The determinants that influence entry mode decisions of Italian companies in China:
The case of Alpha

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Author: Francesca Scuttari
Supervisor: Peter Gammeltoft

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Abstract

I explore the determinants that influence entry mode decisions of Italian companies in the Chinese market, and explain how they shape the levels of control and resource commitment. I draw on the Hill et al. (1990) framework in order to provide an eclectic, comprehensive and multi-layered understanding of the entry mode decisions of Italian companies in the Chinese context.

By means of secondary data, and a single case study, I confirm that Italian companies predominantly adopt low levels of control and resource commitment in China, as they lack experience in the Chinese market, and they are primarily small-sized companies. In addition, psychic distance (location familiarity), perceived country risk, and family firm status influence the entry mode decisions of Italian companies by negatively shaping the level of control exercised, and the level of resources committed in the Chinese market.
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1. INTRODUCTION

1.1 Opening

“Alpha” is a family owned company headquartered in Italy that produces and commercializes pasta, sauces, and bakery products, snack and ready made meals in Italy and worldwide. The firm employs about 13,000 people (30 % in Italy and the rest abroad), it owns 42 manufacturing sites, operates directly in 21 countries and exports its products to over 100 countries, including China (Alpha Annual Report, 2012), where the company has been exporting to for the last 20 years. According to the Annual Report, the Chinese market represents an important part of Alpha’s strategic plans in the years to come. So far, Alpha has only played a marginal role in the Chinese market, as it adopts an export-based entry mode, which is characterized by low levels of control and resources.

Alpha is not alone. In this thesis, I explore the reasons why Italian companies predominantly adopt low-control, low-resource entry modes in the Chinese market and explain the influence of these determinants on the constructs of control and resources.

According to the Italian industrial confederation (Confindustria), this behavior pattern represents a missed opportunity for growth that would benefit Italian companies and the Italian economy, as China could be “(...) a parachute for Italy and a way to augment profitability as there are still big margins for growth” (Scarci, 2013). In addition, the Italian food association Federalimentare has also highlighted the lack of activities of Italian companies in China, as “it is important for Italian companies to develop a presence in Asia, as soon as possible” (Scarci, 2013). This view has been supported by several scholars, who have warned that the level of control exercised, and the level of resources invested in the Chinese market are insufficient to allow Italian companies to carry out successful strategies (Mariotti and Mutinelli, 2010; Amatori et al., 2011; Vianelli et al, 2012). For instance, professor of economic history and former president of the European Business History Association, F. Amatori, describes that “the ability of Italian companies to conquer the fast growing (but risky) Asian markets with their products and services is negligible” (Amatori et al., 2011). In the same vein, Vianelli et al. (2012) have asserted that “the current use of indirect entry modes makes it difficult to convey the value of the “Made in Italy” to the final consumer, limiting the future growth of Italian companies in the Chinese market”.

In the political realm, the advisor of the former minister for economic development, R. Monti, confirms that “China is a priority for Italy” but that “Italy has to regain the delay accumulated”
(Invitalia, 2012), which highlights the urgent issue related to entry-modes adopted by Italian companies in China.

These statements show that on the one hand, there is a discourse that advocates for the need to exercise higher control over, and commit increasing resources in Italian activities in the Chinese market. While on the other hand, the reality is characterized by the marginal role of Italian companies in China, and their predominant low-control, low-resource entry modes.

In addition, much ambiguity and complexity surround the field of study, as very little has been written on the subject. Only Cedrola and Battaglia (2012), and Vianelli et al. (2012) have engaged in the investigation of entry modes in China, and have sought to understand the reasons behind the predominant choice of Italian companies to carry out low-control, low-resource entry modes in the Chinese market. As I shall explain in more detail later, the findings of Cedrola and Battaglia (2012), and Vianelli et al. (2012) show that the reason for this behavior pattern is related to two factors, namely, limited firm size of Italian companies, and lack of experience in the Chinese market. Yet, these studies have failed to address the complexity of this phenomenon from an eclectic and holistic perspective, as they either adopt a single theoretical lens, or consider single-sided aspects of entry mode decisions providing a fragmented and limited explanation.

Therefore, I draw on the Hill et al. (1990) framework, which provides an eclectic, comprehensive and multi-layered understanding of the complexity of entry mode decisions, and I consider the multiplicity of factors that affects the phenomenon.
1.2 Research question

Only very little research has been conducted on entry mode decisions of Italian companies in China, making this a contribution to the literature. With this in mind, I present my research question:

What are the determinants that influence entry mode decisions of Italian companies in relation to the level of control they exercise and the resources they commit in the Chinese market?

In order to answer the central research question, three subordinate questions have been developed.

Sub-Question 1:

How do Italian companies internationalize in China in terms of control exercised and resources committed to the Chinese market?

The purpose of the first sub-question is to assess the entry modes adopted by Italian companies in China.

Sub-Question 2:

What are the determinants that influence Italian companies' entry modes in China, considering their internationalization pattern and the structure of the Italian economy?

The objective of the second sub-question is to address the research problem by studying the internationalization pattern of Italian companies and the structure of the Italian economy.

Sub-Question 3:

Why does Alpha adopt a low-control, low-resource entry mode in the Chinese market?

The third objective of the thesis is to deepen the study of the motives behind the low-control, low-resource entry modes adopted by Italian companies in China through a qualitative case study of Alpha’s entry mode decision in China.
1.3 Structure of the thesis

In order to answer the research question, this thesis is divided into the following chapters.

- In Chapter 2, I introduce the methodological foundations of the study. First, I present the philosophical assumptions, the research design and strategy. Secondly, I explain the data collection and analysis. Finally, I conclude with the validity and reliability of the study, and narrow the scope of this thesis through delimitations.

- Chapter 3 consists of the theoretical framework, which outlines the variables that determine firms’ entry modes, and functions as a guideline to define the unit of analysis, providing the theoretical lens that shapes the understanding of the research problem. The chapter is divided into three sections. The first deals with international entry modes theory, and draws on the Hill et al. (1990) framework; the second defines the three entry mode categories considered in this thesis; and the third section completes and contextualizes the framework by examining the risk-taking approach of family firms.

- In Chapter 4, I present the literature review, which entails previous studies addressing entry modes of Italian companies in China. I present the only two studies on the subject, I discuss their findings, and I elaborate on their limitations, and the need for additional research on the topic.

- Chapter 5 comprises the analysis and empirical findings that answer sub-question 1 and sub-question 2. First, I analyze the levels of Italian FDI and exports in order to verify whether Italian companies predominantly implement low-control, low-resource entry modes in the Chinese market. Secondly, I address the reasons for this behavior by exploring the internationalization pattern of Italian companies and the structure of the Italian economy. Themes are developed from the data, through which I seek to answer why Italian companies predominantly adopt low-control, low-resource entry modes in China. By doing this, I confirm the findings from the literature review, and uncover additional reasons for the behavior pattern of Italian companies in the Chinese market.
In Chapter 6, I conduct a case study analysis and explain the entry mode decision of the Italian company Alpha in the Chinese market by means of which I answer sub-question 3. Specifically, I analyze the determinants that contribute to the decision of Alpha to adopt a low-control, low-resource entry mode in the Chinese market by following the holistic lens of the theoretical chapter. Furthermore, the case study brings clarity to additional reasons for the behavior pattern of Italian companies in China, which I derive from the answer to sub-question 2.

In Chapter 7, I present the key findings of this study, and answer the research question presented in this chapter. I then address the limitations by proposing suggestions for future research.
2. METHODOLOGY

In order to explore and analyze the determinants that influence entry mode decisions of Italian companies in the Chinese market, I need to first explain my methodological considerations.

2.1 Philosophical assumptions

Based on the nature of this research, I answer my research questions by means of critical realism, which “(...) is not a claim to a privileged access to the truth, but a genuine attempt to formulate better means of understanding” (Mutch et al., 2006).

The ontology of a critical realist assumes that there is a reality that is usually difficult to understand, as it is multilayered rather than flat, the different layers comprise of: the empirical, the actual and the real. The empirical is experienced by the observer and the actual is where the events occur as a result of mechanisms that operate in the real. This philosophical approach involves an interpretative process between the different layers; events may not be observed at all or may be understood quite differently by diverse observers. The epistemology of critical realists entails that there is a reality independently of the human mind, and that our knowledge of reality is socially constructed; however, critical realists accept the possibility of knowing reality. For this reason critical realism is found in between an absolute positivistic approach and an absolute social constructivist approach (Saunders et al., 2007; Easton, 2010).

For ontological and epistemological reasons, critical realism relies on the collection of multiple data, distinguish among alternative explanations, and evaluate phenomena through different theoretical levels seeking to reach the “truth”. As a critical realist, I aim at exploring causal relations of complex phenomena, and why they happen. This approach is particularly suited for case studies, and single case studies, as the “Relationship with existing theory is important. Where little exists then one case can be enough to begin the process of theory creation” (Easton, 2010). In comparison with positivism and interpretivism, critical realism accepts a wide range of research methods, but still suggests, “the particular choices should depend on the nature of the object of study and what one wants to learn about it” (Sayer 2000, in Easton 2010).

Critical realism is well suited for this study, as it fits the philosophical underpinnings with which I have conducted this thesis. The choices of research design aims to capture multiple levels and
layers of reality, to examine the “wide” and the “deep” by conducting a secondary analysis and a case study. Data collection and data analysis are based on multiple sources in order to converge and corroborate findings by analyzing multiple alternatives and layers of the phenomenon under study. Within the limits and the resources available, I intend to get as close as possible to the “truth” of the reality. As a critical realist, I accept that there are differences among the empirical, the actual and the real, and thereby I accept the interpretivist nature of this study.

2.2 Research design

As the subordinate research questions cannot be answered by the use of a single research method, a mixed methods research design was considered appropriate (Morse, 2003; Saunders et al., 2007; Creswell and Plano Clark, 2007).

Morse (2003) defines mixed methods design as:

“Not restricted to combination of quantitative and qualitative projects. It also includes any research with different types of data, approaches to analysis, or researches conducted on two different populations or groups, whether it be qualitative or quantitative”.

The mixed methods design enables the research to use more than one data collection technique and analysis procedure to answer the overarching research question; this provides several advantages to the study. Firstly, the design method allows the research to address the subject in a multilayered and holistic way, matching the philosophical underpinnings of this thesis, its purpose, and depicting a more complete picture. The research design enables the researcher to use two different strategies of inquiry to address two different populations, complementary kinds of data or sources, and different levels of data in the same project. Thus, the thesis can build on multiple layers i.e. macro-, meso-, and micro- levels (Morse, 2003). Secondly, it enables to compensate for the “method approach” and to provide increased credibility and accuracy of the findings, as findings are compared and triangulated. Thirdly, it allows answering multiple questions in the most appropriate way, in relations to the data available and in consideration of the most practical, efficient and feasible method to conduct the research (Saunders et al., 2007; Creswell, 2009).

Specifically, the research design is divided in 3 phases, which correspond to each of the three research sub-questions. The phases of the design are characterized by a sequential structure, which means that each phase helps inform the following phase (Creswell and Plano Clark, 2007). Sub-question 1 is answered before sub-question 2 is raised, and reciprocally sub-question 3 is
raised after the second has been answered. The research is distinguished by triangulation, which allows to converge and compare findings from different methods or approaches, in order to bring together their different strengths and overcome their weaknesses (Creswell and Plano Clark, 2007). The choice of triangulation is mainly motivated by the intent to overcome the lack of updated and comprehensive data on the presence of entry modes of Italian companies in China, while granting the research with accuracy and credibility of the findings.

Although this research contains both quantitative and qualitative data, the research approach is primarily qualitative and it allows the thesis to collect and analyze multiple sources of data, to account for a holistic strategy, and let themes to emerge. Thus, the approach fits the purpose of the study. Additionally, the topic is relatively unexplored, and has never been investigated under a comprehensive and holistic perspective. According to the theory on research methodology, the qualitative approach is particularly convenient when little research has been done on the topic and the study has an exploratory nature. Thirdly, the qualitative approach aids achieving in-depth understanding of the phenomenon, examining the context that relates to it, and investigating complex and multi-faceted events (Saunders et al., 2007; Creswell, 2009).

In the light of the critical realist philosophical underpinnings, I employ both deductive and inductive cycles of data collection and analysis to answer and conduct the study through a highly iterative process. I collect and analyze data and subsequently develop theory to answer the research question with an overall inductive reasoning. This approach allows the research to consider alternative explanations and get a flexible and broader understanding of the topic within the research design. Additionally, it enables to study the context and to overcome the problem of limited access to data on the presence of Italian companies in China. Conversely, the case study follows a predominantly deductive reasoning, as the propositions developed in the secondary analysis determine the selection of the case study, and the analysis of the data collected through the interviews is shaped by the categories from the theoretical framework of the research (Saunders et al., 2007).

The overall theoretical perspective used in the study and described in details in Chapter 3, provides a holistic, comprehensive and multi-faceted explanation of entry mode decisions, in coherence with the philosophy of science, research scope and research design of this thesis. The theoretical concepts represent the research blueprint and theoretical lens for the study.

The purpose of this thesis is mainly exploratory and explanatory (Saunders et al., 2007), as the objective is to explore the determinants of entry mode choices of Italian companies in China, and
to explain their connection with the control exercised and the resources committed in the Chinese market. The secondary analysis has a predominantly exploratory intention, as it seeks "new insights" from the findings provided by previous studies, and "ask questions to assess phenomena in a new light" (Robson, 2002, in Saunders et al., 2007). The data collection and data analysis of sub-question 2 aspire to predict formerly unobserved facts that require attention, while keeping a flexible and adaptable approach (Saunders et al., 2007). Secondly, the case study has mostly an explanatory purpose, as it aims to investigate the reasons behind the entry mode decision of Alpha in China, while explaining the relationships between the factors influencing the entry mode decision of Alpha and its entry mode choice.

As visual models of multi-sided studies help in establishing the holistic picture of qualitative researches (Creswell, 2007), I visually summarize the framework of this thesis in Figure 1.

![Fig. 1: Research Design](image)

2.3 Strategies of inquiry

The strategies of inquiry utilized in this thesis are: qualitative analysis of secondary data, also called secondary analysis, and a case study analysis. Sub-question 1 and sub-question 2 are answered through the secondary analysis, while sub-question 3 is addressed through the qualitative case study based on primary data and secondary data.
2.3.1 Secondary analysis

The choice for conducting a secondary analysis (Saunders et al., 2007) is motivated firstly by timing and resource limitations of this thesis, which constrained the possibility to collect primary data through a survey on this specific topic. Secondly, it is motivated by the scarcity of accurate and reliable secondary raw data, which prevented the researcher from implementing different research strategies. There is, in fact, a lack of updated and comprehensive data on the presence of Italian companies in China, on their activities, and on their entry modes (Vianelli et al., 2012). The information available on the topic is rather scattered and incomplete, limited to specific geographical areas or economic sectors (ICE, 2012a, 2012b). However, the choice of secondary qualitative analysis and specifically the advantages of using multiple-source secondary data have allowed to overcome these limitations, to corroborate and complement data and findings, achieving a good level of accuracy and reliability of results.

The qualitative approach of the secondary analysis allows collecting and analyzing multiple sources of data, while keeping flexibility of investigation. This is particularly suitable when the nature of the study is exploratory, when the topic researched is new and when little research has been done on the topic (Saunders et al., 2007).

2.3.2 Case study

According to Yin (2009), case study analysis enables the researcher to investigate complex social phenomena in connection with their context, and it is specifically suitable in situations where the boundaries between the two are not clearly defined. Additionally, it allows: exploring real life events through a holistic approach, and analyzing multiple variables connected with the study of a phenomenon, while granting flexibility to the investigation (Eisenhardt, 1989; Yin, 2009). It is advisable when: the research questions being the rationale for the investigation are “how” and “why” questions, and the research purpose focuses on the state of being contemporary (Yin, 2009).

As the thesis aims to bring clarity on the reasons behind the low-control, low-resource entry mode decisions of Italian companies, case study analysis is particularly suitable to examine the depth of this phenomenon, the connection between the determinants of entry mode and the entry mode decision, and the multiplicity of factors and layers involved in the real life complex social phenomenon. The theoretical perspective of this thesis argues for multiple factors influencing firms’ entry mode choices; hence, the research strategy needs to maintain a holistic and a multi-faceted
approach, able to consider the different variables that influence, and are entwined in entry mode decisions, and yet to let patterns, and themes emerge from the analysis of the data. Additionally, the choice to adopt a case study comes from the need to analyze a contemporary phenomenon in depth without separating the phenomenon from the context that provokes it and shapes it. Analyzing this case study outside this specific time frame may lead to different results as both the subject of the research and the dynamics around it may be subject to change. Lastly, in this study, the objectives of the research contextualize in “how” and “why” research questions.

Additionally, the adoption of a case study is suitable when “new research areas, or research areas for which existing theory seems inadequate” and “when freshness in perspective to an already researched topic” is needed (Eisenhardt, 1989). Also Punch (2005) confirms that case study research is particularly valuable when the knowledge on the researched topic is scarce, fragmentary or incomplete.

2.4 Methodology selection for the secondary analysis

In this section, I explain the data collection and analysis of the secondary analysis, which is contextualized in Chapter 5, and forms the basis for the case study. The secondary analysis comprises of Phase 1 and 2 in the research design.

2.4.1 Data Collection and data analysis

Because of the holistic nature of the research objective, the data used in the analysis have been collected through multiple sources to ensure triangulation, convergence of evidence, and to complement information (Yin, 2009).

In Phase 1, the data collected entail documentary data from two main sources: the Organization for Economic Co-operation and Development (OECD), and the Italian Institute of International Trade (ICE). The choice of the OECD dataset enables comparisons between the Italian level of investments and trade, and the European ones, while the data from the ICE allows deepening the topic on the trade and investment relations between Italy and China. The limitation of this analysis is that contractual agreements, within the category middle-control and middle-resource commitment entry modes, are not included, as the analysis considers only export-based entry modes (low-control, low-resources), and FDI (distributed within middle-control, middle-resources
and high-control, high-resources). However, this generalization does not compromise the results and provides the study with a good approximation of the three categories analyzed.

Phase 2 relies firstly on the indices developed by the prominent research “Multinational Italy” (Mariotti and Mutinelli, 2010), issued on a two-year basis in collaboration with ICE, which is in charge of the analysis and development of the internationalization of Italian companies. Because of the nature of its function, it offers the most updated database, and reliable documentary data on Italian trade and investments around the world. Further detailed about the methodology of the indices calculation can be found in Appendix C1. Secondly, the analysis draws from the Eurostat database, which has been chosen for its quality, reliability and its authority, as well as the possibility to compare the data with other European countries without encountering problems of measurement validity. Concerning the corporate governance of Italian family firms, the data have been drawn from the “Observatory on Italian Family Business” (AUB Observatory), which represents the main research centre on Italian family firms. The AUB works in synergism with universities, and with ICE. Additionally, the data have been corroborated with different sources form the European Commission (Mandi, 2008; Mussati, 2008) and relevant scientific literature (Colarossi et al., 2008).

The use of secondary data, specifically multiple-source secondary data, allows this thesis to overcome several limitations and provides multiple advantages. The possibility to complement data from multiple datasets allows to: reach a holistic picture and understanding the investigated topic; overcome the problem of data fragmentation and lack of comprehensive and updated datasets; corroborate data and enhance the credibility and accuracy of the findings. Additionally, the use of secondary data enables to save resources, and to compare data, especially between Italy and other European countries (Saunders et al., 2007).

The analysis of the data has been conducted using an inductive approach. Data has been collected, analyzed, divided into units, summarized and researched for patterns. Themes have let been emerged and put in relation with previous studies on the topic and with variables influencing entry mode decisions. The first two categories to be analyzed have been “firm size” and “lack of experience”, in connection with the results from the previous studies reviewed in the literature. Subsequently, additional themes have emerged from the data collected through an inductive process, and find explanation in the theoretical framework that lays the foundations for the understanding of entry mode decisions.
2.5 Methodology selection for the case study

In this section, I first explain the choice of a single case study. Secondly, I elaborate on the data collection and analysis of the primary data. Thirdly, I explain the data collection and analysis of the secondary data in the case study.

2.5.1 Single case study selection

As high quality case study research should select cases “which are likely to replicate and extend the emergent theory” (Eisenhardt, 1989), the case study selection is based on the findings from the secondary analysis (Cf. Chapter 5) and on the theoretical framework (Cf. Chapter 3). The specific criteria and their connection with the above-mentioned chapters are elaborated in details in Appendix A; the fulfillment of these criteria by the case company are described in the “Company Overview” in Chapter 6.

The single case study approach is criticized for its non-representativeness and lack of generalization potential. However, the answer to this critique lies in the philosophical assumptions chosen in this thesis. From a critical realist perspective, generalization originates from the understanding of the “deep processes at work under contingent conditions via particular mechanisms” (Easton, 2010). In line with this view, generalization to theory via a case study analysis is implemented through the understanding of a phenomenon and the clarification of the mechanisms involved in it. As most phenomena can be explained through a combination of general and specific, a defensible causal explanation that has been formulated in one case study can contribute to the development of theory that goes beyond the single case. The researcher seeks to find the best way consistently with the data and the nature of what is being researched, but generalization in the positivistic way is not possible, unless the world was completely heterogeneous (Easton, 2010).

2.5.2 Data collection and data analysis: Primary data

The data used in the case study analysis (Phase 3) are primary data collected through interviews, and secondary data. I explain the data collection and analysis of the primary data, focusing on the choice of the participants’ selection, their profiles, the interviews methodology, and data analysis.
The participants’ selection was challenging and very time-consuming, as I had to go through various “gatekeepers”. However, after numerous attempts I made contact with the Group Recruiter of the company selected, Alpha, who put me in contact with Mr. AS, Alpha’s Innovation and Marketing Manager of Asia, Australia and Africa, and Ms. AM, Alpha’s Area Manager of Asia. Both the case and the entities within the case are kept anonymous due to confidentiality agreements. The company is referred to as Alpha and the interviewees as Mr. AS and Ms. AM.

Besides having different roles in the organization, the two interviewees also belong to two different time periods in terms of the company approach to the Chinese market. Mr. AS belongs to the recent strategic direction of the company, which focuses on overseas and emerging markets. He currently works for the Asian and Chinese markets, along with the African and Australian ones. Ms. AM has helped developing the company’s presence in the Chinese market for 20 years, as the only person committed to the area when it did not represent a priority for the company, but rather a secondary location to serve merely indirectly. This helps understanding different viewpoints grasping the complexity and the holistic perspective of the analysis (Yin, 2009).

The primary data of the case study analysis have been collected through qualitative in depth semi-structured interviews, and can be found in Appendix D. In depth semi-structured interviews have been considered appropriate as they allow collecting key facts and events along with interviewees’ own opinions and perspectives (Yin, 2009). A list of interview questions has been submitted to the participants prior to the interview in order to gather all necessary information to answer accurately and prepare themselves for the discussions. This should have promoted validity and reliability of the findings, but also have built credibility towards the interviewer in the view of the research participants (Saunders et al., 2007). The interview themes were derived from the previous studies conducted on the topic (Vianelli et al., 2012; Cedrola and Battaglia, 2012), and from the theoretical framework. The interviews were conducted in a semi-structured open conversational manner, which has granted flexible and responsive interaction, allowed new themes to emerge, and clarity to be achieved. Furthermore, the participants have been able to bring their own perspectives and insights to the research (Saunders et al., 2007). Overall, the interviews conducted in this thesis can be defined as “guided conversations” (Yin, 2009).

The interview with Mr. AS was conducted via Skype, while the interview with the Ms. AM was conducted by telephone. The interviews were audio taped and lasted around 60 minutes each. The submitted questionnaires were the same for both interviewees; however, the conversations took different directions according to the area of specialization of the interviewee. The approaches with which the interviews were conducted were slightly different. The interview with Mr. AS was more
formal, while the interview with Ms. AM was more conversational and personal, the level of confidence established was stronger, and consequently the level of trust in providing sensitive answers was higher.

In order to use the interviews in the analysis of the case study, it was necessary to analyze the data. This study is based on the assumption that entry mode decisions are better understood if analyzed through an eclectic and holistic lens; the theoretical framework (Cf. Chapter 4) lays the foundations for the understanding of entry mode decisions of Italian companies in China, thereby answering the research question. As a result, the theoretical framework drove the data analysis.

After the transcription of the interviews and their translation into English, the data were analyzed through the sub-processes of data reduction, and data display (Saunders et al., 2007). Data reduction entails “summarizing and simplifying the data collected and/or selectively focusing on some parts of this data” (Miles and Huberman 1994, in Saunders et al. 2007). In accordance to the variables developed by the theoretical framework in Chapter 3, the interview data were divided in: “strategic variables”, “environmental variables”, “transaction variables”, and “risk-taking and family firms”. In addition, two more categories were defined in the words of interviewees, namely, “low-control” and “low-resource commitment”, and they shape the understanding of the company’s entry mode choice in relation with these two constructs. Subsequently, the categories were displayed in matrices arranged in tabular forms. As expected, this process helped analyzing the data, facilitated analytic thinking and the recognition of relationships and patterns. This facilitated the comparison among categories, and the understanding of the most relevant ones from the participants’ perspectives. Lastly, I draw conclusions on the different variables influencing the case company’s entry mode decision, and their relative weights on the final choice.

2.5.3 Data collection and data analysis: Secondary data

Secondary data were gathered in order to complement and triangulate the information acquired through the interviews, and to describe and verify important circumstances and key events (Saunders et al., 2007; Yin, 2009).

They can be divided in three themes, in accordance with the entry mode eclectic framework: company-specific data have been collected through corporate documents such as annual reports and corporate website; industry-specific data were drawn from industry statistics and reports from Euromonitor International and ICE; country-specific data were collected from research institutes’
publications and journals. In all cases, quality, reliability, authority and reputation have been assessed prior to utilization (Saunders et al., 2007; Yin, 2009).

The corroboration of data between primary and secondary sources allows the research to achieve a credible, and reliable portrayal of the case study phenomenon (Yin, 2009).

2.6 Credibility of the research findings

I assure validity and reliability of the research through several techniques, procedures and operational measures.

Firstly, I consistently use the theoretical framework, which shapes the research by formulating the scope and narrowing the data collection and analysis. Additionally, I explain all measures utilized, either in the text or in the appendices, and I evaluate rival considerations for my choices, enabling the reader to evaluate the legitimacy of the decisions taken (Saunders et al., 2007).

Secondly, I adopt multiple sources of evidence to converge the lines of inquiring, and to verify data and findings. This has facilitated to address a broader range of issues, to depict the complexity of the context and of the case study, and to make up for the lack of information available from single sources (Saunders et al., 2007; Yin, 2009). Triangulation occurs both at a data and at a methodological level (Patton, 2002), as I implement multiple methods to explore the central research question. The specific advantages of triangulation have been the increased confidence in the research data, and the possibility to address multiple layers of the phenomenon.

In order to grant validity of the research, the case study has been purposefully chosen to test the causal relationships between the determinants influencing entry mode decisions of Italian companies, and elaborated in the Phase 2, and the case company’s entry mode choice. The researcher has tried to control for the influence of other factors shaping the company’s entry mode decision by choosing a firm that, according to the theoretical framework (Cf. Chapter 3), was not limited in its internationalization process in China by factors external to its control, as can be seen in Appendix A.

From a critical realist perspective, generalization is not possible unless the world was completely heterogeneous; thus, generalization arises by means of clarifying determinants and entities involved, and examining their influences on the phenomena. In line with this view, causal explanations that have been formulated in one case study can contribute to the development of theory that goes beyond the single case.
2.7 Delimitations

Based on the nature of this research, I acknowledge that the behavior of Italian companies in China may be influenced by historical, political, and economic factors. However, this thesis does not focus on these factors, as these are too broad to be covered due to limited time and resources. I rather focus on exploring the determinants that influence Italian companies to engage in low-control, low-resource entry modes in the Chinese market.

Secondly, a case study analysis comprising multiple companies and managers would have been beneficial to achieve further insights. However, this would have entailed a cumbersome and lengthy process of access negotiation, which goes beyond the time and resources of this thesis. Italian companies are highly hierarchical, and the researcher, despite being of Italian nationality, has found it difficult to gain access to interviewees.
In order to explore and analyze the determinants that influence the entry mode decisions of Italian companies in the Chinese market, I need to first study the variables that influence the entry mode choices of companies in general. In Section 3.1, I draw on the eclectic theory of the choice of international entry mode by Hill et al. (1990), which I hereinafter refer to simply as the eclectic framework or the eclectic theory, and which provides a comprehensive and multi-layered understanding of the factors that influence entry mode choices. I introduce the concept of international entry mode, I explain the foundation of the eclectic framework, and I turn to the description of the groups of variables that are deemed to determine the entry mode choices of companies in general. Subsequently, I elaborate on the merits of the eclectic framework and on its suitability in addressing the objective of this thesis, and finally, I discuss its three limitations.

In Section 3.2, I address the first two limitations of the eclectic theory explaining the modifications made to the framework and adopted in this thesis. I elaborate on the entry mode categories and their relations to the eclectic framework.

In Section 3.3, I address the third limitation of the eclectic framework by examining the risk-taking approach of family firms when making business decisions, and the factors that influence their risk-taking behavior. The choice to focus on risk-taking behavior of family firms depends on the fact that the majority of Italian companies are family owned, as it will be illustrated in Chapter 5.

3.1 International entry mode decisions

A substantial amount of International business literature has engaged in studying how firms internationalize in foreign markets, and especially in identifying the motives behind entry mode decisions. For a company that carries out activities in a foreign market, entry mode selection is a critical strategic decision that will influence its long-term vision, its performances, and even its survival (Anderson and Gatignon, 1986; Hill et al., 1990; Agarwal and Ramaswami, 1992; Sharma and Erramilli, 2004).

The literature has shown that different factors, such as firm-specific, industry-specific, and country-specific factors determine the choice of entry modes (Anderson and Gatignon, 1986; Pan and Tse, 2000; Malhotra et al., 2003; Hill, 2012, p.146). These factors have been called antecedents of
internationalization, or determinants of entry modes (Werner, 2002), and over the last 50 years their relation and their influence on entry mode decisions have been studied from different theoretical lenses and paradigms.

I draw on the Hill et al. (1990) eclectic framework, as it suits the nature of this thesis, as explained in Section 3.1.5.

3.1.1 Foundation of the eclectic framework (Hill et al., 1990)

Firms can decide among different modes of entry on the basis of the degree of control they wish to exercise, resources they are willing to commit and dissemination risk. Control is defined as the decisional power over the operations and the strategy of a firm. The degree of resource commitment represents the value of assets deployed for specific purposes, which would lose their net benefits whether utilized for alternative purposes. Finally, dissemination risk represents the risk of expropriation of a firm’s competitive advantage by a partner (Hill et al., 1990).

Different combinations of control, resource commitment and dissemination risk characterize distinct entry modes, as shown in Figure 2. The entry modes considered by the framework are: 1) licensing, 2) joint ventures, and 3) wholly owned subsidiaries.

![Figure 2: The characteristics of different Entry Modes (Hill et al., 1990)](image)

The factors that influence the construct of control, resource, and dissemination risk, and therefore determine a firm’s entry mode decision are: strategic, environmental, and transaction-specific
variables. The framework suggests that strategic variables influence the level of control a firm is willing to exercise, the environmental variables determine resource commitments, and transaction variables impact risk dissemination and control (Hill et al., 1990).

The propositions formulated in the framework and the variables affecting a firm’s entry mode choice are multiple and interconnected. Different variables taken separately may draw a firm in different directions; thus, a firm should evaluate their relative weights, their interactions, and consider tradeoffs when deciding on entry mode choices. Entry mode decisions are compromises and “satisfactory” choices, rather than optimal solutions. However, the framework still provides an eclectic, comprehensive, and multilayered tool to understand and analyze firms’ entry mode decisions (Hill et al., 1990).

Specific variables, or groups of variables, may have a stronger impact on a firm’s entry mode choice and, hence, be determinant for its entry mode decision.

The following sections will turn to each of these variables, analyze their influence on entry mode decisions, and report the propositions of the framework.

### 3.1.2 Strategic Variables

Strategic variables influence a company’s entry mode decision and the level of control it is willing to exercise over its foreign activities. Based on: 1) the national differences between markets, 2) the scale economies a firm can realize, and 3) the global concentration of the industry, a firm strategically decides whether to adopt a “global” or “multi-domestic strategy”.

The **extent of national differences** induces a firm to pursue multi-domestic strategy and to opt for low-control entry modes. National differences are measured through the distance in “consumer tastes and preferences, competitive conditions, operating conditions, political social and legal structures” (Hill et al., 1990). The stronger the extent of national differences, the greater is the value created by adaptation and local responsiveness. In these circumstances, a company maximizes value by transferring control, responsibilities, and decision-making to the national level. Consequently, as a firm is better off by having national operations, and strategy decided on the national level, other things being equal, it would favor low-control entry modes (Hill et al., 1990).

**Proposition1:** ceteris paribus, firms pursuing a multi-domestic strategy will favor low-control
The possibility of benefitting from **scale economies** drives companies to centralize their organizational structures, and to adopt global-oriented strategies. Industries characterized by homogenous market place can therefore reap the benefits of standardization, if effective control and coordination mechanisms are implemented. Licensees or venture partners would find it difficult to follow unconditionally the strategies and decisions taken centrally. As companies that benefits from strong scale economies maximize their coordination and control, companies with a global strategy will prefer high-control entry modes (Hill et al., 1990).

**Proposition 2**: ceteris paribus, firms pursuing a global strategy will favor high-control entry modes.

The third variable guiding a firm’s strategic decision is the **global concentration** of the industry. An industry is characterized by high global concentration when a limited number of players compete against each other in multiple countries creating oligopolistic interdependence. Firms competing in globally concentrated markets experiences strong interdependence between the strategy they adopt in a specific country and the competitors’ strategy in other countries. Under these circumstances, firms do not choose the most efficient entry decision in relation to a specific market, but in relation to the global strategy of the company. Consequently, when the industry is characterized by high global concentration, and more broadly, when the firm has to globally coordinate its strategy, the preferred entry mode will be a wholly owned subsidiary (Hill et al., 1990).

**Proposition 3**: ceteris paribus, firms that need to globally coordinate their strategies (the industry is globally concentrated) will prefer high-control entry modes.

Therefore, the strategy adopted by a firm is crucial for its entry mode decision in a foreign market. The strategic choices of a firm are based on the trade-off between localization and standardization, or in other words, differentiation and cost-position. The strategic choices between one and the other are not exclusive, and in real life, companies may decide for compromises between these two extremes.
3.1.3 Environmental variables

Environmental variables influence a company’s entry mode decision and the level of resources it is willing to commit on its foreign activities. Environmental variables comprise: 1) country risk, 2) location familiarity, 3) demand conditions, and 4) volatility of competition in a host market.

The authors apply Root (1988)’s definition of country risk including political risk, ownership/control risk, operations risk, and transfer risk. Whether country risk is elevated, firms might not be willing to commit their resources to the host market because it would be difficult to predict the possible contingencies both in the environment and in the contractual relationships. In this case, firms might favor flexible modes of entry, which are relatively easier to divest. Under these circumstances, local partners could be effective to overcome potential bureaucratic issues, and to be relevant guarantors against political complications.

Proposition 4: Ceteris paribus, when country risk is elevated, firms will favor entry modes that involve low resource commitments.

Location familiarity entails cultural and economic perceived distance between the home country and the host country, and it is determined by psychic distance and previous experience of the firm with the host culture. Therefore, location familiarity is limited when a company perceives great psychic distance towards a host country, or when it has matured little experience with the specific market (Hill et al., 1990).

The notion of location familiarity is drawn from the incremental international involvement of the firm, theorized in the so-called Uppsala Model (Johanson and Vahlne, 1977, 1990) and based on behavioral theory. As suggested by the Uppsala Model, experiential knowledge in specific or similar host markets generates business opportunities and helps foresee problems, reducing environmental uncertainty and facilitating market commitments. Psychic distance refers to “the sum of factors preventing the flow of information from and to the market. Examples are language, education, business practices, culture, and industrial development” (Johanson and Vahlne, 1977) and “political systems” (Johanson and Vahlne, 1990). Lack of knowledge due to the distance in culture, language, and political systems, also refrains companies from undertaking internal operations in a host market, as it increases market uncertainty. According to the Uppsala model firms start their internationalization activities from countries that they perceive as psychically closer, and most easily understand. They engage in a gradual process of sequenced stages, in a linear manner from low to gradually higher levels of control and resource commitment.
The eclectic theory does not take such a deterministic sequential and gradual approach, as the Uppsala model. It only emphasizes the importance of experiential knowledge and psychic distance in the entry mode decision of a firm. According to the framework, in a situation of high uncertainty provoked by little location familiarity, a company is less willing to commit resources and more in favor of flexible solutions. Furthermore, semi-integrated governance structures, as joint ventures or contractual agreements, are argued to be more efficient in overcoming the cultural gap and compensating the lack of local knowledge (Hill et al., 1990).

**Proposition 5**: Ceteris paribus, when location familiarity is trivial, firms will prefer entry modes that require low resource commitments.

The **demand conditions** for a firm’s products are likewise influential. When a host market is characterized by uncertain demand and uncertain future conditions for a firm’s products, a firm will be unwilling to invest resources, which could turn in divestments and sunk costs if the demand did not reach satisfactory levels. As postulated by Vernon (1966), uncertainty connected with future demand conditions is greater for products and industries at embryonic and declining stages of their life cycle. Therefore, unknown demand conditions, as in embryonic and declining host markets, and uncertain future conditions influence a firm to engage in entry modes that involve low resource commitments (Hill et al., 1990).

**Proposition 6**: Ceteris paribus, when demand is uncertain, firms will prefer modes of entry that involve low resource commitments.

**Volatile competitive conditions** in a host market refrains firms from committing resources and adopting a hierarchical structure. Volatile competition in price, market share or investments can be determined by rapid changes in “technological, macroeconomic, social, demographic, regulatory factors”. A rapid changing environment requires flexible organizations, which can easily respond to new needs and new strategies. Therefore, a firm dealing with a volatile competitive host market would rather adopt a low-resource commitment mode of entry (Hill et al., 1990).

**Proposition 7**: Ceteris paribus, when the volatility of competition is high, firms will favor modes of entry that involve low resource commitments.
3.1.4 Transaction variables

Drawing upon concepts from the transaction cost (TC) literature, transaction variables determine the level of dissemination risk that a firm may face, which consequently influences its entry mode decision. Transaction variables entail: 1) value of firm-specific know-how, and 2) tacit nature of know-how.

The value of firm-specific know-how represents the value, or quasi-rent, that a company obtains from its specific know-how. In transaction cost theory, the specific know-how is addressed as asset specificity; while in knowledge-based view, it is referred as core-competitive advantage. The higher the level of quasi-rent connected with a company-specific know-how, the more it is efficient for a firm to choose hierarchical coordination such as wholly owned subsidiaries. This allows a firm to minimize transaction costs and dissemination risk of its specific know-how, and thus, to reach a more efficient governance structure (Dunning, 2000; Teece, 1986; Hill et al., 1990; Erramilli and Rao, 1993).

Firm-specific know-how has been referred to as technological, human, and brand firm-specific know-how (or assets). For example, technological specificity may depend on a firm’s product, process or management technology and be the source of the innovativeness and the competitive advantage of a company. Specificity may be embodied in the firms’ human assets and be incorporated in the people who work for an organization. Moreover, if specificity of brand assets, such as brand names, represents the value and the capital of a company, it may be particularly challenging to preserve its integrity when the control is transferred to another entity in a foreign market. Local operations may dilute or even compromise the international image of a brand in the absence of proper control (Williamson, 1981; Anderson and Gatignon, 1988; Hill et al., 1990).

The higher the value (the quasi-rent) obtained by a firm-specific know-how, the higher dissemination risk a company faces, and therefore, the more it will favor high-control entry modes (Hill et al., 1990).

**Proposition 8:** Ceteris paribus, the greater the quasi-rent generated by a firm-specific know-how, the greater the probability that a firm will favor an entry mode that minimize dissemination risk.

Additionally, firm-specific know-how is often tacit in nature and more difficult to transfer to an external entity such as a licensee. Firm-specific know-how can be embodied in the firm human
assets and be incorporated in the people who work for an organization. As claimed by Anderson and Gatignon (1988), most knowledge is “uncodified”, that is, cannot be transferred through separated governance structures because ingrained in relationships, people, processes and routines. In these circumstances, it would be more efficient for a company to transfer the tacit know-how itself via its internal organizational structure, building on its acquired routines and processes, or facilitating transfer of people. The inability to transfer firm-specific know-how via contractual agreements could result in a loss, or reduction, of the quasi-rent that a firm could generate through the establishment of a wholly owned subsidiary in a host market (Anderson and Gatignon, 1988; Hill et al., 1990).

**Proposition 9**: Ceteris paribus, the higher the tacit nature of the specific know-how, the greater the incentive for the firm to choose a high-control entry modes.

### 3.1.5 Choice of the framework

The eclectic framework by Hill et al. (1990) represents a proper theoretical skeleton to understand and analyze firms’ entry mode decisions. It was chosen as the main theoretical framework for this thesis because of its theoretic quality and its suitability in addressing the objective of this thesis; specifically, for its eclectic, comprehensive, and multilayered nature, which I address as follows.

Most of the literature on internationalization processes and entry modes has been taking fragmented approaches, focusing on partial explanations, adopting single theoretical lenses, and considering single-sided aspects of entry mode decisions. These approaches provide a fragmented and limited explanation of the phenomenon. Others have instead evaluated specific entry modes in isolation, neglecting a truly eclectic approach (Hill et al., 1990; Coviello and Martin, 1999; Madhok, 1997; Malhotra et al., 2003; Zhao et al., 2004; Brouthers and Hennart, 2007; Morschett et al., 2010).

Conversely, the eclectic framework overcomes the conflict between single paradigms, specific theories, and partial aspects of internationalization and entry mode decisions, as it evaluates entry modes in association with each other. The framework additionally integrates most of the aspects that have been separately addressed in previous literature streams and that have been deemed to influence internationalization decisions, such as degree of technology, industry life cycle, country risk, cultural distance, transaction costs, and knowledge-based view of the firm. The eclectic
framework manages to complement contrasting theories with one another, and ameliorate their flaws. For example, the transaction variables of the framework integrate the somehow contrasting transaction costs theory and knowledge-based view. Drawing from the transaction cost theory, the framework suggests that firm-specificity and tacit nature of their know-how, corresponding to asset specificity and tacit knowledge in the TC theory, influence a firm’s transactions and governance structure in foreign countries. However, drawing upon the knowledge-based view of the firm and the behavioral approach, the framework also includes the value creation of organizational memory and informal routines in the transaction variables of the theory. Additionally, the framework goes beyond the transaction costs’ explanation of entry modes independent from each other, and out-of-context cost minimizing solutions. Entry modes are considered as connected and intertwined to a firm’s strategic position and global strategy.

Thus, the eclectic nature of the framework fits the eclectic perspective and design adopted by the thesis.

Secondly, most literature on internationalization processes and entry mode decisions focuses either on theoretical concepts or on empirical data, without the creation of underlying constructs that bridge the theoretical and the empirical realms (Hill et al., 1990). The eclectic framework connects variables, which according to different literature stems influence the choice of entry modes with the three underlying constructs of control, resource, and dissemination risk that characterize entry modes in the empirical realm.

The framework is consistent with both theory and practice, and this is particularly relevant for the objective of the thesis. This thesis uses the theoretical concepts from the framework to understand the internationalization behavior of firms, while exploring and analyzing the empirical dynamics behind the entry mode decisions of Italian companies in China.

Thirdly, the conciliation of the different variables that determine foreign entry mode decisions has been quite a challenge for scholars, as they have often focused either on firm-, industry-, or country- specific factors (Rugman, 2009). The eclectic theories and frameworks elaborated in this realm have either over emphasized the firm-level approach, e.g. Internalization theory, or the industry level approach, e.g. OLI eclectic paradigm (Rugman, 2010). Conversely, the eclectic framework developed by Hill et al. (1990) applies a triple set of lenses in considering the topic and adopts three groups of well-defined variables (strategic variables, environmental variables, and transaction variables) to explain entry mode decisions. These groups of variables equally combine and integrate the three layers, or dimensions, that influence entry mode decisions: firm-specific, industry-specific, and country-specific factors.
As this thesis builds on multiple layers, it is very important for the framework to respect this multiplicity.

3.1.6 Limitations of the framework

In this section, I acknowledge the limitations of the eclectic framework (Hill et al., 1990), which are: 1) a reductive set of entry mode outcomes, 2) the non-inclusion of export-based entry modes, 3) and the assumption that firms have equal risk-taking approaches.

Firstly, the eclectic framework refers to low-, middle-, and high- control entry modes, which are identified respectively as licensing, joint ventures and wholly owned subsidiaries. I argue that the framework does not respect its eclectic and comprehensive nature in its outcome selection. The focus on three specific entry modes is rather reductive, and it represents a strong simplification of the entry mode decisions, as firms can decide among a much larger pool of entry modes.

The second limitation is that exports are excluded from the entry mode outcomes. Exports are considered as de facto entry modalities, analyzed in frameworks and paradigms along with contractual agreements, joint ventures and wholly owned subsidiaries (Agarwal and Ramaswami, 1991; Pan and Tse, 2000; Werner, 2002; Zhao et al., 2004). Export-based entry modes have been extensively treated in the literature on internationalization process and entry mode decisions (Agarwal and Ramaswami, 1991; Leonidou and Katsikeas, 1996; Aulakh and Kotabe, 1997; Pan and Tse, 2000; Werner, 2002; Zhao et al., 2004; Hill, 2012).

Thirdly, the eclectic framework considers that companies have equal levels of risk-taking, whereas different risk-taking approaches have consequences upon firms' internationalization choices (Chiles and McMackin, 1996; Buckley and Strange, 2011). George et al. (2005) claim that firms' internationalization process and decisions depend on different managers' perceptions of internationalization expansion and different levels of risk assessment. The framework assumes that managers tend to avoid uncertain situations a priory, and does not consider that corporate governance elements may affect managerial perceptions, firms' risk approach, and thus, companies’ entry mode decisions.

The first two limitations are addressed in Section 3.2, while the third limitation is addressed in Section 3.3.

In sum, the eclectic theory of the choice of international entry mode by Hill et al. (1990) provides an eclectic, comprehensive, and multi-layered understanding of the factors that influence entry mode
choices. These factors consist of three groups of variables, namely, strategic, environmental and transaction variables, which influence entry mode decisions by affecting the degree, and the combination of control that companies exercise, resources they commit, and dissemination risk they are willing to face in a host market. Different combinations of control, resource commitment, and dissemination risk characterize distinct entry modes. The propositions formulated in the framework and the variables affecting a firm’s entry mode choice are multiple and interconnected, as different variables, and groups of variables taken separately may draw a company to different directions. Thus, when deciding on entry mode choices, companies should evaluate tradeoffs among different factors and consider their relative weights and interactions. The eclectic framework has been chosen as the theoretical skeleton because of its suitability in addressing the objective of this thesis. However, it is characterized by three main flaws, which will be addressed in the following sections and are, namely, a reductive set of entry mode outcomes, the exclusion of export-based entry modes, and the assumption that firms are equally risk-taking.

3.2 Modifications to the framework

In order to surpass the first and second limitations of the eclectic framework (Hill et al., 1990) and to apply the theory coherently with the research objective, I address and elaborate on the first and second modifications.

The first limitation is addressed by enlarging the set of entry modes considered by the framework. The correction concerns the implementation of three categories of entry modes, rather than three specific entry modes. These three categories entail: export-based entry modes, collaborations and strategic alliances, and wholly owned subsidiaries, as shown in Figure 3. This modification allows the framework to be truly eclectic and comprehensive, not only in the determinants of entry modes, but also in the entry mode outcomes.

The second limitation, that is, the exclusion of export-based entry modes from the theory, is addressed by including export-based entry modes as a category in the outcome of the framework. Different levels of control, resource commitment and risk dissemination define the outcomes of the eclectic framework. The three constructs are not specifically quantified: their levels are considered relatively among the specific entry modes considered, and are characterized by low-, middle-, and high- levels of control, resource commitment and risk dissemination. Thus, the corrections do not change the logic of the original framework. An example of the usage of the Hill et al. (1990) framework for alternative outcomes is found in Aulakh and Kotabe (1997). The study shows that
the validity of the framework is not compromised by the adoption of different categories of entry modes by the ones considered in the original framework. However, I argue that it is important to correctly assign the levels of control, resource commitment and dissemination risk to the outcome categories.

The three entry mode categories adopted in this thesis are grouped in: export-based entry modes, collaborations and strategic alliances, and wholly owned subsidiaries, as the entry modes within each category hold similar levels of control, resource commitment, and disseminations risk.

In order to support my point, I first describe the three categories of entry modes adopted, and I secondly explain their relations with the different constructs.

3.2.1 Entry mode categories

**Export-based entry modes** entail the shipping of a company’s goods or services from a country to another, and the involvement of the company in the establishment of the operations to enable marketing and sales in the host market to occur. Exporting is carried out both directly and indirectly. Direct exporting is facilitated by sales representatives, importing distributors, and trading companies, located outside of the company’s country. Indirect exporting is done through domestically based export intermediaries. Exporting differs according to the level of integration that the company is willing to share and commit (Aulakh and Kotabe, 1997; Vianelli et al., 2012; Hill, 2012). Export-based entry modes comprise national exporters, international exporters, trading companies, cooperative structures, agents and distributors located in the market of interest, own sales staff located abroad, representative offices and branches, and direct contacts with firms (Vianelli et al., 2012; Cedrola and Battaglia, 2012).

**Collaborations and strategic alliances** consist of contractual agreements and joint ventures.

Contractual agreements refer to licensing, franchising, product and service contracts, but franchising and licensing represent the most relevant (Vianelli et al., 2012; Cedrola and Battaglia, 2012). In a licensing agreement, a company (the licensor) sells the access of specific intangible properties to another firm (the licensee) in return for a loyalty fee. Intangible properties may include: patents, inventions, formulas, processes, designs, copyrights and trademark. Franchising entails a similar contractual agreement, which instead refers to the usage of another firm’s business model. The former is primarily employed by manufacturing firms, while the latter is adopted by service firms.
Joint ventures indicate legal entities formed by two or more otherwise independent firms (Hill, 2012).

**Wholly owned subsidiaries (WOS)** refer to wholly foreign-owned enterprises, FICE (foreign invested commercial enterprise), commercial and manufacturing subsidiaries (Vianelli et al., 2012; Cedrola and Battaglia, 2012). In a WOS, a company owns 100 percent of the company stock, by either establishing a new operation in a host country, or by acquiring an established firm (Hill, 2012).

![Figure 3: The characteristics of the different Entry Modes Categories in this thesis](image)

### 3.2.2 Constructs and entry mode categories

This section explains the relations of the three entry mode categories adopted in this thesis with the specific constructs of control, resource commitment and risk dissemination.

In order to grant continuity with the eclectic framework and establish reliability of the findings, the information provided on the different entry modes and their levels of control, resource, and dissemination risk are drawn from the book by one of the eclectic framework’s authors (Hill, 2012).

**Entry modes and control**

In the study by Hill et al. (1990), control is defined as “authority over operational and strategic decision-making”. Hence, the level of control that a company exercises in a host market is twofold: first it corresponds to the choice of strategic focus in terms of value-creation (differentiation) and low-cost; and secondly to the operations that support the strategic focus. The operations of a firm are often described as a value chain, which contains the “value creation activities that a firm
undertakes”. The value chain is generally divided in primary and support activities, as it is showed in Figure 4. Primary activities are represented by R&D, production, marketing and sales, and customers service. The support activities enable primary activities to occur, and they comprise human resources, information system, and firm infrastructure (Hill, 2012).

![Figure 4: The value chain Hill (2012)](image)

Export-based entry modes, collaborations and strategic alliances, and wholly owned subsidiaries allow a firm to hold respectively low-, middle-, and high- levels of control over their strategy and operations in a host market, as I will explain as follows.

**Exporting** entails the lowest amount of control in comparison with other entry modes. Exporting does not grant any authority over a company’s marketing, sales, and customer service foreign activities, as the firm delegates those operations to a local agent, or a distributor/importer in the host market. The firm has little control over the behavior of its agent, on which it cannot hold any control. As the firm that does not control its marketing, sales and services functions abroad, it does not control its supporting activities either and cannot mature economies of learning. It does not participate in the management of the information systems in the host market, and does not exercise control over the logistics activities and the human resources implemented abroad. Once the products have crossed the national boundaries, the logistic activities are completely under the control of the agent, and so does the management of the people that the agent employs, whose interests and practices may not coincide with those of the company. On the other hand, export-based entry modes enable to retain decisional power over the company’s overall strategy and some of its operations like R&D and production. They also allow for economies of scale and learning by centralizing manufacturing in specific national markets. A solution to the lack of control exercisable through export-based entry modes could be the establishment of a wholly owned
subsidiary to take care of the marketing, sales and customer service activities, i.e. commercial subsidiaries. By doing so, a firm could exercise more control over its operations in a country, while reaping the advantages of manufacturing the product in centralized chosen locations (Hill, 2012).

Collaborations and strategic alliances entail a middle level of decisional power over operational and strategic decision-making in comparison with other entry modes.

Contractual agreements do not grant a firm (licensor) with tight control, however, it is the licensor right to monitor and control the licensee, and the level of control exercised by the licensor usually depends on the specific conditions inserted in the contract stipulated between the two parts (Hill, 2012). Although, the decisional power of the licensor over its strategy and operations is not tight, it is not as low as through exporting. A licensor can exercise different levels of control over its licensee depending on the stipulated contract, whereas a company that merely exports does not have any right to control its agent, distributor or exporter.

As with contractual agreements, a firm in a joint venture does not exercise a tight level of control over its strategies and over its operations, which instead depends on the size of ownership stake owned by the company. As already said for contractual agreements, the lack of full ownership, and therefore control in a joint venture hinder the realization of learning economies in a host market, and the strategic coordination of a company’s moves across countries (Hill, 2012).

Wholly owned subsidiaries entail the highest level of decisional power over operational and strategic decision-making. A wholly owned subsidiary allows a company to exercise tight control over its value chain and maximize the value at each stage, to globally coordinate its strategy, and to mature learning and location economies (Hill, 2012).

Entry modes and resource commitment

In the eclectic framework (Hill et al., 1990), the level of resources committed to the host market is defined as the dedicated assets invested in a country that cannot be redeployed to alternative uses without cost.

Exporting requires the lowest resource commitment, as it does not entail the establishment of own operations, or the transfer of know-how to an external entity in a host market. Exporting does not contemplate foreign production, which in turn involves some degree of investment in dedicated assets (Hill, 2012).
**Collaborations and strategic alliances** entail a middle level of resource commitment in comparison with other entry modes. Through contractual agreements, a firm does not have to commit tangible resources for its development in a foreign market. This allows capital savings and is advantageous for companies that refrain from committing resources in a foreign market because of environmental uncertainty or investment barriers. However, a firm will have to commit intangible resources, such as monitoring and management of the firm’s know-how. The degree of resource commitment (of the licensor) will depend on the control exercised on the work of the licensee, and therefore, on the nature and conditions of the contract. Similarly, in joint ventures, a firm shares the resource commitment, and the risk entailed in carrying out activities in the host market with the other(s) firm(s), and the degree of resource commitments usually depends on the ownership stake of the firm (Hill, 2012).

**Wholly owned subsidiaries** (WOS) require the highest level of resource allocation, and represent the most costly entry mode in a foreign market, as a company carries the full capital costs of the operations (Hill, 2012).

**Entry modes and dissemination risk**

In the eclectic framework (Hill et al., 1990), dissemination risk refers to the expropriation risk of a company’s competitive advantage by another company. Firm-specific know-how in marketing and technology constitutes the basis for the success of a company and for its competitive advantage.

**Wholly owned subsidiaries** face the lowest risk of dissemination of know-how. As a company owns 100 percent of the stock, the risk of losing control over its competences is minimized. The internal organization of a firm should enhance cohesiveness and congruence of values among its employees. Therefore, the risk of know-how dissemination caused by key employees or members is the lowest in comparison with other entry modes (Hill et al., 1990; Hill, 2012).

**Exporting** entails middle level of dissemination risk in comparison with the other entry modes. The R&D and production activities of a company are usually centralized and not shared with external partners, minimizing the risk of technological know-how dissemination. However, as marketing, sales, and customer services are not under the company’s control, firms with marketing know-how, and branding specific advantages could face dissemination risk of their competitive advantage. Additionally, the interests of a company and those of its agent in a foreign market may not coincide (Hill, 2012).
The risk of know-how dissemination in collaborations and strategic alliances is high when compared with the other entry mode categories. In contractual agreements and joint ventures, firm-specific know-how is licensed to, or shared with foreign enterprises throughout the whole value chain. There is, hence, a consistent risk that those firms, or their employees, could disseminate the company know-how, or using it for alternative or competitive purposes (Hill et al., 1990; Hill, 2012).

In sum, the entry mode categories considered in this thesis are export-based entry modes, collaborations and strategic alliances, and wholly owned subsidiaries. The evaluation of their levels of control, resource commitment and dissemination risk shows that: exporting is characterized by low degree of control, low resource commitment, and middle dissemination risk; collaborations and strategic alliances are outlined by middle control, middle level of resource commitment, and high dissemination risk; wholly owned subsidiaries are distinguished by high level of control, high level of resource commitment, and low dissemination risk.

3.3 Risk-taking behavior and business decisions

In order to surpass the third limitation of the eclectic framework (Hill et al., 1990) and to apply the eclectic theory coherently with the research objective, I study the risk-taking approach of family companies in business decisions, and the factors that influence their risk-taking behavior. The choice to focus on risk-taking behavior of family firms is due to the fact that the majority of Italian companies are family owned, as it will be illustrated in Chapter 5.

Although the eclectic theory, and a consistent part of the literature on entry mode choices, assume that risk-taking equally characterizes firms behavior, a larger stem of the literature has recognized that risk-taking behavior assume different levels and has consequences upon firms’ internationalization choices (Chiles and McMackin, 1996; Buckley and Strange, 2011). Internationalization choices depend also on the “managerial perceptions of the opportunities and threats associated with international expansion” (George et al., 2005).

Risk-taking behavior is influenced by elements in firms’ corporate governance. A substantial literature has thrived in the last two decades on the dynamics, structure, and decision-making of family firms (Gedajlovic and Carney, 2010) and two opposing stems have developed on whether family firms are risk-averse or risk-inclined organizations. The majority of the studies have argued for a higher degree of risk aversion of family firms in their business decisions (Zellweger and Sieger, 2012; Hiebl, 2013).
One of the reasons for discrepancy in the literature is the adoption of different outcomes and measures. For instance, firms’ risk-taking levels have been measured in terms of investment degree and long-term debt (Anderson et al., 2012); proclivity to internationalization (George et al., 2005); or in terms of entrepreneurial orientation (Zellweger and Sieger, 2012). I now review the above-mentioned study and subsequently conclude on their findings.

3.3.1 Risk aversion in family firms: measures and determinants

Anderson et al. (2012) carried out a study on the 2000 largest US firms and examined the impact of large shareholder ownership on corporate investment policy, specifically the impact of family ownership and family involvement on long-term investments. The authors test two adverse theoretical frameworks: one advocates for a higher risk aversion of family firms, and the second hypothesizes a longer investment horizon of family firms. Concerning the family ownership effect, the findings indicate that family firms favor less risky, more tangible investments, showing a lower risk-taking level in long-term investments relatively to non-family firms. This suggests that the risk adverse perspective prevails. Concerning family involvement, the study does not outline a significant influence of active family management versus passive family management on the firms’ investment policy. The authors suggest that family firms behave in a more conservative and traditional manner about their investments decisions because the main goal of the family is to preserve the business succession and family firm survivability; strengthened by the fact that most of the family wealth is typically invested in the company. As it is the case of most family firms, undiversified and concentrated ownership stakes in single firms lead to risk-aversion.

George et al. (2005) studied the impact of ownership structures on the internationalization scale and scope of 889 Swedish SMEs. More specifically, the authors aimed to explore the influence of internal and external ownership on internationalization proclivity. Scale of internationalization refers to the extent of business activities conducted internationally, while the scope of internationalization indicates the geographic extension of the firms’ business activities. The authors claim that the internationalization process and decisions of a firm do not depend merely on the attractiveness of foreign operations, or on the stagnation of the respective domestic markets, but also on managers’ perceptions about internationalization expansion and risk assessment. Agency theory argues that managerial perceptions depend on managers’ risk preferences. Managers’ risk preferences are connected to their potential ownership involvement in the firm, and to the size of their ownership stake. The results of the study confirm that firm owners are more risk-averse in strategic decisions that involve their firm, and are less likely to increase scale and scope of internationalization,
compared to external owners such as venture capitalists and institutional investors. Secondly, higher CEO and TMT (top management team) ownership involvement leads to lower tendency to undertake risky decisions. The study confirms that external ownership has positive effects on the scale of internationalization but not on its scope; and that the involvement of external ownership balances the risk aversion of internal owners.

Zellweger and Sieger (2012) analyze the degree of entrepreneurial orientation in long-lived family firms through three qualitative case studies of Swiss firms. The interest of this study lies specifically on its analysis of risk taking. The findings confirm a tendency to low proclivity to risky business decisions (low performance hazard) and low debt leverage (control risk), which outline a certain degree of conservatism in the firm management on both the strategic side and the financial side. The study also confirms the propensity of long-lived family firms to hold undiversified assets, which may further augment the risk aversion effect.

Therefore, firms assume different levels of risk-taking, which influence business decisions and firms’ entry mode choices. The studies examined the risk-taking behavior of family firms and the factors that influence risk-aversion in family firms. The studies have been chosen because they offer different measures of family firms risk-aversion related to business strategy and business practices, such as long-term investments (Anderson et al., 2012), internationalization scope and scale (George et al., 2005), and entrepreneurship (Zellweger and Sieger, 2012). In order to exclude any bias of firm size or nationality, the studies examined were varied, as the first (Anderson et al., 2012) analyzes big sized companies form the US, the second study (George et al., 2005) takes into consideration Swedish SMEs, and the third (Zellweger and Sieger, 2012) considers exclusively medium-sized firms from Switzerland.

In sum, the findings of the studies outline that the common denominator influencing risk-aversion is family ownership effect (George et al., 2005; Anderson et al., 2012; Zellweger and Sieger, 2012), which means that family owned companies are more risk-averse. George et al. (2005) show that shared external ownership can balance off the risk aversion of family firms, and that ownership involvement in decision-making influences negatively the risk-taking behavior of a firm. The study by Zellweger and Sieger (2012) specifically demonstrates that family firms behavior is characterized by risk aversion towards business decisions, reduced exposure to debt, and asset-concentration. Therefore, the risk aversion approach of family firms influences business decisions and firms’ entry mode choices, and it is influenced by family ownership, ownership concentration, and ownership involvement in decision-making.
3.4 Summary

The eclectic theory of the choice of international entry mode by Hill et al. (1990) provides an eclectic, comprehensive, and multi-layered understanding of the determinants that influence entry mode choices. These factors consist of three groups of variables, namely, strategic, environmental and transaction variables, which influence the entry mode decision of a company by affecting the degree, and the combination of control, resources, and dissemination risk that companies commit and face in a host market. Different combinations of control, resource commitment and dissemination risk characterize distinct entry modes.

Strategic variables entail: 1) national differences between markets, 2) scale economies a firm can realize, 3) and global concentration of the industry. Whether national differences between markets are extensive, and the firm’s products benefit from the value created by adaptation and local responsiveness, the firm will favor low-control entry modes. When a company reaps the benefits of standardization and economies of scale, and/or when it operates in a global concentrated industry, a firm will prefer a high-control entry mode.

Environmental variables comprise of: 1) country risk, 2) location familiarity, 3) demand conditions, and 4) volatility of competition in a host market. When a host market is characterized by high environmental uncertainty, firms will be more likely to adopt entry modes that involve low resource commitments, assure flexibility of operations, and grant local presence. This occurs when country risk is elevated, the location familiarity of the company in a host market is scarce, demand conditions are not satisfactory, and/or the market is characterized by volatility of competition.

Transaction variables entail: 1) value of firm-specific know-how, and 2) tacit nature of know-how. The higher the quasi-rent (the value) earned by firm-specific know-how, and the greater its tacit nature, the more likely is the company to protect and internalize its foreign operations in a host country by choosing high-control entry modes.

The propositions formulated in the framework and the variables affecting a firm’s entry mode choice are multiple and interconnected. Different variables, and groups of variables taken separately may draw a company to different directions. Thus, when deciding on entry mode choices, companies should consider tradeoffs among different factors and evaluate their relative weights, and interactions.

The eclectic framework fits the purpose and the nature of this thesis as it presents an eclectic, comprehensive and multilayered explanation of the factors that influence companies’ entry mode choices in a host market. However, the framework has three limitations, which are addressed,
applied and implemented in this thesis. The modifications to the framework comprise of: 1) the consideration of three groups of entry modes (instead of three specific entry modes), and 2) the introduction of a supplemental variable influencing companies’ entry mode choice.

The entry mode categories considered in this thesis are: export-based entry modes, collaborations and strategic alliances, and wholly owned subsidiaries. Export-based entry modes are characterized by low levels of control and resource commitment, and middle level of dissemination risk. Secondly, collaborations and strategic alliances are outlined by middle levels of control and resource commitment, and high dissemination risk. Thirdly, wholly owned subsidiaries are distinguished by high levels of control and resource commitment, and low dissemination risk.

The supplemental variable introduced in the eclectic framework acknowledges that different levels of risk-taking influence firms’ entry mode decisions. The focus is placed on the risk-taking behavior of family firms due to the predominance of family firms in the Italian economic structure. The literature on the subject claim a predominant risk aversion of family firms, influenced by family ownership, ownership concentration, and ownership involvement in decision-making. Figure 5 below illustrates the theoretical framework.

![Theoretical Framework](image)

**Figure 5: Theoretical framework of the thesis: Determinants of entry mode decision**
4. LITERATURE REVIEW

In order to explore and analyze the determinants that influence entry mode decisions of Italian companies in the Chinese market, I need to first review the literature on entry mode decisions of Italian companies in China.

4.1 Entry modes and determinants: Italian companies in China

Only Cedrola and Battaglia (2012), and Vianelli et al. (2012) have studied entry mode choices of Italian companies in China, and their determinants. In this section, I first review their work, secondly I draw on their merits and limitations, and then I summarize their findings and discuss the need for additional research.

The study undertaken by Cedrola and Battaglia (2012) relies on a quantitative questionnaire based research, focused on understanding foreign operations of Italian companies in the Chinese market through the investigation of their modes of entry. The analysis of the data from the sample reveals a substantial majority of exports-based entry modes. As shown in Appendix B1, the 93% of the responding companies operate in China through export modalities, 21% through collaborations and strategic alliances, 20% through wholly owned subsidiaries. The sum of the different entry methods in the sample does not add to 100%, as some of the companies operate in China with more than one entry modes, and the methodology implemented by Cedrola and Battaglia (2012) allowed for multiple answers.

This study shows a positive correlation between the percentage sales of the companies and their experience matured in the Chinese market. This reveals that one of the factors influencing entry mode decisions is the experience acquired in the host market, and that the lack of experience may prevent Italian firms from exercising higher levels of control in the market and from committing higher levels of resources. Additionally, the study reveals that size matters, disclosing a trend for which medium-sized and big-sized companies operate with more structured and varied entry modes, while small-sized company favor almost exclusively exporting. Small and medium sized companies may lack financial resources, organizational and managerial capabilities to face geographically and psychically distant market, such as China.

Vianelli et al. (2012) conduct a survey-based study to assess the variety of entry modalities of Italian firms in China and analyze the degree of control exercised in their foreign activities. Their
study focuses on companies operating in the “Made in Italy” sectors (furniture, food, fashion, and mechanical automation) and is carried out through a quantitative questionnaire-based research followed by qualitative research interviews. As shown in Appendix B2, 56% of the sample firms operate in China merely through exporting, 27% through collaborations and strategic alliances, 17% through wholly owned subsidiaries. Therefore, the study confirms that the Chinese market remains marginal for Italian companies and that low-control entry modes prevail. The companies interviewed by Vianelli et al. (2012) claim to be limited in their approach towards the host market by their lack of knowledge, and their lack of experience about the Chinese market. Additionally, they assert that they are refrained from committing resources to the market by lack of means, which can be connected to their condition of small-sized companies. This study concludes on the same motives for the behavioral pattern of Italian companies in China as Cedrola and Battaglia (2012)’s study. However, while the former reaches its findings via the elaboration of secondary data on the companies surveyed, this latter derives the findings directly from the surveys.

The two studies are particularly relevant because of two main reasons. Firstly, they constitute a precious enrichment to the research of entry mode decisions of Italian companies in China, as they are, the only studies collecting data on the nature of Italian activities in China, and studying the variance of their entry modes in the country. The contribution of these studies increases with the preconditions from which they have been carried out, that is, a lack of a secondary comprehensive dataset on the Italian companies present in China, on their activities, and on their entry modes (Vianelli et al., 2012). The information available on the topic are rather scattered by geographical areas or economic sectors (ICE, 2012a, 2012b). Additionally, the relevance of these two studies stems from the validity of the findings, which is enhanced by the replication logic of the two analyses (Yin, 2009). The two studies implement analogous research methodologies, such as research strategy and classification of entry modes. The only difference lies in the additional inclusion of service and production contracts in the classification of entry modes from Cedrola and Battaglia (2012), which, however counts only for a mere 6% and do not disturb the validity of the comparison. The achievement of very similar results in defining the variance of the entry modes adopted by Italian companies in China through the implementation of analogous research methodologies confers reliability and validity to the findings and enhances the value of the confirming results.

I argue there are three main limitations to these two studies. Firstly, the objective of their research is placed on investigating the entry modes choices of Italian companies in China, rather than studying the determinants, and motives behind them. In other words, the purpose of the research
is to investigate how Italian companies internationalize in China and not the reasons why (Vianelli et al., 2012; Cedrola and Battaglia, 2012). Secondly, as a consequence of the first limitation, the studies focus on quantitative analyses, overlooking qualitative in-depth investigation. In-depth qualitative investigation is important to examine motives behind entry mode decisions, as entry modalities are influenced by multiple factors, and causality relationships require to be analyzed without forgetting the importance of the context (Hill et al., 1990). Thirdly, and most importantly, these studies have failed to address the complexity of the determinants that influence the entry mode decisions of Italian companies in China from an eclectic and holistic perspective. They adopt a single theoretical lens and consider single-sided aspects of entry mode decisions providing a fragmented and limited explanation of the phenomenon.

4.2 Summary and outlook

Cedrola and Battaglia (2012) and Vianelli et al. (2012) both claim that Italian companies in China predominantly adopt export-based entry modes. In both studies exports constitute the vast majority of the entry modes adopted by the companies, with a remaining fairly equal share of collaborations and strategic alliances, and wholly owned subsidiaries. In line with the theoretical framework utilized in this thesis, export-based entry modes (both direct and indirect) are associated with the lowest degree of control exercised over foreign operations, and the lowest level of resources committed to a foreign market. Hence, the two survey-based studies described in this section outline that Italian companies predominantly employ low-control, low-resource entry modes.

Both studies point out that Italian companies face difficulties in implementing successful strategies, and in achieving satisfactory results in the Chinese market. Especially, in regards to low levels of control over their operations and low level of resources committed to the Chinese market. Both studies show that the reasons behind this pattern are: 1) limited firm size, and 2) lack of experience in the Chinese market among Italian companies. As these studies either adopt a single theoretical lens, or consider single-sided aspects of entry mode decisions, I argue that they provide a fragmented and limited explanation of the phenomenon and thereby fail to address the complexity of the subject from an eclectic and holistic perspective.
In order to explore the determinants that influence the entry mode decisions of Italian companies in the Chinese market, I test the findings of the two studies (Cedrola and Battaglia, 2012; Vianelli et al., 2012) presented in the literature review, as a means to examine the entry mode choices among Italian companies in China.

5.1 Entry modes

According to the OECD, in 2010 Italy contributed to about 8% of the European FDI in China, which amounted to 4.8% of total foreign direct investments. On a world scale, Italy represents 0.4% of the total direct investments made in China (Davies, 2013). Evaluating the performance of Italy’s most significant European partners such as Germany and France, the country shows lagging values. According to multiple sources, the level of Italy’s FDI in China has been rather lower than its European partners. According to 2013 data from the OECD, the amount of investment that Italy carried out in China is similar to the Spanish one, it is less than half of the level of Germany, and one third of the French one (Davies, 2013). Besides Germany and France, the other European countries placing themselves before Italy in terms of FDI are, in order of importance, the Netherlands, the United Kingdom, and Luxembourg (ICE, 2012a). As regards the sectoral specialization, most Italian direct investments in China occur in the metallurgic-mechanical, mechanical automation, and pharmaceuticals; in a more reduced scale, the flow is followed by textile clothing, and food farming and processing sectors (ICE, 2012a).

Italy’s export performance in China appears to be slightly better than its FDI flow, both in absolute terms and in relation to other European countries. In recent years, Italian companies have enhanced remarkably their trade performance with China. Although Italy covers a marginal role in the trade scenario with a mere 1% share on Chinese worldwide imports, the country has managed to quadruple its exports towards China in the years 2007-2010, and in 2011 it grew to be China’s 21st import partner (ICE, 2012b; ICE, 2012a; Vianelli et al., 2012). Europe represents the first import partner for China, and their trade flow has increased about three times since 2005.

Note that the comparison is restricted to countries with which Italy has strong trade and investment relations, and which are similar from an economic perspective, in line with Mariotti and Mutinelli (2012), and ICE (2012).
Comparing the Italian export performance with other European countries, the trend looks more positive than the one outlined by the FDI. In 2012, Italian exports to China represented 10% of the European ones; they reached a level very similar to France, and one fifth of the level reached by Germany (ICE, 2012b). As regards the sectoral specialization, according to the ICE, Italian exports in China are mainly related to categories belonging to the “Made in Italy” such as machinery and transport equipment, textile and clothing, automotives, food and beverage, and furniture, along with chemicals and pharmaceutical products (ICE, 2012a).

Summing up, both Italy’s FDI and exports in China show lower levels when compared with major European partners such as Germany and France. However, the analysis of the statistics reported by several Institutes such as the OECD, European Commission, and Italian Trade Organization (ICE) shows that exports have more sound performance than FDI: both in absolute terms in comparison with FDI; and in relative terms in comparison with other European countries. Additionally, in recent years, Italy has multiplied its exports in China at a very fast pace, while the level of FDI has long staggered. Concerning the sectoral specialization, the “Made in Italy” sectors achieve sound performance in exporting, while assuming a very limited role in FDI.

This shows that:

1) Italian companies in China engage more in exports than FDI.

2) Italian companies in China perform better in exports than FDI in relation to other European countries.

3) The sectors belonging to the “Made in Italy” cover a very important role in Italian exports to China, while being very marginal in terms of FDI.

**Answer to sub-question 1:**

It can be concluded that Italian companies favor low-control, low-resource entry modes when internationalizing in China, as the secondary analysis in this section verify the findings presented in the literature review. According to the categorization of entry modes (Section 3.2.2), export-based entry modes are characterized by low levels of control and resources.
5.2 Determinants

In order to understand whether lack of experience and firm size are substantial and unique motives for the entry mode choices of Italian companies in China as proposed in Chapter 4, or whether additional motives for this pattern can be outlined, I analyze the Internationalization of Italian companies and the structure of the Italian economy.

I first analyze the internationalization pattern of Italian companies. Secondly, I examine the structure of the Italian economy. Subsequently, I elaborate on the findings by developing themes from the data reported, in line with the theoretical concepts developed in the thesis, and in comparison with the studies presented in the literature review.

5.2.1 The Internationalization of Italian companies

In this section, I verify whether Italian companies have accumulated lack of experience in the Chinese market by analyzing their internationalization in terms of number of projects, capital invested, and degree of employment by geographic concentration.

The analysis refers to the data collected in the prominent research “Multinational Italy” (Mariotti and Mutinelli, 2010), issued on a two-years basis in collaboration with the ICE. The study elaborates specialization indices on the relative weight of Italian FDI (for the detailed calculation of the indices, I refer the reader to Appendix C1, which shows the levels of worldwide FDI\(^2\) by Italian companies, expressed in relations to Europeans and worldwide levels.

The data reveal a strong Eurocentric internationalization approach of Italian companies, focusing on neighboring countries in the European and Mediterranean areas. It emerges that the highest concentration of both amount of capital invested and employment created by Italian companies in foreign countries places in the area of Central and Eastern Europe. Italy has additionally matured a good level of internationalization in Western Europe, especially in neighboring countries such as Germany and France, where the number of projects implemented reaches the highest level. Eastern Europe currently hosts some of the favorite cost-reduction manufacturing destinations for Italian companies, and is characterized by high concentration of Italian investments, and a relatively high job creation level. However, Italy’s neighboring countries such as France and Germany still attract a higher number of Italian projects compared to the relative average observed

\(^2\) Note that FDI include joint ventures and wholly owned subsidiaries, hence, middle-control, middle-resource entry modes, and high-control, high-resource entry modes.
in Eastern Europe. Therefore, it may be assumed that Italian foreign activities in Eastern European countries are relatively recent and carried out by fewer firms, while those in neighboring countries are at later stages of development, more frequent, and they follow a lighter investment pattern.

Latin America, and especially Brazil, places at a lower extent in comparison with the previously analyzed areas, but still shows fairly good results. In terms of number of projects, North America places higher than Latin America; however, investments level and job creation are more concentrated in the latter. Africa shows similar results to Latin America, and finally, the area of the Pacific reveals the lowest investment engagement, and even China arises rather low investment interest (Mariotti and Mutinelli, 2010).

An interesting trend emerges when the relative number of projects carried out by Italian companies worldwide is compared to their size in the respective countries as invested capital and created employment. More projects are carried out in Western Europe than in Eastern Europe, and in North America rather than Latin America; conversely, the size of the investments, as invested capital and job creation, is higher in Eastern Europe than in Western Europe, and in Latin America rather than North America. This may mean that foreign activities are more frequent and numerous towards cultural similar countries. From this comparison, it can be deduced that, after geographic proximity, cultural similarity is very important, more than cost reductions.

In sum, the analysis of the internationalization model of Italian companies shows two main findings.

1) Firstly, as Italian companies show a high Eurocentric pattern of investments, the number of projects implemented, the amount of capital invested, and the employment created through Italian activities abroad all show higher concentration in Europe, and a gradually decreasing trend towards more distant countries. The area the most marginal is represented by the Pacific area and China.

2) Secondly, it emerges that cultural similarity is the most important dimension orienting Italian foreign activities abroad, after geographic proximity and before costs reduction.

Therefore, the predominant lack of experience of Italian companies in the Chinese market is confirmed by the analysis, and the importance of cultural similarity arises as an additional thematic to characterize the internationalization process of Italian companies. As I shall explain in more detail later, they both represent valid determinants for the low-control, low-resource entry mode pattern of Italian companies in China.
5.2.2 The Italian economic structure

I analyze the Italian economic structure by examining the major features of Italian firms, in order to examine whether the limited firm size of Italian companies can be a valid explanation for the predominant low-control, low-resource entry modes adopted by Italian companies in China. I additionally explore further features in the Italian economic structure that may influence their entry mode decisions.

The Italian economic structure is characterized by limited firm size, strong manufacturing specialization, especially in four specific sectors (the four As), and a family-based ownership model.

Concerning firm size, the data from Eurostat (2013a; 2013b) show a higher importance of Small-Medium Enterprises (SMEs) in the Italian economy in comparison with other EU-27\(^3\) countries, specifically a very high concentration of micro and small firms. As shown in Appendix C2, the concentration of Italian micro enterprises is higher than the European average; higher values are found only in Czech Republic, Hungary and Poland. Italian small-, medium-, and large-enterprises show, in order, decreasing values in comparison with the European average; Italian large enterprises represent 50% less of the European national average (Eurostat, 2013b).

In Italy, the number of people employed, and the value added generated by SMEs show a higher than average importance of SME in the Italian economy, as shown in Appendix C3 and C4. Firstly, the data reveal that the number of people employed in Italian SMEs is lower only to Cyprus, and specifically the number of people employed in micro enterprises in Italy holds the highest value among the EU 27. Secondly, the data on the value added by enterprise class show that most of the country’s value added activities occur at the SMEs level, showing higher percentages than other EU 27 countries, especially at the micro level (Eurostat, 2013b).

This confirms, once again, the higher importance played by small-medium sized companies, especially micro and small firms, in the Italian economic structure. Although, small and medium enterprises represent the vast majority of the productive structure of many countries and the backbone of many economies in the world (Eurostat, 2013b), the analysis of the enterprise size class, the number of persons employed, and the value added by enterprise class in the EU 27

\(^1\) Belgium (BE), Denmark (DK), France (FR), Germany (DE), Greece (EL), Ireland (IE), Italy (IT), Luxembourg (LU), Netherlands (NL), Portugal (PT), Spain (ES), United Kingdom (UK), Austria (AT), Finland (FI), Sweden (SE), Cyprus (CY), Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Malta (MT), Poland (PL), Slovakia (SK), Slovenia (SI), Bulgaria (BG), Romania (RO) (Eurostat, 2014)
shows that Italian SMEs, micro and small firms in particular, play a higher than average role in the economy of the country.

As regards sectoral specialization, Italy is a manufacturing country. Industry is the second largest category as percentage share of Italy’s total gross value added, and it contributed to 18.6% in 2011, while Germany, the biggest manufacturing country in Europe, held 26.2% (Eurostat, 2012). To mention the taxonomy used by Bertoli and Resciniti (2012), Italian industry is specialized in the “traditional” and “specialized suppliers” sectors, which are also referred as the “four As: home furniture, food farming and processing, fashion clothing, and mechanical automation (Alimentare, Abbigliamento, Arredamento, Automazione meccanica). These sectors are also referenced as the “Made in Italy” sectors, and are argued to stand out for style elements, technological innovation, quality, craftsmanship and attention for details, which set them in the medium, and medium-high ranges of several markets. 

Eurostat (2013a) also highlights the predominance of family firms in the Italian economic structure. According to the different sources consulted (Mandi, 2008; Colarossi et al., 2008; Mussati, 2008), family firms represent 70% to 90% of the total, an average that is slightly higher than the European one, which amounts to 70% to 80% (Mandi, 2008). Additionally, in the case of Italian firms, ownership concentration and family ownership is quite elevated. According to most recent study carried out by the Observatory on Italian Family Businesses (AUB Observatory), the average percentage of family ownership on the total of Italian family firms is calculated to be 90%, with the first shareholder owning an average of 70% of the company (Corbetta et al., 2012).

In sum, the analysis of the Italian economic structure reveals that:

1) Italian SMEs have a higher incidence on the economy than their European counterparts, as they are more numerous, show higher values in terms of number of employees and value added by enterprise class than the European average.

2) The Italian industry, especially the sectors referenced as “Made in Italy”, represents the sectoral specialization of the Italian economy.

3) The number of Italian family firms is slightly higher than the European average and the Italian family ownership model is characterized by high levels of family ownership and ownership concentration.
5.2.3 Discussion of the findings

Drawing from the secondary analysis on the internationalization of Italian companies in Section 5.2.1, and the structure of the Italian economy in Section 5.2.2, this section discusses the findings and outlines the determinants that influence the low-control, low-resource entry mode pattern adopted by Italian companies in the Chinese market.

The theoretical concepts of the thesis (Cf. Chapter 3) help shaping the themes that emerge in this section, which are then compared with the findings from the studies presented in the literature review.

The determinants of the low-control, low-resource entry mode pattern of Italian companies in the Chinese market, which emerge from the secondary analysis are: 1) lack of experience of Italian companies in the Chinese market, 2) small size of Italian companies, 3) psychic distance, 4) family firms.

Lack of experience

The analysis of the internationalization of Italian companies confirms their lack of experience in the Chinese market. Italian companies develop in a strongly sequential and gradual Eurocentric internationalization pattern, investing more intensively in neighboring countries without venturing directly in areas that are geographically and logistically distant, and politically and culturally less familiar. The internationalization approach of Italian companies resembles the stage model developed by Johanson and Vahlne (1977; 1990), which is also incorporated in the concept of location familiarity of the eclectic framework (Hill et al., 1990). The eclectic framework claims that one of the variables that influence companies’ entry mode decision is location familiarity, which is described as experiential knowledge and psychic distance. Experiential knowledge and location familiarity about a foreign country influence positively the level of resources a firm is willing to commit in the market. Therefore, the correlation between the internationalization pattern of Italian companies, especially their lack of experience, and their low level of resource commitments in the Chinese market finds explanation in the theoretical framework of this thesis. Additionally, the two studies presented in the literature review (Cedrola and Battaglia, 2012; Vianelli et al., 2012), suggest that the lack of experience of Italian companies in China is one of the reasons for the entry modes pattern of Italian companies in China.
Drawing from the empirical findings, the theoretical framework and the literature review, I argue that the lack of experience (or lack of location familiarity) accumulated by Italian companies in the Chinese market represents a factor that influences the level of control and resources committed.

**Firm size**

The analysis of the Italian economic structure shows that Italian SMEs, especially micro and small firms, contribute to a larger size of the national economy than their European counterparts. The theoretical framework of this thesis does not comprise firm size as a variable influencing entry mode decisions. However, both studies presented in the literature review (Cedrola and Battaglia, 2012; Vianelli et al., 2012) claim that the limited size of Italian firms is a determinant of their lack of control and low level of resource commitment in China. According to these studies, SMEs have limited financial resources and organizational and managerial capabilities, and this prevents them from internationalizing in psychologically and geographically distant market.

Despite the ambiguity about the influence of firm size on entry mode decisions, I argue that the limited firm size of Italian firms influences the low-control, low-resource entry modes adopted by Italian companies in China. This is because both studies (Cedrola and Battaglia, 2012; Vianelli et al., 2012) outline the correlation between the two factors, and the credibility and accuracy of their findings are enhanced by replication logic, and triangulation of results.

**Psychic distance**

The analysis of the internationalization of Italian companies suggests that the extent of psychic distance influence the entry mode choices of Italian companies in China, and that cultural similarity is the most important dimension orienting Italian foreign activities after geographic proximity and before cost reductions and transaction costs. The analysis shows that Italian investments are more frequent and numerous towards culturally similar countries, rather than in countries where transaction costs are most favorable. Foreign investments are much more frequent in Western Europe and in North America, which represent countries where psychic distance is less pronounced, than in Eastern Europe and Latin America respectively. This shows that cultural similarity, or in other words, psychic distance, is particularly relevant in the internationalization process of Italian firms. The theoretical framework defines psychic distance as “the sum of factors preventing the flow of information from and to the market”, and argues that psychic distance
impacts the entry mode decision of firms in a host country, refraining them from committing resources.

The theoretical framework and the secondary analysis show that psychic distance influences the entry mode decisions of Italian companies in psychically distant countries like China, and negatively affect their level of control and resource commitment.

**Family firms**

The analysis of the Italian economic structure reveals that Italian family firms are more numerous than the European average, and are characterized by high levels of family ownership, and ownership concentration. According to the theoretical concepts of the thesis, a consistent part of the literature postulates that family firms are more risk averse than non-family firms, and that risk aversion augments with family ownership, ownership concentration, and family involvement.

This shows that the predominance of family firms, and their level of family ownership, and ownership concentration may influence the risk-taking level of Italian firms, and therefore their entry mode choices in the Chinese market.

In sum, as outlined by the studies in the literature review, the analysis confirms that lack of experience of Italian companies in the Chinese market, and their small size influence the low-control, low-resource entry mode pattern of Italian companies in China. Additionally, drawing from the empirical findings and the theoretical framework, further determinants of entry modes have emerged, and they comprise: psychic distance, and predominance of family firms.

**5.3 Summary and outlook**

Chapter 5 answers sub-question 1 and sub-question 2, which correspond respectively to Phase 1 and 2.

**Answer to sub-question 1:** The findings from the analysis and literature review corroborate the result that Italian companies predominantly adopt low-control, low-resource entry modes in the Chinese market.
**Answer to sub-question 2:** Drawing from the empirical findings of the analysis, the theoretical concepts of the thesis, and the findings outlined in the literature review, I argue that lack of experience of Italian companies in the Chinese market, and limited firm size influence their low-control, low-resource entry mode patterns in China. Drawing from the empirical findings of the analysis and the theoretical concepts, additional motives for the pattern emerge, namely, 1) psychic distance and 2) predominance of family firms.

Before turning to Alpha’s case study, I summarize the findings of Phase 1 and 2 below, in order to facilitate the continuity with the previous chapters and to secure a clear chain of evidence.

<table>
<thead>
<tr>
<th>Phase I</th>
<th>Findings: Italian companies in China adopt predominantly low-control, low-resource entry modes.</th>
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</table>
| Phase II| Findings 1: Italian companies in China adopt predominantly low-control, low-resource entry modes because they 1) lack experience in the Chinese market and 2) are mostly small-sized.  
Findings 2: Italian companies in China may also adopt predominantly low-control, low-resource entry modes because they are characterized by 3) high psychic distance, 4) and great importance of family firms. |
| Phase III| Case study analysis of Alpha’s entry mode decision in China. |

**Figure 6: Findings of Phase 1 and Phase 2 of the thesis**
In order to analyze the determinants that influence the entry mode decisions of Italian companies in China, I conduct a case study analysis of the Italian company Alpha, which comprises the analysis and the empirical findings that answer sub-question 3. The chapter represents Phase 3, which is the last stage of analysis before conclusions are drawn.

This chapter is structured as follows. I introduce the case company and describe the interviewees’ profile. Thirdly, I present the entry mode decision of Alpha in China by elaborating on the levels of control and resources that the company exercises in the Chinese market. Subsequently, I conduct the analysis of the four groups of variables that influence a company’s entry mode decision, namely, strategic variables, environmental variables, transaction variables, and the risk-taking and family firm variable. Finally, I summarize the findings and I discuss the results.

Thus, I explain the determinants that influence the case company’s entry mode decision in China through an eclectic, comprehensive, and multi-layered theoretical lens, which is based on the theoretical framework. Specifically, I seek to understand whether there is a connection between 1) the high degree of psychic distance of Italian managers towards China, 2) the predominant family ownership of Italian companies, and the low-control, low-resource entry mode choices adopted by Italian firms in China, as I discovered in Chapter 5.

The case study enables one to understand the phenomenon through the words of experienced managers and through secondary data, which triangulate and complement the former.
6.1 Company overview

Alpha is an Italian big-sized company, which employs about 13,000 people (30% in Italy and the rest abroad), owns 42 manufacturing sites, operates directly in 21 countries and exports its products to over 100 countries (Corporate Website, 2013; Alpha Annual Report, 2012).

The company has acquired long experience in the Chinese market, as it has been exporting to China for 20 years (AS, 2013), and has had the same two local distributors for the last 10-12 years (AM, 2013).

Alpha faces marginal but growing demand conditions in the Chinese market, which are expected to improve in the years to come (ICE, 2010; Euromonitor International, 2012, 2013; AS, 2013). Additionally, the internationalization of Alpha in China is not altered by restrictions to imports of its products, and regulations against FDI in the sector where it operates, as the Chinese government considers foreign investments in the sector positively (Sullivan et al., 2011; Euromonitor International, 2012).

Yet, low levels of control and resource commitment characterize Alpha’s entry mode choice in China.

As discussed earlier, Italian companies are refrained from exercising higher levels of control and resources in the Chinese market, as they lack experience and they are small-sized. This is not the case for Alpha.

However, psychic distance of Italian managers towards China, and predominant family ownership of Italian companies, characterized by ownership concentration and family ownership concentration, are found to be factors that may deter Italian companies from adopting higher levels of control and resources in the Chinese market. These are the reasons why Alpha was selected as a single case study. Firstly, Alpha is a big-sized company with extensive experience in China, not refrained from negative conditions in the Chinese market. Secondly, Alpha is representative of the characteristics of Italian family firms, as it holds high ownership concentration and family concentration. The Alpha family has privately owned the company for four generations, and the three brothers currently own 85% of the company (Alpha Annual Report, 2012).
6.2 Interviewees' profile

The interview findings are drawn from qualitative interviews conducted with two top managers of Alpha involved with the Chinese operations of the company.

<table>
<thead>
<tr>
<th>Name</th>
<th>Mr. AS</th>
<th>Ms. AM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Role</strong></td>
<td>Innovation and Marketing Manager of Asia, Australia and Africa</td>
<td>Area Manager of Asia</td>
</tr>
<tr>
<td><strong>Nationality</strong></td>
<td>Italian</td>
<td>Italian</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Singapore, Asia commercial subsidiary</td>
<td>Parma, Headquarter</td>
</tr>
</tbody>
</table>
| **Focus on the Chinese market (timing)** | - Analysis, development, and monitoring of the Chinese market *after* the company's restructuring and the strategic shift  
- Started focusing on the Chinese market two years ago | - Analysis, development, and monitoring of the Chinese market *before* the company's restructuring and the strategic shift  
- Had followed the Chinese market for 20 years, until two years ago |
| **Key responsibilities in the Chinese market** | - In charge of the current strategic development of the company in the Chinese market.  
- Responsible for the innovation and Marketing of the three emerging geographical areas of the company.  
- Responsible for the establishment of the representative office that the company opened in Shanghai in September 2013. | - She has been leading the development of several markets in Asia and she has paved the way for the establishment of the company in the Chinese market.  
- Responsible for the export strategy, and the export operations in China, and the development of the business relations with Chinese importers before the company's strategic shift |

Figure 7: Interviewees’ profile
6.3 Alpha’s entry mode choice in China: control and resource commitment

Alpha adopts an export-based entry mode, which is consistent with the decision made by the majority of the Italian companies in China, and is characterized by low levels of control over its activities and low commitment of resources in the Chinese market.

After having exported merely through its distributors for a decade, in 2011 Alpha established a commercial subsidiary in Singapore to help coordinate the activities in the Asian markets; in 2013 the company established a representative office in China to increase market presence and to help supporting and training its Chinese distributors. Although Alpha has increased its resource commitment towards the Chinese market, representative offices still fall under the category of export-based entry modes as they are characterized by low levels of control and resource commitment, as explained in Section 3.2.1.

As Ms. AM explains:

"With the export business model you sell to a distributor, which is an independent company that buys your product and sells it to various local clients (...) I can try to influence, but not to control, it is not even allowed by law. What we can do is to accompany the distributor in a training process when the category being sold is little or not known, because not so familiar to the market (...) Always respecting the responsibilities of everyone" (Q11).

As regards the level of resources committed to Asia and China, Ms. AM explains the export-based entry mode adopted by the company:

“All the development plans that we make must be self-supported, we have to generate resources internally to support these plans” (...) “If you do things properly, you can pave the way for when the company will have the necessary resources to make more important plans for its development” (Q2).

Mr. AS adds:

“It is impossible to start with a direct model/presence in emerging markets like China or Brazil because (...) They necessitate huge investments” (Q13).
Among others, these statements show that Alpha’s entry mode decision in China entails low control and low resource commitment.

6.4 Strategic variables

I first analyze the company’s strategic position, and then turn to the strategic variables that influence Alpha’s entry mode decision in China, namely, 1) the national differences between the markets, 2) the scale economies the firm can realize, 3) and the global concentration of the industry.

A company’s overall strategy is determinant for the entry mode decision in a foreign market. A firm bases its strategic decisions on the trade-off between localization and standardization; yet, the strategic choices between one and the other are not exclusive and in real life companies may opt for compromises between these two extremes. (Hill et al., 1990)

Alpha declares that the new alignment of its assets “aims at achieving the right balance between global and local” (Alpha Annual Report, 2012). The company adopts a strategy that can be defined as a mix between a global and a multi-domestic strategy. In Europe, the company adopts a multi-domestic approach, characterized by more localized products, a broader product range, and multiple functions at the country levels. In the rest of the world, where the internationalization process of the firm is much more recent, the company has decided for a global strategy based on the so-called core activities. In China, the company plans to sell only its core-products, and slightly adapt them to the Chinese market, while maintaining the production and the functions related to the adaptation process in the Italian headquarter (Alpha Annual Report, 2012; Corporate website, 2013; AS, 2013; AM, 2013).

6.4.1 Extent of national differences

The extent of national differences leads firms to delegate control at the national level over their foreign operations and to pursue a multi-domestic strategy. This allows companies to benefit from the value created by local adaptation and/or local responsiveness, as the extent of national differences entails a gap in “consumer tastes and preferences, competitive and operative conditions, and political and legal structures” (Hill et al., 1990).

During the interviews, it emerged that Alpha’s management considers the scale of national differences between China and Italy as quite substantial. In terms of legal structures and operating
conditions, the gap was perceived more acute by the interviewees. In terms of consumers’ tastes and preferences, the differences seem relevant but not compromising for the success of the product offered by the company. The company could therefore reap the benefits from the localization and adaptation of its products in the Chinese market, and consequently opt for a low-control entry mode.

6.4.2 Scale economies

The possibility to benefit from scale economies along with homogeneity of the market drive companies to adopt global-oriented strategies, and therefore reap the benefits of standardization; whether proper control is performed over the foreign activities (Hill et al., 1990).

Alpha is a global player, the biggest manufacturer of pasta in the world and a competitive player in the bakery sector in certain regions. According to Mr. AS, pasta, sauces and ready meals represent the sectors where the company has a real competitive advantage in terms of economies of scale and learning economies, substantial cost advantages and operational efficiencies (AS, 2013).

This means that Alpha has a huge incentive to reap the benefits from economies of scale in the categories related to its core activities. According to the company, the economies of scale reached by the firm are too beneficial to consider localization. This variable influences the entry mode in the direction of a high-control entry mode.

6.4.3 Global concentration of the industry

Firms operating in globally concentrated industries, characterized by a limited number of global players, prefer entry modes that allow them to exercise high level of control over their foreign activities in order to globally coordinate their strategies (Hill et al., 1990).

Alpha internationally operates in the bakery and pasta sectors. However, outside of Europe, the company has decided to focus only on its core business, and to develop its global strategy in the pasta sector. The pasta industry is globally very concentrated, with few big players and many local players (AS, 2013). According to Ms. AS, the real competition comes from local players because of the nature and consumption of the product. Although Alpha is the only worldwide global player, there are some big competitors that threaten its position, which are very strong competitors at a local level trying to expand at a more global level (AS, 2013).
The strongest Alpha’s competitors in China are Italian brands and the Australian company SR. The Italian companies are too small to compete on the same level as Alpha, while the Australian company SR represents the closest competitor. The manager AS claims that SR has not aggressively moved in the Chinese market yet. However, it could represent a future threat for the company, due to its big dimension and innovative capabilities (AS, 2013).

This means that the intense global concentration of the pasta industry, characterized by few global players, should lead the company to exercise a high level of control over its foreign activities in order to achieve a globally coordinated strategy.

6.4.4 Summary of Alpha’s strategic variables

The analysis demonstrates that two variables out of three are oriented towards high-control entry modes.

Scale economies and global concentration of the industry lead the strategic stance of the company towards a global-oriented strategy and a high level of control over foreign activities. Conversely, the extent of national differences between the two countries directs the firm in the direction of a multi-domestic approach and a low-control entry mode. According the interviewees, scale economies and global concentration are the most important variables in determining the strategic stance of the company in China, as they entail huge economic and strategic benefits for the company.

Figure 8: Alpha’s Strategic Variables in China
6.5 Environmental variables

I now analyze the environmental variables that influence Alpha’s entry mode decision in China, namely, 1) country risk, 2) location familiarity, 3) demand condition, 4) volatility of competition.

6.5.1 Country risk

When country risk is elevated, environmental uncertainty increases and companies are refrained from investing resources in the host market, preferring flexible entry modes (Hill et al., 1990).

According to the company, China is characterized by a middle-elevated country risk. This emerges from the declarations of the interviewees, who show low trustworthiness towards Chinese partners and worries about the unreliability of the institutions in terms of legal protection. For example, Mr. AS comments:

“The Chinese market is very dangerous, especially in terms of acquisitions and in the choice of the partner. The partner has to be reliable in terms of raw material, employees’ treatment, etc. For a big company like us this is very risky, and it is a delicate issue” (Q13).

While Ms. AM, out of her extensive experience in dealing with Chinese partners for Alpha, claims:

“Finding reliable partners from a financial point of view, it was, and it is also nowadays, the big challenge with China. The most difficult thing about dealing with China is to find a reliable partner; when it comes to financial trustworthiness in China, this is very dangerous” (Q8).

This shows that country risk assumes a high importance in the words of the interviewees and should lead the company to adopt an entry mode characterized by flexibility, and therefore, low commitment of resources in the Chinese market.

6.5.2 Location Familiarity

Location familiarity refers to the cultural and economic perceived distance between the home country and the host country, and it is influenced by: 1) psychic distance, and 2) previous experience of the company in the host market. The more the company feels familiar with the host
market, the more environmental uncertainty decreases and the firm is willing to invest resources (Hill et al., 1990).

**Psychic distance** is defined as the “sum of factors preventing the flow of information from and to the market” (Hill et al., 1990). The low level of trust that both the interviewees demonstrated towards Chinese partners and Chinese institutions during the interviews is rather exemplar of the distance in communication, and of the difficulties in the exchange of information. Moreover, the declarations that follow reveal that the company perceives a strong psychic distance towards the Chinese market.

For instance, as Mr. AS states:

> “What you read in the newspapers is not true. The Chinese are not able to give the exact nationalities to different food items, and to make a precise distinction among Western food habits, what is French rather than Italian or Spanish. In reality, China is much less advanced than what you think. In a country of 1.3 Billion people, those who live in conditions comparable to Western standards, even from a cultural point of view, are less than the 10% of the population of Shanghai, and 5 % of the big cities” (Q4).

The perceived distance between the two countries in terms of living conditions, habits and consumer preferences is quite substantial and symbolizes a quite remarkable psychic distance. According to the interviewees, the distance in the food and culinary habits could be bridged with education and promotional activities of the company’s products, which would facilitate the approach to the customers. As emerged in the interviews, the role of education on the consumption and usage of the company’s products is fundamental.

Mr. AS declares:

> “There is the need to do a lot of education on the pasta product, and explain that the product is very simple” (Q5)

Not just towards the consumers but also towards the distributors, as Ms. AM explains:

> “What we can do is to accompany the distributor in a training process when the category being sold is little or not known, because not so familiar to the market” (Q11).
The asserted need for education, and marketing investments for the success of the product shows the existence of factors that prevent the flow of information between the two countries, specifically in the sector that the company operates in.

Secondly, the **previous experience** a company accumulates in a host market generates experiential knowledge in doing business in the respective country; this increases the prospects to carry on additional investment opportunities and additional resource commitment. Previous experience reduces host market uncertainty and, hence, augments the size and the likelihood of resource commitment in a foreign market (Hill et al., 1990).

Both interviewees have emphasized that Alpha has been involved in China for many years, and have esteemed the experience acquired by the company in the Chinese market. However, they also emphasize that the level of experiential knowledge that the company has acquired in China is not sufficient to commit further resources, primarily for two reasons. First the host market is very distant and different (psychic distance); and secondly, despite their claimed long experience in the market, they have always adopted an entry mode characterized by low-control and low-resources, which has not allowed Alpha to mature sufficient capabilities and knowledge (AS, 2013; AM, 2013)

Mr. AS states:

"It is impossible to start with a direct model/presence in emerging markets like China and Brazil, because capabilities and knowledge are missing" (Q13).

Ms. AM corroborates the importance of location familiarity, and claims:

"The export model will let you have the initial coverage of the market, start to take small pieces of the shelf and let consumers see your brand. If you do things properly, you can pave the way to legitimate specific investments for when the company will have the necessary resources to make more important plans for its development, to do market research" (Q3).

From the words of the interviewees, it emerges that previous experience and experiential knowledge are crucial in the approach to the Chinese market and in the entry mode decision of the company. Although Mr. AS and Ms. AM emphasize the importance of this variable and the experience that the company has acquired in the last two decades, they feel that Alpha has some
learning to do before it will acquire enough experiential knowledge to commit higher level of resources to the host market.

In sum, the company shows a relevant psychic distance towards the Chinese market, and a medium level of experiential knowledge. The interviewees communicated the obstacle represented by psychic distance, and the need to acquire a deeper understanding of the market. As location familiarity ranges form a low level to a middle level, this variable should lead the company to adopt an entry mode characterized by low-to-middle commitment of resources.

6.5.3 Demand conditions

According to Hill et al. (1990), demand uncertainty may refrain companies from investing resources in a foreign market. In addition, demand uncertainty is greater for products at the embryonic or declining stage of their life cycles.

Therefore, I first look at the differences between Alpha’s product offer (pasta) and its substitute in the Chinese market (noodles) highlighted by the two interviewees. Subsequently, I analyze the level of pasta consumption in China in relation to other areas of the world. Thirdly, I analyze the factors influencing the future evolution of pasta demand in China, both in the opinion of the interviewees, and according to my personal analysis, which draws on external sources. Finally, I conclude on the demand conditions for pasta in China.

The demand for the firm’s products is still marginal as it is at an embryonic stage. The availability of the product in China is, so far, limited to modern grocery chains, especially foreign owned hypermarkets and supermarkets (Metro, Auchan, Carrefour, W-Mart) and Chinese modern retailers (Vanguard, Linhua). Although noodles could be considered as similar to pasta, they belong to a different sector. The demand for noodle is characterized by enormous volumes, as they represent the pillar of Chinese eating habit, their availability is much more vast, and the raw material used for their production is different. While pasta is produced with durum wheat, noodles are made of wheat flour or rice flour (AM, 2013; AS, 2013).

As it is shown in Appendix C5, pasta consumption in China amounts to 0.2% of Asia Pacific consumption, and 0.01% of the total world consumption. The demand appears very limited, especially when compared to other Asian countries such as Japan, and neighboring countries between China and the Middle East. Conversely, Chinese consume 47.427.000 tons of noodles, and 39.819.000 tons of instant noodle, which amount to half of the total world consumption in both cases (Euromonitor International, 2013b).
However, there are further crucial dynamics in the current demand and in the future forecast of both pasta and Western food. The analysis of the life cycle's stage of a firm’s product, comprising its pattern, future evolution and length is important for the development of its strategy. The life cycle’s stage of a firm’s product is influenced by the industry and the sector the product belongs to, the technologies within the market, the country, and the timing (Vernon, 1966, 1979; Hill, 1990).

According to Mr. AM, the three main features that influence the Product Life Cycle (PLC) of Alpha’s products in China and its future evolution are: the expansion of the Chinese middle class, the growth of the Western restaurant chains, and the concerns on food safety. These factors currently impact the consumption of pasta, and are deemed to intensify their influence, moving up the product in the life cycle (AM, 2013).

Mr. AS claimed that the Chinese economic expansion has involved not only the very rich, but also the middle class. The higher disposable income is leading Chinese to be more curious and open-minded towards Western consumption styles, and to be more willing to purchase imported, Western items. Secondly, Mr. AS acknowledges that international Western restaurant chains are fostering consumption of Western food, and exposing Chinese costumers to new categories of products. As the most important Western restaurant chains such as McDonalds, Starbucks and Pizzahut have approached Alpha for the utilization of their products, the future development of Alpha’s goods in the Chinese market should significantly accelerate. Thirdly, the recurrent food scandals involving Chinese products have pushed Chinese costumers towards Western and imported goods, and towards new or substitute categories. This is the case of cow milk, which has been introduced in China by foreign companies after the numerous scandals of contaminated soya milk, and bottled mineral water (AS, 2013).

As mentioned by Mr. AS, the expansion of the Chinese middle class may play a crucial role in the stimulation of future demand for the company’s products. More precisely, according to the McKinsey Global Institute, consumption categories such as food items will be boosted by an enormous increase of the Chinese middle class during the next 20 years. This class will increase in size and spending power, and by 2025 is estimated to make up to three fourth of China’s urban households. Hence, the increase in Chinese middle class is meant to exercise a strong influence on the packaged food industry, and especially on the consumption of Western food (Magni and Poh, 2013). Additionally, as consumption among the Chinese middle class is often a sign of social achievement and cultural awareness, the increased traveling experiences and the importance of status symbols have stimulated the rise of a taste for the exotic and of the consumption of Western food. This is particularly significant as an increasing number of meals are consumed outside the
home (ICE, 2010; Euromonitor International, 2013). Secondly, as mentioned by Alpha’s manager, a very important determinant in the increase of Western food consumption has been the development of Western restaurant chains, which have brought imported and Western food exposure to Chinese customers. They have also determined the introduction and success of new eating habits, as it has occurred with the diffusion of burgers and coffee chains. In the same line, other elements that have played in favor of pasta and Western food consumption, and will continue to exercise a positive effect are: the improvements of transportation infrastructure, urbanization, liberalizations in retail services, and the increase of international hotels and chains (Vianelli et al., 2012). The liberalization of the retail services has fostered the development of modern retailers, especially foreign-owned, which are bringing a broader, more diversified offer, and a wider exposure of foreign products to Chinese customers (Euromonitor International, 2012). In the last 6 years, foreign owned hypermarkets and supermarkets such as Carrefour, Metro, W-Mart, and Auchan have multiplied in the costal areas, and are shortly expected to move towards Chinese inner cities (ICE, 2010). This represents a very positive premise for the future growth of Western food consumption. Lastly, many local companies have been involved in food scandals in recent years, and this has undermined the confidence of customers, who turn more frequently to international brands and imported food, considered more safe and controlled (Euromonitor International, 2013). From milk, rice, eggs, meat and oil to fruits and vegetables, almost every sector has been affected by recurrent food safety problems. As a consequence of this trend, products previously unknown to the Chinese consumers have been successfully introduced (Euromonitor International, 2012).

The government is taking initiatives through new regulations and stricter control; more significantly, it is welcoming foreign investments, under the form of mergers and acquisitions, and collaborative projects led by foreign firms. In this way, local firms can upgrade technologies, know-how, and innovative management systems, while foreign firms get access to the market knowledge of domestic companies (Euromonitor International, 2012; Connolly et al., 2012; Business Monitor International, 2013). Since the food industry is very local and characterized by highly fragmented supply chains, and since the monitoring of food quality is carried out at a local and regional level (Euromonitor International, 2012), it is assumed that food safety will continue to represent a real problem in the medium-long term. The numerous improvements that China has to implement to shift from an underdeveloped agricultural and food sector to a developed one will take an extensive period of time (Euromonitor International, 2012). After almost a decade of food scandals, the Chinese will keep up their concerns about food safety and quality.
In sum, the current demand of Alpha’s products is at the embryonic stage, characterized by a current marginal demand, especially when considered in relation to other Asian countries. However, both interviewees and secondary data predict a substantial increase in consumption of Western food, especially among the Chinese middle-class, which is showcased by the increase of Western restaurant food chains, and higher food safety concerns. These factors will improve investment opportunities in the food sector. Specifically, these conditions may enable Alpha’s products in China to move up the life cycle stage, opening up substantial opportunities both in sales and in investments.

The demand conditions of the company’s products in China should therefore lead Alpha to adopt an entry mode characterized by a medium level of resource commitment.

6.5.4 Volatility of competition

Volatility of competition can be determined by rapid changes in technology, social and demographic factors, and in macroeconomic or regulatory elements, which intensify competition on the basis of price, marketing or investments. Volatility of competition creates environmental uncertainty and drives companies to favor more flexible investment modes (Hill et al., 1990).

The sector where the company operates in, is rather traditional, and manufacturing-based. It satisfies primary needs, but it is not yet exposed to fierce and volatile competition, as it holds high entry barrier and it is still at the embryonic stage. It is not affected by sudden demographic change as industries characterized by short life cycles and high level of technological turnovers.

Concerning regulatory factors, specific sectors that the government targets for economic development benefit from favorable foreign investments policies; conversely, sectors that are protected from foreign influences are ostracized from foreign trade or investments. China’s Revised Catalogue Guiding Foreign Investment in Industry was updated in 2011, and has revised both encouraged and discouraged sectors for FDI, in line with the current economic and industry priority outlined in the 12th Five-Year Plan (FYP, 2011–15). In line with the government’s goals to upgrade China’s industrial structure, preserve environmental resources, and improve health and safety of its population, foreign investments are promoted towards high-tech, environmental protection sectors, and food industry. Among the ostracized sectors, it is for instance the financial service sector (Sullivan et al., 2011; Euromonitor International, 2012).

This means that environmental uncertainty caused by volatility of competition should not refrain the firm to commit resources to the host market.
6.5.5 Summary of the Alpha’s environmental variables

The analysis of the data that shape the environmental variables of Alpha in China demonstrates that two variables out of four are clearly oriented towards a flexible entry mode and the avoidance of resource commitment. Country risk and location familiarity lead the company towards low-resource commitment, while the volatility of competition in the sector demonstrates that investments are favorable. Lastly, at the current stage, demand conditions for Alpha’s products are not very favorable for resource commitment; however, its determinants are very positive for the development of future demand whether combined with an active strategy and higher investment levels.

Relative to the other variables, the strongest one in shaping the environmental determinants is country risk. The interviewees emphasized the dimension of risk, especially in relations with the trustworthiness and reliability of partners and institutions. The emphasis on this dimension provides a picture of high uncertainty and low degree of trust towards the Chinese market.

The most ambiguous factors in the environmental group of variables are location familiarity, and demand conditions. Two dichotomous forces characterize location familiarity: experiential knowledge, which would lead the company towards higher levels of resource commitment, and psychic distance, which instead mitigates its influence. The interviewees highlight that Alpha has acquired extensive experience in the country; however, this is claimed to be not sufficient to undertake further steps towards more resource-oriented entry modes. This is influenced by the amount of psychic distance between the two countries, which both interviewees feel being rather substantial, and the low-control, low-resource entry mode that the company has always adopted in China.

Secondly, the demand conditions are characterized by dichotomous forces. The current demand does not drive the company to commit more resources to the market as the products are at an embryonic stage. Conversely, the conditions that drive demand are currently strong and are expected to grow even stronger in the future. This would need to be substantiated by higher resource commitments if the company wants to benefit from these conditions, as emphasized by the interviewees.
6.6 Transaction variables

Transaction variables entail both the value of the firm-specific know-how, and the tacit nature of its component, also called tacitness of knowledge, or just tacit knowledge. Transaction variables determine the level of risk dissemination a firm faces, and influence the level of control a company exercises on its foreign activities to avoid the loss of its rent. High know-how specificity and tacit knowledge make it difficult for the company to delegate its functions without risking the loss of its competitive advantage, and therefore its rent. This situation implies high transaction costs, and leads the company to favor high-control entry modes (Hill et al., 1990).

6.6.1 Value of firm-specific know-how

From the data collected through the interviews, it has emerged that the rent earned by the Alpha’s proprietary and tacit know-how is quite consistent. The value of Alpha’s specific know-how comes from technological, physical and brand specificity.
The company’s specific know-how and its competitive advantage lie firstly in Alpha’s food standard and high level of quality. Secondly, in its broad product range, as the product line of the company in terms of pasta and pasta sauces is unique in the world. Thirdly, the value of specific know-how comes from strong economies of learning, which the company has matured in its 130 years of experience. Additionally, as the company provides a high range of products worldwide, brand specificity is crucial. The company’s brand name and its products’ packaging have shaped brand awareness among the customers and determined the company’s marketing strategies. Concerning brand specificity (AS, 2013; AM, 2013).

6.6.2 Tacit nature of know-how

During the interviews, the thematic of tacit nature of the company's know-how has not emerged directly. When addressing the topic, the difficulties in the transfer of firm-specific knowledge to external organizational structures have focused more on factors and problems that are linked to the extent of national differences and psychic distance.

It can be assumed that Alpha faces a middle degree of tacit knowledge. Since the company has matured an extensive experience, and developed different types of knowledge specificity, Alpha’s know-how has layered in its own organizational structure, in its routines, processes and people. This entails some difficulties in the transferability to an external organizational structure.

6.6.3 Summary of Alpha’s transaction variables

The analysis of the transaction variables of Alpha in China demonstrates that Alpha undergoes a middle-to-high level of risk dissemination of its rent in China. This means that the company is likely to face a middle-to-high risk of compromising its rent and the value of its competitive advantage by transferring its know-how and capabilities to external organizational structures. Exercising higher levels of control over the foreign operations and activities in the foreign market can mitigate this risk.

Specifically, the value of the firm-specific know-how is substantial and entails high transaction costs and high risk of know-how dissemination, as the company’s specific know-how is rather multifaceted. The tacit nature of the firm’s know-how involves a middle level of transaction costs and dissemination risk, as its know-how has layered in its own organizational structure, in its
The firm has adopted an extremely careful and rather timid internationalization path. Alpha’s internationalization development shows that the company has always taken rather safe decisions.
following a progressive, sequential and Eurocentric approach. The company had to suffer from economic loss and profitability threats before it took any initiatives in more distant and risky countries. As the recession has mined the company’s most profitable markets and turned them into stagnant markets characterized by decreasing demands, Alpha has decided to re-shape its strategic view and organization structure (Alpha Annual report, 2012; AM, 2013).

The interviewees have defined Alpha’s overall internationalization strategy and approach to the Chinese market as “organized”, “disciplined” and “in control”. This topic has emerged multiple times during the interviews. For instance, Ms. AM claims:

“We have always been very disciplined with our development plans, very clear, we have always started from markets where our products already existed, and with a good turnover (…) Looking at the rest of the world, the United States, after Italy and after Europe, needed to be the priority. So I think we’ve been very disciplined in this” (Q3).

“Hence, priorities are very important for us!” (Q2).

“We have been very disciplined in advancing towards markets where our products already existed, were already consumed and known” (Q4).

In addition, Ms. AM claims she has pressured Alpha’s top management for many years before they decided to commit more resources and achieve higher engagement in the Chinese market.

“And every year I knocked at the top management’s door - We have this opportunity, this opportunity there, do we want to bring it forward, do we want to do something more? - And finally, in the last three years the focus, the interest, and the commitment of the company for this part of the world have aroused” (Q2).

Additionally, she suggests that the delay in approaching the Chinese market comes from the company being family owned, and therefore more conservative and traditional. Ms. AM states:

“Please note that Alpha is a family business. So, this means that all the development plans that we
make must be self-supported, and we have to generate resources internally to support these plans. Hence, priorities are very important to us” (Q2)

“Perhaps we should think of products that are a little more innovative, more convenience-oriented. We may be a bit conservative and traditional, we are very disciplined and in control with our plans, and with our strategic decisions” (Q4).

As a specialist and experienced manager in China, Ms. AM seems to be aware of the investment opportunities that the Chinese market offers. She acknowledges that Alpha will miss important opportunities in the market, if the company does not commit more attention, and take more resource-oriented (and risky) decisions in this area of the world.

According to the theoretical chapter of this thesis, family ownership and ownership concentration are expected to negatively affect the risk-taking level of companies in their business decisions. This study is limited to assess and confirm the connection between family firm status and risk aversion, by acknowledging the reasons for the correlation. It does not aim to test the determinants of this phenomenon, but rather to explore the existence of this connection.

Therefore, the connection between the status of family firm and the level of risk-taking in business decisions is confirmed in Alpha’s entry mode decision. It emerges that firms are not risk neutral, and risk proclivity does not depend only on the environmental uncertainty of the host market; risk-taking is linked to the perceptions of managers and to the governance of the company. The findings from the interviews show that being a family firm has influenced Alpha’s risk aversion in business decisions, and therefore, its entry mode choice in China.
6.8 Summary

After having explored and analyzed the variables that influence Alpha’s entry mode decision in the Chinese market, I now summarize the influence of the specific groups of variables on the three constructs of control, resources and dissemination risk, and of the status of family firm on the risk-taking approach of the company, as visualized in Figure 12.
From the analysis of the **strategic variables** that influence Alpha’s entry mode choice in China, it emerges that the company prioritizes the benefits that it draws from economies of scale and high global concentration of the industry. The former allows Alpha to achieve consistent cost advantages, while the latter builds up important entry barriers to the international industry. Hence, Alpha should implement an entry mode that allows the firm to exercise high level of control.

Concerning **environmental variables**, from the analysis it emerges the importance of factors that lead the company towards flexibility rather than resource commitment. Country risk and psychic distance assume great importance in the interviewee’s words, and should drive the company towards a low-resource entry mode choice.

The **transaction variables** of the company entail middle-to-high value of its specific know-how, and a middle level of tacit knowledge. Hence, the transaction variables determine a middle-to-high risk-dissemination level for the company, which should drive Alpha towards an entry mode characterized by middle-to-high control levels.

The **risk-taking** and family firm variable shows the connection between the status of family firm and Alpha’s timid and conservative approach to the Chinese market, influencing the entry mode of the company in the market. This reveals that firms are not risk-neutral, and risk-proclivity does not depend only on the environmental uncertainty of the host market, but is connected to the perceptions of managers and to the governance of the firm.

### 6.9 Discussion of the findings

After having analyzed the different groups of determinants that influence Alpha’s entry mode decision in China, I discuss the findings by highlighting the single variables that influence the entry mode decision of the company in terms of its level of control and resource commitment in the Chinese market.

From the analysis of the specific groups of variables that influence the level of control, resource, and dissemination risk of Alpha in the Chinese market, the company would be expected to implement an entry mode characterized by high level of control, low resource commitment, and a middle to low level of risk dissemination, as visualized in Figure 13.
The level of resource commitment that Alpha should adopt is consistent with the export-based entry mode; the level of control suit a wholly owned subsidiary; and the level of risk dissemination is compatible with both the above-mentioned entry modes.

As Alpha has decided for an export-based entry mode in China, it can be assumed that specific variables have prevailed in its entry mode choice. As visualized in Figure 12 and Figure 13, the two groups of variables that lead the company towards export-based entry mode are environmental variables, and the risk aversion influence of the family firm status. Although it cannot be measured which of these two groups of variables had the biggest influence on Alpha’s entry mode decision, from the managers' words emerge that both environmental variables and the risk aversion of the family firm status have determined Alpha’s entry mode decision in China. Among the environmental variables, country risk and psychic distance emerge as determinant. Their relevance stems both from the emphasis placed on these factors by the interviewees, and for their influence in determining the outcome. As country risk is seen from the company’s perspective, country risk and psychic distance are intertwined and connected variables.

Additionally, from the words of the interviewees, it emerges that firms are not risk neutral, and that there is a correlation between the company being conservative, “disciplined” and “in control” and its status of family firm.

In sum, the analysis of Alpha’s entry mode decision in China shows that the primary factors that influence the company to adopt an entry mode characterized by low levels of control and resource commitment are: country risk, psychic distance, and family firm status.
7. CONCLUSIONS AND FUTURE RESEARCH

I present the key findings of this study, and answer the research question. I then address the limitations by proposing future research directions.

7.1 Conclusions

My empirical findings show that Italian companies primarily internationalize in China through entry modes characterized by low levels of control and resource commitment, as they lack experience in the Chinese market and they are small-sized companies. Especially my case study findings show that psychic distance (location familiarity), perceived country risk, and family firm status influence the entry mode decisions by negatively shaping the level of control exercised, and the level of resources committed in the Chinese market.

My answer derives from three sub-questions presented in three different phases.

In Phase 1, I answered sub-question 1 by assessing the entry modes adopted by Italian companies in China, based on the findings of Phase 1. I examined Italian FDI and exports in China in absolute terms and in relative terms. The findings were then compared with the two studies presented in the literature review. I was hereby able to confirm that Italian companies predominantly adopt low-control and low-resource entry modes in China.

In Phase 2, I answered sub-question 2 by exploring the reasons why Italian companies predominantly adopt low-control and low-resource entry modes in China, based on the findings of Phase 1. I analyzed the internationalization pattern of Italian companies and the structure of the Italian economy, by means of secondary data, in order to understand whether a lack of experience and limited firm size are substantial and unique motives for the entry mode decisions of Italian companies in the Chinese market, as proposed in the literature review, or whether additional determinants for this pattern could be outlined. The findings were interpreted through the theoretical concepts elaborated in Chapter 3 and then compared with the previous studies presented in the literature review. I was hereby able to confirm that Italian companies predominantly adopt low-control and low-resource entry modes in China because they lack experience in the Chinese market and they are small-sized. Additional determinants were found to be high psychic distance towards China, and the predominance of family firms, which tend to possess a higher degree of risk-aversion.

In Phase 3, I answered sub-question 3 by examining the determinants of Alpha’s entry mode decision by means of a single qualitative case study in order to confirm the findings of Phase 2.
Alpha is an Italian big-sized company that has decades of experience in the Chinese market, and which is not limited by investment restrictions or negative market conditions. However, Alpha adopts a low-control, low-resource entry mode, as most other Italian companies in China. Therefore, I analyzed the determinants of Alpha’s entry mode decision and how they affect the levels of control exercised and resources committed in the Chinese market. I chose Alpha, as it allowed me to test whether high psychic distance of Italian managers towards China, and the family ownership of the company influence its entry mode decision. I then analyzed the determinants of entry modes through the theoretical lens in Chapter 3, and allowed for additional motives to emerge. I was thereby able to show that Alpha adopts a low-control and low-resource entry mode in China because of its high psychic distance, high-perceived country risk, and risk-aversion connected to its family firm status. These three factors influence the level of control and resources that the company exercise and commit in the Chinese market negatively.

The three Phases and the answer to the central research question are visualized in the model below (see Page 80).

I argue that it is relevant to investigate the motives that influence the entry mode pattern of Italian companies in China, as there is a pressing need to acknowledge these factors, in order to improve the success rate of Italian companies in the Chinese market. With the negative Italian economic situation, which has been devastating to domestic consumption and company revenues, fast-growing and emerging markets have recently received attention from Italian companies and governmental bodies fostering Italian investments abroad. China is of particular interest due to its size, fast-paced development of its domestic market, and its numerous investment opportunities (Guo, 2007). The findings are therefore not only relevant to academia, but also to managers, investment agencies and policy makers analyzing and facilitating investments in China, as for instance the Italian Trade Commission and the Italian Chamber of Commerce. At the meso-level, forecasts for the packaged food industry and specifically the Western food sector in China are very positive, as both societal changes and consumer dynamics, along with the foreign investment policy taken by the Chinese government, are facilitating investment opportunities for foreign companies. These conditions are able to move Alpha’s product range up the product life cycle, and open up substantial opportunities both in sales and investments. The case study shows that Italian firms would improve their position in China if more control was exercised and more resources were committed to the Chinese market. For instance marketing campaigns and education are necessary ingredients in order to foster consumption in the Chinese market due to cultural differences in taste and consumer behavior.
The empirical findings show that Italian companies primarily internationalize in China through entry modes characterized by low levels of control and resource commitments, as they lack experience in the Chinese market and they are small-sized companies.

**Chinese market** influences the entry mode decisions by negatively shaping the level of control exercised and the level of resource commitments in the market.

- Family firm status
- Country risk
- Familiarity
- Psychic distance (location)

**Case study**

- Family firm status
- Physical distance
- Lack of experience
- Small firm size

**Literature Review**

- Secondary analysis

- Resource commitment
  - Levels of control and resource commitments characterized by low entry modes through entry modes internationalization in China in Italy companies

- Italian companies

**Phase 3**

- Why does Albania adopt a low-control, low-resource entry mode in the Chinese market?
- How do Italian companies internationalize in China?
- What are the determinants that influence Italian companies' entry mode decisions of Italian companies in relation to the level of control they exercise and the resources they commit in the Chinese market?

**Phase 2**

- Why do Italian companies commit to the Chinese market?
- What are the determinants that influence the entry mode decisions of Italian companies in relation to the level of control they exercise and the resources they commit in the Chinese market?
7.2 Future research

Finally, I identify intriguing directions for future studies. A single case study was found most appropriate for this research, as it enabled me to clarify the determinants that influence entry mode decisions of Italian companies in China, and to contribute to the development of theory that goes beyond the single case. However, similar research within this topic is necessary. For example, in order to corroborate the findings and obtain further insights, it would be interesting to repeat the case study with multiple companies and within different sectors.

Additionally, further research could address the influence of psychic distance, perceived country risk and family firm status on the entry mode decisions of a broader sample of Italian companies in China, by means of survey-based methodology.

It would also be interesting to analyze the determinants that influence family firms risk-aversion of Italian companies, such as ownership concentration, family ownership and ownership involvement, in relation to their scale and scope of internationalization both in the Chinese market and in other foreign markets.
BIBLIOGRAPHY

Books


**Journal Articles**


Reports


Working Papers


Web pages


Newspaper article


PowerPoint Presentation

Selection criteria of the single case study based on the findings from the secondary analysis (Cf. Chapter 5), and the theoretical chapter (Cf. Chapter 3)

**Case Study Selection Criteria**

- Extreme volatility sector
- Restrictions and regulations against FDIs

**In the host country, the firm should not face:**
- The external is the control
- Drawdown from the control framework
- With its own control, low resource entry mode decision
- and the internationalization process
- By using this method, it may bias or influence

**Additional:** The company should not be limited in its

**Theoretical Concepts of The Thesis**

- They are predominant family firms
- They are characterized by highly paternalistic

---

**Set of Findings 2:** Indian companies in China may adopt

- Set of findings 1:** Indian companies in China adopt

---

**Phase 2:** Secondary analysis, findings

---

**Conclusion:**

---
## APPENDIX B

### Appendix B1

<table>
<thead>
<tr>
<th>Entry modes</th>
<th>%</th>
</tr>
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<tbody>
<tr>
<td>Export</td>
<td>93</td>
</tr>
<tr>
<td>National exporters</td>
<td>70</td>
</tr>
<tr>
<td>International exporters</td>
<td>14</td>
</tr>
<tr>
<td>Trading companies</td>
<td>9</td>
</tr>
<tr>
<td>Cooperative structures</td>
<td>14</td>
</tr>
<tr>
<td>Agents, distributors located in markets of interest</td>
<td>67</td>
</tr>
<tr>
<td>Own sales staff located abroad</td>
<td>17</td>
</tr>
<tr>
<td>Representative offices and branches</td>
<td>20</td>
</tr>
<tr>
<td>Direct contacts with firm</td>
<td>23</td>
</tr>
<tr>
<td>Licensing</td>
<td>4</td>
</tr>
<tr>
<td>Franchising</td>
<td>1</td>
</tr>
<tr>
<td>Production contracts</td>
<td>4</td>
</tr>
<tr>
<td>Service contracts</td>
<td>2</td>
</tr>
<tr>
<td>Joint venture</td>
<td>10</td>
</tr>
<tr>
<td>Acquisition of a foreign company</td>
<td>7</td>
</tr>
<tr>
<td>Greenfield</td>
<td>13</td>
</tr>
<tr>
<td>Internet</td>
<td>14</td>
</tr>
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</table>

**Appendix B1:** Entry modes (in %) of Italian companies in China. Source: Cedrola and Battaglia (2012), P.92.
### Appendix B2

Entry modes (in %) of Italian companies in China, divided by “Made In Italy” sectors. Source: Vianelli et al. (2012), P. 144.

<table>
<thead>
<tr>
<th>Mode of entry</th>
<th>Food and Beverage</th>
<th>Fashion</th>
<th>Furniture</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>Export</td>
<td>20</td>
<td>66</td>
<td>26</td>
<td>47</td>
</tr>
<tr>
<td>Distributor (in China)</td>
<td>8</td>
<td>7</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Importer (in China)</td>
<td>7</td>
<td>9</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Independent agent (in China)</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Dealer (in China)</td>
<td>0</td>
<td>3</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Italian exporter</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Collaborations and Strategic Alliances</td>
<td>5</td>
<td>17</td>
<td>19</td>
<td>35</td>
</tr>
<tr>
<td>Joint venture</td>
<td>3</td>
<td>9</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Franchising</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Licensing</td>
<td>0</td>
<td>6</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Foreign Direct Investment (FDI)</td>
<td>5</td>
<td>17</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>WOFE (wholly owned foreign enterprise)</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Commercial subsidiary</td>
<td>2</td>
<td>6</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Subsidiary (manufacturing and commercial)</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>FICE (foreign invested commercial enterprise)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Manufacturing subsidiary</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
<td>55</td>
<td>100</td>
</tr>
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</table>
## APPENDIX C

### Appendix C1

<table>
<thead>
<tr>
<th>Area/country</th>
<th>Projects</th>
<th>Capital invested</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Italy vs. World</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Europe</td>
<td>1.08</td>
<td>0.94</td>
<td>0.66</td>
</tr>
<tr>
<td>France</td>
<td>1.7</td>
<td>1.14</td>
<td>0.7</td>
</tr>
<tr>
<td>Germany</td>
<td>1.71</td>
<td>1.85</td>
<td>1.08</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.01</td>
<td>0.95</td>
<td>0.77</td>
</tr>
<tr>
<td>Spain</td>
<td>0.89</td>
<td>0.46</td>
<td>0.42</td>
</tr>
<tr>
<td>Western and Central Europe</td>
<td>1.4</td>
<td>2.22</td>
<td>1.47</td>
</tr>
<tr>
<td>Russia</td>
<td>1.27</td>
<td>1.34</td>
<td>1.04</td>
</tr>
<tr>
<td>Poland</td>
<td>1.3</td>
<td>1.56</td>
<td>0.88</td>
</tr>
<tr>
<td>Romania</td>
<td>1.59</td>
<td>2.01</td>
<td>1.09</td>
</tr>
<tr>
<td>Nord America</td>
<td>1.12</td>
<td>0.75</td>
<td>0.61</td>
</tr>
<tr>
<td>United States</td>
<td>1.28</td>
<td>0.92</td>
<td>0.7</td>
</tr>
<tr>
<td>Latin America</td>
<td>0.85</td>
<td>1.55</td>
<td>1.47</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.6</td>
<td>2.7</td>
<td>2.14</td>
</tr>
<tr>
<td>Middle East</td>
<td>0.94</td>
<td>0.7</td>
<td>1.25</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>0.76</td>
<td>0.52</td>
<td>0.7</td>
</tr>
<tr>
<td>China</td>
<td>0.88</td>
<td>0.57</td>
<td>0.78</td>
</tr>
<tr>
<td>India</td>
<td>0.77</td>
<td>0.58</td>
<td>0.54</td>
</tr>
<tr>
<td>Africa</td>
<td>0.82</td>
<td>1.01</td>
<td>1.35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

| **Italy vs. Western Europe**             |          |                 |            |
| Western Europe                           | 0.94     | 1.05            | 0.77       |
| France                                   | 1.17     | 1.33            | 0.8        |
| Germany                                  | 1.35     | 1.94            | 1.29       |
| United Kingdom                           | 0.97     | 1.05            | 0.85       |
| Spain                                    | 1.12     | 0.79            | 0.92       |
| Western and Central Europe               | 1.01     | 1.48            | 0.97       |
| Russia                                   | 0.99     | 1.07            | 0.63       |
| Poland                                   | 1        | 1.13            | 0.77       |
| Romania                                  | 0.85     | 1.49            | 0.87       |
| Nord America                             | 0.95     | 1.15            | 0.99       |
| United States                            | 0.98     | 1.37            | 1.03       |
| Latin America                            | 1.05     | 1.25            | 1.36       |
| Brazil                                   | 1.53     | 2.16            | 1.84       |
| Middle East                              | 1.18     | 0.85            | 1.46       |
| Asia and Oceania                         | 1.06     | 0.7             | 1.03       |
| China                                    | 1.26     | 0.77            | 1.14       |
| India                                    | 0.95     | 0.68            | 0.82       |
| Africa                                   | 0.89     | 0.68            | 0.88       |
| **Total**                                | 1        | 1               | 1          |
Appendix C1: Specialization indices of Italy in relation to the world and Western Europe as country of origin for foreign direct investment projects towards areas and countries of destination, 2003-2009. Source: Mariotti, and Mutinelli (2010), Translated from P. 19-20.

Indices calculation:

Specialization indices calculation =

\[
\frac{\% \text{ of Area/Country } j \text{ on the total of Italian projects}}{\% \text{ of Area/Country } j \text{ on the total of Worldwide/European projects}}
\]

Data Sources for the elaboration of the indices: authors own elaboration from fDi Markets™, Financial Times database.
Appendix C2

<table>
<thead>
<tr>
<th>Country</th>
<th>Total number of enterprises (thousands)</th>
<th>Micro (%)</th>
<th>Small (%)</th>
<th>Medium-sized (%)</th>
<th>Large (%)</th>
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<tbody>
<tr>
<td>EU-27</td>
<td>20791190</td>
<td>92.2</td>
<td>6.5</td>
<td>1.1</td>
<td>0.2</td>
</tr>
<tr>
<td>BE</td>
<td>446234</td>
<td>93.4</td>
<td>5.5</td>
<td>0.9</td>
<td>0.2</td>
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<tr>
<td>BG</td>
<td>312008</td>
<td>90.2</td>
<td>8.0</td>
<td>1.5</td>
<td>0.2</td>
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<tr>
<td>CZ</td>
<td>947380</td>
<td>95.5</td>
<td>3.6</td>
<td>0.7</td>
<td>0.1</td>
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<tr>
<td>DE</td>
<td>2038420</td>
<td>82.8</td>
<td>14.1</td>
<td>2.6</td>
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<td>EE</td>
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<td>10.7</td>
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<td>IT</td>
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<td>4.9</td>
<td>0.5</td>
<td>0.1</td>
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<tr>
<td>CY</td>
<td>47545</td>
<td>92.6</td>
<td>6.2</td>
<td>1.0</td>
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<td>LY</td>
<td>78280</td>
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<td>9.6</td>
<td>1.6</td>
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<td>LT</td>
<td>113059</td>
<td>88.0</td>
<td>9.9</td>
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<td>LU</td>
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<td>5.0</td>
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## Appendix C3: Number of persons employed by enterprise size class by country, non-financial business economy (2010).

Source: Eurostat (2013a).

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Large</th>
<th>% of total</th>
</tr>
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<tr>
<td>Austria</td>
<td>1,223</td>
<td>154</td>
<td>429</td>
<td>429</td>
<td>211</td>
<td>32.5%</td>
</tr>
<tr>
<td>Belgium</td>
<td>4,504</td>
<td>754</td>
<td>1,517</td>
<td>1,517</td>
<td>726</td>
<td>31.8%</td>
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<tr>
<td>Denmark</td>
<td>1,771</td>
<td>240</td>
<td>573</td>
<td>573</td>
<td>454</td>
<td>31.8%</td>
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<tr>
<td>Estonia</td>
<td>1,332</td>
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</tr>
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<td>Finland</td>
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<td>453</td>
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<td>France</td>
<td>3,053</td>
<td>406</td>
<td>1,218</td>
<td>1,218</td>
<td>311</td>
<td>31.8%</td>
</tr>
<tr>
<td>Germany</td>
<td>2,177</td>
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<td>598</td>
<td>678</td>
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<tr>
<td>Greece</td>
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<td>252</td>
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<tr>
<td>Iceland</td>
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<td>615</td>
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</tr>
<tr>
<td>Luxembourg</td>
<td>1,064</td>
<td>126</td>
<td>313</td>
<td>313</td>
<td>512</td>
<td>31.8%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1,064</td>
<td>126</td>
<td>313</td>
<td>313</td>
<td>512</td>
<td>31.8%</td>
</tr>
<tr>
<td>Malta</td>
<td>431</td>
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<td>109</td>
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<td>31.8%</td>
</tr>
<tr>
<td>The Netherlands</td>
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<td>406</td>
<td>1,218</td>
<td>1,218</td>
<td>311</td>
<td>31.8%</td>
</tr>
<tr>
<td>Norway</td>
<td>1,754</td>
<td>240</td>
<td>573</td>
<td>573</td>
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<td>31.8%</td>
</tr>
<tr>
<td>Portugal</td>
<td>1,510</td>
<td>242</td>
<td>403</td>
<td>403</td>
<td>662</td>
<td>31.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>1,931</td>
<td>280</td>
<td>504</td>
<td>504</td>
<td>543</td>
<td>31.8%</td>
</tr>
</tbody>
</table>

*Note: The table continues with data for other countries.*
## Appendix C5

### Categories

<table>
<thead>
<tr>
<th>Categories</th>
<th>Geographies</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
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<tr>
<td>Noodles</td>
<td>World</td>
<td>8.897,9</td>
<td>9.066,8</td>
<td>9.422,3</td>
<td>9.770,8</td>
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<td>8.388,0</td>
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<td>4.218,3</td>
<td>4.352,2</td>
<td>4.531,8</td>
<td>4.742,7</td>
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</tbody>
</table>

| Instant n. | World             | 7.104,4 | 7.231,3 | 7.494,3 | 7.786,8 | 8.130,6 |
| Instant n. | Asia Pacific      | 6.333,4 | 6.424,8 | 6.646,7 | 6.916,3 | 7.231,6 |
| Instant n. | China             | 3.509,8 | 3.586,7 | 3.683,2 | 3.820,0 | 3.981,9 |

| Pasta      | World             | 9.709,3 | 9.907,3 | 10.245,4 | 10.434,0 | 10.613,3 |
| Pasta      | Asia Pacific      | 393,4   | 405,7   | 415,4    | 425,9    | 434,9    |
| Pasta      | China             | 0,9     | 1,0     | 1,0      | 1,1      | 1,1      |
| Pasta      | Japan             | 189,9   | 196,2   | 199,5    | 202,7    | 203,6    |
| Pasta      | Afghanistan       | 3,0     | 3,2     | 3,5      | 3,8      | 4,0      |
| Pasta      | Armenia           | 4,5     | 4,5     | 4,6      | 4,5      | 4,5      |
| Pasta      | Azerbaijan        | 9,1     | 9,5     | 9,9      | 10,4     | 10,9     |
| Pasta      | Kazakhstan        | 36,7    | 37,0    | 37,3     | 37,7     | 38,5     |
| Pasta      | Kyrgyzstan        | 8,3     | 8,7     | 9,3      | 9,7      | 10,0     |
| Pasta      | Philippines       | 66,2    | 67,4    | 68,6     | 70,4     | 72,5     |
| Pasta      | Turkmenistan      | 12,8    | 13,6    | 14,5     | 15,1     | 15,7     |
| Pasta      | Uzbekistan        | 25,7    | 26,6    | 27,5     | 28,7     | 29,8     |
| Pasta      | Australia         | 95,8    | 97,4    | 99,6     | 101,8    | 103,8    |
| Pasta      | Latin America     | 2.271,8 | 2.256,0 | 2.281,1 | 2.351,4  | 2.408,5  |
| Pasta      | Middle East and Africa | 734,9 | 831,4 | 942,0 | 1.067,9 | 1.209,1 |
| Pasta      | North America     | 1.118,7 | 1.139,2 | 1.190,7 | 1.206,0 | 1.215,0 |
| Pasta      | Western Europe    | 3.716,7 | 3.720,9 | 3.794,8 | 3.720,1 | 3.646,7  |
| Pasta      | France            | 422,8   | 420,9   | 428,7    | 433,4    | 436,8    |
| Pasta      | Germany           | 559,2   | 559,8   | 570,2    | 561,1    | 554,0    |
| Pasta      | Italy             | 1.498,0 | 1.510,7 | 1.554,6  | 1.474,0  | 1.395,1  |

### Appendix C5

APPENDIX D

Guided Interviews Data

This appendix contains selections from two interviews conducted with Participant 1, Mr. AS, and Participant 2, Ms. AM, working for the company Alpha. Both interviews with the participants were recorded, transcribed in the original language (Italian), and then translated in English. An important advantage of the recorded interviews was having access to exact words from the interviewees. People’s name have been reported in acronym, the name of the company has been changed to Alpha, and the other companies mentioned in the interview has been covered to keep the anonymity of the case company.

Participant 1 Data

The Interview was conducted through a conference call to the Participant's office in Singapore. The conversation took place on July 5, 2013, and lasted approximately 1h30. The conversation between the interviewer (FS) and the interviewee (Mr. AS) included both video and audio, which enables...

(Q1) FS: Which type of entry mode does the company adopt in China and what is the position of the company in the host market?

AS: We have not developed aggressive strategies but we have been present in China for 20 years. China represents the combination of two important elements of the fundamental strategy of Alpha: Alpha for some years has clearly revised its strategy of internationalization, which is a strategy that goes through the development of what we call meal solution, which focuses on the world pasta, sauces and ready meals.

Deliberately, as a company, we decided to exclude from international development bakery products, except for some European markets where we are already present with the kind of products. Therefore, the international expansion involves only the field of sauces, pasta and ready meals. This decision comes from two fundamental reasons, and both materialize in a concrete way in the Chinese market.

Firstly, we strategically decided as a group to just go on with pasta, sauces, and ready meal because only on these we have a significant economic advantage, a competitive advantage due to
the fact of being the largest company in the world that produces pasta. So, we are taking about
economies of scale, industrial capacity, and superior techniques. The company has
accumulated extensive experience, and has built specific know-how, superior technical and
organizational capabilities in the manufacturing of its specific products.

The second reason is that, unlike all the other “vulnerable” groups of food items we produce, pasta
is a product that can be easily internationalized, as it does not require big capital expenditures.
Exporting pasta from Italy, or from any other of our sites in the Mediterranean, has very low cost
and low management complexity, so the impact (in cost) of the international logistics on the
business expansion is minimal. This is due to the fact that pasta has a very long shelf life. So you
can use slow means of transport: in our case, our products need two months to arrive in China, but
it is not a problem because pasta has 2, 3 years of shelf life. This is not instead the case of bakery
products that have a very limited shelf life, which goes from a few days to a few weeks. For which
you would require two economic alternatives that we do not even want to consider: 1) A very
expensive logistics, 2) or local sourcing, a local producer.

Obviously (these two alternatives) would require huge investments that we do not want to take.
Additionally, we need to consider the specific context of China, where: on one side, the raw
material, which would allow us to produce pasta locally, is missing. The Chinese are great eaters
of rice and noodle. The noodles are made with white flour and pasta whereas is made with durum
wheat semolina, which is not produced in China. On the other hand, there is the competition. All
major worldwide bakery brands, which are Nestle, DANONE, Kraft, are already present in China
with very strong local firms, and on-site production. So this is the situation.

Concerning the international evolution of the company, as I said before, Alpha expanded in China
already 20 years ago. The evolution of Alpha in international markets started with a first phase of
internationalization, which brought the company towards two different dynamics.

Phase I: In the markets considered as a priority, and easier to approach, the company went in
directly, with a “full sale model”. For instance in the United States, we opened not only
representative offices with our sales force, but also two factories, which we recently established.

Alternatively, in countries, which, for N reasons, at that time did not present development
opportunities as big as the as was the United States, France and Western Europe, we decided to
enter with “light entry modes”. In the past, Alpha had specific unites which were serving those
regions that we judged as more distant, and we were serving those markets merely through
distributors. Normally we had two or more distributors for each country. These distributors
purchased, and still do, products directly from Alpha and followed some of our guidelines, but then were independent in the development of their turnover for each country.

Phase II: Then two years ago, the company decided to implement a process of internal transformation that led to a major reorganization and the division of the world into three main regions, each of which has greater independence and, consequently, greater control and market power. These three regions are: the Americas, continental Europe, and the rest of the world, which Alpha calls triple A: Asia, Africa and Australia.

[Audio disturbed]

Each of these region has its own central functions: marketing, finance, supply chain, etc. from which we administer the operations in all countries of these region, including precisely China. At this time in China we do not have a location, however, by August 1 we will open an office. We will begin to locate and hire people, moving from a traditional model to an export model that is more direct, and allow more market presence. We will hire country manager, marketing manager, all Chinese. So we hope to expand our structure in the next years.

(Q2) FS: By keeping the production in Europe by moving the products from Australia?

AS: In Australia we have just a representative office (...) In Italy, Turkey and Greece we have production sites where there is availability of raw materials and we have two factories in the United States, which in reality only satisfy the domestic market and South America.

(Q3) FS: How is the company’s turnover in China today and what are your forecasts on the future?

AS: The current turnover in China, I cannot not tell you, but to have a reference for you it is ridiculous, it is less than 1 % of all Alpha’s sales. Our strategy is to double our presence in the Chinese market in terms of sales and revenue year after year. This is part of an overall strategy, at the group level. We set the objective to double sales by 2020; today it is approximately 3 Billion Euro. I am sending you some interviews of Guido Alpha and of the CEO, about how the Asian and Chinese markets are a priority for the company. Currently we are focusing on Brazil.

(Q4) FS: is Brazil more important in terms of turnover or in terms of eating habits?

AS: Yes, Brazil is more important in terms of sales; however, we expect to reach similar results in both markets because they are both equally strategic markets. Concerning eating habits, in Brazil people are already aware of the Italian eating habits and Italian culture in general, and this is a competitive advantage, which is certainly strong. What you read in the newspapers is not true. The Chinese are not able to give the exact nationalities to different food items, and to make a precise
distinction among Western food habits, what is French rather than Italian or Spanish. In reality, China is much less advanced than what you think. In a country of 1.3 Billion people, those who live in conditions comparable to Western standards, even from a cultural point of view, are less than the 10% of the population of Shanghai, and 5% of the big cities.

China represents a huge challenge for companies because it is easy to obtain large numbers, as soon as one starts to sell, but China could potentially be even bigger. The challenge will be when we truly begin to address to the billion of Chinese people, and not merely to a tiny part.

(Q5) FS: Does Alpha contemplate a change in its products for the Chinese market? What about over the next 10 years?

AS: We have undertaken several studies of the market over the past two years, experimentation and simulation, and we have realized that there is no problem of acceptance of the product itself. There is no need to change radically the product pasta; there is the need to make easier the cooking approach, the usage of the product. Chinese are afraid to cook because there is the myth of Italian cuisine; they believe it is difficult, they see all these elaborated dishes and they think not to be able to redo them at home. There is the need to do a lot of education on the pasta product, and explain that the product is very simple. Additionally, we need to adapt the product, to suit the Chinese palate, without distorting the pasta product. What we found is that areas such as the Sichuan region prefer more spicy tastes. In the experiments we did, we were asked to make our “Arrabbiata” sauce spicier. So in the end is not about going to upset the product, going to put bamboo or tofu or any other ingredient that does not belong to the Italian tradition, but accept some variations of the themes that allow you to better meet the tastes of the Chinese people.

(Q6) FS: So, in order to see it (the adaptation process) in perspective, when will you start the adaptation process?

AS: we have it already in the pipeline, some products that will be commercialized with some variants will be marketed already in September this year. And then you have to take into account that there is an entire team that is working to develop products for Asia, which has gained on a technical level what are the expectations of sensory products for Chinese people. So these products will be born already with these characteristics.

(Q7) FS: And will be born in Italy?

AS: For the moment we do not have a relocation plan in China or in any area in South East Asia.

(Q8) FS: Regarding the export channels, and your export-based mode, how are they structured?
AS: As I said before, we use direct import entry mode. So a local distributor is also, in fact, an importer; as often happens in these countries, the figure of the importer is very often connected to the role of the distributor. So, integrated companies, which deal with imports. We do not intend to move to a direct model in the coming years (collaborations and alliances, or wholly-owned subsidiaries). But what we will add is to add the skills necessary to our local distributor.

[Audio disturbed]

To make some concrete examples, the operations to be followed in China will be decided by our marketing director. It will be him to determine what are the priorities in terms of distribution channels, customers and targets, regions where to focus the sales. The whole distribution part, from the actual sale to ensuring that the product is present in the stores, will be entrusted to the distributor. Then it is again up to us to decide how to distribute the product on the shelves, so the marketing activities. It involves marketing, advertising, promotions, and sampling within and outside of the store are handled by our team.

(Q9) FS: What about Alpha Academy?

AS: We use it as a strategic asset against our direct competitors; it has a promotional role. It is present only in Italy. It is an added lever that other competitors do not have. There is no sense in countries where the pasta category is not as developed as in Italy. We can do it directly with the Alpha brands.

(Q10) FS: What about the competitors in the world of pasta and noodle in China? Are they International competitors, large multinational companies, or also Chinese?

AS: The major competitors compete in all categories, especially the bakery, and that’s why we decided not to enter that sector. In the pasta sector, we have competitors that are the same around the world. However, it should be noted a thing. Alpha currently does not have a true global competitor that is present in all markets as we are. Alpha is the only real global company for pasta. After us there are two or three large groups, more or less, moving as global players but do not have the size of Alpha. The biggest of our competitors is company called Ebro Puleva, of Spanish origin; a large part of their activities is based in the United States, and its presence in Asia is truly negligible.

In Asia we primarily compete with other Italian producers, but none of them has a company size to represent a significant threat for Alpha. Also in Italy they are much smaller.
Our real enemies are every time the local producers. Because of the characteristics of the pasta market, being a primary good, there are some large local companies, which may have been public in the past and then got become privatized. Major competitors are present in Russia, Turkey, and Australia. Great local competitors: In Russia is [mask], in Australia is [mask], and in Turkey is [mask]. All these competitors that are strong at the local level, tend to expand internationally. Along with us, the strongest In Asia is the Australian brand called [mask]. They have such a size that we can become worrisome, it is a company that wants to expand, and they have very strong innovative capabilities.

(Q11) FS: If I were a Chinese consumer, why should I buy a product from Alpha rather than turn to one of the competitors?

Alpha takes advantage of two independent but converging trends:

The first is the tremendous growth of the middle-class. The economic boom in China produces not only the rich, but also the middle-class, which as a result of an increase in spendable income begins to be more curious and more open to new things and buy more. Not only the food and western food, but also fashion, cosmetics, anything that comes from the outside has had a huge success. There is a growing middle class that is approaching many new trends.

In the Chinese supermarkets, these new trends and categories in the food sector are not divided by category, you do not find the olive oil near the Chinese condiments but they are at the bottom of the supermarket. Along with pasta, cheese, wine, and all the other imported products. There is a huge division between what is Chinese and what is imported, western food in our case.

The second trend is the increase in western food consumption thanks to the increase of international western restaurant chains. We are not opening the door to the small restaurateur who goes to open a restaurant in Shanghai (laugh), but the big multinational food companies like McDonalds, Starbucks, Pizzahut. They are all companies, which in their international chains sell pasta or are planning to sell pasta. For instance, Pizzahut in China is mostly a pasta restaurant.

These two factors determine that the average Chinese is exposed to our product categories and then be tempted to try them at home.

From there two main consequences: the phenomenon that caused the enrichment and also the westernization of some levels of the population. The second phenomenon entails the frequent food scandals, which continue to occur incessantly in China. This diverts flows of consumption towards new product categories or similar categories of products that come from abroad. In the past years there have been great boom. For instance, the Chinese did not drink cow's milk; it did not exist
before. They had only soya milk. After the scandal with soya milk, companies from Korea, Australia, etc. have started to introduce cow's milk, and so it was introduced. The same happened with mineral waters. And so on with these phenomena, which have favored the entry of new products.

The 80% of the consumption of noodle in China is instant noodle. Thus, fried products, prepared and served with fried and preserved condiments, full of preservatives, additives, etc. So when consumers will start to become more sensitive, we will grow our market share.

(Q12) FS: Can your products be found in the Chinese food chains?

AS: No, China is so large to respond more. Chains that are 100% local, as Vanguard just started an experiment building corners of imported food. Carrefour has two halls dedicated to western food. If you go to other local supermarkets such as Linhua, you start seeing the gondola end caps with imported products but that's basically it.

(Q13) FS: Concerning the internationalization of Italian firms, typically what difficulties does an Italian company abroad meet on the first approach to the host market?

AS: Institutions at any level can help, channels to which mainly small businesses are turning, as for instance the ICE, Chamber of Commerce, etc. Outside the world of small Italian companies, I believe that getting out of the Italian market depends only on the will of the individual businesses. We do not have that many large Italian companies, in the food sector they are even less. Ferrero has been in China for a while now. There are those brands that are Italian, but which no longer have anything Italian, as the mineral waters and Citterio, which are huge here in Asia, but they do not have anything to do with Italy any longer. And they are huge in Asia, as the mineral waters ...

The difficulty for a large company is in finding the right business model.

Besides small and medium sized companies, which may be constrained by lack of resources, the biggest challenge for big companies is to find the suitable operative model. It is impossible to start with a direct model/presence in emerging markets like China and Brazil, because capabilities and knowledge are missing. Secondly, they necessitate huge investments. So the operating model is the first choice. For instance, in Mexico and other markets we entered with a joint venture. We also adopted acquisitions, and we look for partners as happened in Turkey and Russia. The Chinese market is very dangerous, especially in terms of acquisitions and in the choice of the partner. The partner has to be reliable in terms of raw material, employees' treatment, etc. For a big company like us this is very risky, and it is a delicate issue. The model we have chosen locates in China only the operations. The strategic part of the investment located in China is the promotional part.
(Q14) FS: We mentioned before the case [redacted] in China, what is so special or successful about it?

AS: Why successful? It's easier in some ways, the company in China does not sell kinder brioche, or its croissants, but a product easier to move and locate: their pralines, easily freezable. Ferrero manages to suspend the shelves life of its products; it has a patented technique. Then when it's time to sell, the products are defrosted, and from there starts the shelf life. Its core product was already widely known before by the Chinese, and this is an important advantage for the company. Additionally, the concept of the gift fits perfectly the Chinese habit; it is a bit like Italy in the 60s. They have made a large investment in advertisement, but they have been helped by a widely accepted product, by a strongly seasonal product, think of the Chinese New Year that brings 70% of their annual turnover. It is also easier from a planning point of view of. They can focus their expenditures ads in a month and that is it!

For categories instead like ours, which are for daily consumption, the budget have to be distributed. Then again, we can say that Italian and Chinese share some similar values; however, habits are very different and products have to be adapted.

(Q15) FS: If I had to analyze the competitive advantage of Alpha, from what I have researched, I would say: the attractiveness of the Made in Italy, a worldwide presence, a strong network, hence visibility.

AS: you are certainly right. Our products are Italian; therefore also abroad they are highly connected with the Italian culture, ingredients, and habits. Made in Italy is a strong competitive advantage for us, as it comes from the interplay of factors in the Italian territory and the knowledge created in those networks. The Made in Italy, and therefore the know-how coming from those networks are symbols of quality, style, and innovation. However, as a multinational company, we cannot base our competitive advantage solely on that (the Made in Italy); it does not compensate for the company performance, values and know-how.

I would then add the productive capability, and an offer unique in the world. There is no company in the world, which currently has our product depth, with such a broad variety of pasta. Quality. One of the elements that make our success in the world is undoubtedly the quality of our ingredients, preservatives-free products, and the sustainability of our mission. Those are all elements that I believe give us a strong competitive advantage in contemporary China.

(Q16) FS: According to my data and my research, the companies that are present in China are very scarce, and they almost all operate with an indirect model, export-based entry modes, which
require low control and low resources in the Chinese market; especially, in the Made in Italy. When we come to the food-processing sector, I think the choice is even harder. We said [blank] which only export; I know [blank] has three production sites, but that is not really related to the Made in Italy. Then [blank], we mentioned it before, and what else? What about the coffee segment? Coffee is a beverage that has spread in a very fast way in China. What about [blank]?

**AS:** [blank] has tried with a retail model. Having realized that the knowledge of the product before pass through the restaurant, they started with the tasting experience, opening food retail first, instead of struggling to sell in supermarkets. I heard through the grapevine that it is not a successful experience. Think that some of the categories related to pig meat are blocked, such as ham and salami.

If you need more information concerning the export part, I can set up a chat with Ms. AM. She dealt with the Chinese market for 20 years, and now takes care of India. India is, for us, five years behind China. Scrolling through the index of your thesis, I can see you set the market of Alpha as “bread and rolls”; I would take that off and focus on “pasta, sauces and ready meal”. I can send you an Excel file with the data consumption and current size of the markets for pasta, noodle and ready meal.

As we can see from the documents the market for China is still small. It is small compared to what it can be developed in. What we be called “the job to be done” here is the development of the category, the promotion of the brand and the company and the retention of the consumer.
Participant 2 Data

The Interview was conducted through a telephone call to the Participant’s office in Parma. The conversation between the interviewer (FS) and the interviewee (AM) took place on July 15, 2013, and lasted approximately 1h.

(Q1) FS: So should we start from your role in Alpha?

AM: So concerning the international development of Alpha, up to 2 years ago we had this division based in the headquarter here in Parma, which was called export division.

This division for many years has been dealing with all those markets in which we did not have a direct presence, which did not represent a priority but which we wanted to supply anyway through light entry modes. This division was composed of different units. Marketing, trade marketing, and the commercial units divided in different units, each of them led by an area manager, and each focused on different market.

Within this structure, I have been for many years the area manager of Asia. I was involved in bringing the product in those markets. Asia went from India to South Korea Please note that already in the '80s, Alpha had decided to establish its presence in Japan, which represented the biggest Asian market for durum wheat pasta. When it comes to pasta, Asia has enormous volumes, but it’s another type of pasta, different from the Italian one. The whole of Asia eat noodles, which are made of wheat flour, while the Italian pasta is made with durum wheat.

So my challenge in those years was to bring our product to as many markets as possible through the model via export, distributor. What does that mean? I was going to different countries, meeting independent companies that had certain characteristics and that could sell our products to local retailers, and primarily to restaurant chains. The first channels of reference are often restaurants. It is the Italian cuisine in the world that gradually has almost replaced the Chinese cuisine. The most developed cuisines in the world; the most popular are now the Italian and the Chinese cuisines. 30 years ago it was the French cuisine, now it is the Italian.

The Italian restaurants are the first consumers abroad for Italian pasta. In China, 10/ 12 years ago, I went to establish contracts with two distributors: one based in the East Cost in Shanghai, and one in the south of China. China is a huge territory; in those years I thought, "We can not have a single distributor because it cannot maximize our potential!” And we are still left with those two distributors today.
What is the organizational change that occurred in Alpha? When we finally decided to invest resources and attention to this part of the world, we have created a wider geographic region and a local office that is in Singapore, with dedicated staff to follow the various markets. So we've gone from a situation where there was a unique person (AM), who dealt with all of the different Asian markets, to have teams dedicated to specific Asian markets.

And this has made, and is making a huge difference.

(Q2) FS: So when did the focus on Asia, especially on China occurred?

AM: In the last two years. Both as resource commitment and as interest.

With our export-based model, we started selling the products and placing there where we could, more in international chains: as Carrefour, Metro, etc. A product that costs much more than the local one is bought mainly by expatriates, that is, not necessarily Italians, but also Americans, Germans, French and Japanese.

So we started to have a decent business, in the meanwhile doing export allows your company to get an idea of the market potential.

And every year I knocked at the top management’s door: "We have this opportunity, this opportunity there, do we want to bring it forward, do we want to do something more? ". And finally, in the last three years the focus, the interest, and the commitment of the company for this part of the world have aroused.

Please note that Alpha is a family business. So this means that all the development plans that we make must be self-supported, and we have to generate resources internally to support these plans.

Hence, priorities are very important for us!

The major focus in the 90's, the priority for the company was developing in the U.S. where today we have two factories and a society with many people, a big sales force. This means that there was no sufficient fuel to enter with more resources in a market like Asia, and specifically China.

Today in the U.S. we are very well placed, we make 500 million in revenues, we can begin to look at Asia with the same kind of approach.

The export model will let you have the initial coverage of the market, start to take small pieces of the shelf and let consumers see your brand. If you do things properly, you can pave the way to legitimize specific investments for when the company will have the necessary resources to make
more important plans for its development, to do market research, and all that you will have heard from Mr. AS.

(Q3) FS: What do you think were the motives for this recent expansion in China? Is it the growth in the Asian market or the staggering European market?

AM: Let's say that the two things coincide. On the one hand, we have the consumption in Europe, especially in Italy going back. On the other hand, we have these parts of the emerging world that have great potential.

We have always been very disciplined with our development plans, very clear, we have always started from markets where our products already existed, and with a good turnover.

As I was mentioning before the example of Japan, in the 80’s establishing an office in Japan was something that very few companies in the food industry have done. But we saw in Japan, and it still is, the biggest Asian market for durum wheat semolina.

Looking at the rest of the world, the United States, after Italy and after Europe, needed to be the priority. So I think we've been very disciplined in this.

(Q4) FS: Why Japan? What was special about Japan to enable Alpha such a great expansion of its products in the market?

AM: Japan, of all Asian countries, is the one that have developed earlier; it entered much earlier in the G8. It is a much more developed economy. And then it is an archipelago of islands, and those who live life as islanders always has the fear of being excluded from the cuts of supply.

A thought that I have matured in recent years, it is a theory of mine: at some point they decided to move away from rice, not to depend solely on rice, in case famines had arrived, so they started importing the flour and gave impetus to a production in durum wheat with local brands. That is a very interesting thing; it was a political decision of the government.

The Japanese, with their high incomes, have begun to travel to Europe, and they were one of the first communities to fall in love with Italy. They were golden years that we have wasted. There were more than one million Japanese people coming to Italy every year with substantial amounts of money to spend. They came and they copied. They loved to copy, unlike the Chinese, in an absolutely authentic way. In Japan you can find these family restaurant where you eat pasta as you would do in Italy. It is an extraordinary thing. The best spaghetti dish after Italy, you eat it in Japan. With traditional Italian recipes, and “al dente”, it is perfect! They have restaurants that can host 3000 people, American style chains.
We have been very disciplined in advancing towards markets where our products already existed, were already consumed and known. Today we find ourselves with these emerging markets, emerging not in the economic sense, but in terms of our product categories.

Perhaps we should think of products that are a little more innovative, more convenience oriented. We may be a bit conservative and traditional, we are very disciplined and in control with our plans, and with our strategic decisions, however, this has paid off.

(Q5) FS: Designed for the Chinese market?

AM: Yes, exactly.

(Q6) FS: In order to serve the Chinese market, you export from Italy, or from the Mediterranean right?

AM: Yes it is the same, the one that you and I both I eat, and the same for sauces.

(Q7) FS: So you have not changed the production for the Chinese market?

AM: It's not that we want to change the product for the Chinese market, distort it; we want to reach out to the Chinese tastes. We have a specialized team now. For instance the “Arrabbiata” sauce is not sufficiently spicy; we have to find the right balance.

(Q8) FS: You told me before that you had personally taken care of the first contacts with the Chinese, and searched for distributors in China. What were the major difficulties in that? Control over the distribution, competition?

AM: No, no, backward. In those years the most troublesome thing was to find people who spoke English. Really complicated. China has had this entire great boom in the last 7/8 years.

The first fair I’ve been to in 1994, in Beijing, where we exposed our products, nobody was interested, it was the very beginning. So we followed the companies that were already there, looking for those companies that already had in their portfolio international products and we started to set some meetings. After that, the elements that determined the partner/distributor choices have been mostly two: Internationality, rather than locally based distributors, and finding reliable partners from a financial point of view, it was, and it is also nowadays, the big challenge with China. The most difficult thing about dealing with China is to find a reliable partner; when it comes to financial trustworthiness in China, this is very dangerous.

Afterwards, I selected the two partners; the difficulty has been to enforce their specific territorial bases. Being the target market very small, and confined to certain types of supermarkets rather
than restaurants, what was happening between the two distributors was a bit of a war. Enforcing the territorial bases has been quite a headache.

(Q9) FS: With regard to counterfeiting, have you experienced any problems?

AM: First, the protection of the trademark, as you know it with the Latin characters, has always been recorded in our markets. Our company places a great deal of attention on the protection of the brand globally. Already in 1994, we made the transliteration in Chinese characters of our brand. It helped protecting the brand. We had only one case of a certain ambiguity, but more than copying the brand, they copied the design of the packaging. Our legal department immediately warned the company. So far we have not had big problems in that field.

(Q11) FS: How have you been controlling the distribution chain?

AM: As I told you, with the export business model you sell to a distributor, which is an independent company that buys your product and sells it to various local clients. What I have always tried to do was to accompany our distributors by sharing with them what are our best practices, to align our strategies as much as possible with the distributor's sales force, so that the distributor becomes your partner. Always respecting the responsibilities of everyone. However, when the goods have been sold to the distributor, it is their responsibility to determine the selling price. I can try to influence, but not to control, it is not even allowed by law. What we can do is to accompany the distributor in a training process when the category being sold is little or not known, because not so familiar to the market.

The principal, that is, the producer can help you to implement the right policies. For instance, giving suggestions on prices, sampling and promotions. This has been the main focus in recent years, doing the training, help the distributors to produce the right materials to do the marketing activities of its area.

(Q12) FS: With regard to the cost of shipping and the final cost to the consumers, do you have any control? How does the distributor decide?

AM: On the shipping cost, we do have control. As a policy, we have decided to sell our goods CIF (cost, insurance and freight), so I am selling to the distributor at price 100, which already covers the cost of shipping. Then the distributor pays the duties, because the goods are burdened with duties, and puts them in its warehouse. Afterwards it charges its margin. That becomes its list price at Carrefour. Subsequently, Carrefour charges its margin. And here is the price to the consumer.
What you cannot control is the margin of the distributor, and the retail chains apply to your products.

What we can do is to initiate partnerships with our distributors and the local chains. “We support you with specific sales policies but you must help us arrange the displaying in a certain way, to give us these percentages shelf in the stores, because in return we will do promotion in your store, we will do the sampling. It is similar to the sales policies that are made in Europe.

The international retailers such as Carrefour, Metro, Walmart, Auchan have brought the way to do business in the big retail sector to China.

(Q13) FS: So what do you think about the notoriety of the brand in China? What is your forecast?

AM: I think it will grow, thanks to specific communication plans on which the team is working. But it will probably take a long time a generation, but we are here for the long term.