The Impact of Country Image Framing and "Made in Italy" on Managerial FDI Perceptions and Intentions: Evidence from the Italian Market

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INTRODUCTION

With more countries vying for foreign investment in an increasingly competitive international marketplace, an understanding of key FDI drivers is paramount. This research 1) examines U.S. managerial perceptions of Italy as an FDI destination and 2) based on those managerial perceptions, explores country image frames and promotions that would foster and encourage investment. A study of U.S. managers was conducted to investigate this issue. This survey was conducted to explore: 1) the beliefs of U.S. managers regarding Italy as an investment destination, 2) how Italy compares to other BRIC and EU countries, 3) what the Italian government and private sector can do to attract FDI and 4) what points should be communicated to American managers about the Italian market.

The paper begins with a brief description of the importance of foreign direct investment both to countries making the investment and to the economies who are recipient of the investment. The Italian Paradox is then discussed. This is key to the survey of FDI inflows as Italy is considered a developed nation with high barriers to FDI participation. Next, the paper examines prior research on country of origin (COO) effects. While country of origin has been found to be an important factor affecting many consumer purchase decisions, it has not been widely applied in the study of FDI, in spite of having much potential to help explain such decisions. COO perspectives are highly relevant to the four issues described above. Issues of message framing will be discussed in order to develop research questions and subsequent research pertaining to the way in which promotional messages should be best framed in order to have maximum impact on those making FDI decisions. The methodology of the study will then be discussed, followed by presentations of results, a discussion of the implications of the study, and conclusions.

Foreign Direct Investment

Foreign Direct Investment (FDI) is regarded as a means of exploiting firm-specific assets in a foreign market (Hymer 1960; Caves 1971). As noted by Caves (1971), investing in facilities and equipment in other markets can allow the firm to fully exploit its competitive advantage on a larger scale than in operating in the home market. FDI is also seen as a defense against market saturation and home country problems (Dunning 1971). While research on FDI is substantial, studies on the appeal of Italy and various Italian regions for FDI are limited (De Propis, Driffield and Menghinello 2005). With the ongoing economic downturn, Italian business and governmental leaders believe greater potential exists for investment and trade promotion.

From the point of view of the recipient country of foreign direct investment, FDI has a positive impact on employment and results in related positive macroeconomic effects. Indeed, there is considerable competition for FDI around the world as it brings resources and technology to countries that might not have indigenous sources of capital. Even for highly developed economies, however, FDI has positive economic impacts. According to EIU wire (2008), Italy had the fifth highest level of FDI in the EU 25 as of 2006. On one hand, it is not surprising that Italy is close to the top of this list, but on the other, this rating ranks under par in terms of Italy’s investment potential and standing as one of Europe’s four largest economies, as will be subsequently discussed.

Prior research on FDI has established that decision making in this area is driven by a complicated, yet somewhat idiosyncratic process. A study by Buckley et al. (2007) established that the factors weighted in Foreign Direct Investment gain and lose prominence when decision-makers are presented with new and novel information in different ways.

The Italian Paradox

From 2000 through 2009, data on FDI trends in Italy (UNCTAD, 2008 and 2009) show a sharp decline in Italy's capacity to attract international investments. The gap between Italy and its main European partners (France, Germany, the United Kingdom and Spain) is considerable and, considering both passive and active investment, its level of internationalization is quite low versus other core EU members. Mariotti and Mutinelli (2009) highlight how, in many analysis conducted annually by different International Research Institutes, Italy is always positioned downwards in country competitiveness and attractiveness rankings; a position distant from its place in the global economic ranking. The Global Competitiveness Report of World Economic Forum (2009) places Italy in 48th position, against the 10th place filled by the country in the ranking based on GDP for the same purchasing power.

To frame Italian internationalization in recent years, comparison with Spain is warranted (Mariotti and Mutinelli, 2009). In 1980, FDI's stake of GDP was low for both countries with little difference in values (1.9% for Italy vs. 2.3% for Spain). Contrast that to 2008, where Italy was at 14.9%, while Spain reached an FDI stake of 39.6%. The gap between Italy and other European partners grew during these years, leaving the country nearly on the fringes of the large international investment flow to Europe.

According to the most recent available data (UNCTAD 2010), in 2009 the FDI incoming/GDP percentage ratio for Italy is equal to 18.6%, significantly less than global average (30.7%), the European Union average (45.5%), as well as the average of principle European competitors.

Focusing the attention on Italy’s attractiveness and considering *greenfield* investments, the picture is also mixed. According to the Financial Times’ FDI Markets’ database concerning *greenfield* foreign direct investments, Italy scores lower than its European competitors. Specifically, by normalizing data to GDP generated during the considered period (assuming equal to 100 relating to the UK - the country with a high international openness to FDI) and bringing into consideration the number of investment projects, the situation is the following: United Kingdom 100, Spain 80, France 67, Germany 48 and Italy 27 Mariotti and Mutinelli (2010). Considering this data, solutions are warranted.

Country of Origin Effects

In studying reasons why decision makers choose one country over another, it is important to examine country of origin perceptions. Over the years, a wealth of research has found that the phrase “Made in (country)” has considerable influence on consumers’ perceptions of the quality of the product and their intention to purchase it. As noted by Masaaki Kotabe and Kristiann Helsen in their textbook, *Global Marketing Management* (2001) (p.402), "There is ample evidence that shows that for many products, the "made in" label matters a great deal to consumers. Consumers often seem to rely very heavily on country-of origin cues to evaluate products." In general, country of origin information is used by consumers to assess a product's quality and choose the best purchase option available (Klein 2002). Similarly, it would make sense that those making FDI decisions would draw heavily on prior perceptions they have of the country.

The need to consider COO perceptions in analyzing FDI decisions is reinforced by the robustness of prior COO findings. Few topics in marketing have been as widely researched and numerous studies over a period of decades clearly document the profound influence of "Made in" labels (either on the product or in advertising for the product) on consumer perceptions of the quality of a good and intention to purchase a good. These include a major qualitative literature review by Bilkey and Nes (1982), a quantitative meta-analysis by Peterson and Jolibert (1995), and another comprehensive literature review by Srinivasan and Jain (2003). Srinivasan and Jain (2003) found a significant effect of country of origin cues even when other factors like price and brand name are introduced. They observed that, (p.461) "Overall, it can be concluded that country of origin is a significant consideration in brand evaluations."

In studying how managers make FDI decisions into account, it makes sense to factor in COO considerations. In addition to the general proposition that general perceptions of a country factor into the FDI decision, it is also worthwhile to draw on other findings from the COO literature and apply them to foreign direct investment. These generalizations include:

1) Country of origin stereotypes tend to be product category specific. No country is viewed as being superior in every product category and different countries have strong reputations for producing different types of products.
2) Countries at higher levels of economic development are generally better situated in terms of consumer COO perceptions than countries at lower levels of economic development.

Variance of COO perception by product category

Country of origin stereotypes can vary by product category. For example, vodka made in Russia is likely to be positively perceived by consumers while automobiles made in Russia are not. France has a very strong positive image associated with its perfumes and wines, but this does not extend to all other categories. Similarly, some countries have built up a reputation in a specific category, such as Swiss watches, Japanese automobiles, South Korean video recorders, or Italian men's suits (Gillespie, Jeannet and Hennessey 2004). However, the cumulative results of numerous studies have made it clear that no individual country is dominant across all product categories and that domestic products generally have an advantage (Bilkey and Nes 1982; Peterson and Jolibert 1995; Kotabe and Helsen 2001; Srinivasan and Jain 2003). For example, in the auto industry, market leaders include General Motors in the U.S., Toyota in Japan, Volkswagen in Germany, Renault in France, Fiat in Italy, and Hyundai in South Korea (Kotabe and Helsen 2001).

In Italy’s case, it’s clear strong reputation for producing high quality apparel in the luxury market (e.g., suits, dresses, shoes, handbags) would appear to offer clear opportunities for attracting FDI in these sectors. Perhaps more importantly, overall perceptions of the degree of craftsmanship and attention to detail may be appealing to those considering FDI in industries where this is relevant. As Italy's reputation is exceptional in these areas, it may give additional incentive beyond simply wanting to engage in market expansion to increase the scope of operations; the potential investor may see these industries as unique cases where Italy's strong reputation offsets the normal advantage of domestic production for even the home market.

Another potential advantage for Italy is its clear standing as a G-8 member and one of the world's leading economies. Based on prior COO literature Italy's long history of being among the countries at the highest level of economic development should translate to more positive attitudes toward FDI in Italy than in countries that are newly developed or less economically developed. This assertion is supported by research that has consistently found that less developed countries are at a disadvantage in terms of country of origin perceptions (Wang and Lamb 1983; Jaffe 1995). For example, in examining perceptions of Russian made tractors, Johansson, Ronkainen and Czinkota (1994) noted that their finding of more negative perceptions of Russian tractors verified prior research demonstrating that developed country products generally get better than less developed countries' products. Another study by Witt and Rao (1992) compared perceptions of blue jeans and microwave ovens made in the U.S., Taiwan, and Mexico. The results showed that U.S. consumers associated substantially higher risk with purchases of jeans or microwaves made in Mexico, while this was only true of jeans in the case of Taiwan.

Khachaturian and Morganosky (1990) also found differences in country of origin perceptions based on level of economic development. In their study of 153 U.S. adults, they found that apparel made in countries such as the U.S.A. and Italy was rated the highest in quality perceptions, followed by South Korea and Costa Rica, followed by China. This demonstrates how products from a country at a lower level of economic development, such as China are at a distinct disadvantage compared to products from the U.S., and even to other industrialized countries.

Chinen, Jun and Hampton (2000) found that the level of economic development of a country has been found to be one of the most significant factors affecting country of origin perceptions. In their study, they found further support for U.S. consumers having more positive perceptions of products made in developed countries. However, products made in the U.S.A. outranked even those made in other developed countries.

Country of manufacture

It should be noted that by definition when FDI takes place, a product is manufactured in a country outside of the company's world headquarters. Prior research has shown that it is actually the country of manufacture that drives consumer perceptions as opposed to country of headquarters or country of design. For example, Chao (1992) noted that because of the globalization of markets, it is important to recognize that a product may have multiple country affiliations (design, parts source, assembly, headquarters). He referred to such products as "hybrid products." Indeed, it is quite common today for a products to be designed in one country and have parts sourced and/or be assembled in another. In their review of the literature, Srinivasan and Jain

(2003) note that a large stream of research examines the country of origin perceptions of hybrid products. In general, the country of manufacture of the product (including source of parts and/or assembly) has been found to be a more important cue to consumers than is the country of design or the company's headquarters. For example, if a Sony digital video disk player is "Made in Malaysia," this cue is more important to consumers in forming quality perceptions than is the fact that Sony is headquartered in Japan and that the product may have been designed in Japan (Kotabe and Helsen 2001). Tse and Gorn (1993), for example, found that even well established brand names such as Sony were not able to overcome the impact of unfavorable country of manufacture perceptions on overall quality perceptions of the product.

A good example of a study examining country of origin effects in the context of hybrid products is Chao (1998). In this study, U.S. consumers rated an ad that said "assembled in the U.S.A," higher than an otherwise identical ad that said "Made in Mexico." In the same vein, higher product quality ratings were given when parts were identified as being "Made in the U.S.A.," as opposed to being made in Mexico. Another study by Chao (2001) that manipulated the country of parts, country of assembly and country of design in an experimental setting found that when a product. is assembled in U.S.A. using American made parts, respondents were more positive in terms of both attitudes and purchase intention than when parts were from Mexico. In other words, the source of parts matters to consumers.

From an FDI perspective, the importance of country of manufacture in the context of hybrid products reinforces the importance of a country's COO perceptions, both overall and with respect to specific product categories; furthermore it represents Italy's status as an economically developed nation. To validate and therefore country of origin as a driver of FDI, an assessment of country perceptions is therefore warranted.

Study One Design and Sample

A sample of 201 senior and junior-level U.S. managers primarily based in the financial services (39%), pharmaceutical and healthcare (21%), manufacturing (10%) and professional/technical services (30%) sectors participated in the survey. Managers were participants in executive education programs at a U.S. northeastern university. Managers were asked to complete a multi-item survey. Key survey items adapted from prior FDI and country image studies are shown in appendix A. Fifteen numeric differential single-item metrics represented beliefs regarding Italy as a foreign direct investment destination. Metrics were based on prior FDI surveys (see Kuemmerle 1999). Managers were asked to rate Italy on each of the 15 separate beliefs. Results indicate that U.S. managers had strong, positive, Italian market beliefs regarding a) the production of quality products (75%), b) possession of a highly skilled labor force (40%), and c) the sophistication of the Italian consumer (59%). However, U.S. managers had negative beliefs regarding: a) the level of Italian government bureaucracy (58%) and b) the presence of rigid labor markets (49%). A majority of respondents had neither: a positive nor negative opinion regarding a) the level of access to credit in the Italian markets (60%) and b) whether there existed sufficient Italian government incentives for business (60%). The study authors surmise that this is due to a fundamental lack of awareness by U.S. managers of financial and trade characteristics in Italy. This is supported by on overall lack of awareness and use of Italian and American institutions that support the trade function.

Additional survey results include U.S. managerial perceptions of Italy versus six other key investment destinations including France, Germany, Spain, Poland, the Czech Republic and China. Key survey items are presented in Appendix B and were also based on prior surveys in the FDI literature (Kuemmerle 1999). Italy ranked second behind Germany as a producer of high quality goods, third behind China and Germany as receptive to innovative product and service concepts, third behind Germany and China with regards to skill and efficiency of their labor force and third behind China and the Czech Republic with regards to the threat of criminal activity. These findings indicate that Italy remains viable on several core competitive perceptions of country competitiveness in the minds of U.S. managers. Also, it demonstrates that other perceptions can overweight negative stereotypes. Specifically, while China scores high on the threat of criminal activity, its positive ranking on other items seems to drive FDI intentions and results.

Respondents also had the opportunity to list open-ended positive and negative comments regarding Italy as an investment destination. Positive comments include: *"strong for tourism," "strong retail sector" "dedicated and hard working labor force"* and *"untapped potential."* Negative Comments include: "*over-regulated", "political instability" and "mature economy."*

Based on the study results, a significant opportunity exists for an FDI education initiative. Specifically, creation of an integrated marketing communications campaign that leverages the positive beliefs identified in the survey while bolstering awareness of investment opportunities and government incentives for business development. For example, respondents had very positive perceptions of Italian products, the Italian consumer and the skill of the Italian labor force. Prior research has shown that by leveraging these positive Italian attributes when promoting innovative, novel areas of investment could produce positive associations between Italy and the novel investment area. Specifically, one possible avenue for inducing FDI behavior is the development of a place brand that reinvigorates the entry of new sub-brands in the marketplace (Anholt 2004; Iversen and Hem 2008). Research on country branding has indicated a series of potential effects resulting from properly executed country image campaigns including halo effects and the establishment of an umbrella brand that impacts a broad array of product and service offerings linked to that country (Keller 1993; Lodge 2002).

In addition to short and medium term country promotion efforts, longer term government incentives capitalizing on the positive perceptions of the skilled labor force and sophisticated consumer through the creation of physical infrastructures such as local industrial systems and research parks as well as online infrastructures including research and development customer portals is warranted. Study two will explore specific promotional efforts meant to induce FDI behavior based on study one results.

Study Two- Pilot Testing Country Promotion Frames

Design and Sample

A 3 (Source: Country vs. Region vs. control) X 3 (Promotional Frame: Culture vs. Innovation vs. control) X 2 (Education Material: Present vs. Absent) between-subjects design was employed to test the message framing effects on FDI perceptions and intentions. An initial pilot sample of MBA (n= 90) students from a major U.S. university participated in the pilot. Students in experimental conditions were exposed to sample message frames and educational materials and then asked to respond to the survey items highlighted in appendices A and B. Additional data collection and analysis is underway and results are forthcoming.

Discussion

Despite the plethora of research on FDI and evidence that FDI can be leveraged as a means of exploiting specific circumstances, both internal to a firm and of the market at large, there is scant work on FDI as it pertains to some nations, including Italy. In face of the current economic climate, particularly the ills which face Italy and other EU countries, it is imperative to understand how current circumstances can be leveraged to increase investment and bolster stagnant economies.

The unique contribution of our research lies in its consideration of FDI in Italy. Specifically we examined managerial perceptions of Italy as an FDI destination and investigated how said perceptions compare relative to other FDI destinations. Mixed results reflect the complexity of beliefs regarding the Italian marketplace held by U.S. managers. While positive beliefs were reported around the production of quality products, labor force skill level, and consumer sophistication in Italy, negative beliefs were reported regarding governmental bureaucracy and flexibility of labor markets in Italy. Interestingly, beliefs around access to credit in the marketplace and availability of governmental incentives for commerce were decidedly neutral. The neutrality of these beliefs may be driven by respondent's lack of familiarity with financial and trade characteristics in Italy, as indicated by low levels of awareness of institutions, Italian and American, which are central to bilateral commerce and trade.

Relative to popular investment destination countries, evidence suggests that Italy is viewed as competitive on some core competencies, notably product quality and labor force skill level, while also having the misfortune of being perceived as vulnerable to potential criminal activities. Combined with noncomparative perceptions of the Italian market, it is clear that U.S. managers believe that the Italian market boasts some desirable characteristics though it also has apparent shortcomings that may prevent it from being selected as an investment destination. Of note is the fact that the positive beliefs center on product quality and work force skill while negative beliefs are more general and concern themselves with the commercial and regulatory operating climate in the country.

Implications for Industry

Currently ranked as a major recipient of FDI dollars in the EU, our results suggest that a significant opportunity exists to further bolster investment in Italy. Our research indicates that Italian industry leaders have an opportunity to develop an FDI education initiative to promote investment. Reported managerial perceptions present an opportunity to design an integrated marketing communications campaign intended to leverage positive beliefs about Italian products, producers and consumers while combating negative assumptions about market bureaucracy, maturity and rigidness. Prior research indicates that concentrating on positively perceived market attributes while also highlighting innovative investment options may lead managers to develop unique and novel positive associations with Italy in regard to those investment options.

As a shorter termed alternative, industry leaders may also consider exploiting the impact of halo effects to increase FDI. The halo effect suggests that investors may use their perceptions of one aspect of the Italian marketplace to inform their opinions of other aspects; established perceptions create a halo for the Italian marketplace that colors other perceptions associated with it. Bearing this in mind, if industry leaders focused heavily on the more favorably viewed aspects of the marketplace, potential investors may use their attitudes toward these aspects to inform their attitude toward unrelated aspects. In this vein, responses to Italy's favorable attributes can be used to positively influence responses to less favorable attributes.

Selecting either of these approaches to increasing levels of FDI in Italy serves the purpose of reducing the cost of acquiring information for potential investors. Previous literature has indicated that it is neither transportation nor production costs that determine FDI decisions, but rather, information costs. Establishing an FDI education campaign or taking advantage of halo effects reduces the costs managers face in order to acquire sufficient levels of information upon which to base their FDI decision. Reduction of information costs coupled with the increased positive attitudes these approaches may generate have the combined potential to help industry leaders increase FDI dollars being funneled to Italy.

Implications for Government

The Italian situation is partially justified if considered that Italy has never adopted a consistent FDI policy. The most important actions were conducted during the brief period of program contracts and the commitment of Italian FDI promotion to the "Sviluppo Italia" initiative. The agency was reconstituted (from 2007 named Invitalia –

agency for investments attraction and enterprise development – the only national agency for FDI promotion). At the local level (e.g. regions, provinces and districts) agencies and program managers are tasked with the purpose of promoting local economic internationalization and FDI attraction. However, implementation problems exist with this model as a lack of national coordination has resulted in inefficiencies and waste. Our data suggests greater collaboration and coordination can have significant positive effects on FDI perceptions and intentions.

In addition to short and medium term country promotion efforts, our data indicates that FDI dollars may be augmented through the establishment of longer term government incentives capitalizing on the positive perceptions of the skilled labor force and sophisticated consumer base in Italy. The benefit of these incentives is two-fold; they can leverage positive attitudes toward specific aspects of the Italian market while actively combating misconceptions around other aspects. For example, through the creation of physical infrastructures such as local industrial systems and research parks or online infrastructures including research and development customer portals, the Italian government is able to capitalize on perceptions that its marketplace boasts a skilled labor force, high quality production capabilities and sophisticated consumers while combating perceptions that the marketplace is mature, technologically underdeveloped, rigid and stifled by governmental bureaucracy. In doing so, it is possible that the concerns of potential investors will be assuaged.

Armed with the information revealed through our study, Italian firms and governmental agencies are at a station that permits them to reposition the Italian marketplace in the minds of potential investors. Using information from managerial perceptions, relative comparisons with other nations and response to framing efforts, it is possible to court FDI.

Appendix A
FDI/Country Image Beliefs

Producer of High Quality Products	1	2	3	4	5	6	7	Producer of Low Quality Products
Stable Political Climate	1	2	3	4	5	6	7	Unstable Political Climate
High Government Intervention in Mergers & Acquisitions	1	2	3	4	5	6	7	Low Government Intervention in Mergers & Acquisitions
Rigid Labor Markets	1	2	3	4	5	6	7	Flexible Labor Markets
High Level of Technological Research	1	2	3	4	5	6	7	Low Level of Technological Research
Low Level of Political Risk	1	2	3	4	5	6	7	High Level of Political Risk
Highly Skilled Labor Force	1	2	3	4	5	6	7	Unskilled Labor Force
Many Government Incentives for Business	1	2	3	4	5	6	7	Few Government Incentives for Business
Helpful Regulatory Environment	1	2	3	4	5	6	7	Harmful Regulatory Environment
Low level of Criminal Activity	1	2	3	4	5	6	7	High Level of Criminal Activity
High Level of Financial Risk	1	2	3	4	5	6	7	Low Level of Financial Risk
Low Degree of Government Bureaucracy	____	____	____	____	____	____	____	High Degree of Government Bureaucracy

	1	2	3	4	5	6	7	
Sophisticated Consumers	____	____	____	____	____	____	____	Unsophisticated Consumers
	1	2	3	4	5	6	7	
Easy Access To Credit	____	____	____	____	____	____	____	Difficult Access to Credit
	1	2	3	4	5	6	7	
Strong Market Growth Potential	____	____	____	____	____	____	____	Weak Market Growth Potential
	1	2	3	4	5	6	7	

Appendix B
Country Comparison Items

Please **choose** which **country** ranks highest on the attribute presented. (**Please circle the country** (represented by letter) **that you would rate as having the highest level of each attribute**.)

Italy = I **France = F** **Germany = G** **Spain = S** **Poland = P**
Czech = Z **China = C**

High Level of Technological Research	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Data Security and Protection	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Traditional receptivity to new products, methods, and ideas	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
To preserve markets that were developed through exporting	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Potential Threat of Terroris	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Skill and Efficiency of the Labor Force	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Many Government Incentives for Business	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Potential Threat of Criminal Activity	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Producer of High Quality Products	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Easy Access to Credit and Capital	**I**	**F**	**G**	**S**	**P**	**Z**	**C**
Easy to Transport Goods/Favorable Logistics	**I**	**F**	**G**	**S**	**P**	**Z**	**C**

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