

## **NEW CHALLENGES FOR THE INTERNATIONALIZATION OF FIRMS. ITALIAN COMPANIES IN CHINA: BUSINESS MODELS AND MARKET POLICIES**

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### **ABSTRACT**

The emergence of markets such as China opens new opportunities in the internationalization process. For companies, especially for small and medium sized enterprises, the international context is a challenge to be faced by mobilizing and sharing the resources and knowledge of other players. This is subject to establishing strategic relations, in both the internal and foreign markets, which affect the entire corporate supply chain.

This theme was investigated by means of a study of a sample of companies operating in or for the Chinese market. The work provides managerial implications based on an evolutionary model to understand firm behavior in international markets.

### **INTRODUCTION**

Changes in the national and international economic context and the opening of markets has guided the activities not of only large firms, but also those of small and medium-sized enterprises, beyond national borders. New opportunities and challenges have emerged from this global scenario and especially the need for a new approach to markets, no longer based on the traditional competition logic (Harold et al., 2000).

Numerous theories and empirical researches have been suggested in an attempt to delineate the internationalization processes and identify suitable methods and models. What emerges is that, while economic theory has investigated the determinants of these processes for some time now, in an attempt to determine the reasons and underlying motivations of trade between countries, there is still a remarkable diversity in the contributions and a fundamental lack of a common and shared foundation especially as concerns SMEs (Melin, 1992). In fact, there is no form of modeling that has offered specific support for this category of firms (Etemad, 2004). The majority of studies have focused on larger enterprises and on multinational companies, often in specific countries (Zwart, Gankema, 1990). As a result, traditional theories applied to different situations and dimensions are associated to the internationalization process of SMEs.

In particular, classic theory on internationalization describes commercial exchanges as a source of comparative advantages among parties (Smith, 1776; Ricardo, 1817) in terms of production factors (Olhin, 1933), technological innovations (Posner, 1961), intangible assets (Linder, 1961) or the presence of specific advantages (compared to competitors, advantages of internationalization, advantages of location) that are able to guide direct foreign investments (Hymer, 1976; Dunning, 1988).

In most subsequent theoretical contributions instead, internationalization is seen as a process of progressive and incremental development in terms of both risk and investment and entrepreneurial involvement. Specifically, for SMEs this path seems to be linked to the type and quantity of resources available in terms of innovation, know-how, technology, etc. (Leonidou, Katsikeas, 1996). Precisely because of progressive international involvement, the internationalization of enterprises is described as a multidimensional concept composed of operational, market, product, and time and performance variables. The strategic choices are instead influenced by factors such as economies of experience, information needs, the selection of entry methods, the effects of cultural distance, etc. According to this perspective, the adoption of international openness by SMEs is only subsequent to the achievement of a solid and competitive position in their own market. International expansion is thus understood as a means and strategy of growth (Cavusgil, 1980; Ruzzier, Antoncic, Hisrich, 2007).

A matter of particular importance for firms in international contexts is the cultural distance between the parties. The cultural aspects to consider for a correct approach to the markets concern the individual factors of the participants, the cultural dimensions of the specific firm and the national cultural factors to which the firm belongs (Kostova, Zaheer, 1999; Usunier, 1996; Ghauri, Usunier, 2003). They reflect the way in which people express themselves in terms of symbols, views on time and considerations on space and related dimensions (Usunier, Lee, 2005). Culture also permeates all the elements of the marketing mix and the validity of these elements must be assessed in the specific cultural context, both in B2B and B2C markets (De Burca, Fletcher, Brown, 2004).

In support of the effects of cultural distance, international literature often stresses that companies first approach the internationalization process towards countries that are perceived as culturally near, before venturing into countries perceived as more distant (which could be China), in order to reduce the level of uncertainty (Johanson, Vahlne, 1992). This is why firms often tend to export to seemingly similar countries. A consequence is that products are exported in the same way as they are distributed on the national market, without making the adjustments required (O'Grady, 1996).

Further contributions highlight how the traditional Italian industrial structure, with a host of mainly family-based SMEs, establishes internationalization based on artisan experience and production specialization (Cedrola, 2005). More specifically, research and scientific production in the Italian context can be grouped into several macro areas:

- local district production systems and networks and internationalization processes (Rullani, 2006; Musso, 2006; Chiarvesio, Di Maria, 2009)
- analysis of competitive factors determining international openness (Varaldo, Ferrucci, 1997; Caroli, Lipparini, 2002; Marcone 2005)
- the relationship between ownership structure and access to foreign markets (Becchetti, Gonzales, 2001; Gallo et al., 2002)
- age and size in foreign development (Bonaccorsi 1992; Ferragina, Quintieri, 2001)
- characteristics of the governance system and internationalization processes (Compagno, 2003)
- entry method, Italian SME internationalization strategies and models (Mariotti, Mutinelli, 2001; Bontempi, Prodi, 2009; Zanni, Zucchella, 2009)
- subjects, relations and international management of the value chain (Pepe, Musso, 2009; Cerutti, Delbufalo, 2009; Belussi, Samara, Sedita, 2009).

Other scholars (e.g. Rullani, 2002, Cantù, Gavinelli, 2009) highlight how the territory is a vital resource because its own infrastructure, human resources and tax concessions support local development. In particular, Garofoli (2003) focuses on resources based on social relations and on the cultural environment. A key role is thus recognized to social relations, which affect the entry procedures to international markets, as the drivers of the development of interconnections between the various areas, support for the development of knowledge and reducing the risk and uncertainty of international markets. In light of this, commercial and production internationalization depends on the ability of firms to adapt to the context in which they operate and gradually learn in terms of experiential knowledge (Eriksson, Johansson, Måjkgård, 1997). The aim is to reduce the information gap on international markets and become familiar with the conditions in the host country (Hostende 1980).

Finally, a growing number of contributions argue that Italian firms should rely on the exploitation of existing market relations (personal or interorganizational) between firms involved in the production, distribution and use of goods and services within an industrial system. According to these contributions, firms establish and cultivate relations with partners belonging to foreign networks to overcome their own limitations. In so doing, they influence and guide the internationalization process (Madhok, 1997; Cedrola, 2006; Cedrola, Cantù, Gavinelli, 2009). The collaborative and network approach should therefore be adopted to link the various actors involved in the production and commercialization processes of a product and/or service. This helps to redefine the value chain and to achieve profitable results in international markets. With these premises, the network becomes an instrument of governance (Belussi, 2007) able to manage cooperation between firms with various resources, skills and heterogeneity towards learning by interacting processes (Belussi, Pilotti, 2006; Zucchella, 2006).

## **RESEARCH OBJECTIVES AND METHODOLOGY**

This paper proposes describing how Italian firms approach the Chinese market and in particular, how they have changed their business model to face the challenges presented by this market. The collaboration and cooperation arrangements existing between the actors along the business value chain is the focus of the analysis. The results are based on qualitative research that investigated a sample of 31 Italian firms operating in different industrial sectors. In-depth interviews were carried out with managers with various business functions such as CEOs, marketing managers and export managers.

The interviews began in the second quarter of 2009 and focused on the following issues:

- the company characteristics and business models (origin and evolution of the firm, organizational structure and offer);
- decision-making strategies and processes for the Chinese market;