

# **Italian small and medium enterprises in china. Relationships and cultural distances throughout the supply chain**

Competitive Paper

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## **Abstract**

Small and medium enterprises (SMEs) that wish to penetrate foreign markets, need to find resources and competences that a single company cannot control alone (Harold et al., 2000). For this reason, the most far-sighted SMEs move and share resources and competences through collaboration and lasting relationships with other firms. This involves activities such as purchasing, production, delivery, and post-purchase services. These activities are not necessarily tied to a unique market and can refer to relationships that are often critical in the value constellation of the company (Normann, Ramirez, 1994).

The product value comes from the combined action of the actors of the international network (Tunisini, 2003), so the internationalization process drives to a network approach. This one is built on the development of business relationships involving different public and private actors. Several empirical studies underline how business relationships are important for companies both to develop their activities and businesses, and to survive on national and international markets (Håkansson, Snehota, 1995; Håkansson, Prektert, 2004; Håkansson, Waluszewski, 2002; Johanson, Mattsson, 1988). Other studies highlight that also cultural aspects are important in establishing business relations and in managing activities (Battaglia, Cedrola, 2010).

The aims of the paper are:

- To describe how Italian SMEs approach the Chinese market
- To understand how Italian SMEs have changed their business model to face the Chinese challenge
- To analyze how they collaborate with different business partners along the supply chain.

This work presents empirical evidences related to 8 case studies belonging to a sample of 126 Italian SMEs operating in China. This research is part of a wider project that is financed by the Italian Ministry of University and Scientific Research (Prin 2007), and is based on the analysis of “Business models and market strategies for Italian SMEs to enter the Chinese market”. The methodology is organized in two steps: a quantitative research to gather general information on strategies and tactics that are adopted by Italian SMEs on the Chinese market, and a qualitative research to deepen the most significant managerial and marketing issues to succeed in China (strategies, co-operation, competences), by finding out best practices.

The empirical analysis confirms the latest developments of the theory on internationalization, and in the meantime shows a change on Italian SMEs attitudes towards foreign markets that are both geographically and culturally distant from them. Companies listen, understand, and adapt to the local market in order to set a correct marketing mix. The empirical evidences also confirm the importance of partnerships along the whole supply chain, in particular with local actors, to succeed in China. So, business relationships become a key element for Italian SMEs, both to investigate needs of foreign customers, to monitor how the local context evolves, and to identify business partners in order to play in an international arena successfully. Both horizontal and vertical marketing relationships become critical in the Chinese context, where the presence and support of a “business-cultural mediator” is crucial. Therefore, it is necessary for Italian SMEs to have a marketing organization that is trained and prepared to approach distant cultures, and interact with them in order to achieve a sustainable business growth. Trust building between the parties (being them firms belonging to the same or different industry or public or private actors) is crucial for the definition of virtuous paths of internationalization. To this we also add a growing focus on the development of internal resources, who must be guided by involvement and cooperation.

**Key words:** Internationalisation process, relationships, supply chain, business models, Chinese market, cultural distances, Italian SMEs.

## Introduction

In a competitive context that is characterized by globalization and high economic and financial instability, companies must adapt their strategies in order to take advantage of new markets (Flint, 2004). The new millennium saw increasing migration of production, technology, capital, people, information and business. Globalization has removed the barriers that separated previously well defined competitive spaces of companies (Fraser, Oppenheim, 1997). Global competition forces small and medium enterprises to search for different marketing approaches, no more based on traditional competitive rules (Harold et al., 2000). Distances between geographies shorten, mobility of people, of companies and of resources increases, and companies move from an area to another one to produce goods and services, and ultimately to search for new market opportunities. But often misunderstanding or non-understanding among people from different markets increase (because culture matters). There are a number of culturally related factors which impact on international business, as well as various elements of culture that manifest themselves in different ways from Country to Country. Cultural sensitivity is a critical element in doing business internationally, and is particularly important in the interaction with the counterpart, both in the case of a negotiation, and in a communication context (De Burca, Fletcher, Brown, 2004).

Playing in an international arena represents, in particular for SMEs, a challenge that asks for resources and competences that a single company cannot control directly (Harold et al., 2000). For this reason, the most far-sighted SMEs move and share resources and competences that come also from other actors through lasting relationships. Such relationships are held both among actors operating in the same system – e.g. the industrial district – and among actors playing at different steps of national or international supply chains.

Companies need to adopt a diffused approach towards collaboration to develop their international activities and to build competitive advantages. This involves activities such as purchasing, processing, production and delivery of products and services to the client. Activities that can refer to actors and relationships that are often critical in the “value constellation” of a company (Normann, Ramirez, 1993).

Thus, the value to the market comes from the combined action of the international network’s actors (Tunisini, 2003). This network includes different actors according to the entry mode selected to go into international markets, such as suppliers (subcontractors, designers, intermediaries), clients, distributors and retailers, but also municipalities such as regional policy makers, institutions.

Several empirical studies underline how business relationships are important for companies both to develop their activities and businesses, and to survive on national and international markets (eg. Håkansson, Snehota, 1995; Håkansson, Prencert, 2004; Håkansson, Waluszewski, 2002; Johanson, Mattsson, 1988). Other studies highlight that also cultural aspects are critical in establishing business relationships and in enhancing and maintaining ongoing business (Usunier, 1996; Hall, 1976; Herbig, 2000; Ghauri, Usunier, 2004; Fletcher, Fang, 2004).

Italian scholars debated a lot about production districts as a distinctive way to compete for Italian SMEs. But more recently these districts have been criticized because of their inadequacy to compete in a global arena, especially if characterized by financial and economic crisis (Rullani, 2006). In particular the strong focus on manufacturing districts as well as the traditional Italian entrepreneurships, built on few vertical product based relationships, limit the real internationalisation of micro and small Italian companies (Cedrola, 2005). The observation of some Italian successful cases (Varaldo et al., 2009) calls for an in-depth analysis both to identify possible paths of international development for such SMEs, and to spread their experience to other firms inside and outside their districts.

The aim of this paper is to describe how Italian SMEs approach the Chinese market. Specifically, how SMEs have changed their business model to face the Chinese challenge. Existing collaboration and cooperation among actors along the supply chain will be the focus of the analysis. Results are based on a research involving a sample of Italian SMEs operating in different industries. Different business roles have been analysed through in-depth interviews with CEO, marketing managers, brand managers, export area manager, etc.

### **The internationalization of small and medium enterprises: a relationships perspective**

Many theories and empirical researches describe the internationalization process of SMEs and point out managerial models (Welch, Luostarinen, 1988; Forsman, Hinttu, Kock, 2002; Johanson, Vahlne, 1993; Harold et al., 2000; Ruzzier, Antoncic, Hisrich, 2007).

Since long time economic theory has been analysing internationalization processes, and investigating the internationalization drivers and their generators. In spite of this, a common and shared theoretical base has not been identified yet (Melin, 1992).

Unlike expectation, many SMEs operate in the international context (Hutchinson, Quinn, Alexander, 2005; Cedrola, 2005). Notwithstanding there is not a theoretical model conceived for the peculiarities of SMEs (Etemad, 2004).

Most empirical studies are based on large corporations and multinationals operating in specific countries (Zwart, Gankema, 1990). As a consequence, theories formulated for these firms are adopted for SMEs and their process of internationalization.

With reference to SMEs, the process of internationalization depends on the availability of different resources such as innovation, know how, technology (Melin, 1992; Leonidou, Katsikeas, 1996).

Another important topic for the internationalization of SMEs is identified in cultural distances that characterize actors involved in a business relationship. To have a correct approach to different Countries, the cultural elements to consider refer both to individual characteristics, to cultural firm peculiarities, and to national cultural specific dimensions related to where the firm is located. (Kostova, Zaheer, 1999; Usunier, 1996; Ghauri, Usunier, 2004). Cultural norms applying in the various Countries may differ, and affect significantly the outcome of the interaction among parties. Cultural norms reflect the way people manifest themselves in terms of symbols used, view of time, or space related dimensions. The latter aspect corresponds to the physical or abstract space where people group and express their power and control, and also where people are insider or outsiders (personalization versus depersonalization) (Usunier, Lee, 2005). A personalized orientation (typical of the oriental Countries) reflects the *being* approach, that is who the person is in terms of age, social status, role and company position. On the other side the depersonalized orientation focuses on the *doing* approach (typical of the occidental Countries). It reflects the professional abilities, the achievements, independently from age or sex. As a consequence, in order to build trust and start the relationship, different personnel and diverse approaches are needed in order to interact with counterparts belonging to the two orientations. In business interaction and negotiation these aspects have a strong influence, for example on how to create contacts, how decisions are made, what business rules are applicable, and on how memberships are important and gained inside the group. (Usunier, Lee, 2005). Culture also pervades all elements of marketing mix and the validity of these elements will be evaluated in the specific cultural context. Both in the B2B markets and in the B2C ones (De Burca, Fletcher, Brown, 2004). In international literature many authors outlined that, in order to support uncertainty reduction, the internationalization process starts with Countries characterized by geographical proximity and similar culture. Then, the attention is gradually paid to other Countries with higher perceived distances such as China (Johanson, Vahlne, 1992). As a consequence firms

export their products without any adaptation to the specific requirements of the Country (O'Grady, 1996).

Finally, the literature suggests that SMEs should exploit the extant relationships to improve their strategy. The mentioned relationships involve the actors of the whole supply chain, namely supplier, distributors, clients. In this perspective, the developing of relationships, with partners belonging to international networks, supports firms to overcome their structural limits and to drive internationalization process (Madhok, 1997; Cedrola, 2006; Cedrola, Cantù, Gavinelli, 2009).

In addition, other scholars (i.e. Rullani, 2002) states that territory is a key resource, because infrastructures, human resources, fiscal advantages, support the local development. At the same time, Garofoli (2003) focuses on resources based on social relationships and cultural environment. A key role is so recognized to social relationships that influence the entry mode on international markets. Social relationships become the driver to develop interconnections among different areas, supporting the development of knowledge, the reduction of risk and uncertainty to international markets.

In the light of the theory examined, commercial and productive internationalization depends on the capability of the firms to fit with local context in which they operate, and to develop a progressive learning and experimental knowledge (Eriksson et al., 1997). The main aim is to reduce the informative gap on international markets, and to support the cultural knowledge of host Country (Hostende, 1980).

The collaborative approach is adopted to link together different actors that operate on the whole supply chain, and not only in single parts of it (production or commercialisation). In this way an international value chain emerges. It involves different organizations that operate in several Countries and generate value for all actors of the value chain.

### **Interconnected relationships to develop international supply network**

In order to reach a competitive advantage in international markets, SMEs have to manage relationships developed with each local or international actors involved in the supply chain. This generates, in some case casually, the rethinking of the business model of SMEs to go abroad.

Supply chain, considering its interpretative evolution, has had different meanings. For a long time it was assimilated to logistics. In this first interpretation supply chain is based on process management related to physical flow and distribution.

The evolution of studies on the field operated a distinction between supply chain and logistics. The latter, as stated by Council of Logistics Management, is interpreted as part of the process of supply chain that realizes the planning, the implementation and the control on efficiency and effectiveness of flows related to stock of products, but also on information about markets and consumers, in order to satisfy customer needs. The former, as stated by La Londe and Masters (1994), is considered a set of firms that support the transfer of products and services to markets through different organized activities.

The activities of the organization, in Porter's perspective (1985), are linked among them through input-output relations. These activities generate value, and can be divided into primary activities and support activities linked through a sequential logic. As pointed out by Norman and Ramirez (1994) the definition of value chain evolved in the definition of value constellation, that emphasizes involvement and contribution of different actors. So in the supply chain a key role is undertaken by different actors and by their interactions.

Searching for efficiency and effectiveness, the most advanced firms recognize the creation of added value through interactions with other firms, belonging to national and international

markets (Cravens, 1998). In particular the capability to satisfy customer needs depends on tangible and intangible resources, competences and actions of suppliers, distributors, customers and competitors of the firm, in a global context. Actors develop multiple relationships, and not just linear ones, through which they can combine, in a new constellation, resources and activities of other actors. These activities are associated to flows of raw material, transformation in final products, and relative distribution to final users (Handfield, Nichols, 1999).

The key element of supply chains in international context is the systemic approach of the above elements, based on strategic and operative cooperation between actors. The interconnection of relationships supports firms to access to different resources to develop their own activities outlining a network (Håkansson, Snehota, 1995). Those activities can be understood only analysing the structure of knots and links among the actors of the network, belonging to national and international context. The way activities are organized within an activity pattern has direct consequences on the efficiency of that arrangement, on participants involved in it, and on recipients of its output (Håkansson et al., 2009). Furthermore these activities allow actors to develop relationships (exchange of goods, services, funding, work) and knowledge relationships (commercial information, legal information, administrative and technical information) that support effectiveness for firms and for all actors in the network.

In a dynamic context characterized by market interdependences, competitiveness of each firm is the result of cooperation and coordination of those different activities developed in the network and that generate value for customers (Forsström, 2003). The value is so created through the exchange of resources, between firms, at different stage or at the same stage of value chain. In addition to this it is very unlikely that an actor belongs only to one supply chain (Gadde, Håkansson, 2001). Actor bonds, resource ties and activity links generate interconnections among supply chains. In this perspective supply chain, value chain, distribution channel limit the network perspective concerning the actual characteristics and the consequences of interdependences (Håkansson et al. 2009).

Network perspective requires to consider the view of the entire activity pattern in which the value creation comes from the complementarity of connected resource collections, and not only the logic from the exchange of resources (Johanson, Strömsten, 2005).

In this context the creation of trust is the fundamental element for the construction of business relationships and value creation through resources exchange.

In 1982 Håkansson already highlighted the importance of culture and social exchange as elements on which building trust, then as factors able to reduce distance between parties involved in the relationship. He also evidenced the general attitudes in Europe of conducting business between companies across national boundaries in absence of confidence, trust, and even liking between the interacting parties (Håkansson, 1982).

Considering also the network perspective, trust is seen as a context in which the probability of a partner performing a beneficial or non-detrimental action is high enough to facilitate some form of cooperation between actors (Håkansson, Snehota, 1995). Trust “as a lubricant, operates for binding actors and having important future orientation implications” (Ganesan, 1994). Trust and commitment are so considered as antecedent of cooperation (Rašković, Brenčić, 2010).

Trust has different meanings according to the specific culture of the Country and to the business specific culture (Battaglia, Cedrola, 2010). Trust is heavily dependent on *culturally coded signs* (Usunier. Lee, 2005) that if ignored can interrupt any venture. Since the process of building and withdrawing of trust is particularly critical among cultures, it requires attention to the various elements that can affect any relational exchange. In fact people do not often share the same basic assumptions, their credibility vary a lot (ingroup versus outgroup orientation), they follow different paths in the negotiation process (integrative versus

cooperative/distributive attitude), they have different concept of time during the negotiation process (Usunier, Lee, 2005). And ultimately the importance of spending considerable time or money entertaining foreign counterparts to establish personal relationships, especially in Asia and South America, has been outlined by many authors (Usunier, Lee, 2005).

Based on the above considerations, SMEs should focus their attention on different drivers in order to reach a competitive advantage:

- To distinguish core competences, its resources and its relational capabilities
- To shift from short networks, typical of tight relationships in the industrial district, to long international networks, where the distances are related both to physical dimensions, and to psychics elements (Battaglia, Corsaro, Tzannis, 2006)
- To shift from an internal perspective of the sole firm, with own efficiency perspective, to inter-organizational relationships that generates value in the whole supply network
- To consider the peculiarities of destination Countries, highly influenced by cultural distances among them (Usunier, Lee, 2005). The cultural context extremely influences the way how firms think, act, communicate and manage their business activities (Battaglia, Cedrola, 2010).

These dimensions, together with the strategic peculiarities and operational activities, will be analysed in the next paragraphs, taking into account the results of the empirical research focalized on the activities of SMEs in China.

### **A pathway for the internationalization of SMEs**

Taking into account the open issues above outlined and despite the lack of strategic/long term vision (Cedrola, Battaglia, Tzannis, 2009), Italian companies show good results on international activities. Many of them report international sales growth, increases in size for international activities, new international agreements, growth in number and size of international clients, and new areas or Countries to market.

Searching for the main reasons that explain these successes on international markets, the authors realized a quantitative research on a sample of 500 enterprises. The results of their analysis led an interpretative pathway representing the evolution of SMEs on international markets. This model is represented below in figure 1.

The abscissa illustrates the strategic development of internationalization, the vertical axis represents the behavioral development of Companies towards the market and its vision; the “z” axis illustrates the innovation (product and process) realized by the company itself.

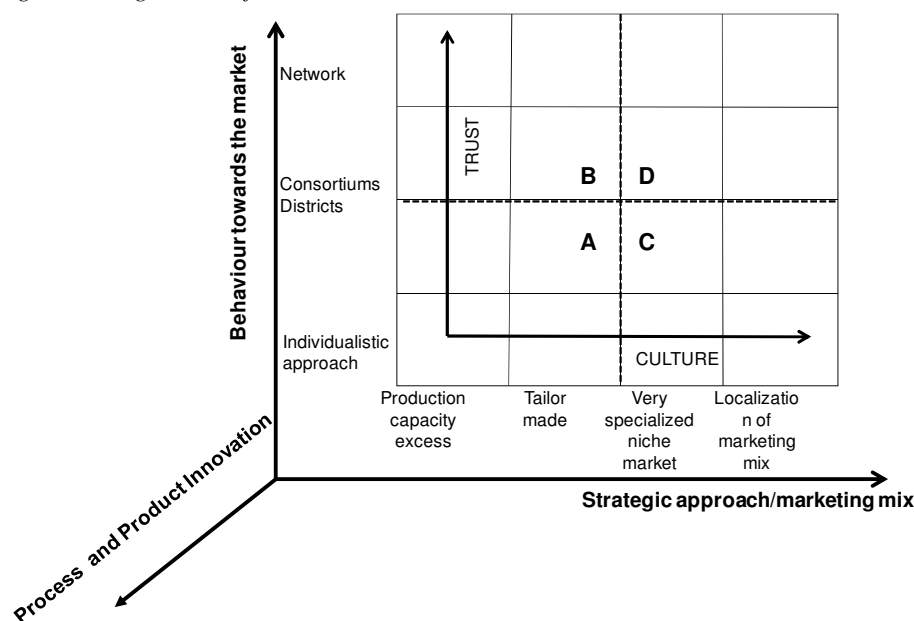
Describing the “x” axis from its origin, there are first enterprises that occasionally approach international markets to sell excess capacity. Continuing on the “x” axis there are firms that follow a tailor made approach, they create a purely new or a modified product based on requests of each single client. In general this is the first approach of companies to foreign markets aware of existing peculiarities. This entry mode evolves into production contract.

Other enterprises decide to change their business conduct focusing on client and on problem solving. In the time they reached a consolidate expertise on a very specialized offer with the result to export all over the world. The reference model is the German hidden champions, knew as small size enterprises, highly competitive, unknown but operating in very specialized world niche markets (Simon, 1996).

Further firms they do not care about tailor made or niche market strategies, because they analyze their offer according to the target market. They modify their marketing mix, in the whole or in single elements (the product, the communication, the symbol and the service) to answer to the specific cultural differences of the Countries or of the clients.

The localization of the marketing mix and the resulting adaptation of internal company processes are not enough to guarantee business sustainability and harmony between offer and demand. According to the literature as well as best practices, the sustainable development pathways needs to consider other two key variables: the behavior of the Enterprise towards markets and the enterprise culture. These two variables, indicated in the “y” axis, show the tendency of the firm to work alone or in collaboration with other actors, national or international even to develop innovation. The willingness to cooperate drives to the themes of trust and entrepreneur culture: an entrepreneur who does not delegate won’t collaborate, he will try to catch opportunities. In this case the negotiation strategy will be distributive, leading to a perception of “win-lose” type, where the tension is focused on the maximization of individual or company objectives. Information exchange is minimal and related only to essential data. The game is to collect much information as possible from the counterpart (Ghauri e Usunier, 2004).

Fig. 1 Strategic model for sustainable internationalization



Source: Battaglia, Cedrola, 2010

With reference to the above considerations this interpretative model does not analyze in detail the supply chain as it does not show both the actors (which actors) included in the relationship process, and the activities (which functions) along the supply chain that are involved in the aforementioned international activities. The combined use of the network approach will provide additional elements for the analysis and the comprehension of such international process.

In the empirical research this represents a starting point to position investigated SMEs, and to discuss the most advanced enterprises to identify additional stimuli for the development abroad.

### Objectives and research method

The aims of the paper are:

- To describe how Italian SMEs approach the Chinese market
- To understand how SMEs have changed their business model to face the Chinese challenge



- To find out collaboration and cooperation along the supply chain.

The research was conducted on a sample of 126 Italian SMEs that operate in China. The sample has been interviewed through a two steps research: a quantitative research to gather general information on strategies and tactics for the Chinese market, and a qualitative research to deepen with some best practice the most significant issues to operate in China. The sample, selected from the databases of ICE (Italian institute for commerce and trade), the Chamber of Commerce, and some trade associations, has been interviewed throughout a structured questionnaire (details in tab. 1). following the topics listed below:

- Operating activities of companies on the Chinese market (export, import, onsite production, etc.)
- Type of collaboration activated for the Chinese market (activities along the supply chain)
- Key actors along the whole supply chain.

*Tab. 1 Scheme of the quantitative questionnaire*

General information on the firm (duration of internationalization, number of customers, % of foreign turnover, foreign countries)
Motivation and information to internationalize
Strategic and operative behavior (strengths, human resources, organization, international marketing mix, network or alliances to support the internationalization)
Results: benefits and problems
Future perspectives
Activities carried out on China
Relationships and networks crucial in the Chinese market

The following qualitative research aimed to deepen the main points emerged from the first step. Interviews have been conducted from July 2009 to April 2010. Results are based on eight best practices firms. They belong to different industries and have different size: some of them are micro enterprises, others are medium sized ones. Different business roles have been analyzed through in-depth interviews with CEO, marketing managers, brand managers, export area manager.

The in-depth interviews have been focused on:

- The company and its business model (the origin and evolution of the company, its organization, and its offer)
- Strategies and decision-making for the Chinese market
- Collaborative relationships throughout the supply chain (which actors are involved and what their role is, their activities, shared resources, types of relationships held)
- Competences that are necessary for successful entry into China.

Attention will be dedicated to the difficulties in dealing with Chinese counterparts. In particular it will be analyzed the typical individualistic approach of the Italian entrepreneur turned to protect his proprietary knowledge (with no-disclosure of information) as opposed to the “guanxi” concept based on inside connections and personal ties. The above results will highlight both the behavior approach of Italian Companies to China (“y” axes of the above pathway Fig.1), in terms of alliances and trust, and the strategic approach to the market in terms of localization of the strategy and the marketing mix (“x” axes of Fig.1). In both cases the understanding of culture is crucial (Cedrola, Battaglia, Tzannis, 2009).

Moreover, the description of some collaborative relationships (actors, activities and results achieved) will permit to outline relevant actors along the supply chain and Companies networks to succeed in China.

This research is part of a major project financed by the Italian Ministry of University and Scientific Research (Prin 2007), that is based on the analysis of “Business models and market strategies for Italian SMEs to enter in China markets”. The authors of the paper, belonging for the project to the Research Unit of the University of Macerata, investigate the theme “Business Models for the entry of Italian SMEs in the Chinese market. The enhancement of competencies and the development of relationships between companies to manage the supply chain”. In the following paragraphs results of the research are provided, first the quantitative evidences, and secondly the qualitative ones.

## **Empirical analysis: main findings**

### *Empirical evidences: the quantitative phase*

The sample is described in table 2 per sector and number of employees.

*Tab. 2 Research Sample*

<b>Industry</b>	<b>N.</b>	<b>Numbers of employees</b>	<b>N.</b>
Food	4	> 250	18
Furnishing	3	100-249	24
Footwear and Leather	8	50-99	23
Chemistry	9	15-49	26
Mechanics	61	1-14	25
Services	9	No answer	10
Textile and Clothing	15	Firms in the sample	126
Others	17		
Firms in the sample	126		

Exports to China covers 90% of the sample: 52% of the companies export directly, while 33% through intermediaries. 29% has a local production: some (22%) with owned manufacturing plant, and some others (9%) by local contractors.

Majority of companies (86%) realize partnerships with Chinese organizations. They understood that such a far Country, both for geographic and cultural distance, needs local relationships, direct and indirect, to succeed. The relationships pointed out mainly refer to buying and selling activities (Tab. 3). The table also shows collaborations in other phases of the value chain.

*Tab. 3 Collaborative relationships along the supply chain*

Logistics	32%
Production	21%
Promotion	26%
Sales	38%
Customer services	17%
Purchasing	16%
Human Resources	7%
R & D	3%
Accounting and Risk Management	5%
Legal and contractual consulting	21%
Others	5%

21% of firms that declare to have collaborative relationships with legal consultants evidence the inadequacy of this service provided by Italian lawyers. Only 5% of firms use Chinese accounting and risk management services.

As for the determinant actors to operate in China (tab.4), 14 out of 126 firms has no relevant relationships on the Chinese market. The other firms signal significant relationships based on subjects that have a direct impact on the supply chain, in particular with customers (42%). Chinese customers, because of they culture, need to develop trust before the conclusion of the negotiation process. Key actors are also suppliers for 22% and distributors for 29%. Trade associations, institutions as ICE are important for the first phases of entry in the Chinese market. Nevertheless Chinese institutions and public administrations are significantly increasing their importance (Tab. 4).

It is not uncommon to find a Municipality dealing directly with potential foreign investors, also attracted by services provided (such as recruitment and local partner search). In this way the Municipality contributes to enhance its administrative area.

*Tab. 4 Key actors to operate in China*

<i>Public Institutions and Banks:</i>	40%
Municipalities/local government	14%
Central Government	5%
Banks/Merchant Banks	11%
Italian Institute for Commerce and Trade (ICE)	16%
Italian Chamber of Commerce	9%
Others	3%
<i>Private Institutions:</i>	32%
Trade Associations	17%
Fair Organizations	18%
Others	2%
<i>Supplier</i>	22%
<i>Clients</i>	42%
<i>Traders and Distributors</i>	29%
<i>Others</i>	15%

#### *Empirical evidences: the qualitative phase*

These first results outline that Italian firms have an active behaviour facing the Chinese market, in particular they focus on relationships to operate successfully. The interpretative model in figure 1 describes the behaviour of firms in international contexts. With respect to the model, the investigated firms are mainly localized in the upper-middle part of the matrix, more precisely in the B and D quadrant. Many of these firms develop cooperative relationships along their value chain with suppliers, producers, distributors and final customers. This behaviour is independent of firm size and of the industrial activity.

The empirical evidences presented in the following paragraphs refer to 8 SMEs operating in the Chinese market. Within the analysis of firms business models, semi-structured interviews were carried out with the main aim of outlining the development paths and the key factors that drive to success. In the following section the interviewed firms are presented, pointing out type of firm, organizational set up for the international market, investment process, relational and cultural peculiarities. The aim is to analyse the market orientation of the SMEs sample, considering both their behavioural approach to international markets, trust and alliances with their partners (the ordinate in Fig.1), and the strategic approach to the market, in terms of localization of strategy and marketing mix (the abscissas in Fig.1).

Firm [1] is one of the leading operators in the sector of integrated vehicle security solutions. To enter the Chinese market it had to work as a pioneer, in order to be known and gain acceptance by Chinese actors of international JVs and Chinese car manufacturers. This happened although the firm had already established stable relationships with European and Japanese car producers in Europe. The development of Firm [1] in China is driven by innovation and business expansion into new markets. The firm organizational structure is designed to be suitable to this market, to its dynamics and to its specific culture. Business relationships of the local branch are essential for this firm, because it knows and manages the local market, orientating its distribution and marketing chain. For example, sometimes it sells to customers directly, sometimes through distributors, according to the specific relationship it has with its customers. At the same time the company invests in "non traditional" business relationships with different actors along the business chain. This is the case of the University Centre in Beijing (technology park) where Firm [1] has invested in research and production projects. Another example is the relationship with a supplier through which the company could establish a branch in South Korea: this allowed it to acquire localized products in the Asian market and customer contacts for the Chinese market. Furthermore Firm [1] is well connected with consultants for high-level human resources selection and recruitment. These people are crucial because they lead Firm [1] to approach the market correctly. They are also involved at different levels of the value chain, often representing the link between the Firm [1] in China (which is managed by an Italian expatriates) and the local stakeholders (through contacts and peer to peer relationships).

In Firm [1], innovation is managed integrating both internal and external competences. Research and development (R&D) is in fact continuously fed by a network of relationships carried out with all the subjects of the value chain such as:

- Direct customers, car manufacturers and their international subsidiaries, JVs or local companies, all of them becoming a source of knowledge, quality and innovation for Firm [1]
- Consumers, whose needs are considered together with the needs of direct customers. These consumers are different from the European ones because of their consumer behavior (e.g. when they buy a car, it is usually for the first time)
- Traditional suppliers, who are increasingly operating with a logic of global sourcing and service providers, who mediate between the firm and the local context (e.g. for human resources, services provided by municipalities, etc.)
- Local and international research centres and universities that help Firm [1] to develop its business.

Both vertical and horizontal relationships are thus precious resources for Firm [1] because they stimulate innovation and the growth of its business.

The position of Firm [1] in the matrix is in the upper right area of the quadrant D.

Firm [2] is a small family business belonging to shoes Italian district located in Marche Region. The firm emphasizes a great attention on cooperation with suppliers that are considered as part of the extended enterprise model (Cedrola, 2008). This is very important in local national market. The net structure supports the progressive firm expansion, a dimensional reinforcement, a progressive extension of firm boundaries. This is developed both towards the district supply chain and towards the distribution channel. The cooperative approach and the strong relationships with suppliers and subcontractors belonging to the chain, and the focus on trade and distribution, support the development of virtuous relationships with the territorial resources in order to support a reciprocal growing. In China market, where firm doesn't realize production activity, key relationships are identified in distribution ones. The firm has identified a distributor partner (a Chinese Department store)

that is responsible also for the distribution of other “made in Italy” brands. In these commercial area new flagships stores have been opening. Firstly the Chinese partner looks for a location and then in a second step, Firm [2] operates on the internal lay out and human resources’ training to support the choice of products to sell. It is very important that Firm [2] shop integrates China vision with the European one. Commercial partner buy products that should be in their choice, and then Firm [2] provides suggestions. In addition to this retail activity, Firm [2] sells directly to other distributors in the Chinese market. To support market knowledge and to find the better partner, a key role had been taken by institutions such as ICE, Chamber of Commerce, Italian Embassy in China and Beijing University. Furthermore Firm [2] took part to “Venetian Fashion Group”, a Consortium with the objective to open a show room in Beijing. The participation to this consortium increased knowledge about China. Differently to many firms that operate in China, Firm [2] didn’t find difficulties to develop relationships thanks to the support provided by the Asian responsible. This allowed a higher degree of trust and a better cooperation between parties. Thanks to the key referent’s knowledge of rules, traditions and procedures, the conclusion of negotiation was easily completed. The relationships with distributor support the discharge of culture-country practices, the penetration in the Chinese market and the localization of market approach. Its position in the matrix is in the middle of the quadrant D, near the vertical.

Firm [3] is an Italian example of hidden champion. The company also developed in the Chinese market (export activity) by adapting production processes and products to different customer’s needs. The relationship between supplier and buyer is very narrow and exclusive and the contacts are direct. The high technological level has enabled the company to achieve leadership positions in culturally distant markets such as China; in those cases the technological reputation surpasses other differences. The relationships with customers are strong and thick and managed by the technical and commercial staff through support services for use and maintenance, reading and understanding of the specific customers’ needs and cultural adaptation to different interlocutor. Firm [3] directly manages customers worldwide through the active participation of all the organization members, a cohesive internal company network. Its position in the matrix is in the lower quadrants at the turn of A and C.

Firm [4] operates in the market of lead storage batteries. It has always been characterized by high quality technology in the production of starter batteries. Since the late '80s, Firm [4] created a division for the production of environmentally vehicles. The firm presents four productive centres: two in Italy, one in China (Yixing) and one in Uruguay (Mercosur Region). The Firm [4] operates in China since 1995 and with own plants since 2005. The entry into the market without intermediaries allowed a more direct knowledge of the context and of the variables to succeed in China, such as quality, price, service and loyalty relationships. In this regard fundamental were the contacts with the Municipality of Yixing, where Firm [4] is located. This relationship was based on the Municipality’s interest in attracting investments in technology for political objectives. The choice of the location followed a deep analysis of macro and micro environmental elements, and took into account the growing awareness of the local community of Yixing for environmental issues, availability of infrastructure and services, company’s proximity to customers. Aware of the high cultural distance between Italy and China, the management of the company in China has been put in the hands of local people. People is well trained and prepared, also aligned with the traditional value of the Company, representing a well cohesive team. Considering marketing mix components the goal of the Firm [4] at Yixing is to focus on technical assistance, trying to offer a high quality product and reducing thereby support costs. Five service points were created to provide a complete and accurate service fitted on the needs of

local customers in accordance with the traditional philosophy of Firm [4]. In this way it also transfer to users a new culture, considering the new products offered. Its position in the matrix is in the quadrant D in the middle right area.

Firm [5] is a leading global player in the field of pipes protective coatings for the transport of energy (oil & gas), and is the largest supplier of thermal insulation for the deep water industry (niche market). In China Firm [5] works with four companies in partnership with other key actors of the territory (Chinese utilities). The productive structure is highly delocalized in China and makes alliances with key local players, that are fundamental to build commercial synergies. Firm [5] produces with its own plant, using international or Chinese suppliers for raw materials, depending on the type of customer. The technical staff is Italian living in China and coordinates Chinese workers. The products are standardized, as required by the industry on an international scale. Quality and product reliability are guaranteed by costly and complex in-house testing, made with Chinese experts identified by the customer in order to verify products and the materials used. This is the time when the company comes into contact with the customer and can establish long term relationships. The organizational structure in China is different than other countries for the commercial function: sales and marketing are handled by the Chinese operator to facilitate relationships and solve language and cultural problems. Distribution, logistics and after-sales phase is made by a Malaysian partner. In summary, Firm [5] directly guards the earlier stage, where it founds its reputation (technologic and of plants). Local partners contribute with local knowledge and intervene mainly down the chain and in operational support phases: bureaucracy, landing, accounting, logistics, and customers' relationship.

Its position in the matrix is in the upper left, between the B and D quadrant.

Firm [6] produces prestigious public and private automatic parking decks in several countries. The firm is considered as one of the leading European producers of mechanized equipment. The firm is the only one of the Group that operates directly in China market with a subsidiary opened in 2008. The subsidiary is characterized by the same operational structure of the Italian market. The focus is on quality, technology and know-how. Relationships along supply chain are directly managed by the Italian offices through the cooperation and negotiation of the local Chinese agent. This agent is responsible for preliminary analysis, the looking for customers, the definition of contracts and supplier pre-scanning. Chinese plants have the same characteristics of the Italian ones: personalized on customer's needs and built with the same components used for the Italian market. The head office provides engineering, software, plants with international patents. Production, installation and selling are realized in outsourcing in China through selected local suppliers which are supported according to a project engineering logic. After a first selection of suppliers, a corporate delegation goes to China to select final suppliers and control the development of the project. At the end of the screening two firms are selected; one firm to support woodworking carpentry and one firm to support electrical area. In close relationship with the company they develop the plant. Trust bonds with suppliers are critical because they access to firm's know-how. Business success is based on trust bonds and support provided by the mediator that directly manages cultural barriers, linguistic, bureaucratic and contractual barriers. The mediator codifies rituals, rules and procedures.

Its position in the matrix crosses the B and A quadrant.

Firm [7] operates in the field of engineering control systems and industrial steam valves, a leader for bypass valves for the petrochemical industry. The company became a benchmark in the industry thanks to the corporate values, the emphasis on quality (certified), the direct relationship with customers along the entire purchase process, and the highly skilled

technicians. Research and development department is in-house as well as the production core competencies. Production, promotion and sales are delocalized. The entering into the Chinese market is driven by the necessity to satisfy the needs of their own customers interested in the Asian market. The Chinese branch is managed by an Italian manager with a deep knowledge of China. It operates according to the Italian qualitative standards thanks to the contribution of Italian technicians living in China. The production director is Chinese and the production workers are technically trained in Italy. The firm operates through network relationships with all the actors of the supply chain. The firm maintains long lasting relationships with its suppliers thanks to framework agreements, warehouses ready for delivery and learning by doing training. The firm uses Italian suppliers for rough materials, foundry and forging, and Chinese suppliers for small parts and screws. Sales are carried out by Italian operators living in China and that coordinate Chinese employees. On the territory the firm directly relates with actors such as municipalities, managers of the industrial park, local supervisors. Those actors are appreciated for their cooperative attitude. The relationships are facilitated by an efficient bureaucracy, and by the support of the legal advices of the auditing companies. The firm is conscious of the importance of cultural factors in order to succeed in the process of internationalisation in China. In particular the firm underlines that only a local mediator can handle the complex system of interpersonal relationship (besides language barriers): reliability and transparency are essential requirements for a long lasting relationship. The firm has placed Chinese employees in the key positions for the contact with the market. It invests training its customers and employees, to make them aware of the differential quality of the company.

Its position in the matrix is in the quadrant D, in the lower area near the vertical.

The firm [8] operates in plumbing sector, industry valves and components for heating, conditioning, plant health, pollution. The mission is synthesized in promoting solutions that enhance human resources and innovation, according to a rigorous moral code. Training and total quality are the direct consequences. The firm provides services that generate higher value, such as pre and post sales assistance, control and monitoring of product performances and total quality; training and plant consultancy and marketing support. The firm develops solutions for niche segments. Production and research are developed in Italy. The firm has been working in China for 13 years through trustworthy and trained employees. The main objective is to support a high presence on China territory through direct and mediated exportation. The firm is also characterized by high relationships on National territory with suppliers and subcontractors belonging to districts, providing technical and training support. In China, selling, distribution and post selling assistance are managed by an intermediary, the only referent in the Country. The intermediary is responsible for a representative office and a trading company, with an affiliate network that uses the brand in an exclusive way (a relation similar to franchising). The affiliates, 20 independent retailers, are directly related to intermediary and operate in several Chinese cities. Business customers are considered fundamental partner of the activity of the firm because requests coming from those business customers allowed increasing technical quality and products specialization. The firm cooperates with Chinese organizations for logistics, promotion, selling and customers' assistance. Among the main organizations involved in these activities there are: banks, trade fairs, and customers. All contacts are directly handled by the intermediary, considering also relationships with local agency, design studies, manufacturers and contractors. To interact with all these organizations language and culture specificities are needed. So it is impossible to replicate the commercial European model in China, because of the importance of personal contacts, formalisms, and problems to find suitable operators for negotiation. The success is based on credibility and technical quality together with local trained employee able to support commercial activities and interpersonal relationships.

Its position in the matrix is in the quadrant C, in the upper left area.

### Conclusions and managerial implications

The empirical analysis confirms the latest developments of the theory on internationalization, and in the meantime shows a change on Italian SMEs attitudes towards foreign markets that are both geographically and culturally distant from them. Companies listen, understand, and adapt to the local market in order to set a correct marketing mix.

Tactics and strategies are changed due to significant differences of target markets in terms of use, regulatory, and culture. This pushes companies to acquire new resources and organisational structures compared to their historical roots and corporate culture.

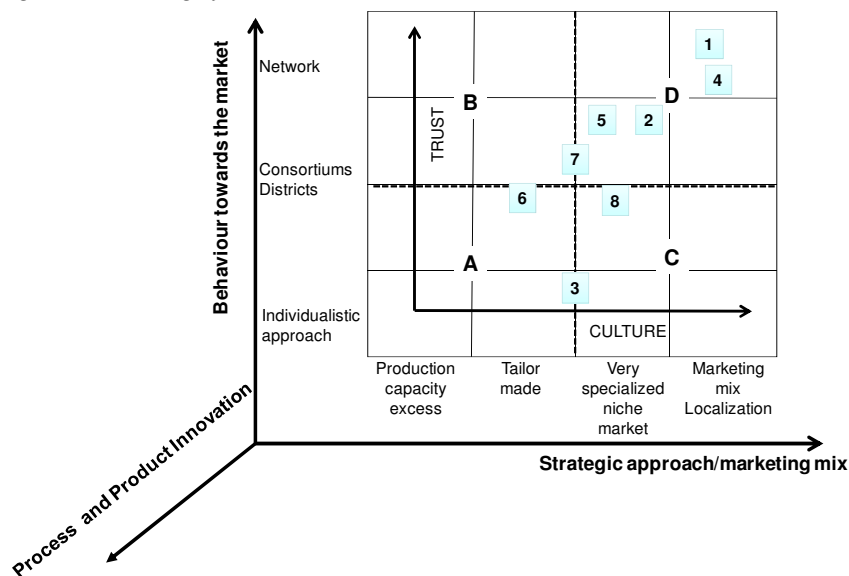
The positioning on the proposed model of the interviewed SMEs is illustrated in Figure 2. It outlines different ways to interface and market in China.

Only very innovative companies as Firm [1] and [4] understood the importance of both the cooperative and the localized approaches to succeed in this market. The way put in place is different: in the first case a model of open business innovation is underlined, in the other one a very localized approach which leads to settle in the Country is adopted. For the two companies trust and cultural aspects are well known and correctly approached.

Another group of companies – firms [3], [6] and [8] – shows how crucial is the shift from an individualistic approach to a more collaborative one, in order to understand and adapt to local needs and practices. Companies still focused on the tailor made approach have a relevant technical position on the market. Possible risks are linked to new entrants, even from emergent Countries, or to new technology solutions to respond to customers needs.

The above considerations find specific adaptation according to the size specific and the industrial sector belonging to companies (Made-in products, technology specific products or high innovation product-solutions).

Fig. 2 Positioning of the case studies



Source: adapted from Battaglia, Cedrola (2010)

The results confirm the importance of partnerships among different actors located in China, and their key role for the success of many activities along the value chain. Business relationships become a key element to investigate the needs of foreign customers, to acknowledge context dynamics, and to identify business partners in an international area.



Both horizontal and vertical relationships become critical. Horizontal relationships are established between similar businesses in the area (such as Italian firms, those located in the region, etc.) and also between corresponding hierarchical levels of companies and institutions, particularly in Countries characterized by high power distance (Hoffstede, 2001; Herbig, 2003). Vertical relationships should be developed along the value chain, then among raw materials suppliers, service providers, customers or distributors, and the holders of institutional power. These relationships should be established at all hierarchical levels. To manage these complex relations, it is vital to have a well trained and prepared team able to approach and deal with distant culture counterparts, in order to achieve a sustainable development.

Finally the adaptation of the offer of a company to the needs, values and expectations of customers belonging to China, characterized by geographical and cultural distance, requires the adaptation of the whole company, independently from its dimension. It involves in fact several processes (decision-making, managerial, organizational and marketing), and all human resources of the firm, whether managers or employees, who work directly or indirectly with foreign Countries (Cedrola, Battaglia, Tzannis, 2009).

Notwithstanding, the firm willing to develop successfully in national and international markets must invest in tangible and intangibles resources. These can be available in national and international networks where the enterprise operates (Rullani, 2009).

As a consequence the firm must evolve:

- Embracing the logic of shared and widespread information, inside and outside the company
- Developing trust inside the company, and outside the company, among actors part of its network.

In fact, trust is fundamental for enterprises, but even for clients, institutions, social and economic systems. Trust is therefore a valuable resource, helping to sort the increasing complexity and reduce uncertainty of individual choices (Castaldo, 2009) and the decisions of firms.

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