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### **Sicilian Wine exportation to China**

The Small and medium enterprises internationalization

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## Introduction

The inspiration for this thesis is the poem "Ode to Wine" by Pablo Neruda. In this poem, wine is summed up as a convivial drink, as a moment of sharing. Wine is joy, it is friendship, it is love. Pablo Neruda sees wine as a woman to love. Wine is the product of the earth, the symbol of autumn and man. Wine is a product to be appreciated and enhanced.

Italian and international literature is full of references to wine. Wine is the symbol of wisdom. Wisdom because it gives flavour to life and because wine knows how to dissolve the heart and brings out what really inhabits the heart. Wine can turn simple food into a feast. The process of fermentation, processing and care of skilled and experienced hands turn grape juice into a drink of many facets.

From wine, a typical product of my land, namely Sicily, comes the curiosity to discover the goals and entrepreneurial projects of the wineries of my territory. Starting with the research, I found that some wineries in western Sicily export internationally and that some of them also trade with China.

The main question I asked myself is: how does a reality as small as that of a small company trade with markets as large as the Chinese market? So, the primary intention is to understand how a small, family-run company emerges, how it manages to make itself known and export product to the world.

Internationalization is a process that concerns companies that want to invest abroad.

It's a process that has many advantages but can cause problems for the company if bad business choices are made. The main reasons for a company to internationalize are: to enter new markets, to reduce costs and enhance competitiveness, to exploit competencies abroad, to take advantage of lower taxation, cheaper natural resources or to share risks over a larger market. Firms generally go international by exporting their products first, then by establishing sale representatives in the foreign countries, and then possibly setting up facilities.

The first chapter focuses on the protagonists of internationalization: small and medium enterprises and the essential structure of these companies. The essential structure is defined by the economic subject, the staff, the assets and the specific combinations of production and consumption processes.

Often, given the small size of the companies and the small number of staff, the economic

subject also coincides with the executive and administrative part.

Another aspect that characterizes small and medium-sized enterprises is the close relationship between family and business. In fact, small and medium-sized enterprises are often family-owned companies, so the main administrative positions are managed by members of the same household. In this case, it is not easy to manage the administration of the company. Another hallmark of small businesses is the centralisation of the decision-making and management system. In fact, the main decisions depend on the entrepreneur.

Although there is no single definition of internationalization, we can say that internationalization is a complex process and a long-term strategy that depends on the variables given by the type and size of the company that wants internationalize.

The internationalization process is a process that has variables based on the characteristics of the company. In fact, each company has its own characteristics, its own decision-making process and its own financial structure.

Internationalization is a process of several stages. At each stage the company has different behaviours that are influenced by internal and external factors. Internationalization can be understood as a process that starts from a relatively simple but systematic relationship of companies with foreign markets and with time leads to forms of investment abroad and towards the developing competitive, transactional and collaborative relationships with other companies.

When a company decides to start an internationalization process, the company chooses a way to enter the new market. About Export entry mode types, direct and indirect export is the most widely used entry mode where both production and the development of human resources and skills are concentrated in the country of origin, as it requires less investment and guarantees a high level of reversibility accompanied by a lower risk. According to the wine entrepreneurs I interviewed, small Sicilian companies use indirect export to trade with China. In more detail, companies do business with buyers. Generally, buyers are independent entities residing in a particular country. Buyers, conducting market studies, identify through fairs and other events products or brands and then decide to buy them and sell them in China.

In the second chapter, the focus is on the opportunities, barriers and obstacles of the Chinese market. China is a deeply competitive place, which needs to be approached with unimpeded and well-structured strategies. Its economic growth, combined with a large

domestic market and low labour and raw material costs, makes the People's Republic of China a coveted destination for all SMEs looking to expand their business across borders.

Given the strong presence of Italian companies in China, it is often asked why China is such a strong attraction for Italian SMEs entrepreneurs who want to expand their relations with abroad by starting a process of internationalization and what are the main reasons for entrepreneurs to bet on a market that is as promising as it is insidious. A factor driving entrepreneurs to invest in China is the high number of high-growth rate industries. Most foreign companies generate higher profits in China than in the rest of the world. Healthcare, food, clean technologies and mobility infrastructure retail and distribution are the fastest growing segments.

At the same time, China is a market full of pitfalls that scare entrepreneurs who want to start an internationalization project. Some of the biggest problems are the sheer size of the Chinese market and the lack of protection of the entrepreneur. Other issues are related to commodities, custom duties, legal issues, intellectual property and standardization.

One of the biggest problems for Sicilian wineries is taxation. In fact, it is difficult for the entrepreneur of a small company to sell Sicilian wine at a competitive price in China while maintaining the quality of the product given the taxes imposed by the Chinese government. The protection of intellectual property is also something to be looked at for small and medium-sized Italian companies. In this regard, a Sicilian winery that I interviewed, Fazio Wines, felt it necessary to register the brand to protect the name of the company.

One of the risks that most frighten companies doing business with China is the risk of non-payment. Therefore, the priority of the Sicilian wineries I interviewed is to verify the economic credibility of companies and the economic credibility of buyers before undertaking business dealings with the other party. In this regard, I have collected testimonies from Sicilian entrepreneurs who claim to have dealt with customer companies dealing with money laundering or with ghost companies that make huge orders and then do not pay and disappear into thin air.

One aspect that can hinder the internationalization of a small company is undoubtedly the cultural aspect. Cultural diversity encompasses many aspects that hinder the integration between Chinese and Western culture. The biggest barrier is definitely the

linguistic barrier. In fact, although in China the English language is increasingly used in school, institutional and commercial contexts, there are still few Chinese who have mastered the English language.

This is why Western entrepreneurs often find it difficult to communicate with their Chinese counterpart. The main Chinese cultural aspects to be cared for in the commercial sphere are the concept of harmony and the Confucian precepts. In more detail, the focus of Confucian precepts concerns the main hierarchical relations that underpins Chinese culture.

The concept of *Guanxi*, in the field of international affairs, means all those unwritten moral and behavioural rules belonging to Chinese culture that are important when an Italian company intends to do business with China. The concept of *Guanxi* is also linked to the concepts of losing face and non-verbal communication. These elements are also After the premises concerning the internationalization of the company and the most important cultural aspects of trade with China, the focus of the third chapter is on the export of Sicilian wines abroad.

The third chapter represents the implementation of the theories and models explained in the previous chapters. cultural elements typical of Chinese culture equally important in the commercial sphere. The wine sector is strongly representative of Italian culture and economy, both in terms of the wide variety of vineyards and wine types, as well as in terms of traditions. Given the growing success of wine exports and what wine represents for Italian culture, it can create interesting opportunities for wineries and entrepreneurs who want to export.

In more detail, I focused on the figure of the small Sicilian wine company typically family-run that decides to undertake business relations with foreign countries and, in particular, with China. I interviewed small wineries in the Trapani area. The companies interviewed, although they are three companies that share with China, are companies that have strong distinguishing features that distinguish them from each other.

The first winery, Cantine Birgi is a cooperative with members.

The second enterprise, Fazio Wines, is a family-run wine house with four family members running the business, plus employees outside the family. The third winery, Cantina Maltese, is a strictly familiar business company. In fact, all members of the family actively participate in the grape harvesting processes and the son, in addition to taking care of the manual work, also takes care of the managerial part. In the first two

cases all the processes of winemaking, and then harvesting, stocking of grapes and bottling take place within the winery itself. In the case of the third company, which is still growing, part of the winemaking process (grape storage and bottling) is carried out by a cooperative.

Another element that varies from cellar to cellar is the distinctive feature of the wine product of the three cellars. Cantine Birgi focuses on the minerality and salinity of the territory, Fazio focuses on the brand of the Erice DOP, Maltese focuses on green ethics and the concept of family and conviviality. Despite differences in production and land and product characteristics, the similarities are found on the part of the interview dedicated to trade with China.

These companies, before embarking on business relations with China, had other export experiences with different countries. All three companies have taken their first steps in the international arena through fairs. Later, they relied on competent buyers to export to China. Other similarities are found on the idea that wine entrepreneurs have made themselves about the Chinese customer, the culture and the obstacles encountered.

What is most striking about these entrepreneurs is the desire not to give up in the face of cultural diversity, language or legal barriers. They have been able to convey to me the love, dedication and care with which they carry out their work and the ambition to look to the future with a spirit of initiative and tenacity. The phenomenon of the internationalization of small businesses shows that with the right business choices, a good business plan and a bit of luck, China is not that far away.

## 前言

本文的灵感来自PabloNeruda的诗《葡萄酒颂》。在这首诗中，葡萄酒被概括为一种欢乐的饮料，作为分享的时刻。酒是快乐，是友谊，是爱。

PabloNeruda 把酒看作是一个爱的女人。葡萄酒是地球的产物，是秋天和人的象征。葡萄酒是一种值得赞赏和增强的产品。意大利和国际文学充满了对葡萄酒的引用。葡萄酒是智慧的象征。智慧，因为它给生活带来味道，因为葡萄酒融化了心灵，带出了真正栖息在心脏里的东西。葡萄酒可以把简单的食物摄入量变成盛宴。熟练和有经验的双手的发酵、加工和护理过程将不起眼的葡萄汁转化为许多方面的饮料。从葡萄酒来一个好奇心：发现西西里酒厂的目标和创业项目。从葡萄酒来一个好奇心：发现目标和创业项目，西西里酒厂。也因为葡萄酒是我土地的典型产品之一，这就是西西里岛。从研究开始，我发现西西里岛西部的一些酒厂向中国出口，其中一些也与中国进行贸易。

我问自己的主要问题是：一家西西里小公司如何与像中国市场这样大的市场进行交易？

因此，主要目的是了解一个小型家族企业是如何产生的。了解公司如何设法使自己出名并向世界出口产品也很重要。国际化是一个涉及希望到国外投资的公司的过程。

这个过程有很多优点，但如果做出错误的业务选择，可能会给公司带来问题。公司国际化的主要原因是：进入新市场，降低成本，提高竞争力，利用国外能力，利用较低的劳动力成本、更低的税收、更便宜的自然资源，或在更大的市场中分担风险。公司通常首先出口其产品，走向国际。然后在国外设立销售代表，然后可能建立设施。

本文的第一部分侧重于国际化的主角：中小企业和这些公司的基本结构。基本结构由经济主体、人员、资产、生产工艺的具体组合所界定。经济主体往往也与管理机构和

行政机构相吻合。这是因为公司规模小，员工人数减少。中小型企业的一个方面是家庭与企业之间的密切关系。事实上，中小企业往往是家族企业。因此，主要行政职位由同一家族的成员管理。在这种情况下，管理公司的管理是不容易的。

小企业的另一个标志是决策和管理系统的集中化。事实上，公司的主要决策和管理取决于公司负责人的企业家。虽然国际化没有单一的定义，但我们可以说，国际化是一个复杂的过程和长期战略。此过程取决于希望国际化的公司的类型和规模给出的变量。

国际化进程是一个关系到公司、有差异的过程。事实上，每家公司都有自己的特点、自己的决策过程和自己的财务结构。

国际化是一个几个阶段的过程。在每个阶段，公司都有不同的行为，这些行为受内部和外部因素的影响。

国际化可以理解为一个从公司与外国市场相对简单但系统的关系开始的过程。随着时间的推移，这一过程导致各种形式的海外投资。此过程基于与其他公司发展竞争、交易和合作关系。

当公司决定开始国际化进程时，公司会选择进入新方法。

对于出口进入模式类型，直接和间接出口是使用最广泛的输入模式。在出口模式下，生产和开发人力资源和技能都集中在原籍国。这样，出口需要较少的投资，并保证高度的可逆性，同时风险更低。据我采访的葡萄酒企业家介绍，西西里小公司把间接出口作为中国的出口进入模式。更详细地说，公司与买家有业务。一般来说，买方是居住在特定国家的独立实体。买家，进行市场调查，通过展会和其他活动产品或品牌识别，然后决定购买，并在中国销售。

在第二部分，重点关注中国市场的机遇、障碍和障碍。

中国是一个竞争激烈的国家，需要以不受阻碍和结构良好的战略来对待。中国的经济增长，加上庞大的国内市场和低劳动力和原材料成本，使中华人民共和国成为所有寻求跨境扩张业务的中小型企业的目的地。鉴于意大利企业在中国的存在，人们经常问，为什么中国对意大利中小企业企业家如此有吸引力。事实上，中国市场是想通过启动国际化进程来扩大与国外关系的人的主要目标。另一个问题是，企业家押注中国市场的主要原因是什么？

推动企业家到中国投资的一个因素是高增长率产业的数量。大多数外国公司在中国创造的利润都高于世界其它地区。医疗保健、食品、技术和移动基础设施零售和分销是增长最快的细分市场。与此同时，中国是一个充满内想启动国际化项目的企业家们的市场中。一些最大的问题是中国市场的规模庞大，以及企业家缺乏保护。其他问题涉及商品、关税、法律问题、知识产权和标准化。西西里酒厂面临的重大问题之一是税收。事实上，一家小公司的企业家很难在中国以具有竞争力的价格销售西西里葡萄酒。向中国出口很复杂，因为鉴于中国政府征收的税，很难保持产品质量。知识产权保护也是意大利中小企业需要关注的问题。

在这方面，我采访的西西里葡萄酒黑麦，Fazio Wines，觉得有必要注册品牌，以保护公司的名称和产品。

使中国有业务往来的公司感到害怕的风险之一就是付款的风险。因此，我采访的西西里酒厂的优先事项是在与另一方进行商业交易之前核实公司或买方的经济信誉。在这方面，我收集了西西里企业家的证词，他们声称知道那些处理洗钱交易的公司，或者那些发出巨额订单，然后不付钱，消失在空气中的幽灵公司。

进一步阻碍小公司的国际化的一个方面是文化方面。文化多样性包含许多阻碍中西文化融合的方面。

最大的障碍是语言。事实上，虽然在中国，英语在学校、机构和商业环境中总是被使用，但掌握英语的中国人仍然很少。这就是为什么企业家经常发现沟通困难。

商业领域要关注的主要中国文化方面是和谐的概念和儒家戒律。更详细地说，儒家戒律的焦点是支撑中国文化的主要等级关系。在国际事务领域，“关系”的概念，是指所有属于中国文化的不成文的道德和行为规则，这些规则在与中国做生意时具有十分重要的意义。关系的概念也与丢脸和非语言交流的概念联系在一起。这些元素是中国文化的典型，在商业领域非常重要。

在涉及公司国际化的前提和对华贸易最重要的文化方面之后，第三部分的重点是西西里葡萄酒的海外出口。葡萄酒行业是意大利文化和经济的有力代表。无论是从葡萄园和葡萄酒类型，还是在传统方面。鉴于葡萄酒出口的日益成功以及葡萄酒对意大利文化的影响，它可以为想要出口的酒庄和企业家创造有趣的机会。更详细地说，我重点介绍了一家典型的家族企业的身影，该公司决定与国外建立业务关系。我采访了特拉帕尼地区的小酒厂。被采访的公司是具有强烈特色的公司，即使这三家公司都与中国进行贸易。

第一家公司，Cantine Birgi，是一个与成员的合作。第二个，Fazio Wines 是家族企业，有四名熟悉经营业务的成员，加上家族以外的员工。第三，Cantina Maltese，另一方面，是一个严格熟悉的商业现实。事实上，所有家庭成员都积极参与葡萄收获过程，儿子除了照顾部分体力劳动外，还负责管理部分。在前两种情况下，所有的酿酒过程都发生公司内部。就仍在发展的第三家公司而言，酿酒过程的一部分由合作社进行。另一个显著的特点是酒窖葡萄酒的强度。Cantine Birgi 专注于领土的矿物性和

盐度，Fazio 专注于 Erice DOP 的品牌，Maltese 专注于绿色伦理和家庭与欢乐的概念。相反，在对华贸易方面，人们发现了这些相似之处。

在与中国开展业务之前，这些公司在不同国家也有其他出口经验。这三家公司都通过展览会在国际舞台上迈出了第一步。后来，他们依靠有能力的买家向中国出口。葡萄酒企业家对中国客户、中国文化和中国遇到的障碍有着相似的看法。这些企业家最引人注目的是，面对文化多样性、语言障碍或法律障碍，他们渴望不放弃。他们能够向我传达他们开展工作的爱、奉献和关怀，以及以主动和坚韧不拔的精神展望未来的雄心壮志。小企业国际化的现象表明，有了正确的商业选择、良好的商业计划和一点运气，中国并不遥远。



## **CHAPTER 1**

### **The internationalization of the Small and Medium Enterprises**

Internationalization is the process through which a firm expands its business outside the national market; it is a process studied and observed from various viewpoints like international management, strategic management and organization theory. From the perspective of a company, the need to take the way of internationalization may depend on many reasons: to enter new markets, to reduce costs and enhance competitiveness, to exploit competencies abroad, to take advantage of lower labour costs, lower taxation, cheaper natural resources or to share risks over a larger market. Firms generally go international by exporting their products first, then by establishing sale representatives in the foreign countries, and then possibly setting up facilities.

This chapter will mainly deal with the complexity of the internationalization process, with the variety of aspects that characterize internationalization and with the aspects that small and medium enterprises must evaluate before entering a new and unknown market.

To better understand the reasons that push companies towards internationalization, it is important to focus on the actors of the internationalization, and in particular on the category of the small and medium-sized companies. To better understand the Small and medium enterprises it is important observe their distinctive characteristics, what they have in common, the various business models and the different internationalization strategies they decide to undertake.

#### **1.1 The internationalization's actors: the SMEs**

##### **1.1.1 The distinctive characteristics of the SMEs**

The company is a social institution inserted within the economic aspect and as such is studied by the business economy that “investigates the phenomena of companies and researches the principles, uniformities that govern the rise, becoming and ending of companies<sup>1</sup>”. In each company, an essential structure is identified: the essential structure is defined by the economic subject, the staff, the assets and the specific

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<sup>1</sup> Azzini L., *Istituzioni di economia d'azienda*, Giuffrè, Milano 1982 p.14

combinations of production and consumption processes<sup>2</sup>.

From the observation of the elements of the company structure, uniformity of composition and structure can be grasped in order to allow an identification and a classification of companies with similar characteristics, so as to allow observation and explanation of companies' behaviour. In the search for uniformity and the principles that govern the realities investigated, we proceed by abstraction and by definition of working hypotheses that allow to study not individual companies often different from each other, but typical companies: abstract figures that have in common characteristics or in which certain phenomena manifest themselves with similar characters.

According to EU legislation, a company is considered "to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity"<sup>3</sup>.

When we talk about SMEs, we run the risk of making mistakes in recognizing what small and medium-sized companies are and identifying their respective "operational fields". Fortunately, the European Commission with a specific recommendation, provides a homogeneous definition of SMEs for all Member States and helps to distinguish between micro-enterprises, small businesses and medium-sized enterprises. So, the macro-category of SMEs was divided into three sub-categories based on quantitative criteria. For the purposes of a correct placement, the effective aspects (the number of employees, the annual work unit) and the financial aspects (the annual turnover or the annual balance sheet total) must be combined. Regarding the financial aspects, the choice between the criterion of the annual turnover and the balance sheet total is a choice at the discretion of the company taking into account the environmental context in which the company operates.

The second article of the Commission Recommendation of 6 May 2003 set that "1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

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<sup>2</sup> Azzini L., op. cit., pag.18; Masini C., *Lavoro e Risparmio*, UTET, Torino, 1970, pag. 26 e seg.; Onida P., *Economia d'Azienda*, UTET, Torino 1962, p. 4; Ferrero G., *Istituzioni di Economia d'azienda*, Giuffrè, Milano, pag. 135.

<sup>3</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C(2003) 1422).  
<http://data.europa.eu/eli/reco/2003/361/oj>

2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

3. Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.”<sup>4</sup>

This SMEs definition formulated by the European Commission cannot be applied to all companies operating in the world, it is a definition that is valid only in Europe. In fact, a global definition of small and medium-sized enterprises has not yet been drawn up. Therefore, each Country adopts its own definition based on the different cultural, political, structural and organizational factors that characterize the Country's economy. However, the uniformity of defining criteria is strongly desired due to the globalization process and the important role played by the small and medium enterprises and their economic growth at national and global level.<sup>5</sup>

It should also be said that the regulatory parameters provided for the definition of SMEs, which are exclusively of a quantitative nature, lead back to a sort of automaticity in the identification process, as well as an almost absolute value of these quantities.

The process that leads to definition and classification of companies based on the observation of their quantitative characteristics is not easy to implement. A company also relies on its many elements that vary over time.

The difficulties of having a correct and absolute definition stem from the insufficient observation of quantitative aspects, from the environmental and business dynamics that changes the significance and comparability of the elements identified in time and space and from the importance of companies' relationships with the external environment (sectors and markets).

In fact, the size of a company has a strong connotation of relative character, that is compared to competitors and the competitive environment in which the company is included. The characteristics of small and medium enterprises are not only quantitative: in order to outline small and medium-sized enterprises in a more realistic way, quantitative parameters and qualitative characteristics that differentiate SMEs from

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<sup>4</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C(2003) 1422)  
<http://data.europa.eu/eli/reco/2003/361/oj>

<sup>5</sup> Kushnir e al., 2010. Ardic e al., 2011

other types of enterprises should be considered simultaneously.

The CNEL (2000) proposed to jointly observe two fundamental classes of variables:

- Institutional: relating to ownership structure, family-business relations, organizational structure and technical, operational and financial conditions;
- Environmental: concerning the specifics of the company's relationship with the actors of the social and competitive system.

SMEs are also characterized by qualitative aspects that are common to them and differentiate them from large companies. One of the most important qualitative aspects of small and medium enterprises is the close relationship between family and business, often characterized by the confusion between ownership and government roles and overlapping of the company institute with the family institution. The second common qualitative aspect of SMEs is management and decision-making centralization. And the last major distinguishing feature that SMEs have in common is the presence in restricted competitive areas.

The relationship between family and business generally takes shape in a form of overlap of different types and degrees. In fact, there are full or partial relationships. When it comes to the total relationship between the family and the company, it is understood that all the human and capital resources that the company needs are provided by the owner family. On the other hand, when referring to a partial relationship between family and business, it is understood that the owner's family merely provides some of the resources and skills necessary for the business<sup>6</sup>.

The overlap generated by the relationship between family and business positively or negatively influences the mechanisms and dynamics within the company, the ability to respond to environmental stimuli and the development paths of the company.

As far as the asset sphere is concerned, the identity between family and company is not only based on material assets, such as the financial capital available, but also the human resources and the ability of those resources to support the company during its growth path are equally important.

However, in the third chapter we will address in more depth the role of families in the SMEs to better understand their structure, the organizational part and peculiarities of a very widespread reality in the business environment.

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<sup>6</sup> Cole, P. M. (2000). Understanding Family Business Relationships: Preserving the Family in the Business. *The Family Journal*, 8(4), 351–359. <https://doi.org/10.1177/1066480700084004>

Another distinguishing feature that small and medium enterprises generally have in common is the centrality of management<sup>7</sup>. The characteristics of the organizational variables are accompanied by a style of direction that is generally authoritarian. This behavior is facilitated by all the conditions that are created within small and medium enterprises: decision-making, personal knowledge of employees and their families, technical expertise of the entrepreneur, and a sense of belonging to a large family. These elements contribute to the establishment and preservation of a paternalistic relationship<sup>8</sup>. Regardless of the level of complexity of the small and medium enterprises' organizational profile, decisions of both operational and strategic nature generally depend on the ideas, expertise and skills of the entrepreneur<sup>9</sup>. In fact, those who support the entrepreneur often do not have special skills, but are simply family members, or people who have shared with the entrepreneur the history of the enterprise and therefore there is a debt of gratitude, or even people in strategic roles (for example, the administrative manager). As a result, in many cases the entrepreneur is the decision-maker and the most powerful driver of business activity, as well as the main driver of any form of strategic innovation.

The narrow competitive areas are another common factor that characterizes small and medium enterprises. SMEs generally operate in tightly competitive areas, and entrepreneurs do not pursue the development of the different dimensions of the competitive environment at the same time<sup>10</sup>. Referring to the narrow competitive areas, we refer to the segment area: variety of products sold and customers served; geographical area: geographical areas or countries in which the company operates; industry scope: a set of related sectors in which the company competes; degree of integration: number of stages of the production process carried out internally by the company.

Operating in competitively restricted areas is often due to the fact that a small business is characterized by the limited human and financial resources.

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<sup>7</sup> Sparrow, J. (2001). Knowledge management in small firms. *Knowledge and Process Management*, 8(1), 3–16. <https://doi.org/10.1002/kpm.92>

<sup>8</sup> Pezzani F., *Le imprese minori: le funzioni nel sistema economico e tipicità della loro gestione*, Milano: A. Giuffrè, 1985

<sup>9</sup> Romano, C. A., Tanewski, G. A., & Smyrniotis, K. X. (2001). Capital structure decision making. *Journal of Business Venturing*, 16(3), 285–310. [https://doi.org/10.1016/s0883-9026\(99\)00053-1](https://doi.org/10.1016/s0883-9026(99)00053-1)

<sup>10</sup> Cepel, M., Stasiukynas, A., Kotaskova, A., & Dvorsky, J. (2018). BUSINESS ENVIRONMENT QUALITY INDEX IN THE SME SEGMENT. *Journal of Competitiveness*, 10(2), 21–40. <https://doi.org/10.7441/joc.2018.02.02>

The features listed highlight the most common characteristics of Italian SMEs. However, it is obviously impossible to make generalizations: each company represents a reality in its own right with its own strengths and weaknesses. Despite the difficulty in defining the smaller enterprise, it is important to emphasize the need to overcome the prospect of SMEs as not growing enough large enterprises. On the contrary, they are economic and social actors who act with their own logics by addressing the market in a completely different way from large companies in the light of the peculiarities inherent in their nature. At the same time, it would be a mistake to think of them as backward realities and not inclined to both innovation and internationalization.

### **1.1.2 Models and structures**

Micro, small and medium-sized enterprises (SMEs) are at the heart of the European economy. They are essential for job creation, for economic growth and for social stability. Nine out of ten companies are SMEs and SMEs create 2 out of 3 jobs. In addition, SMEs stimulate entrepreneurial spirit and innovation across the EU and are key to promoting competitiveness and employment<sup>11</sup>.

An original study by Hermann Simon has changed the concept of excellence in management that often sees large companies and fast-growing companies as the protagonists. Simon is creating a new definition to characterize a large group of companies that compete in global markets, but which in many cases are unknown: The Hidden Champions. According to Hermann Simon's thinking: "Hidden Champions are a virtually unexplored source of knowledge. Scattered across the globe, thousands of these highly successful companies are concealed behind a curtain of inconspicuousness, invisibility and, in some cases, deliberate secrecy. This applies to the products these companies make, how they beat the competition or how they are managed internally. This secretiveness contrasts starkly with the dominant positions the hidden champions enjoy in their markets"<sup>12</sup>.

The hidden champion companies are all great innovators, so much so that many of these companies have created their own market. The main innovation is that they combine a

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<sup>11</sup> Commissione europea. (n.d.). Guida all'utente alla definizione di PMI. Disponibile 30 Luglio, 2019, da <https://ec.europa.eu/docsroom/documents/15582/attachments/1/translations/it/renditions/native>

<sup>12</sup> Simon, H. (2009). *Hidden Champions of the Twenty-First Century: The Success Strategies of Unknown World Market Leaders*. New York, United States: Springer New York. p.1

high focus on the product with global market access to meet the needs of customers around the world and, at the same time, they avoid outsourcing, diversification and strategic alliances, focusing instead on creating unsurpassed internal skills. One of the main goals is to care for the customer without having extensive marketing divisions. In addition, these companies are able to reduce employee turnover to zero.

A company must meet three conditions to be called a hidden champion.

These conditions are considered to be real selection criteria:

1. Must occupy the first or second position in the world market or the first position in the European market;
2. Must be medium or small in size and be unknown to most of the market;
3. Must have poor or no visibility.

In summary, Simon defines that the term "Hidden Champion" defines small or medium-sized companies, companies that dominate their markets worldwide and that deal with low-profile products, which have exceptional survival, which are global competitors and are often familiar. In conclusion it can be said that hidden Champions are successful companies, but not miraculous<sup>13</sup>. Simon arranges nine lessons for companies that want to imitate Hidden Champions in three concentric circles. Concentric circles represent: the inner core, the inner circle that depicts the inner skills and the outer circle that depicts external opportunities. The inner core includes the fundamental characteristics that guide the company and represent the spirit and vigour that characterize the hidden champion companies. These characteristics are strong leadership and ambitious goals. The inner skills include the company's internal skills that contribute substantially to the company's success. These are mainly intangible skills such as a selected and motivated staff, continuous product and process innovation. In the Hidden Champion strategy, human resources play a key role: in fact, the hidden champions are characterized by a little staff, but qualified by motivation and high performance, a high professional skill and a low turnover. The external opportunities include: focus on the narrow market in product, technology and applications, closeness to customer, the formation of clear competitive advantages and a global orientation<sup>14</sup>.

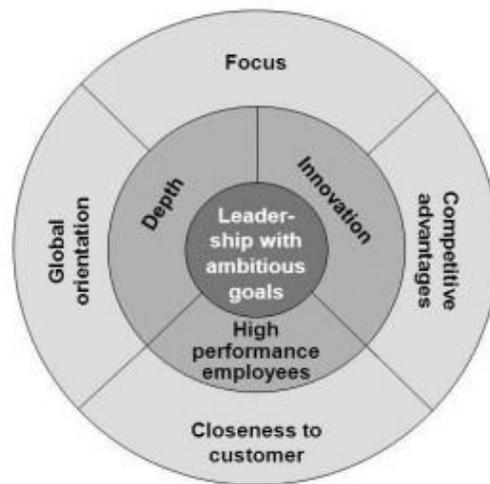
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<sup>13</sup> Azzariti, F. (2002). *I percorsi di crescita delle piccole e medie imprese*. Milano, Italy: Franco Angeli.

Fig. 1: The Three Circles and Nine Lessons of Hidden Champions

## The Three Circles of the Hidden Champions

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SIMON · KUCHER & PARTNERS

Source: <http://www.whiteboardmag.com/hidden-champions-1-what-german-companies-can-teach-you-about-innovation/>

From the study of hidden champions, Simon establishes nine lessons for those companies that want to imitate the hidden Champions model<sup>15</sup>.

To become a hidden champion, the company must set clear and ambitious goals. Following this first lesson, the company can define and narrow down the field in which the company wants to operate and set and establish the goals that the company wants to achieve. The second lesson recommends defining the market, taking into account both the customer and the technology. The third lesson focuses on the importance of combining narrow market focus with a global focus. Following the fourth lesson, the entrepreneur must stay close to customers, both for results and for interaction. The fifth lesson underlines the importance of maintaining continuous innovation in both the product and the process. The importance of create net competitive advantages in both product and service is expressed in the sixth lesson. While, in the seventh lesson it is recommended to rely exclusively on the strengths of the company without relying on external factors. Referring to the principle expressed earlier regarding the key role of human resources, in the eighth lesson it is recommended to have more work than

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<sup>14</sup> Simon, H. (2009). *Hidden Champions of the Twenty-First Century: The Success Strategies of Unknown World Market Leaders*. New York, United States: Springer New York.

employees. In this way, a very qualified but not overly large staff leads to the best management of the work. The ninth and final lesson is one that emphasizes that the key role belongs to the entrepreneur.

Therefore, the company must be characterized by a strong hierarchy in which the entrepreneur must establish authoritarian leadership with core and participatory principles<sup>16</sup>.

Hermann Simon's study is used as a cue to talk about small and medium-sized business models because with hidden champions model we can see examples of management excellence. Such examples of management belong to both large companies and small companies. In the case of small companies, we mean fast-growing companies that dominate the market thanks to a well-defined strategic scheme.

Finally, it can be said that with the hidden champions theory, Simon makes an in-depth analysis of the individual elements that make a SME a company capable of becoming a leader in its market segment. Through the nine lessons, the entrepreneur who wants to take inspiration from this study understands what is the best way to replicate the strategies of hidden champions. The peculiarity of this study is to refer to case studies and not rely on simple theories. Based on the case studies, Simon is able to identify the characteristics that unite small and medium-sized enterprises that have become hidden champions. In addition, Simon is able to trace the main traits to allow other small companies with a strong determination to become leaders in their sector by replicating these strategies. The key concept is expressed by the fact that with the right means, with a qualified and ambitious staff and with a well-defined market strategy even a small company can establish itself internationally.

To better understand the characteristics of small and medium enterprises, it is necessary to analyze the organizational models to try to define a model that can encompass the main characteristics of the structure of small and medium-sized companies. To help us understand the organizational project of companies in different business reports there is an interesting work by Preti (1991) that provides a starting point to start analysing the best-known models that we will see later. What Preti defines with his study is not a model of company, but rather an observation of the classic

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<sup>15</sup> Simon, H., & Zatta, D. (2007). *Campioni nascosti. Come le piccole e medie imprese hanno conquistato il mondo*. Milano, Italy: Il Sole 24 Ore.

corporate structure useful to define the company's organizational project.

His study defines that there are three critical areas that help to define the coherent organizational project in the different business realities: strategic-competitive area, area of the personal body and institutional area<sup>17</sup>. The division of the company into these three areas serves to understand the basic structure on which the success of the company is built.

The strategic-competitive area identifies the condition of greater or lesser strength of the company compared to other companies. This identification takes place in terms of product, market and technology and structural characteristics of the sector. The main variables to describe this order are: the characteristics of the company's product, market and technology, the characteristics of the industry, the type of market competition and the strategic position of the company. According to the variables listed above, a company with a product that has innovative and attractive characteristics for potential customers, advertised through the right channels and with targeted marketing campaigns and supported by advanced technology will be able to compete better in the market environment because the right competitive strategy is used to promote the product the company wants to compete with.

The area of the staff employed refers to the characteristics of the professional profile required by the company's activity in accordance with the greater or lesser possibility of finding them on the labour market. The main variables to describe this structure are: the profile of managers, employees and workers, the characteristics of the reference labour market, recruitment policies and the company's values and needs and, more generally business sector.

The strategic use of human resources is important for the performance of the organization. Further, the adoption of a set of best practices for managing employees is believed to have a positive effect on organizational performance<sup>18</sup>.

Thus, the importance placed on the human resources management function and on the staff employed in a company might demonstrate how critical that function is to a given

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<sup>16</sup> Hidden Champions (1): what German companies can teach you ab. (2012, December 16). Retrieved July 31, 2019, from <http://www.whiteboardmag.com/hidden-champions-1-what-german-companies-can-teach-you-about-innovation/>

<sup>17</sup> Preti P., (1991). *L'organizzazione della piccola impresa: nascita e sviluppo delle imprese minori*. Milano, Italy: Egea.

<sup>18</sup> Wright, P. M., & Snell, S. A. (1998). Toward a Unifying Framework for Exploring Fit and Flexibility in Strategic Human Resource Management. *Academy of Management Review*, 23(4), 756-772. <https://doi.org/10.5465/amr.1998.1255637>

organization<sup>19</sup>. Although there is ample evidence that HRM practices influence performance, within the family business literature, which are part of the small and medium enterprises, there is little research which support these links or examine its implications. However, there persists a belief that HRM in family-owned businesses could be a significant competitive advantage<sup>20</sup>.

The institutional area relates to the typical and specific characteristics of each business subject<sup>21</sup>. The variables of this last point are: the legal nature of the company, the characteristics of the company's ownership, the decision-making phase of the possible business succession process, the characteristics of the entrepreneur, the values and the culture company image, economic and social relationship with the environment, the corporate dimension, internationalization-outsourcing policies, membership in a group. Preti believes that the different structure of the three critical areas may require different organizational projects according to the different structure that each company has, in its individual and specific business situations. In order to identify four consistent organizational projects, Preti combines two variables: the strategic-competitive situation and the criticality of the company's professional profile.

The first variable, the strategic-competitive situation is distinguished in difficulty and favourable situation.

Porter, on competitive strategy, says that "Competitive strategy is the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition."<sup>22</sup>

Speaking of a favourable strategic-competitive situation, Preti means the one in which the company is in a position to defend its strategic position for an extended period of time regardless of the sector or category of products or services offered by the company. With a difficult strategic-competitive situation, the author intends a precarious business

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<sup>19</sup> Carlson, D. S., Upton, N., & Seaman, S. (2006). The Impact of Human Resource Practices and Compensation Design on Performance: An Analysis of Family-Owned SMEs. *Journal of Small Business Management*, 44(4), 531–543. <https://doi.org/10.1111/j.1540-627x.2006.00188.x>

<sup>20</sup> Habbershon, T. G., & Williams, M. L. (1999). A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms. *Family Business Review*, 12(1), 1–25. <https://doi.org/10.1111/j.1741-6248.1999.00001.x>

<sup>21</sup> Hall, G. C., Hutchinson, P. J., & Michaelas, N. (2004). Determinants of the Capital Structures of European SMEs. *Journal of Business Finance Accounting*, 31(5-6), 711–728. <https://doi.org/10.1111/j.0306-686x.2004.00554.x>

<sup>22</sup> Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York, United States: Free Press. p.1

reality, a strategic structure not prepared to face an unstable sector and subject to continuous evolutions due to the innovation of products and processes.

Porter, unlike Preti, supports the industry attractiveness with the competitive strategy, stating that “Both industry attractiveness and competitive position can be shaped by a firm. and this is what makes the choice of competitive strategy both challenging and exciting. While industry attractiveness is partly a reflection of factors over which a firm has little influence, competitive strategy has considerable power to make an industry more or less attractive. At the same time, a firm can clearly improve or erode its position within an industry through its choice of strategy. Competitive strategy, then, not only responds to the environment but also attempts to shape that environment in a firm's favour<sup>23</sup>”.

The second variable developed by the author is that of the characteristics and criticality of the professional profile that operates in a company. This variable notes the importance of people's contribution during the production process. In this way, using parameters of different types, you can locate the average profile of a company at a specific time. Some useful parameters are the percentage of graduate employees, the various job figures, the content of the tasks, the specialization and competence of the staff, the division of work within the entire company, the age and so on.

While Preti focuses on the company's staffing characteristics, Porter focuses on relationships and the intensity of relationships between the company's business units. In fact, Porter says that he believes interrelationships between business units are the principal means by which a diversified firm creates value, and thus provide the underpinnings for corporate strategy.

By combining the two variables of Preti's work, four organizational processes can be identified: the basic arrangement, the entrepreneurial arrangement, the innovative arrangement and the diffuse arrangement.

The resulting pattern from these four organizational processes can be used by the entrepreneur, managers and consultants of a company both in a static and dynamic key. In a static way because the entrepreneur or those for him through this study can seek confirmation regarding the current organizational structure of the company or regarding the reasons for the dysfunction of the company. Instead, you can use it in a

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<sup>23</sup> Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York, United States: Free Press. p.2

dynamic key trying to retrace the organizational evolution of the company and identifying what could be the future setup.

### *1. The basic arrangement*

The basic arrangement in small businesses occurs mainly when the company operates in sectors that are not turbulent or with little competitiveness, when the life cycle of the sector is in the process of introduction and growth and when you are in a niche market that is not very competitive. interesting for big companies. In this case we will find a staff with a constant and long-lasting work experience in the same company, always in the same work roles and with an average seniority and an average schooling rate.

It emerges that the basic structure can be defined as the ideal organizational project and with this type of structure the role of the entrepreneur will be central: in him will focus all organizational activities and decisions and planning. Relationships within the company are informal and confidential.

### *2. The entrepreneurial arrangement*

On the other hand, the entrepreneurial arrangement occurs when highly competitive situations are found within the small business environment. The greatest difficulties in this case are that the company has to operate in unstable sectors where the number of competitors is high and where the life cycle of the sector is in maturity or decline. Survival in the industry is driven by price struggle and effective marketing actions.

In this highly competitive situation we will find a simple body of employees with the same characteristics as the companies with the elementary arrangement.

### *3. The innovative arrangement*

As in the entrepreneurial arrangement, the competitive situation is unfavourable for small business. The hallmark of the innovative arrangement is the company's human resources. In fact, there is experience gained in different fields and functions, a reduced age ability compared to previous setups and a high average schooling rate. Thanks to human resources, the innovative arrangement can be defined as the ideal organizational project, although this ideal arrangement can have over-elaborate bureaucratic forms that occur when the organizational investment is greater than the actual need of the company or competitive environment. In the business structure, the figure of the entrepreneur separates himself from the managerial figure and the organizational structure is articulated both horizontally and vertically.

The role of coordination rests with the entrepreneur and the information flow and communication are both informal and formal.

#### *4. The diffuse arrangement*

In the latter set-up, the competitive situation is favourable for small businesses that use complex professionalism. Again, as with the innovative arrangement, the distinctive character is the human resources provided by the company. The biggest difficulties facing the company are that we need to operate in innovative sectors where the number of competitors is high and in a trade whose life cycle is being introduced. Even this ideal arrangement may have negative aspects, i.e. the structure may vary towards anarchist forms in which it is difficult to recognize the true image of the company because the economic-quantitative component is overshadowed by the social and professional component. To better understand what has just been said, the control of the company is no longer associated with the figure of an entrepreneur, but with a corporate group. The organizational structure develops mainly horizontally, while the strategic planning and the planning and the control are formalized<sup>24</sup>.

Finally, we can say that with this interesting study by Preti on organizational polymorphism, we have the opportunity to identify three critical areas that serve to define the organizational project that best suits a small enterprise according to the needs of the company and those of the external environment. The focus is on three areas: the strategic-competitive area, area of the personal body and the institutional area. The different layout of the tree critical areas requires different organizational projects. In this regard, by combining the strategic-competitive situation and the criticality of the professional profile, Preti is able to identify the 4 organizational projects that we have analyzed above: the basic arrangement, the entrepreneurial arrangement, the innovative arrangement and the diffuse arrangement.

With regard to the models of industrialization and their various phases, we need to emphasize the foundations of organizational development that are based on three fundamental points:

1. The organizational structure: based on the development strategy undertaken by the company;
2. The proposal for a sequence of development stages for business strategies and

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<sup>24</sup> Preti, P. (2001). *Da un uomo solo al comando al gruppo dirigente. Temi di organizzazione aziendale per la piccola impresa* (3rd ed.). Milano, Italy: Egea.

structures;

3. The theorization of the tendency of smaller companies not to change their structures and organizational structure until they are stimulated to do so due to unfavorable external conditions or the inefficiency of the company<sup>25</sup>.

In order to understand all the aspects that characterize small and medium enterprises, we will analyze some of the most well-known development models of small businesses.

### *Steinmetz's model*

Steinmetz speculates that the company must go through four stages of development and three phases of crisis. Both the four stages of development and three phases of crisis are fundamental to allow small businesses to survive and develop from one stage to another. The four stages of development are: direct supervision, controlled supervision, indirect control and divisional organization.<sup>26</sup>

- direct supervision: this is the simplest stage where there is a centralization of power, decision-making and management. At the end of this stage, the owner must necessarily become manager by delegating responsibility and involving the employees assigning them tasks that he has always dealt with himself.

- controlled supervision: at this point the owner-turned-manager, must devote himself to the development of the company and its activities, must learn to manage the growing complexity and learn the role of administrator.

- indirect control: it is the stage at which the company must be entrusted to different managerial figures in order to grow and survive.

- divisional organization: it is a mandatory stage if the purpose of the company is to obtain more and more resources and structures that allow for development.

It is clear that according to Steinmetz, the secret for a small company that wants to develop and project itself into the future is the ability of the entrepreneur to transform and evolve with the company. In fact, we go from an initial stage in which the entrepreneur is the most important and authoritarian figure within the company to get to the last stage where the managerial figures multiply, until it becomes a real divisional organization.

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<sup>25</sup> Azzariti, F. (2002). *I percorsi di crescita delle piccole e medie imprese*. Milano, Italy: Franco Angeli. p.45

### *Kroeger's model*<sup>27</sup>

Kroeger takes up Steinmetz's model, reworks it, and establishes five stages of a company's life cycle. Each of the five stadiums is joined by the most typical business roles. Of particular importance is the fact that for each stage of life there is a corresponding recognized managerial role and these managerial roles are indicated the necessary managerial qualities, the fundamental skills required and the key functions that the entrepreneur must own or acquire in order for the company to survive and develop.<sup>28</sup>

1. Start-up stage: the role of the entrepreneur is that of "founder". In fact, the founder has a strong imagination and risk appetite, develops innovative ideas, is willing to take risks in order to achieve the company's goals;

2. Stage of development: the role of the entrepreneur is that of "planner and organizer". The planner must turn his ideas into actions, this is why he needs an adequate and solid organizational structure and on the other hand to acquire long-term programming skills;

3. Expansion stage: At this stage, the role of the entrepreneur is that of "maker". The growth and development of the enterprise require delegation control over an increasing number of people. The maker must learn to understand business and relational dynamics, learn to motivate, assess individual needs and find ways to meet them in a formal or informal structure. at the same time, it must increase relations with the outside world, care for them, analyze them and maintain relationships with the local community, customers, and financial institutions;

4. Maturity stage: the role of the entrepreneur is that of "administrator-operator". At this stage, the administrator-operator is an entrepreneur very much related to the translations and stability of his company, he is therefore not inclined to change from the external environment. The problems that emerge from this phase are related to the survival of the company and the need to renew the management summit.

5. Stage of decline: The role of the entrepreneur is to avoid the failure of the company by finding a successor-reorganization capable of replacing him in the general management. The author argues that the development of managerial qualities by the entrepreneur is

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<sup>26</sup> Azzariti, F. (2006). *Piccole imprese, grandi innovatori. Modelli e casi aziendali*. Milano, Italy: Franco Angeli.

<sup>27</sup> Kroeger, C. V. (1974). Managerial Development in the Small Firm. *California Management Review*, 17(1), 41-47. <https://doi.org/10.2307/41164543>

<sup>28</sup> Azzariti, F. (2002). *I percorsi di crescita delle piccole e medie imprese*. Milano, Italy: Franco Angeli. p.48-49

one of the biggest problems and, at the same time, a determining factor for the success of small businesses. Therefore, companies should be led by entrepreneurs who can combine strictly technical knowledge and managerial skills<sup>29</sup>.

The innovation, in Kroeger's reflection, is that it is not only focused on the birth of new entrepreneurs or new companies, but also seeks to identify the existence of standardized paths that outline the evolution over time of a company, to the point of identify a kind of life cycle of the enterprise. Despite the originality of his study, Kroeger has been subject to numerous criticisms about the impossibility of proving what was worked out about the life cycle of the company, the strong regulatory value and the absence of empiric checks.

### *Churchill and Lewis model*

Starting with Kroeger's work, many authors have focused on business growth problems. In the Churchill and Lewis model (1983), development is seen as an obstacle course characterized by the alternative between various choices. Basically, the innovation that brings the Churchill and Lewis model (1983) is the fact that they do not conceive of the development phase of the company as a moment of pure dimensional growth that follows a linear trend. Similarly, in the maturity phase, the entrepreneur finds himself choosing between staying in the size reached or continuing to grow by investing the resources the skills possessed. With regard to the Churchill and Lewis model, the result of empirical research, a model of small business development is identified, divided into five stages: existence, survival, success, take-off and maturity of resources.

The Churchill and Lewis model introduces a new element in the business life cycle debate, as the development phase is also seen as a process in which periods of crisis and evolution alternate, and not just as a phase where there is a development that follows a linear trend and a dimensional growth. The same concept will be taken up by Bruce and Scott (1988) and reworked in their model of the five stages of growth<sup>30</sup>.

In this model, each stage of development is characterized by three indices: an index of size, diversity and complexity. Churchill and Lewis also include five managerial factors: leadership style, organisational structure, extension of formal systems, key strategic objectives and owner engagement.

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<sup>29</sup> Azzariti, F. (2002). *I percorsi di crescita delle piccole e medie imprese*. Milano, Italy: Franco Angeli

<sup>30</sup> Pontarollo, E. (2002). *La fabbrica degli imprenditori*. Roma, Italy: Vita e Pensiero.

There are also several factors that change in importance as the company grows and develops, these factors are so influential that they can decree the success or failure of the company. These factors relate to both the business system and the manager/entrepreneur (a key charismatic figure within the company).

- As regards the enterprise system, the factors that change in importance with the various phases of the company are: financial resources, human resources, operating system resources (information, planning and control), company resources (reports with customers and suppliers, manufacturing and distribution processes).
- The changing factors that affect the manager/entrepreneur are: the goals he has set for himself and his company, the operational ability to carry out important tasks such as marketing, inventing, producing and managing distribution, managerial skills to delegate tasks and responsibilities and to direct the activities of others and finally, strategic capabilities to look beyond the present and harmonize the strengths and weaknesses of the company with its own objectives.

Churchill and Lewis ordering on three levels (critical for the enterprise, important, irrelevant) the factors listed with reference to each stage of life of the enterprise, get a model that provides a clear view of the mutable needs within company. One of the criticisms of this model is to consider it a model very rooted in tradition and for this reason we see the development as an incremental internal expansion process even if intermittently. Churchill and Lewis model is therefore understood as a process that is carried out through direct investments and subsequent organizational adjustments<sup>31</sup>.

#### *Boldizzoni model*

Boldizzoni develops a model that tends to overcome the shortcomings of other authors. In fact, it agrees with Kroeger's research regarding the characteristics of the company and the entrepreneur and also the recognition of the presence of problems, challenges, risks and specific management activities that occur during the process company's development. Kroeger's study, however, rejects the universalism and determinism with which it intends to generalize the different situations and difficulties of a company. Another element with which he disagrees is the conception of development as the inevitable succession of phases that can be defined a priori.

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<sup>31</sup> Churchill, N. C., & Lewis, V. L. (1983b). The Five Stages of Small Business Growth. *Harvard Business Review*.

The model developed by Boldizzoni has as the main points two fundamental ways of development of the small company derived from two well-defined entrepreneurial figures: the innovator-designer and the innovator-adapter. It is also highlighted that there is a plurality of development paths for small businesses and the absolute centrality of the entrepreneur figure in determining the specific features and distinctive features of each company<sup>32</sup>. Specifically, two paths are outlined:

The first path of growth has as its basic presuppositions the originality, the creative and organizational capacity of the entrepreneur. This path envisages the development of production organization skills, the knowledge of the peculiarities of the sector in which the company operates and of the management capabilities on the economic-financial front.

The second path is based on the ability to adapt existing inventions applicable to new markets. The focus is on the development of the necessary competences in the economic-financial field and on the acquisition of knowledge on the possible evolution of the small company<sup>33</sup>.

#### *Bruce and Scott model*

Bruce and Scott with their model distinguish 5 stages of growth, each stage has distinctive characteristics. The phases are: inception, survival, growth, expansion, maturity.

Fig. 2: The development stages

<b>Stage</b>	<b>Top Management Role</b>	<b>Management Style</b>	<b>Organisation Structure</b>
1. Inception	Direct supervision	Entrepreneurial, individualistic	Unstructured
2. Survival	Supervised supervision	Entrepreneurial, administrative	Simple
3. Growth	Delegation/co-ordination	Entrepreneurial, co-ordinate	Functional, centralised
4. Expansion	Decentralisation	Professional, administrative	Functional, decentralised
5. Maturity	Decentralisation	Watchdog	Decentralised functional/product

Source: Scott & Bruce (1987) *Enterprise Stage Model*

In many points they agree with the Churchill and Lewis model, in fact the authors

<sup>32</sup> Boldizzoni, D., Mariani, M., Signorelli, S., & Istituto studi direzionali. (1993). *Strategie di sviluppo dell'impresa minore: modelli di crescita e politiche di influenza*. Milano, Italy: Guerini e Associati.

believe that a transition from one stage to another is characterized by a crisis that, if recognized in advance and dealt with in a certain way, can be managed by entrepreneur more easily and more likely to succeed.

The model does not have a descriptive value, but is predictive because it allows you to understand in advance when a crisis might arise and allow you to understand what strategies to adopt to successfully address the process of change. According to the authors, this model is a real useful tool for analysing the situation of the company and to plan the actions necessary to move to the next phase of development<sup>34</sup>.

In addition, as Bruce and Scott claim, "The model is not intended as a panacea for strategy formulation. It is rather a diagnostic tool to assist in analysing a firm's present situation. It is also meant to be an indicator of what strategies appear suitable at various stages in an organization's growth. It is, however, only a tool and cannot make the decisions for management. They must rely on their judgement for that<sup>35</sup>".

The studies previously analysed have the characteristic of presenting the path through a small company grows and develops. The management of a small business is usually attributed only to the figure of the entrepreneur who manages it himself and deals with all the problems of the company and the environment. This implies that the typical way of managing SMEs is the entrepreneurial-individual way.

The analysed models lend themselves to a more in-depth analysis of the reality of small business. These models, in fact, show that many small and medium-sized enterprises are often run by multiple people often linked to each other by a kinship. The issue of small and medium-sized family businesses will be discussed in depth in the 3rd chapter, which will also cover the two most famous models of family business development: the Peiser and Wooten model and the Corbetta model.

Finally, we can say that the studies presented in the previous pages have helped to indicate the possible phases that a company is facing in the course of its growth path. It is clear that for the company it is fundamental to be prepared for changes in view of the inevitable and necessary transformations that will follow. Despite the validity of the models analyzed and the many points of reflection they offer, numerous scholars have

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<sup>33</sup> Azzariti, F. (2006). *Piccole imprese, grandi innovatori. Modelli e casi aziendali*. Milano, Italy: Franco Angeli. p.28-29

<sup>34</sup> Preti, P. (1991). *L'organizzazione della piccola impresa: nascita e sviluppo delle imprese minori*. Milano, Italy: Egea. p.55

<sup>35</sup> Bruce, M., & Scott, R. (1987). Five Stages of Growth in Small Business. *Long Range Planning*, 20(3), 45-52. p.51

underlined the obvious conceptual limits and the limits of applicability of the models presented. One of the limitations is certainly to propose prescriptive models, universally valid standards. Determinism and rationality are other limits to the standardization of the models of interpretation. Determinism means the conception of the enterprise as an inevitable succession of budgeted phases without taking into account the unpredictability of the events and the transformations of the external environment. With the rationality used in analyzing companies, on the other hand, the intent is to base the company on an ideal model resulting from a rational organization.

On the other hand, these analyzed models have an undoubted validity with regard to providing interpretative models and anticipating critical issues (financial, growth, generational change etc.). With interpretative models we mean the possibility given to managers, consultants, entrepreneurs to be able to draw inspiration or identify themselves at least partially in these studies. With regards to anticipating the critical issues, we mean the possibility that is given to the economic figure of the company to be able to draw inspiration from these studies by sharing their own reality with that of other companies and above all the possibility of confronting themselves with a plurality of solutions.

#### *New emerging models*

In response to the turbulence in demand, problems arising from increasingly saturated markets and globalization, companies are looking for new organizational models that often have in common principles, techniques and methods that can be traced back to the total quality. In this sense, the European Community has also decided to make a contribution to the European industrial system by introducing ISO9000s, which have Total Quality as a reference organizational model<sup>36</sup>. Surely these new models are still evolving models. We can still highlight some common lines and think of sketching a model based mainly on the principle of external vertical development that inaugurates the idea and experience of the network enterprise as a tool for the recovery of flexibility environmental environment that requires rapid adaptability by companies. Some authors, in this economic moment, see the new organizational trends as the progressive affirmation of a new model of industrialization. However, it is not exactly a line of study, but it is still a way of working that is affecting the European and non-European business

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<sup>36</sup> Cosa è la norma ISO 9001? Una panoramica semplice. (2019, March 4). Retrieved August 5, 2019, from <https://advisera.com/9001academy/it/cose-la-iso-9001/>

world in recent years and that is evolving and improving. It is from the business experiences that the principles and organizational techniques that can characterize this organizational model are being drawn.

Flexible organizational development<sup>37</sup> seems to be taking place with specific interventions in the three typical organizational levels: level of operational mechanisms, level of leadership style and level of organizational structure.

In terms of operational mechanisms, there has long been an increase in the introduction of integrated computer-based information and management systems in the company. In the production field, entrepreneurs push towards the creation of flexible processing systems to be ready to change the production needs of the market.

In terms of leadership style, the company is moving towards management models geared towards participation and sharing of personnel policies aimed at enhancing human resources.

In terms of organizational structure, networked structures are developed that consist of establishing complex organizational systems originating from the network connection of multiple companies<sup>38</sup>. In this way, not only executive parts of the production cycle are decentralized, but also parts of the planning and control process.

This type of organization also achieves a significant fractionation of risk between network companies.

The traditional enterprise becomes a multiplier of companies connected by an information network that allows rapid communication, resulting in the birth of the network enterprise. The company gradually tends to become an enterprise system with the decentralization of ever more substantial sub-suppliers by implementing a vertical external organizational development that replaces organizational development integrated and coordinated within companies typical of mass production.

As a result of the decentralization process, integration becomes external rather than internal. In this way, the company delegates to third parties to carry out and provide particular production activities, commercial activities and services necessary to the company in charge of the supply chain<sup>39</sup>.

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<sup>37</sup>A. Fuser: *Organizzazione Aziendale* – Casa Editrice Tramontana - 1993

<sup>38</sup> Gurstein, M. (1999). Community enterprise networks. *ACM SIGGROUP Bulletin*, 20(2), 22–25. <https://doi.org/10.1145/331982.331996>

<sup>39</sup> Brettel, M., Friederichsen, N., Keller, M., & Rosenberg, M. (2014). How virtualization, decentralization and network building change the manufacturing landscape: An Industry 4.0 Perspective. *International journal of mechanical, industrial science and engineering*, 8(1), 37-44.

This type of organizational development makes large companies and SMEs increasingly interacting, with subcontracting relationships in different types having an increasingly active and strategic role. The business areas involved in this process of deconstruction of large enterprise may be related to:

- Production area: decentralization is related to phases of the production process that can cover both phases of design, (example: prototype realization) and phases of mere production, maintenance etc.
- Business area: stable relationships are created for external sales networks and distribution channels (franchises).
- Service scope: services are outsourced and organized that can vary from logistics, transport, design, training and accounting services.

It should be noted that in the development of this model, decentralization is taking place in different ways, including crucial national and international agreements of cooperation and financial participation in companies of strategic interest (by creating a group in the classical sense or by creating a network of cooperation based on other types of relationship between which subcontracting has been determined) that create a stable network system of information and accountability<sup>40</sup>.

One of the positive aspects and opportunities offered by this model is more flexibility thanks to a flexible network for matching and coordinating available resources to specific production contracts. As a result, there is an increased certainty of expected costs and results and increased efficiency.

Applying this model, the risk is sharing among companies in the supply chain and there are increased opportunities for top management to focus on strategic issues. There are more opportunities to engage on product and process control to achieve it.

A limitation of waste of the use of resources and the containment of the vertical development of the organizational structure are other important advantages

This model also has needs and constraints, for example there is the constraints of engage external partners to make them functional to their planning, production and control process. There is a need of schedule and control information flows and an activate collaboration relationships inside and outside. An important role is covered by the know how to use financial intervention as an organizational tool to take advantage of

synergies.

There is a need to train management to take a financial economic approach in order to make it able to better use management resources and organizational skills.

These models represent the possibility given to managers, consultants, entrepreneurs to be able to draw inspiration or identify themselves at least partially in these studies. With regards to anticipating the critical issues, we mean the possibility that is given to the economic figure of the company to be able to draw inspiration from these studies by sharing their own reality with that of other companies and above all the possibility of confronting themselves with a plurality of solutions.

## **1.2 The internationalization business strategy**

Once the subjects of this thesis have been defined, it is appropriate to outline the context within which they are considered. The aim is to understand how SMEs deal with increasing globalization and act in the international context. As a result, it is necessary to understand the meaning of internationalization since the term does not just indicate the extent of the business of an economic entity. Internationalization is a complex and multi-dimensional phenomenon that lends itself to be studied in different research contexts and through different variables. Therefore, there is no single concept of internationalization, as it has not yet been possible to draw up a mathematical index capable of assessing the degree of internationalization of a company<sup>41</sup>. In addition, internationalization differs depending on the dimensional characteristics of companies: the analysis, in fact, changes depending on whether research focuses on large companies or SMEs. As far as smaller companies are concerned, there is no evidence of a wide literature which, on the contrary, has focused more on the most powerful business realities<sup>42</sup>. However, the scope of SMEs research can be considered at an expansive stage in light of both the numerical scope of these players and the role played in the economic, social and territorial spheres. For this reason, although many concepts prove to be valid for all types of business, it is important to decline models and tools depending on the

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<sup>40</sup> Bayer, F., Enparantza, R., Maier, R., Obermair, F., & Schmiedinger, B. (2005). Know-CoM: Decentralized knowledge management systems for cooperating die-and mold-making SMEs. In *Case studies in Knowledge management* (pp. 186-210). IGI Global.

<sup>41</sup> Ietto-Gillies G. (2009), "Conceptual issues behind the assessment of the degree of internationalization", *Transnational Corporations*, vol. 18, n. 3, 60-83.

company's reality and SMEs in particular. Internationalization constitutes a multi-step process justified by a set of motivations that take over at different times in time and with different value. It is a pathway made of different phases and levels during which a company follows or shows a certain behavior dictated by causes within and outside the company. In this regard, Rispoli<sup>43</sup> states that the term internationalization can be understood as a process that starts from a relatively simple but systematic relationship of companies with foreign markets and with time leads to forms of investment abroad and towards the developing competitive, transactional and collaborative relationships with other companies. Companies with which to establish commercial relations can be production, services, public and private, in different countries.

In other words, internationalization represents an evolutionary path followed by the company that, with different times, becomes more and more an actor of a global economy.

### **1.2.1 The internationalization process**

It must be made clear that when we talk about the process of internationalization, we mean a process of a long-term strategic type<sup>44</sup>. The openness and integration of international markets, goods, services, capital and technology are all dynamic concepts related to and linked to the process of internationalisation<sup>45</sup>. A company's willingness to embark on a strategic process of internationalisation means that the company has to contend with the world economy. In fact, it is precisely the world economy that provides the market outlets, supply channels, financial sources, knowledge, technology and all the incentives to embark on the path of internationalization.

The great interest in the process of internationalization of companies has given rise to many different approaches and models to try to explain how companies enter foreign markets. In the field of internationalization, there is a variety of models: there are both descriptive and predictive models, static and dynamic models. Precisely because of the high number of models and theories proposed about the process of internationalization,

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<sup>42</sup> Hill, C. (2008). International Business: Competing in the Global Market Place. *Strategic Direction*, 24(9). <https://doi.org/10.1108/sd.2008.05624iae.001>

<sup>43</sup> Rispoli M. (2002), Sviluppo dell'impresa e analisi strategica, Bologna: il Mulino.

<sup>44</sup> Clercq, D. D., Sapienza, H. J., & Crijns, H. (2005). The Internationalization of Small and Medium-Sized Firms. *Small Business Economics*, 24(4), 409-419.

before speaking specifically about strategies and theories about internationalization, it is necessary to express Uppsala's thinking. In fact, the Uppsala model is one of the main theories describing the internationalization process of enterprises. Uppsala's model has its theoretical basis in behavioural theory. Behavioural theory describes the internationalisation of the enterprise as a process in which the company gradually increases its Internationalization<sup>46</sup>. In Uppsala's model, this process sheds light on the psychic distance and the establishment chain.

The process evolves in an interplay between the development of knowledge about the foreign markets and operations and an increasing commitment of resources to those markets<sup>47</sup>. The central issues of the model are how companies learn and how their learning affects their investment behaviour<sup>48</sup>.

Another important aspect of the Uppsala model is that it is a dynamic model, which therefore describes the internationalisation of an enterprises as a process.

The Uppsala model can explain two patterns in the internationalization process of the firm. The first pattern is that the commitment to engage in operations in a specific foreign market develops according to the so-called establishment chain, which is a sequence of stages that are made in small incremental steps with extended commitment and a higher degree of commitment for every new step. In 1975, Johanson and Wiedersheim identified four different stages as stated below: No regular export activities, export via independent representatives (agent), sales subsidiary and production/manufacturing<sup>49</sup>.

The second pattern explained is that firms tend to enter new markets with successively greater psychic distance, and in most cases also greater geographical distance<sup>50</sup>. The psychic distance is defined as: "the sum of factors preventing the flow of information from and to the market. These include differences in language, education, business

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<sup>45</sup> Andersen, O. (1993). On the Internationalization Process of Firms: A Critical Analysis. *Journal of International Business Studies*, 24(2), 209–231. <https://doi.org/10.1057/palgrave.jibs.8490230>

<sup>46</sup> Forsgren, M. (2002). The concept of learning in the Uppsala internationalization process model: a critical review. *International Business Review*, 11(3), 257–277. [https://doi.org/10.1016/s0969-5931\(01\)00060-9](https://doi.org/10.1016/s0969-5931(01)00060-9)

<sup>47</sup> Johanson, J., & Vahlne, J. (1990). The Mechanism of Internationalisation. *International Marketing Review*, 7(4). <https://doi.org/10.1108/02651339010137414>

<sup>48</sup> Forsgren, M. (2002b). The concept of learning in the Uppsala internationalization process model: a critical review. *International Business Review*, 11(3), 257–277.

<sup>49</sup> Johanson, J. (1994). *Internationalization, relationships and networks / Jan Johanson and associates..* Stockholm, Sweden: Almqvist och Wiksell. p.34

<sup>50</sup> Hollensen, S. (2001). *Global Marketing: A Market-Responsive Approach* (2nd ed.). Harlow, England: Financial Times Prentice Hall.

practices, culture, and industrial development”<sup>51</sup>. Consequently, the less a firm understands a market the greater the psychic distance and the perceived uncertainty are. Thus, firms enter markets they understand and where they can see opportunities and where the perceived uncertainty is low. As postulated in the model, the best way to minimize the perceived uncertainty and to see opportunities is through experiential knowledge. Knowledge is mainly acquired through personal experience in the specific market. So, this is the reason for the incremental steps and the sequential engagement in foreign markets.

The Uppsala model is based on four core concepts: market commitment, market knowledge, current activities and commitment decisions. These four concepts are then divided into state aspects and change aspects. The two state aspects are market commitment, which is the resources committed to foreign markets, and market knowledge, which is the knowledge about foreign markets and operations possessed by the firm at a given time. The two change aspects are current activities and commitment decisions. The latter are the decisions to commit resources to foreign operations. The four core concepts are linked and affecting each other, as well as dependent on each other’s existence as stated below. “Market knowledge and market commitment are assumed to affect decisions regarding commitment of resources to foreign markets and the way current activities are performed. Market knowledge and market commitment are, in turn, affected by current activities and commitment decisions<sup>52</sup>.”

In the current economic scenario characterized by strong competition, increasing supranational political integration, exasperated competition and a growing globalization of economic systems, Uppsala's model needs to be revised and modified to try to understand the complexities of new markets and to try to explain the difficulties of internationalization. In fact, “the economic and regulatory environments have changed dramatically. Company behaviour is also different in some respects. The research frontier has moved too. There are some concepts and insights that did not exist when Uppsala model was published”<sup>53</sup>.

In this scenario the constant tension is a custom of business life and the international

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<sup>51</sup> Johanson, J. (1994). *Internationalization, relationships and networks / Jan Johanson and associates.* Stockholm, Sweden: Almqvist och Wiksell. p.51

<sup>52</sup> Johanson, J. (1994). *Internationalization, relationships and networks / Jan Johanson and associates.* Stockholm, Sweden: Almqvist och Wiksell. p.84

<sup>53</sup> Johanson, J. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 1411–1431. p.1411

dimension of the business increasingly decisive in the competitive dynamics of the company. The search for competitive advantage moves, in many directions.

One of the possible ways to gain the competitive advantage is the internationalization strategy: expansion in foreign markets, in fact, represents, at the same time, a constraint and an opportunity to acquire or integrate the wealth of resources and expertise<sup>54</sup>.

The growing importance of socio-economic issues in which business relations are expressed, oblige the company to develop in the international arena, focusing mainly on the mechanisms of government that affect business relational system towards coherent goals and behaviors.

As the globalization of markets has developed, it is increasingly required that the company be able not only to offer competitive products, in terms of quality/price, but also and above all that the company's management acquires more advanced organizational and management skills. On international markets, with a lasting defensible advantage, it is necessary for the company management to strive to perceive the weak signals of the market to attract and retain customers.

This is one of the most difficult tasks for management, as it requires an open mind set for change and a management philosophy ready to grasp the stimuli of the environment and to constantly question its assumptions<sup>55</sup>.

In the current phase of international competition, therefore, distinctive skills are needed to address the new strategic challenges linked to the continuous change of the competitive environment (even unpredictable disruptions in demand, dynamics of technological innovations, economies of scale that are increasingly pushed). Internationalization can be both an effect of learning skills and a cause of it. This places internationalization and learning in a circular logical relationship.

### **1.2.2 The internationalization models and theories of the SMEs**

Developing a successful internationalization model means having the ability to grasp the

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<sup>54</sup> Calof, J. L., & Beamish, P. W. (1995). Adapting to foreign markets: Explaining internationalization. *International Business Review*, 4(2), 115–131. [https://doi.org/10.1016/0969-5931\(95\)00001-g](https://doi.org/10.1016/0969-5931(95)00001-g)

<sup>55</sup> Coviello, A. (2009). I processi di internazionalizzazione delle imprese minori tra relazioni ed occasionalità, from [https://www.researchgate.net/publication/318039689\\_I\\_processi\\_di\\_internazionalizzazione\\_delle\\_imprese\\_minori\\_tra\\_relazioni\\_ed\\_occasionalita\\_Il\\_caso\\_Marinella](https://www.researchgate.net/publication/318039689_I_processi_di_internazionalizzazione_delle_imprese_minori_tra_relazioni_ed_occasionalita_Il_caso_Marinella)

potential and obstacles to achieve a successful strategic model<sup>56</sup>. As regards external factors, they can be divided into tangible and intangible environmental factors. Regarding the external factors, or environmental factors are what bring the company to an international dimension. Tangible and intangible environmental factors characterize the environment and affect the ability of the local company to successfully follow a certain internationalization process<sup>57</sup>.

It is particularly in the case of small businesses that we can see how environmental factors create the need for companies to adapt to changing and evolving market conditions.

According to Levitt's vision, the concept of the local market is reduced until it ceases to exist and therefore the SMEs are also involved in a process that tends to overwhelm and suppress the culture, history, traditions and model of a local market because of the global context<sup>58</sup>. This means that one of the main effects of internationalisation of markets is increased competition in individual local markets and therefore foreign expansion becomes an important opportunity to regain market share<sup>59</sup>. Of course, Levitt is hardly alone in substituting rhetoric for facts. His adversaries also advance strong opinions, use singular anecdotes to "prove" their points, and spin brilliant theses from tenuous hypotheses<sup>60</sup>.

So, contrary to what Levitt said, in the age of globalisation the primary objective of any international strategy should be to manage the large differences that occur at the borders between different markets. Yet managers often fail to exploit discrepancies in production and markets, and instead focus on the tension between standardization and localization. In a famous article, Pankaj Ghemawat presents a new framework that examines three effective responses to the challenge of globalisation. He calls them the Triangle of 3 A's, which means three distinct forms of international strategy. By adapting, companies seek to increase revenues and market share by maximizing their local presence. Through aggregation they seek to achieve economies of scale, creating

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<sup>56</sup> Porter, M. E. (1990). New global strategies for competitive advantage. *Planning Review*, 18(3), 4–14. <https://doi.org/10.1108/eb054287>

<sup>57</sup> Fahy, J. (2002). A resource-based analysis of sustainable competitive advantage in a global environment. *International Business Review*, 11(1), 57–77. [https://doi.org/10.1016/s0969-5931\(01\)00047-6](https://doi.org/10.1016/s0969-5931(01)00047-6)

<sup>58</sup> Levitt, T. (1983). The Globalization of Markets. *Harvard Business Review*, 92–102.

<sup>59</sup> Pitoni, L. (2013). *L'internazionalizzazione della piccola e media impresa nel contesto globalizzato*. Roma, Italy: Aracne.

activities of a regional, or sometimes global, dimension. Through arbitrage, companies exploit disparities between national or regional markets, often choosing to implant different parts of the supply chain in different locations<sup>61</sup>. An example of different parts of the supply chain in different parts of the world can be, for example, call centers in India, factories in China and retail stores in Europe. Ghemawat cites several examples that illustrate how organizations use and balance these different strategies, and describes the trade-offs that need to be made between them. Since most companies should to some extent refer to 3 A, the framework can be used to develop a synthesis scheme that shows how the company is globalizing. Given, however, the tension between the three different strategies, it is not enough to simply choose one. Strategic choices require prioritization. In setting priorities, the framework can also help to do this<sup>62</sup>.

Before exposing and arguing the various theories of internationalization it is important to point out that there is no universal theory on internationalization, but there are different theoretical perspectives that have followed and developed over the years.

The theories developed over the years are given by the observation of the three main historical phases of the internationalization process:

- 1) Fordism phase (1970s): only large companies resorted to forms of commercial internationalisation and penetration into foreign markets<sup>63</sup>;
- 2) Post-Fordism phase (1980s): Internationalisation becomes a widespread phenomenon as companies seek the most efficient production conditions on the international market (particularly low labour costs and proximity to outlet markets)<sup>64</sup>;
- 3) Current phase: adopting a more complex path that combines traditional commercial and production aspects with the increase in direct investment abroad and the establishment of the so-called 'network enterprise', which allows organisations to specialize in conducting specific production phases.

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<sup>60</sup> Boddewyn, J., Soehl, R., & Picard, J. (1986). Standardization in international marketing: Is Ted Levitt in fact right? *Business Horizons*, 29(6), 69–75. [https://doi.org/10.1016/0007-6813\(86\)90040-6](https://doi.org/10.1016/0007-6813(86)90040-6)

<sup>61</sup> Ghemawat, P. (2014). *Redefining Global Strategy: Crossing Borders in A World Where Differences Still Matter*. Boston, United States: Harvard Business Review Press.

<sup>62</sup> Pitoni, L. (2013). *L'internazionalizzazione della piccola e media impresa nel contesto globalizzato*. Roma, Italy: Aracne.

<sup>63</sup> Mohamoud, M. H. (n.d.). THE DISTINCTIONS BETWEEN FORDISM AND POST- FORDISM, AND THE SOCIAL DISTINCTIONS OF EACH. Retrieved September 17, 2019, from [https://www.academia.edu/26672015/THE\\_DISTINCTIONS\\_BETWEEN\\_FORDISM\\_AND\\_POST-FORDISM\\_AND\\_THE\\_SOCIAL\\_DISTINCTIONS\\_OF\\_EACH?auto=download](https://www.academia.edu/26672015/THE_DISTINCTIONS_BETWEEN_FORDISM_AND_POST-FORDISM_AND_THE_SOCIAL_DISTINCTIONS_OF_EACH?auto=download)

Another clarification to be made no less important than the previous statement is that there are different degrees of internationalization according to the number and intensity of the relations that the company has with its main international interlocutors.

In the SMEs world, many companies are internationalised only because they occasionally sell abroad, operating through intermediaries and without direct market knowledge. On the other side, there are companies that are internationalized because they have located their own production units in other countries. Therefore, it is more appropriate to talk about different degrees of presence on foreign markets: from indirect to direct export, going from a process of increasing integration through representative offices, offices and subsidiaries, to the definition of alliances strategic and/or real direct investment<sup>65</sup>. Internationalization, as Welch and Luostarinen argues, can be considered as “a process of increasing involvement in international operations”, rather than a status acquired at a specific historical moment<sup>66</sup>.

Starting in the 1960s and 1970s, with the beginning of the study of the process of internationalization of companies, the first studies on the subject were developed in the United States. Early studies focused on the reasons for companies pursuing international strategies and aspects of the initial decision to make direct investments abroad.

### *The product lifecycle theory*

The Product Life Cycle Stages or International Product Life Cycle, which was developed by the economist [Raymond Vernon](#) in 1966, is still a widely used model in economics and marketing. Products enter the market and gradually disappear again <sup>67</sup>.

Vernon was the first economist to have studied the process of internationalization of companies by developing his theory in which he distinguishes four characteristic phases regarding the introduction of a new technologically innovative product on the market international<sup>68</sup>. The phases are: introduction phase, growth phase, maturity phase and

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<sup>64</sup> Markantonatou, M. (2007). The ideal-typical transition from Fordism to post-Fordism: A neopositivist problem setting. *European Research Studies*, 10(1-2).

<sup>65</sup> Andersson, S. (2000). The Internationalization of the Firm from an Entrepreneurial Perspective. *International Studies of Management & Organization*, 30(1), 63–92. <https://doi.org/10.1080/00208825.2000.11656783>

<sup>66</sup> Welch, L. S., & Luostarinen, R. (1988). Internationalization: Evolution of a Concept. *Journal of General Management*, 14(2), 34–55. p.3 <https://doi.org/10.1177/030630708801400203>

<sup>67</sup> Mulder, P. (2012). *Product Life Cycle Stages*. Retrieved from ToolsHero: <https://www.toolshero.com/marketing/product-life-cycle-stages/>

<sup>68</sup> VERNON, R. (1992). INTERNATIONAL INVESTMENT AND INTERNATIONAL TRADE IN THE PRODUCT CYCLE\*\*The preparation of this article was financed in part by a grant from the Ford Foundation to the

decline phase.

The introduction phase is characterized by the presence of the support of research and experimentation. In addition, at this stage there are also high unit costs also due to advertising costs.

During the second phase, the growth phase, standardised production and large-scale diffusion are carried out, leading to a decrease in the price of the asset and thus increasing competition. At this stage the producer tends to look for outlets in foreign markets. At first the outlets are sought through export and then, especially in the case of multinationals, the outlets are sought through the installation of their own production centres abroad. The main purpose of installing the production centre abroad is to reduce costs and gain a competitive advantage.

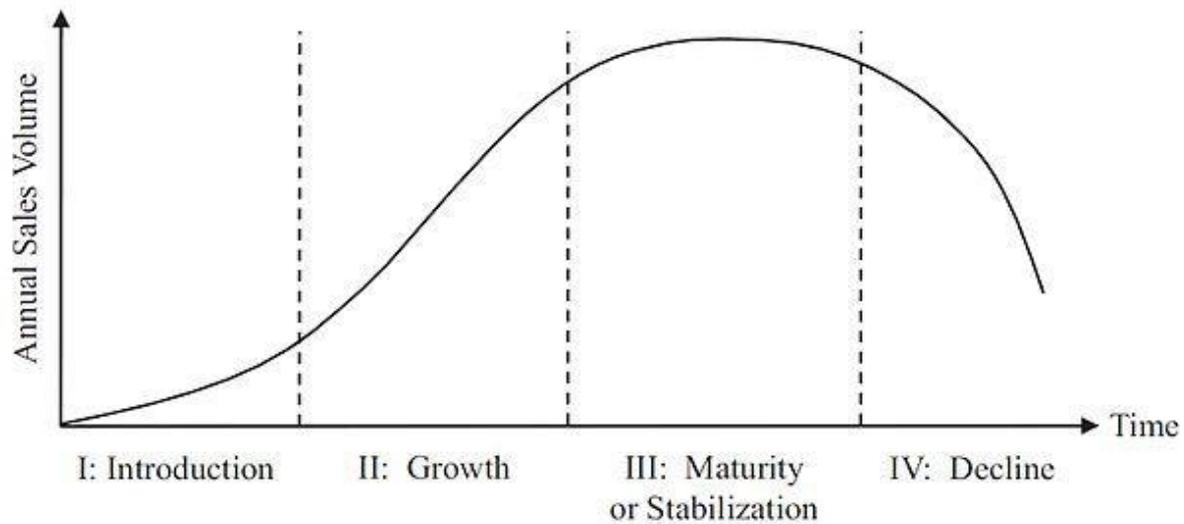
In the third phase, the maturity phase, the product is mature and has now become accessible to everyone by virtue of the complete standardization of production<sup>69</sup>. The most competitive manufacturer will be the one that will be able to produce at lower unit costs.

The last phase, the phase of decline, is the phase in which the product is now technologically outdated and therefore undergoes a contraction in demand in the industrialized countries and the only supply opportunity is to sell it in developing countries.

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Harvard Business School to support a study of the implications of United States foreign direct investment. This paper is a by product of the hypothesis-building stage of the study. *International Economic Policies and their Theoretical Foundations*, 415–435. <https://doi.org/10.1016/b978-0-12-444281-8.50024-6>

Fig. 3: The International Product Life Cycle



Source: Vernon (1966) *The product life cycle*

Vernon's model aims to explain why companies from the same geographical area and with a high degree of innovation exploit these peculiarities on international markets. Vernon's model must also be contextualized at the historical moment in which it is processed<sup>70</sup>. In fact, this model represents the US business environment of the 1960s where factors of high average consumer income growth and labour costs are the cornerstones of the propensity for innovation. As a result, a high rate of growth in the average income of consumers leads to the emergence of new needs and therefore the introduction of new products. Similarly, the high cost of labour has led to the need to research innovative production processes that can lead to cost containment.

Vernon also analyses why stimulus from the American market only affects local businesses. Thus, when a new product is introduced, monopolistic advantages are created which, in the presence of low elasticity demand, make production prefer on the domestic market. In the case of the first phase, it is essential to carry out an effective and convincing advertising campaign that can introduce consumers to the product. In the growth phase, the product is now known and the rate of innovation means that the product is also required abroad. Demand can be met with the export of the product and in this case the high degree of innovation allows a strong rigidity of the elasticity of the demand. In the maturity phase of the product, the intensification of foreign competition,

<sup>69</sup> Mullor-sebastián, A. (1983). The Product Life Cycle Theory: Empirical Evidence. *Journal of International Business Studies*, 14(3), 95–105. <https://doi.org/10.1057/palgrave.jibs.8490530>

<sup>70</sup> Antras, P. (2005). Incomplete Contracts and the Product Cycle. *American Economic Review*, 95(4), 1054–1073.

the risk of imposition of tariff barriers and the increase in foreign demand are valid reasons for assuming investments made outside the domestic market. Once the first companies have started the processes of production decentralization, competitors will also start to make imitative choices as growth abroad is seen by competitors as a threat to market share. Finally, in the last phase, the company no longer has monopolistic advantages and can decide between three possibilities: locating production where the costs of factors are cheaper or innovating the product again or cancelling production<sup>71</sup>.

Vernon's product life cycle model can explain both trade and FDI. By adding a time dimension to the theory of monopolistic advantage, the product life cycle model can explain a firm's shift from exporting to FDI. Vernon's theory implies that overtime the main exporter may change from exporter to importer. This leads to the low-cost producers becoming exporters<sup>72</sup>.

One weakness of this theory can be that Vernon's view is ethnocentric: It can also be said that this model suggests that innovative companies were moving exclusively from the American market. This kind of interpretation has been demolished by the fact that many new products are now produced in advanced economies such as Japan. Globalization means that there is more dispersed and simultaneous production of comparative advantage. Another criticism is to believe that Vernon, with this model, believed that innovation was put in place only to meet the tastes of consumers in one market and only later to meet the tastes of others<sup>73</sup>. The final weakness of this theory is that this study was carried out in the 60s. The world's trading importing and exporting has changed immensely over the years.

In the light of these criticisms also recognized by the author, in 1974 Vernon hypothesized a new life cycle of the product, divided into three phases<sup>74</sup>. In the first phase the internationalization process has the same characteristics as the initial phase of the previous model, with the difference that the competition assumes an oligopolistic role. In the second phase there is an oligopolistic market structure in which mature

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<sup>71</sup> Taylor, M. (1986). The product-cycle model: a critique. *Environment and Planning A*, 18, 751–761.

<sup>72</sup> Essays, UK. (November 2018). Product Life Cycle Theory By Vernon Economics Essay. Retrieved from <https://www.ukessays.com/essays/economics/product-life-cycle-theory-by-vernon-economics-essay.php?vref=1>

<sup>73</sup> Pitoni, L. (2013). *L'internazionalizzazione della piccola e media impresa nel contesto globalizzato*. Roma, Italy: Aracne. p.75

<sup>74</sup> VERNON, R. (2009). THE PRODUCT CYCLE HYPOTHESIS IN A NEW INTERNATIONAL ENVIRONMENT. *Oxford Bulletin of Economics and Statistics*, 41(4), 255–267. <https://doi.org/10.1111/j.1468-0084.1979.mp41004002.x>

companies with standardised products are located and there are high barriers to entry due to the economy of scale. In the last phase, barriers to entry are no longer represented by economies of scale, but by the strategies put in place by companies to implement differentiation policies<sup>75</sup>.

### *The Theory of Monopolistic Advantages and Market Imperfections*

Another author who makes a very important contribution to the study of internationalization processes is Hymer.

Hymer breaks away from the neoclassical intellectual vision of his time and focuses on the analysis of multinational companies based on the theory of industrial organization<sup>76</sup>. Hymer says foreign-owned enterprises face higher costs than local enterprises<sup>77</sup>.

Speaking of the higher costs, Hymer refers to the communication costs due to the lack of knowledge of the fundamental aspects of the market compared to local companies<sup>78</sup>. Another reason for the very high costs is discrimination by governments and very often discrimination by consumers. According to Hymer, the reasons for a company to internationalize are oligopolistic advantages. These oligopolistic advantages mean that the company can be competitive despite the relative disadvantage. Hymer sees exclusive access to procurement or knowledge as monopolistic advantages. In addition, he acknowledges that in a perfect competition market the best solution would be to sell these advantages to other companies and then exploit them in local markets.

In more detail, we can say that Stephen Hymer in "Theory of monopolistic advantages and market imperfections" (1960) marks the transition from a macro (nation-related) view to a micro view (related to the company). Hymer's theory proposes the concept of "The company that settles in a foreign country is subject to all the disadvantages associated with its status as a non-national society."<sup>79</sup> Foreign companies must overcome barriers to entry built by foreign countries. The most common barriers are language, culture, laws, political and economic system. Barriers to entry are supported

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<sup>75</sup> Marjit, S. (1989). The Product Cycle Hypothesis and The Heckscher-Ohlin-Samuelson Theory of International Trade. *Journal of International Economic Integration*, 4(1), 5-14.

<sup>76</sup> Dunning, J. H., & Rugman, A. M. (1985). The Influence of Hymer's Dissertation on the Theory of Foreign Direct Investment. *The American Economic Review*, 75(2), 228-232.

<sup>77</sup> Hymer, S. H. (n.d.). The large multinational "corporation": an analysis of some motives for the international integration of business. *Multinational Corporations* / Edited by Mark Casson.

<sup>78</sup> Horaguchi, H., & Toyne, B. (1990). Setting the Record Straight: Hymer, Internationalization Theory and Transaction Cost Economics. *Journal of International Business Studies*, 21(3), 487-494. <https://doi.org/10.1057/palgrave.jibs.8490830>

by governments, consumers and suppliers. Usually the advantage enjoyed by a company in its home country is greater because it is not mitigated by the overexposed barriers. On other occasions, the benefits of internationalisation may be greater because competitors in the host country may not have the same technological resources, skills and knowledge as the exclusive foreign company or the channels of Supply. This compensates for the limiting effects of barriers to entry.

The imperfections of the market and the monopolistic advantages that companies enjoy in their own country are the motivations that drive companies to enter the international system<sup>80</sup>. The internationalisation of companies can be traced back to the possession of some benefits<sup>81</sup>.

The benefits of internationalization can be both cost advantages and differentiation benefits. The most important cost advantages are: favourable conditions on financial markets that allow lower interest rates, imperfections in the markets of inputs, real or financial economies that allow economies of scale, greater bargaining power, control of production techniques (patents, etc.). Differentiation benefits refer to: ownership and contractual control of strategic outlets, greater focus on product design, consumer preference towards specific brands or companies.

Thus, the result is a revolution due to the change of perspective (replacing the enterprise to the nation), but the author still remains tied to the previous settings since both the interpretive category of the concept of advantage and belonging to a specific nation remain crucial to establishing itself in an economic environment<sup>82</sup>.

Hymer's theories provided food for thought for other authors, including Kindleberg. Kindleberg takes its cue to develop the reasons why the production of certain goods is made by foreign entrepreneurs and not by local ones who could enjoy the benefit of proximity<sup>83</sup>. In this case we are talking about a study on foreign direct investment and not about a real analysis of the behaviour of the international company. Taking its cue

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<sup>79</sup> Demattè C., Perretti F. (2003). *Strategie di internazionalizzazione*. Milano, Egea, p. 21.

<sup>80</sup> Rioux, M. (2014). Multinational Corporations in Transnational Networks: Theoretical and Regulatory Challenges in Historical Perspective. *Open Journal of Political Science*, 4(3). <https://doi.org/10.4159/harvard.9780674188037>

<sup>81</sup> Bain, J. S. (1956). *Barriers to New Competition*. Cambridge: Harvard University Press. <https://doi.org/10.4159/harvard.9780674188037>

<sup>82</sup> Rugman, A. M. (1986). NEW THEORIES OF THE MULTINATIONAL ENTERPRISE: AN ASSESSMENT OF INTERNALIZATION THEORY. *Bulletin of Economic Research*, 38(2), 101–118. <https://doi.org/10.1111/j.1467-8586.1986.tb00208.x>

<sup>83</sup> Hirschman, A. (2018). *National Power and the Structure of Foreign Trade*. Oakland, United States: University of California press.

from Hymer's monopolistic advantages<sup>84</sup>, Kindleberg encompasses the monopolistic advantages that a company can enjoy in four categories: the benefits of internal and external economies of scale, the benefits of unsophisticated market structures and the non-standardized consumer goods sector where marketing actions determine a product's success over that of a competitor, the benefits of administrative intervention, such as the imposition of duties, the benefits of unbalanced market conditions<sup>85</sup>.

In the first point, with benefit of internal and external economies of scale, Kindleberg makes a distinction with internal and external economies of scale that reduce average costs. Internal economies of scale allow for horizontal growth, while external economies of scale represent an opportunity to develop vertically, achieving greater coordination of the company's activities. The third point, the benefit of administrative intervention, explains that public intervention to restrict trade is seen as an opportunity. In fact, this limitation must be used as an incentive to invest abroad. Companies that use public intervention as an advantage are those companies that, seeing their contract market, decide to turn internationalization into a defensive strategy. The last point refers to the benefits of a market with unbalanced conditions. These conditions are due to the segmentation of world markets, i.e. rates of return are not the same internationally. This imbalance leads companies to take advantage of this situation.

### *The Theories of Monopoly Strategies*

Knickerbocker's contribution observes the strategic behaviour of companies. The company's strategy is implemented because of market imperfections. That is, when a monopoly company undertakes a foreign direct investment, the other companies follow the international choice in order not to lose the advantages of oligopoly gained on the domestic market<sup>86</sup>. Thus, foreign investment is seen as a defensive response to its international market share. Foreign investment is made regardless of the attractiveness of the investment, as other companies cannot afford for the leading company to

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<sup>84</sup> Rugman, A. M. (n.d.). *The Theory of Multinational Enterprises*. Retrieved August 14, 2019, from [https://books.google.it/books?id=J6uhghPBo\\_kC](https://books.google.it/books?id=J6uhghPBo_kC)

<sup>85</sup> Pitoni, L. (2013). *L'internazionalizzazione della piccola e media impresa nel contesto globalizzato*. Roma, Italy: Aracne. p. 77

<sup>86</sup> Hunt, S. D. (2010). The Theory of Monopolistic Competition, Marketing's Intellectual History, and the Product Differentiation Versus Market Segmentation Controversy. *Journal of Macromarketing*, 31(1), 73–84. <https://doi.org/10.1177/0276146710382119>

strengthen too much by threatening their position<sup>87</sup>.

### *The Transaction Cost Theories*

Buckley and Casson (1976) work in an attempt to provide an explanation to multinational hierarchies that replace market logic in regulating international trade. By placing transaction costs at the root of the company's multinational growth, it is assumed that a company is inclined to create foreign direct investments when the benefits of investments are greater than the benefits and benefits that would be transactions made with traditional market logics. Since markets are highly imperfect, traditional market transactions are no longer cost-effective due to their complexity and high costs due to market imperfections. Companies, trying to minimise costs due to market imperfections, are forced to create their own transactions internally. When the internalization process takes place even beyond the border of the company's nation, the company acquires the international character. Companies need to be able to predict when to replace international transactions with foreign direct investment by internalizing the process. Thus, Buckley and Casson conceive of the company as an aggregate of resources that can be used for the internationalization process. In order for international growth to occur, it is therefore necessary to assess the internalization costs and compare them with transaction costs. As a result, it is the process of internalisation of intangible resources that determines international development.

The analysis of the two authors leads to identify the costs related to the internalization process and enclose them in 3 categories:

- Administrative costs of coordinating and controlling internalized transactions;
- Internal communication costs due to geographical distance and cultural differences;
- Costs related to government discrimination against foreign companies.

According to Buckley and Casson, internalization is based on a scheme of four parameters: specific factors, the industrial sector in which the company operates, the political, economic and fiscal factors of the countries involved and geographical factors. These parameters are critical to assessing the convenience of internalization as they are able to provide a systemic approach<sup>88</sup>.

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<sup>87</sup> Knickerbocker, F. T. (1973). *Oligopolistic reaction and multinational enterprise*. Boston: Harvard University School of Business Administration.

<sup>88</sup> Buckley, P. J., & Casson, M. C. (1976). *The Future of the Multinational Enterprise*. London, England: Homes and Meier Press.

Some authors, on the subject of trans-national costs and internationalization costs, have begun to start studies and reflections. To better understand the reasons for the international development of companies, we start from the Coase theory<sup>89</sup>. According to Coase, the company is the subject, which given greater efficiency at the appearance of certain conditions, replaces the market in some economic transactions<sup>90</sup>. In this way, the companies within them manage to get lower costs than the costs that the company would get through transactions in the market. Williamson<sup>91</sup> went to try to identify what are the general conditions for which companies find it advantageous to internalize. The term "internalize" is intended to replace market transactions with the internal organization of the company. Williamson establishes four critical dimensions to determine whether internalization or the market is more convenient. The four conditions are: the degree of uncertainty, the belief of transactions, the risk of opportunistic behaviour and the specificity of the investment. Williamson's study is an important tool for analysing business internalisation strategies and processes<sup>92</sup>. The choice to internalize can be seen as a choice of economic convenience of companies aimed at minimizing and reducing the costs of transactions on an international scale through the integration of the company's internal resources.

### *Dunning's Eclectic Theory*

The theory of internalization cannot provide an explanation of the intensity and structure of production abroad. In fact, the different types of imperfections that are observed on the markets can lead to different types of internationalization. For this reason, trying to provide an explanation, we must also consider variables that describe localization<sup>93</sup>. In 1980, Dunning was the first scholar to express this through Eclectic Theory. Eclectic Theory takes its name on the basis of the author's assertion of an

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<sup>89</sup> Coase, R. H. (1937). The Nature of the Firm. *Economica*, 4(16), 386–405. <https://doi.org/10.1111/j.1468-0335.1937.tb00002.x>

<sup>90</sup> Preti P., (1991). *L'organizzazione della piccola impresa: nascita e sviluppo delle imprese minori*. Milano, Italy: Egea. p.78

<sup>91</sup> Williamson, O. E. (1971). The Vertical Integration of Production: Market Failure Considerations. *The American Economic Review*, 61(2), 112–123. Retrieved from [https://www.jstor.org/stable/1816983?seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/1816983?seq=1#page_scan_tab_contents)

<sup>92</sup> Marotta, G., & Nazzaro, C. (2012). Value portfolio in the multifunctional farm: new theoretical-methodological approaches. *RIVISTA DI ECONOMIA AGRARIA*, (2). <https://doi.org/10.3280/REA2012-002001>

<sup>93</sup> Dunning, J. H. (1980). Toward an Eclectic Theory of International Production: Some Empirical Tests. *Journal of International Business Studies*, 11(1), 9–31. <https://doi.org/10.1057/palgrave.jibs.8490593>

approach that takes up his own aspects and other theories of internationalization. The purpose of Dunning's theory is to ensure that the phenomenon of internationalization can be used in any case<sup>94</sup>. In more detail, Dunning focuses on localised variables in relation to the macroeconomic and institutional peculiarities of countries. Dunning now identifies three conditions to meet for a company to have advantages in choosing to internationalize, So, there are three specific competitive advantages. The first advantage is linked to the advantages of ownership and the typical advantages of a given country (example: specific ownership that relates to competitive factors such as skills and know-how - technological how, management organization, financial availability and economies of scale). The second advantage is linked to localised advantages for host countries such as the presence of natural resources, the cost and degree of qualification of work, infrastructure, market size and institutional facilities<sup>95</sup>. The third one is related to the benefits of internalization. Internalisation advantages are summarized in the strategic advantages of doing internally rather than buying. (example: exploiting variety economies, reducing risk)

The sum of the advantages will influence the company's choices on how to internationalize it, and therefore the advantages of ownership will lead to export, while the localised advantages lead to a preferment of the implementation of establishments abroad<sup>96</sup>.

Dunning theorizes the goals enterprises pursue during their foreign direct investments. One of the main goals is search for markets for advantageous input factors. Therefore, the company is search for low-cost labour, high technology skills and cheap raw materials (resource seeking). Moreover, a company search for geographically close outlet markets that allow the company to be more present in the life of the end consumer, as well as to reduce the transitional costs and costs related to the search for information, (market seeking). Another important goal is achieved economies of scale and purpose savings to maintain competitive policies, reduce and distribute risks, (strategic assets seeking). So, one of the main purposes is to develop strategic assets to

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<sup>94</sup> DUNNING, J. H. (1979, 2009). EXPLAINING CHANGING PATTERNS OF INTERNATIONAL PRODUCTION: IN DEFENCE OF THE ECLECTIC THEORY. *Oxford Bulletin of Economics and Statistics*, 41(4), 269–295. <https://doi.org/10.1111/j.1468-0084.1979.mp41004003.x>

<sup>95</sup> Dunning J.H. (1977) Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach. In: Ohlin B., Hesselborn P.O., Wijkman P.M. (eds) *The International Allocation of Economic Activity*. Palgrave Macmillan, London

<sup>96</sup> Dunning, J. H. (1988). Dunning's eclectic theory. *Journal of International Business Studies*, 19(1), 1–31.

increase the competitive advantages and to increase the search for tax and legal benefits in foreign countries, (efficiency seeking)<sup>97</sup>.

Using locational specific advantage theory and firm specific advantage theory, Dunning offers an explanation to the phenomenon of internationalization by reframing concepts expressed by other theorists. The explanation is that companies localize capital-intensive productions in the most industrialised countries, and instead place the activities that require the most intensive work where it costs less<sup>98</sup>.

Criticism of Dunning's thinking underlines the staticity of this model, as companies' behaviours are analysed on the basis of the benefits listed, without considering other equally decisive factors. Dunning, in order to respond to criticism and improve the model, proposes again its scheme by inserting the variable of strategic business behaviour<sup>99</sup>.

### 1.2.3 The modes of entry into international markets

The entry modes, through which the company can access a defined foreign market, are normally traced back to three basic alternatives<sup>100</sup>: export, collaboration with one or more local employees, settlement productive type. Each type manifests itself in different operating modes, determining three conditions of the internationalization process, which are realized through the intensity of relations with the actors operating in the geographical context, the degree of control competitive variables in the target market, and the appropriateness of the economic and strategic results of foreign transactions<sup>101</sup>. These three variables represent the degree of rooting in the foreign market.

When choosing how to enter, there are additional factors to consider: external and internal factors. When we talk about external factors, we speak more specifically of

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<sup>97</sup> Dunning, J. (1988). The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions. *Journal of International Business Studies*, 19(1), 1-31. Retrieved from <http://www.jstor.org/stable/154984>

<sup>98</sup> Brouthers, K. D., Brouthers, L. E., & Werner, S. (1996). Dunning's eclectic theory and the smaller firm: The impact of ownership and locational advantages on the choice of entry-modes in the computer software industry. *International Business Review*, 5(4), 377-394. [https://doi.org/10.1016/0969-5931\(96\)00019-4](https://doi.org/10.1016/0969-5931(96)00019-4)

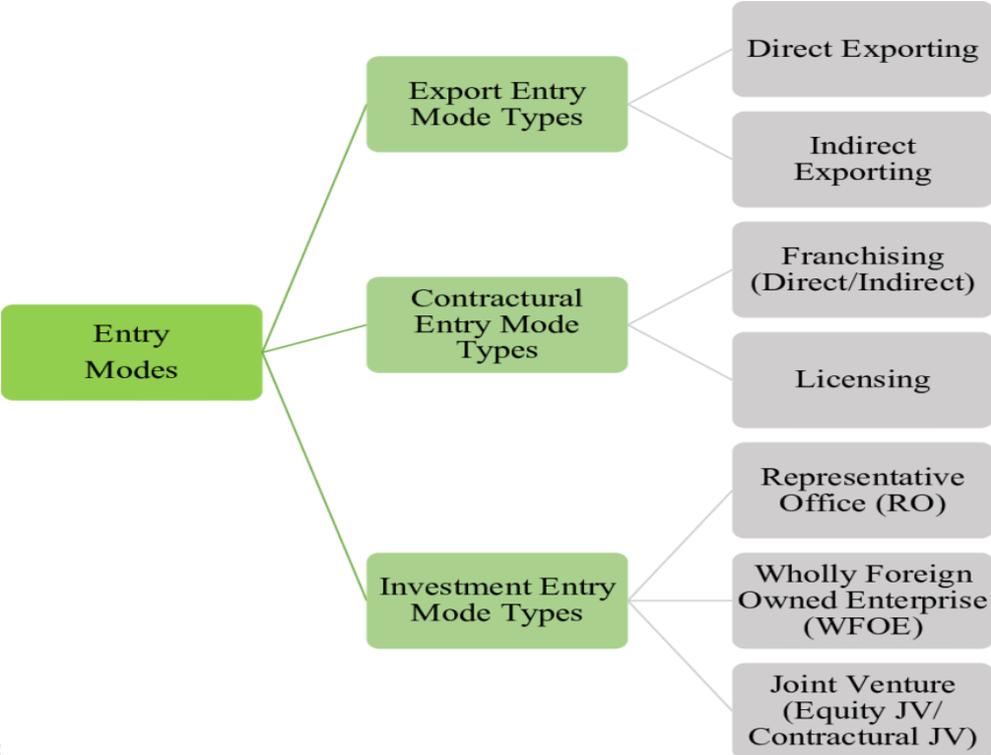
<sup>99</sup> Cantwell, J., & Narula, R. (2014). *International Business and the Eclectic Paradigm: Developing the OLI Framework*. Londra, England: Routledge.

<sup>100</sup> Valdani, E., & Bertoli, G. (2006). *Mercati internazionali e marketing* (2nd ed.). Milano, Italy: EGEA.

<sup>101</sup> Anderson, E., & Gatignon, H. (1986). Modes of Foreign Entry: A Transaction Cost Analysis and Propositions. *Journal of International Business Studies*, 17(3), 1-26. <https://doi.org/10.1057/palgrave.jibs.8490432>

determinants of an "environmental" nature and relate to the characteristics of the market in terms of geographical size, size, dispersion of demand, level of development, characteristics product, intensity of competition, distribution structure of the foreign market, etc<sup>102</sup>. With regard to internal factors, the main focus is on: the overall objectives of the foreign expansion strategy, the degree of international experience already gained, the synergies that can be achieved with other entry methods already set in, human resources, the size of the company and its ability to find financial resources, organizational pressures<sup>103</sup>.

Fig.4: Overview of Foreign Companies' Market Entry



Modes

Source: Shaper, A. K. (n.d.). ResearchGate. Retrieved August 16, 2019, from [https://www.researchgate.net/publication/324964189\\_Conquering\\_China's\\_Second-Tier\\_Cities\\_An\\_Empirical\\_Analysis\\_of\\_the\\_Relationship\\_between\\_a\\_City's\\_Degree\\_of\\_Internationalization\\_and\\_Foreign\\_Companies'\\_Market\\_Entry\\_Decisions\\_in\\_China's\\_Second-Tier\\_Cit](https://www.researchgate.net/publication/324964189_Conquering_China's_Second-Tier_Cities_An_Empirical_Analysis_of_the_Relationship_between_a_City's_Degree_of_Internationalization_and_Foreign_Companies'_Market_Entry_Decisions_in_China's_Second-Tier_Cit)

<sup>102</sup> Calof, J. L., & Beamish, P. W. (1995b). Adapting to foreign markets: Explaining internationalization. *International Business Review*, 4(2), 115-131. [https://doi.org/10.1016/0969-5931\(95\)00001-g](https://doi.org/10.1016/0969-5931(95)00001-g)

<sup>103</sup> Preti P., (1991). *L'organizzazione della piccola impresa: nascita e sviluppo delle imprese minori*. Milano, Italy: Egea. p.91

### *Export Entry Mode Types*

Direct and indirect export is the most widely used entry mode where both production and the development of human resources and skills are concentrated in the country of origin, as it requires less investment and guarantees a high level of reversibility accompanied by a lower risk.

#### *Direct Exporting*

With direct export, the company sells in foreign markets through its own commercial structure. The commercial structure of the company may have a different degree of depth in the geographical area of the foreign country. The management of exports is therefore carried out through direct contact with the local community, with greater control over international operations and with an independent definition of marketing policies<sup>104</sup>.

In this way, the company that decides to export directly can more effectively face competition. This mode of presence on the foreign market, in addition to ensuring the achievement of commercial and strategic objectives (such as the spread of its own brands), has some advantages over the indirect mode. Some of the advantages are: the simplification of the channel entry into the foreign country and the economic recovery of economic margins on foreign sales<sup>105</sup>.

In order to implement the direct export arrangements, long-term strategies and the establishment of an ad hoc organisational structure are needed:

- The sales network for abroad

Direct exports can be implemented through a sales network dedicated to the specific market selected, employing dependent or independent sales staff. Agents abroad manage the relationship with potential buyers or old customers in order to collect orders, verify the response of products to demand, identify new market needs and ensure the necessary assistance. Contacts are made with the organisational and technical support of the company, whether a permanent base has been established abroad or through a representative office. This form is mainly adopted by companies

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<sup>104</sup> Kwon, Y., & Konopa, L. J. (1993). Impact of Host Country Market Characteristics on the Choice of Foreign Market Entry Mode. *International Marketing Review*, 10(2). <https://doi.org/10.1108/02651339310032552>

<sup>105</sup> Maignan, I., & Lukas, B. A. (1997). Entry Mode Decisions. *Journal of Global Marketing*, 10(4), 7-22. [https://doi.org/10.1300/j042v10n04\\_02](https://doi.org/10.1300/j042v10n04_02)

selling products that do not require very structured after-sales assistance<sup>106</sup>.

- Sales agent

The establishment of a network of agents for foreign countries represents the first significant organizational change in the process of internationalization of the company<sup>107</sup>. A small company usually opts for the establishment of an indirect sales network, entering into a contract with an agent identified directly in the foreign country, which is an intermediary between the exporter and the buyer for promote sales in name and on behalf of the parent company. Agents have the fundamental task of identifying potential customers, collecting orders and transmitting market information. The figure of the agent is the one most directly in contact with the international economic systems, which assumes different connotations depending on the legislation. The most important benefits of using a sales network are a deeper understanding of the market and customers, as well as the ability for the company to control prices<sup>108</sup>.

- Trade subsidiary abroad

The company may decide to set up its own operating unit with its own corporate identity in the foreign market. The commercial subsidiary abroad is entrusted with the task of distributing directly and coordinating its business with that of agents and distributors. The most common configurations that a commercial subsidiary can take on abroad are: a subsidiary without a legal personality or a subsidiary with its own legal personality. 1. Branch (branch) without legal personality. The main aim is to enable faster distribution of products in the foreign country. 2. Subsidiary with legal personality. It has full corporate responsibility even if it is subject to the choices of the parent company which determines the economic conditions to which the subsidiary recall buys the products and prices at which it must sell them on the international market. Compared to previous forms, the subsidiary has the advantage of ensuring a greater continuity of relations with the market and representing the exporting company with a more efficient image than would be obtained through the presence through Agent.

- E-commerce

The most recent way of direct contact with the user is today the use of e-commerce. E-

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<sup>106</sup> Johanson, J., & Mattsson, L. (2015). Internationalisation in Industrial Systems — A Network Approach. *Knowledge, Networks and Power*, , 111–132. [https://doi.org/10.1057/9781137508829\\_5](https://doi.org/10.1057/9781137508829_5)

<sup>107</sup> Valdani, E., & Bertoli, G. (2006). *Mercati internazionali e marketing* (2nd ed.). Milano, Italy: EGEA.

commerce has a number of advantages. On the one hand, it ensures that the consumer has a faster, more personalized and even cheaper response to his needs. On the other hand, the benefits for the enterprise are: the reduction of communication and advertising costs in an increase in efficiency and effectiveness and the possibility of reaching the global market. However, the use of this mode is exposed to a number of problems: the limited computerisation of households and businesses in many countries around the world, the uncertainty of the law on online activities and the limited distribution of credit cards<sup>109</sup>.

### *Indirect Exporting*

Exports are manifested in indirect when the company wants to maintain production in its home country. Therefore, the company does not directly manage commercial operations in the foreign market, but uses an independent operator located in the country where it intends to export. In this way, the exporting company transfers costs and risks of the export process to the intermediary<sup>110</sup>. There are various types of independent operators, which are distinguished by the complexity of their organization and the acquisition of ownership of goods that are sold abroad, and which facilitate the end producer-customer relationship making it more transparent and bringing specific knowledge. The main advantage of this entry mode is for the company to be able to expand its activities without having to make significant investments, nor to face too many changes in the production and organisational process.

The following are the various configurations that this type of distribution can take:

#### - Buyers

Generally, buyers are companies from other countries that buy high volumes of product and are present with their own representatives in the places of production. These companies act through buyers. Buyers are independent entities residing in a particular country and conducting market studies, identify - through fairs and other events - products/brands to be included in the product portfolio of the company on behalf of

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<sup>108</sup> Clark, T., Pugh, D. S., & Mallory, G. (1997). The process of internationalization in the operating firm. *International Business Review*, 6(6), 605–623. [https://doi.org/10.1016/s0969-5931\(97\)00034-6](https://doi.org/10.1016/s0969-5931(97)00034-6)

<sup>109</sup> Wymbs, C. (2000). How e-commerce is transforming and internationalizing service industries. *Journal of Services Marketing*, 14(6), 463–477. <https://doi.org/10.1108/08876040010347598>

<sup>110</sup> Cassiman, B., & Golovko, E. (2010). Innovation and internationalization through exports. *Journal of International Business Studies*, 42(1), 56–75. <https://doi.org/10.1057/jibs.2010.36>

which they operate<sup>111</sup>.

- Importing companies

Importing companies are companies that specialise in importing products into a certain market, acting as intermediaries between foreign customer and producer, preparing all the necessary measures for the movement of the goods. They operate on behalf of the manufacturer and deal with the distribution of the product in an area where they have obtained the exclusive<sup>112</sup>.

- Trading Companies

Trading companies are commercial brokerage companies, specializing in the sale to international buyers of products made in a particular country. They may be independent companies, but sometimes they can be part of a group that directly or indirectly includes production companies, or a financial group<sup>113</sup>. The advantages of using a trading company are the large size, which allows you to benefit from economies of scale, the high knowledge of the markets, which the manufacturer allows to obtain a range of specialized services, such as research and research and market or sector analysis as well as feasibility and convenience studies of operations. One of the main advantages is the elimination of export risks and trade-related issues, as the trading company takes responsibility for the sale international law, against which it is contractually and economically obliged<sup>114</sup>.

- Export management company

Export management company are commercial companies operating on international markets as a sales unit, for a certain number of companies in the same supply chain. The service offered by the export companies consists of the search for the counterpart and the fulfilment of all the formalities related to the export and shipping operations. Export management companies accompany companies throughout the export process. Companies that turn to export management companies are companies that still consider

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<sup>111</sup> Roberts, M. J., & Tybout, J. R. (1997). What Makes Exports Boom? *World bank group*, . <https://doi.org/10.1596/0-8213-3667-3>

<sup>112</sup> Manova, K., Wei, S., & Zhang, Z. (2015). Firm Exports and Multinational Activity Under Credit Constraints. *Review of Economics and Statistics*, 97(3), 574–588. [https://doi.org/10.1162/rest\\_a\\_00480](https://doi.org/10.1162/rest_a_00480)

<sup>113</sup> Ahn, J., Khandelwal, A. K., & Wei, S. (2011). The role of intermediaries in facilitating trade. *Journal of International Economics*, 84(1), 73–85. <https://doi.org/10.1016/j.jinteco.2010.12.003>

<sup>114</sup> Jones, S. R. H. (n.d.). Theory and Evidence: Understanding Chartered Trading Companies. Retrieved August 19, 2019, from [https://www.academia.edu/8158599/Theory\\_and\\_Evidence\\_Understanding\\_Chartered\\_Trading\\_Companies](https://www.academia.edu/8158599/Theory_and_Evidence_Understanding_Chartered_Trading_Companies)

export activity to be marginal<sup>115</sup>. Export management companies offer the advantage of freeing companies producing the risk and administrative and logistical burdens involved in selling abroad.

The biggest advantages a company gets through export management company are the almost total absence of risk and the minimum degree of involvement in export operations. In fact, in the case of problems, the company has limited liability. Moreover, the export management company allows the exporting company to remain focused on the domestic market, but at the same time, the company has the opportunity to learn and get an idea on the international market. The export management company allows the company to understand the potential of the product at an international level.

Another relevant aspect is that the company does not have to deal with transport problems or logistics problems and in some cases, the export management company can offer support, experience and expertise to solve technical problems<sup>116</sup>.

#### - Export Consortia

Export consortia are popular membership structures in the internationalisation of small businesses. The main objective of the consortia is to address the different needs that companies can meet in their international development process through the provision of services of various kinds<sup>117</sup>. Key functions carried out by the consortia include bringing together a number of operators, imposing bearable costs on them and ensuring an adequate functional structure. In other words, one of the main objectives is therefore to carry out a trade action aimed at a more competitive penetration into foreign markets. Sales consortia may or may not take commercial risk<sup>118</sup>. In the event that the consortium does not take commercial risk, the consortium does not buy the products and then sell them. In this case, its activity consists solely of the search for potential customers in foreign markets, or the acquisition of orders by name or on behalf of the consortia. In the event that the consortium operates with risk-taking, that is, when it buys products from its associated companies and then sells them abroad, it comes to operate as an

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<sup>115</sup> Rauch, J. E., & Watson, J. (2004). Network Intermediaries in International Trade. *Journal of Economics Management Strategy*, 13(1), 69–93. <https://doi.org/10.1111/j.1430-9134.2004.00004.x>

<sup>116</sup> Delaney, L. (2018, January 5). The Advantages of Export Management Companies – Conquer Trader Import & Export – USA. Retrieved August 19, 2019, from <http://conquertrader.com/2018/01/05/the-advantages-of-export-management-companies/>

<sup>117</sup> Seringhaus, F. H. R., & Rosson, P. J. (1991). *Export Development and Promotion: The Role of Public Organizations*. Boston, MA: Springer US.

import/export company with all related activities<sup>119</sup>.

For a clearer and more detailed view we can say that for a company, the greatest advantages of consortia exports are improve knowledge of export process and access to larger markets and larger orders. Moreover, the company can enhance international competitiveness and improve profitability. Through the higher level of efficiency, the company can achieve productivity gains and can benefit in terms of reducing costs and risks costs and risk reduction<sup>120</sup>.

### *Contractual Entry Mode Types*

Contractual collaboration agreements are medium-to-long-term business relationships that have taken on importance over the last two decades. These relationships are a way of entering a foreign country that allows to obtain benefits that would otherwise not be obtained by acting as a single enterprise<sup>121</sup>. These benefits are mainly attributable to the exploitation of complementarity between partners. Collaboration with a foreign company has the advantage of sharing the investments needed to set up abroad, having immediate access to additional distinctive resources and skills, reaching more quickly efficiency levels and cost benefits<sup>122</sup>. If companies operate in the same sector and can integrate vertically, they can decide to concentrate the business in a single unit by gaining greater flexibility and achieving economies of scale and experience<sup>123</sup>. Strategic agreements allow for cost and risk sharing between different operators, which results in less economic and financial commitment than other entry modes. There are various types of collaboration agreements that allow a partnership to be established; here are some of the most important:

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<sup>118</sup> Becchetti, L., & Rossi, S. P. S. (2000). The Positive Effect of Industrial District on the Export Performance of Italian Firms. *Review of Industrial Organization*, 16(1), 53–68. <https://doi.org/10.1023/a:1007783900387>

<sup>119</sup> Antoldi, F., Depperu, D., & Cerrato, D. (2013). SMEs export consortia and the development of intangible resources. Retrieved August 19, 2019, from [https://www.researchgate.net/publication/256187153\\_SMEs\\_export\\_consortia\\_and\\_the\\_development\\_of\\_intangible\\_resources](https://www.researchgate.net/publication/256187153_SMEs_export_consortia_and_the_development_of_intangible_resources)

<sup>120</sup> Memogadget.com. (n.d.). ABOUT EXPORT CONSORTIA. Retrieved August 19, 2019, from <http://www.consortex.eu/p193-about-export-consortia-en>

<sup>121</sup> Driscoll, A. M., & Paliwoda, S. J. (1997). Dimensionalizing international market entry mode choice. *Journal of Marketing Management*, 13(1-3), 57–87. <https://doi.org/10.1080/0267257x.1997.9964459>

<sup>122</sup> Nakos, G., & Brouthers, K. D. (2002). Entry Mode Choice of SMEs in Central and Eastern Europe. *Entrepreneurship Theory and Practice*, 27(1), 47–63. <https://doi.org/10.1111/1540-8520.271003>

<sup>123</sup> Krishna Erramilli, M. (1990). Entry Mode Choice in Service Industries. *International Marketing Review*, 7(5). <https://doi.org/10.1108/eum000000001535>

#### - Franchising

Franchising is a form of contractual relationship that has considerable diffusion in the international arena. The franchise is defined as a collaboration agreement for the distribution of goods or services between a manufacturer (franchisor) and one or more distribution companies (franchisee). The production company and the distribution companies enjoy legal and economic independence<sup>124</sup>. This type of contract stipulates that the franchisee can use the franchisee's business formula, including the ability to take advantage of his know-how, distinctive signs and other benefits. On the other hand, the franchisee undertakes to make its own trade policy and the image of the franchisee in the mutual interest of the parties themselves and the end consumer, as well as to respect the freely agreed contractual terms<sup>125</sup>. The franchise has specific advantages that consist of the company that uses this type of agreement, in the possibility of expanding into foreign markets, maintaining control of certain critical activities, while relying on the financial resources and organizational skills of local entrepreneurs for the management of the distribution and sales business<sup>126</sup>. This technique in the international arena is not exempt from a number of problems affecting the management of product flows from franchisor to franchisee and the organization of the franchise network in the foreign country.<sup>127</sup> Among the various alternative formulas, the most common is the contract of master franchisee. Through the master franchisee contract, the franchisor grants the franchisee the power to franchise sub-licensing to other operators, in the geographical area of its exclusive relevance<sup>128</sup>. The other protagonists of this type of collaboration are the Franchisee broker, an independent entity that identifies and selects the new potential franchisees and the Developer Area, organizational unit created to develop a network of franchisees in a region.

#### - Licensing

Licensing is a contract under which a company (licensor) grants another company

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<sup>124</sup> Caves, R. E., & Murphy II, W. F. (1976). Franchising: Firms, Markets, and Intangible Assets. *Southern Economic Journal*, 42(4), 572. <https://doi.org/10.2307/1056250>

<sup>125</sup> Pizanti, I., & Lerner, M. (2003). Examining Control and Autonomy in the Franchisor-Franchisee Relationship. *International Small Business Journal: Researching Entrepreneurship*, 21(2), 131-159. <https://doi.org/10.1177/0266242603021002001>

<sup>126</sup> Peterson, A., & Dant, R. P. (1990). Perceived Advantages of the Franchise Option from the Franchisee Perspective: Empirical Insights from a Service Franchise. *Journal of Small Business Management*, 28(3).

<sup>127</sup> P. H. Rubin, "The Theory of the Firm and the Structure of the Franchise Contract," *The Journal of Law and Economics* 21, no. 1 (Apr., 1978): 223-233.

<sup>128</sup> Justis, R. T. (1986, July 1). Master Franchising: A New Look. Retrieved August 19, 2019, from <https://www.questia.com/library/journal/1G1-4530699/master-franchising-a-new-look>

(licensee) the right to use a particular technology, brand or logo, production processes or production structures, products and knowledge related to management processes. Generally, companies that use this type of contract are small and medium-sized enterprises, which do not have sufficient managerial, financial and marketing resources to set up a production facility on their own<sup>129</sup>. The structure of royalties is the subject of specific bargaining: it is based on the payment of a fixed sum or a percentage of the value generated by the sales. As a rule, a company uses the formula of the licensing agreement because it allows rapid, profitable and low-risk entry into a foreign market and allows it to overcome obstacles related to the reduced permeability of investments or the existence of barriers to imports. In addition, these agreements are usually favoured by emerging market authorities<sup>130</sup>. This is because licensing is a tool to acquire the know-how and technology needed for the development of emerging market economies. However, there are also licensing risks. These risks can be mainly traced back to the unwanted transfer of knowledge, which could encourage the development of future competitors. Licensee behaviour other than those established in the contract could also damage the company's image or reputation<sup>131</sup>.

### *Investment Entry Mode Types*

The exporting company, through direct and indirect export or through contractual entry mode types, has the opportunity to see the customer's response abroad, assess whether the product works and decide whether to expand their investment<sup>132</sup>. At this point, the entrepreneur may think of creating his own structure in the countries in which he intends to operate. At this very important and decisive time for the company, the consultant figure can prove crucial to the success of the investment. The possibilities for foreign companies to set up their office in the country where they intend to sell their product are:

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<sup>129</sup> Horstmann, I., & Markusen, J. R. (1987). Licensing versus Direct Investment: A Model of Internalization by the Multinational Enterprise. *The Canadian Journal of Economics*, 20(3), 464. <https://doi.org/10.2307/135389>

<sup>130</sup> Hagedoorn, J., & Narula, R. (1996). Choosing Organizational Modes of Strategic Technology Partnering: International and Sectoral Differences. *Journal of International Business Studies*, 27(2), 265–284. <https://doi.org/10.1057/palgrave.jibs.8490135>

<sup>131</sup> Sternquist, B. (1997b). International expansion of US retailers. *International Journal of Retail & Distribution Management*, 25(8), 262–268. <https://doi.org/10.1108/09590559710178347>

<sup>132</sup> Andersson, T., & Svensson, R. (1994). Entry Modes for Direct Investment Determined by the Composition of Firm-Specific Skills. *The Scandinavian Journal of Economics*, 96(4), 551–560. <https://doi.org/10.2307/3440796>

1. Representative Office (RO)
2. Wholly Foreign Owned Enterprise (WFOE)
3. Joint Venture (Equity JV or Contractual JV)

- Representative Office

The key difference between the Representative Office and the other two is the possibility of billing. A Representative Office does not have the option to issue invoices in case the company intends to sell its product in the country where the RO is established, in any case the invoicing will have to be carried out by the parent company. In this case, for the foreign customer, sending the money to the parent company can be a laborious as well as expensive operation, especially if the customer's reference bank does not have a subsidiary abroad or is not used to making transactions abroad. In fact, a Representative Office is not a foreign company, but a simple extension of the parent company. The Representative Office can deal with consulting market research, support activities that foster connections with the parent company<sup>133</sup>.

For a company, the choice to establish a representative office abroad is based on extremely advantageous factors. In fact, the Representative Office is the mode that is very simple to create, entails lower costs of establishment and with lower civil obligations; In fact, the registration of the local unit in the Chamber of Commerce of the foreign state settlement, the representative office does not require its own social capital and can receive funding only from foreign bank accounts<sup>134</sup>.

The representative office being a subject without legal and fiscal autonomy over the parent company, in the foreign state does not raise tax obligations but its costs are normally fully deductible for the parent company<sup>135</sup>.

In other words, the representative office has the sole function of the company's penetration into the foreign market, since it cannot carry out commercial or productive activities. In addition, other possible activities include facilitating the obtaining of the necessary work visas and residence permits of Italian employees (if required in the

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<sup>133</sup> Germani, M. (2014). *Business con la Cina. Come Fare Affari con il Made in China e l'Import Export.* Roma, Italy: Bruno Editore.

<sup>134</sup> Kouznetsov, A. (2009). Country conditions in emerging markets and their effects on entry mode decisions of multinational manufacturing enterprises. *International Journal of Emerging Markets*, 4(4), 375–388. <https://doi.org/10.1108/17468800910991269>

<sup>135</sup> Arcuri, G. (2018, February 13). Come internazionalizzare la propria impresa all'estero. Retrieved August 20, 2019, from <https://www.altalex.com/documents/news/2017/05/04/come-internazionalizzare-la-propria-impresa-estero>

country). In addition to human resources from the parent company, there is also the possibility to regularly hire local resources. The role of the head of the Office of Representation will be crucial. In fact, he will have the task of preparing the ground for the rapprochement of two different cultures as well as transmitting information to the parent company. However, the manager will have no decision-making power, nor will he be able to engage the company in front of third parties<sup>136</sup>.

- Wholly Foreign Owned Enterprise (WFOE)

As for foreign-capital companies, they stand out in WFOE and JV. Both the wholly foreign-owned enterprises and the joint ventures assume projects of a wider scope than the representative office. In fact, both WFOEs and JVs require much greater investment and logistical commitments than the representative office<sup>137</sup>.

The establishment of a WFOE is aimed at the possibility of seizing the opportunities made available by a market other than the domestic one, the possibility of establishing a direct presence in the foreign country and the possibility of obtaining cost advantages that facilitate penetration in a particular country<sup>138</sup>.

The company may decide to settle abroad because of the need to obtain a better garrison in that foreign market. The aim is to overcome a number of export-related restrictions as an entry mode. The company may decide to settle abroad because of the need to obtain a better garrison in that foreign market. The aim is to overcome a number of export-related restrictions as a way of entry. The company can also consider obtaining cost benefits that facilitate penetration in a particular country. These can be logistical costs, market replenishment costs, raw material procurement costs, and labor costs. However, the establishment of WFOE also has disadvantages<sup>139</sup>. The main disadvantages are: high initial investments and also high operating costs. This type of investment is a binding decision because high structure costs require adequate production volumes to cover margins. Another issue that the company faces is the training of qualified staff to manage the new production unit, even if a qualified and determined staff is not always readily

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<sup>136</sup> Trimarchi, D. (n.d.). Ufficio di rappresentanza, succursale e filiale: quale forma di investimento diretto scegliere? Retrieved August 20, 2019, from <https://www.exportiamo.it/aree-tematiche/13018/ufficio-di-rappresentanza-succursale-e-filiale-quale-forma-di-investimento-diretto-scegliere/>

<sup>137</sup> Bontempi, M. E., & Prodi, G. (2009). Entry strategies into China: The choice between Joint Ventures and Wholly Foreign-Owned Enterprises. *International Review of Economics & Finance*, 18(1), 11–19. <https://doi.org/10.1016/j.iref.2008.02.007>

<sup>138</sup> Deng, P. (2001). WFOEs: The Most Popular Entry Mode into China. *Business Horizons*, 44(4).

available.

- Join Venture

The international joint venture is the most advanced form of strategic alliance. This type of strategic alliance consists of an agreement between two or more companies to achieve certain objectives of common interest in marketing, production, research or other sectors<sup>140</sup>. Participation in its constitution is manifested through the contribution, by the companies involved, of financial capital, know-how and technical and management skills. Existing joint-venture models consist of cooperation between two partners of different nationalities, which may be two industrial companies or an industrial company and a commercial one, or even financial sharing with a market company selected foreign countries. The joint venture agreement reduces the financial investment required to enter a new country. This agreement also allows a company structure to be established with a set of resources and skills superior to a company operating abroad in an autonomous form. The main aim is to gain greater control of competitive development operations and to obtain favourable conditions from governments in the countries where the joint venture has taken office. In fact, in some cases, governments, especially those of emerging countries, only allow some foreign companies to operate on their own territory and therefore joint ventures are the only way to be present in those markets. However, these forms of cooperation are very difficult to manage and their success often depends on the quality of the operational procedures through which they operate; Large companies often use the joint venture as an early stage of their commercial penetration and then move on to direct distribution forms<sup>141</sup>.

The multiple ways of penetration in a foreign country were analysed. By analyzing them, we understand what factors influence the choice of penetration mode to use. The choice of modes depends both on the strategies that the company intends to develop and, above all, on the type of product and the structure of the markets in which it intends to sell. The choice of the mode of entry is a critical decision, which must be evaluated both

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<sup>139</sup> Luo, Y., & Chen, M. (1995). Financial performance comparison between international joint ventures and wholly foreign-owned enterprises in China. *The International Executive*, 37(6), 599–613. <https://doi.org/10.1002/tie.5060370606>

<sup>140</sup> Gray, Carolyn. (n.d.). What Is a Joint Venture Agreement Between Two Companies? *Small Business - Chron.com*. Retrieved from <http://smallbusiness.chron.com/joint-venture-agreement-between-two-companies-23727.html>

<sup>141</sup> Glaister, K. W., Husan, R., & Buckley, P. J. (2005). International joint ventures: an examination of the core dimensions. *Journal of General Management*, 30(4), 43–72.

from the point of view of the investment of necessary resources and in the aspects associated with the choice itself, since the choice is difficult to reverse in the short term. It is clear that, in order to face new international competition, a reduction in investment in "mature" markets and a reallocation of resources and investments in new, more profitable markets are needed<sup>142</sup>. New outlet markets enable investment opportunities through, for example, the exploitation of low labour costs and the easy creation of production settlements in certain geographical areas. Depending on the way they are penetrated, the benefits range from exploiting the cost benefits of transport to exporting to fully exploiting domestic demand in those markets.

### **1.3 Pros and cons of internationalization**

The international economic environment in which companies operate is highly integrated and interdependent. Internationalization also means destabilising Western economies, helping to mark a process already under way and which sees "a systematic shift in the centre of gravity of economic powers to countries (once defined in development) that continue to generating high growth rates, in stark contrast to the extreme fragility to which the traditional capitalist world is subjected" <sup>143</sup>.

Within this global scenario, internationalization is no longer a possibility but a necessity, so the speed of adaptation to the new logic of the economy constitutes a source of competitive advantages, as well as, in some ways, operational survival. Consequently, the company of any size and sector of activity must keep the national market as well as the international one under control, in order to be ready to adapt to changes and to operate strategically<sup>144</sup>.

Carrying on a business that is profitable means being able to overcome the obstacles due to local markets saturated and marked by significantly lower demand than in the past. This is an effect due to the economic crisis, but also to the emergence of new markets increasingly interested in the Made in Italy brand. From this point of view, the solution has a name: internationalization of companies. Which, in other words, means

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<sup>142</sup> Erramilli, M. K., & Rao, C. P. (1990). Choice of Foreign Market Entry Modes by Service Firms: Role of Market Knowledge. *Management International Review*, 30(2), 135–150.

<sup>143</sup> Ministero dello Sviluppo Economico. (2012). Rapporto ICE 2012. Retrieved August 21, 2019, from <https://www.ice.it/it/sites/default/files/inline-files/Rapporto%20Ice%20-%202012.pdf>

<sup>144</sup> Cedrola, E. (2005). *Il marketing internazionale per le piccole e medie imprese*. Milano, Italy: McGraw Hill, Group Italia.

restructuring your company to equip it with all the weapons necessary to invade the most promising foreign markets, respecting its cultural and economic diversity.

The internationalization of enterprises is not an easy mission to complete. In fact, you have to rework your core business to adapt it to foreign markets, which always requires the intervention of a team specialized in this operation<sup>145</sup>.

The internationalization process requires long planning and adaptation of marketing strategies. The easiest way to overcome these obstacles is to contact a professional in the field. You can rely on the networks that among the many advantages expressed above, allow companies to get in touch with each other to create new business relationships<sup>146</sup>.

Internationalizing your business means having several tools at your disposal to increase the turnover of the company. Thanks to exports, in fact, it is possible to invade very interesting markets, whose demand exceeds that of our country that has suffered a contraction as a result of the economic crisis and the needs of consumers to save money. In addition, thanks to internationalization it is also possible to diversify the risk and increase the appeal of your brand, with obvious positive consequences also on the Italian market. In addition, it is also possible to increase the life cycle of a product that has lost focus in the domestic market. It is also worth considering that internationalization pushes companies to renew themselves, coming to meet a market that evolves and that makes foreign countries the most important and profitable half. Not all companies are the same: some are better suited to internationalisation strategies, while others require more accurate and lengthy rescheduling<sup>147</sup>. In any case, the advantages are always considerable: by studying the needs and characteristics of the foreign country of reference, it is possible to have new ideas to market more successful products even in Italy, taking advantage of an experience on a global scale that will grow over time. This also means being better equipped to face direct competition. improve

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<sup>145</sup> Lu, J. W., & Beamish, P. W. (2001). The internationalization and performance of SMEs. *Strategic Management Journal*, 22(6-7), 565-586. <https://doi.org/10.1002/smj.184>

<sup>146</sup> Lu, J. W., & Beamish, P. W. (2001). The internationalization and performance of SMEs. *Strategic Management Journal*, 22(6-7), 565-586. <https://doi.org/10.1002/smj.184>

<sup>147</sup> Sui, S., & Baum, M. (2014). Internationalization strategy, firm resources and the survival of SMEs in the export market. *Journal of International Business Studies*, 45(7), 821-841. <https://doi.org/10.1057/jibs.2014.11>

brand awareness within its own borders<sup>148</sup>.

Before going on to list the benefits that drive the company to internationalize, it must be made clear that there are different attitudes of companies towards internationalization: the passive attitude, the active attitude and the responsive attitude.

With passive attitude, the company is solicited by foreign buyers who have become aware of the product from sources other than those of the company. The company sells to the buyer and returns in a state of liabilities.

When a company has an active attitude, the company planned its growth abroad for reasons of profits and goals of growth, advanced technology process, management experience, exploiting a competitive advantage, identifying market opportunities. At this point the company's primary goal is to become more competitive by acquiring new economies of scale, or becoming more competitive by acquiring new knowledge, taking advantage of different stages of the international product life cycle.

With a responsive attitude, the company feels the pressure of competition and has lack of absorption of the local market then occasional search for surplus production, occasional production process, willingness to increase sales of seasonal products, proximity to customers, balance or mitigate market risks<sup>149</sup>.

In this part, therefore, it is intended to focus on the most important advantages of internationalization, and therefore on the positive aspects that drive the entrepreneur at the head of a company to try to internationalize. On the other hand, the biggest obstacles to the internationalization of the company, the disadvantages and financial problems that are part of the international market and which can affect and damage the company that intends to internationalize will also be listed.

### **1.3.1 Reasons that push entrepreneurs to the internationalization**

Starting from the external factors that can affect a company's ability to internationalize, you have to distinguish between tangible and intangible external factors.

Tangible factors are infrastructure assets and the provision of services to support

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<sup>148</sup> Lentepubblica.it. (2016, December 7). Internazionalizzazione delle imprese: i vantaggi per le aziende italiane. Retrieved August 20, 2019, from <https://www.lentepubblica.it/cittadini-e-imprese/internazionalizzazione-imprese-vantaggi/>

<sup>149</sup> Cianca, F. (n.d.). I vantaggi dell'internazionalizzazione. Retrieved August 21, 2019, from <http://www.formazione->

internationalisation. Intangible factors are the nature of the business network in terms of innovative capacity and the intensity of reciprocal relations and international openness.

There are two main internal variables that are sought for the foreign growth of a small business. The first variable is represented by characteristics of those who have decision-making power in the enterprise, often traceable only in the figure of the entrepreneur<sup>150</sup>. The second variable comprehends more general characteristics of the enterprise system<sup>151</sup>.

Beyond the importance of managerial skills, i.e. the ability to read risks, to acquire information, to establish relationships, it is clear that neither turnover nor the number of employees is an important element in terms of internationalisation of small enterprises<sup>152</sup>. On the other hand, it is clear that certain resources are important, such as analytical knowledge about the foreign market, the ability to effectively manage demand abroad and the ability to relate to other players in the internationalisation process.

But the most important resource that can sometimes be an insurmountable obstacle is funding capacity.

Taking up Dunning's eclectic theory previously analysed, it is clear that Dunning sees internationalization as a path through which the company optimizes its production structure in terms of efficiency to reach new markets to operate, to have access to inputs other than those of the domestic market and to achieve a reduction in the costs of stages of the value chain. It is precisely these three points, the main advantages that drive the entrepreneur to embark on the path of internationalization<sup>153</sup>.

In more detail, one of the main advantages of a company in penetration into foreign markets is the increased turnover. In fact, it is the most obvious and immediate advantage. The company's sales depend both on the competitiveness of the company itself and on the size of the market it targets. Therefore, undertaking an export activity

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[maveco.it/SITO%20WEB/SITO%20WEB\\_formazione/Articoli%20selezionati/marketing/I%20vantaggi%20dell%27internaz.%20e%20fattori%20di%20successo.pdf](http://maveco.it/SITO%20WEB/SITO%20WEB_formazione/Articoli%20selezionati/marketing/I%20vantaggi%20dell%27internaz.%20e%20fattori%20di%20successo.pdf)

<sup>150</sup> Oviatt, B. M., & McDougall, P. P. (2005). Defining International Entrepreneurship and Modeling the Speed of Internationalization. *Entrepreneurship Theory and Practice*, 29(5), 537–554. <https://doi.org/10.1111/j.1540-6520.2005.00097.x>

<sup>151</sup> Mejri, K., & Umemoto, K. (2010). Small- and medium-sized enterprise internationalization: Towards the knowledge-based model. *Journal of International Entrepreneurship*, 8(2), 156–167. <https://doi.org/10.1007/s10843-010-0058-6>

<sup>152</sup> Tsai, H., & Eisingerich, A. B. (2010). Internationalization Strategies of Emerging Markets Firms. *California Management Review*, 53(1), 114–135. <https://doi.org/10.1525/cmr.2010.53.1.114>

allows the company to broaden its market base. Another advantage is the increased profit: if the amount of additional sales available on the foreign market is such that it does not significantly affect fixed costs, those sales will increase the overall profitability of the company. With the internationalization, a company can enjoy economies of scale: When activity abroad ceases to be a marginal part of the company's overall business, it embarks on a growth process in terms of size, supported by the growth of the market base, which allows it to access to new financial resources and take advantage of dimension-related cost benefits<sup>154</sup>.

The risk diversification is another important advantage of the internationalization. Indeed, export reduces the company's dependence on a single market, the domestic one. In this way, the international market allows the company to overcome any recessions that can affect individual markets.

Moreover, thanks to the internationalization, a company has the ability and the opportunity to access new ideas and new experiences; working on different markets allows a company to come into contact with new realities, new ways of operating, new successful ideas that can be accepted and used both on the domestic market and in the other markets<sup>155</sup>. The response to globalization is a relevant factor. In fact, the increasing globalization of markets means that no company can afford to remain closed in its market. It is therefore crucial that the experience of competition on the international market is carefully designed and managed in the best conditions. In this way, the experience and skills acquired, will allow companies to build the financial means and managerial skills to compete with foreign competitors also in the domestic market. The last main advantage is the increased competitiveness on the domestic market: As mentioned above, sales depend both on the size of the target market and on the company's competitiveness with competitors. The characteristics companies need to compete in international markets, experience, skills and resources acquired will also be an important competitive advantage on the domestic front<sup>156</sup>.

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<sup>153</sup> Preti P., (1991). *L'organizzazione della piccola impresa: nascita e sviluppo delle imprese minori*. Milano, Italy: Egea. p.92

<sup>154</sup> Stigler, G. J. (1958). The Economies of Scale. *The Journal of Law and Economics*, , 54–71.

<sup>155</sup> Chiao, Y., Yang, K., & Yu, C. J. (2006). Performance, Internationalization, and Firm-specific Advantages of SMEs in a Newly-Industrialized Economy. *Small Business Economics*, 26(5), 475–492. <https://doi.org/10.1007/s11187-005-5604-6>

<sup>156</sup> Zucchella, A., Palamara, G., & Denicolai, S. (2007c). The drivers of the early internationalization of the firm. *Journal of World Business*, 42(3), 268–280. Retrieved from <https://www.sciencedirect.com/science/article/pii/S1090951607000338>

### 1.3.2 The going abroad obstacles and financial issues

Planning an internationalization strategy requires the need to reorganise all the organisational and entrepreneurial structure in order to enter into an international perspective. The choice to internationalize requires a greater degree of complexity and uncertainty<sup>157</sup>. For this reason, it is necessary not only to trace new sources of funding that are suitable according to the new requirements, but it is also essential to have a risk management system. Risk management enables the entrepreneur and his staff to effectively address uncertainties and risks, supporting strategic goals and increasing the company's ability to generate value<sup>158</sup>.

The need for a valid risk management program is essential for every company, especially for small and medium enterprises<sup>159</sup>. In fact, for SMEs, the biggest problems arise from the strong link between companies and the financial system of origin and the imperfections of international markets that manifest themselves in the form of high transaction costs and administrative problems and information of various types. Usually, the biggest problems of SMEs stem from a poorly organised financial area and problematic access to development capital. The combination of these factors involves little rationality in developing a strategy in which risk management and funding sources play a key role<sup>160</sup>. Although there is a wide variety of financial instruments for SMEs wishing to internationalize, these financial instruments are often not used due to the lack of managerial skills or the lack of information on the various funding options. Therefore, it is clear that one of the biggest obstacles to internationalisation is the inability of SMEs to identify the tools available to undertake the process of internationalisation. As a result, the seriousness of not understanding the potential of a strategic area such as the potential of the financial area.

In addition to this, there is also the limit set by a narrow reality such as that of the family-owned company characterized by the lack of propensity to sell shares of corporate control or to find external sources of financing. Small companies that initiate

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<sup>157</sup> Knight, G. (2000). Entrepreneurship and Marketing Strategy: The SME under Globalization. *Journal of International Marketing*, 8(2), 12–32. <https://doi.org/10.1509/jimk.8.2.12.19620>

<sup>158</sup> Conti, C. (n.d.). Introduzione al corporate financial risk management. Una chiave di lettura finanziaria per il board. Retrieved August 23, 2019, from <https://books.google.it/?hl=it>

<sup>159</sup> Saunders, A., & Cornett, M. (2010). *Financial Institutions Management: A Risk Management Approach*. New York, United States: McGraw-Hill Education.

<sup>160</sup> Stulz, R. M. (1996). RETHINKING RISK MANAGEMENT. *Journal of Applied Corporate Finance*, 9(3), 8–25. <https://doi.org/10.1111/j.1745-6622.1996.tb00295.x>

internationalization processes have a completely different financial requirement than those companies that operate exclusively in the domestic market. This is due to the fact that the internationalisation process requires the acquisition of capital and financial instruments suitable for this type of business decision<sup>161</sup>. The start of the internationalisation process is linked to an increase in the risk perceived by lenders as foreign credit presents greater uncertainty due to cultural, linguistic, legal, economic and political differences.

It is therefore clear that the risk management instrument needs to be improved in order to deal with a more complex risk situation than that of the domestic market. When the company intends to undertake an internationalization process, it is crucial to carry out an in-depth strategic analysis of internal strengths and weaknesses, assess threats and opportunities to define strategies for penetration of the new markets to be explored. The task of resetting a purely international strategy is precisely the risk management which, in the case of SMEs, is precisely the decision-making figure that coincides with that of the entrepreneur. Risk management was born as a tool for the management of two main types of risk: financial and insurance risk, as well as other risks of a more generic but no less important nature, such as that related to the commercial risks related to the country in which the company intends to operate<sup>162</sup>. The job of risk management is to find all the necessary information in order to support the company's choices. This can be done through institutional media and all the tools that can allow the knowledge of possible elements and events that can cause various problems, rating etc. The importance of identifying a target market is necessary to understand and weigh up business strategies and operational strategies. When it comes to penetration into a market, it is necessary to analyse the country's system through political, economic, socio-cultural and technological variables. From an economic and political point of view, the possible economic and political developments and changes in international scenarios should also not be underestimated. The analysis of these aspects must be done to be able to implement preventive strategies that can be modulated according to events. Further difficulties a company may face are those related to geographical distance. In fact, too much distance could generate logistical risks in terms of business, financial and

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<sup>161</sup> Ghoshal, S. (1987). Global strategy: An organizing framework. *Strategic Management Journal*, 8(5), 425–440. <https://doi.org/10.1002/smj.4250080503>

<sup>162</sup> Dickinson, G. (2001). Enterprise Risk Management: Its Origins and Conceptual Foundation. *Palgrave Macmillan Journals*, 26(3), 360–366.

management relations<sup>163</sup>.

From all these elements, the company needs a detailed but general strategic assessment formula linked to the company's ability to manage risks on an international scale in different fields. Based on the risk analysis, the company can decide whether to undertake penetration through direct investment rather than an indirect export. The choice to assess the credit risk rating, which is the measurement of the degree of reliability and credibility of foreign operators, is therefore increasingly important. But, from this need, there is the difficulty of being able to obtain information on commercial counterparts. One possible solution may be to engage closely between the export and financial functions in order to more efficiently manage the risks of fluctuating the values of financial rates and currencies other than national one.

A company's financial needs must be read in terms of working capital and capital to support investments. The concerns about working capital are the same both in the domestic market and in the market in which the company intends to internationalize<sup>164</sup>. From this point arises the problem of the time variance between the date on which the credit is born and the time of the actual payment by the customer since this risk is greater in the international market rather than in the domestic one. Another problem of international trade is the exchange risk; In fact, there is a possibility that currency exchange fluctuations will negatively affect the value of the individual transaction<sup>165</sup>. Another element that constitutes an obstacle to the internationalization of a company, especially if small, are the sunk costs of export. Sunk costs are costs that the company is often unprepared to face precisely because these costs are unexpected or variable costs that the company has to cope with if it is to survive in an international context. One of the most significant sunk costs is the exchange rate fluctuation that varies depending on the country in which you export. Sunk costs are often the cause of hysteresis in trade flows that leads to maximum corporate inflows in foreign markets. Hysteresis can prove crucial and can take the meaning of permanent effect since a company, after paying sunk costs and overcoming the shock phase, realizes that at that point it is much cheaper to

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<sup>163</sup> Cuervo-Cazurra, A. (2011). Selecting the country in which to start internationalization: The non-sequential internationalization model. *Journal of World Business*, 46(4), 426–437. <https://doi.org/10.1016/j.jwb.2010.10.003>

<sup>164</sup> Maxfield, S. (1998). Understanding the political implications of financial internationalization. *World Development*, 26(7), 1201–1219. [https://doi.org/10.1016/s0305-750x\(98\)00053-9](https://doi.org/10.1016/s0305-750x(98)00053-9)

<sup>165</sup> Pitoni, L. (2013). *L'internazionalizzazione della piccola e media impresa nel contesto globalizzato*. Roma, Italy: Aracne. p.96-100

remain in the international market.

There are several assets that a company must acquire before entering a foreign market precisely to avoid being unprepared for sunk costs<sup>166</sup>: a company must gather information on the foreign market and learn the functions of legal and institutional figures in the country where you intend to export. A good choice could be establish a distribution network abroad or establish effective marketing action to inform the possible foreign consumer about the product's characteristics.

In conclusion, we can say that for a company the obstacles to internationalization, in addition to being numerous, can be fatal both for the use of energy and for the expenditure of resources of the company. It is therefore important not to be caught unprepared and unaware, but to try to predict every possible problem by implementing a simple but effective strategy. Therefore, during the process of internationalization, despite the fact that the company is faced with many difficulties it can take advantage of what it learns abroad. The company faces an internal process of learning and gradually acquiring knowledge, rebuilding the trust enjoyed by external stakeholders and the ability to learn and experiment continuously. In addition, the problems addressed and resolved at international level have a positive effect on the local competitive development of smaller companies. In fact, a small company with international experience uses the development of knowledge that smaller companies not exposed to international competition do not have. This becomes crucial for several growth conditions: the acquisition of a significant competitive advantage; conditions to strengthen the state of the company at home<sup>167</sup>. However, it can be said that the greatest impetus from development abroad is that which drives the company towards a progressive open-mindedness. The fact that the company operates in a supranational competitive environment strengthens the ability to see the international scenario and to interpret it positively, depending on its internal characteristics.

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<sup>166</sup> Bugamelli, M., & Infante, L. (2003). *Sunk costs of exports*. Roma, Italy: Banca d'Italia.

<sup>167</sup> Caroli, M. G., & Fratocchi, L. (2000). *Nuove tendenze nelle strategie di internazionalizzazione delle imprese minori: le modalità di entrata emergenti tra alleanze e commercio elettronico*. Milano, Italy: F. Angeli.

## CHAPTER 2

### The China Market Business: Opportunities, obstacles and barriers

The People's Republic of China, with the economic reform of 1978 based on capitalism, began a fast period of development. Prior to the affirmation of the current economic line, China alternated periods of expansion with broad phases of regression (1960-1961 and 1966-1968). These periods coincide with the two growth attempts made by President Mao Tse-tung, known as the "Great Leap Forward" and "Great Cultural Revolution" respectively<sup>168</sup>. In the past, the Chinese community has distinguished itself from other Asian countries for its significant level of savings in relation to GDP. After 1978, this feature allowed the use of savings in new infrastructure and investment. In 1978, after years of state control of all production activities, the Chinese government launched a major economic reform programme<sup>169</sup>. Once called the sleeping giant, because of the potential of its economy, China now faces an economic growth and for this reason, China's intention is to awaken the sleeping giant<sup>170</sup>. The prospect of economic resources was also encouraged by the creation and development of rural and private enterprises. In addition, foreign trade and foreign investment have been partly liberalised, state control has become less restrictive and investment in industrial production and labour force education has become more substantial. These reforms have proved to be real catalysts for economic development and have completely changed the structure of the country and its market<sup>171</sup>. Following 1978, a phase of change began, both in the social structure and in the production structure of the People's Republic of China. The success of these changes has helped to support the expansion of the demand for investment. The expansion of the demand is both domestic and, above all, foreign<sup>172</sup>.

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<sup>168</sup> Samarani, G. (2017). *La Cina contemporanea. Dalla fine dell'impero a oggi*. Torino, Italy: Einaudi.

<sup>169</sup> Telegraph.co.uk, T. (2018, December 4). Why 1978 was a red-letter year in Chinese political and economic reform. Retrieved August 24, 2019, from <https://www.telegraph.co.uk/china-watch/politics/chinese-economic-reform/>

<sup>170</sup> Flaherty, J. H., Liu, M. L., Ding, L., Dong, B., Ding, Q., Li, X., & Xiao, S. (2007). China: The Aging Giant. *Journal of the American Geriatrics Society*, 55(8), 1295-1300. <https://doi.org/10.1111/j.1532-5415.2007.01273.x>

<sup>171</sup> Ling, L. (1998). The China Miracle: Development Strategy and Economic Reform. *Cato Journal; Washington*, 18(1), 147-150.

<sup>172</sup> Hu, Z., & Khan, M. S. (1997). Economic Issues 8 -- Why Is China Growing So Fast? Retrieved August 24, 2019, from <https://www.imf.org/external/pubs/ft/issues8/index.htm>

## 2.1 Why doing business in China?

In recent years there has been a significant shift in economic centre of gravity from mature to emerging economies. Among these countries with an emerging economy, the People's Republic of China is a case of development unique in the world. China has embarked on an exemplary growth path and for many states is a model for its unparalleled growth rate. At present, China is the country that has been better able to respond to the international crisis than anyone else. This is mainly possible thanks to a major change in its development model, which is gradually shifting from export to stimulating domestic demand. In such a scenario, there are many opportunities for SMEs to internationalize, particularly those that can offer quality products and services and know-how to meet the growing needs of Chinese consumers and businesses. However, for small companies, China appears not only synonymous with opportunity, but also threat<sup>173</sup>.

The People's Republic of China is home to more than 20% of the world's population and considered one of the best players in stock markets around the world. In other words, in this historical period, China is driving much of the entire global economy. China is the country with the best growth performance in the world and therefore the growth strategies of many economic operators are focused on it. This makes China a deeply competitive place, which needs to be approached with unimpeded and well-structured strategies. Its economic growth, combined with a large domestic market and low labour and raw material costs, makes the People's Republic of China (PRC) a coveted destination for all SMEs looking to expand their business across borders<sup>174</sup>. Specifying the exact number of the Italian presence in Chinese territory is currently particularly complicated, as there is no official list available to the public. The only list available online is the "Database of Italian presence in China" compiled by the ICE<sup>175</sup> (National Institute for Foreign Trade) offices. However, it is clear that the number of Italian companies is constantly growing. A key role in this increase is played by all those small and medium-sized companies characterized by a strong technological and innovative

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<sup>173</sup> D murger, S., Sachs, J. D., Woo, W. T., Bao, S., Chang, G., & Mellinger, A. (2002). Geography, Economic Policy, and Regional Development in China. *Asian Economic Papers*, 1(1), 146–197. <https://doi.org/10.1162/153535102320264512>

<sup>174</sup> Francioni, B., Musso, F., & Cioppi, M. (2015). Decision-maker characteristics and international decisions for SMEs. *Management Decision*, 53(10), 2226–2249. <https://doi.org/10.1108/md-03-2015-0094>

capacity that allows them to create unique and locally appreciated products.

Export is the entry mode most used by SMEs for trading in China. Excluding foreign direct investment with full proprietary control, the most widespread business strategy is certainly the strategy of partnerships that allows Italian companies to penetrate the Chinese market faster and more easily<sup>176</sup>. While China has a workforce, raw materials, financial resources and low-cost production capacity, it still needs Italian technological know-how. Many SMEs are also on site with representative offices, showrooms, sales offices, or production centres.

Given the strong presence of Italian companies in China, it is often asked why China is such a strong attraction for Italian SMEs entrepreneurs who want to expand their relations with abroad by starting a process of internationalization and what are the main reasons for entrepreneurs to bet on a market that is as promising as it is insidious<sup>177</sup>.

One of the main reasons why entrepreneurs, despite the dangers and dangers, want to invest in the Chinese market is the outlook for continued growth of the Chinese economy although at a lower rate than in the recent past. In fact, even if the growth rate is no more than double as in the last decade, China has the second largest GDP in the world and has been experiencing significant growth for years<sup>178</sup>. In early 2019, the Chinese economy remained stable in its main indicators. IMF (international monetary fund) estimates indicate growth of 6.2% in 2019, which may vary considerably between sectors and sub-sectors<sup>179</sup>.

Another motivation that attracts small and medium firm entrepreneurs is the vastness of the Chinese market. Indeed, the massive urbanisation and growth of the purchasing power of the middle class are at the based on the steady growth in domestic consumption. The high rate of urbanisation affects not only in the so-called first-time cities (Beijing, Shanghai and Canton), but also second and third tiers (20 metropolises,

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<sup>175</sup> Agenzia ICE. (2019). Aziende italiane in Cina. Retrieved August 24, 2019, from <https://www.ice.it/it/mercati/cina/aziende-italiane-cina>

<sup>176</sup> Wu, D., & Zhao, F. (2007). Entry Modes for International Markets: Case Study of Huawei, A Chinese Technology Enterprise. *International Review of Business Research Papers*, 3(1), 183–196.

<sup>177</sup> Lin, H., & Yeh, R. (2004). To Invest or Not to Invest in China. *Small Business Economics*, 22(1), 19–31. <https://doi.org/10.1023/b:sbej.0000011570.38868.b2>

<sup>178</sup> The Balance. (2019, August 22). Here Is a Look at the Best Ways to Invest in China With ETFs and ADRs. Retrieved September 11, 2019, from <https://www.thebalance.com/the-ultimate-guide-to-investing-in-china-1979062>

each with 7-10 million inhabitants), as well as numerous other urban areas with 3-5 million inhabitants. For this reason, the Embassy organizes system missions second-tier cities<sup>180</sup>.

Stay on the market is another important aspect that push entrepreneurs to invest in China: To seize the opportunities offered by the Chinese market, the company needs to be present on site. This has the advantage above all of grasping emerging trends and the peculiarities of Chinese demand. There is also the advantage of shortening the distance between producers and consumers in logistical-commercial terms. The presence on the ground is essential if you want to constantly monitor both the regulatory evolution and the administrative policies decided and implemented by the provincial and municipal authorities. Moreover, because of the country's vast continental scale and the vastness of the Chinese market, it is difficult to keep an eye on the business situation and to keep up to date with the country's rapid changes<sup>181</sup>.

The driver of consumption is given by the evolution of Chinese consumer tastes of medium-high income recorded in recent times is linked to the many industrial sectors with high growth rates. Rising incomes, increasing urbanization and the emergence of new trends in Western-inspired culture and fashion determine new patterns of consumption in the Chinese market. Depending on the sectors, these models can be inspired by status symbols (luxury, wines, etc., with a high value of image), strong attention to value for money (rationalization of purchasing choices through e-commerce) or by factors specific sectors particularly in durable goods (process/product quality, after-sales assistance, etc.)<sup>182</sup>.

The last major factor driving entrepreneurs to invest in China is the high number of high-growth rate industries. Most foreign companies generate higher profits in China than in the rest of the world. Healthcare, food, clean technologies and mobility infrastructure Retail and distribution will also be the fastest growing segments. Machinery and chemicals, especially in the highest value-added segments, will still show

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<sup>179</sup> International monetary fund. (2019, July 18). World Economic Outlook Update, July 2019: Still Sluggish Global Growth. Retrieved August 20, 2019, from <https://www.imf.org/en/Publications/WEO/Issues/2019/07/18/WEOupdateJuly2019>

<sup>180</sup> Sutter, R. (2003). Why does china matter? *The Washington Quarterly*, 27(1), 75–89. <https://doi.org/10.1162/016366003322596936>

<sup>181</sup> Vanhonacker, W. (1997). Entering China: an unconventional approach. *Harvard Business Review*, 75(2).

<sup>182</sup> Wong, N. Y., & Ahuvia, A. C. (1998). Personal taste and family face: Luxury consumption in Confucian and western societies. *PsychologyandMarketing*, 15(5), 423–441.

signs of growth<sup>183</sup>.

As noted above, in addition to the factors listed above regarding the reasons for entrepreneurs to choose China as the market to invest in, there are also many advantages that motivate the constant presence in the Chinese territory. Significant are localising advantages in terms of labour, raw materials and proximity to the promising end market, resulting in savings in production costs and procurement. Further advantages can also be identified in a deeper understanding by the market company and customers, in the supply of human capital and in the possibility of ensuring greater continuity of relations with the market and a credibility to the product. In addition, several benefits can be reaped from significantly faster delivery times on the domestic market, opportunities to manage service and after-sales services and the use of local currency, resulting in facilitation for local buyers<sup>184</sup>.

### **2.1.1 The China Economy prospects**

China is a vast country both geographically and demographically. It covers an area of 9,561,000 km<sup>2</sup>, or about 32 times Italy and is home to 1,379,000,000 people, or about 138 inhabitants/km<sup>2</sup>. It consists of 23 provinces, 5 autonomous regions and 4 municipalities<sup>185</sup>.

#### *Economic outlook*

China's rapid rise as a global economic power over a period of about 30 years is often described by analysts as one of the greatest economic success stories of modern times. The main reason for SMEs heading towards China is that today it is an essential market in which to operate, as the one with the fastest growth in the world and with great potential for the coming decades.

Despite the rosy outlook for the future of the Chinese economy, according to the Chinese National Statistical Office there is a trend slowdown in the Chinese economy compared to the first three months of 2019, during which time GDP had increased by 6.4%. China's GDP growth was 6.2% compared to the previous quarter. Overall, China's gross domestic product growth in the first half of 2019 was 6.3% (it was 6.6% in 2018). The

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<sup>183</sup> InfoMercatiEsteri, Ambasciata d'Italia - CINA. (2019). Perché Cina. Retrieved August 25, 2019, from [http://www.infomercatiesteri.it/public/rapporti/r\\_122\\_cina.pdf](http://www.infomercatiesteri.it/public/rapporti/r_122_cina.pdf)

<sup>184</sup> Ambler, T., Witzel, M., & Xi, C. (2016). *Doing Business in China* (4th ed.). London, England: Routledge.

<sup>185</sup> Agenzia ICE Italian Trade & Investment Agency. (n.d.). Informazioni paese. Disponibile 26 Agosto, 2019, da <https://www.ice.it/it/mercati/cina/informazioni-paese>

sector with the highest GDP growth in the last twelve months was the service sector (up 7%), followed by the secondary sector (5.8%) and, finally, from the primary one (up 3%).

Fixed investment grew by 5.8% in the first half of the current year compared to the previous year, while retail sales increased by 8.4%. Over the same period, industrial production, driven by the mining and metals sectors, increased by 6% overall, but decreased by 0.5% in the second quarter of 2019.

Foreign trade, on the other hand, grew by a total of 3.9%, but only by 0.2%, limiting the survey in the second quarter, highlighting the trend slowdown in trade flows in recent months. In particular, Chinese export data in June (-1.3%) It accounts for a substantial reduction in trade with the United States, with an 8% decrease in commercial shipments from China to its main economic partner. In the first six months of 2019, consumer prices grew by 2.2% (up 0.4% in the second quarter), with a uniform trend in both urban and rural areas. In the same period, producer prices grew by 0.3% (and only 0.1% in the third quarter).

Although economic growth continues and the latest data maintain the prospects for GDP growth within the scissors (between 6 and 6.5%) Planned by the Beijing government for the current year (2019), signs of a gradual slowdown are emerging in the Chinese economy, which are reflected in the performance of some indices. The indices of greatest concern are: foreign trade, consumer prices and producer prices and the real estate market.

The analyses of the experts of the IMF (International Monetary Fund)<sup>186</sup> and the World Bank<sup>187</sup>, who predicted the slowdown in the growth of the Chinese economy in 2019, seem to find confirmation. The IMF itself has indicated that GDP growth may eventually be 6.2% year-on-year. This forecast is also shared by many leading economic analysts, who currently point to a possible GDP growth of 6.1% for 2019<sup>188</sup>. Most of the analyses converge in the second quarter data to the effects of the economic stimulus impressed by the Chinese Government in previous months, in particular through a substantial vat

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<sup>186</sup> People's Republic of China and the IMF. (n.d.). Retrieved August 26, 2019, from <https://www.imf.org/en/Countries/CHN>

<sup>187</sup> The World Bank Group. (n.d.). Data from World Bank- China. Retrieved August 26, 2019, from <https://data.worldbank.org/country/china>

<sup>188</sup> International Monetary Fund. (2019, August 15). People's Republic of China : Selected Issues. Retrieved August 26, 2019, from <https://www.imf.org/en/Publications/CR/Issues/2019/08/15/Peoples-Republic-of-China-Selected-Issues-48593>

cut. In the absence of further, similar stimulus in the near future, the prospect of a fall in domestic demand could materialise for Beijing, with the impact on GDP, which is all the greater the more significant the fall in exports<sup>189</sup>.

### *Input mode*

China's entry into the World Trade Organization (WTO) in December 2001 was certainly the country's most important commitment to open up foreign investment in the service sector. In the past, the Chinese government had restricted the entry of foreign investors to the industrial sector only<sup>190</sup>.

Although this approach was partially changed during the 1990s, when foreign companies were allowed to operate in certain service sectors through a kind of partnership with Chinese companies.

In this way, the wholly Foreign Owned Enterprise (WFOE) did not have the opportunity to engage in non-industrial activities<sup>191</sup>.

In 2001, with the entry into the WTO, China began a process of progressive liberalization of foreign companies' access to the Chinese domestic market.

The procedure governing foreign investment is determined by the "China's National Development and Reform Commission<sup>192</sup>" in accordance with the Ministry of Commerce. The guidance is made available in a guide called "The Foreign Investment Industry Guidance Catalogue<sup>193</sup>". This guide shows activities that are permitted, encouraged, restricted or prohibited in China. The allowed activities are these activities that can be defined as a standard activity. Encouraged activities are related to activities considered strategic and may benefit from facilities. Restricted activities are activities with a high level of control and prohibited activities are activities prohibited to foreign investors.

The activities encouraged are above all those that allow the development of the country, with respect for the environment and for which facilities are often reserved. Examples of

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<sup>189</sup> Pigozzo, F. (2019, August 6). Quadro macroeconomico (CINA) - aggiornato al 06/08/2019 - infoMercatiEsteri - [www.infomercatiesteri.it](http://www.infomercatiesteri.it). Retrieved August 26, 2019, from [http://www.infomercatiesteri.it/quadro\\_macroeconomico.php?id\\_paesi=122](http://www.infomercatiesteri.it/quadro_macroeconomico.php?id_paesi=122)

<sup>190</sup> International Monetary Fund. (2002). What Will WTO Membership Mean for China and Its Trading Partners? *Finance & Development*, 1–9.

<sup>191</sup> UBI Banca S.p.A. (n.d.). Sud-est Asiatico: modalità di ingresso. Retrieved August 26, 2019, from <https://www.ubibanca.com/sud-est-asiatico-modalita-di-ingresso>

<sup>192</sup> National Development and Reform Commission (NDRC). (n.d.). (NDRC) People's Republic of China. Retrieved August 26, 2019, from <http://en.ndrc.gov.cn/>

<sup>193</sup> Public Information Services. (2017). Catalogue of Industries for Guiding Foreign Investment (Revision 2017). Retrieved August 26, 2019, from [http://www.fdi.gov.cn/1800000121\\_39\\_4851\\_0\\_7.html](http://www.fdi.gov.cn/1800000121_39_4851_0_7.html)

activities encouraged are: construction of water purification plants, construction of charging stations for electric cars, venture capital activities.

Prohibited activities are carried out in areas considered strategic and not available to foreign entities. Restricted activities, those for which certain conditions must be met. Examples of prohibited activities are: explorations for the detection of radioactive substances, production and development of transgenic plants, fishing activities in Chinese territorial waters, production of green tea with traditional Chinese techniques. Those allowed are all the others.

Opening a business in China is not very easy; bureaucracy requires several procedures and not negligible time. It is therefore appropriate to equip properly with specialist professionals<sup>194</sup>.

#### *Economic outlook and trade relations with Italy*

China is the 9th target market for Italian exports and the first target market for Italian exports in Asia-Pacific<sup>195</sup>.

Italy and China are essential trading partners, with an annual trade of around 35 billion euros. The bilateral trade balance has an imbalance against Italy, which has been growing over the last 15 years. The shared goal between the Parties is to rebalance this asymmetry. Italian exports to China are mainly driven by machinery, instrumentation, cars, clothing, pharmaceuticals and agri-food. The governments of Italy and China now have an agenda centred on the priorities of the two economic systems. Green technologies, agri-food and food security, sustainable urbanization, health services and aerospace are areas on which Italy and China can work with the awareness of a perfect complementarity between capabilities Italian technology and industrial selections and the demands of extraordinary Chinese development<sup>196</sup>.

The Italy-China Government Committee (the main instrument of the Bilateral Strategic Partnership) is an integral and fundamental part of the bilateral dialogue. In addition, within the Joint Economic and Trade Commission, representatives of the two countries discuss issues such as market access, intellectual property protection and strengthening

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<sup>194</sup> Sauvart, K. P., & Chen, V. Z. (2014). China's regulatory framework for outward foreign direct investment. *China Economic Journal*, 7(1), 141–163. <https://doi.org/10.1080/17538963.2013.874072>

<sup>195</sup> SACE. (n.d.). Opportunità per l'export italiano e indici di rischio. Retrieved August 26, 2019, from <https://www.sacesimest.it/mappe/dettaglio?countryCode=cn>

<sup>196</sup> Battaglia, L., Cedrola, E., Cantù, C., & Tzannis, A. (2010). Relazioni di business Italia-Cina: quali opportunità per le piccole e medie imprese italiane. *MERCATI E COMPETITIVITÀ*, 4(4), 45–64. <https://doi.org/10.3280/MC2010-004004>

mutual trade and investment<sup>197</sup>.

The two countries also have a Business Forum (opened by the two Heads of Government in June 2014 and relaunched at the beginning of 2016), a platform for innovative interaction with enormous potential. Italian and Chinese entrepreneurs have a permanent hole in the intergovernmental dialogue, to facilitate the exchange of information, knowledge, industrial proposals and mutual investment, including strategic partnerships also on third markets. The last plenary meeting of the Italy/China Business Forum took place in Rome on 22 March 2019 during the visit of Chinese President Xi Jinping<sup>198</sup>.

#### *Supports for Italian entrepreneurs who decide to invest in China*

The Economic and Commercial Office of the Consulate General follows The Italian economic, financial and commercial interests in the consular district (Shanghai Municipal, Provincial Governments of Anhui, Jiangsu and Zhejiang), in close connection with the Economic and Commercial Office of the Embassy in Beijing<sup>199</sup>.

The Office develops economic and trade relations in light of the objectives identified by the Government Committee. The main objectives are identifiable in the five priorities where Italy has strong know-how and priority in the areas of sustainable urbanization, the green economy, welfare, modern agri-industry and collaboration in the aerospace sector. The office also promotes the increase in Italian investment flows to China and China to Italy.

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<sup>197</sup> Consshanghai MAECI (Ministero degli Affari Esteri e della Cooperazione Internazionale). (2019, April 5). Fare affari nel Paese. Retrieved August 26, 2019, from [https://consshanghai.esteri.it/consolato\\_shanghai/it/i\\_servizi/fare\\_affari\\_nel\\_paese/](https://consshanghai.esteri.it/consolato_shanghai/it/i_servizi/fare_affari_nel_paese/)

<sup>198</sup> Pigozzo, F. (2019b, April). Overview (CINA) - infoMercatiEsteri. Retrieved August 26, 2019, from [http://www.infomercatiesteri.it/overview.php?id\\_paesi=122](http://www.infomercatiesteri.it/overview.php?id_paesi=122)

<sup>199</sup> [https://consshanghai.esteri.it/consolato\\_shanghai/en/il\\_consolato/il\\_console](https://consshanghai.esteri.it/consolato_shanghai/en/il_consolato/il_console)

<sup>200</sup> Ministry of Economic Development. (2018, August 21). Italy's Ministry of Economic Development Launches Task Force China. Retrieved September 20, 2019, from

the green economy, welfare, modern agri-industry and collaboration in the aerospace sector. The office also promotes the increase in Italian investment flows to China and China to Italy.

To achieve these objectives, the Office maintains contact with the institutions. In addition, the office has relationships with both Chinese and international and private bodies and organisations working in the fields of economics, trade and research; participates in: fairs, conferences, seminars and promotional events. Another task of the office is to ensure coordination with ICE, Italian Trade & Investment Agency<sup>201</sup>

(responsible for the promotion of Italian products abroad, for the organization and participation in trade fairs, for assistance and information to Italian companies) and with the Italian Chamber of Commerce in China<sup>202</sup> (which offers assistance and services to its members). The Economic and Commercial Office can intervene in any litigation of Italian operators with Chinese counterparts, through a report to local institutions, after assessing the opportunity and usefulness<sup>203</sup>.

It is therefore clear that, from what has been said above, from the growth rates of the market transformation, China is no longer seen as a mere useful horizon in order to procure cheap labour and raw materials. China is also seen as home to a rapidly growing consumer market. World trade has witnessed the transformation of China, which in a short time has gone from "world factory" to market. This event is mainly due to the rise of a middle class capable of expressing a demand for skilled consumption. Finally, going to China allows companies to profit from the new role that the PRC plays, i.e. regional production center for the realization of consumer goods in the wider Asia-Pacific region. In fact, China is the ideal link between Asian trading partners and the markets of industrialized countries.

### **2.1.2 The main issues of the internationalization in China**

Although many Italian SMEs have decided to move closer to the Chinese market in particular, there are several obstacles that they face in their internationalization

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<https://www.mise.gov.it/index.php/en/news/2038554-italy-s-ministry-of-economic-development-launches-task-force-china>

<sup>201</sup> Agenzia ICE. Retrieved from <https://www.ice.it/it>

<sup>202</sup> China-Italy Chamber of Commerce. (n.d.). Retrieved from <https://www.cameraitacina.com/>

process. After 18 years of joining the World Trade Organization (WTO), China has not yet been able to fully guarantee compliance with some essential parameters such as transparency, free competition and non-discrimination of foreign companies.

For companies wishing to invest in China, there are many problems and obstacles that they may encounter during their internationalization process. Some obstacles are due to the vastness of the Chinese market and the high number of players involved, other problems and obstacles are given by China's inefficiency and poor organization<sup>204</sup>.

Some issues that reflect the lack of organization and, in some respects, the inefficiency of China are related to commodities, custom duties, legal issues, intellectual property and standardization.

#### *Commodities:*

With regard to the commodities sector, one of the key obstacles is that China is systematically resorting to restrictive market measures such as tariffs and export quotas. In fact, for several years now the People's Republic of China has been restricting exports to a wide range of raw materials, of which it is the main extractor and exporter, such as silicon, metals that are essential for the development of high-tech sectors. These restrictions distort competition and penalise foreign companies, driving up global commodity prices. In this way, they also favour the domestic industry in parallel and incorrectly, which is thus granted a considerable competitive advantage, primarily in the guarantee of unlimited supplies<sup>205</sup>.

#### *Customs Duties:*

With regard to goods imported into China, an interesting article by UBI Banca makes clear the 5 distinct categories of imported goods, resulting in differentiation in different tariff levels. The subdivision is made according to Chinese customs regulations. Goods arriving in China, depending on the country of origin, are classified in: goods benefiting from the 'most favoured nation' clause, goods that benefit from preferential treatment, SPR- Special Preferential Rates, goods other than the previous ones, goods subject to duty for limited periods of time.

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<sup>203</sup> MAECI (Ministero degli Affari Esteri e della Cooperazione Internazionale). (2019, April 5). Fare affari nel Paese. Retrieved August 26, 2019, from [https://consshanghai.esteri.it/consolato\\_shanghai/it/i\\_servizi/fare\\_affari\\_nel\\_paese/](https://consshanghai.esteri.it/consolato_shanghai/it/i_servizi/fare_affari_nel_paese/)

<sup>204</sup> Blancher, N. R., & Rumbaugh, T. (2004). *China: International Trade and WTO Accession*. Retrieved from [https://books.google.it/books?hl=it&lr=&id=nJ51YyNvlt8C&oi=fnd&pg=PA3&dq=china+trade+organizzazione&ots=DhXBQBckFe&sig=N0rC-7vwq8tImmn7YtGNO2LVsSM&redir\\_esc=y](https://books.google.it/books?hl=it&lr=&id=nJ51YyNvlt8C&oi=fnd&pg=PA3&dq=china+trade+organizzazione&ots=DhXBQBckFe&sig=N0rC-7vwq8tImmn7YtGNO2LVsSM&redir_esc=y)

<sup>205</sup> Korinek, J., & Kim, J. (2011). Export Restrictions on Strategic Raw Materials and Their Impact on Trade and Global Supply'. *Journal of world trade*, 45(2), 255–281.

Goods benefiting from the 'most favoured nation' clause. These goods are named MFN: Most Favoured Nation. The MFN tariff applies to the original goods (according to the notion of 'common origin' or 'non-preferential origin') of a WTO country or a country that has entered into a bilateral agreement with China containing the clause in question; Goods that benefit from preferential treatment<sup>206</sup>. The preferential tariff (lower than the MFN tariff) applies to the original goods (according to the notion of "preferential origin") of a country with which China has entered into a preferential tariff agreement<sup>207</sup>. This tariff applies mainly to APTA countries, CEPA territories, ASEAN countries, Chile, Pakistan, etc.;

SPR - Special Preferential Rates: The special rate (lower than the preferential rate) applies to the original goods of countries with which agreements have been entered into that contain the clause in question (For example: Cambodia, Laos, Bangladesh and Myanmar);

Goods other than the previous ones: the "general rate" applies to goods (including goods of undetermined origin) that do not benefit from the above subsidised treatment;

Goods subject to duty for limited periods of time. This rate applies to goods for which, for economic policy reasons, the intention is to curb imports.

If there are the necessary conditions, China can apply anti-dumping duties and other measures to safeguard its production.

In economic language, the term Dumping means the sale abroad of a commodity at lower prices than those practiced on the domestic market. This practice is used by companies and, above all, groups of companies, which operate under a monopoly regime in the internal market so that they can sell at prices above the cost and so that companies can enjoy customs protection. This customs protection ensures that the goods do not flow from abroad at prices lower than the prices charged on the domestic market. Dumping is a powerful tool in trade struggle for foreign markets, but it generally causes the erection of defensive customs barriers (anti-dumping duties)<sup>208</sup>.

Therefore, in the presence of the necessary conditions, China can apply anti-dumping

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<sup>206</sup> Algieri, F. (2002). EU Economic Relations with China: An Institutional Perspective | The China Quarterly | Cambridge Core. Retrieved September 20, 2019, from <https://www.cambridge.org/core/journals/china-quarterly/article/eu-economic-relations-with-china-an-institutionalist-perspective/EBF9BBCAF55B986C2DCB5EA23735E31F>

<sup>207</sup> BALDWIN, R. E. (2008). MANAGING THE NOODLE BOWL: THE FRAGILITY OF EAST ASIAN REGIONALISM. *The Singapore Economic Review*, 53(03), 449-478. <https://doi.org/10.1142/s0217590808003063>

<sup>208</sup> Janardhan, U. P. (2017). *Economics for Managers: Part 1*. Chennai, India: Notion Press.

duties and other measures to safeguard its production<sup>209</sup>. In order to benefit from the reductions in duties, the importer must present at customs the certificate of origin issued by the relevant authorities of the exporting country. If there are any doubts about the correct classification of the goods (and the consequent identification of the tariff regime), the importer may ask for a pre-emptive decision ("ruling") from customs.

The reference authority on customs matters is the GAC - General Administration of Customs. For goods originating in the EU (as attested by the certificate of common or non-preferential origin), China applies the most favoured nation clause ("MFN – Most Favoured Nation")<sup>210</sup>.

It is possible to temporarily import or export goods at trade fairs or exhibitions; The maximum duration limit is 6 months.

In addition, it should be noted that China has 16 free trade zones (FTZ), which offer tariff concessions to imported goods and for those stored in those areas ("duty free import and storage of goods and materials"). Since the year 2000, China has also granted the possibility of creating export processing zones (EPZs). The goods imported into these areas, which are now over 60, do not pay duties<sup>211</sup>.

#### *Legal issues:*

Many Italian SMEs, and more generally European, also find that legal issues are real obstacles to doing business in China. With regard to the public procurement sector, for example, one of the main concerns of companies in this area is the policy of "indigenous innovation"<sup>212</sup> aimed at supporting Chinese companies. With the same conditions between companies seeking public contracts from the Chinese public administration, a certain preference is granted to those holding patents and intellectual property developed within China and completely independent of organizations and companies located abroad. This is therefore a serious concern for all those companies that want to operate in China or already operate within its market<sup>213</sup>. Although, on the basis of these

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<sup>209</sup> Chandra, P., & Long, C. (2013). Anti-dumping Duties and their Impact on Exporters: Firm Level Evidence from China. *World Development*, 51, 169–186. <https://doi.org/10.1016/j.worlddev.2013.05.018>

<sup>210</sup> Zhang, S., Zhang, Y., & Wan, Z. (1998). *Measuring the costs of protection in China*. Washington, D.C, US: Institute for International Economics.

<sup>211</sup> UBI Banca. (2019). Sud-est Asiatico: aspetti doganali. Retrieved August 27, 2019, from <https://www.ubibanca.com/cina-aspetti-doganali>

<sup>212</sup> Fu, X., & Gong, Y. (2011). Indigenous and Foreign Innovation Efforts and Drivers of Technological Upgrading: Evidence from China. Retrieved August 27, 2019, from <https://www.sciencedirect.com/science/article/abs/pii/S0305750X11000659>

<sup>213</sup> Heymann, M. C. E. (2008). International Law and the Settlement of Investment Disputes Relating To China. *Journal of International Economic Law*, 11(3), 507–526. <https://doi.org/10.1093/jiel/jgn023>

considerations, since 2011 the People's Republic of China has been carrying out a series of manoeuvres in order to renounce the requirement of the origin of intellectual property. However, there is still a long way to go towards a complete absence of discriminatory provisions in such an important sector as public procurement.

*Intellectual property:*

One of the problems facing foreign entrepreneurs in China is intellectual property. As far as intellectual property is concerned, it must be said that the protection of these rights has been and still is one of the main sources of contention between China and foreign investors, particularly those operating in the creative and innovative sectors<sup>214</sup>. Although China has gradually strengthened its legal framework over the past decade and changed its laws and regulations, enforcement measures are still insufficient to deter massive violations of property rights intellectually effectively. This leads economic operators to act in an extremely sceptical and prudent manner within the Chinese market. The need for this country at present appears to be to make procedures and decisions more certain, predictable and impartial<sup>215</sup>. Another priority of the country should be to proportionally sanction illegal behaviour even with the use of criminal law, in order to ensure the execution of decisions taken avoiding local discrimination or to the detriment of foreign entities. However, these goals are particularly difficult to achieve. In fact, while the main obstacles to the development of a comprehensive legislative framework to protect intellectual heritage initially seemed to be cultural in nature, to this day there is the impression that the protection of rights is in conflict in particular with vested economic interests<sup>216</sup>.

*The standardization:*

Another key obstacle for SMEs looking to enter the Chinese market is the fact that the PRC imposes standardisation requirements, technical requirements and compliance with specific Chinese standards aimed at disadvantaged foreign companies. Despite the desire for development and innovation, China is pursuing a decidedly national-oriented

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<sup>214</sup> Yang, D., & Ghauri, P. N. (2003b). *Intellectual Property and Doing Business in China*. Bingley, United Kingdom: Emerald Group Publishing.

<sup>215</sup> Wu, X. (2001). Foreign direct investment, intellectual property rights, and wage inequality in China. *China Economic Review*, 11(4), 361–384. [https://doi.org/10.1016/s1043-951x\(01\)00035-9](https://doi.org/10.1016/s1043-951x(01)00035-9)

<sup>216</sup> Clark, G. (2018). What Is Intellectual Property, and Does China Steal It? Retrieved August 27, 2019, from <https://www.bloomberg.com/tosv2.html?vid=&uuid=971a3bc0-c8b7-11e9-8f92-71ed3841c93b&url=L25ld3MvYXJ0aWNsZXMrMjAxOC0xMi0wNS93aGF0LXMtaW50ZWxsZWNoZWVFLXByb3BlcnR5LWVuc21kb2VzLWNoaW5hLXN0ZWVFLWl0LXF1aWNrdGFrdmZQ==>

line in this regard. This line strongly hampers access to its market and protects the domestic industry from foreign competition<sup>217</sup>. A significant example is found in the field of information and communication technology. In fact, in this area, appealing to national security reasons, the Asian country requires compliance assessment procedures that require very expensive testing and controls for foreign companies. In addition, in order to obtain the certifications necessary to gain access to the Chinese market, it is often a requirement for foreign SMEs to provide sensitive information covered by property rights.

In addition to the main problems faced by investors looking to invest in the Chinese market, the Chinese market also presents risks that investors should not be unprepared for<sup>218</sup>. As indicated by the SACE Country Card 2018<sup>219</sup> the main economic risks are: non-payment counterpart, non-payment of banking counterpart, non-payment corporate counterpart and risks of transfer capital and convertibility.

The risk degree of failure to pay counterpart is very low. The risk of failure to pay counterpart is the risk that a counterparty will not honour contract obligations.

The risk degree of failure to pay bank counterpart is average. This is the risk that a banking counterpart will not honour contract bonds.

Likewise, the risk degree of the failure to pay corporate counterpart is average. This is the risk that the counterparty company will not honour the bonds arising from the contract.

The risk of capital transfer and convertibility is very low. In this case, there is a risk that the government will take steps to prevent the conversion/return of profits from investment or capital invested in the country<sup>220</sup>.

Other risks are political ones, given by the country's internal and external condition. As for the internal condition, the level of risk seems low. In fact, the last two rounds of the double session of the Chinese Parliament (2018 and 2019), followed by the 19th

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<sup>217</sup> Liu, S., & Perry, P. (2016b). The standardization-localization dilemma of brand communications for luxury fashion retailers' internationalization into China. *Journal of Business Research*, 69(1), 357–364. Retrieved from <https://www.sciencedirect.com/science/article/abs/pii/S0148296315003458>

<sup>218</sup> Ferle, C. L., Edwards, S. M., & Lee, W. (2008). Culture, Attitudes, and Media Patterns in China, Taiwan, and the U.S.: Balancing Standardization and Localization Decisions. *Journal of Global Marketing*, 21(3), 191–205. <https://doi.org/10.1080/08911760802152017>

<sup>219</sup> SACE. (n.d.). Opportunità per l'export italiano e indici di rischio. Retrieved August 26, 2019, from <https://www.sacesimest.it/mappe/dettaglio?countryCode=cn>

<sup>220</sup> Foreign & Commonwealth Office (2019). Overseas Business Risk – China. Retrieved September 4, 2019, from <https://www.gov.uk/government/publications/overseas-business-risk-china/overseas-business-risk-china>

Congress of the CCP, confirm the thirty-year stability of the internal political framework, leaving even foreshadowing for the medium-long term a political risk minimal<sup>221</sup>. As for external risk, China is part of disputes over the delimitation of maritime borders as well as disputes over sovereignty over the Diaoyu Islands (named Senkaku in Japan and claimed by Tokyo) and the archipelagos in the Sea South Chinese (claimed by Vietnam, the Philippines, Malaysia and Brunei)<sup>222</sup>. Despite sporadic tensions and the risk of naval accidents in disputed waters, however, there is currently no risk of conflict; With regard to the South China Sea, negotiations are under way to define a Code of Conduct. Further territorial disputes, currently under control, concern the demarcation of the land border between China and India<sup>223</sup>.

On the other hand, with regard to operational risks, cost increases play an important role. In fact, the risk level is likely and rapidly growing. The increase in costs will continue and will be driven by the still rising labour costs, due to an ever-changing labour market<sup>224</sup>.

With regard to the trade risks that are taking place in China, both trade scams and trade disputes and the dangers attached are a major obstacle for foreign entrepreneurs. In more detail, fraud refers to fraud against Italian and European companies. These are often normal accidents in which companies can run into doing business in distant countries and can be avoided through small measures. In recent years the spread of the Internet has also led to an increase in small scams. In fact, often the products ordered and paid by means of TT or similar means of direct transfer, are not shipped or do not match those that appear on the site. In some cases, it has occurred that the web page of the scammer company often disappears after a short time, perhaps reappearing immediately after with other references. As this is generally less than one thousand euros, it is therefore extremely difficult to recover because of the complexity and cost of legal action. On the other hand, the local authorities themselves may refuse to intervene

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<sup>221</sup> Chang, J. (2014). Assessment of the Key Political Risks of China's Overseas Direct Investment. Retrieved August 10, 2019, from [https://www.academia.edu/35721457/Assessment\\_of\\_the\\_Key\\_Political\\_Risks\\_of\\_Chinas\\_Overseas\\_Direct\\_Investment](https://www.academia.edu/35721457/Assessment_of_the_Key_Political_Risks_of_Chinas_Overseas_Direct_Investment)

<sup>222</sup> Pigozzo, F. (2019c, April 8). Rischi politici (CINA). Retrieved August 27, 2019, from [http://www.infomercatiesteri.it/rischi\\_politici.php?id\\_paesi=122](http://www.infomercatiesteri.it/rischi_politici.php?id_paesi=122)

<sup>223</sup> Export Entreprises SA. (2019). COUNTRY RISK OF CHINA: ECONOMY. Retrieved August 10, 2019, from <https://import-export.societegenerale.fr/en/country/china/economy-country-risk>

<sup>224</sup> Pigozzo, F. (2019d, April 19). Rischi operativi (CINA). Retrieved August 27, 2019, from [http://www.infomercatiesteri.it/rischi\\_operativi.php?id\\_paesi=122](http://www.infomercatiesteri.it/rischi_operativi.php?id_paesi=122)

in the absence of legal action before a Chinese court<sup>225</sup>.

Another scam which can have costly and dangerous effects, which have been the victim of many European companies, is the request for a detailed offer made by a Chinese company to a foreign company. The negotiation usually takes place via the internet and is characterized by its ease, speed and detail in the requests. In general, quoted prices are not discussed in depth and purchase requests from China are always very large to attract the interest of the seller. Then there are requests to send money to pay for procedural fees or even an invitation to sign the contract in China. Not everyone is suspicious and therefore willingly agrees to leave for China, claiming travel and travel expenses, attracted by the possibility of signing a lucrative contract. Once on site, there are various possibilities: the meeting with the counterpart takes place in an isolated location, in front of hundreds of workers, or in offices rented only for the occasion. The contract is signed, accompanied by a request for a few thousand euros, justified as "extraordinary expenses for customs practices" or "special import license" or, again, "spending on banquets to improve relations with the bureaucracy local" or otherwise. Many entrepreneurs do not report the case, others do not have precise elements not knowing how to indicate either the location or the true identity of the fraudsters. Therefore, the utmost caution should be recommended, and before continuing the negotiations, it is strongly recommended to take information about the counterparty through ICE, your trusted bank or specialized advisors. It can also be useful to contact trade associations in Italy with previous experience<sup>226</sup>.

Trade disputes should normally be addressed through conciliation attempts, settlements or legal actions. In these cases, it is advisable to rely on specialized studies. There are several Italian consultants and law firms that also work with Chinese partners. Entrepreneurs are often not prepared for the fact that a trade dispute in China can have very serious and even criminal consequences. In addition, Chinese law stipulates that, following subpoenas and a complaint, the judicial authority may impose a ban on foreign nationals involved in the litigation from leaving the country<sup>227</sup>. The ban on leaving the

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<sup>225</sup> Export Entreprises SA. (2019). COUNTRY RISK OF CHINA: ECONOMY. Retrieved August 10, 2019, from <https://import-export.societegenerale.fr/en/country/china/economy-country-risk>

<sup>226</sup> Consshanghai MAECI (Ministero degli Affari Esteri e della Cooperazione Internazionale). (2019, April 5). Fare affari nel Paese. Retrieved August 26, 2019, from [https://consshanghai.esteri.it/consolato\\_shanghai/it/i\\_servizi/fare\\_affari\\_nel\\_paese/](https://consshanghai.esteri.it/consolato_shanghai/it/i_servizi/fare_affari_nel_paese/)

<sup>227</sup> Kato, M. (1982b). Civil and Economic Law in the People's Republic of China. *The American Journal of Comparative Law*, 30(3), 429–457.

country lasts until the dispute is resolved. In cases like this, the Italian entrepreneur may find himself in the difficult situation of being "stuck" in China for long periods, not being able to return to Italy to follow his own business and having to face unexpected expenses of a long stay.

## **2.2 The cultural question of doing business in China**

The concept of culture is often mismatched with the concept of civilization. Sometimes culture and civilization are even used as synonyms, but in reality, the two terms are not coincidental. Culture is the way of life (way of life, of organizing, dressing, feeding, etc.). Civilization is the way of thinking, that is, what creates identity through values<sup>228</sup>. Values are precepts that we cannot renounce, for which we are willing to fight, which make us feel part of a people and which make us consider "uncivilized" those who do not respect them<sup>229</sup>. Rossi specifies that culture is a heritage of inalienable values, in which there is a validity independent of social groups and historical epochs that recognize them as such, and which consequently present themselves as absolute and metahistorical values. Civilisation is understood to be the gradual process of the realization of these values, which makes a certain community of peoples the exclusive or privileged bearer of 'culture'<sup>230</sup>.

Culture needs social relationships because it is transmitted through interaction. For this very reason, another aspect that characterizes culture is dynamism. Thus, culture is not static, but is procedural and is constantly changing. Rossi speaks of the existence of "different cultures and different civilizations" because each culture is specific, and it is precisely its specificity that outlines the boundaries first between different groups and then in different societies<sup>231</sup>. It is precisely through our culture that we feel part of one specific community rather than another. This perspective of cultural uniqueness was also shared by the German anthropologist Boas<sup>232</sup>. Boas concludes that cultures should not be compared with each other but commensurate only with themselves, so products and processes must be interpreted within the culture that produced them. In this case

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<sup>228</sup> Schäfer, W. (2001). Global Civilization and Local Cultures. *International Sociology*, 16(3), 301–319. <https://doi.org/10.1177/026858001016003004>

<sup>229</sup> Balboni, P. E. (2007). *La comunicazione interculturale*. Venezia, Italy: Marsilio.

<sup>230</sup> Rossi, P. (1983). *Cultura e antropologia*. Torino, Italy: Einaudi.

<sup>231</sup> Rossi, P. (1983). *Cultura e antropologia*. Torino, Italy: Einaudi. P.16

<sup>232</sup> Boas, F. (1982). *Race, Language, and Culture*. Chicago, United States: University of Chicago Press.

we are talking about cultural relativism<sup>233</sup>.

Finally, we cannot talk about a single culture. However, objective traits can be identified, but they are not always shared by all members of the same nationality. In fact, cultures are always multiform and constantly becoming as they have suffered, over time, from different geopolitical, cultural, social and commercial influences. For this reason, we must be wary of stereotypical visions of national cultures and realities<sup>234</sup>.

With regard to China and its business relationship with it, the biggest and primary obstacle to the integration of Western and Chinese economies is certainly cultural diversity<sup>235</sup>. This diversity is abysmal, starting with the language. Among the greatest difficulties is the fact that the Chinese language almost never has a literal translation into Western languages. Interpretation is therefore necessary, in most cases. In addition, although the official language is Mandarin, most regions and provinces have local dialects<sup>236</sup>. It is often the case that people from the north, for example, are unable to understand the dialects of the south, and vice versa. Although English has recently become a required language for both high school and graduate students, and the number of Chinese who speak that foreign language is growing over time, the ability to speak Chinese is still a big plus in the Business. In the management of business in China, unpreparedness from a linguistic point of view, can generate problems not only in the management of the foreign branch, but also in all activities of promotion and management of local staff<sup>237</sup>. Another interesting aspect is the differences in meaning that different cultures can attribute to the same object or to social behaviour.

So, in addition to the ability to understand and speak Chinese, it is equally crucial in business relations to know the cultural aspects and peculiar trading practices of the Asian market, in order to avoid situations unpredictable and disconcerting in relating to Chinese partners, suppliers and customers. It is therefore necessary that all SMEs with the intention of internationalizing and expanding their business successfully within the

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<sup>233</sup> Kottak, C. (2010). *Cultural Anthropology: Appreciating Cultural Diversity*. New York, United States: McGraw-Hill Education.

<sup>234</sup> Balboni, P.E.; Caon, F. (2014). A performance-oriented Model of Intercultural Communicative Competence. From [https://iris.unive.it/retrieve/handle/10278/42489/31208/A%20 Performance-oriented%20Model%20of%20IIC.pdf](https://iris.unive.it/retrieve/handle/10278/42489/31208/A%20Performance-oriented%20Model%20of%20IIC.pdf)

<sup>235</sup> Syed, J., & Özbilgin, M. (2010). *Managing cultural diversity in Asia : a research companion*. Cheltenham, United Kingdom: Cheltenham : Edward Elgar.

<sup>236</sup> Gong, Y., Chow, I. H., & Ahlstrom, D. (2010). Cultural diversity in China: Dialect, job embeddedness, and turnover. *Asia Pacific Journal of Management*, 28(2), 221–238. <https://doi.org/10.1007/s10490-010-9232-6>

Chinese market identify the key cultural aspects that characterize it. In addition, it is essential that SMEs understand and productively exploit the many differences with the culture of origin in order to profit from them<sup>238</sup>.

All these elements serve to better understand that culture, especially Chinese culture, is not a simple factor to be included among all the elements that influence marketing policies, but culture must be considered the context in which all life and business dynamics develop<sup>239</sup>. For the subject covered here, Ying Fan's studies<sup>240</sup> are of considerable interest, as they are studies that attempt to classify Chinese culture. The analysis takes shape from the idea of a national culture that best reflects the values of the Chinese people and allows us to affirm that the system of values of Chinese culture is so unique as to distinguish China from any other state, both Eastern and Western. In fact, this premise is due to the fact that Chinese culture is composed of several elements: traditional culture, communist ideology and Western values<sup>241</sup>.

According to this theory, Confucianism is the key to understanding Chinese culture and national values of Confucian origin. In fact, despite the cultural diversity present in China, Confucianism is the reference still most present today being the basis of traditional culture and offering the fundamentals of the rules of behaviour. As for the rules of behaviour, the five basic principles are humility, moral correctness, good manners, wisdom and reality. In the case of other peoples, culture is a mutant factor that changes with time. What emerges from China's cultural studies is that this set of values is permanent throughout history and influences everyday life by living with new systems.

In the case of business activities, considering the Chinese reality, it is essential to take a cross-cultural perspective to understand how to relate to the fundamental points of Chinese culture. The most significant values of Chinese culture are family, simplicity in daily life, humility, perseverance to save face, the principles of Mianzi, collectivism,

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<sup>237</sup> Selmer, J. (2006). Language ability and adjustment: Western expatriates in China. *Thunderbird International Business Review*, 48(3), 347–368. <https://doi.org/10.1002/tie.20099>

<sup>238</sup> Jiang, C. X., Chua, R. Y., Kotabe, M., & Murray, J. Y. (2011). Effects of cultural ethnicity, firm size, and firm age on senior executives' trust in their overseas business partners: Evidence from China. *Journal of International Business Studies*, 42(9), 1150–1173. <https://doi.org/10.1057/jibs.2011.35>

<sup>239</sup> Pontiggia, A., & Vescovi, T. (2015). *Panni stesi a Pechino: esploratori e pionieri nei nuovi mercati internazionali*. Milano, Italy: Egea. p.15

<sup>240</sup> Fan, Y. (2000a). A classification of Chinese culture. *Cross Cultural Management: An International Journal*, 7(2). <https://doi.org/10.1108/13527600010797057>

social relations in relation to family, professional and cultural contest<sup>242</sup>.

### **2.2.1 Cultural, Administrative, Geographic, Economic distance and Psychic Distance: issues and approaches**

Following the emergence of China as one of the main players in the global economy, the idea of the Chinese market seen as an opportunity for foreign SMEs partly fades in the face of the deep cultural distance between the two countries perceived by companies<sup>243</sup>. The growing interest on the part of companies in the Chinese market and the development of international trade have contributed to the increase in contacts and have inevitably highlighted the need to define fundamental cultural differences to the uncertainty, problems and perceived risks by companies. Cultural diversity must be taken into account particularly in the determination and implementation of managerial decisions. It is therefore necessary to recognize the differences, to know what they consist of and what they imply at the company level. From this point of view, since the beginning of the 1980s, numerous studies have sought to define and measure the differences between national cultures in an international context, with particular reference to the organisation of the company<sup>244</sup>.

#### *The Hofstede Study*

Among the different models of analysis developed, the most relevant in this regard was offered by the Hofstede study<sup>245</sup>. This study analysed cultural differences at national level and the effect of differences on relevant attitudes and values in the work environment. The study outlines differences in the national character, identifying the cultural profile that characterizes different countries compared to some particularly significant dimensions. The research was conducted between 1967 and 1973 in a large sample of IBM employees in 64 different countries. The empirical basis of the research is particularly interesting not only for the size of the sample studied (116,000

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<sup>241</sup> Osland, G. E. (1990). Doing Business in China: A Framework for Cross-cultural Understanding. *Marketing Intelligence & Planning*, 8(4), 4–14. <https://doi.org/10.1108/02634509010141194>

<sup>242</sup> Pontiggia, A., & Vescovi, T. (2015). *Panni stesi a Pechino: esploratori e pionieri nei nuovi mercati internazionali*. Milano, Italy: Egea. p.17

<sup>243</sup> Weber, M. (2003). *Il miracolo cinese: perchè bisogna prendere la Cina sul serio*. Bologna, Italy: Il mulino.

<sup>244</sup> Scholtens, B., & Dam, L. (2007). Cultural Values and International Differences in Business Ethics. *Journal of Business Ethics*, 75(3), 273–284. <https://doi.org/10.1007/s10551-006-9252-9>

<sup>245</sup> Hofstede, G., & Bond, M. H. (1984). Hofstede's Culture Dimensions. *Journal of Cross-Cultural Psychology*, 15(4), 417–433. <https://doi.org/10.1177/0022002184015004003>

questionnaires were collected) but, above all, since it focuses on employees of the same multinational company operating in different countries, has allowed to study the effects of national culture by isolating the influence of organisational culture and other contextual variables, such as the sector. The cultural dimensions taken into account to delineate the national character in the different countries are four: distance of power, individualism-collectivism, masculinity-femininity, aversion to uncertainty<sup>246</sup>.

The results of this research were subsequently integrated and compared with those of another comparative survey of Chinese values conducted by researcher Michael Harris Bond. This survey, although much smaller, was particularly important as it helped to identify a fifth relevant dimension in order to determine the national character of the countries under consideration. The fifth dimension in the case of China is long-term or short-term orientation<sup>247</sup>. This dimension, according to the Canadian researcher, indicated the greater or lesser coherence of an individual with the teaching of the Chinese philosopher Confucius<sup>248</sup>. Thanks to this contribution Hofstede thus identifies five dimensions of national culture. Hofstede has thus come to classify a country's culture according to the degree of power, individualism, masculinity, uncertainty and long-term orientation that characterize it. To achieve this, it combined each of these dimensions with a numerical value that could promote comparability between different national cultures.

As for the first dimension, distance from power is the extent to which the least powerful subjects of an organization or institution, for example the family, accept and expect power to be unequally distributed within it. This concept refers to the concept of inequality. Inequality is determined by the degree of acceptance of the follower rather than the ability to impose leaders. For this reason, Hofstede says that a society's level of inequality must be approved by followers as much as by leaders. Thus, it is clear that, in the corporate organisational context, a culture with an index of distance from the high power tends to favour an equally high level of vertical division and hierarchy within the enterprise. In the event of a high-power distance index, the company's leadership is assigned to strong and authoritarian leaders, and staff have a strong respect for authority. On the other hand, a culture that is characterized by a low distance from

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<sup>246</sup> Cappuccitti, E. M., Sammarra, A., & Secchi, G. (2007b). *La gestione delle persone in Cina. La diversità culturale: un'opportunità o una criticità?*. Milano, Italy: Franco Angeli.

<sup>247</sup> Bond, M. H. (2008). *The Psychology of the Chinese People*. Hong Kong, China: Chinese University Press.

power, promotes personal responsibility and autonomy. In this situation there are leaders with a greater aptitude for consultation and participation with their collaborators<sup>249</sup>. Hofstede, referring to the influence of this cultural dimension in the organizational sphere, states that anyone with some international experience is aware that all societies are unequal, but some are more unequal than others.<sup>250</sup> Another cultural dimension indicated by Hofstede is represented by the concept of individualism. Individualism and collectivism indicate the degree to which individuals are integrated into groups. In the researcher's opinion, there are therefore some more individualistic and some more collectivist societies<sup>251</sup>. Individualism is characteristic of all those societies in which families are mononuclear, very small and in which the culture of individualism and self-esteem is more widespread. In cultures of this kind, the bonds between the subjects are weaker. In fact, everyone is required to provide for himself and his family. Subjects consider themselves and others especially in personal terms and on the basis of their own or other individual characteristics. On the other side are those societies in which there is a sense of community and stronger interpersonal bonds. The cultural environments in which collectivism is widespread are environments in which the logic of group membership prevails. In them individuals, from birth, grow within cohesive groups, numerous and strong. These are groups that continue to provide the individual with a protective environment throughout their lives, in exchange for unconditional fidelity.<sup>252</sup> So, in terms of corporate organisation, it is easy to come to the conclusion that in societies where the index of individualism appears to be low, the group's needs and mechanisms outweigh the individual ones. On the other hand, where the index of individualism is high, the free will and initiative of the individual are widely accepted as real engines of development and change.

The third dimension is identified in the concept of masculinity and in its opposite, femininity. Hofstede intends to refer to the distribution of affective roles among the

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<sup>248</sup> Hofstede, G., & Bond, M. H. (1988). The Confucius connection: From cultural roots to economic growth. *Organizational Dynamics*, 16(4), 5–21. [https://doi.org/10.1016/0090-2616\(88\)90009-5](https://doi.org/10.1016/0090-2616(88)90009-5)

<sup>249</sup> Kreitner, R., & Kinicki, A. (2004). *Comportamento organizzativo*. Milano, Italy: Apogeo Education.

<sup>250</sup> Hofstede, G. H., 1984. Culture's Consequences: International Differences in Work-related Values. Newbury Park, CA: SAGE Publications Inc.

<sup>251</sup> Schwartz, S. H. (1994). Beyond individualism/collectivism: New cultural dimensions of values. In U. Kim, H. C. Triandis, Ç. Kâğıtçıbaşı, S.-C. Choi, & G. Yoon (Eds.), *Cross-cultural research and methodology series, Vol. 18. Individualism and collectivism: Theory, method, and applications* (pp. 85-119). Thousand Oaks, CA, US: Sage Publications, Inc.

<sup>252</sup> Domenici, G. e Moretti, G., 2011. Leadership educativa e autonomia scolastica. Roma: Armando.

sexes within society<sup>253</sup>. Specifically, "masculinity" characterizes those societies in which the distinction between sexes is most marked. The emphasis is on performance and material success, the strongest and most capable subjects, grit and values such as competitiveness. In opposition, "femininity" refers to societies in which social roles overlap and there are no distinctions between the relevant sexes: within the same society, women possess the same modesty and solidarity. In such environments, values such as modesty and assertiveness, welfare ideals, and permissiveness usually prevail. In terms of corporate organisation, this concept translates into the contrast between environments characterized by a culture predominantly male, which emphasizes the status conceived as a position held and earned wages, and countries where a female culture prevails, in which more attention is paid to human relations and the quality of life. In the former, with a high masculinity index, subjects are more focused on material reward for their work, are particularly ambitious and competitive and therefore continually looking for career opportunities challenging, challenging and profitable. In countries with a low masculinity index, individuals are instead oriented to consolidate excellent and long-lasting working relationships with their superiors, prefer cooperative models and place a special attention on the working environment both in the company and surrounding.

The fourth dimension identified by Hofstede is the concept of intolerance towards uncertainty avoidance<sup>254</sup>. Speaking of uncertainty, Hofstede refers to the degree of intensity with which members of a certain society feel threatened by uncertain, unknown, new, surprising or different situations. The feeling of uncertainty and the way in which the subjects deal with it belong to the cultural heritage of each society and are reflected in its collective values. Cultures with a high uncertainty rejection rate tend to minimise their perceived risk through the use of laws and rules. Despite this, they are the most energetic, expressive and emotional cultures. In such societies it is accepted to externalise emotions during communication, gesticulate and in some cases use high voice tones. In contrast, cultures with a low intolerance to uncertainty are the most restrained, contemplative and controlled, more likely to accept different opinions and more flexible rules. In societies characterized by this culture, there is a clear sense of

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<sup>253</sup> Hofstede, G. (2011). Dimensionalizing Cultures: The Hofstede Model in Context. *Online Readings in Psychology and Culture*, 2(1). <https://doi.org/10.9707/2307-0919.1014>

social disapproval towards those who openly express their emotions and relate to others in an exuberant way<sup>255</sup>. In the corporate organisational context, while countries with an exuberant High uncertainty rejection index therefore tend to give greater importance to standardisation processes and seek job security, those with a low index are more likely to be at risk and therefore more open innovation<sup>256</sup>.

The fifth and final dimension is long-term and short-term orientation, in reference to the relationship of a culture to the future. This dimension was added only later by Hofstede, thanks to the contribution of Michael Harris Bond's study<sup>257</sup>. The researcher then makes a distinction between short-term-oriented societies and societies with long-term prospects. The former tends to pay a greater focus on the present and the immediate results. In such societies we are constantly looking for an absolute truth and they tend to promote virtues related to the past but still current, such as national pride and respect for traditions. In contrast, long-term oriented societies conceive of truth as an ever-changing entity, dependent on the situation, context and time<sup>258</sup>. They pay more attention to the future, preferring pragmatic virtues oriented to savings, thrift, persistence and perseverance and present greater flexibility in adapting to changing circumstances. So, there is a greater flexibility in adapting to changing circumstances.<sup>259</sup> In the case of China, there is a clear reference to the values of Confucian origin, but they are also principles according to Hofstede can also be applied to societies not necessarily reached and influenced by Confucianism<sup>260</sup>. In countries with this type of guidance, companies are more focused on pursuing long-term goals and investments, setting slow career paths and dynamics, and building long-term relationships with customers and suppliers.

The model identified by Hofstede provides highly interesting insights and considerations for companies that intend to successfully internationalize. One of the

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<sup>254</sup> Soares, A. M., Farhangmehr, M., & Shoham, A. (2007). Hofstede's dimensions of culture in international marketing studies. *Journal of Business Research*, 60(3), 277–284. <https://doi.org/10.1016/j.jbusres.2006.10.018>

<sup>255</sup> Hofstede Insights. (2019, August 26). National Culture - Hofstede Insights. Retrieved September 1, 2019, from <https://www.hofstede-insights.com/models/national-culture/>

<sup>256</sup> Domenici, G. e Moretti, G., 2011. Leadership educativa e autonomia scolastica. Roma: Armando.

<sup>257</sup> Hofstede, G., & Minkov, M. (2010). Long- versus short-term orientation: new perspectives. *Asia Pacific Business Review*, 16(4), 493–504. <https://doi.org/10.1080/13602381003637609>

<sup>258</sup> Ganesan, S. (1994). Determinants of Long-Term Orientation in Buyer-Seller Relationships. *Journal of Marketing*, 58(2), 1–19. <https://doi.org/10.1177/002224299405800201>

<sup>259</sup> Tsui, A. S., Nifadkar, S. S. e Ou A. Y., 2007. Cross-National, Cross-Cultural Organizational Behavior Research: Advances, Gaps, and Recommendations. *Journal of Management*, 33(3), 426-478.

considerations is that the structure, corporate dimension and national cultural values of the individuals operating there can be aligned in order to achieve a more effective and efficient organisational structure. In fact, all organisations are made up of individuals, which is why cultural and cross-cultural diversity must be taken into account more than anything else in identifying the right organisational structure and the winning ways of entry foreign market. The degree of hierarchy or decentralisation, individualism or collectivism, competitiveness or peaceful cooperation, intolerance and risk appetite, more or less flexible methods of control and bureaucracy, must therefore be adapted to the values to avoid friction, potentially self-harming strategies and possible failures.

In fact, Hofstede's study was praised mainly because no other research or theory in the subject is able to make a similar contribution.

However, this study is not without criticism. The greatest criticism is directed in particular to the fact that in the opinion of many scholars, the study appears fragmented and narrow. Some researchers argue that the model does not provide sufficient motivation for why there should be only five dimensions to determine aspects of national culture.

Other criticisms are based on the fact that the model does not absolutely attribute any characteristic of dynamism to culture, conceiving it as a static culture. Therefore, because of the dynamism, it is difficult to understand the motivations and ways in which cultures develop and often change<sup>261</sup>.

The third criticism made to Hofstede is based on the fact that within the study, culture is conceived as a simple attribute of each country under consideration. Hofstede does not consider in the slightest fundamental elements such as cultural diversity within them, subcultures and mixed cultures<sup>262</sup>.

For an entrepreneur who wants to invest in China, therefore, it becomes crucial to gain a careful look to make a detailed analysis of the cultural content in which people and organizations are involved. At the base, you have to get the right keys to better understand the market.

Knowledge of the cultural context, especially in a country like China, allows companies to better understand the business context. The Chinese cultural context that we analyse

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<sup>260</sup> Han, Y., & Altman, Y. (2010). Confucian moral roots of citizenship behaviour in China. *Asia-Pacific Journal of Business Administration*, 2(1), 35–52. <https://doi.org/10.1108/17574321011028963>

<sup>261</sup> Baskerville, R. F. (2003). Hofstede never studied culture. *Accounting, Organizations and Society*, 28(1), 1–14. [https://doi.org/10.1016/s0361-3682\(01\)00048-4](https://doi.org/10.1016/s0361-3682(01)00048-4)

has peculiarities to be known especially in social behaviours and business culture. According to Hofstede's model, it is clear that the Chinese business environment is strongly influenced by cultural aspects such as a strong distance from power, a long-term vision, high masculinity and collectivist orientation.

In addition to the cultural distance that has been widely discussed, there are other forms of distance between countries that need to be careful and analysed from the moment when we intend to broaden business horizons and expand internationally<sup>263</sup>.

The distance between countries can be conceived considering different dimensions: geographical, cultural, administrative and economic<sup>264</sup>. Cultural distance is the main source of complexity in international expansion choices, as well as one of the major causes of ineffectiveness of cross-cultural negotiation processes<sup>265</sup>. As highlighted by Souza & Bradley<sup>266</sup>, in literature the concept of cultural distance is often used as a synonym for psychic distance, even though these concepts are distinct from each other. The psychic distance is qualifiable as the individual perception of the difference between one's own country and another; it is subjectively perceived and can only be analysed at the individual level<sup>267</sup>.

With regard to psychic distance, in 1977, Johanson & Vahlne<sup>268</sup> formulated the theory that companies choose the sequence of foreign countries in which to invest according to the psychic distance of the country of origin. This means that companies initially invest in similar countries or countries with some characteristics more similar to the market they belong to. The psychic distance is then defined as the summation of the factors that prevent the flow of information to and from the market. The difference in language, culture and industrial development are elements that are part of and influence the psychic distance. According to the authors, psychic and geographical distance are closely

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<sup>262</sup> Jones, M. L. (2007b). Hofstede - Culturally questionable? *Oxford Business & Economics Conference*, .

<sup>263</sup> Lin, L., & Ho, Y. (2009). Confucian dynamism, culture and ethical changes in Chinese societies – a comparative study of China, Taiwan, and Hong Kong. *The International Journal of Human Resource Management*, 20(11), 2402–2417. <https://doi.org/10.1080/09585190903239757>

<sup>264</sup> Cerrato, S. A. (2009). *Le deleghe di competenze assembleari nelle società per azioni*. Milano, Italy: Giuffrè.

<sup>265</sup> Della Piana, B., & Testa, M. (2009). L'efficacia dei processi di negoziazione cross-cultural nei business internazionali. *SVILUPPO & ORGANIZZAZIONE*, 235, 40–59.

<sup>266</sup> Sousa, C. M., & Bradley, F. (2006). Cultural Distance and Psychic Distance: Two Peas in a Pod? *Journal of International Marketing*, 14(1), 49–70. <https://doi.org/10.1509/jimk.14.1.49>

<sup>267</sup> Signorini, P., Wiesemes, R., & Murphy, R. (2009). Developing alternative frameworks for exploring intercultural learning: a critique of Hofstede's cultural difference model. *Teaching in Higher Education*, 14(3), 253–264. <https://doi.org/10.1080/13562510902898825>

<sup>268</sup> Johanson, J., & Vahlne, J. (1977b). The Internationalization Process of the Firm—A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 8(1), 23–32. <https://doi.org/10.1057/palgrave.jibs.8490676>

linked. In fact, Johanson & Vahlne emphasize the importance of each country's specific knowledge, which related to cultural differences, can be expressed through experience<sup>269</sup>.

The geographic variable encompasses all those factors, mostly physical ones, that have a strong impact on transaction costs. When we talk about geographical distance, therefore, we mainly refer to the physical distance, the presence or not of borders, climatic differences, time zone, territory morphology, etc. The geographical distance is linked to the administrative variable which includes factors related to the institutional, political and regulatory framework of the country of origin. Similarly, the nature of relations between countries and their participation within international bodies are also part of the administrative distance. Thus, in internationalisation strategies, administrative distance plays a fundamental role in the area of fiscal and financial incentives<sup>270</sup>.

Economic distance refers to the difference between countries in terms of economic development. Economic development is in turn linked to institutional, socio-economic and geographical factors that affect the structure of a country and its model of development. Factors of production, such as the territory, the presence of natural resources, the provision of infrastructure, etc., have a significant impact on the attractiveness of a country and the internationalisation choices of a country<sup>271</sup>.

### *The Cage Framework*

Another important contribution is the CAGE framework<sup>272</sup>. The CAGE framework was developed by Pankaj Ghemawat, a renowned professor of Global Strategy. This framework identifies the cultural, administrative, geographical and economic distance that exists between countries. This framework becomes of paramount importance when a company develops an international strategy, as it helps to understand trade and capital differences, population characteristics and information that can prove crucial organisation of an effective internationalisation strategy<sup>273</sup>.

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<sup>269</sup> Evans, J., Treadgold, A., & Mavondo, F. T. (2000). Psychic distance and the performance of international retailers – A suggested theoretical framework. *International Marketing Review*, 17(4/5), 373–391. <https://doi.org/10.1108/02651330010339905>

<sup>270</sup> Berry, H., Guillén, M. F., & Zhou, N. (2010). An institutional approach to cross-national distance. *Journal of International Business Studies*, 41(9), 1460–1480. <https://doi.org/10.1057/jibs.2010.28>

<sup>271</sup> Pavione, E., & Pezzetti, R. (2014). *La distanza psichica nelle strategie di internazionalizzazione delle imprese*. Santarcangelo di Romagna, Italy: Maggioli Editore.

<sup>272</sup> Ghemawat, P. (2001). Distance Still Matters: The Hard Reality of Global Expansion. *Harvard Business Review*, 79(8).

<sup>273</sup> Ghemawat, P. (2007b). *Redefining Global Strategy: Crossing Borders in a World where Differences Still Matter*. Brighton, Massachusetts, United States: Harvard Business School Press.

In other words, the Ghemawat model serves to measure the distances and differences that emerge from the CAGE analysis and is an excellent analytical tool for companies and organizations that want to develop an international strategy with the primary intention of expand their business globally.

When a company wants to expand its borders, any differences that arise are termed as the cultural differences between the two countries. It should be noted that cultural differences are hard to change whereas differences due to the legal and economic structures can be changed easily. CAGE framework carefully analyses the cultural, administrative, geographic, and economic forces and determines how similar market functions in a distinguished manner in different countries.

Fig.5: The CAGE Framework

	<b>Cultural Differences</b>	<b>Administrative Differences</b>	<b>Geographic Differences</b>	<b>Economic Differences</b>
<b>Bilateral Measures</b>	<ul style="list-style-type: none"> <li>-Different languages</li> <li>-Different ethnicities/lack of connective ethnic or social networks</li> <li>-Different religions</li> <li>-Differences in national work systems</li> <li>-Different values, norms and dispositions</li> </ul>	<ul style="list-style-type: none"> <li>-Lack of colonial ties</li> <li>-Lack of shared regional trading bloc</li> <li>-Lack of common currency</li> <li>-Different legal system</li> <li>-Political hostility</li> </ul>	<ul style="list-style-type: none"> <li>-Physical distance</li> <li>-Lack of land border</li> <li>-Differences in climates (and disease environments)</li> </ul>	<ul style="list-style-type: none"> <li>-Differences in consumer incomes</li> <li>-Differences in availability of:               <ul style="list-style-type: none"> <li>.Natural resources</li> <li>.Financial resources</li> <li>.Human resources</li> <li>.Intermediate inputs</li> <li>.Infrastructure</li> <li>.Information or Knowledge</li> </ul> </li> </ul>
<b>Unilateral Measures</b>	<ul style="list-style-type: none"> <li>-Traditionalism</li> <li>-Insularity</li> <li>-Spiritualism</li> <li>-Inscrutability</li> </ul>	<ul style="list-style-type: none"> <li>-Nonmarket/closed economy (home bias versus foreign bias)</li> <li>-Nonmembership in international orgs.</li> <li>-Weak legal institutions/ corruption</li> <li>-Lack of govt. checks and balances</li> <li>-Societal conflict</li> <li>- Political/ expropriation risk</li> </ul>	<ul style="list-style-type: none"> <li>-Landlockedness</li> <li>-Geographic size</li> <li>-Geographic remoteness</li> </ul>	<ul style="list-style-type: none"> <li>-Economic size</li> <li>-Low per capita income</li> <li>-Low level of monetization</li> <li>-Limited infrastructure, other specialized factors</li> </ul>

Source: Recreated from Pankaj Ghemawat, "Distance Still Matters," *Harvard Business Review* 79, no. 8 (September 2001), accessed February 15, 2011

Cultural distance is the first facet of the CAGE Framework and it is also one of the most perplexing ones for the management of the company. It is invisible in nature but it has a huge impact on the values and behaviours of the people of the country that affects the international strategy and sales of the firm.

The facet related to the administrative distance of the CAGE Framework harps on the aspect of the historical and present legal and political association between the two countries. It helps to determine whether the relationship or association between the native country of the company and the particular international country will favour the business operations and the international expansion strategy or will act as an obstacle. The laws and regulations of the country can have a serious effect on the trade practices between the countries.

The Geographic distance determines the physical aspect of distance between the two countries such as the size of the country, the nature of transportation and information, climatic conditions, and more. It also harps of the geographic distance between the two countries in terms of miles or kilometers that separates the company from the target market or suppliers. However, the factors of the internet, social media, and technology have shrunk the distance of transportation time and now with the facility of digital products and services, the constraint of geographic distance has been almost eliminated. The economic distance, the fourth and last aspect of the CAGE framework, talks about the differences between the countries relating to income, the purchasing power of the target market, distribution of wealth, and disposable income levels. It can work as one of the biggest obstacles for the company to expand its business operations on the international level in particular countries.

Finally, to summarise, it can be said that CAGE analysis asks companies to compare a possible target market to a company's home market on the dimensions of culture, administration, geography and economy. Moreover, CAGE analysis yields insights in the key differences between home and target markets and allows companies to assess the desirability of that market.

### **2.2.2 Other aspects that influence the business acts in the China market**

As stated, the Chinese trade practice is very different from the Western one. Of course, with the opening up of the Chinese economy and China's accession to the WTO, many

Chinese trade practices are gradually aligning themselves with more conventional Western methods. However, the People's Republic still maintains its peculiar business culture closely linked to history and ethical and cultural background. Although qualities such as courtesy and diplomacy are generally appreciated in all commercial cultures, knowing the peculiar cultural aspects of Chinese society is certainly useful. In fact, knowing Chinese culture in depth can facilitate interaction and communication between the parties, thus giving an additional advantage to running a successful business. There are aspects of Chinese culture that profoundly affect both the choice of entry mode to be adopted and at the corporate organizational level, with particular reference to human resources management. These characteristics, such as the value attributed to relationships and respect for honour, the importance conferred on the harmony of the group, the different conception of time, particular label rules and the different conception accorded to language must be taken into account by all those companies wishing to start a business within that emerging market<sup>274</sup>.

#### *Confucian precepts in the business environment*

We have already talked about how influential Confucianism and Confucian precepts are to the Chinese people. These precepts are also applied to the business environment<sup>275</sup>. In fact, when describing the Chinese management approach, some of the most commonly mentioned features include collectivism and harmony, centralized control, authoritarian and paternalistic leadership, a conception of enterprise family, strong organizational networks and numerous business connections. These characteristics are commonly practiced both in China and abroad by Chinese expatriates, and such practices can be traced entirely to the value system dictated by Confucius. Specifically, social and business practices are influenced by the five relationships of Confucianism, the five virtues and the Confucian work ethic<sup>276</sup>. The five relationships (between king and subject, father and son, husband and wife, between friends and brothers) dictate appropriate behaviour and define the roles of members within the organization, the five virtues (benevolence, justice, fairness, wisdom and reliability) provide a moral framework for society and emphasize the importance harmony, and the ethic of

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<sup>274</sup> Ramella, F. (2006). *Comprendere la Cina: suggerimenti pratici per avvicinarsi al mercato cinese*. Milano, Italy: Voices.

<sup>275</sup> Rarick, C. A. (2007). Confucius on Management: Understanding Chinese Cultural Values and Managerial Practices. *Journal of International Management Studies*, 2(2).

<sup>276</sup> Xing, F., 2005. The Chinese cultural system: Implications for cross-cultural management. *SAM Advanced Management Journal*, 60(1), 14-20

Confucian work highlights the importance of hard work, loyalty and dedication, frugality, and love of learning<sup>277</sup>.

### *The Guanxi in business*

The concept of *guanxi* represents one peculiar fundamental concept that characterizes Chinese culture that strongly affects the interpersonal and inter-organizational dynamics of the company<sup>278</sup>. In the world of Chinese business for *guanxi* it is understood all the interpersonal relationships that permeate societies, a real network between different actors who work together and support each other<sup>279</sup>. From the perspective of business practices, *guanxi* can be defined as the process of seeking business solutions through personal contacts<sup>280</sup>. In other words, the concept of *guanxi* is an expression not fully translatable in our language that refers to a network of influential knowledge that people have<sup>281</sup>. So, having good *guanxi* in China means having contact with many people with whom you can exchange favours if necessary. Depending on the parties involved, business relationships can be categorized into two distinct categories: business to business *guanxi* and business to government *guanxi*

In business-to-business (B2B) *guanxi*, both parties are business subjects, as can be seen for example in the supplier-customer relationship.

In business-to-government (B2G) *guanxi*, the report concerns a business person and a government official<sup>282</sup>.

Caring for good *guanxi* practice is an essential element for business-building. In fact, in the West, relations arise from business, whereas in China business often springs from the network of relations in possession<sup>283</sup>. A proper *guanxi* is therefore a valuable asset

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<sup>277</sup> Yang, K. (n.d.). Confucius on Management: Understanding Chinese Cultural Values and Managerial Practices. Retrieved September 2, 2019, from [https://www.academia.edu/34537450/Confucius\\_on\\_Management\\_Understanding\\_Chinese\\_Cultural\\_Values\\_and\\_Managerial\\_Practices](https://www.academia.edu/34537450/Confucius_on_Management_Understanding_Chinese_Cultural_Values_and_Managerial_Practices)

<sup>278</sup> Child, J., & Lu, Y. (2018b). *Management Issues in China: Volume 2: International Enterprises*. Abingdon on Thames, United Kingdom: Routledge.

<sup>279</sup> Tung, R. L., & Worm, V. (2001). Network capitalism: the role of human resources in penetrating the China market. *The International Journal of Human Resource Management*, 12(4), 517-534.

<sup>280</sup> Fan, Y. (2002). Questioning *guanxi*: definition, classification and implications. *International Business Review*, 11(5), 543-561

<sup>281</sup> Germani, M. (2014). *Business con la Cina. Come Fare Affari con il Made in China e l'Import Export*. Roma, Italy: Bruno Editore.

<sup>282</sup> Park, S. H. e Luo, Y., 2001. *Guanxi and organizational dynamics: Organizational networking in China*. *Strategic Management Journal*, 22(5), 455-477

<sup>283</sup> Wong, J. M., 2012. *The Guanxi Strategies of Taiwanese Firms in China's Economic Reforms*. *The Journal of Global Business Management*, 8(1), 111-115.

for the company. For this reason, guanxi can be defined as a form of social capital and a resource to which the company can draw whenever it is faced with a problem on Chinese territory. If, for example, B2B relationships can be useful for the company to coordinate its activities and resources with those of other companies in the network if it does not have the necessary tools to adapt to growth. B2G reports can provide a solution to China's cumbersome bureaucracy by circumventing the rules by activating personal relationships.<sup>284</sup> Business practices based on a proper guanxi allow foreign investors to reduce environmental uncertainty, opportunistic behaviour, research costs and other transaction costs. The main purpose is to provide useful resources and to ensure the degree of connection necessary with the territory in which you operate.<sup>285</sup> Such practices also make it easier to obtain information, to control the relationships between superiors and subordinates and they facilitate negotiation between individuals belonging to different organisations. Foreign operators should therefore make considerable efforts to establish a guanxi that allows them a competitive advantage in finding a position to be insiders within the business world in China. While it is vital to have this tool in dealing with Chinese partners, foreign investors must be aware that a just guanxi alone will never be able to eliminate environmental threats and competition from Chinese investors. competitors<sup>286</sup>.

### *Losing face 丢面子*

One of the most important concepts in Asian cultures and, especially in China, is to preserve one's own image and moral integrity<sup>287</sup>. This concept is better known as "losing face" or *Diu Mianzi* 丢面子.

The Confucian principle of forgiveness embodied in the maxim "do not do to others what you would not want to be done to you" is in fact practiced by the Chinese through the strict respect of the "face" of others whenever you interact with an interlocutor<sup>288</sup>. In

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<sup>284</sup> Luo, Y., 1997. Guanxi: principles, philosophies, and implications. *Human Systems Management*, 16(1), 43-51.

<sup>285</sup> Wellman, B., Chen, W. e Dong, W., 2002. Networking guanxi. In Gold, T., Guthrie, D. e Wank, D., eds. *Social connections in China: Institutions, culture, and the changing nature of guanxi*. Cambridge: Cambridge University Press

<sup>286</sup> Fock, H. K. Y. e Woo, K., 1998. The China market: Strategic implications of guanxi. *Business Strategy Review*, 9(3), 33-43.

<sup>287</sup> Germani, M. (2014). *Business con la Cina. Come Fare Affari con il Made in China e l'Import Export*. Roma, Italy: Bruno Editore.

<sup>288</sup> Bond, M. H. e Lee, P. W. H., 1981. Face saving in Chinese culture: A discussion and experimental study of Hong Kong students. In King, A. Y. C. e Lee, R. P. L., eds. *Social Life and Development in Hong Kong*. Hong Kong: The Chinese University Press.

This principle, *Mianzi* entails a mutual relationship of respect and courtesy between the counterparts. It is therefore essential not only to protect one's "face", but above all to honor the "face" of the interlocutor. Preserving one's face and respecting the face of others is an essential element in maintaining harmony and managing one's relationships successfully<sup>289</sup>. The "losing face" denounces a lack of trust and recognition of the status of the Counterpart. This behaviour could cause considerable problems in the future business relationship.<sup>290</sup>

In business environment, the most common ways to avoid letting the interlocutors lose face are: Avoid saying no directly, avoid pointing out someone's mistakes in front of colleagues or strangers, politely reject a gift at first to then accept the gift with both hands, avoid all situations and topics of conversation that could cause embarrassment to someone, show a greater respect to the older or rank people and finally, in case of invitation, allow the guest to offer dinner<sup>291</sup>.

In Chinese culture it is therefore essential not only to cultivate the right *guanxi* while maintaining good relations with the different contacts to which one belongs. It is equally vital to protect the dignity and prestige of individuals with whom one has an interest in interacting. Preserving one's "face" is in conclusion a kind of shortcut used by the Chinese with the aim not only of building their own network and exploiting the social resources of those to whom they belong, but also of creating a cohesive business climate and positive. For this reason, the concept of *Mianzi* is a key component in the creation of a proper *guanxi*<sup>292</sup>. Within the Chinese market, the development of *guanxi* and the respect of *Mianzi* contribute to building trust between partners, superiors and subordinates and between Colleagues. Confidence considered one of the essential elements for a foreign company, given the uncertainty of the economic environment in which it operates.<sup>293</sup> Building trust between counterparties is one of the key components for the long-term success of the relationship, it allows for numerous potential benefits

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<sup>289</sup> Ang, S. H. e Leong, S. M., 2000. Out of the Mouths of Babes: Business Ethics and Youths in Asia. *Journal of Business Ethics*, 28(2), 129-144.

<sup>290</sup> Brunner, J.A. e Wang, Y., 1988. Chinese negotiation and the concept of face. *Journal of International Consumer Marketing*, 1(1), 27-43.

<sup>291</sup> Naturalis. (2018, April 30). Introduzione al concetto Asiatico di Perdere la Faccia - Naturalis. Retrieved September 2, 2019, from <https://www.it.naturalis-expeditions.com/introduzione-al-concetto-asiatico-di-perdere-la-faccia.html>

<sup>292</sup> Sherriff, T. K., Lorna, F. e Stephen, C. Y., 1999. Managing direct selling activities in China: A cultural explanation. *Journal of Business Research*, 45(3), 257-266.

<sup>293</sup> Lui, S. S. e Ngo, H., 2004. The role of trust and contractual safeguards on cooperation in non-equity alliance. *Journal of Management*, 30(4), 471-485.

such as reliable information exchange, better coordination and lower costs.

Although a right *guanxi* is often identified as a fundamental source of a sustainable competitive advantage for all those foreign companies that conduct their business in China, trust between the parties must be continuously nurtured and maintained to reduce the risks and to allow better control for companies operating in often uncertain environmental conditions<sup>294</sup>.

#### *The need for harmony*

The need for harmony within the group is a characteristic of Chinese culture. Italian businessmen make decisions driven by criteria of efficiency, effectiveness and cost-effectiveness. Chinese entrepreneurs are trying at all costs to obtain the first consent of all parties involved. The search for harmony and balance in Chinese culture affects every aspect of life. Confucian thought teaches that a man capable of managing himself will be able to govern his own family and country<sup>295</sup>. According to the Chinese conception of society, the skills and values necessary to manage the family, one's country and business are the same. Thus, even in the economic world, personal growth is valued in relation to the success of your business. A well-run company starts with a well-run individual and a well-run family. Recognizing this openness to social harmony is a key to understanding China's attitude in the economic field. As a result of harmony, in the management of economic activities, the Chinese evaluate economic performance through a global and overall vision of a company and not through analytical assessments, focused on individual results. In contrast, Western companies tend to focus on indicators such as net income, sales or profit margins. The result of these judgments has the advantage of being clear and objective, but it could reduce the drive to seek the harmony of the group<sup>296</sup>.

#### *The conception of time*

According to Western culture, time is linear and quantitatively verifiable, so it can be divided between past, present future and use it effectively like any other resource. On the contrary, in Chinese culture, time is considered cyclical and constituted by the succession of more or less favourable moments. The Chinese have a qualitative

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<sup>294</sup> Xin, K. R. e Pearce, J. L., 1996. *Guanxi: Connections as substitutes for formal institutional support*. *Academy of Management Journal*, 39(6), 1641-1658.

<sup>295</sup> Tomba, L. (2009). *Of Quality, Harmony, and Community: Civilization and the Middle Class in Urban China*. *positions: east asia cultures critique*, 17(3), 591-616. <https://doi.org/10.1215/10679847-2009-016>

<sup>296</sup> Ramella, F. e Jacchia, E., 2006. *Comprendere la Cina: Suggestimenti Pratici per Avvicinarsi al Mercato Cinese*. Milano: Voices.

conception of time, they do not adhere to it in a strict and linear way. This is the reason why nothing seems irrecoverable, lost, distant or outdated, but on the contrary, everything happens again, it repeats itself. The past is the cause of present situations, the present is the child of the past and the future is the result of present events. This conception is also found in the Chinese language, in which there are no different verbal times to indicate past, present and future: the three-time dimensions are expressed in the same way and the diversity between them is evident exclusively from the context. The Chinese believe that, in every area, mutual favours and aid follow a circular pattern and should therefore be reciprocated.

This cyclical conception of time also affects trade negotiations between Italians and Chinese. In particular, the Chinese proceed in stages that are often illogical and incomprehensible to the Westerners. For example, the Chinese often speed up the negotiations and then abruptly interrupt them, returning to issues that have already been dealt with before and finally resuming them again in a hurry. The ability to expertly combine slowness and speed in business relations with China is one of the peculiar strengths of the Chinese economic world<sup>297</sup>.

#### *Non-verbal communication*

In relating to each other, individuals communicate not only through verbal language, but also through non-verbal language. Non-verbal language is composed of gestures, looks, facial expressions and material symbols, plays a fundamental role. Therefore, it can be said that people use body language to express feelings, exchange ideas and transmit messages, and for this very reason it takes on a particular importance when communication takes place between different cultures.

In accordance with the Italian commercial culture, communication consists of a simple dialogue that begins and ends at the same time as the current relationship. According to Chinese culture, communication is conceived as an essential and indispensable element for the creation and consolidation of trade relations. For this reason, it is understandable that in China non-verbal communication plays an important role not only in closer personal relationships, but also and especially in business relationships. According to Chinese culture, which therefore tends to enhance an indirect and subtle approach rather than direct and explicit. Facial expressions, gestures and contacts all provide vital

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<sup>297</sup> Ramella, F. e Jacchia, E.,2006. Comprendere la Cina: Suggerimenti Pratici per Avvicinarsi al Mercato Cinese. Milano: Voices.

information in the course of a business relationship, and are able to consolidate it or damage it irreparably. In reference to the relationship between the West and China, it is therefore of vital importance for all those Italian SMEs with the intention of running a successful business in Chinese territory to know which aspects of non-verbal communication are universal and which are not, in order not to incur unwelcome misunderstandings or unwitting disrespect<sup>298</sup>.

Thus, China, analyzing all aspects, (the political, economic, critical and cultural aspects) appears as a gamble. Judging by the high degree of failure of Italian companies operating in many different sectors and with different sizes of different companies, the possible reasons for failure can be traced back to common reasons. Sometimes, the Italian entrepreneur underestimates language barriers and geographical distance. At other times we underestimate the difference in mentality between the Italian and Chinese people. In this case, time must be devoted to researching and understanding all the cultural aspects listed above in order to maximise the chances of success. In some cases, entrepreneurs think of facing the Chinese market without an initial economic investment. In fact, whatever kind of business the company decides to undertake in China, it needs some initial investments and a precise business plan to avoid incurring hidden costs. Of course, every investment must be carefully assessed and targets and returns must be expected. Both targets and returns must be part of a master plan outlined by the company.

The experience of the failure of many companies shows that often, entrepreneurs think they can run the business with China remotely.

This common error leads to failure since at least in the start-up phase of the project is fundamental a presence in the territory in which the company intends to invest. This mode is the only tool to build strong social relations, to manage resources and to understand the reality of the Chinese market. Sometimes, the error that leads to failure is traced back to the wrong choice of the Chinese partner. In other cases, the reasons for failure are due to the fact that no precise targets have been set and an effective strategic plan has not been prepared to achieve them. The entrepreneur who wants to invest in China must understand what he wants to achieve from the project, with what time horizon he wants to achieve his goals and must define a clear and linear business plan.

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<sup>298</sup> Tsai, W. C., Huang, T. C. e Yu, H. H., 2012. Investigating the unique predictability and boundary conditions of applicant physical attractiveness and non-verbal behaviours on interviewer evaluations in

From the list of the main causes of the failure of Italian companies in China, it is clear that it is essential to study and analyse every aspect in time without neglecting any elements. In fact, the few companies that devote their time and the right resources to the definition of the project without neglecting any element have more chances to succeed in China<sup>299</sup>.

In fact, as Pontiggia A. & Vescovi T. says in the book *Panni Stesi a Pechino*: "it is said that China is not a country for anyone who wants to invest. This is affirmed by referring to the complexity of operating in a large and very dynamic market. China is a competitive environment that does not forgive the design errors of organizational solutions<sup>300</sup>."

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job interviews. *Journal of Occupational and Organizational Psychology*, 85(1), 60-79.

<sup>299</sup> Germani, M. (2014). *Business con la Cina. Come Fare Affari con il Made in China e l'Import Export*. Roma, Italy: Bruno Editore.

<sup>300</sup> Pontiggia, A., & Vescovi, T. (2015). *Panni stesi a Pechino: esploratori e pionieri nei nuovi mercati internazionali*. Milano, Italy: Egea. p.145

## CHAPTER 3

### The future of Sicily in a glass of wine

#### 3.1 The Wineries in the Western Sicily: a family business

The SME is generally managed by a single person who is usually not a professional manager or is managed by a small group<sup>301</sup>. Often, the small group that runs the company is made up of members of the same family, with different origins (e.g. former workers, civil servants, etc.) that justify varied realities and situations. Small family-run small businesses are often characterised by a poor management culture, deeply centralised style, lack of attention to business structure and a high capacity for improvisation<sup>302</sup>. The ability to improvise is both positive and negative because on the one hand it consists of the ability to deal with sudden situations, but it determines a style that has as its main characters improvisation and instability. The SME certainly has greater financial constraints than the large company: this factor affects the company's work in a decisive way. The SME certainly has a greater potential for development, but it is also more exposed to the risks of failure. By analysing the reality of SMEs, we can see how it is characterized by an ever-changing population<sup>303</sup>. The large company born small is a small company that has been successful and is often the result of a selection. On the other hand, small business operates in situations that often increase the risk of failure such as less diversification of both products and markets. The smaller company manages a relatively less complex business, but generally manages it with less appropriate tools. Defining roles, developing policies and formalising procedures, setting goals, establishing control systems are operations that certainly require managerial knowledge<sup>304</sup>. To be able to manage an SME in the best possible way, the entrepreneur and his staff need to have a corporate culture that allows them to understand how much planning and planning are extremely important moments of

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<sup>301</sup> Smallbone, D., Leig, R., & North, D. (1995). The characteristics and strategies of high growth SMEs. *International Journal of Entrepreneurial Behavior & Research*, 1(3), 44–62. <https://doi.org/10.1108/13552559510100657>

<sup>302</sup> Dex, S., & Scheibl, F. (2001). Flexible and Family-Friendly Working Arrangements in UK-Based SMEs: Business Cases. *British Journal of Industrial Relations*, 39(3), 411–431. <https://doi.org/10.1111/1467-8543.00207>

<sup>303</sup> Lussier, R. N., & Sonfield, M. C. (2004). Family Business Management Activities, Styles and Characteristics: A Correlational Study. *American Journal of Business*, 19(1), 47–54. <https://doi.org/10.1108/19355181200400005>

<sup>304</sup> CHAN, K. C., & CHEN, N. (1991). Structural and Return Characteristics of Small and Large Firms. *The Journal of Finance*, 46(4), 1467–1484. <https://doi.org/10.1111/j.1540-6261.1991.tb04626.x>

business management. A small business can survive for the intuitions of the entrepreneur and for the favourable conditions even without the set of skills that are needed to manage a business in difficult markets<sup>305</sup>. Therefore, you can identify family-run companies with undefined roles and the boundaries between the different undefined tasks. Small businesses are also characterised by poorly developed policies and information is lacking due to a lack of adequate synthetic statistical data. The lack of management tools does not allow to know the business performance in a complete and timely manner and the control is not exercised in a systematic way<sup>306</sup>. In SMEs there is certainly a greater knowledge of the technical aspects of the production process than of the organisational problems inherent to it. This knowledge is motivated by the origin and personal background of the entrepreneur in charge of the company. Lack of attention to organisational problems and the absence of organisational formalisation often lead to problems in the management of family-run SMEs and are certainly weak points of these economic realities<sup>307</sup>.

With regard to the above, we can say that one of the greatest strengths of small and medium enterprises is considerable flexibility and adaptability. In fact, as small companies, they have the ability to change their actions as demand evolves. As for the socio-cultural environment, it is relevant because the influences that come from outside, if channelled and used correctly, can be decisive for the success of the company. The existence of informal networks, collaboration networks focused on subcontracting that allow to absorb fluctuations in demand can help and have a safe support for those companies that don't have much experience or don't know how to move within a market<sup>308</sup>. Often, in fact, the collaboration and cooperation between companies belonging to the same sector and of the same type is an element of strength. Another characteristic element of small and medium enterprises is the existence of areas of productive specialization in which the companies present derive from these situations'

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<sup>305</sup> Hutchinson, K., Quinn, B., & Alexander, N. (2006). The role of management characteristics in the internationalisation of SMEs. *Journal of Small Business and Enterprise Development*, 13(4), 513-534. <https://doi.org/10.1108/14626000610705723>

<sup>306</sup> Wiklund, J., & Shepherd, D. (2003). Knowledge-based resources, entrepreneurial orientation, and the performance of small and medium-sized businesses. *Strategic Management Journal*, 24(13), 1307-1314. <https://doi.org/10.1002/smj.360>

<sup>307</sup> Pezzani F., *Le imprese minori: le funzioni nel sistema economico e tipicità della loro gestione*, Milano: A. Giuffrè, 1985

<sup>308</sup> Curran, J., Jarvis, R., Blackburn, R. A., & Black, S. (1993). Networks and Small Firms: Constructs, Methodological Strategies and Some Findings. *International Small Business Journal: Researching Entrepreneurship*, 11(2), 13-25. <https://doi.org/10.1177/026624269301100202>

synergies of different types.

A well-established habit of operating in a context of public administration characterised by bureaucratic slowness and poor efficiency is an indication of the company's flexibility and the flexibility that characterizes the management of the business.

Other no less important elements are localisation in a very strong economic area in Europe and the high level of technology<sup>309</sup>.

As for the weaknesses of small and medium enterprises, the small size itself is the weak point of all the world's SMEs. In detail, Italian SMEs are on average smaller and hence a greater fragility of structures<sup>310</sup>.

Another weakness point is the concentration of small and medium enterprises in areas where competitiveness is based almost exclusively on price. If the competitiveness is low and is based on price factors, the risk appetite is reduced and the strategic approach is not motivating for a small company that wants to grow. Another problem for small businesses is the difficulty of having access to credit, and more generally, to have financial support<sup>311</sup>. Another big shortcoming is the poor support for legislation and public administration for SME issues, but what most negatively determines the company is a shortage of managerial skills<sup>312</sup>.

One of the strong points of small businesses, especially if the company is family-run, is the dense network of personal contacts between the company and customers and the organizational flexibility that allow a rapid implementation of the idea process innovative-processing-realization<sup>313</sup>. In smaller companies there are some factors that represented the essence of the company: the personal factor, the character, the sensitivity, the spiritual and character ality of those who collaborate in the company and the purposes of each member of staff. The relationship with customers is

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<sup>309</sup> Vossen, R. W. (1998). Relative Strengths and Weaknesses of Small Firms in Innovation. *International Small Business Journal: Researching Entrepreneurship*, 16(3), 88–94. <https://doi.org/10.1177/0266242698163005>

<sup>310</sup> Wolff, J., Pett, A., & Timothy, L. (2000). Internationalization of small firms: An examination of export competitive patterns, firm size, and export performance. *Journal of Small Business management*, 38(2), 34–47.

<sup>311</sup> Beck, T., & Demircug-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, 30(11), 2931–2943. <https://doi.org/10.1016/j.jbankfin.2006.05.009>

<sup>312</sup> La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, 58(1-2), 3–27. [https://doi.org/10.1016/s0304-405x\(00\)00065-9](https://doi.org/10.1016/s0304-405x(00)00065-9)

<sup>313</sup> Coviello, N., & Munro, H. (1997). Network relationships and the internationalisation process of small software firms. *International Business Review*, 6(4), 361–386. [https://doi.org/10.1016/s0969-5931\(97\)00010-3](https://doi.org/10.1016/s0969-5931(97)00010-3)

fundamental, in fact part of the innovative ideas come from the external environment, and in particular from customers, and therefore the availability to the perception of customers' tastes and the elaboration of suggestions are decisive capacity and innovation. In large companies, these processes are slower because they involve multiple functions, whose activities require significant coordination that can have ease of development varying from company to company.

The social environment surrounding companies influences the company's behaviour and choices in order to be decisive on management results. On the other hand, companies are able to influence environmental dynamics with their behaviour. This mutual interdependence highlights the social responsibility that also serves to define the identity of the company. The many relationships that a company can undertake with the external environment can also affect relationships with other companies: competing companies, supply companies or customer companies<sup>314</sup>.

Another strength of small family-owned enterprises is the economic elasticity of the possibility of transforming production processes and their combinations, varying costs, revenues, results without changing production in the technological sector. This can be done, for example, by conveniently transforming policies for sourcing inputs, placing products or making changes to the management of services and financing<sup>315</sup>.

Thus, large companies have a greater ability to intervene in the external environment thanks to the possibility of a different bargaining power, thanks to the search for new forms of new markets or new sources of financing. Therefore, large companies have a higher elasticity than outside bargaining, while small companies have a high elasticity with regard to the internal structure of processes and cost structure. In fact, the economic elasticity of small companies is sought under internal conditions and in being able to transform combinations and transformation of values. The fundamental skill is to know how to use and commit personal and productive resources and know how to transform all this into greater production efficiency<sup>316</sup>.

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<sup>314</sup> Hitt, M. A., Hanson, D., Hoskisson, R. E., & Ireland, R. D. (2017). *Strategic Management Competitiveness and Globalisation*. Retrieved from <https://www.studocu.com/it/book/strategic-management-competitiveness-and-globalisation/michael-a-hitt-dallas-hanson-r-duane-ireland-robert-e-hoskisson/29708>

<sup>315</sup> Azzini, L. (1982). *Istituzioni di economia d'azienda*. Milano, Italy: Giuffrè. P.118

<sup>316</sup> Pezzani F., *Le imprese minori: le funzioni nel sistema economico e tipicità della loro gestione*, Milano: A. Giuffrè, 1985 p.38-39

### 3.1.1 The Entrepreneur's role

Within a company, the economic entity contributes to the definition of the company and the identification of processes. The economic subject is also fundamental for the preparation of the means for the company to grow and develop<sup>317</sup>. The observation of the economic subject can be useful to understand the behaviour and potential of the company's development. In this case, there is a link to the relationships that unite the company with other companies and then to the constraints of various types and benefits that they can create. In this case there is the typical establishment of family businesses that represent a significant part of the smaller companies. By understanding the level of autonomy of the various companies, it is possible to better understand the level of independence. It is important to clarify that dimensional interpretation must also be compared to the different positioning of different companies in sectors and markets. In other words, if the parameter identifications that make the different companies similar are compared to the sectors of membership and the outlet markets, they lose trust. No evaluation criteria, if taken individually, can lead to the precise identification of the area of smaller companies and therefore cannot be useful for an in-depth analysis. As far as the family business is concerned, one of the factors that most distinguishes it is the fact that in most cases the economic subject, business person and owner of the company are identifiable in a single authoritarian figure at the head of the company<sup>318</sup>. Concentration in one person of ownership and control has its greatest consequence on organizational skills. In fact, within a family-run business, the most important posts are reserved for family members with a strong organizational centralization and lack of a technostructure<sup>319</sup>.

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<sup>317</sup> Lloyd-Reason, L., & Mughan, T. (2002). Strategies for internationalisation within SMEs: the key role of the owner-manager. *Journal of Small Business and Enterprise Development*, 9(2), 120–129. <https://doi.org/10.1108/14626000210427375>

<sup>318</sup> Dyer, W. G., & Handler, W. (1994). Entrepreneurship and Family Business: Exploring the Connections. *Entrepreneurship Theory and Practice*, 19(1), 71–83. <https://doi.org/10.1177/104225879401900105>

<sup>319</sup> Buang, N. A., Ganefri, & Sidek, S. (2013). Family business succession of SMEs and post-transition business performance. *Asian Social Science*, 9(12 SPL ISSUE), 79–92. <https://doi.org/10.5539/ass.v9n12p79>

### 3.1.2 Family business models

A more in-depth analysis of the small business has shown that many small businesses are run not only by the entrepreneur, but also by more people linked to each other by kinship. In many economic contexts and even more pronounced in Italy, individual enterprise takes on a minority character, while family enterprise is more widespread<sup>320</sup>.

#### *The Peiser and Wooten model*

Through this model it is possible to capture the distinctive specificities of the family business and to have deepened the way they affect the company's growth process. In particular, Peiser and Wooten study the evolution over time of the relationship between business and family, considering the life cycle of the company and the family cycle as if they were two separate entities.<sup>321</sup> As for the company's life cycle, scholars identify three distinct phases. The first step is survival. This phase represents the period in which the company is founded and is engaged in the struggle to survive. The phase of success is that period when the company manages to achieve a certain financial stability and manages to enjoy the success. The financial stability achieved in the second phase is achieved by the company thanks to constant growth and development. The take-off phase encompasses the period in which the company evolves towards the large organization<sup>322</sup>. As for the family life cycle, Peiser and Wooten mainly consider the transition from the first to the second generation. The focus is on the psychological difficulties that the founding entrepreneur faces. This transitional phase is particularly critical and crucial because it can prevent or promote the success of the company. At this time of transition, the company can move either to the successful phase or to the take-off phase. The company achieves success if when it is time to make the generational change, the older generation intends to retire. On the contrary, the company will fail if the entrepreneur of the older generation does not want to leave the leadership of the

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<sup>320</sup> Voordeckers, W., Van Gils, A., & Van den Heuvel, J. (2007). Board Composition in Small and Medium-Sized Family Firms. *Journal of Small Business Management*, 45(1), 137–156. <https://doi.org/10.1111/j.1540-627x.2007.00204.x>

<sup>321</sup> Peiser, R. B., & Wooten, L. M. (1983). Life-cycle changes in small family businesses. *Business Horizons*, 26(3), 58–65. [https://doi.org/10.1016/0007-6813\(83\)90031-9](https://doi.org/10.1016/0007-6813(83)90031-9)

<sup>322</sup> Fox, M., Nilakant, V., & Hamilton, R. T. (1996). Managing Succession in Family-Owned Businesses. *International Small Business Journal: Researching Entrepreneurship*, 15(1), 15–25. <https://doi.org/10.1177/0266242696151001>

company<sup>323</sup>.

### *The Corbetta model*

Through the study and observation of numerous family enterprises, Corbetta develops a model formed by some evolutionary processes. These evolutionary pathways can be identified in three main variables: The first variable is the business ownership model, the second one is the presence of family members on the company's board of directors and management bodies and the third variable is the size of the company's personal body<sup>324</sup>.

As for the first variable, the business ownership model, ownership can be of different types: if the capital is owned by only one owner is an absolute ownership model. If the capital owned by a small number of people is a closed family ownership model. Corbetta talks about extended closed family ownership model when capital is owned by a larger number of people and open family ownership model when capital is owned by members descended from the founder.

Corbetta believes that if the company is run and founded by one person, the absolute ownership model is typical of the early stages of the company's life. As for closed family ownership model, there are two possibilities.

If the company is founded by multiple members, this model is found in first-generation family businesses. If the company is run by descendants of a single household, this model is found in second-generation family businesses. Extended closed family ownership model is a widespread model in family businesses from the second generation in case we talk about companies with multiple founders; while it is a widespread model in third-generation family businesses where we are talking about family businesses descended from a single household. The open family ownership model can be found in family businesses of all kinds and types<sup>325</sup>.

The second variable is representative of the relationships that can exist between family and the enterprise. There are 3 main types of relationships that characterize family businesses. One of these is board of directors and management bodies made up of

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<sup>323</sup> Voordeckers, W., Van Gils, A., & Van den Heuvel, J. (2007b). Board Composition in Small and Medium-Sized Family Firms. *Journal of Small Business Management*, 45(1), 137–156. <https://doi.org/10.1111/j.1540-627x.2007.00204.x>

<sup>324</sup> Corbetta, G. (2010). *Le aziende familiari. Strategie per il lungo periodo*. Milano, Italy: Egea.

<sup>325</sup> Corbetta, G., & Salvato, C. A. (2004). The Board of Directors in Family Firms: One Size Fits All? *Family Business Review*, 17(2), 119–134. <https://doi.org/10.1111/j.1741-6248.2004.00008.x>

members of the family that owns the capital. The second type is board of directors consisting only of family members and management bodies in which family members and external members are employed.

The last one is board of directors and management bodies in which both family members and non-family members are located.

According to Corbetta, this second variable allows us to highlight two critical steps in the relationship between family and business.

The first critical step involves the entry of organs outside the family., the second critical step is the opening of the board to members outside the owner family. The need to have external members is related to the fact that the board of directors realizes that it needs to acquire new skills and experiences outside of those made available by the family group.

The third variable is summarized in the fact that the identification model of a family business and divided into small, medium and large. The company is small if it is made up of a few dozen people, it is medium if it has a few hundred people and large if it has over five hundred people<sup>326</sup>.

#### *The Boldizzoni Model*

Boldizzoni builds a model of family business development intended as a process of growth characterized by discontinuity and uncertainties. The difficulties encountered during the company's journey are traced back to the internal and external limitations of the company, human resources, management skills, capital possessed, and the ease of finding capital externally<sup>327</sup>.

The distinctive characteristics that emerge from the sample of companies are: a widespread corporate presence of family members in the company, a high level of involvement of family members in the management of a company, a strong preference for a external succession rather than looking for staff on the outside, a marked mistrust that holds back the inclusion of managers outside the household. The most important finding of this research is that the speed with which companies develop is mainly influenced by internal affairs concerning the owner's family. Another aspect examined concerns the internal succession that tends to strengthen with the passage of time. In fact, in second or third companies, the energy for the development of the company is

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<sup>326</sup> Corbetta, G. (1995). Patterns of Development of Family Businesses in Italy. *Family Business Review*, 8(4), 255–265. <https://doi.org/10.1111/j.1741-6248.1995.00255.x>

increasingly being drawn from the family system<sup>328</sup>.

### 3.1.3 The organizational structure

In the behaviour of smaller companies, some uniformities that characterize them can be identified. In particular, the strengths and weaknesses related to their management characteristics can be analysed. A comprehensive analysis could be carried out at the level of functional areas, although in smaller companies they are poorly differentiated. Generally, in the case of family businesses, these are simple processes in which decentralisation processes are not always feasible. When decentralisation processes are successful, this decentralization is often more formal than substantial decentralization. However, the analysis of functional structures can be useful to allow for a more orderly observation of business problems<sup>329</sup>.

Particularly important elements for analysis are the organisational, commercial, financial, production and technological innovation areas. Other major issues are the channels of information systems and the consequent impact on decision-making systems, planning and control systems<sup>330</sup>. Therefore, the analysis of the problems makes it possible to highlight those shortcomings that may constitute an obstacle to the composition of decision-making processes. Within a company, one of the biggest problems can be found in organizational structures, operational mechanisms and management style<sup>331</sup>. In smaller family-run businesses, most of the company's structures are concentrated in a single figure or a small group of employees. Thus, building an organization chart and identifying the roles of responsibility and the resulting status estates are derived from the relationships that bind family members. In fact, within the family business functional role and family role often intertwine because in this case power and status derive from belonging to the family. The relationships of the family is also an integral factor in the various activities carried out and often the

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<sup>327</sup> Boldizzoni, D. (1996). *Impresa e famiglia: il family business in Italia*. Milano

<sup>328</sup> Boldizzoni, D. (1988). *L'impresa familiare: caratteristiche distintive e modelli di evoluzione*. Milano, Italy: Il Sole 24ore Libri.

<sup>329</sup> Pezzani F., *Le imprese minori: le funzioni nel sistema economico e tipicità della loro gestione*, Milano: A. Giuffrè, 1985 p. 86-88

<sup>330</sup> Vachani, S. (2005). Problems of foreign subsidiaries of SMEs compared with large companies. *International Business Review*, 14(4), 415–439. <https://doi.org/10.1016/j.ibusrev.2005.03.002>

<sup>331</sup> Messeghem, K. (2003). Strategic Entrepreneurship and Managerial Activities in SMEs. *International Small Business Journal: Researching Entrepreneurship*, 21(2), 197–212. <https://doi.org/10.1177/0266242603021002004>

image of "a large family" is also used to promote the company<sup>332</sup>.

Evolution, the growth of complexity and the number of variables can lead to organizational decentralization especially for some functional areas. However, although decentralisation is formalised in the formal organisational structure, the decentralisation of family businesses is never achieved in full even at an informal level. In other words, the process of decentralisation is not completed by a definitive identification and delimitation of the functional area and the allocation of responsibility. One of the undoubted advantages is organizational elasticity. In fact, the extreme integration of functions into one person or a small number of people and the narrow hierarchy give the business situation a rapid adaptability to environmental events and developments<sup>333</sup>.

### **3.2 The Sicilian wine exportation**

Looking at the national level, the diversified Italian wine supply is the result of a large community of operators in which it is impossible to recognize a single supply chain. The Italian wine sector, in fact, consists of the sum of numerous supply chains that operate with levels of professionalism and relationship with the market, models of integration, production costs and production philosophies very different. One type of supply chain that is very widespread at the national level is the integrated supply chain. The integrated supply chains have a strong agricultural connotation. Other forms of supply chain are more typically industrial, while between the integrated supply chain and the industrial supply chain, there are many intermediate forms of supply chains. The different supply chains have a certain degree of autonomy, but each is characterized by relationships of various kinds. Precisely in this diversity, there is a multiplicity of relationships between different elements such as flexibility and adaptability that underpins the competitiveness of the sector.

Therefore, the Italian wine sector is a complex reality and, although you can sense its essential characteristics, little known in detail. Some strands of study have long been investigating the numerousness, specific role and forms of vertical relationship between operators placed at different levels of the production process and the different forms of

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<sup>332</sup> Re, P. (2014). *La gestione dell'innovazione nelle imprese familiari*. Torino, Italy: Giappichelli.

<sup>333</sup> Epstein, M. J., & Roy, M. (2000). Strategic evaluation of environmental projects in SMEs. *Environmental quality management*, 9(3), 37-47.

network relationship between subjects but on the whole, we are still far from a satisfactory level of knowledge. The lack of knowledge, however, is an obstacle to the development of effective support and development policies<sup>334</sup>.

One of the characteristic elements of the complexity of the Italian wine sector is the coexistence of a community of producers who can be defined as professional and who operate in a stable connection with the commercial circuits and with a community of amateur manufacturers whose product is intended for self-consumption or distribution in family circuits. Although the amateur community is numerically quite large, the professional community generates the majority part of the production and determines the characteristics of the production structure of the sector<sup>335</sup>.

The production structure of the Italian wine sector has more than 300 thousand professionals, placed at the three typical levels of the production chain: grape production, grape processing into wine, bottling. The level of the richest supply chain of operators is that of grape production, with around 240 thousand producers, who cultivate an area declared about 540,000 hectares<sup>336</sup>.

The wine sector is strongly representative of Italian culture and economy, both in terms of the wide variety of vineyards and wine types, as well as in terms of traditions. Given the growing success of wine exports and what wine represents for Italian culture, it can create interesting opportunities for wineries and entrepreneurs who want to export<sup>337</sup>.

Italy is one of the world leaders in wine production. But this figure seems not to be enough for Italian wine entrepreneurs who are trying to make the product known even in the Far East.

The fact that China is a world power is a fundamental reason for our country's companies to increase the export of wine in such an important market as China's.

In China there is a growing curiosity about the food and wine world and Italian wine is

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<sup>334</sup> Malorgio, G., Pomarici, E., Sardone, R., Scardera, A., & Tosco, D. (2011, December). La catena del valore nella filiera vitivinicola | Agriregionieuropa. Retrieved September 9, 2019, from <https://agriregionieuropa.univpm.it/it/content/article/31/27/la-catena-del-valore-nella-filiera-vitivinicola>

<sup>335</sup> Giacosa, E., & Giovando, G. (2004). Wine sector as a driver of growth for the Italian economy. *systems Thinking for a Sustainable Economy. Advancements in Economic and Managerial Theory and Practice*. Retrieved from <https://iris.unito.it/handle/2318/141620#.XYsTneszblU>

<sup>336</sup> AGEA- Agenzia per le erogazioni in agricoltura. (n.d.). [Distribuzione delle aziende viticole dichiaranti e della superficie vitata per forma di gestione della produzione]. Retrieved September 9, 2019, from <https://www.agea.gov.it/portal/page/portal/AGEAPageGroup/HomeAGEA/home>

<sup>337</sup> Broccardo, L., Giacosa, E., & Ferraris, A. (2015). The family variable in the wine sector: an Italian perspective. *Int. J. Management Practice*, 8(3), 199–214. Retrieved from [https://iris.unito.it/retrieve/handle/2318/1549929/109364/IJMP80303\\_paper%20def.pdf](https://iris.unito.it/retrieve/handle/2318/1549929/109364/IJMP80303_paper%20def.pdf)

becoming more and more successful, alongside other global competitors. Made in Italy, in the Chinese imagination, is synonymous with quality and status. Made in Italy therefore becomes an element that helps to incorporate a niche of demanding consumers with a privileged social position.

Relying solely on the niche market is not enough. In fact, the promotional campaigns of wines, individual brands as well as consortia have grown and, alongside this, a work of real education of the market and the consumer is being developed for a conscious consumption of wine products. The purpose of these activities is to increase knowledge of the product. The main aims are to create a perception of quality, of luxury, but above all to convey the culture of wine.

In this activity, the Vinitaly International Academy<sup>338</sup> plays a key role. It is an academy that offers educational and educational courses on wine for foreign operators. The intention is to train wine ambassadors from all over the world in order to create a chain of promoters in the sector. The opinion leaders are key in this process. In fact, the opinion leader is a figure that stands between the media and the public. Seemingly disinterested and above the parties, this figure expresses his opinion both by publishing it in the media themselves, and declaring it in other situations such as conferences, conferences, meetings<sup>339</sup>.

The Italian wine industry wondered which category of consumers were most interested in knowing the product and the response was similar to that obtained in other contexts: millennials<sup>340</sup>.

The new generation, especially the most schooled and least traditionalist, is more open to the outside world. Surely a big boost in terms of knowledge is given by the online market, more easily accessible to younger people and growing sharply.

Regardless of age and gender, wine consumers in China largely belong to the middle class and the price they are willing to spend on a bottle of wine is about 300 Yuan (about 39 euros). 300 yuan per bottle is definitely positive as a starting point considering that

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<sup>338</sup> Vinitaly International Academy (VIA). (2019, May 21). VINITALY INTERNATIONAL ACADEMY. Retrieved September 7, 2019, from <https://www.vinitalyinternational.com/vinitaly-international-academy/?lang=it>

<sup>339</sup> Boatto, V., DeFrancesco, E., & Trestini, S. (2011). The price premium for wine quality signals: does retailers' information provision matter? *British Food Journal*, 113(5), 669–679. <https://doi.org/10.1108/00070701111131764>

<sup>340</sup> Bretti, L. (2019, April 11). Vino italiano in Cina, un successo che va verso la qualità: ecco chi beve, come beve e cosa preferisce. Retrieved September 7, 2019, from <https://cinainitalia.com/2019/01/29/vino-italiano-cina/>

the wine market in China is growing day by day.

Based on their knowledge of the product, it is possible to classify Chinese consumers in the wine sector in 3 types: Professional consumers are those who are wine experts, know the flavors and know them well to distinguish. They are the classic connoisseurs, in short, those who know the culture of wine well. The second type is healthy consumers; healthy consumers do not know the true culture of wine but only interested in the benefits related to it.

Lastly, consumers for show off is the category for people who buy wine for fashion, to elevate their social status by also buying luxury products<sup>341</sup>. In fact, as we will find out later, thanks to interviews with Sicilian wine exporters in China, a large number of Chinese drink Italian wine mainly to confirm their status. For this reason, packaging and visual elements such as the bottle or wine label must correspond to the idea of well-being and luxury that the Chinese customer wants to demonstrate.

One of the obstacles to the potential development of Italian wine in China is the strong predominance of tea culture in the country. According to this fact, in China tea is consumed in large quantities at all hours of the day, including meals. We can say with certainty that tea in Chinese society, occupies a considerable sector, comparable in size to the wine sector in Italy. There is a lot of attention in the care and promotion of tea varieties and the process of selecting and treating the leaves of these varieties. For this reason, it is difficult to make wine a daily and habitual element in the Chinese lifestyle.

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<sup>341</sup> Bretti, L. (2019, April 11). I Millennial sono i nuovi consumatori del vino in Cina. Retrieved September 7, 2019, from <https://cinainitalia.com/2019/01/29/vino-italiano-cina/>

people anchored in their history, very proud and patriotic, Westernization is proceeding in full swing and agree to introduce the consumption of wine into their way of life.

Chinese consumers love very high alcohol content and are used to eating whiskey and various spirits even during meals. So, according to this factor, high-alcohol wines are welcome in this market. There is also some possibility for low-grade wines, a part of the "new drinkers", adapting to Western habits, prefers a lighter taste, but remains a rather small percentage. As far as organic wine is concerned, the opportunities are really limited. It is still too early to propose this type, as the demand is really poor at the moment<sup>342</sup>.

Another obstacle to wine exports to China is that the Chinese consumer does not associate wine with Italy, but with France. In fact, according to the numerous online surveys (one of them proposed by the Chinese information portal <https://www.sina.com/>) the popularity of French wines in China is confirmed. It is interesting, however, that France's overwhelming preponderance appears to be falling as the price falls. For the same price, 56.8% of wine for wine above 300 yuan, says they prefer French wine, one in five Italian wine, one in ten Australian wine and only 9% Chinese wine.

In addition, according to a report prepared by the HKTDC (Hong Kong Trade Development Council), Italian wine is a highly valuable product, almost a luxury item, both for own consumption and as a gift for important friends or customers<sup>343</sup>.

In fact, although in the mind of the Chinese consumer, wine is immediately associated with France, the Made in Italy factor plays a fundamental role in the export of Italian wine to China. From cars to the fashion and luxury sector, the quality of Italian products is internationally renowned. Among the luxury products also includes Italian wine, conceived as a highly valuable, almost luxury product.

### **3.2.1 The internationalisation of Sicilian wineries**

With over 100 thousand hectares of specialized vineyard and about 6 million hectolitres

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<sup>342</sup> Mengo, N. (2018). Vino italiano in Cina: quali sono i nuovi trend e chi acquista i vini importati? Retrieved August 25, 2019, from [http://www.winemeridian.com/news\\_it/vino\\_italiano\\_in\\_cina\\_quali\\_sono\\_i\\_nuovi\\_trend\\_e\\_chi\\_acquista\\_i\\_vini\\_importati\\_2526.html](http://www.winemeridian.com/news_it/vino_italiano_in_cina_quali_sono_i_nuovi_trend_e_chi_acquista_i_vini_importati_2526.html)

of wine produced annually, Sicily ranks at the top of the Italian wine scene in quantity but also in the quality of the wines produced.

Sicily can be considered to all intents and purposes a real wine continent, independent and exceptional at the same time. The geographical areas of wine production very different from each other, just think of the area of Marsala, the island of Pantelleria, Etna, the whole territory that goes from Victoria to Syracuse with millennia of wine tradition behind it.

Regional production is the perfect synthesis between millennial tradition and modernity, alongside the classic native vines of the region such as Grillo, Inzolia, Nero d'Avola, Nerello Mascalese, Frappato, Zibibbo and many others, have found place vines international areas such as the Syrah, the Petit Verdot, the Chardonnay, the Cabernet Sauvignon, and the Cabert Franc just to name a few.

Since the 1980s, many wineries, small and large, have perfected production techniques that were already good at that time, and invested a lot in communication, helping to enhance a fantastic territory not only with regard to wine.

In the Sicilian wine environment, most businesses are family-run. It is a competitive environment in which generations of winemakers and entrepreneurs try to make their way in a well-defined sector. The relationship between family and wine product is close. In fact, family-produced wine is the ensign of family and territorial values, symbols and traditions<sup>344</sup>.

In recent times, the Sicilian wine industry has faced a process of change, showing characteristics of dynamism and innovation. In a very short time a core of small and medium-sized companies has established itself on the market with a quality production, oriented to export, based on experimentation and the ability to use innovative technologies. The changes in the wine sector in Sicily took place within a broad framework that changed the wine market both nationally and internationally. The new regulatory and institutional measures provide new guarantees, greater control and a rise in the market quality standard. This process has allowed the acceleration of the diffusion of innovative techniques of Italian wine production chain. This change has led

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<sup>343</sup> Hong Kong Trade Development Council. (n.d.). Wine Industry in Hong Kong | HKTDC. Retrieved August 25, 2019, from <http://hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Wine-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X07WNW7.htm>

<sup>344</sup> Gallucci, C., & Nave, G. (2011). FAMILY VS NON-FAMILY: UN'ANALISI SULLE PERFORMANCE NEL WINE BUSINESS. *Esperienze d'impresa*, (2), 49-67. Retrieved from [http://esperienzedimpresa.it/public/journals/1/Gallucci\\_Nave.pdf](http://esperienzedimpresa.it/public/journals/1/Gallucci_Nave.pdf)

to a renewal of the cellars aimed mainly at improving the hygiene and safety conditions of production. In terms of communication and marketing, entrepreneurs and experts in the field have worked to rebuild the image of Italian wine, for example by choosing as a qualification for wines by denomination<sup>345</sup>. The north-west of Sicily is the area where the region's highest wine production is concentrated and the territory that is the protagonist of an innovation in the sector. Despite numerous structural constraints, including a lack of production services, this territory has been able to develop from a practical, organizational and management point of view. Sicilian wineries are companies born or renewed thanks to an ambitious and forward-looking entrepreneurial vision able to accept the demands and changes of the market more tending to quality wines<sup>346</sup>. The modern history of Sicilian winemaking is characterized by the processes of productive evolution and the adaptations of production to the domestic and especially foreign consumer market. These processes have been based on structural changes in the vineyard and in the cellar. Structural changes in the vineyard mean new vines, new farming systems, irrigation, crop operations aimed at obtaining the quality of the grapes and consequently the wine. In the cellar, however, the experts focus on soft squeezing, new wine practices, winemaking, ripening and storing wine in a controlled environment, bottling and packaging. In distribution, entrepreneurs implement and study marketing actions, inclusion in the Horeca and GDO channels all represent opportunities for the expansion of the market to foreign countries. All these processes have been implemented by individual wineries and a few membership companies, supported by public interventions on investments and services provided by the two main regional institutions. The Regional Council of Agriculture<sup>347</sup>, especially with its dense territorial network of development services and funding for research projects, is undoubtedly an important reference point for Sicilian wine entrepreneurs. The Regional Institute for Vine and Wine<sup>348</sup>, which annually organizes the Sicilian Pavilion at Vinitaly, represents an important opportunity to allow the company to make itself known at national and

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<sup>345</sup> Cesaretti, G. P. (2006). *Il mercato del vino: tendenze strutturali e strategie dei concorrenti*. Milano, Italy: F. Angeli.

<sup>346</sup> Manzo, C. (2015). La viticoltura del Nordovest della Sicilia tra tradizione, dinamismo e innovazione. *Meridiana*, (84), 189–212. Retrieved from [https://www.jstor.org/stable/43799233?read-now=1&seq=3#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/43799233?read-now=1&seq=3#page_scan_tab_contents) p.189-190

<sup>347</sup> Assessorato Regionale dell'Agricoltura  
[http://pti.regione.sicilia.it/portal/page/portal/PIR\\_PORTALE/PIR\\_LaStrutturaRegionale/PIR\\_AssessoratregionaledelleRisorseAgricoleeAlimentari/PIR\\_DipAgricoltura](http://pti.regione.sicilia.it/portal/page/portal/PIR_PORTALE/PIR_LaStrutturaRegionale/PIR_AssessoratregionaledelleRisorseAgricoleeAlimentari/PIR_DipAgricoltura)

international level. These institutions, as well as other local authorities, promote Sicilian wine in numerous missions abroad, often with the cooperation of the Foreign Trade Institute, and participate in the most important fairs, events, regional events, national and foreign countries<sup>349</sup>.

Wine, especially in Sicily, has become a protagonist in society: in gastronomy, in newspapers and magazines, in publishing, in cultural events, in national and international fairs. An important role is also acquired in tourism: wine tourism, open cellars, public events, events organized on special occasions inside the wineries and in local events. Competitiveness in the markets has also improved, as the most prestigious wine and food and wine guides attest, and has conquered the financial market with some labels.<sup>350</sup> Thanks to wine, made in Sicily has conquered the social and cultural scene and helped to change the perception of its image in the world. An image of quality, youth, seriousness, tradition and modernity that has obscured the historical and abused negative values of the island.

As far as exports are concerned, there is still much to do. In fact, although the Sicilian wine market is growing and despite wine producers and entrepreneurs trying to promote their products through fairs and events, the culture, history and various nuances of Sicilian wine are not fully understood by all foreign customers and consumers. The main channel of selling wine abroad is exports through importers and agencies. There is still no room for e-commerce or business departments located abroad. Surely, one consideration that must be made is that until the wineries, and more precisely their administrators and managers, mature awareness of marketing culture the economic and social development of the wine system will be very slow. Without the use of the right promotion channels and without the right marketing choices, the further opportunity to enhance even more and fully the territory and the image of Sicily in the world will be diminished.

### **3.3 The experiences of the Western Sicilian Wineries' owners in the China Market**

Wine for Sicilian wineries is a constant thought that translates into manual skills, made

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<sup>348</sup> Istituto regionale Vini e Oli di Sicilia, <http://www.irvos.it/>

<sup>349</sup> Chiao, Y., Yang, K., & Yu, C. J. (2006). Performance, Internationalization, and Firm-specific Advantages of SMEs in a Newly-Industrialized Economy. *Small Business Economics*, 26(5), 475–492.

<sup>350</sup> Tudisca, S., Di Trapani, A. M., Donia, E., Sgroia, F., & Testa, R. (2014). Entrepreneurial strategies of Etna wine farms. *Int. J. Entrepreneurship and Small Business*, 21(2).

up of long waits and hope. A world made up of families with wine traditions, sometimes centenarians, where agricultural study becomes one with agricultural practices. Wine is a love for the land, it is a constant conscious and sincere search for biology, biodynamics, natural agriculture, with the utmost respect for nature to be preserved.

Western Sicily, especially the Trapani and Marsala area, is characterized by lush hills that gently degrade towards the sea. It is the ideal territory for the cultivation of wine grapes, also favoured by the soft and limestone soil and the sea breeze. In these territories were born the first wineries of the island; some of them have preserved the ancient Historical Cellars, which can be visited at all times of the year.

The wineries of western Sicily are all ambitious and dreamy wineries, with their eyes turned towards new projects and new goals. It is interesting to see how such small companies as family-owned wineries, often with up to ten or fifteen employees, are able to obtain foreign consent through participation first in international fairs and then through export. All this is done thanks to the passion for their work that motivates and animates the courage, the will and the ambition of the wineries. Another key element that contributes to the national and international success of Sicilian wineries and, in detail, those of western Sicily, is the excellent diversification and priceless quality of the products as well as the care with which wine is treated and bottled. They are cellars with a story to keep, but also to tell; in fact almost all the wineries organize food and wine tours to discover the production territories, the methods of winemaking, the aging in the barrel with the tasting of wines and typical local products. These initiatives are aimed at entrancing the fellow countrymen, but they also allow tourists to be able to see up close and appreciate one of the many traditions that characterizes Sicily.

The inexplicable feeling that you get by walking along the streets that lead to the cellars located in the districts of Trapani or walking the streets of those located on the road leading to Marsala involves all the senses. Along the way, on either side of the roadway there are endless expanses of fragrant vines, embraced by the warmth of the sun's rays and looking out to sea. When you arrive at the cellars you are hit by an intense and pungent scent of must that fills the nostrils. Right away, the warmth and welcome of the insiders makes you feel safe, it makes you feel at home.

To support what I said above, I visited three types of wineries. The first winery I visited is Cantine Birgi.

### *Cantine Birgi*

The Birgi cellars are located in the heart of Birgi district, near Marsala. The cellars are located in a strategic territory, in fact are located near Trapani airport and in the road leading to the Laguna dello Stagnone and San Teodoro beach.

It is a wonderful area, in fact in front there are the salt flats and islands of Marsala. In this breath-taking landscape, the grapes of the wines of Cantine Birgi are cultivated. Cantine Birgi is a social winery that represents the history of the territory of Trapani. Inside Cantine Birgi there are generations of members and winemakers who have made the history of wine.

Cantine Birgi is a historic winery that looks to modernity.

To better understand the footprint, structure and objectives of Cantine Birgi, I decided to meet Salvatore, export manager of Cantine Birgi. Salvatore explains to me that Cantine Birgi is a cooperative, and that it is as if they were two companies in one. The Birgi social winery takes care of the part of grape storage, winemaking and bottling. Birgi Wines s.r.l deals with the marketing of the finished product, that is, the bottles. As for the supply chain relationships, it is precisely the members who cultivate the grapes that are then brought into the premises and are piled, processed and bottled.

With regard to the main projects, the export manager explains that as a company they always try to balance foreign export and trade in Italy, so as not to depend too much on one market rather than another. The main objective is to focus on large retailers and therefore to aim at the production of the largest number of bottles to be sold in Italy and abroad.

A curiosity that arises spontaneously is the one that prompts me to ask what kind of relationship there is with the other cellars in the Trapani area; the export manager tells me that unlike in the past, in which there was a rivalry relationship between the cellars, to date the wineries try to cooperate and to help themselves always keeping secret marketing strategies and production secrets. For these small business realities, helping and cooperating can be critical to growing and achieving goals that are harder to achieve on their own. Collaboration means participating together in fairs, discussing and seeing what they deal with and what the "rivals" wineries focus on.

As for the distinctive trait of the wines of Cantine Birgi is definitely the territory. In fact, all the vineyards of this winery are located along the coastal area, which is why the white wines are characterized by freshness and minerality. In fact, the salinity typical of

the area of Cantine Birgi is reflected in the taste of their wines.

Focusing on international exports, the international export of wine from the winery is currently divided into 3 macro areas: Europe, America and Asia. In this regard, I ask Salvatore what are the first steps to be taken for a Sicilian winery that wants to make itself known internationally. There are two main roads. Everything can happen randomly: for example, during the Vinitaly can approach a curious importer interested in the product and begin a collaboration with the winery. In this way, from this first approach the wine entrepreneur has the opportunity to learn about the international environment and may have the opportunity to obtain other connections through word of mouth and exchanges of contacts.

The other way to start trading abroad is to move in person. The wine entrepreneur, therefore, begins to participate in fairs in the countries where he intends to make himself known and export and from there, he tries to make his way.

With regard to exports to China, I ask whether preliminary investigations have been made given the difficulty and the vastness of the Chinese market. With regard to this, what an entrepreneur can do is to inquire first-hand about the market in general, on trends, on the most requested products. It is all information that is easily available thanks to ICE (Institute for Foreign Trade). Specialist consultants and other out-of-company support that can often help inexperienced entrepreneurs are discouraged by insiders because the direct experience gained by the entrepreneur who knows the company is unparalleled compared to the figure of a consultant who does not know the company well.

The secret is therefore to study first-hand the markets in which you intend to invest also according to the characteristics of the company. In this way, all the information acquired becomes a personal baggage of the entrepreneur that enriches the company.

As far as the definition of a business plan is concerned, it is not essential at the preliminary stage when the entrepreneur relies more on the opportunities offered to him. The initial investment is often to sell a container of about 20,000 bottles to an importer.

If the exported wines appeal to the end consumer and if the wines are successful in the market, the demand increases; otherwise, relationships remain occasional or break. As for exporting to China, Cantine Birgi relies on an importer. The figure of the importer is relevant because he owns all the licenses and general permits to pass the products to

customs. Once the importer receives the order, he in turn sells it to local distributors.

The promotion of wine products is another aspect that needs to be looked at. The export manager informs me that especially for promotion campaigns, Cantine Birgi makes use of the funds of the OCM Wine, obtained through a call.

It is therefore interesting to highlight the lack of knowledge of European and regional funding specifically dedicated to the wine and olive sectors. In the province of Trapani, OCM Wine is widespread. This is the single regulation of the European Union that sets out some rules concerning the wine sector, both with regard to production rules and the contributions to lost funds awarded to companies.

The OCM Wine provides for several funds provided following the approval of the projects submitted by the Agricultural Companies participating in the various Calls. Among them, the OCM Wine Promotion Third Countries that allows and facilitates the export of products through the coverage of 50% of the project. It is interesting to find out how this regulation follows a precise and respected process thanks to the timely intervention by AGEA, the control body that deals with the disbursement of the sums and the possible collection of unused capital or, if used, non-compliance with permitted expenses (specified in the Call). The duration of these projects ranges from one to a maximum of three years and can only cover the activities conferring the promotion in third countries, where, of course, SMEs find barriers to entry of various kinds and where, however, it is increasingly successful. In the case of Cantine Birgi, the funds that you decide to use for the promotion are distributed to the suppliers who then dedicate themselves to the organization of fairs. Incomings are also organized to allow the most important customers to taste the latest news, to visit the company and see up close what is behind the finished product they buy.

According to Salvatore, the biggest obstacle is the cultural barrier, easily circumventable obstacle if you learn about the Chinese consumer.

With the experience and study of the Chinese customer also according to statistics easily available online it is clear that the Chinese customer prefers red wine, better if bottled in flashy and heavy bottles, symbol of luxury and prestige.

Another curiosity related to Chinese culture is the colour white. In Chinese culture the colour white is a symbol of mourning or, more generally, of bad omen. For this reason, the Chinese customer prefers red wine to white wine and tends to buy a wine with a black rather than a white label. Speaking of labelling, the Chinese consumer prefers to

buy a wine with the presence of the Italian tricolour on the label rather than a bottle with the sole word Made in Italy.

Finally, I ask Salvatore, in his experience, what is the secret of a small company to make its way into the Chinese market. It is clear that for a very small company it is difficult to be able to trade with China without the help of consortia or without the support of other similar companies, but that with passion, study of the market and trends, thanks to the opportunities offered and with a pinch of luck not there are insurmountable obstacles.

### *Cantina Fazio*

The second winery I visit is the Fazio Wine House. The winery of Girolamo and Vincenzo Fazio is located at Contrada Fulgatore in the area of DOC Erice. The management is familiar.

The vineyards are located between 250 and 600 meters above sea level. The cool and breezy climate, the presence of mountains and the relative proximity of the sea give the wines unique and exclusive characteristics. In addition, the particular geological shape of the soils gives the grapes scents, freshness and flavour supported by a good acidity.

Lilly Ferro Fazio, export manager and brand ambassador of the winery, welcomes me. We learn that the Fazio winery is a family business with a tradition of four generations that, in terms of production, can be defined as medium level since it amounts to about one million bottles with an upper potential. As for the employees, the company consists of 15 stable employees, plus a variable number of seasonal employees who increase during the harvest period in which there is a need for an increase in the production department. With regard to supply chain relationships, the company follows the entire production chain.

As a company, Fazio family are producers, owners and renters of the vineyards, owning the winemaking and bottling plants. Until recently, the supply chain was shared with a twin cooperative.

The supply chain was therefore divided into the main company and a sister company. The cooperative took care of the grapes and the processing of the grapes, until the final product of wine was made and then sold it to the Fazio company. Now, however, the winery has been transformed into a farm so everything is produced and completed internally.

The distinctive feature of the product is that at the moment Cantina Fazio is the only winery authorized to use the Erice DOC brand. The name Erice DOC is located in the far

west of Sicily and includes red and white wines from the area around the ancient city of Erice, once one of the main medieval areas of the province of Trapani.

The territory of the Erice DOC is an extremely peculiar territory since they are all hilly territories, so these areas are very windy and rainy in the winter period.

The main characteristics of the soil are the presence of limestone areas and the presence of stones causes the moisture to be retained.

Each company then has character features that are also found in the final products. The Fazio wine house is very careful to preserve the fruit in the wine; so that even in wines refined in wood, in the case of reds, the scent of red fruits such as cherry is kept alive, while in white wines the scent of tropical fruit is preferred. So, in the final product, the personality and the imprint of the company always shines through.

As far as internal, national and regional projects are concerned, if a company wants to remain in the market, it must find out about EU funds and development funds, participate in fairs, adapt to changes and innovations with flexibility and willingness to Changes. In business, in fact, you always have to look further, confront and conform to the external environment while maintaining your identity.

The company Fazio is always on the move, with the experimentation and introduction of new products, with the experimentation and study of the consumer trends of the markets.

Mrs. Lilly says that "you have to be very careful about the peculiarities and trends of the different markets in which you intend to export in order to capture their trends and differences. A curious example is certainly the difference between the Japanese and Chinese markets, which, although geographically very close, have opposite characteristics. Therefore, you have to have a careful eye and a great dynamism in order to be able to remain present in more markets."

Market research is conducted within the company itself, while using studies carried out by chambers of commerce abroad, ICE and then reworked in a company-compliant manner. Despite the many information easily available online or through agencies, according to Mrs. Lilly, the most useful information is the information acquired thanks to the personal experience of participating in international fairs and travel conducted abroad aimed at making itself known, but also aimed at knowing the markets in which the company operates in the markets in which the company wants to fit.

It is also essential to continue to talk to importers around the world in areas where the

company exports, able to best advise wine entrepreneurs given their extreme expertise and knowledge of the peculiarities markets in which they operate.

The Italian market is managed in a totally different way than foreign trade.

Nationally, the company employs a commercial director who follows the entire channel related to catering, bars and wine bars. The commercial director has a number of agents divided by provinces. Through the provincial agents, the sales manager receives all the inputs and requests of the market.

Speaking of inputs and promotional initiatives, Cantina Fazio frequently carries out tasting activities and organizes events that are suggested by the agents, so it is important, even in this case, to lend itself to the needs of the market. Depending on the opportunities offered, the various promotional and organizational ideas are evaluated with the agents.

Although there is an initial business plan, decisions regarding participation in trade shows and events and the organization of promotional initiatives are always made flexibly with a careful eye towards economic return. In fact, the economic return is fundamental for any promotional marketing activity, which is why the promotion activities must be carefully chosen and organized.

As for the Chinese market, the export manager believes that the export and marketing of wine to China can prove insidious, rather than difficult. Generally speaking, according to Mrs. Fazio, the Chinese market is not as difficult as most people think. In fact, the Chinese are big drinkers, often careless about the product and its characteristics. For these reasons, finding business contacts is not particularly complicated.

The problem lies in the fact that Chinese people, especially in the commercial sphere, are very shrewd: so, you have to be very careful in defining the contractual conditions because in this case problems can arise.

The company Fazio has been present in the Chinese market since 2006 with alternating phases given the dynamism and sudden changes of China and the Chinese market it is not always easy to adapt to new trends and new provisions. The trade takes place in alternating stages mainly because the winery collaborates with different importers in China, each importer has different characteristics and requirements. For the Fazio winery, the main priorities are two: the priority of putting products in the foreign market and the priority of finding economically reliable partners. The reliability of the importer is decisive because in the case of wine, trade is done through large orders and

if you are not sufficiently aware and careful you can come across accidents of the route with significant repercussions.

China in particular follows a different, simpler and more empirical process. The most commonly used method for testing customer reliability is to go on-site to realize the actual reliability of the customer because from emails or online searches it is difficult to understand the level of reliability. The lack of reliability typical of Chinese customers is given mainly because of the characteristic that the Chinese have to work in black. There were also incidents of customers who did not seem very reliable from the bank rating and then turned out to be serious and reliable.

As for the business plan for entering the Chinese market, there was a design that underwent changes as needed. Fazio, like Cantine Birgi, also makes use of the refunds made available by the OCM that supports promotional activities, gala events, fairs with a refund of 50 percent. Exports are made through importers and the areas where the distributors are located are those bordering Shanghai and Beijing.

What scares the company and prevents it from expanding into china's less-explored brands is identifiable in the difficulty of the company. In fact, while in cities like Shanghai it is easy to get in touch with Chinese customers who know the English language and therefore communication is easy and immediate, in more remote areas it would be more difficult to communicate with customers.

Another obstacle that is holding back the wine entrepreneur is the lack of awareness and poor wine culture of the Chinese outside the big cities. For these reasons, it is preferred to trade in large cities where the market is educated and aware and where language is not an obstacle to business.

From a cultural point of view, the export manager Fazio says: "I find different similarities between the Chinese and the Italians, as opposed to the Russians. In fact, I find that the Chinese are an extremely hospitable, attentive and respectful population, characteristics that I do not see in Russian traders. The Chinese trader tends to study the most advantageous conditions for him, there is no intent to cheat as in the case of some Russian customers."

One thing to look at is the fact that the Chinese tend to copy, which is why Cantina Fazio, as soon as it began to trade in China, felt it necessary to register the brand and labels.

With regard to packaging and labelling there are special rules that follow also at the suggestion of the importer. The company has a very wide product range so the importer

selects the products that can be most successful in the market. However, there are guidelines to follow. The average Chinese consumer has standards, again the importance of the weight of the bottle returns as a symbol of opulence and luxury product. They prefer the wooden case over the cardboard case. In Canada there is a diametrically opposite trend: given the attention to the environment, the Canadian customer favours light bottles and a simple packaging.

The main secret to success in the international market and, in particular, in the Chinese market is the passion for wine and innovation. Flexibility is equally important; it is essential to adapt to the market and market-related innovations as well as to the dense bureaucracy. Finally, the ability to listen to and satisfy customers in different geographical areas with different cultural characteristics and different tastes, needs and awareness is also of particular importance.

### *Cantina Maltese*

On a warm September afternoon Gianfranco Maltese and his mother welcome me to the family's historic grounds. The history of grape production and, later, the wine production of the Maltese family has been going on for 5 generations and, more precisely, since 1894.

Gianfranco begins to tell me about the long history of the family, the vicissitudes, the generational changes to this day. It is a story of hard work and sacrifice, of love for the land and for wine. In Gianfranco's ears still rings the voice of his grandfather who reveals to him the secrets of grapes, the peculiarities and differences of the various vines.

This is where his business history begins. From 2004 to 2010 Gianfranco worked as a winemaker in small companies, accompanying them in the marketing of the final product. In this way he has the opportunity to gain experience and learn outside his company what he will need to develop his company.

The turning point came in 2011, when he became an international judge of some wine competitions. There he has the opportunity to meet large buyers, suppliers of large international hotels that help him to mature the decision to return to focus on his company, rather than take care of third parties. He devoted himself to the study and experimentation of his grapes because, although he knew his grapes and grapes, he had not yet acquired the awareness of his potential and the skills to develop that potential.

The main product of Maltese Cellar is the Perricone Wine, cultivated in a particularly salty soil, the breeze, the saline and marine exposure characterize the product. The rest of the company has medium-sized soils. The agronomic feature and mineral note that is obtained through the origin of the soil is the hallmark of Maltese Wine.

Gianfranco compares the different wine products to children: "they are all children of the same land, but according to the vine or a different technique used, each wine has a personality and unique characteristics that distinguish it." The Maltese winery is a historic and experimental winery that, being very small, relies on Birgi wineries for the production of wine. Then the grapes are harvested and brought to the Birgi wineries where the winemaking process is processed and completed.

With regard to internal, national and regional projects, the winery actively participates in several fairs that often represent challenging investments with costs difficult to support for such a small company for which it manages to participate in national initiatives and international fairs thanks to the subsidies offered by the region through tenders.

Gianfranco, as a young farmer, seeks to maintain and export the family image of authenticity of a company that has been running for five generations. He therefore aims to build a new business and business model that focuses on the products of his land and on the hospitable and friendly relationship with the customer. In fact, with regard to the relationship with the customer, Maltese winery organizes many initiatives aimed at making known traditions.

Establishing a close relationship with the customer, especially international, and making the customer aware and participating are the main objectives of the Maltese winery that prefers to focus on the care of the product and the customer rather than on high production. To this day Cantina Maltese focuses on wine experiences, hospitality, overnight, tastings and opening with foreign markets. Everything is aimed at promoting and spreading the brand abroad through word of mouth.

Maltese cellar is a small winery run by a family, but with a diversification of production. In fact, rather than focusing on a large production, they decide to focus on ethics, image and also on a line of parallel products of their own production such as oil, tomato sauce, typical biscuits, garden aromas etc.

Internationally, the first opportunity to introduce the Maltese brand came in 2013 through participation in a fair in Japan where the first importer and the first order of

10,000 bottles took place. This is the beginning of the process of internationalization.

Gianfranco tends to point out that the process of internationalization is the result of a long work made of study, commitment and sacrifice and sleepless nights. There are so many bureaucratic quibbles and a lot of notions about, for example, proper labelling to study and learn, and it is a job that, if done alone, is not easy.

Even in the case of Maltese winery, as in the case of the other two wineries, the main online support is ICE, an institute for foreign trade, which gives substantial support to small entrepreneurs. The choice not to be supported by an external consultant stems from the fact that consultants in the area are poorly referenced and often ill-prepared to best advise an inexperienced entrepreneur in the international field.

China as a market attracts and the idea of starting to trade with China comes from a great curiosity with a hint of recklessness. Gianfranco, as an entrepreneur, looks with admiration and ambition at the Chinese market and through fairs and meetings with Chinese buyers he has a way of measuring himself economically and culturally.

Its main export channels with China are e-commerce and wine clubs in major Chinese cities. Gianfranco, as an entrepreneur and export manager, has often found himself in China for events of young exporters. This is also one of the most efficient ways to broaden your network of contacts and is also an opportunity to meet politicians and leading and trade-level figures. The international economy is learned in the field and not only on books: it is done by meeting people, measuring and confronting colleagues and rivals trying to learn and put into practice the learned notions.

He knows the cunning of Chinese entrepreneurs and about the dangers of the Chinese market such as ghost companies and orders of large quantities of wine bottles made by Chinese entrepreneurs with the sole purpose of money laundering from contracts.

China for Maltese Cellar represents market with good prospects, but complicated, which requires constant study and constant flow of information and update. This is why Gianfranco believes that in order to trade continuously and not occasionally with China it is essential to find good contacts on the ground, reliable business figures who are able to direct the choices of the company.

In addition, it would be necessary to establish a business department in China because such a complex market, for a small company is difficult to follow from Italy.

One of the biggest difficulties is the cultural divide resulting from the lack of competence and awareness of the Chinese drinker. The Chinese customer is poorly trained and often

does not know the true value of the Sicilian product. In fact, in China, wine imported from Italy is the symbol of a high standard of living, it is the symbol of a status and is not recognized as a product with certain characteristics to be appreciated.

It also talks about the importance of packaging, emphasizing characteristics required by the Chinese market that we have also mentioned in the case of previous interviews. The basic elements of the packaging required by China are the heaviness of the bottle, the gold seal symbol of luxury, the labeling with familiar coats of arms or with the Italian flag. In addition to China, Maltese Cellar exports mainly to with Austria, Belgium, Netherlands, Sweden, Germany, Florida, California and Japan.

Maltese cellar is therefore the historical winery that looks to the future and that is reflected abroad.

Maltese is the return to traditions and attention to the protection of the territory through some precautions such as few treatments, the non-use of water and the few changes to the soil. The green concept and tradition are the peculiarities of the company. The guiding spirit is the sense of belonging to the land and the family. The format to be exported is the concept of the family that is represented by the table set, chatter and the good wine of the Maltese cellar. The choice to interview these three wineries was made because each of these wineries has considerable differences. In fact, although all three small companies are exporting to China, there are substantial differences.

The first difference is the type of company. In the case of Cantine Birgi, the company is a cooperative with about 20 employees plus the awarding members. The Fazio winehouse is a family-run company made up of four family members, plus ten other external members, plus other seasonal workers. Finally, Cantina Maltese is a strictly family-run company, with Gianfranco taking care of the whole business, export and product care part, while the other family members take care of manual work.

Substantial difference also lies in the supply chain relationships: some wineries have a short supply chain, in which everything is produced, processed and bottled in the company, others need external support. Another thing that distinguishes the three wineries are the peculiarities of the land. In fact, although they are all in the same province, namely that of Trapani, the vines of the companies have different characteristics. In the first case we have a wine production characterized by minerality and salinity, typical elements of the Birgi area. In the second case, the terrain of Fulgatore is hillier and with a soil that retains moisture, you will get a wine with a strong

character to customize according to the soul of the company with a careful eye towards the trends of the market. In the latter case, Cantina Maltese has several lands located in the Birgi area or in the areas of Marsala so there are both wine products in which there is salinity and wine products in which the typical characteristics of the inland soils are present.

Other no less important differences found from cellar to cellar are: the number of production of bottles, the different focus and the goals for the future.

In addition, another difference lies in the elements that distinguish the product of one winery from another on which the company focuses: Cantina Birgi focuses on the characteristics of the territory and the wine it produces, the Fazio winery focuses on the Brand Erice DOP and Maltese cellar focuses on the concept of family and green ethics.

In the case of exports with China, a curiosity that is found by talking to the contacts of the wineries is that each winery has a basic idea about the market and the Chinese customer, a guiding profile about the main characteristics of this type of market. What sets the number of companies interviewed is that each company, based on its own experience, has its own sense of the Chinese customer and the characteristics of the Chinese market. One thing that the wineries interviewed have in common is the entry mode used to make themselves known internationally and to enter the Chinese market. Such a move is to participate in fairs located around the world. This is in fact a very important chance to meet buyers and large distributors who have the opportunity to know the brand of the company and appreciate its products.

Common elements are also found in the bottling and labelling of wine products to be exported to China: in all three interviews it is repeatedly referred to the heaviness of the bottle, the presence of the Italian flag on the label, to Italian wine that is more an element of luxury and prestige rather than expression of quality and product to taste.

Other common features of the companies interviewed are the failure to use consultants outside the company to find information about the foreign market and the use of regional OCM funds for the organization of promotional and marketing activities. The peculiarity of this sample of interviews is the presence of differences and common traits, ambition and desire to make Sicily known abroad.

What impresses most is the love for the land, the trust in the wine that companies produce and the entrepreneurial passion. These are the fundamental elements that make small cellars territorial realities with big dreams and plans for the future.



## Conclusions

The idea of this thesis stems from the desire to give credit to the small and medium-sized enterprises of my land, namely Sicily. My intention was to bring out the image of tenacious Sicily, which does not give up. Sicily is often judged as a land without hope and without a future. In this regard I wanted to show that with the right entrepreneurial moves, exploiting the territory and its rich characteristics, with sacrifice and love for the land some Sicilian companies manage to succeed and make themselves known in the world. I was inspired by the words of the wine entrepreneurs who told me the story of generations, commitment and sweat. I became passionate about the various processes of grape processing until I saw it turned into wine. Having the opportunity to talk to entrepreneurs, I got to see implemented activities related to business models, strategies of market penetration and promotion studied in this university path.

Therefore, my work focuses on those small and medium-sized enterprises that decide to start a process of internationalization to expand commercial boundaries and to compete with different business and cultural realities. Internationalization needs a strong and valid market strategy that must be carefully evaluated and developed taking into account factors outside the company and also taking into account the internal characteristics of the company. To identify the internationalization strategy that most conforms to the characteristics of a small company there are several models that I analysed in the first chapter. One of the crucial choices that the company must focus on, always based on its own peculiarities and according to the business plan, is the choice of how to enter a market.

In addition, the company must evaluate and decide the choice of a market based on the pros and cons of internationalization. In fact, as there are many reasons for an entrepreneur to choose the path of internationalization, so are there many economic problems and obstacles to internationalisation.

In the second chapter the focus shifts to the Chinese market, on the characteristics of this market as large as complex and full of pitfalls.

The cultural aspect is particularly interesting and at the same time complicated because China, with its millennial culture, has unique differences with respect to Western culture and more specifically, to the Italian one. This is confirmed in the third chapter, which contains the contribution of some wineries from western Sicily that export to China.

Interviews with winery entrepreneurs gave me the opportunity to understand the importance of not stopping in front of obstacles that seem insurmountable and to find a way to get around or overcome them.

What I hope to convey with this thesis is the curiosity that I have tried in discovering the different models of the company, the different studies related to internationalization strategies. The interest in deepening the peculiarities of China that I knew thanks to my studies and my experiences first in Beijing and then in Shanghai. This thesis allowed me to rediscover China, to remember what I already knew and to discover and learn aspects that I did not know.

Another thing that I hope will be transmitted is the attachment to my land and my origins. In fact, this thesis serves me first of all as a reminder. I need it to remind me that wherever I will be, wherever my life or my working career will take me, Sicily will always be ready to welcome me back as a patient mother waits for the return of a child.



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