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### Country-of-origin effect and firm reputation influence in business-to-business markets with high cultural distance

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## Country-of-origin effect and firm reputation influence in business-to-business markets with high cultural distance

### 原产地效应和公司声誉的影响在B2B市场中具有高文化差距

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The paper aims to verify if country-of-origin effect matters in industrial sectors (BTB), particularly in business relations between firms belonging to markets with high cultural distance. The study was carried out on a sample of 338 firms in the quantitative phase and on 14 firms in the subsequent qualitative phase.

**Keywords:** country of origin in BTB; cultural distance and business relationships; firm reputation in BTB; brand image in BTB; Italian firms in China

意大利以设计, 时尚, 地中海美食以及其他意大利制造的产品而闻名于世界。这些产品往往知名度和品牌相关, 尤其是在奢侈品行业, 但在国际市场上, 许多不太知名的意大利公司在技术行业, 如机械或电子行业, 有着举足轻重的地位。这些传统制造在意大利行业类别以及专门的产品部门, 建立所谓的“4 FS”意大利卓越。

原产地 (COO) 的文献主要集中在消费领域 (BTC)。工业部门主体 (BTB) 的研究尚浅, 而理论家的理论研究主要可以分为两个流派。有些学者认为 COO 在消费市场上具有相同的重要性, 而另有学者断言, 工业客户在一个更明智的经营方式下是不太可能受到它的影响。

针对此讨论, 本文研究目的如下:

BTB 企业的国际化和营销战略的关键要素是什么? 尤其是针对具有较大地域

和文化的差距的市场?

原产地效应是否在 BTB 产业链中起到直接的重要作用? 抑或通过行业属性, 市场成熟度, 信任和稳定的业务关系的调节作用?

公司的声誉和品牌标识的重要程度比重如何?

产品的“制造”渠道或原产地的重要程度如何?

本研究所采用的方法论, 除了文献回顾 BTB 中的背景下对 COO 的文献回顾, 还开发了三个阶段的样本, 针对 338 家公司进行定量分析, 随后选定 14 个进行定性分析。通过实验表明: COO 效果在 BTB 市场的重要性可见一斑, 虽然市场成熟度, 行业属性的影响程度有所不同。

原产地效应, 无论它是否为公司所用, 都赋予公司产品国际公认的“意大利制造”, 如质量, 工

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艺, 创新, 设计和创意。富通 (2005) 确定的以行业属性为特征的意大利企业在国外的认可度, COO效应是十分显著的, 至少在一开始就构成声誉差。这也证实了COO 在进入一个市场时, 特别是针对没有经验的产品或部门起到至关重要的作用。

关于对企业十分重要的声誉和品牌标识, 产品/行业经验对购买决策有影响, 并可以增加该公司的声誉或品牌的价值。

从国家声誉 (COO) 过度到企业信誉似乎顺理成章。中国没有那么多的制作或创造的能力, 所以建立长期的业务关系, 关系和信任是至关重要的, 企业的信誉呼吁人们关注到国家的声誉, 而就关系的能力而言, 这是典型的意大利人所具有的“文化特征”。

至于COO关系的应用, 企业使用不同的方法。有些公司使用“意大利制造”, 有些使用“欧洲制造”作为引导以促进谈判。强调产品原产地对不同客户类型影响程度不同。特别是, 制成品的目的地取决于它是否仍然在中国或导出它的边界之外。

最后的分析结果证实了在中国的各个渠道之间的关系和合作的重要性, 它是沿着价值链上的许多活动的成功关键作用。要在中国经营, 尖端技术和高品质的产品或强势品牌往往是一个必要但不充分的条件, 尤其是针对随着时间的推移持续发展的企业。采访后发现, 企业若要立足中国市场, 寻求长远发展, 需要敏锐的战略眼光。

**关键词:** BTB 原产地, 文化差距和业务关系, BTB 企业信誉, BTB 品牌形象; 意大利企业在中国

## 1. Introduction

Italy is renowned around the world for its design, fashion, Mediterranean cuisine and other “Made in Italy”-styled 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 (Bertoli & Resciniti, 2012; Fortis, 2005).

Country-of-Origin (COO) literature is mainly focused on consumer sectors. The amount 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 as the consumer market, while others assert that industrial customers, operating in a more informed way, are less likely to be influenced by it.

This present contribution falls within the realm of this debate. While focusing on the importance of COO for companies operating in BTB sectors, it was considered appropriate to contextualize this strategic element within marketing and internationalization strategies developed by companies operating in geographically and culturally distant markets. For this reason, we chose a group of Italian companies operating in the Chinese market for the empirical study.

In the discussion of findings, particular emphasis will be given to typical elements of marketing mix in BTB, such as the relational aspect and trust. The paper covers the following steps: first, a brief analysis of the literature on COO is provided, with a focus on BTB; then the research methodology is described; after this, findings concerning the marketing and internationalization strategies adopted by firms operating in markets with high geographical and cultural distance are set out and there is discussion of the importance of COO, firm reputation and brand image in the internationalization process; and finally we offer managerial implications, limitations and suggestions for future research.

## 2. Literature review

### 2.1 Country of origin: a brief review of the literature

Over 300 articles have been published on the country-of-origin effect in the past 35 years (Nebenzahl, Jaffé, & Usunier, 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 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 studies in which the existence of the COO effect and its influence on the supply of foreign exchange is explored (Bilkey & 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 & Heslop, 1993). Research from the 1990s and 2000s had a very strong empirical focus. The main studies demonstrate that:

- Consumers are influenced by more than one attribute of the good, be it intrinsic or extrinsic (Peterson & Jolibert, 1995; Verlegh & Steenkamp, 1999);
- The COO has stronger influence in the early stages of the decision-making process leading to the purchasing decision;
- Information on geographical origin is often used as an indication to ascribe an overall value to the product's brand (Agrawal & Kamakura, 1999; Usunier & Lee, 2009).

With regard to recent literature, all sources appear to share the belief that the image of the country of origin 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 consideration of the role that the COO effect can play in achieving international competitive advantage. In fact, COO can be separated into three elements: COM (country of manufacture), COD (country of design) and COB (country of brand; Godey et al., 2012). Each of these definitions can have different meanings according to the 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 & Shimp, 1987). The various research results provide evidence that the influence of COO is inversely proportional to the degree of customer involvement in the purchasing process. A negative correlation also exists between the influence of COO and the level of knowledge/experience in relation to a product category (Schaefer, 1997): experts base their assessments on product attributes, whereas novices tend to give credence to the country origin effect (Han, 1989). Furthermore, socio-demographic characteristics also play a significant role. For example, levels 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), the knowledge of a product's country of origin has less influence in more developed countries than in less developed ones.

The *product* area sees research focused on the verification of how the distinctive name – “made in” – can strengthen the competitive edge of domestic firms thanks to the production tradition extolled by the country of origin. 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 hypothesis advanced and confirmed by scholars is that, in certain circumstances, the image of the COO of goods represents part of a set of stereotypes that consumers incorporate into 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, 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 colors 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, Gallucci, & Mainolfi, 2009). 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 COO is of greater relevance in the absence of strong brands that are able to reduce the COO effect.

## 2.2 Country of origin: a focus on business-to-business

Even in industrial markets, despite the fact that 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.

Assessment of a product's COO is influenced by all the specific cultural elements of the countries involved in the relationship. Verlegh and Steenkamp (1999) contradict the perception 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 & D'Astous, 1995). In BTB markets, decisions are generally taken in view of achieving business objectives. For this reason, it would seem implausible that purchasing decisions could be affected by personal considerations, dictated for example by one's own national culture.

Nevertheless, business markets are more complex and structured. Firms provide solutions that bring value to the customer on an ongoing basis in order to develop the relationship over time, and attain mutual benefits through the involvement of the network, both within and outside the firm (Anderson, Narus, & Van Rossum, 2006; Hakansson, Ford, Gadde, Snehota, & Waluszewski, 2009). In these situations, the areas of "contact" between firms and their external stakeholders involve several components, including interactivity, trust, references and know-how. These areas that can be heavily influenced by country image, firm reputation and brand image,<sup>1</sup> especially during the approach and establishment phases of the relationship between the parties (Cedrola & Battaglia, 2012).

In addition, in BTB a secondary and indirect influence of COO on industrial purchasers ensues in relation to their perceptions of the supply firm, deriving from the results of its marketing activities. 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 for use in judging the quality of high-technology products (Ahmed & D'Astous, 1993).

## 3. Research modelling and methods

The above considerations invited us to explore the theme of the COO effect in the BTB market in order to verify the relevance of country image in international business strategies and in establishing and managing business relationships with foreign counterparts, especially in the presence of high cultural distance. The questions we aim to respond to are as follows:

- Q1: What are the crucial elements in BTB firms' strategies of internationalization and marketing especially designed for markets with high geographical and cultural distance?*
- Q2: Is the country-of-origin effect relevant even in BTB industries, or is its importance heavily conditioned by the relevant sector, market maturity, trust and stability of business relationships?*
- Q3: What degree of importance is attributed to firm reputation and brand identity?*
- Q4: Is the "Made in" communication or origin of the product emphasized and, if so, how?*

In the following paragraphs of the paper, our answers will be presented.

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 research into a sample of Italian companies (Table 1), aims to highlight the operating characteristics and business models adopted in the Chinese market, as well as the importance of the COO effect. Thereafter, some conclusions are offered.

To identify the operational characteristics and business models of Italian companies operating in China, we referred to two studies conducted in 2009–2011: one quantitative; the other qualitative (Cedrola, Battaglia, & Cantù, 2011). The quantitative phase included the administration of a closed-response e-mail questionnaire divided into two macro areas. The first focused on key areas of the international marketing decision-making process and the second on operations in the Chinese market (export, import, local production, etc.), 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 and 131 for the second. This numerical difference is justified by the fact that the second section, focusing on relations with China, was sent only to those who had specifically indicated operating in the Chinese market on a regular basis.

The second research phase consisted of personal interviews with the CEOs, marketing managers and export managers of 14 BTB firms operating in the Chinese market. The research analysed the following themes: firm characteristics and business models; strategies and decision-making processes for the Chinese market; collaborative relationships along the value chain; competencies required, or those to be developed, in order to operate successfully in China; importance of brand, technology, business reputation; importance of "Italianness"; significance of "Made in Italy" in China.

The two research phases were conducted between May 2009 and August 2010. From March 2011, further contact was initiated in order to understand in depth if and how

Table 1. Characteristics of responding firms.

| Industry                      | n°  | Number of employees | n°  |
|-------------------------------|-----|---------------------|-----|
| Food                          | 8   | 1–115               | 66  |
| Furnishing                    | 22  | 15–150              | 103 |
| Footwear                      | 31  | 50–1100             | 62  |
| Chemistry, rubber and plastic | 18  | 100–1250            | 63  |
| Mechanics                     | 167 | > 250               | 37  |
| Services                      | 17  | n.d.                | 7   |
| Textile and clothing          | 39  | Firms in the sample | 338 |
| Others                        | 36  |                     |     |
| Firms in the sample           | 338 |                     |     |

companies operating mainly in industrial markets have benefited from country image, firm reputation and brand identity and, moreover, if and how much these elements have been important in establishing and managing business relationships.

## 4. Results

### 4.1 Business models and marketing strategies for Italian companies 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% of firms surveyed declared they had been present in the Asian market for over 10 years. The Pearson's coefficient calculation shows a positive correlation (0.246\*\*) between percentage of foreign sales to total sales and number of years of presence abroad. A positive correlation was also found between number of years of operation in the Chinese market and number of employees (0.292\*\*), indicating that mid-sized firms have a more "traditional" presence in China. Another important signal is derived from 39% of the sample indicating the identification of strategic partners as an incentive to internationalization (Q1). Analysing the data by the sector to which a firm belonged instead did not present any significant differences. Reduction in production costs as a determinant of investment in eastern markets is a priority for only 35% of firms, while government, regional and community incentives are not taken into consideration.

In terms of mode of entry into international markets (Table 2), we note that almost all interviewees undertake exporting activities (93%). Using own sales staff or representative offices, notwithstanding limited size or the requirement for significant investment, is a common entry mode.

Direct contact with the customer is crucial for all types of firms (23%). However, ways of interfacing vary: while mid-sized firms actually maintain direct and constant communication with the customer, for micro and small enterprises this is often a result of their participation in international fairs. With regard to size, mid-sized and more structured firms use different market entry channels in combination, as well as more innovative forms

Table 2. Entry method into foreign markets.

|   |     |
|---|-----|
| 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  | 1%  |



Table 3. Determinant collaborations in China.

|  |     |
|--|-----|
| 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 organizations                             | 18% |
| Others   | 2%  |
| Suppliers                                      | 22% |
| Clients  | 42% |
| Traders and distributors                       | 29% |
| Others   | 15% |

of collaboration. Smaller firms instead concentrate on indirect channels and direct contacts that ensue from the presentation of their products.

The second section of the questionnaire explored the types of activities undertaken in this market by the firms most involved in China (131), and the collaborations with local actors, institutions and organizations (Q1). We note that the majority of firms (86%) 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 (Table 3).

The main collaborations focus on sales activities (40%), although some first significant signs are evident of collaborations aimed at covering other stages of the business chain. Collaborations with suppliers and distributors also play an important role in performing information functions, especially in the traditional “Made in Italy”-type sectors such as food, clothing and footwear/leather goods. Local institutions and governments also increasingly play a key role in this process. It is not uncommon to find a municipality interfacing with foreign investors and providing services in support of the new enterprise (Chen, Chen, & Ku, 2004; Child & Tse, 2001).

Reflecting on the internationalization strategy of Italian firms in China, we note that while the “Made in Italy” concept and flexibility and customization of the offer are considered important (Q2), the findings highlight different priorities for firms. In fact, to the question “is being an Italian company considered a strength?”, 35% of firms responded “definitely yes” and 53% “fairly”. Differences by sector are given in Table 4, demonstrating the high significance of COO for traditional Italian export sectors such as leather and footwear.

Product quality (80%), product innovation (55%) and customer pre/post-sales services (42%) are elements in which firms actively invest to penetrate new markets. Table 5 illustrates the characteristics of each sector. For example, furniture, textile and footwear firms consider quality and design as priority items in which to invest. Likewise, the engineering sector aims primarily at quality and innovation, combined with a focus on price and service.

In this case, “Made in Italy” appears to have little significance, leaving room for evaluations that go beyond the geographical origins of products or suppliers. The decisions of Chinese operators are driven by firm reputation, which is built through the combination

Table 4. “Made in Italy” factor as a point of strength of Italian firms.

|                               | Definitely | Relatively | Not at all |
|-------------------------------|------------|------------|------------|
| Food                          | 50%        | 50%        |            |
| Furnishing                    | 55%        | 45%        |            |
| Footwear and leather          | 61%        | 35%        | 3%         |
| Chemistry, rubber and plastic | 17%        | 56%        | 28%        |
| Mechanics                     | 24%        | 55%        | 14%        |
| Services                      | 24%        | 41%        | 35%        |
| Textile and clothing          | 46%        | 54%        |            |
| Others                        | 44%        | 50%        | 6%         |
| Average                       | 35%        | 53%        | 11%        |

Table 5. Key investment factors for internationalization.

|                            | 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%      |
| Chemistry, 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%      |

of relationships and product quality. The prominence given to service thus confirms the focus attributed by eastern markets to relations generally, and long-term relationships in particular.

#### 4.2 Country-of-origin effect, brand and firm reputation in BTB markets

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 (Table 6) operating in the Chinese market were particularly edifying. Italy is known worldwide for a number of sectors and production specializations which generate products or services that are distinguished for their quality, innovation and design. Italy is the leader in many of these exported products (Fortis, 2009). The sample of 14 companies investigated includes firms that belong to the above-mentioned “Made in Italy” sectors and production specializations.

The importance of COO (Q2) varies according to sector of belonging and market maturity, as shown in Table 7. Companies belonging to the “Made in Italy” sectors assign high importance to the “Made in Italy” factor. Some of them have been present in China for many years and, due to the market characteristics, have had to develop corporate reputations and at times specific brand policies (e.g. Nuova Simonelli, Mesdan). Other firms (novices or non-experts) that have recently entered the Chinese market through intermediaries (e.g. Gallo, Gerard’s) leverage exclusively on COO (Han, 1989).

Table 6. The 14 Italian firms analysed.

| Firms           | Industry                                      | Turnover<br>mil € | Number of<br>employees | Years<br>in China | Production site<br>for the Chinese<br>market | Chinese plants<br>produce<br>for abroad | Marketing mix<br>localization                                 |
|-----------------|---|-------------------|------------------------|-------------------|--|---|---|
| Cobra           | Electronics (security systems)                | 116               | 700                    | 15                | China – Asia                                 | Yes                                     | Product – Distribution  |
| Manas           | Shoe manufacturing                            | 57                | 100                    | 4                 | Italy  | No                                      | Distribution – Training sales-force                           |
| 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 sales force 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                            |

Table 7. Investigated areas in the qualitative research.

| Firm            | Industry                                      | Foremost effect |                 |             | Distinctive elements of the offer |                    |        |                             |   | Price  | Communication of "Made in Italy"   |
|-----------------|---|-----------------|-----------------|-------------|-----------------------------------|--------------------|--------|-----------------------------|---|--------|--|
|                 |   | "Made in"       | Firm reputation | Brand image | Quality                           | Technology process | Design | Pre and after sales service |   |        |  |
| Cavagna         | Engineering (valves)                          | M               | H               | H           | M                                 | M                  | L      | M                           | H | Europe | Brand acquisition and brand support  |
| Caleffi         | Hydro-thermo sanitary (valves and components) | H               | H               | H           | H                                 | H                  | L      | H                           | L | Yes    |  |
| Gefran          | Electronic                                    | H               | H               | L           | H                                 | H                  | L      | H                           | H | Yes    | Manufacture in China   |
| 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     | Company and brand reputation (Best award)  |
| Manas           | Shoes production                              | H               | M               | L           | H                                 | M                  | H      | M                           | M | Yes    | "I love Italian shoes" campaign<br>The brand name is adapted to the market by the distributor  |
| 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    | Use of various brand names   |
| 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 Brand along with the name of the Chinese JV   |
| Lucchini        | Engineering                                   | L               | H               | H           | H                                 | H                  | H      | H                           | L | No     |  |
| Molemab         | Metallurgical                                 | L               | H               | H           | H                                 | H                  | L      | M                           | H | Yes    | "Made-in" is used to open negotiations<br>The brand communicates the high value of the product |
| FAAM            | Ecological batteries and cars                 | M               | H               | H           | H                                 | H                  | L      | H                           | M | No     |  |
| Cobra           | Electronics (security systems)                | L               | H               | M           | H                                 | H                  | L      | H                           | M | No     | The name of the company transfers the values of the company (reputation) and brand values      |

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

Companies which are not specialized in traditional “Made in Italy”-type production focus on firm reputation (Q3). They characterize and distinguish themselves in the markets through specific technologies and products. These have been active in the Chinese market for some time, are well known and have developed corporate reputations 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 (e.g. FAAM). Firm reputation is created over time and is rooted in reliability, continuity of the relationship, innovation and local presence (e.g. FAAM).

Some other companies not specialized in traditional areas of “Made in Italy” production have approached the Chinese market on the basis of well-established relationships with their international customers, subsequently developing Chinese customers on the basis of their reputation (e.g. Cobra). In this case, the company’s name is a guarantee of performance confirming Kotler and Pfoertsch (2006).

As for brand image, whereas more traditional “Made in Italy”-type markets (fashion, wines) 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), it emerged from our findings that only a few companies work with distinctive brands or product lines. This is a choice that often derives from the acquisition of companies with a brand reputation, as in the case of Nuova Simonelli with Victoria Arduino or Caleffi with RDZ. This confirms that often in business markets, firm reputation and brand image overlap, and that use of the brand is scarce (Kotler & Pfoertsch, 2006).

It is interesting to note that at times, Italian firms in China use their brand alongside the brand of a 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 an interviewee stated “COO is not important but instead the company name, which evokes Italianness, adds value”.

Among the elements that distinguish Italian enterprises’ offerings in the Chinese market (Q1), the qualitative research confirms the importance of the relationship between operators, as well as the importance of quality (Table 7). Nevertheless, the emphasis on quality varies among sectors. The different connotations depend on the type of industry/segment. In some cases, quality is associated with products or processes, in others with technology, with design or pre or post-sales service, thereby confirming the Fortis data in relation to the value and connotations of Made in Italy (Fortis, 2005). Service and pre/post-sales assistance also take on different connotations depending on the type of business and industry. This entails listening to and understanding the local market, together with willingness and flexibility in transferring operating practices to the local market.

Price is also among the elements of the offer and is a strong decisional factor in China. Numerous companies claim that if they are the same price, Chinese firms will 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 (e.g. 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). Chinese companies’ perceptions of Italian and German products are 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).

As for COO communication (Q4), firms use different approaches. Some companies use the words “Made in Italy” and others “Made in Europe”, depending on 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 or as a facilitator to open a negotiation. 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 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 for the customer a guarantee over time and space, and hence also beyond China’s borders (Molemab). Finally, the use of the “product name” adapted to the Chinese market to recall the “Made-in” was also highlighted. In this case, it was usually managed by local distributors, leveraging COO.

## 5. Conclusions and managerial implications

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 makes evident the importance of the COO effect in BTB markets (Q2), although with a different emphasis in relation to the following aspects:

- Market maturity – COO greatly influences customers or clients that are approaching specific technologies or products for the first time, confirming Han (1989);
- Industrial sectors of belonging – sectors more associated with the traditional “Made in Italy” slogan benefit most from the COO effect.

The COO effect, regardless of whether or not it is used by the company, brings with it values linked to the internationally recognized “Made in Italy” slogan, such as quality, craftsmanship, innovation, design and creativity. In the sectors identified by Fortis (2005) 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.

In relation to Q3, which asked what importance is attributed to firm reputation and brand identity, product/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) and 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” (Papadopoulos, 2012). This concept includes flexibility, listening and adaptability, which, according to the companies interviewed, are considered emblematic of Italian firms – particularly those which are small or mid-sized. This feature of “Italianness”, seen as relationally and culturally specific capabilities

(Rullani, 2000), 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 in which 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).

As for the use of COO in communication (Q4), firms use different approaches. Some companies use the words “Made in Italy” and others “Made in Europe” as a facilitator to open negotiations. The origin of the 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 constitute a guarantee over time and space.

With regard to Q1, the results of the analysis confirm the importance of relationships and collaborations between the various actors located in China, and their key role in the success of many activities along the value chain. Business relations become a key element to investigate the needs of foreign customers, to recognize the dynamics of the international context and to identify business partners. To operate in China, cutting-edge technology and a quality product or strong brand are often necessary but insufficient conditions, especially when aiming for significant and continuous presence over time. The interviews revealed that the positions of excellence are reached by firms that interpret the Chinese market from a strategic perspective and have progressively worked towards involving China and the Chinese, moving from simple methods – individual commercial relations, representative agencies, etc. – to more demanding methods, in terms of both economic and relational investments, such as joint ventures and direct investments (WFOE) through acquisitions or Greenfields.

This article has some limitations. First, the research tested only two markets with high cultural distance, Italy and China; further verification would be appropriate in other geographic areas. Second, this study analyzed companies belonging to different sectors; a focus by sector could add further insights.

## **Note**

1. The firm reputation of a company is the widespread and settled judgment that the different stakeholders attribute to the credibility of the firm’s assertions, the quality and reliability of its products and the responsibility of its actions (Gardberg & Fombrun, 2002). In general terms, a good corporate reputation determines trust in the company, creates a stronger rational and emotional bond with employees, customers and other stakeholders and acts as a source of authority and credibility for all parties with whom the company has dealings (Vernuccio, 2008). According to scholars, the concept of corporate reputation is extendable with appropriate adjustments to the country reputation (Passow, Fehlmann, & Grahlow, 2005; Mainolfi, 2010).

The brand image is the psychosocial meaning of the brand that is formed in the mind of the client. The brand image is a phenomenon linked to subjectivity and perception, created by the client through a process of rational and/or emotional interpretation (Dobni & Zinkhan, 1990). In BTB brands facilitate the identification of products, technology and businesses (Anderson & Narus, 2004) as well as facilitating access to new markets, acting as ambassadors in a globalized arena. It is noteworthy that in BTB, firm reputation and brand image almost overlap. Both the company’s name and brand are a guarantee of performance (Kotler & Pfoertsch, 2006).

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