

## **ITALIAN COUNTRY IMAGE: THE IMPACT ON BUSINESS MODELS AND RELATIONS IN CHINESE BUSINESS TO BUSINESS MARKETS**

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### **ABSTRACT**

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

### **INTRODUCTION AND OBJECTIVES**

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 "4 Fs" of Italian excellence (Fortis, 2005). The first group together traditional consumer goods linked to the person and the home. In almost all these areas, Italy has become the style setter, fostering virtuous synergy between the artisanship of luxury with its Renaissance tradition and entrepreneurial creativity. By penetrating the middle and upper-middle ranges of the various markets, a strong collective image has gradually established itself around the world. Specialized product sectors include the automation, mechanical, rubber-plastics sectors. 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 (Nebenzahl, Jaffé & Usunier, 2003; Bilkey & Nes, 1982; Papadopoulos & Heslop, 1991; Peterson & Jolibert, 1995; Agrawal & Kamakura, 1999; Usunier & Lee, 2009; Giraldi, 2009; Godey B, Pederzoli D., Aiello G., Donvito R., Chan P., Oh H., Singh R., Skorobogatykh I.I., Tsuchiya J., & Weitz B., 2011; Sharma & Shimp, 1987; Schaefer, 1997; Han, 1989; Hsieh, 2004; Graby, 1980). Even in industrial markets, despite the technical language is universal and less subject to country specific cultural influences, stereotyping linked to the country of origin 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. 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, D'Astous, 1995).

This present contribution falls within this debate, with the aim of verifying if the COO effect really matters in BTB, particularly in business relations between firms that belong to markets with high cultural distance. China has been selected as 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.

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, the second on understanding the types of 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 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 operating in the Chinese market, the following themes were analysed: 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, to operate successfully in China; importance of brand, technology, business reputation; importance of "Italianness"; significance of "Made in Italy" in China.

### **COO EFFECT ON BUSINESS RELATIONS BETWEEN ITALY AND CHINA**

Reflecting on the internationalization strategy of Italian firms in China (quantitative data), we note that while the Made in Italy concept, together with flexibility and customization of the offer, are considered important, the findings highlight different priorities for firms. In fact, to the question "is being an Italian company considered a strength?" firms responded "definitely yes" for 35% and "fairly" for 53%. The higher significance of COO for traditional Italian export sectors refers to leather and footwear industries. Instead, product quality (80%), product innovation (55%) and customer pre/post-sales services (42%) are elements in which firms actively invest to penetrate a new market. 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 has little significance, leaving room for evaluations that go beyond the geographical origin of products or suppliers. In these cases, the decisions of Chinese operators are driven by firm reputation, which is built through the combination 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 particularly.

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 particularly edifying.

The importance of COO varies according to sector of belonging and market positioning. Companies belonging to the Made in Italy sectors assign high importance to the Made in Italy factor. Other companies, not specialized in traditional Made in Italy production, have characterized and distinguished themselves in the markets 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. Firm reputation is created over time and is rooted in reliability, continuity of the relationship, innovation and local presence.

In business markets firm reputation and brand image almost overlap. Both the company name and brand are a guarantee of performance. From our findings emerged that only a few companies work with distinctive brands or product lines, a choice that often derives 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 in China use their brand alongside 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”*.

Among the elements that distinguish the offer of Italian enterprises in the Chinese market, 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/segment. In some products or processes combining 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). 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. 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.

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

As for COO communication, companies use different approaches. 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 to guarantee the origin of the product.

## **CONCLUSIONS AND MANAGERIAL IMPLICATIONS**

The empirical evidence presented in this work clearly demonstrates the importance of the COO effect also in BTB markets, 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 “Made in Italy”, 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. 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), 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, adaptability, which according to the companies interviewed are considered emblematic of Italian firms particularly the small and medium sized. This feature of Italianness, intended as relational and cultural 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. 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.

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