

Italian country image: the impact on business models and relations in Chinese business-to-business markets

Elena Cedrola Loretta Battaglia

Questa pubblicazione è il risultato di un lavoro di ricerca comune alle due autrici.

In dettaglio i paragrafi 2, 4, 5, 6 (case studies) sono stati scritti da Elena Cedrola; i paragrafi 3 e 6.1 da Loretta Battaglia; l'introduzione e le conclusioni (paragrafi 1 e 7) sono stati scritti congiuntamente.

19 novembre 2012



International Marketing and the Country of Origin Effect

International Marketing and the Country of Origin Effect

The Global Impact of 'Made in Italy'

Edited by

Giuseppe Bertoli

Full Professor of Marketing at University of Brescia, Italy

Riccardo Resciniti

*Full Professor of International Marketing at University of
Sannio, Italy*

Edward Elgar

Cheltenham, UK • Northampton, MA, USA

© Giuseppe Bertoli and Riccardo Resciniti 2012

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical or photocopying, recording, or otherwise without the prior permission of the publisher.

Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number:



ISBN 978 1 78195 560 4

Typeset by Servis Filmsetting Ltd, Stockport, Cheshire
Printed and bound by MPG Books Group, UK

Contents

<i>List of contributors</i>	vii
<i>Foreword by Nicolas Papadopoulos</i>	viii
Introduction <i>Giuseppe Bertoli and Riccardo Resciniti</i>	1
PART I THE STUDIES ABOUT THE COUNTRY OF ORIGIN EFFECT	
1 Country of origin effect: research evolution, basic constructs and firm implications <i>Michela Matarazzo</i>	23
PART II THE IMPACT OF THE COUNTRY OF ORIGIN EFFECT	
2 Italy's country image and the role of ethnocentrism in Spanish and Chinese consumers' perceptions <i>Tiziano Bursi, Bernardo Balboni, Silvia Grappi, Elisa Martinelli and Marina Vignola</i>	45
3 Tourism experience, country image and post-visit intentions: a study on international tourists in Italy <i>Alessandro De Nisco, Giada Mainolfi, Vittoria Marino and Maria Rosaria Napolitano</i>	65
4 Italian country image: the impact on business models and relations in Chinese business-to-business markets <i>Elena Cedrola and Loretta Battaglia</i>	81
5 What is the link between 'Made in' and corporate social responsibility in SMEs? The value of socially oriented behavior in the 'hostile' territories <i>Alessandra De Chiara</i>	108

**PART III THE TOOLS TO EXPLOIT THE COUNTRY OF
ORIGIN EFFECT**

6	Distribution channel governance and value of ‘Made in Italy’ products in the Chinese market <i>Donata Vianelli, Patrizia de Luca and Guido Bortoluzzi</i>	133
7	Country of origin effect, brand image and retail management for the exploitation of ‘Made in Italy’ in China <i>Tommaso Pucci, Christian Simoni and Lorenzo Zanni</i>	154
8	The role of country of origin in supporting export consortia in emerging markets <i>Fabio Musso, Barbara Francioni and Alessandro Pagano</i>	178
	<i>Index</i>	199

Contributors

- Bernardo Balboni**, University of Modena and Reggio Emilia (Italy)
- Loretta Battaglia**, Catholic University of Milan (Italy)
- Guido Bortoluzzi**, University of Trieste (Italy)
- Tiziano Bursi**, University of Modena and Reggio Emilia (Italy)
- Elena Cedrola**, University of Macerata (Italy)
- Alessandra De Chiara**, University 'L'Orientale', Napoli (Italy)
- Patrizia de Luca**, University of Trieste (Italy)
- Alessandro De Nisco**, University of Sannio (Italy)
- Barbara Francioni**, University of Urbino (Italy)
- Silvia Grappa**, University of Modena and Reggio Emilia (Italy)
- Giada Mainolfi**, University of Salerno (Italy)
- Vittoria Marino**, University of Salerno (Italy)
- Elisa Martinelli**, University of Modena and Reggio Emilia (Italy)
- Michela Matarazzo**, University of Sannio and Guglielmo Marconi in Rome (Italy)
- Fabio Musso**, University of Urbino (Italy)
- Maria Rosaria Napolitano**, University of Sannio (Italy)
- Alessandro Pagano**, University of Urbino (Italy)
- Tommaso Pucci**, University of Siena (Italy)
- Christian Simoni**, University of Florence (Italy)
- Donata Vianelli**, University of Trieste (Italy)
- Marina Vignola**, University of Modena and Reggio Emilia (Italy)
- Lorenzo Zanni**, University of Siena (Italy)

Foreword: ‘Italy’ and ‘made-in research’: a marriage made in heaven?

‘You’ve got pretty good taste’, she said.
‘I like Italian suits,’ he replied.
‘I’ve had a couple of British suits, and they were okay,
but they felt . . . constructed. Like I was wearing a building.
But the Italians – they know how to make a suit.’
(Sandford 1999, p.222)

We can leave it to the character in Sandford’s novel to explain how a British suit can feel like ‘wearing a building’ – but much of the world is certainly aware that the Italians ‘know how to make a suit’, and that is why gentlemen like Armani, Brioni, Zegna, Canali, and many others have become symbols of Italian excellence in design and fine workmanship. The brief passage above, and countless others like it in literature, movies, music, advertising, or virtually any other human expression one may think of, is just one indication of how deeply embedded in our culture is the notion that some peoples can do some things better than others can. This ‘ability differential’ is, of course, the marketing manifestation of what our economist friends know of as Ricardo’s comparative advantage – the underlying theory that explains trade and many other kinds of human activity.

Ricardo, of course, did not invent comparative advantage. In putting forth his theory he was articulating a concept that has been with us since time immemorial – the notion of ‘place’, including the people associated with it and the kinds of things they produce or invent, which has always been central to human life. ‘All the best things come from Syracuse!’, exclaims a merchant in a novel about ancient Rome (Saylor 2007, p. 185); in more contemporary times, ‘all the best things are made in Japan!’ according to a character in the movie *Back to the Future*; and, in a more realistic spirit that acknowledges that a place cannot be ‘best’ at everything (and so, unwittingly, echoes Ricardo), Steve Tyrell sings, in his song *New York is Where I Live*: ‘L.A. where I see the stars / Germany where I buy my cars . . . Italy where I buy my shoes / New Orleans where I sing the blues . . . Alaska where I skate on ice / Vegas where I roll the dice . . .’.

In this context, there are three main reasons that make this book so

important and unique. First, it deals with an issue that is itself important; the idea of 'place' is ubiquitous in our culture, and the book deals with the nature and role of the images of places as product origins. Second, by virtue of its focus and contributing authors the book is firmly embedded in the Italian experience – and what could be better as a base for discussing made-in than a country which is famous for making some of the finest things in life, from fashion to wines and from cheese to cars? And third, it features the work of outstanding scholars who are known to do good research that leads to insightful and useful conclusions.

To briefly speak, first, about 'place', one must note that, considering its centrality, it is not surprising that it has been studied in many disciplines ranging from geography to environmental psychology and from anthropology to international marketing. The traditional and narrow view of place as simply a 'location' has given way in our times to considering it as a socially constructed experience. Kearney and Bradley (2009, p. 79) rightly stress that 'place . . . cannot be separated from people'. That is to say, a place is not just a spot on a map – it is a complex construct that, among many other characteristics, can evoke strong 'us versus them' feelings ranging from attachment to what we call 'home' to admiration, animosity, or indifference toward the places of others.

Attachment to 'home' is as strong an emotion as can be, and the mere thought of it brings forth a flood of images: 'Africa . . . wisdom, understanding, good things to eat . . . the smell of sweet cattle breath . . . the white sky across the endless, endless bush . . .; O Botswana, my country, my place' (McCall Smith 2002, p. 234). Horace was among the first to encapsulate such emotions eloquently into the notion of patriotism, in his 'Dulce et decorum est pro patria mori' ('It is sweet and fitting to die for your country'; Odes III.2.13), and he has been followed by many. 'I love my country because it is mine,' the 14th century Armenian poet Stephan Orbelian wrote, for example, summarizing in a simple phrase the powerful notion of 'home' (Gelven 1994, p. 163). Needless to say, such strong feelings find their way to the marketplace – in, among others, the construct of consumer ethnocentrism, which is studied in this book.

While most people love 'home', views about other places and what they stand for often diverge. For example, many admire German engineering, French fashion, or Japanese electronics, while others can be quite vitriolic in discussing various places. A character in one novel notes that 'Vienna was not a big city and never has been: it is a little provincial town where narrow-minded peasants go to the opera, instead of the pig market, to exchange spiteful gossip' (Deighton 1989, p. 92). In another example, a comparison between Sweden and Tuscany does not speak well of the former and pays a compliment to the latter: 'The Swedish are a humour-

less, sterile race . . . For them, there are no lazy hours in the bar, no strolling down the street with an easy gait and a Mediterranean nonchalance' (Booth 2004, p.205). Do such views matter? Of course they do – they contextualize human experience, give it depth, and help to explain why some things are the way they are. Why, in a nutshell, Brioni makes good suits. Let us borrow one last reference from popular culture to emphasize this point, because it is important – this one from the movie *The Third Man*, with words spoken by Orson Welles: 'In Italy, for thirty years under the Borgias, they had warfare, terror, murder, and bloodshed, but they produced Michaelangelo, Leonardo da Vinci and the Renaissance. In Switzerland, they had brotherly love, they had five hundred years of democracy and peace – and what did they produce? The cuckoo clock.'

So, 'place' is everywhere. The term can be used in reference to anything from a glade in the forest to a room, a building, a neighbourhood or a city, a country, a region within a country or one that encompasses many countries (e.g., the EU), or the world at large. As a result, we experience place in a multitude of ways, from living in it to buying products from it, hearing about it on the news, reading about it in a novel, going to it for a holiday, and so on. Cognitive psychology tells us that the information we collect over time about a place is stored in the brain in the form of mental schemata. These are complex networks of associations that include generalizations, objects, events, or feelings, which are hierarchically structured and linked in ways that help us understand our environment.

Mental schemata can be activated by either intrinsic or extrinsic information, such as, respectively, a detailed examination of a car's engine versus the same car's brand name. Since 'objective' technical information is often hard to get, time consuming, and many times beyond the average consumer's level of understanding, and since our lives are rather busy these days and many of us suffer to one degree or other from cognitive overload, we often rely on extrinsic cues (in this example, the brand name) that conveniently 'bundle' many technical characteristics into one easy-to-get piece of external information ('I know a Ferrari is better than a Mazda Miata, I don't need to research it'). It is these types of extrinsic cues, which activate strong mental associative networks that we often call 'stereotypes' (much like those in the popular culture examples cited above) that guide much of our marketplace behaviour. And country of origin, or a place's made-in image, is one of the most powerful extrinsic cues in existence.

The relative importance of the images of places in international marketing is reflected in the attention paid to the subject in both research and practice. On the academic side, a number of scholars have called country of origin 'the most researched' field in international marketing – and a comprehensive database I maintain shows that research in this area is

indeed voluminous: as of the end of 2011 the database includes more than 1600 works, of which well over 800 are refereed journal articles (the remainder are books, book chapters and conference papers). This database includes works on nation branding but not those on TDI, or tourism destination image, which comprise at least another 200 journal articles. With regards to practice, in a recent study we used the ‘content analysis’ technique to identify and catalogue in detail the place cues appearing in over 6000 business and consumer magazine advertisements from five countries – and what we found exceeded even our highest predictions. In summary, more than 80 per cent of all the ads contained at least one place cue; the average number of place cues per ad was about 6.5; and place-based approaches were the seventh most-used out of 27 types of advertising executions found in these ads, outscoring such common approaches as testimonials and problem-solution ads. The evidence, in other words, shows that both academics and marketing managers agree on the importance of place in buyer behaviour.

Turning to the second main strength of this book, the fact that it carries an Italian pedigree, one does not need to say much – the importance of made-in to Italy, and of Italy to made-in, is self-evident and reasonably well understood both in Italy itself and elsewhere. Three examples can help to make the point. The first concerns the Chinese workers who started coming to Prato province some 20 years ago and have since set up over 3000 companies specializing in low-end fashions (Donadio 2010), or *pronto moda*, as they prefer to call it. Concerns in the region were not just limited to immigration, or the potential cultural effects of some 10000 expatriates plonked in the middle of Tuscany – they also extended to a thorny issue that lies at the heart of made-in: to what extent might ‘cheap fashions made in Italy by Chinese companies and workers’ undermine the prestige of ‘Made in Italy’ in traditional high-end markets?

The second example refers to two cases (Owen 2008) that help to portray not only some contemporary Italian problems related to made-in but also the broader complexity of the issue. One arose when Paris Hilton promoted a drink called Rich Prosecco, which comes in a can and includes wine with fruit juice. Italian concern in this case was not just over the copyright of the name ‘prosecco’; it also expressed the fear that, as a local representative of Italian prosecco producers in Treviso emphasized, Ms Hilton is helping to shape consumer opinion in the wrong direction that prosecco is ‘an alcoholic fruit drink’. The other case arose from the 2007 European Court of Justice decision which assigned the term ‘Tokaji’ exclusively to the ‘Tokaji’ wine-producing region in Hungary. Producers of ‘Tokai Friulano’ in Italy’s Friuli region saw this development as more than just the loss of a name which they had been using for centuries; reminiscent

of the statements above about ‘home’, by Horace on *patria*, McCall Smith on Botswana, and Stephan Orbelian the poet on Armenia, a local winemaker stressed that Italy must defend its wines ‘as part of its identity and tradition’. Indeed. These two cases buttress the statement made above, that mental schemata are complex representations of the world around us: in the world of marketing what others do in relation to our product may greatly affect its standing in the marketplace – and ‘product’-related issues may go much beyond product-only considerations and end up involving the entire identity of a people.

To put it differently, ‘where a product is made’ is much more than ‘where a product is made’ – it involves everything from how images about foreign products are created in consumers’ minds to how brands and products are intertwined with everything from manufacturing to social identity. Perhaps nowhere can this be seen more clearly than in two international kerfuffles some ten years ago, concerning the meaning of ‘Italian food’. In 2002, Italy’s then-minister of agriculture Giovanni Alemanno announced plans about a ‘seal of approval’ for Italian restaurants worldwide if (and only if) they were prepared to submit to certification verifying their use of authentic Italian ingredients. This was followed in 2004 by a similar plan about what is a ‘real’ pizza. The ideas were benign and reflected both pride and pragmatism: if a restaurant in, say, Toronto, New York or Melbourne flies the Italian flag and claims to serve ‘Italian’ food, it had better use true Italian ingredients. But . . .

But, perhaps predictably, the world media greeted the announcements with hoots of laughter, as indicated by this sampling of newspaper headlines: ‘Spaghetti justice’ (*Ottawa Citizen*); ‘Italian taste police coming to a restaurant near you’ (*The Guardian*); ‘Italy’s pizza police will leave no tomato unturned’ (*Chicago Sun-Times*); ‘Italians take aim at world’s pasta pirates’ (*Toronto Star/Reuters*). But behind all this merriment were some very real issues. For example, a country’s name is its brand, and its flag is its logo – and if, as it is often said, the brand name and logo of a Coca-Cola or a McDonald’s is worth billions, how many trillions are Italy’s name and flag worth in the food business? And given this, why should Italy not protect its market assets the same way that Coke and McDonald’s protect theirs? On the other hand, such thinking can lead to a potentially slippery slope; as those following the EU’s ‘protected origin’ legislation, which so far includes several hundred placenames, know well, the issue isn’t just one country or place. As an article under one of the headlines cited above asked, ‘what’s next?’ If China takes an interest in how ‘Peking duck’ is cooked in a Parisian restaurant, Greece in how ‘Greek yoghurt’ is made in the US, and so on, then many places and foods – indeed, the entire food sector as well as many other sectors – are in for a long battle over what

'made in' really means and who has the right to fly which flag under what circumstances.

As can be seen, the issues surrounding the made-in construct, both generally and specifically in the case of Italy, are many and complex – which leads to the last, but certainly not least, strength of this book: the substance and quality of the book itself, and its ability to deal effectively with very complex subject matter. This is not just a random anthology of articles that simply happen to be related by virtue of a shared theme (made-in) and provenance (Italy). Having read all the chapters, I believe, instead, that this volume reflects a well-coordinated effort with a much tighter focus than one finds in collections of this kind. Part of this focus is due to the steady hand of the two co-editors, Dr Giuseppe Bertoli and Dr Riccardo Resciniti, who are well-qualified to lead this type of work. Both are very well published: Professor Bertoli mainly on globalization and a range of branding issues, from co-branding and brand value to made-in effects; and Professor Resciniti on fields ranging from logistics to small and medium-sized enterprises, competitiveness, and various topics in international marketing.

Another reason for the book's successful approach to its theme is, of course, the individual chapter contributions, which come from authors who know the area well and have carefully chosen which issues to address. The chapters refer to a wide range of issues, including made-in effects in relation to ethnocentrism and to corporate social responsibility in small and medium-sized enterprises, the interactions and synergistic effects between product-related made-in images and the images of places as tourism destinations, distribution channel issues, made-in topics in relation to emerging markets and, of course, a review of the relevant literature on country of origin effects. The approach of the chapters that comprise this volume is academically rigorous and at the same time managerially relevant, which is why I believe the book helps to push the made-in research agenda forward at the same time as it provides practitioners with new ideas they can apply to their brands. I should note that notwithstanding the Italian emphasis, the chapters individually and the book as a whole cover a lot of territory within the made-in domain, and so they have much to offer to the broader audience of researchers and practitioners in other countries.

To conclude, then, what more can one ask for than a book that offers a high-quality discussion on an important issue, from the perspective of researchers who understand its focal theme, 'Made in Italy', better than anybody else? In short, through their solid scholarship these chapters give us answers to many questions and tools for practical applications, but also

more of what we can never have enough of: new questions and much food for thought.

Dr Nicolas Papadopoulos
Chancellor's Professor
Eric Sprott School of Business
Carleton University
Ottawa, Canada

REFERENCES

- Booth, Martin (2004), *The American*, New York, NY: St. Martin's Press.
- Deighton, Len (1989), *Spy Line*, Grafton Books.
- Donadio, Rachel (2010), 'Chinese Remake the "Made in Italy" Fashion Label', *The New York Times*, September 13, A1.
- Gelven, Michael (1994), *War and Existence: A Philosophical Inquiry*, University Park, PA: Penn State Press.
- Kearney, A. and J.J. Bradley (2009), "'Too strong to ever not be there": place names and emotional geographies', *Social & Cultural Geography*, 10(1), 77–94.
- McCall Smith, Alexander (2002), *The No. 1 Ladies' Detective Agency*, Toronto, ON: Random House Canada, p. 234.
- Owen, Richard (2008), 'Winemakers in northern Italy insulted by celeb's promotion of canned wine drink', *The London Times*, January 5.
- Sandford, John (1999), *Secret Prey*, Berkley Books.
- Saylor, Steven (2007), *Roma*, St. Martin's Griffin.

4. Italian country image: the impact on business models and relations in Chinese business-to-business markets

Elena Cedrola and Loretta Battaglia

1. INTRODUCTION

Italy is renowned around the world for its design, fashion, Mediterranean cuisine and other Made in Italy products. These products are often associated with known and famous brands, especially in the luxury sector, but many less well-known Italian firms operating in more technical industries, such as in the mechanical or electronic sectors, have a major presence in international markets. These traditional Made in Italy sectors as well as the specialized product sectors create the so-called '4Fs' of Italian excellence (Fortis 2005). The first group together traditional consumer goods linked to the person and the home. Specialized product sectors include the automation–mechanical–rubber–plastics sector. Despite offering excellent quality products in these sectors, Italy has a lower perceived image than other countries such as Germany.

Country of origin (COO) literature is mainly focused on consumer sectors. The abundance of literature on the subject in the industrial sector is lower, and among theorists two main research streams can be identified. Some believe that COO has the same importance in the consumer market, while others assert that industrial customers operating in a more informed way are less likely to be influenced by it.

This chapter falls within this debate, with the aim of verifying if the COO effect really matters in business-to-business (BTB) relations, particularly in business relations between firms that belong to markets with high cultural distance. We selected China with reference to this investigation. A second objective is to identify the elements that come into play in the evaluation of Italian offers and whether there are differences of perception according to the business sector considered.

The methodology used foresees a study developed over three stages (the first stage is quantitative, the second and third stages are qualitative) on a sample of 338 firms in the first quantitative phase and 14 in the subsequent qualitative phases.

2. COO: A BRIEF REVIEW OF THE LITERATURE WITH A FOCUS ON BTB

Over 300 articles have been published on the COO effect in the last 35 years (Nebenzahl et al. 2003), rendering it one of the main themes in international marketing literature. Although some of the literature on national stereotypes and perceptions relating to certain foreign countries was already written in the 1930s and 1940s, it is only since the early 1960s that the concept of the COO effect has received attention from scholars.

The decade from the early 1960s to the early 1970s is characterized by exploratory studies where the existence of the COO effect and its influence on the supply of foreign exchange is explored. The goal of this early research was primarily to demonstrate that information on the geographical origin of a product influences the purchasing evaluation process (Bilkey and Nes 1982).

From the early 1980s to the early 1990s, researchers began to examine the phenomenon in relation to the intrinsic and extrinsic characteristics of the product (Papadopoulos and Heslop 1993), and the perceived purchasing risk.

Research from the 1990s and 2000s had a very strong empirical focus. The main studies demonstrate that:

1. consumers are influenced by more than one attribute of the good (Verlegh and Steenkamp 1999; Peterson and Jolibert 1995)
2. COO has stronger influence in the early stages of the decision-making process
3. information on geographical origin is often used as an indication to ascribe an overall value to the product's brand (Agrawal and Kamakura 1999; Usunier and Lee 2009).

With regard to recent literature instead, all sources appear to share the belief that the image of the COO can in specific circumstances act as a summary evaluation of the characteristics of the supply system (Giraldi 2009). However current scenarios seem to require further considerations on the role that the COO effect can play in achieving international com-

petitive advantage. In fact COO can be separated into three elements: COM (country of manufacture), COD (country of design) and COB (country of brand). Each of these definitions can have different meanings by type of customer, product and culture.

Different perspectives emerge from the literature review that can be summarized into three macro areas: consumer, product and brand.

The first strand (consumer) examines the dynamics of COO in relation to the distinctive features that characterize foreign customers (Sharma and Shimp 1987). The various research results provide evidence that the influence of the COO of the foreign good is inversely proportional to the degree of customer involvement in the purchasing process. In the case of high involvement purchases the acquirer will attribute less importance to COO inasmuch as other factors such as price, quality, design and technology come into play in assessing the offer (Valdani and Bertoli 2003). A negative correlation also exists between the influence of COO and level of knowledge and experience in relation to a product category (Schaefer 1997): experts base their assessments on product attributes, whereas novices tend to give credence to the COO effect (Han 1989). Furthermore socio-demographic characteristics also play a significant role: for example, level of income and education have a direct relation with purchasing decisions, orienting the preferences of those with higher incomes and education towards foreign rather than local goods. According to studies by Hsieh (2004) knowledge of a product's country of origin has less influence in more developed countries than in less developed countries. This is explained by the fact that efforts to differentiate products are greater in countries with a high level of economic development; thus COO is only one of several types of information available to consumers.

The product area sees research focused on the verification of how the distinctive name (Made in), thanks to the production tradition that the country of origin extols, can strengthen the competitive edge of domestic enterprises. Customer perceptions of the product are not only related to the functional and performance characteristics but also to the information available on the country where it was designed and produced. The COO effect influences the attribution of a different value, whether positive or negative, to a product or service solely due to having been produced in a particular country or however associated to its traditions (Marino et al. 2009). The hypothesis advanced and confirmed by scholars is that in certain circumstances the image of the country of origin of goods represents part of a set of stereotypes that consumers incorporate in their decisions to choose and purchase foreign products (Mainolfi 2010). The COO of a product is therefore an indicator used by customers to make

inferences about the product and the relative attributes that guide their final choice.

The third area in exploring the theme of brand considers this an element of the broader phenomenon of brand image, sustained not only by the brand name but also by the colours and expressions used (Graby 1980). In particular the brand is a type of mediator between COO and the consumer, able to modify the influence of place of origin on the perceptions of foreign demand (Marino et al. 2009). Examples are the espresso or cappuccino which are so inextricably associated with Italy as to induce non-Italian firms to use a brand in the Italian language to benefit from the country's reputation (Morris 2010).

Studies show that the brand name can influence evaluations in terms of quality to the point that an established and esteemed brand can overcome the negative effect of the country of production. Therefore the influence of country of origin is of greater relevance in the absence of strong brands that are able to reduce the COO effect. In addition, according to the results of a study by Aiello et al. (2009), the brand has different relevance in the minds of consumers depending on the product category. As concerns luxury goods the brand is the most important element, but in relation to consumer goods what matters most is price.

Ultimately the opening of markets in relation to the flow of goods, the movement of people and exposure to communication from the international media has led to changes in consumer evaluations of products from foreign countries.

Even in industrial markets, despite the fact that the technical language is universal and less subject to country-specific cultural influences, stereotyping linked to the COO of the party involved may create difficulties or lead to increased tension in the relationship between parties. The assessment of the product's COO is influenced by all the specific cultural elements of the countries involved in the relationship, starting from single partners as individuals, as agents of the firms in the relation and as parties of two-country systems. Verlegh and Steenkamp (1999) contradict the fact that the COO effect is more relevant for consumer goods than for industrial goods, although many researchers over time have argued the opposite, asserting that industrial customers that operate in a more informed way are less likely to be influenced by information on the COO of the good (Ahmed and D'Astous 1995). Many studies, for instance, have shown that German industrial products enjoy a favourable image in the US market, where buyers consider these products of a higher quality than their own (Jolibert 1979; Cattin et al. 1982). A similar situation is found for Japanese products that are considered by Korean importers as superior to American products.

3. THE CHARACTERISTICS OF THE BUSINESS-TO-BUSINESS MARKET

In BTB markets decisions within the firm are generally taken with the view of achieving business objectives. For this reason it would seem implausible that important decisions such as the procurement of intermediate products could be affected by personal considerations dictated by own national culture or by the historical past. In BTB personal considerations are constructive when they derive from experience and knowledge gained over time with the producers (Samiee 1994).

Nevertheless business markets are more complex and structured. They should contribute to providing solutions that bring value to the customer on an ongoing basis in order to develop the relationship over time and attain mutual benefits. In this approach traditional marketing tools are enhanced with additional levers¹ that allow the firm to identify and provide solutions for its client companies through the involvement of the network both within and outside the firm (Lagioni et al. 2001; Anderson et al. 2006). Different types of collaborative solutions are created this way, allowing companies and their nodes (the network) to evolve and to continue to exist (Hutt and Speh 1995; Hakansson et al. 2009).

In these situations the areas of contact between firms and their external stakeholders involve several components including interactivity, trust, references and know-how; areas that can be influenced by country reputation especially during the approach and establishment phases of the relationship between the parties (Battaglia and Cedrola 2010).

In addition in BTB a secondary and indirect influence of COO on industrial purchasers ensues in relation their perceptions of the supply firm. For example, products made in certain countries may be subject to a degree of categorization resulting from the supposed stereotypes of the manufacturing and technical skills attributed to these countries (Bradley 2001). COO also in BTB can be an extrinsic indicator in judging the quality of high technology products (Ahmed and d'Astous 1993).

The above considerations invite us to explore the theme of the COO effect in the BTB market in order to verify the relevance of country image in establishing and managing business relationships with foreign counterparts, especially in the presence of high cultural distance.

4. WORKING IN CHINA: MARKET CHARACTERISTICS

For nearly two decades China has occupied a significant position in the international arena. The isolation of the Middle Kingdom and the racial homogeneity of its people have helped create and maintain a widespread sense of national identity for centuries. Confucian ethics have undoubtedly contributed to standardizing the social behaviour of millions of people: according to Confucius social harmony can only be guaranteed if everyone accepts his role in society and identifies with it. This philosophy has resulted in some particularities of Chinese culture that remain intact to this day:

1. a strong sense of belonging to the family or, rather, adhesion to the extended clan of the family of origin;
2. widespread valorization of hierarchy in social coexistence;
3. an almost religious sense of social harmony with an ongoing search for compromise to satisfy the group as a whole rather than the individual.

Although with the establishment of the socialist republic in 1949 Confucian ethics was replaced by socialist ethics its centuries-old influence has remained, continuing to influence social behaviour within the lives of the Chinese. The family is central to all social life, the basis of the political and economic life of the country. Social hierarchy instead influences the behaviour of Chinese people in public life and is closely linked to the concept of saving face (*mianzi*). This concept is fundamental to the Chinese: indeed it is very important for these people to preserve their public image, their reputation with respect to the family, the company they operate in and society in general.

Closely related to the emphasis that the Chinese attach to social relations is the concept of *guanxi*, which means relationship and indicates long-term personal relationships established between two or more persons. Personal relationships must be cultivated over time and are implemented through the exchange of gifts or favours: *guanxi* represents the mutual obligation that legitimates asking favours of others. *Guanxi* is also to be understood, especially for foreigners who decide to operate in China, as the right connections with local authorities, local customs and tax offices.

As concerns hierarchy instead, this forms the backbone of Chinese society since its observance determines the maintenance of social stability, which is reflected in language, in forms of greeting, in rituals and the behaviours of people in general. Hierarchical relationships therefore are

the foundation upon which relationships are built within the family, the community, the government and business (Oschetti et al. 2008).

To operate in China requires understanding that Western and Eastern cultures have profoundly different traits to which a different approach to negotiations is also correlated. Westerners pursue more analytical methods based on efficiency criteria and a progressive cause-and-effect analysis. By contrast, in the East a consensual type of approach is privileged, characterized by harmony, a collective vision and shared decisions within the group. In this country negotiation cannot be considered completed even after the signing of the contract because the circular reasoning perspective of the Chinese forces them to periodically check the alignment of the contents of the contract with the demands of the moment.

Establishing a first contact with a Chinese partner is not simple: from their point of view, negotiation is not conducted with the individual intermediaries sent by the firm but with the firm itself that these negotiators represent. Therefore establishing good relations is imperative since not only the image of the individual but also the reliability and seriousness of the entire firm is at stake. For this reason from the very first contact a delegation should be dispatched consisting of members who hold different functions within the Western company. It is also essential to ensure the continuity of the group at the negotiating table since replacements could be interpreted as indicating a lack of earnestness. To this should be added the fact that for the Chinese it is very important to deal directly with the highest echelons of the Western company: which is why during negotiations the hierarchical relationships between people taking part in the negotiation must be made clear. The head of the delegation must be identified and should inspire authority and have decision-making power to conclude agreements without having to consult superiors.

The negotiation process is divided into distinct and consecutive phases. The first requires a considerable amount of energy from the Western party since the attitude of the Chinese operator is mostly one of reflection and studying the parties and the situations. Frequently this cognitive phase is attended by a trustee of the Chinese company who presents the counterparty and aims to create harmony within the negotiation group in order to reach an initial agreement, which generally contains the principles and purposes of the collaboration that will be established between the company and its Western partners in China. Subsequent phases are characterized by greater interaction between the stakeholders and more intense participation in the negotiation process to lead to a more detailed explanation of the programs and a clear definition of the particulars and technical aspects. For this reason negotiations in China take a considerable

amount of time and a great deal of patience is required to manage them successfully.

5. WORKING IN CHINA: BUSINESS MODELS AND MARKETING STRATEGIES FOR ITALIAN COMPANIES

The relational and cultural characteristics of the Chinese market require firms wanting to operate on a regular basis with China to rethink their business models. This section, which begins with a study of a sample of Italian companies, aims to highlight the operating characteristics and business models adopted in the Chinese market as well as the importance of the COO effect in activities carried out by Italian companies. We discuss COO effect, brand and firm reputation, while presenting case studies and the elements that come into play in evaluating the offer of Italian firms. Thereafter some conclusions are offered.

5.1 Methodology and Key Issues

To identify the operational characteristics and business models of Italian companies operating in China we referred to two studies conducted in 2009–2011 (Cedrola et al. 2011). A quantitative study included the administration of a closed-response e-mail questionnaire divided into two macro-areas. The first focused on the international marketing decision-making process, the second on understanding the operations of firms in the Chinese market as well as identifying the relevant relationships and partnerships throughout the supply chain.

The data is based on 338 valid questionnaires for the first section (redemption rate 9 per cent, Table 4.1) and 131 for the second. In the second research phase consisting of personal interviews with the CEOs, marketing managers and export managers of 14 BTB firms the following themes were analysed:

1. firm characteristics and business models;
2. strategies and decision-making processes for the Chinese market;
3. collaborative relationships along the value chain;
4. competencies required, or those to be developed, to operate successfully in China;
5. importance of brand, technology, business reputation;
6. significance of Made in Italy in China;
7. Made in Italy communications in China.

Table 4.1 Characteristics of responding firms

Italian regions	No.	Industry	No.	Number of employees	No.
Abruzzo	4	Food	8	1–15	66
Basilicata	2	Furnishing	22	15–50	103
Campania	6	Footwear	31	50–100	62
Emilia Romagna	49	Chemistry, Rubber and Plastic	18	100–250	63
Friuli	1	Mechanics	167	> 250	37
Lazio	2	Services	17	n.d.	7
Marche	38	Others	36		
Sardegna	1				
Sicilia	5				
Toscana	24				
Trentino	3				
Umbria	5				
Veneto	27				

Note: Firms in the sample = 338.

The main findings of the research are illustrated in the following sections.

5.2 Italian Firms in China

A first finding of this research indicated that the internationalization of Italian firms in China is not a recent phenomenon. In fact 86 per cent of firms surveyed declared their presence in the Asian market for over ten years. The Pearson’s coefficient calculation shows a positive tendency (0.268) between the percentage of foreign sales to total sales and number of years of presence abroad. A positive correlation tendency was also found between the number of years of operation in the Chinese market and number of employees (0.118), indicating that mid-sized firms have a consolidated presence in China.

An important signal is derived from 39 per cent of the sample indicating the identification of strategic partners as an incentive to internationalization. This evolution in managerial behaviour is increasingly remote from individual behaviour or at least non-cooperative behaviour. It is interesting to note that this motivation was selected by 63 per cent of firms with over 250 employees and by around 52 per cent on average in the 100–249 range, demonstrating better understanding among larger firms of the importance of partnerships to succeed abroad in markets with

Table 4.2 Entry method into foreign markets (in %)

Export	93
National exporters	70
International exporters	14
Trading companies	9
Cooperative structures	14
Agents, distributors located in markets of interest	67
Own sales staff located abroad	17
Representative offices and branches	20
Direct contacts with firm	23
Licensing	4
Franchising	1
Production contracts	4
Service contracts	2
Joint venture	10
Acquisition of a foreign company	7
Greenfield	13
Internet	14

high geographical and cultural distance. Analysing the data by sector of belonging instead did not present any significant differences.

The reduction in production costs as a determinant of investments in Eastern markets is a priority for only 29.6 per cent of firms while confirming (Cedrola et al. 2009) that government, regional and community incentives are not taken into consideration. This may depend on the identification of strategic partners or on the fact that this market is difficult to penetrate especially for firms that have not yet developed a vocation towards relationships and cooperation (Chee and West 2005; Weber 2005).

In terms of mode of entry into international markets (Table 4.2) almost all interviewees undertake exporting activities (93 per cent). Using own sales staff or representative offices, notwithstanding limited size or requiring significant investments, is a common entry mode which confirms that many entrepreneurs understand the market characteristics.

Direct contact with the customer is crucial for all types of firms (23 per cent). However the way of interfacing varies: while midsize firms actually maintain direct and constant communications with the customer for micro and small enterprises this is often a result of their participation in international fairs.

With regard to company size, medium-sized and more structured firms indicate they use different market entry channels in combination as well as

Table 4.3 Collaborations along the supply chain (in %)

Logistics	31
Production	21
Promotion	26
Sales	40
Customer services	18
Purchasing	16
Human resources	7
R&D	3
Accounting and risk management	5
Legal and contractual consulting	20
Others	5

more innovative forms of collaboration. Smaller firms instead concentrate on indirect channels.

The second section of the questionnaire explored the activities that firms most involved in China (131) undertake in this market and the use of collaborations with local actors, institutions and organizations. In continuing the analysis of managerial behaviours, the majority of firms choosing to develop in China (86 per cent) establish partnerships with organizations working *in loco*, recognizing that in this extensively high-context, geographically and culturally distant market, direct or indirect marketing relationships in the territory cannot be neglected. The main collaborations focus on sales activities (Table 4.3), although some first significant signs are evident of collaborations aimed at covering other stages of the business chain.

Finally with regard to stakeholders that are essential to undertaking activities in China only 14 per cent of firms have no significant relations. Collaborations with suppliers and distributors play an important role in performing information functions, especially in the traditional Made in Italy sectors. Local institutions and governments also increasingly play a key role (Table 4.4).

It is not uncommon to find a municipality directly interfacing with potential foreign investors, thus contributing to the development of their area of expertise and providing services in support of the new enterprise (Child and Tse 2001; Chen et al. 2004).

5.3 COO Effect on Business Relations Between Italy and China

Reflecting on the internationalization strategy of Italian firms in China, while the Made in Italy concept, together with flexibility and customization

Table 4.4 Determinant collaborations in China (in %)

Public institutions and banks	40
Municipalities/local government	14
Central government	5
Banks/merchant banks	11
Italian Institute for Commerce and Trade (ICE)	15
Italian Chamber of Commerce	8
Others	5
Private institutions	31
Trade associations	16
Fair organization	18
Others	2
Suppliers	22
Clients	42
Traders and distributors	29
Others	15

Table 4.5 The 'Made in Italy' factor as a point of strength of Italian firms (in %)

	Definitely yes	Relatively	Not at all
Food	50	50	
Furnishing	55	45	
Footwear and Leather	61	35	3
Chemistry, Rubber, Plastic	17	56	28
Mechanics	24	55	14
Services	24	41	35
Textile and Clothing	46	54	
Others	44	50	6
Average	35	5	11

of the offer, are considered important the findings highlight different priorities. In fact to the question 'is being an Italian company considered a strength?' firms responded 'definitely yes' for 35 per cent and 'fairly' for 53 per cent. The differences by sector are given in Table 4.5 demonstrating the high significance of COO for traditional Italian export sectors such as leather and footwear.

Instead product quality, product innovation and customer pre/post-sales services are elements in which firms invest to penetrate a new market. Table 4.6 illustrates the characteristics of each sector: for example, furniture,

Table 4.6 Key investment factors for internationalization (in %)

	Flexibility	Product innovation	Quality	Design	Price	Services
Food	38	25	100	38	63	38
Furnishing	45	64	82	86	36	45
Footwear, Leather	23	61	87	68	26	26
Chemical, Rubber, Plastic	33	67	72	22	61	44
Mechanics	38	54	78	19	43	50
Services	29	24	65	18	47	24
Textile, Clothing	46	62	85	77	33	31
Others	36	54	79	41	13	36
Average	37	55	80	38	38	42

textile and footwear firms consider quality and design as priorities, likewise the engineering sector aims primarily at quality and innovation combined with a focus on price and service. In this case Made in Italy has little significance. The decisions of Chinese operators are driven by firm reputation which is built through the combination of relationships and product quality.

6. COO EFFECT, BRAND AND FIRM REPUTATION

The results of the quantitative research highlighted some divisive situations in terms of the importance of COO in the internationalization of Italian firms. In the qualitative research stage the information and analyses of the 14 Italian firms operating in the Chinese market were edifying (Table 4.7). These firms use different strategies in the Chinese market thus making a more extensive case study possible.

In the following, we present details of three companies, Nuova Simonelli, FAAM and iGuzzini, to highlight the main themes explored in all 14 companies.

The Nuova Simonelli case study

Nuova Simonelli has produced professional espresso and cappuccino machines since 1936. Its products are positioned at the high end of the market for performance, quality and price. After an initial growth phase where sales were extended from Marche (the region where the company has its head office) to the national market, in 1980 Nuova Simonelli took its first steps outside national borders. It currently exports 82 per cent of its production made entirely in Italy.

Table 4.7 The 14 Italian firms analysed

Firms	Industry	Turnover mil €	Number of employees	Years in China	Production site for the Chinese market	Chinese plants produce for other markets	Marketing mix localization
Cobra	Electronics (security systems)	116	700	15	China – Asia	Yes	Product – Distribution
Manas	Shoe manufacturing	57	100	4	Italy	No	Distribution – Training salesforce
FAAM Group	Ecological batteries and cars	60	300	15	China	Yes	Product – Distribution – Training distributors
Caleffi	Hydro-thermo sanitary (valves and components)	260	950	17	Italy	No	Product– Distribution – Training salesforce and technicians
Riso Gallo	Food (rice production)	110	137	12	Italy	No	–
iGuzzini	Lighting engineering	168	1217	6	China	Yes	Product – Service
Ivars	Rubber chemical	44	170	7	China	Yes	Design
Lucchini RS	Engineering	240	969	8	Italy	No	Assembling
Mesdan	Textile engineering	25.6	78	30	Italy– China	No	Customer service – Distribution
Molemab	Metallurgical	16	76	30	China	Yes	–
Gerard's	Chemical cosmetic	3.6	23	2	Italy	No	Product – Distribution and Training
Gefran	Electronic	97	581	9	Italy– China	No	Product – Distribution
Cavagna	Engineering (valves)	132	700	5	Italy– China	Yes	Product
Nuova Simonelli	Espresso Coffee Machines	24.5	60	12	Italy	No	Distribution – Training salesforce

The first markets in their internationalization process were Canada and the United States together with other European markets sharing a common culture in espresso and cappuccino consumption. The company subsequently turned to Asia adopting a progressive penetration strategy characterized by two phases. First, having identified a potentially interesting market, direct visits were scheduled by the company's sales force. After establishing initial relations investments were made to ensure Nuova Simonelli's presence at national and international fairs aimed at identifying new customers and building partnerships with coffee roasters and distributors. Partnerships with distributors for pre- and post-sales services are essential in markets with high geographical distance. In fact downtime or machine maintenance in bars, coffee shops, hotel chains and corporations has to be limited to just a few hours.

In the traditional professional coffee machine sector (as opposed to the super-automatic sector) 90 per cent of the market is controlled by companies of Italian origin. This is because Italy is the expression of an espresso culture that has allowed manufacturers of espresso machines to establish themselves first in the Italian market and thereafter in international markets. In this area COO is therefore an important factor. When foreign customers have to make a choice they trust in Italian producers. However in markets where customers understand the coffee product and have enriched their store of knowledge on the world of espresso the COO factor is only attributed significance at the outset in purchasing decisions. According to the CEO and chief marketing officer of Nuova Simonelli, in this type of situation specific brand image and corporate reputation are increasingly important. Great value is attributed to the brand when perceptions on the seriousness and reliability of a company are associated with it. In this specific case customers trust Nuova Simonelli because they trust the brand, having been able to verify that this company in addition to offering a quality product offers a network of reliable and timely services. In the Chinese market COO allows initiating a phase of knowledge acquisition which is a prelude to building a business relationship beyond, as in other markets, identifying the characteristics that the manufacturer must meet if entering that specific area (certification). Italian production is recognized as superior in terms of image quality. Some firms (Expobar and Casavilo for example) have chosen to decentralize their production. In fact these companies were recognized as producing brands of inferior quality even before relocating production to China.

Ultimately, with reference to this case study, COO proves to be a prerequisite, a type of entry barrier, while brand image and corporate reputation become important factors in actual purchasing decisions. The brand image is supported with communication activities on different product

lines (Nuova Simonelli and Victoria Arduino) and sponsorship of the World Barista Championship (Nuova Simonelli machines are used in the competitions). Corporate reputation is embodied not only in the design and implementation of innovative and high performance products but also in customer orientation. Customer proximity is reflected in sales force training, in training technicians, in the presence at fairs and in relationships. Sales managers maintain direct relations with customers through regular visits. In many cases this approach has determined market preference over products of competing Italian companies such as La Cimbali, Faema and Rancilio.

The FAAM Group case study

FAAM (Fabbrica Accumulatori e Autoveicoli Monterubbiano), an accumulator and automotive manufacturing firm, was founded in 1974 on the entrepreneurial initiative of two friends who had set themselves the goal of developing both the territory and employment in the region where the company's headquarters are located. Since its legal establishment FAAM changed from sole proprietorship to an international group with over 300 employees and over 100 units linked to the industrial sector. In addition to the three plants in Italy (dedicated to the production of starter, traction and stationary batteries as well as environmentally friendly electric, natural gas and hydrogen vehicles) the company operates with ownership structures in China and Uruguay.

From a meeting with the company president it emerged that the perception of the FAAM product is correlated with the European dimension (Made in Europe). Nevertheless quality of products and related services are not sufficient to build a corporate reputation in China. The firm must also work on relationships at all levels of the supply chain as well as with local stakeholders such as government agencies, universities, customs organizations and partners. 'The main reason to which we can attribute the success of FAAM is the trust that the company was able to create with all its key stakeholders.' Trust for the Chinese is essential in conducting good business and must be built by both parties along a lengthy pathway. Trust enables creating a network of interpersonal relationships (*guanxi in loco*), acting as catalysts and business facilitators and unblocking access to resources. 'Relationships allow bypassing the bureaucratic system: when you have the right *guanxi*, there are few rules that cannot be broken or turned in your favour: someone described it as a tool to achieve the impossible.'

Trust as a resource is an expression of the reputational capital that this firm has been able to create in the Chinese market thanks to the interaction of four factors: the group's innate vocation to building

relationships, respect for the environment, an intercultural approach to the market and achieving excellent financial results corresponding to the financial stability of the group first and thereafter to that of YIBF (Yixing Industrial Batteries FAAM – a Chinese wholly foreign-owned enterprise (WFOE)).

The group's ability to build relationships derives from the creation of strong relations with local government and the municipal and provincial authorities of the city of Yixing enabling it to obtain a production license. This results from the attention that FAAM devotes to the environment. Although Chinese laws in this sphere are far from being defined in line with European and international standards FAAM decided to adopt a policy to control the pollution of its plants with careful waste management policies. This has attracted the attention of the government to the extent that FAAM is considered a point of reference.

Regarding the introduction of intercultural management the reason for this organizational decision is the belief that understanding language and culture is essential in recognizing and seizing the opportunities offered. Showing interest in studying Chinese, combined with the integration of indigenous personnel in key roles in YIBF, has fostered mutual esteem and trust, essential for building a solid and profitable business relationship between the company and all its stakeholders.

Finally satisfactory financial results have brought the company visibility and credibility. To understand this aspect, we must bear in mind an important concept in business relationships in China explained to the president of FAAM by one of the first Chinese co-workers, 'they will ask you to sign agreements, letters of intent and so forth, to create joint ventures. The real thing you need to do is to bring work. Make the Chinese work, giving them the money they deserve and you'll see'. The company in the pre- and post-crisis period has steadily grown in turnover from €300 000 in 2006 to almost €11 million in 2011.

In conclusion we can affirm that for FAAM the COO effect intended from Made in Italy has no influence in the Chinese market. When instead assuming Europe as the designation of origin, then this guarantees Chinese industrial buyers the standards and technical specifications that are difficult to find in the local market. However although Made in Europe is a necessary condition for the acceptance of the company in China it is also insufficient on its own. Building reputational capital is essential to enable building trust, a fundamental resource both in conducting business and in the Chinese culture. This, together with professional customer service in close proximity as well as product reliability, has allowed the Group's offer to stand out in the large and complex Chinese market.

The iGuzzini Lighting case study

iGuzzini has been active in the field of interior and exterior architectural lighting since the late 1950s. Currently it is the first Italian company in the lighting industry and among the top five in the European landscape. Its mission is not simply to manufacture lighting fixtures at the highest level of quality but also to study, understand and make lighting understood, together with integrating with architecture through industrial design.

The company's strong expansion in domestic and international markets was supported by the consolidation of three factors of competitive advantage: innovation, design and attention to product quality. Since the early 1970s the company has linked export activities with the activation of production and sales units capable of permanently presiding over target markets. First a joint venture in Yugoslavia was implemented, and thereafter one in the United States.

In the late 1970s the company decided to change its market approach focusing on building its own commercial facilities, branches and companies with foreign distributors with a majority shareholding in Germany, France, Spain and the United Kingdom. In the 1990s penetration of other European markets was completed through the establishment of trading companies in Norway, Denmark, Sweden, Benelux and Switzerland.

The moderate growth registered in 2000 in the European markets led iGuzzini to seek new markets. The internationalization phase outside Europe saw the birth of three trading companies in Hong Kong, Russia, Singapore and the start of a production plant in Shanghai, China.

iGuzzini in China is positioned, as is the case at the international level, in the middle-upper market. The production plant in China is for the local market although a significant proportion of products are imported directly from Italy. The company does not have the same organizational structure in China as in Italy: in fact it does not have a network of specialized local distributors (monomandatory agents) but interfaces with professionals (architects, lighting designers and so on) who bring it into contact with either public and private buyers of projects to be undertaken (financiers).

From the interview with China's iGuzzini president it emerged that the source of supply (COO) 'brings with it both the positive and negative aspects of the stereotypes attributed to Italy'. To the Chinese, Made in Italy is evocative of Italy and its inhabitants. They perceive Italians as open people and very close to them from a historic-cultural point of view. Without doubt the history and tradition of the Land of the Dragon is as ancient as Italy's. This has great relevance along with other common elements such as the central role of the family, of relationships and friendships. China highly appreciates the creativity and lifestyle of the Italian

people, and attributes added value to Made in Italy products considered high in style and design. Unfortunately Italy also inherits and projects to foreign countries the negative connotations of its country image such as the lack of behavioural continuity and reliability resulting from a centuries-old historical legacy.

For iGuzzini the foreign origin of the company in the first instance induces an amplification of the prism effect on the offer, giving a perception of higher quality especially compared to local competition and thus justifying a price gap. However this effect is increasingly eroding in part because of ongoing changes in the market. More and more Chinese enterprises have grown by imitating Italian products in which Italy is a leader by applying very aggressive pricing policies. It follows that the designation of origin of the offer should be combined with other elements, such as the relocation of production and a policy that aims to strengthen the brand identity in order to develop a long-term presidium in the industry to which they belong within the Chinese market.

The firm's reputational capital is a very decisive factor in the Chinese market. Trust develops through a well-established and positive company reputation over time.

The reputational capital that iGuzzini was able to build derives from the combination of four elements: brand awareness, direct presence in the market, its relations and its references.

Of fundamental importance is the presence of a direct member of the entrepreneurial family in the Chinese headquarters, namely the president, since in Oriental culture the concept of taking responsibility, committing one's own resources to the project (as confirmed by the manager himself), is a matter of great added value especially in business behaviours that allow the company to build references and relationships in the market over time.

These elements are combined with awareness of the iGuzzini Lighting brand in the sector of belonging and with professionals who recognize the high innovation, design and performance content.

6.1 Elements that Come Into Play in Evaluating the Offer of Italian Firms

Italy is known worldwide for a number of sectors and production specializations generating products or services that are distinguished for their quality, innovation and design. Italy is leader in many of these for exported products (Fortis 2009). The sample of 14 companies investigated (Table 4.7) include firms that belong to the above mentioned Made in Italy sectors and production specializations.

Based on the evidence presented above the companies were investigated with particular reference to the Chinese market in relation to the three following areas:

1. importance of COO, firm reputation and brand image;
2. distinctive features of the offer on which firms base their competitiveness;
3. the use of Made in and its communication.

The main findings in these areas are illustrated below (summary in Table 4.8).

COO, firm reputation and brand image: predominant effect

The importance of COO varies according to sector of belonging and market positioning as shown in Table 4.8. Companies belonging to the Made in Italy sectors assign high importance to the COO effect. They have been present in China for many years and due to the market characteristics have had to develop corporate reputation and at times specific brand policies (Nuova Simonelli, Mesdan). Some of the most recent entrants through intermediaries leverage exclusively on COO (Riso Gallo, Gerard's). Other companies not specialized in traditional Made in Italy production have characterized and distinguished themselves with specific technologies and products. These have been active in the Chinese market for some time, are well known and have developed corporate reputation and in some cases a brand image – so much so that some have the same product reputation whether these are made in Italy or in China (FAAM).

Firm reputation is created over time and is rooted in reliability, continuity of the relationship, innovation and local presence (FAAM). Some companies have approached the market to follow their customers. Subsequently they have also dedicated themselves to the development of the local market and penetration of the territory (Cobra). It is noteworthy that in the business market firm reputation and brand image almost overlap. Both the company name and brand are a guarantee of performance, whereas more traditional Made in Italy markets are accustomed to working extensively on the brand and on direct communication with end customers. Reputation and brand image are clearly articulated and distinguished in this case in the firm's corporate policies.

From our findings it emerged that only a few companies work with distinctive brands or product lines, deriving from the acquisition of companies with brand reputation as in the case of Nuova Simonelli with Victoria Arduino or Caleffi with RDZ.

It is interesting to note that at times Italian firms use their brand along-

side the brand of the Chinese company in joint ventures whereby the use of two brands side by side adds value to the product manufactured in China. This is the case for Lucchini where 'COO is not important but instead the company name, which evokes Italianness, adds value'.

Distinctive elements of the offer

Among the elements that distinguish the Italian offer the interviews confirm that quality is of great importance in all sectors. However the emphasis on quality varies among sectors. The different connotations depend on the type of industry or segment. In some, products or processes combine with technology, in some with design, while in others with pre- or post-sales service thereby confirming the Fortis data in relation to the connotations of Made in Italy firms (Fortis 2005).

Service and pre- and post-sales assistance also take on different connotations depending on the industry. This entails listening to and understanding the local market together with willingness and flexibility in transferring operating practices to the local market including technical training for local operators, whether distributors or applicators, assistance in the design phase and in supporting customers, users and distributors.

Price is also among the elements of the offer and is a strong decisional factor in China. Numerous companies claim that given the same price Chinese firms buy Italian products. However other firms whose offer is less price sensitive declare that the Chinese customer is willing to pay a larger amount for Made in Italy or Europe products (Mesdan, Gerard's). In other cases the Chinese customer is willing to pay more for a Made in China product if it is produced by an Italian company, acquiring added value as a result of the company's origin (FAAM).

The perception that Chinese companies have of Italian and German products is very similar from a quality perspective (FAAM) while Italian industrial products are appreciated because of their competitiveness when compared to corresponding German and Japanese products (Molemab).

Made-in communication

Companies use different approaches in COO communication. Some companies use the words Made in Italy, others Made in Europe, in relation to the greater importance of the country or region of belonging. In some cases the words Made in are used as an addendum to strengthen the brand name. In other cases the words Made in are not used, but the brand name or company name is used also in intermediate products which are then incorporated into other products or machines (Molemab) to guarantee the origin of the product. The Made in communication or origin of the

Table 4.8 Investigated areas in the qualitative research

Firm	Industry	Foremost Effect			Distinctive elements of the offer				Communication of the Made in Italy	
		Made in	Firm Reputation	Brand image	Quality	Technol-ogy Process	Design	Pre and after sales service		Price
Cavagna	Engineering (valves)	M	H	H	M	M	L	M	H	Europe
Caleffi	Hydro-thermo sanitary (valves and components)	H	H	H	H	H	L	H	L	Yes
Gefiran	Electronic	H	H	L	H	H	L	H	H	Yes
Mesdan	Textile engineering	H	H	H	H	H	L	H	L	Yes
Nuova Simonelli	Espresso Coffee Machines	H	H	H	H	H	H	H	L	No
Manas	Shoes production	H	M	L	H	M	H	M	M	Yes
Gerard's	Chemical cosmetic	H	L	L	H	M	L	H	M	Yes

Riso Gallo	Food (rice production)	H	L	L	M	M	L	L	L	Yes
Ivars	Rubber chemical	L	H	M	H	M	H	M	H	Europe
iGuzzini	Lighting engineering	M	H	H	H	M	M	H	M	Yes
Lucchini	Engineering	L	H	H	H	H	H	H	L	No
Molemab	Metallurgical	L	H	H	H	H	L	M	H	Yes
FAAM	Ecological batteries and cars	M	H	H	H	H	L	H	M	No
Cobra	Electronics (security systems)	L	H	H	H	H	L	H	M	No

Legend: H = High; L = Low; M = Medium

product is emphasized differently in relation to customer type, namely Chinese customers or international customers.

In particular the destination of the finished product is relevant depending on whether it remains in China or is exported beyond its borders. In the case of exports the words Made in Italy on the component constitutes a guarantee over time and space, hence also beyond China's borders (Molemab). Finally also highlighted is the use of the product name adapted to the Chinese market to recall Italianness, in this case usually managed by local distributors leveraging on COO.

7. CONCLUSIONS

Although the literature on COO is largely focused on consumer sectors it has just as much relevance in the industrial sphere. The empirical evidence presented in this work clearly demonstrates the importance of the COO effect in BTB markets too, although with a different emphasis in relation to industrial sectors and within these the segments in which firms operate. Sectors more associated with the traditional Made in Italy benefit most from the COO effect while COO greatly influences customer segments that are approaching specific technologies or products for the first time, confirming Han (1989).

The COO effect, regardless of whether or not it is used by the company, brings with it values linked to internationally recognized Italianness such as quality, craftsmanship, innovation, design and creativity (Fortis 2005). In the sectors identified by Fortis as characteristic of Italian enterprises recognized abroad the COO effect is always significant, constituting a reputational differential at least at the outset. It is also confirmed for other sectors that COO is relevant at the time of entry into a market when the industrial customer has no experience of the product or sector. Product or industry experience is recognized in purchasing decisions and adds value to the company's reputation or brand. The company's reputation is even more important in operations in the Chinese market where building a reputation entails product quality (as in other markets), technology and innovation (as in some other markets), trust and long-term relationships (more so than in other markets).

A transition from country reputation (COO) to corporate reputation seems to ensue. In China, where relationships and trust are critical to creating long-term business relationships, corporate reputation calls attention to country reputation, intended not so much as the capacity to make or create but as relational capabilities that are typical of Italians and thus culture-specific.

This concept includes flexibility, listening and adaptability which, according to the companies interviewed, are considered emblematic of Italian firms, particularly the small and medium-sized. This feature of Italianness is so distinctive as to constitute a stronger competitive differential to build on, so much so that some Italian companies have started manufacturing processes in China, at times in joint ventures producing products recognized as Italian despite being manufactured in China (COD effect).

These considerations are especially valid for sectors where semi-finished products are components of other finished products. For other more typical Made in Italy products relational capacity leads to a competitive advantage in relation to the creation of partnerships with distribution channels (Manas).

Among the aforementioned elements that come into play in the evaluation of Italian offers we would add the theme of price. Price is a matter of great consideration in the Chinese market, an element that has always been part of the purchasing decision and will assume increasing importance in view of the evolution underway entailing the production and technological upgrading of manufacturing firms in China.

NOTE

1. Intangible resources, internal resources, non-buyer external resources.

REFERENCES

- Agrawal, J. and W.A. Kamakura (1999), 'Country of origin: a competitive advantage?', *International Journal of Research in Marketing*, **16** (4), 255–267.
- Ahmed, S.A. and A. d'Astous (1993), 'Cross-national evaluation of main-in concept using multiple cues', *European Journal of Marketing*, **27**, 39–52.
- Ahmed, A. and A. d'Astous (1995), 'Comparison of country of origin effects on household and organizational buyers' product perceptions', *European Journal of Marketing*, **29**, 35–51.
- Aiello, G., R. Donvito, B. Godey, D. Pederzoli, K.P. Wiedmann, N. Hennigs, A. Siebels, P. Chan, J. Tsuchiya, S. Rabino, S.I. Ivanovna, B. Weitz, H. Oh and R. Singh (2009), 'An international perspective on luxury brand and country-of-origin effect', *Journal of Brand Management*, **16**, 323–337.
- Anderson, J.C., J.A. Narus and W. Van Rossum (2006), 'Customer value propositions in business markets', *Harvard Business Review*, March, 91–99.
- Battaglia, L. and E. Cedrola (2010), 'Interazione culturale e processi di negoziazione', in S. Guercini (ed.), *Marketing e management interculturale. Attori, politiche e organizzazione*, Bologna: Il Mulino, pp.93–133.

- Bilkey, W.J. and E. Nes (1982), 'Country-of-origin effects on product evaluations', *Journal of International Business Studies*, Spring–Summer, 89–99.
- Bradley, F. (2001), 'Country–company interaction effects and supplier preferences among industrial buyers', *Industrial Marketing Management*, **30**, 511–524.
- Cattin, P., A. Jolibert and C. Lohnes (1982), 'A cross cultural study of "made in" concepts', *Journal of International Business Studies*, Winter, 131–141.
- Cedrola, E., L. Battaglia and C. Cantù (2011), 'Le imprese italiane in Cina: modelli di business emergenti', in T. Vescovi (ed.), *Libellule sul Drago*, Padova: Cedam, pp. 165–200.
- Cedrola, E., L. Battaglia and A. Tzannis (2009), 'The Italian SMEs in the international context: a model to succeed in the global arena', *Collana Quaderni del Dipartimento di Istituzioni Economiche e Finanziarie*, **52**, Università di Macerata.
- Chee, H. and C. West (eds) (2005), *Fare affari in Cina tra miti e realtà*, Milano: Etas.
- Chen, T.-J., H. Chen and Y.H. Ku (2004), 'Foreign direct investment and local linkages', *Journal of International Business Studies*, **35** (4), 320–333.
- Child, J. and D.K. Tse (2001), 'China's transition and its implications for international business', *Journal of International Business Studies*, **32** (1), 5–21.
- Fortis, M. (ed.) (2005), *Le due sfide del Made in Italy: globalizzazione e innovazione*, Bologna: Il Mulino.
- Fortis, M. (2009), 'Competitiveness and export performance of Italy', *Fondazione Edison, Università Cattolica*, Dipartimento del Tesoro.
- Giraldi, A. (2009), 'Country of origin: una rassegna analitica dei principali lavori dal 1962 al 2008', *Paper from the International Congress of Marketing Trends*, 16–17 January, Paris.
- Graby, F. (1980), 'Consumérisme et produits étrangers', *Coopération–Distribution–Consommation*, **5**, 17–23.
- Hakansson, H., D. Ford, L.E. Gadde, I. Snehota and A. Waluszewski (eds) (2009), *Business in Networks*, Chichester: Wiley.
- Han, C.M. (1989), 'Country image: halo or summary construct?' *Journal of Marketing Research*, **XXVI**, May, 222–229.
- Hsieh, M. (2004), 'An investigation of country-of-origin effect using correspondence analysis: a cross-national context', *International Journal of Market Research*, **46** (3), 267–295.
- Hutt, M.D. and T.W. Speh (eds) (1995), *Business Marketing Management*, Orlando, FL: The Dryden Press, fifth edition.
- Jolibert, A. (1979), 'Quand les directeurs d'approvisionnement français et américains évaluent l'image des produits fabriqués dans cinq pays industriels', *Revue Française de Gestion*, Jan–Feb, 94–111.
- Lagioni, I., L. Battaglia and T. Savorgnani (eds) (2001), *Business Marketing. Il progetto cliente nell'era del web*, Milano: Tecniche Nuove.
- Mainolfi, G. (ed.) (2010), *Il modello della country reputation. Evidenze empiriche e implicazioni strategiche per le imprese del Made in Italy nel mercato cinese*, Turin: Giappichelli Editore.
- Marino, V., C. Gallucci and G. Mainolfi (2009), 'L'interpretazione multidimensionale della Country reputation. Implicazioni strategiche per le imprese del made in Italy', in C. Pepe and A. Zucchella (eds), *L'internazionalizzazione delle imprese italiane*, Bologna: Il Mulino, pp. 93–97.
- Morris, J. (2010), 'Making Italian espresso, making espresso', *Italian, Food & History*, **8** (2), 155–184.

- Nebenzahl, I.D., E.D. Jaffé and J.C. Usunier (2003), 'Personifying country-of-origin research', *Management International Review*, **43** (4), 383–406.
- Oschetti, A., A. Paparelli and M. Pira (2008), *La nuova rivoluzione cinese. Etica, business e cultura*, Milan: Hoepli.
- Papadopoulos, N. and L.A. Heslop (eds) (1993), *Product and Country Images: Research and Strategy*, New York : The Haworth Press.
- Peterson, R.A. and A. Jolibert (1995), 'A meta-analysis of country-of-origin effects', *Journal of International Business Studies*, **26** (4), 883–900.
- Samiee, S. (1994), 'Customer evaluation of products in a global market', *Journal of International Business Studies*, **25** (3), 579–604.
- Schaefer, A. (1997), 'Consumer knowledge and country of origin effects', *European Journal of Marketing*, **31** (1), 56–72.
- Sharma, S. and T.A. Shimp (1987), 'Consumer ethnocentrism: construction and validation of the CETSCALE', *Journal of Marketing Research*, **23**, 280–289.
- Usunier, J.C. and J.A. Lee (eds) (2009), *Marketing Across Cultures*, Harlow, UK: Person Education Limited, fifth edition.
- Valdani, E. and G. Bertoli (eds) (2003), *Marketing e Mercati Internazionali*, Milan: Egea.
- Verlegh, P.W.J. and J.B.E.M. Steenkamp (1999), 'A review and meta-analysis of country of origin research', *Journal of Economic Psychology*, **20** (5), 521–546.
- Weber, M. (ed.) (2005), *La Cina non è per tutti. Rischi e opportunità del più grande mercato del mondo*, Milan: Edizioni Olivares.