

Italian firms in China: emerging business models for family firms

Abstract

For family firms, the international context is a challenge to be faced by focusing on the mobilization and sharing of resources and competences of other actors. This can be achieved by creating strategic relationships re-shaping the structure of the supply chain, both within the country of origin system and abroad.

This paper aims to provide some descriptive evidence and interpretations of how Italian family firms approach the Chinese market, which has been studied due to the high cultural and geographical distance that exists between the two countries. Particular attention will be paid to: analysing the importance of the cultural variable in the context of international activities; examining collaborations with different players in the chain, both national and international; identifying virtuous behaviours and successful business models that can ensure an enduring presence to a family business in China.

In support of the basic theoretical considerations, the results of a study on a sample of Italian family firms operating in China will be presented. The methodology is organized in two stages: a quantitative study to gather general information on strategies and tactics that are adopted on the Chinese market (338 family firms), and a qualitative study (on 22 selected family firms) to investigate the most significant managerial and marketing issues to succeed in China (strategies, co-operation, competences).

Key Words: family business, internationalization process, relationships, China, empirical analysis.

Introduction

In the modern competitive environment, characterized by globalization and major economic and financial instability, business strategies must be both rigorous and flexible in order to seize the opportunities arising from the changes taking place. International confrontation, especially for small and medium-sized family firms, is a challenge. A challenge that forward-thinking firms can face by leveraging on mobilization, sharing the resources of other actors and developing competencies that enable different relational capabilities with actors along the production - distribution - consumption chain.

Of particular interest in the context described, is investigating the change in the firm value constellation (Normann and Ramirez, 1994), in view of the supply chain internationalization phenomenon. A supply chain is intended as a network of opportunities that procures raw materials, transforms them into semi-finished and finished products and delivers them to customers through a distribution system (Tunisini, 2003).

The development of activities on a transnational scale and the search for competitive advantage across borders requires businesses to adopt a collaborative approach involving several partners, national or international, throughout all stages of the value chain. The value of the offer therefore stems from the combined action of other actors in the network (Brito and Roseira, 2005), which includes suppliers, subcontractors, agents, customers, but also municipalities, regions, organizations and institutions (Chen, Chen and Ku, 2004), where the type of relationship developed is a consequence of the choice of entry mode adopted by the firm.

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- Analysing the importance of the cultural variable in the context of international activities
- Examining collaborations with different players in the chain, both national and international
- Identifying virtuous behaviours and successful business models that can ensure an enduring presence to a family business in China.

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1. Culture and firm relations

The term culture in relation to international business relationships includes several concepts:

- Psychic distance (Johanson, Vahlne, 1977)
- Cultural sensitivity (Fletcher, Fang, 2004)
- Cultural norms (XXX, Y)
- Interpersonal relationships (Agndal, Axelsson, 2002; Hallén, 1992).

The cultural elements to be considered for a correct market approach therefore concern both the individual factors of the parties involved, the cultural dimensions of the specific firm, as well as the national cultural factors of the firm (Kostova, Zaheer, 1999; Usunier, 1996; Ghauri, Usunier, 2003).

The interaction models are thus influenced by three basic elements (Usunier, 1996): time, space and the concept of self and others. As an example, it is known that Western cultures confer very high economic value to time. In contrast, other cultures, such as the Arabian, tend to manage the time available in a less frenetic way. With reference to space, the extension of people's public and private spheres varies from culture to culture. Therefore, in some cultures, work may coincide with private life, in others there is a clear separation between the two.

Finally, the concept of self and others concerns the way in which people of a certain culture position themselves with respect to any new partners, the importance that is given to certain factors (e.g. the role in the firm) in comparison to others (e.g. professional knowledge). The combination of the three elements determines patterns of interaction between individuals belonging to various cultures, as well as the models of actions of people towards the various situations that arise.

Again with reference to the cultural variables, dimensions relating to the prevailing culture or, conversely, to the specific culture, cannot be neglected (Trompenaars, 2003), where knowledge of the partner may or may not be of primary importance to creating collaborative trust. In prevailing cultures, the public sphere of people coincides with the private sphere and relationships are needed to create a collaborative partnership. In specific cultures, however, the creation of interpersonal relationships is not a prerequisite for the creation of business relationships. They are based on sufficient guarantees related to image and reputation while the relationship between parties is limited to business development and the optimization of the collaboration.

Small and medium size firms that have - perhaps even by chance - presented themselves on international markets have been forced to build more or less intense relationships with different operators: new customers for their products, new intermediaries to reach distant markets, new suppliers from which to acquire resources at more competitive prices, new players with whom to relate for various reasons (i.e., norms, procedures). The relationships established are mainly twofold and governed by opportunistic motives on both sides. These relationships (i.e., agents, shippers, customers, distributors) very quickly become useful to gather information on potential customers, on specific aspects of the markets and on emerging opportunities (Brewer, 2001). More or less consciously, the firm develops relationships in a logical network as a means of accessing foreign markets (Meyer, Skak 2002), and finds itself,

in order to enter certain markets or to reduce risks, sharing part of its core functions with other partners, up to arriving at a form of "production network" where other independent local firms, linked by "some bond of trust", exercise some functions of the business chain (Rullani, 2009). Many authors believe that the network approach constitutes the only viable way for SMEs to compete internationally while minimizing limitations linked to size and facilitating the internal learning process (Håkansson, Snehota, 1995 - Madhok 1997 - Rutashobya, Jaensson 2003). However, for the network logic to be multiplicative requires sharing knowledge between the network nodes, namely, sensitive elements of production or research or market, factors that are often protected by the firm since they are linked to their core business (Rullani, 2009). Sharing knowledge can thus become an incentive for further development and innovation, with significant effects on the level of value generated and on the continuity of the relationships.

Openness to relations of trust and collaboration among actors along the supply chain thus allow small and medium-sized firms - very frequently family-run - to acquire resources, knowledge and competencies according to non-ownership models and allows them to compete successfully in international markets.

2. Research objectives and methodology

In light of the issues discussed, this contribution proposes providing some empirical evidence on how Italian family firms approach the Chinese market. In particular, attention will first be focused towards identifying the business models adopted to address Eastern markets in terms of both strategic planning and the definition of supply chain management methods. We will then address the issue of collaborations with different national and international agencies, organizations and actors of the production and distribution chain to seize the opportunities offered by the Chinese market.

The research was conducted on a sample of Italian firms operating in China, which were first investigated with a quantitative and subsequently with a qualitative approach.

The **quantitative phase** focused on internationalization and marketing strategies and tactics as well as the relationships established to operate in the Chinese market. To this end, a closed response questionnaire was administered by e-mail (see the summary of issues analyzed in Table 1) and divided into two macro-areas: the first focusing on key areas of the international marketing decision-making process, the second instead aiming to understand the type of operativity of enterprises in the Chinese market (export, import, local production, etc.) and to identify important relationships and partnerships throughout all stages of the enterprises' supply chain.

Table 1. Thematic outline of the quantitative phase of the research

1 st section	General information on the firm	How long have you been working on the international markets
		Number of foreign customers
		% of foreign turnover on total turnover
		Turnover trend
		Foreign countries the firm works in or for
	Motivation	Why the firm decided to internationalize
	Propedeutic activities	Market researches on foreign countries
	Operative behaviour	Active or driven internationalization process
		Number and characteristic of foreign customers
		Existence of alliances or networks to support the internationalization
		Firm's strength on international markets
		Human resource needs and organisational changes for internationalization
		The internationalization marketing mix: ethnocentric, globalized or adapted to the local specificities
International promotion		
Results	Advantages of the internationalization	
	Problems and difficulties of the internationalization and their impact on the management	
Future prospects	Other interesting countries to work in or for	
2 nd section	Focus on China	How long have you been working on the Chinese market
		Which activities are carried out
		Which activities have been carried out in partnership with Chinese actors
		Who are the crucial stakeholders and actors to operate in China

The data that will be commented on is based on 338 valid questionnaires for the first section (redemption 9%) and 131 for the second. The numerical difference is justified by the fact that the two parts of the questionnaire were separate. The section focusing on relations with China was sent only to those who had specifically highlighted their stable operability in the Chinese

market. With regard to timing, the first section of the questionnaire was sent out from May 2009, while the second from July 2009.

The **qualitative phase** was instead aimed at understanding the details of the operating models and the relations with operators and stakeholders in China based on personal interviews with a sample of 22 Italian firms active in several family-run industrial sectors. Managers of various business functions including firm owners, CEOs, marketing managers and export managers were interviewed. The interviews, carried out during the period May 2009 - December 2010, focused on the following issues:

- firm characteristics and business models (origin and evolution of the firm, organizational structure and offer)
- strategies and decision-making processes for the Chinese market
- collaborative relationships along the business value chain (actors involved and their roles, activities, resources used, type of relations)
- competencies required, or those to be developed, to operate successfully in China.

In this case, the outline of the interview was sent by e-mail prior to interviewing the firms involved in the research.

The search results will be presented in their entirety hereafter. First, Table 2 presents those relating to the general survey conducted in 338 family firms operating in the Chinese market, described by geographical characteristics, industry and number of employees.

Thereafter, the evidence deriving from the personal interviews with 22 firms will be interpreted, with the aim of proposing an interpretive model of the internationalization paths and suitable managerial behaviours to support successful operability in China.

Table 2. Characteristics of the responding firms

Italian Regions	n°		n°	Number of employees	n°
Abruzzo	4	Food	8	1-14	66
Basilicata	2	Furnishing	22	15-49	103
Campania	6	Footwear	31	50-99	62
Emilia Romagna	49	Chemistry, rubber and plastic	18	100-249	63
Friuli	1	Mechanics	167	> 250	37
Lazio	2	Services	17	n.d.	7
Lombardia	139	Textile and clothing	39		
Marche	38	Others	36		
Piemonte	29				
		Firms in the sample	338		
Puglia	3				
Sardegna	1				
Sicilia	5				
Toscana	24				
Trentino	3				
Umbria	5				
Veneto	27				
		Firms in the sample	338		

3. The main empirical findings of the quantitative research

3.1 *How Italian enterprises in China behave*

The first evidence provided by the research is that the internationalization of Italian firms in China is not a recent phenomenon. In fact, 86% of firms surveyed claim to have been present in the Asian market for over 10 years. The Pearson's coefficient calculation shows a positive correlation (0.246 **) ¹ between the percentage of foreign sales to total sales and number of years of presence abroad, confirming that the international experience of firms influences the size of turnover obtained abroad.

There is also a positive correlation between the number of years of operation in the Chinese market and number of employees (0.292 **), expressing a more 'traditional' presence in China of mid-sized firms.

The data also demonstrates proactive behaviour in the search for new customers and business opportunities, dispelling the myth of the passive behaviour of Italian firms, even of small to medium sized firms. When considering the reasons (Table 3) that convince firms to operate

¹ ** The correlation is significant at the 0.01 level.

abroad, 90% of responses² refer to the search for new markets for their offer. This means that firms do not simply await requests, be they stimulated or fortuitous, from abroad (72%).

Table 3. Reasons for internationalization

Search for new markets to sell products	90%
Satisfy requests from abroad	72%
Increase profits	67%
Identification of strategic partners	39%
Cost reduction	30%
Defend its national market from competitors	22%
Globalization of consumer needs	20%
Availability of government incentives	4%
Availability of European Union incentives	1%
Availability of regional incentives	1%
Other reasons	8%

An important signal comes from 39% of the sample that specifies the identification of strategic partners as a stimulus to internationalization. This is an evolution in managerial behaviour that is increasingly taking distance from individual behaviour, or at least non-cooperative behaviour. It is interesting to note that this reason was selected by 65% of firms with over 250 employees and, on average, by around 47% in the 100-249 range, demonstrating a better understanding among larger firms of the criticality of partnerships to succeed abroad, particularly in markets with high geographical and cultural distance. Analyzing the data by sector of belonging instead does not present any significant differences. The reduction in production costs as a determinant of investment in Eastern markets is a priority for only 35% of firms, while confirming (YYY, Y) that government, regional and community incentives are not taken into consideration. This may depend on the identification of strategic partners or the firm's established presence in the Chinese market. In high-context cultures such as China's, the external environment and situation as well as nonverbal behaviours are fundamental (Chee and West, 2005). Relations tend to be protracted over time,

² Question with multiple answer (choose up to 4 items)

personal ties are very strong and significant amounts of time and energy are invested in creating a relationship of understanding and trust with the other party (Weber, 2005). This can make market entry particularly difficult, especially for those firms that have not yet developed a vocation towards relationships and cooperation.

In terms of mode of entry in international markets³ (Table 4), we note that almost all interviewees carry out exporting activities (93%).

Table 4. 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%

The use of own sales staff or representative offices, in spite of limited size or requiring significant investments, is a relevant mode of entry. This testifies to the understanding of many entrepreneurs of the particularities of the market.

For all types of firms (23%), direct contact with the customer is crucial. However, the way of interfacing varies: while midsize 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.

³ Multiple choice question.

Finally, direct presence through greenfield (13%), joint ventures (10%) and acquisition of existing businesses (7%), is still not implemented to a great extent and used more often by medium-sized firms.

With regard to company size, medium-sized and more structured firms (over 100 employees) show using different market entry channels in combination, as well as more innovative forms of collaboration. Smaller firms instead concentrate on indirect channels and direct contact subsequent to the presentation of their products.

Interesting to note is that the size of foreign sales on total sales seems to be correlated to some distribution methods:

- negative correlation for the use of agents (-0.145 **) and own sales staff residing abroad (-0.166 **);
- positive correlation for the use of the Internet (0.142 **).

In addition, the firm's years of presence in China shows an inverse correlation with the exportation mode (-0.258 **), clearly indicating the need to use more pervasive methods over the long term that allow greater interpenetration with the territory, the population and the local culture.

The non-superficial attitude of Italian firms active in China is further highlighted by the fact that 70% of the sample sought information to understand the market better. Of these, as many as 50% directly undertook research in addition to using sales channels.

Reflecting on the internationalization strategy in China of Italian family firms, 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 differences by sector are given in Table 5, which

shows the high significance of country of origin for the footwear and leather sectors, which are traditional Italian export sectors.

Table 5. The “Made in Italy” factor as a point of strength of Italian firms

	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%	53%	11%

The elements in which firms actually invest instead to penetrate a new market are product quality (80%), product innovation (55%) and pre/post-sales services to customers (42%). From the data presented in Table 6 it is clear that the country of origin effect is of greater importance for firms belonging to the more traditional sectors of “Made in Italy” products, in particular, footwear and leather goods (61%), furniture (55%), food (50%), textiles and clothing (46%).

The results of similar research (ZZZ, Y) offer us the opportunity to make an interesting comparison. The research cited above on Italian SMEs operating in foreign markets (not only in China), reveals lesser attention to all the components listed above, in particular investments in pre/post-sales services, which was indicated as crucial by only 24% of firms. This shows that Italian firms working with China adopt approaches that are more focused on the market and the customer. Table 6 demonstrates the particularities 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” has little meaning, leaving room for assessments that go beyond the geographical origin of products or suppliers. In these cases, firm reputation drives the decisions of Chinese operators. Reputation that is built with a

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

Table 6. Key investment factors for internationalization

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

From the organizational point of view, 44% of firms developed new competencies through the establishment of a foreign office (55% for firms exceeding 100 employees). 39% declared having hired qualified personnel (64% of firms with >250 employees and 57% of firms with between 100 and 249 employees), while only 27% of firms did not develop specific competencies. This group does not include medium-sized firms, as further confirmation of the fact that the more a company is involved in the Chinese market, the more it considers continued investment as crucial.

With regard to the other elements of the marketing mix, 67% of firms opted for a standardized product policy. Firms instead adopting a localized approach essentially make product changes (technical or induced by different norms, tastes and uses), formats, materials used, weight and colour.

Communication is a lever used by all firms (93%), with particular attention to fairs, to websites and trade journals (see Table 7).

Table 7. Communication to foreign markets

Companies carrying out promotional activities abroad	93%
Communication mix:	
trade fairs abroad	76%
internet website	70%
national trade fairs	59%
advertising in magazines	53%
Italian trade missions abroad	22%
others	12%

3.2 Operativity and business relations in China

The second section of the questionnaire explored the type of activities that the firms most involved in China (131) undertake in this market as well as the use of collaborations with local actors, institutions and organizations of various kinds.

In terms of type of activities, 52% of firms declared exporting directly to China, while 33% sell through intermediaries. Other firms (22%) produce on-site via their own factory and through contractors (10%). 29% of firms import materials and semi-finished products (18%) and finished products (24%) from China. These data underscore what emerged most strongly in the first research phase, namely that firms that have chosen China as a strategic market adopt more demanding entry methods in financial and organizational terms. There are significant behavioural correlations on production and market entry strategies:

- years of experience in China is inversely related to the direct export mode (-.252 **), a clear signal that those who really believe in the market gradually opt for production investments in the territory;
- export and import activities tend not to cohabit in the asset portfolio of firms that work with China (direct export - semi-finished products import correlation -0.264 **, direct export - finished products import correlation -0.260 **);

- production activities in China have both internal end markets (localized products) and international end markets (local production with own factory and import of semi-finished or finished products correlation, respectively 0.256 ** and 0.222 **);
- production activities in China for which there is no local expertise foresees on-site assembly of semi-finished products mainly from Italy and Europe (0.404 **), pending the formation of product and process competencies in Chinese factories;
- on-site assembly of imported semi-finished products in China is positively correlated to the establishment of distribution JVs with local partners (0.278 **).

Continuing the analysis of managerial behaviours, it should be noted that the majority of family firms that have chosen to develop in China (86%) have established partnerships with organizations working *in loco*, thus understanding that this geographically and culturally distant market, which is also extensively high-context, cannot neglect direct or indirect marketing relationships in the territory. The main collaborations focus on sales activities (Table 8), although one can see the first significant signs of collaborations aimed at covering other stages of the business chain: manufacturing, procurement, research and development.

Table 8. Collaborations along the supply chain

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	21%
Others	5%

Table 9 instead shows some significant correlations between collaborative relationships in China such as the customer service and support, promotion and sales functions. It is also

important to highlight that tendentially, with an increasing time presence in China, collaborations are reduced in conducting promotional activities, post-sales assistance and services, research and human resource management, inasmuch as they are internally undertaken by hiring local staff.

Table 9. Some significant correlations in terms of collaborations

	Promotion	Sales	Customer services	Purchasing	Human Resources	Financial accounting	Legal advice	Company turnover	Number of employees
Years of experience in China	-.224 *		-.190 *		-.197 *				
Logistics					.207 *				
Production				.178 *					
Promotion	1	.196 *	.530 **						
Sales		1	.342 **					-.232 *	
Purchasing				1	.210 *		.189 *	-.310 **	-.246 **
Human Resources					1	.374 **	.309 **	-.239 *	
R & D						1	.173 *		
Financial accounting						1	.340 **		-.193 *
Legal advice							1	-.203 *	

** The correlation is significant at 0,01 level (2 cues).

* The correlation is significant at 0,05 level (2 cues)

The amount of foreign sales on total sales also reveals inverse correlations with collaborations that include procurement and sales functions, human resource management and legal services. Firm size, referring to the total number of employees, also shows a negative correlation with procurement collaborations and the accounting function, further proof that growth in size in China leads to not only strengthen market presence, but also operational competencies. Finally, with regard to stakeholders that are critical to activities carried out in China, only 14 of the 131 firms have no particularly significant relations in the Chinese market. For the remainder of respondents, those making a decisive contribution are those that have direct impact on the business chain (Oschetti, Paparelli and Pira, 2008). Collaborations with suppliers and distributors also play an important role. These entities perform information functions, especially in the traditional “Made in Italy” sectors such as food, clothing and footwear/leather goods, while more and more local institutions and governments play a key role (Table 10).

Table 10. Determinant collaborations in China

<i>Public Institutions and Banks:</i>	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%
<i>Private Institutions:</i>	31%
Trade Associations	16%
Fair Organizations	18%
Others	2%
<i>Supplier</i>	22%
<i>Clients</i>	42%
<i>Traders and Distributors</i>	29%
<i>Others</i>	15%

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 (e.g. for recruitment and the identification of alternative commercial partnerships and/or a local partner) (Child and Tse, 2001 - Chen, Chen and Ku, 2004).

4. The main empirical findings of the qualitative research

4.1 Business models for successful internationalization: focus on innovation

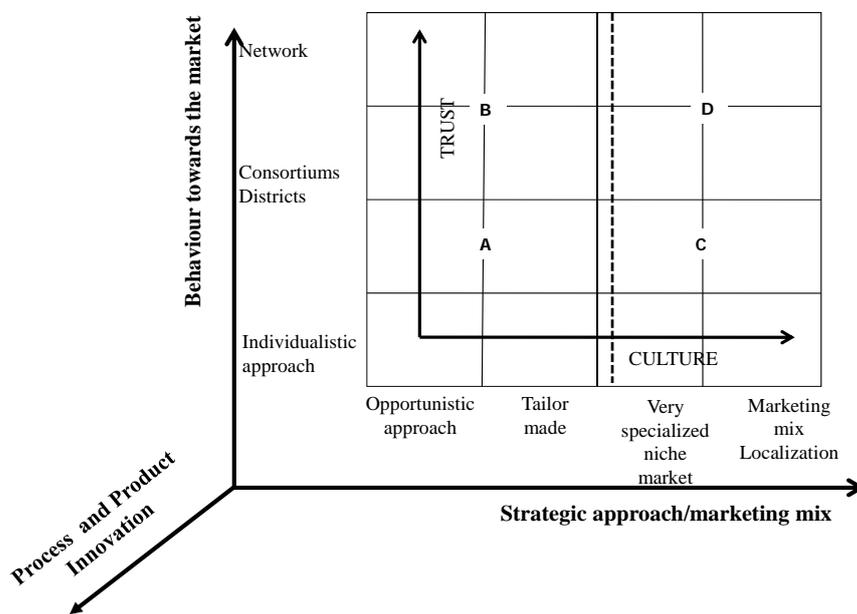
Strategic as well as operative transitions towards an international perspective are highly complex since they have a significant impact on established equilibriums and ingrained habits, imposing extensive innovation processes (Velo, 1995) that are often difficult to design and manage. The main complexities can be attributed to the orientation required for the survival and growth of the firm such as:

- process innovation (Davenport, 1993)
- product innovation (Dougherty, 1992)
- market approach innovation, extensively influenced by the cultural distance between countries (Usunier and Lee, 2005)

- strategic innovation, which must increasingly consider the virtuosity of collaborations between firms (Tikkanen, 1998).

These elements were incorporated into a model that reinterprets the strategic and tactical orientations of firms that cater to international markets (Battaglia and Cedrola, 2010) and was used as reference to comment on the quality of research evidence and the identification of sustainable paths of internationalization in China (Fig. 1).

Fig. 1 A strategic model for sustainable internationalization



Source: adapted from WWW, Y

The abscissa illustrates the strategic development of internationalization; the vertical axis represents the managerial evolution of firms towards the market while the Z-axis illustrates the product and process innovations of the firms themselves. Describing the X-axis from the origin, in first place are enterprises with an opportunistic approach to the market. This implies the sale of excess-production across the border, the occasional satisfaction of requests coming from outside and the search for pure production efficiency. Continuing along the X-axis are firms that follow a tailor-made approach, they create a totally new or modified product in

accordance with the demands of each single customer. The operational logic, mainly based on manufacturing, foresees the implementation of product specifications dictated by or agreed with the customer. Contracts or commissioned projects are included in this context. Often these two approaches correspond to the initial internationalization methods of firms that do not yet present themselves strategically to the markets. In fact, this area includes both firms in search of savings and low-cost efficiency, and firms with production capacity that attempt to exploit a new and very promising emerging market. For example, firms falling into this category are "Made in Italy" firms that exploit sales opportunities *tout court* across the border. Other firms in the "specialization" area have completely changed their business behaviour according to two approaches. One is the niche approach, having as reference model the "German hidden champions", defined as small, highly competitive, little-known firms operating in niche markets at world level (Simon, 1996). The other approach focuses on drivers such as design, specialization and technological leadership. Falling into this group are "Made in Italy" firms that address the markets strategically, operating, for example, on the basis of a strong brand or consolidated their technological or country image. A further group of firms define and adapt their offer according to the market of destination, in addition to having their own consolidated expertise in the specialization area (localization approach). This implies total or partial modifications of their marketing mix (product, communication and service), as well as the way to do business (organization, management of resources, work method, temporal distribution of activities and processes), in order to meet the specific cultural differences of the countries or markets. Localization of the marketing mix and the resulting adaptation of internal businesses processes are not sufficient to ensure the sustainability of the business and the synchronization between supply and market at international level. Thus, the behaviour of firms towards the markets and firm culture also assume importance. These two variables, indicated on the Y-axis, show the firm's tendency to

work autonomously or in collaboration with other national or international subjects belonging, or not, to the production chain. The position on this axis expresses the pervasiveness of collaborations on a production/export level in the case of districts and consortia, and on a strategic cooperation and partnership level in the case of networks. The willingness to cooperate leads to the themes of trust and firm culture: an entrepreneur who does not delegate will not readily collaborate in an attempt to seize opportunities.

The evidence emerging from the quantitative research phase made it possible to select some family firms that have distinguished themselves in the Chinese market due to a technique, method, process or activity that has enabled them to achieve significant results. Exploring their business models and their system of relations was the subject of the in-depth interviews. These have allowed tracing the paths of growth of the firms while selecting and understanding the factors (i.e., processes, values, people) that support these successes. The summary presented in Table 11 aims to make the orientation towards the Chinese market evident, considering both the behavioural approach to international markets and the issue of trust and collaboration ("Y" axis of the model in Fig. 1) as well as the strategic approach to the market in terms of strategy and marketing mix localization ("X" axis).

It is clear that operational excellence is not closely related to industry type or firm size, and that a unique path exists to achieve positions of excellence in the Chinese market. Each of the firms analysed has taken different paths, although they share similar traits, at least for those who hold leadership positions in China: the relationship with the territory and various actors of the supply chain and an orientation towards customers and markets. Process and product innovations, albeit more in the background, are essential features.

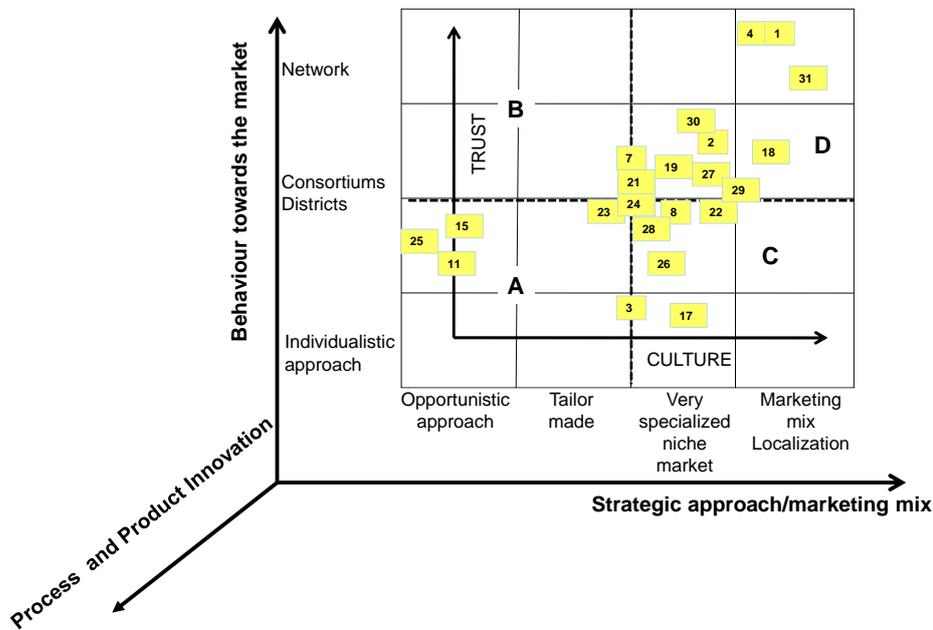
Table 11. The key characteristics of the 22 firms surveyed

<i>N°</i>	<i>Industry</i>	<i>Turnover</i>	<i>Number of employees</i>	<i>Years in China</i>	<i>Production site for the Chinese market</i>	<i>Chinese plants produce for other markets</i>	<i>Marketing mix localization</i>
1	Electronics (security systems)	116	700	15	China - Asia	Yes	Product - Distribution
2	Shoe manufacturing	57	100	4	Italy	No	Distribution - Training salesforce
3	Engineering (machines to fill extinguishes)	1,5	6	2	Italy	No	Product
4	Ecological batteries and cars	60	300	15	China	Yes	Product - Distribution - Training distributors
7	Engineering (control systems and valves)	23,75	160	22	China	No	Product - Distribution - Customer Service
8	Hydro-thermo sanitary (valves and components)	260	950	17	Italy	No	Product - Distribution - Training salesforce and technicians
11	Food (pasta production)	230	444	13	Italy	No	--
15	Food (rice production)	110	137	12	Italy	No	--
17	Household pressed metal	100	500	n.d.	Italy	No	--
18	Lighting engineering	168	1217	6	China	Yes	Product - Service
19	Special fertilizers	75	268	8	Italy - China	No	Distribution
21	Alluminium finishing	20	44	20	Italy - China	No	Product
22	Rubber chemical	44	170	7	China	Yes	Design
23	Engineering	240	969	8	Italy	No	Assembly
24	Textile engineering	25,6	78	30	Italy - China	No	Customer service - Distribution
25	Metallurgical	16	76	30	China	Yes	--
26	Chemical cosmetic	3,6	23	2	Italy	No	Product - Distribution and Training
27	Electronic	97	581	9	Italy - China	No	Product - Distribution
28	Engineering (valves)	132	700	5	Italy - China	Yes	Product
29	Pneumatic automation	93	384	13	Italy - China	No	Distribution - Product
30	Engineering	18,5	60	2	Italy - China	No	Distribution
31	Engineering, automotive filters	230	2800 (of which 2200 in China)	13	China	Yes	Product - Research - Customer service - Distribution

4.2 The business models of Italian firms operating in China

Although in general Italian firms are closely collocated to the origin of the "Y" axis in Fig. 1, the 22 firms surveyed show different propensities. The interpretative model proposed is the starting point to position the 22 firms investigated on the axes (Fig. 2).

Fig. 2 Positioning of the case studies



Quadrant D of the matrix includes firms that best interpret the relationship with the Chinese market, expressing a balance between product-process-market and relations with the Chinese system. The top part of the quadrant highlights the firms (4, 1, 31) that have invested strategically in the Chinese market mainly in the wake of their international customers but simultaneously developing Chinese customers. All have introduced highly innovative products and processes into China, also developing less technologically advanced products suitable for the local market (developing) and some international markets. Elements that unite

the firms in this cluster are: in situ production (with WFOE structures) mostly for the Chinese market and intense relations developed with suppliers, distributors and customers, and with institutions and government agencies. The four firms operate in the automotive supplier market as OEM suppliers (original equipment manufacturer) of Chinese and international brands. Some of these also operate in the after-market providing (4) a pre/post-sales service through a dedicated assistance network.

On the left side of quadrant D are firms that, although having established relations on the territory for the management of the business, give priority in their operations to the specialization component, be it technical, product or image related. These firms belong to very heterogeneous sectors (from electronics, to valves, to automation) and generally favour the technological dimension. Only one company (2) is in the traditional “Made in Italy” sector, namely, the shoe industry. All other firms in the "Made in Italy" sector investigated are instead positioned in other areas of the matrix, highlighting a minor adjustment of the marketing mix, limited partnerships, lesser proximity to the markets and, often, a significant degree of self-reference. Returning to discuss the features of firms in the left part of quadrant D, we note that collaborations and relations have become an integral part of their operations in China in order to adapt their innovations to the particularities of the market. At the same time, we note the criticality of the protection of know-how that explains the location of many firms in the lower part of the quadrant. Here we find firms operating in Chinese JVs, often with minority shares, which do not predominate over the relationship with the company (internal) and with the market.

Firms that instead have the greatest difficulty in establishing direct managerial figures (Italian or Chinese) in Chinese organizational units and that are still based on the “trusted individual” are in the cluster closest to the centre of the matrix. Critical in this case is distribution

management, all too often dependent on only a few individuals, although trusted, and of local origin.

When turning our attention to the lower quadrant (C), firms belonging to different sectors marked by high levels of specialization that do not yet consider it opportune to invest in relations and collaborations are also evidenced. The reasons may be their recent approach to the Chinese market (26, 3) or a marked self-reference linked to the strength of the brand (17) or, above all, an enterprise culture anchored to the figure of the entrepreneurial group and to the district of belonging with its relative manufacturing culture.

Preceding this position is the tailor-made area, which includes firms operating entirely on commissions, leaving room for a minimum level of cooperation, especially with customers and with the local labour force. The relations in this case are targeted and superficial, since they are not weight-bearing elements of the business model.

Finally, in the vicinity of the ordinate axis - the opportunistic approach - three firms are located (11, 15, 25): the first two belong to the food sector and the third to the metallurgical sector. Collaborations in these cases were put in place with some distributors and local caterers or, occasionally, with the Italian Institute for Foreign Trade and the Chamber of Commerce (Italian firms on mission to China). Or again with Chinese private or state partners for the implementation of JVs that after a satisfactory initial takeoff (around 30 years ago) have declined, relinquishing their presence in China as purely opportunistic.

4.3 The evolutionary paths of managerial innovation and market approach

The five aspects indicated below serve to outline the evolutionary path of the more advanced cases (1, 4, 31) as well as of others that present interesting evidence (7, 18) and to understand the stages or instances of breaking with consolidated business models.

1. All firms leverage on their key business factors: technology, innovation and product quality, but with two distinctive features. On the one hand, they have created manufacturing or process facilities in China based on the same standards of quality and performance as in Europe in order to respond to European customers who followed this market, but also to participate in the development of new markets. On the other hand, the technology was left to the territory, developing products and processes on site for the local market (Chinese or Asian) and with local partners ('Z' axis in Figure 2) demonstrating an ability to listen and to adapt to the local context ('X' axis in Fig 2). Of particular interest is the growth path put in place (4, 31) to help local suppliers achieve the quality levels required by industry and international business standards.
2. The organizational mode of entry into China, after a more or less lengthy fact-finding phase, started for (4) with a JV, required by local regulations, and for other firms directly with WFOE production (31) or a research unit (1), highlighting a clear strategic choice in the market. All firms made continuous investments in the adaptation and expansion of production sites, in their relocation, in the construction of new sites to better respond to local demands (Table 12), simultaneously developing adaptation to the local market ('X' axis in Fig. 2).
3. The most significant aspects are found in the different management of internal and external relationships, enabling firms to generate value for themselves and for the market, and to position themselves in the local context. Firms with a more established presence in the territory tend to entrust their technical functions (R&D) to Italian personnel on commission or expatriates. Relations in China develop through speaking Chinese and firms have therefore quickly realized the need for local staff to manage relationships with the external environment.

Table 12. Evolution of manufacturing presence in China

1	2007: WFOE R&D in a technological park 2008: acquisition of business unit (production and research) in Asia with Chinese customers
4	1996-2002: 5 JVs with Chinese majority for production and trade 2002: WFOE, and establishing customer service agencies
31	1983: selling equipment and technologies 1996: first WFOE 2010: WFOE with 4 plants
7	2004: WFOE in a technologic park 2010: establishment of an Italian sales manager in China to develop a commercial structure
18	Representative office 2006: WFOE (greenfield)

Western managers are important figures in relations with government agencies and partners, their constant presence in the territory is vital to ensure immediate market response. The fact that the most important contracts are often sealed on social occasions was mentioned several times (2, 4), although it is important to have a competitive business (31). Relations are critical since they allow interacting with top management in the case of customers and suppliers, also providing access to the local services system (e.g. the financial system), in the case of a relationship with a partner who represents an important figure in the territory (31). According to (31) occasional presence does not guarantee continuity of the relationship: it is often seen as the manifestation of a lack of interest and can create friction or change interests between the JV partners.

Internal staff relationships are also critical since human resources are key elements in achieving quality, implementing processes and managing the at-times sensitive relationships with the outside world. In these cases, training is particularly appreciated even if carried out at the parent company in Italy.

4. The importance of external relations with institutions is confirmed in several respects such as the role of municipalities in relation to new players emerging among

government organizations. For example, in case (7) - a company with recognized technological capabilities - in order to follow customers appointed a consultant to help find localization opportunities in China and in a short space of time, almost without realizing it, found itself inserted in a technology park. In only one month, the area had been found, the contractor went onsite to inspect the plant and signed the lease. According to the entrepreneur, "... the very efficient municipality has helped the company... acting as a mediator with the government ... participating in the creation of a customs warehouse, its management and its definitive launch ... the park authorities granted the business license in a short time ... " Also (1), illustrating the structure in China, highlighted the role of institutions, citing with pride that, "it has been accepted in the technology park ... along with other large firms with high reputations..." and mentions the various services provided by the park that enable firms to operate there with confidence in an environment that in itself is complex.

5. Finally, respondents confirmed that relations of trust are a determinant part of business, albeit not solely. The Chinese cultural approach sees socialising prior to the formal consolidation of business activity as fundamental, even in a personal setting. Similarly, in wanting to pursue a successful partnership, understanding what the other party wants is essential.

Firms (4, 18) have moved one of the sons of the entrepreneurs to China in order to strengthen 'peer' trust. Firm (4) has established, in addition to production facilities, service points and service-agents run by independent distributors in order to garrison the territory and provide assistance and services to the market.

5. Conclusions

In agreement with that affirmed in national and international literature on the subject of strategies in foreign markets, the empirical analysis shows that the family-run Italian firms investigated increasingly demonstrate proactive behaviour towards foreign markets, especially to countries that are geographically and culturally distant such as China.

Smaller firms also tend to listen to and understand the markets of interest, getting closer to the local culture, adapting to it and therefore adapting their own businesses not only in terms of their internal structure but also the marketing mix levers, often with the support of strategic *in situ* actors.

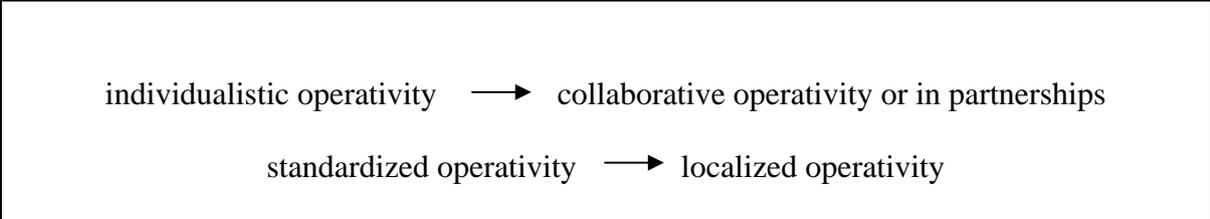
In this regard, the research data shows that highly competitive sectors with international experience are particularly distinguishing their business and marketing strategies. Namely: furnishings on quality, design and image, engineering on quality (well-made), pre/post-sales innovation and service, chemical/rubber/plastic on flexibility and price in addition to quality. These adaptations and this behaviour, although often motivated by legislative, bureaucratic, protectionist type needs or target market use, pushes firms to adopt new structures and resources compared to their historical roots and business models.

The results of the analysis confirm the importance of 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 manage the complex relationships indicated above requires having a well-trained team prepared to face and deal with the counterparties of distant cultures in order to achieve sustainable development over time.

To operate in China, cutting edge technology and a quality product or strong brand are often a necessary but insufficient condition, especially when aiming for significant and continuous presence over time.

Finally, the interviews revealed that the positions of excellence reached by firms (quadrant D) are the result of an evolutionary path independent of the market entry strategy. The firms that interpret the Chinese market from a strategic perspective have progressively worked towards involving China and the Chinese, moving from simple methods - individual commercial relations, representative agencies, etc. – to more demanding methods both in terms of economic and relational investments such as joint ventures and direct investments (WFOE) through acquisitions or greenfields.

The proposed interpretative model suggests managerial development paths that appropriately accommodate the longevity of the firm and its market synchronisation. Firms can but benefit in the long term - especially with reference to markets that are geographically and culturally distant - from the following strategic transition while taking into consideration the specific cultural aspects of the penetrated markets:



Product innovation and process innovation is the result of continuous interaction between the firm, the customer and its partners, which through continuous internal and external adaptation allows moving forward. This *modus operandi* requires an evolution of corporate culture that has to increasingly embrace the logic of information shared and disseminated within and outside the firm, as well as trust to be developed and grown over time.

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