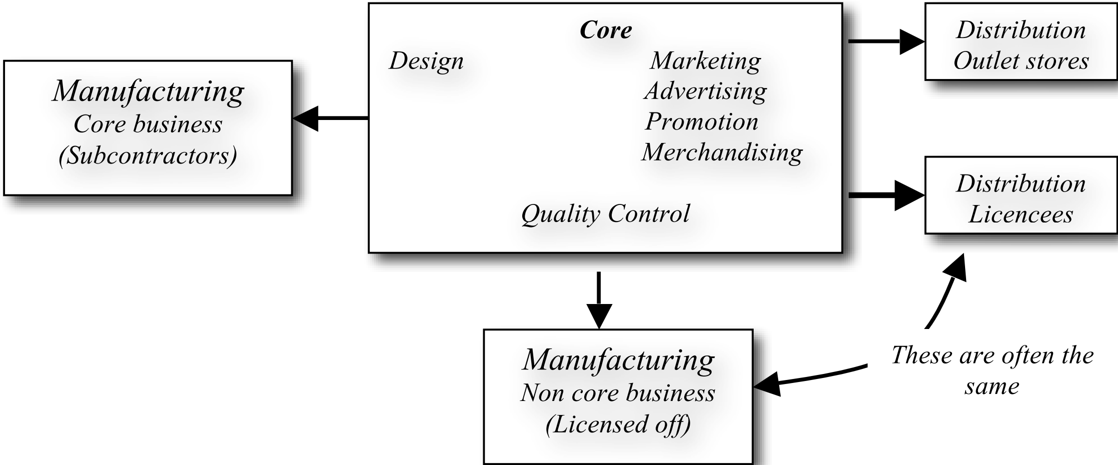
Figure 2: The flexible external network: the Italian variant



American companies have generally gone one step further, pushing the logic of the flexible external network organization even further. They have retained in-house only a narrow range of activities, which they have defined as being their strategic or core competences. They have kept full control over important choices with respect to design and product lines, the selection of materials, brand management (marketing, advertising, promotion, merchandising), the handling of quality control tools, the monitoring of subcontracting partners or licensees and, finally, the elaboration of a distribution strategy.

Manufacturing has been entirely licensed off or, for the core business, subcontracted – top of line apparel for Ralph Lauren, apparel for Dona Karan. Design, creation, or brand management themselves – in all but their strategic dimensions – have been in part outsourced to free lance designers, communication and advertising agencies, or consultants. Distribution in the United States has generally taken place through licensees and outlet stores, although Ralph Lauren has had a few fully owned stores. In foreign countries, American fashion companies have tended to distribute through a network of licensees. A striking example of this particular variant of the flexible external network, presented in summary form in figure 3, is Calvin Klein where both manufacturing and distribution have been fully outsourced, and where the core organization has been reduced to creation, public relations, communication, merchandising and control of the brand. In the end, the American variant of the flexible external network goes quite far in the direction of what the literature on new organizational forms has labeled the 'virtual organization' (Davidow and Malone, 1992).

Figure 3: The flexible external network: the American variant



In both the Italian and American variants of the flexible external network, creation and conception – design – and brand management – marketing, advertising, promotion, merchandising – are thus being defined as equally strategic core competencies. As a matter of fact, Italian and American companies, but also some French firms in cosmetics or jewelry start from and emphasize the management of the brand rather than the management of products. They build upon concepts, those intangible goods that define the brand, deducing and declining from them product lines and products but also communication tools, marketing strategies, even the design of stores (Nueno and Quelch, 1998; Fulconi, 1998; Dainville, 1998). The search for such an overall coherence is ultimately the responsibility of the creator, who in the Italian or American model is not only an artist and a designer but also a brand

manager (Dautresme, 1998; *Woman's Wear Daily*, 02-11-1998). In an environment where customers are not only consumers but are also increasingly looking for products or brands that reflect in part their own symbolic needs (Roux, 1997), managing a brand naturally does not mean freezing it. Rather, it implies steering along its coherent evolution – or more exactly co-construction with the 'street'. In the Italian or American type of organization, creators are 'street-wise', even if each one speaks a different street. They feel the trends, the representations and the needs of their customers and they integrate these to construct or reconstruct within a coherent and consistent frame the brand's identity (Dautresme, 1998; Fulconi, 1998).

In organizational terms, this particular understanding and definition of the luxury business has led to knocking down many traditional boundaries. Internal boundaries have, on the one hand, been redrawn and lowered, those in particular that divided work in the traditional craft organization along functional lines separating creation from management in a manner that in fact often exacerbated or created conflict. Vertical boundaries have also been crossed over, information and decision flows increasingly going both ways. The power structure has been somewhat diluted and decentralized to tune in more directly the organization to the 'street'. External boundaries, in the meantime, have become quite porous and this increasingly early on in the process, including at the creation stage where the customer has been brought in, not only as a set of material needs but also as a set of representations. These external boundaries have altogether become shifting and difficult to identify, we have shown, with the development of flexible external networks linking a core organization to outside partners that have taken on some of the activities traditionally kept in-house by the craft organization.

The shifting geometry of these external network types of organizations is the source of their flexibility and adaptability; it also is their main point of fragility. The challenge stems, particularly in the American case, from the great number of interfaces that make the problem of control extremely acute. While Italian firms have created relatively small networks by drawing from a pool of locally embedded subcontractors, American firms have tended to rely on arm's-length ties and multiple spot contracts. The monitoring of interfaces is, in those conditions, a very central task and at the same time a very complex one. In an industry where value creation lies in absolute coherence, a strategy that relies on outsourcing or subcontracting requires particularly strict control mechanisms.

A number of very recent developments do show that monitoring and control are indeed the Achille's heel of the external network, particularly of the American type. Donna

Karan has found it hard, over the recent years, to articulate the core of her company with its peripheral modules and this is clearly at the source of the difficult situation in which her company finds itself today (*Les Echos*, 03-24-1998). Ralph Lauren has recently announced that it was buying back a large number of its licensees, thus bringing distribution into closer and more direct control and reducing in the process the number of interfaces. As to Calvin Klein, while the company has been, to this day, particularly effective in managing and monitoring a multiplicity of interfaces, an interesting question is what will happen when Calvin Klein himself steps down. The recent announcement that the Calvin Klein company was up for sale and that, amongst possible bidders, it favored LVMH (*Financial Times*, 10-07-1999) could be interpreted as an indirect acknowledgment that current organizational arrangements might not be viable in the medium to long term

MANAGERIAL COMPETENCIES – REALITIES AND EXPECTATIONS

While organization design and the alignment of structure and strategy with environmental conditions is undeniably a key challenge in the luxury goods industry, another key question is that of finding the persons that could most effectively take on this challenge and handle managerial tasks. Historically, the way in which this search has been handled has been through the adoption of risk reducing strategies that were institutionalized, in fact, well beyond the boundaries of the luxury goods industry. A recruiting or promotion decision could be made by relying, on the one hand, on the assessment of the track record of successes and failures of a particular individual throughout his or her career to that point – whether in the company, in the industry or even in other industries. Choices and decisions could also be made simply on the basis of the legitimacy granted by a diploma, that formally guaranteed a level of knowledge and a number of definite skills.

To this day, patterns of recruiting, promotion and career development for managers in the luxury goods industry exemplify these two risk-reducing strategies or a combination thereof. In luxury goods companies, managers are often hired because they have been successful somewhere else.[1] This could have been at a competitor's, within the industry, but also increasingly at Procter and Gamble or Unilever since recent evolutions in the industry and its environment have made mass-marketing skills increasingly valuable. More and more,

[1] This creates a pattern within the industry of managers rotating from one company to another. See, for example, Gabriella Forte going from Armani to Calvin Klein and then to Liz Claiborne. *Woman's Wear Daily* (6-01-1997) documents and gives a detailed analysis of these moves.

hiring decisions have also been made on the basis of a diploma and within the luxury goods industry as everywhere else the MBA has been making inroads, essentially because it formally guarantees certain types of skills and knowledge.

In a complex and rapidly changing environment, though, industries and companies will increasingly have to learn to function in unique and always renewed conditions. Past successes are, as a consequence, bound to be less and less predictive of future ones. And in fact, performance is likely to be more and more dependent upon the capacity – of the individual and of the company – to break existing routines, built from past successes, and to come up with innovative answers and solutions (Argyris, 1977; Senge, 1995). In this context, recruiting or promoting a manager only on the basis of what he or she has done before or somewhere else might not – and far from it – be a risk-reducing strategy anymore. In fact, relying merely on experience or specialized knowledge as selection criteria would increasingly appear to be inadequate. To go along with the transformation of both environmental and organizational conditions, the management of human resources will apparently have to shift its focus away from jobs, knowledge and experience and towards individual competencies and in particular transferable competencies of the behavioral type (Lawler, 1994).

We defined earlier behavioral competencies as personal and 'underlying' characteristics that are very much linked to personal traits and motives, social roles and constructed self-image (Klemp, 1980). Behavioral competencies are much more instrumental in shaping behavior, in the longer term, than acquired skills or knowledge. They may explain effective or superior performance in a given role and context but they also are very much transferable from one job to another. The importance of behavioral competencies thus lies in the fact that they not only have an impact on performance in a given job but also on the unfolding and on the development of the professional life of an individual (Boyatsis, 1982). More often than not, though, these competencies remain implicit and the individual is but rarely aware of them. They are furthermore rarely nurtured and very much under-utilized in the organizational context. Behavioral competencies have not yet become a key tool for the management of human resources, and this is particularly true within the luxury goods industry. They should increasingly help structure, we believe, the recruiting and promotion process. Since they are to a large extent socially constructed, in our definition, they could also be 'learnt' and 'worked upon', thus becoming the central articulation of a company level human resource planning policy. In the process, they would likely become, we propose, a key source of competitive advantage for the organization.

We decided to look at managerial competencies in the luxury goods industry with this particular framework in mind. Identifying competencies and in particular behavioral ones can only be done indirectly by determining first the actions of an individual in particular circumstances and then the consequences of those actions. This naturally calls for a qualitative type of methodology. Studies of that sort (Boyatsis, 1982; Hay-McBer, 1996) have produced detailed lists of competencies. Those lists have then generally and classically been used to rate individuals along a given scale for each single competency in turn. There are three main weaknesses, we believe, to existing studies from which we constructed three key hypotheses.

First of all, existing studies tend to search for commonalities across industry boundaries. By very construction, they are thus often unable to pick up the specificities of a given industry or potential differences within the boundaries of a single industry. Our first hypothesis (H1) was that, due to the peculiar nature of the luxury goods industry, a number of managerial competencies specific to that industry could be identified.

A second weakness of existing studies is that they generally lack a systematic cross-national comparative perspective. We have shown earlier that, in the luxury goods industry, organizational and structural arrangements were very much embedded in national and institutional contexts. Our second hypothesis (H2) was that even more than organizational and structural arrangements, patterns of behavioral competencies were bound to be nationally, institutionally and culturally embedded.

We believe, finally, that by treating competencies as essentially independent from each other, existing studies are significantly losing in explanatory power. Our last hypothesis (H3) was that certain competencies would tend to be found together while others never and that we would be able to identify clusters of related competencies. This could make possible the elaboration of a typology of managers and create the basis for a significant redefinition of human resource management policies. Indeed, individual performance in a particular situation may not depend so much on rating high on one or two particular competencies but rather on exhibiting a given set or cluster of related competencies.

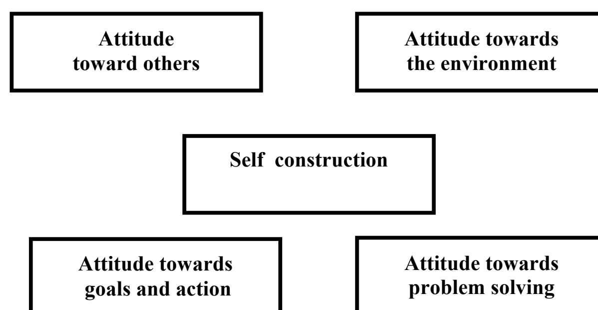
The fifteen interviews we conducted, twelve of which were of French managers, appear to validate two of our three hypotheses – first that there are competencies specific to the luxury goods industry (H1) and second that competencies generally work in clusters (H3). Interviews still to be conducted will target American and Italian managers, which should allow us to test the hypothesis of national embeddedness (H2).

Emerging behavioral competencies

A preliminary list of managerial competencies, along with their precise definitions, had been drawn from the existing literature (Boyatsis, 1982; Hay-McBer, 1996). The first step of the analysis was to identify references in our interviews to behavioral competencies – both to the competencies that were and to those that were not mentioned in the existing literature. Identification was done independently by both authors and then systematically cross-checked. Competencies that could not be integrated into the existing classifications were labeled and singled out as potentially specific to the luxury goods industry. At the same time, a profile was sketched out for each interviewee, defined by the set of competencies with which he or she was associated.

In a second step to the analysis, we tried to categorize the emerging list of competencies. The cognitive system of individuals has two clearly distinct layers (Gutsatz, 1999). The level of perceptions is defined by his or her system of beliefs, attitudes and opinions while the level of cognition refers to the way a particular individual reasons, analyzes and manages information. Perceptions can be further differentiated by introducing the idea of 'relational objects' (Harris, 1994). There are four key relational objects – the self, others, the environment and action, which makes four categories at the level of eprception. By adding a cognition category – attitude towards problem solving – we ended up with five categories that allowed us to classify the full list of competencies emerging from our study. These five categories are presented in summary form in figure 4.

Figure 4: Five main categories of competencies



Testing hypothesis 1: the specificity of the luxury goods industry

Altogether, fifty different competencies emerged from our interviews and a full list is given in appendix 1. Fourteen of these competencies stood out particularly because they did not appear in the results of existing studies (Boyatsis, 1982; Hay-McBer, 1996). Since existing studies have, by very construction, crossed over industrial boundaries and searched for similarities, we propose that these fourteen competencies, listed in table 4, are specific to

the luxury goods industry. We believe, furthermore, that they might explain to a significant extent individual performance in the management of luxury brands.

Table 2: Luxury brand management competencies

ATTITUDE TOWARDS OTHERS
05. Managing differences
O7. Generate involvement by setting an example
ATTITUDE TOWARDS THE ENVIRONMENT
E2. Sense of proximity
E4. Sensitivity to weak signals
E5. Spiral perception of time
E6. Linear perception of time
E7. Aesthetic sensitivity
E9. To absorb – to immerse oneself into a given situation
ATTITUDE TOWARDS GOALS & ACTION
G8. Do it orientation
ATTITUDE TOWARDS PROBLEM SOLVING
P1. Holistic vision of situations
P5. Intuition
SELF CONSTRUCTION
S6. Acceptance of ambiguity or uncertainty
S9. Freedom of mind
S10. Breaking norms and rules

Three out of these fourteen competencies stand out in striking contrast to others that had emerged in the full list.

- ‘Generate involvement by setting an example’ contrasts with ‘Involving through rational arguments’
- ‘Holistic vision of situations’ contrasts with ‘Analytical vision of situations’
- ‘Do it orientation’ contrasts with ‘Achievement orientation’

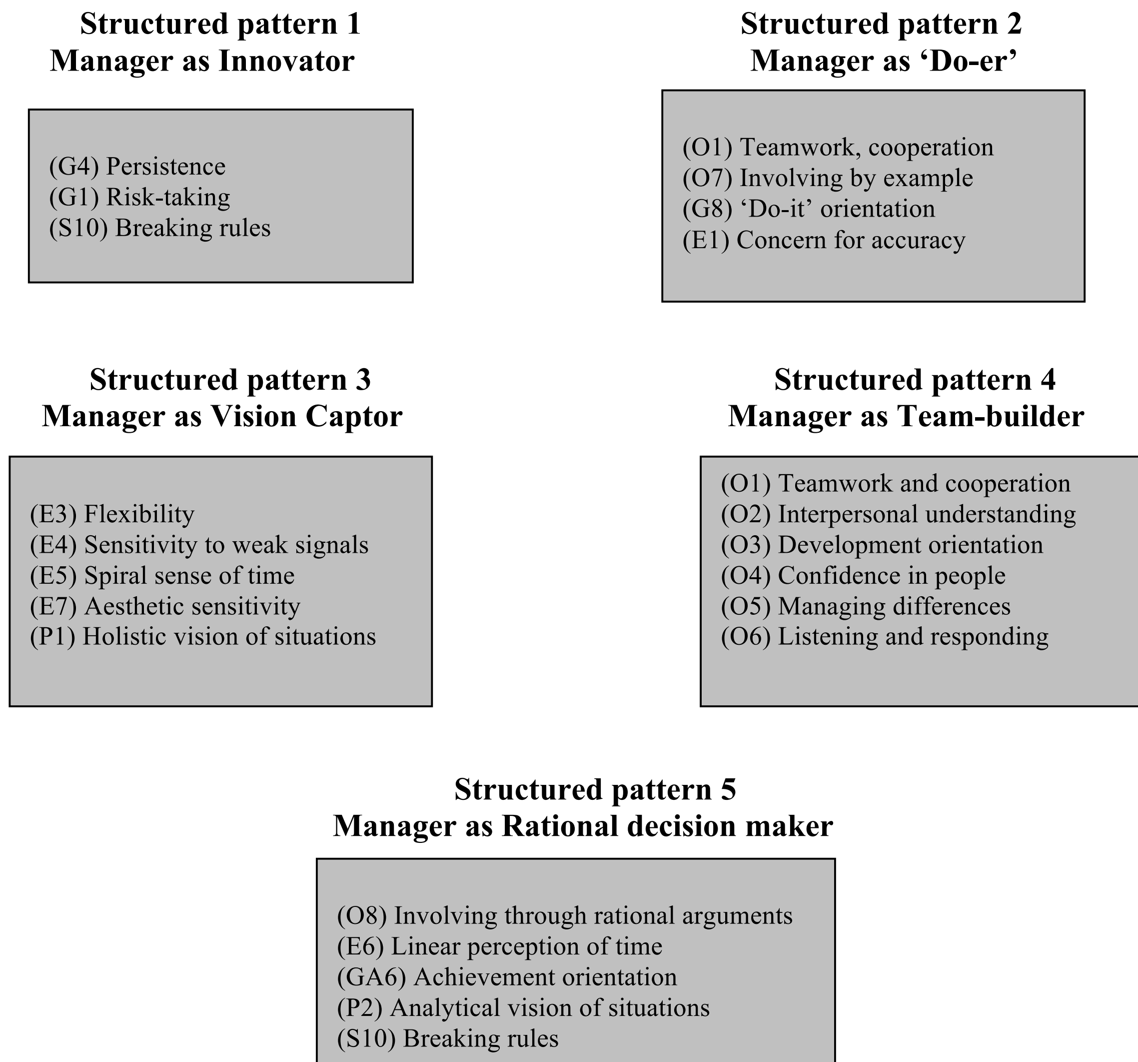
It seems that two very different profiles can be identified, that of a ‘rational’ manager that would not be specific to but nevertheless present in the luxury goods industry and that of an ‘intuitive’ leader that would be more specific – although there is a high likelihood that this second profile could be found within cultural industries in general and not just in the luxury goods industry. This result would tend to confirm an hypothesis made in a previous paper by one of the authors (Gutsatz, 1996).

Testing hypothesis 3: towards structures of competencies

A systematic comparison of the fifteen interviews and individual sets of competencies showed, on the other hand, that certain competencies tended to appear together while others never. We identified five major patterns of related competencies that altogether would seem to define the ideal profile of a manager in the luxury goods industry – the manager of the future. We sketch out this particular profile in figure 5. Four out of the five structured patterns that were identified – the manager as innovator, the manager as ‘do-er’, the manager as rational decision maker and the manager as team builder – fit in quite well in fact with tendencies existing in other industries and theorized in the literature on new organizational

forms and competency-based management. The fifth structure or pattern – the manager as vision captor – we see as being more specific to the luxury goods industry in its more recent evolutions.

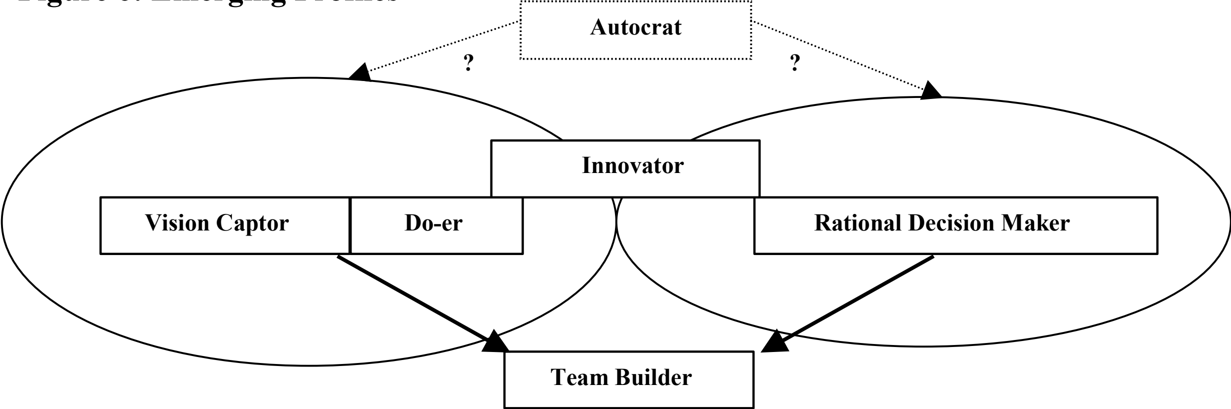
Figure 5: The competent luxury brand manager – the profile of the future



Although none of our interviewees exhibited this five dimensional, ideal profile, a major finding is that there was great regularity in the types of structured patterns that were always associated with each other in an individual person. This allowed us to identify a small number of different profiles. 'Innovator', 'Do-er' and 'Vision Captor' were generally found together (in eight cases). The profile that emerged from this combination we have already identified and labeled the 'Intuitive leader'. 'Rational decision maker', on the other hand, was always found to be associated with 'Innovator' (altogether three cases). This second profile we labeled the 'Rational leader'. The identification of these two profiles is perfectly consistent with what had been found when testing hypothesis 1.

While these two profiles are clearly independent, we found that they could both be associated with the 'Team builder' structured pattern. We can therefore surmise that the attitude towards others, of which the 'Team builder' pattern is an expression, is an independent dimension and has no direct connection with the attitude towards goal and action, the attitude towards the environment, self construction or the attitude towards problem solving. The fact that the 'Team builder' structured pattern is 'pure' – that it contains only competencies from the 'attitude towards others' category and not a mix as is the case of other structured patterns – can be interpreted as providing further confirmation. If our claim is indeed true, further interviews should allow us to identify another structured pattern in direct contrast to the 'Team builder'. This structured pattern, which we label here very tentatively 'Autocrat' would reflect a radically different attitude towards others. This would be consistent with what is known of certain leaders of the luxury industry that have not yet been interviewed. The combination of the two profiles identified in this paper with contrasting attitudes towards others would allow us to draw a fairly convincing map of the current state of management in the luxury goods industry. A tentative version of this map is proposed in figure 6.

Figure 6: Emerging Profiles



CONCLUSION

Altogether, the most striking about our results might be the contrasting tendencies, which they reveal. It appears, in fact, that there are two quite distinct sides to the luxury goods industry that run parallel to each other On the one hand, history and tradition define organizational solutions to a significant extent and this is particularly true in French fashion and leather goods companies. At the very same time, one can point to innovative organizational evolutions, including in that part of the industry. The same appears to be true of managerial competencies. We find that very different managerial profiles coexist within the industry – from the quite traditional 'Rational leader' to the ground breaking and more

original 'Intuitive leader'. We explain this particularly acute tension between tradition and modernity by the coexistence, in the luxury goods industry, of two radically different aesthetic perspectives. Each of these two perspectives or paradigms generates a different definition of 'luxury' and therefore a quite different approach to the management of luxury goods companies.

The first such aesthetic perspective, generally labeled 'modernist', has dominated for years architecture and design. Objects, in this perspective, are defined as having intrinsic aesthetic properties, which they owe to their designers or creators. Within the luxury goods industry, this translates into a definition of the luxury object where value is in the object itself – 'truth is in the product' (Dumas, 1998). The luxury object, in turn, is the material reflection of the unique genius of the original creator or designer. Emerging from this aesthetic perspective is thus the idea that the identity of a particular luxury company is shaped by its history and that a large share of its value lies in the traditional practices inherited from the past. Another direct consequence is the key role attributed to the creator or designer, whether the original one or its spiritual heir, in the workings of the company. In this traditional understanding of the luxury goods company, the creator should retain full control over the product at all stages – from creation and design to manufacturing and then distribution. The role of the organizational structure is to create a protective framework around the creator and his or her products, so as to buffer them from any form of external tampering. This means that the modernist luxury goods company is likely to be extremely wary of change and that it will be tempted to avoid as much as possible external influences. Most French fashion and leather goods companies still tend to function within this modernist aesthetic perspective (Grumbach, 1993; Crane, 1997; Ecole de Paris, 1998; Dumas, 1998). And we have described, in this paper, how such a perspective has translated in organizational and managerial terms.

In striking contrast to this long dominant aesthetic perspective, the postmodern argument is that there is no such thing as an objective and absolute definition of aesthetic value. This perspective has recently made significant headway within the luxury goods industry. The idea behind the postmodern perspective is that there is not one but an infinite number of discourses, co-constructed by the creator and the spectators or consumers. Applied to the luxury goods industry, this means that value does not lie in the objects themselves but in the set(s) of representations that the objects – or the brands – conjure up in a particular group or population (Cerna, 1995; Gutsatz, 1996; Ecole de Paris, 1998). In this context, brand management thus naturally becomes very significant and turns out to mean much more than systematic attention to the quality and consistency of products and services. Brands are 'spaces for dreams' or spaces where customers can satisfy their symbolic needs. Pleasure, desire, self-image, or a reflection of their own values are what individuals look for in luxury goods consumption (Roux, 1997). Brands are therefore more than historical legacies shaped by the creator's original vision and values. They are a constantly moving co-construction in

which external actors, including customers, have significant input. From this perspective, luxury goods companies and their structures should be open, flexible, and speedily reactive to external influences and to what is happening in the wider cultural, social, and institutional context.

In the luxury goods industry, a pioneer of the postmodern perspective was the American Ralph Lauren, who defined his brand around a particular lifestyle, in that case the New England WASP lifestyle. Other Americans but also Italians soon followed suit – Calvin Klein, Giorgio Armani, Gucci, or Prada amongst others. By creating around their names a coherent 'space for dreams' that spoke to and integrated the symbolic needs of particular groups of customers, these companies have been able to price beautiful but rather standard ready-to-wear products at a Dior or a Chanel level. All in all, Ralph Lauren, Calvin Klein, Armani, Gucci, or Prada have in fact managed to establish themselves as luxury brands without building upon a product legitimacy that had traditionally been symbolized, in the fashion industry, by a *haute couture* activity. A similar type of process and evolution has taken place in perfume and cosmetics, American firms once more giving the lead but with a significant impact this time on French players (Jellinek, 1997; Dautresme, 1998; Dainville, 1998).

This postmodern aesthetic perspective has had significant consequences in organizational and managerial terms, which have been documented in this paper. It also has fit in quite well with the nature of contemporary changes in luxury markets. Customers in the luxury goods industry – but also in many other industries – are becoming increasingly diverse in profile as well as more demanding. They want a product or brand to reflect some of their own needs, desires, and expectations. They are not merely passive consumers, rather they want to be active co-constructors or co-creators. The diversity, overall, of symbolic needs and expectations and thus the multiplicity of potential 'spaces for dreams' means that a 'street-wise' creator, having a good sense of the symbolic needs of a given population and strong financial backup, can relatively easily create a new brand and successfully develop it. This has been the formula for the success of companies like Ralph Lauren, Calvin Klein, Gucci, Prada or Etro and has introduced a significant amount of competitive pressure in the luxury goods market (*La Tribune*, 04-07-1998; *Le Monde*, 03-06/07-1999).

At the same time, recent developments would tend to show that the success stories and radical organizational innovations associated with this particular aesthetic perspective might be more fragile than they appear at first sight. In particular, the American model of external network seems to be very much an 'idol with feet of clay'. The key challenge with this particular path to organizational flexibility is the management and monitoring of a multiplicity of interfaces, all of which are critical to the overall coherence of the brand and therefore to the value of products. This challenge is likely to become particularly acute when the company considers internationalization. In these conditions, the umbrella holding emerges

as an interesting alternative. Originally developed to allow traditional luxury houses, embedded in a modernist aesthetic perspective, to survive under conditions of environmental turbulence, this particular path to organizational flexibility seems to arouse a significant amount of interest in the industry as a whole. Whether this might lead, in time, to relative organizational convergence in the luxury goods industry around the internal network or umbrella holding model is quite another question, which it is much too early to take on.

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