This is the published version:


Available from Deakin Research Online:

http://hdl.handle.net/10536/DRO/DU:30023843

Every reasonable effort has been made to ensure that permission has been obtained for items included in Deakin Research Online. If you believe that your rights have been infringed by this repository, please contact drosupport@deakin.edu.au

Copyright: 2009, ANZIBA
Track 9: Internationalisation Processes and International Marketing Strategies

Australian businesses in China: Examining motivations and influences on entry modes for service providers.

Dr Jane L Menzies

*Deakin Business School, Deakin University, 70 Elgar Road, Burwood, VIC 3125*

Email: jane.menzies@deakin.edu.au
Ph: +613 9244 5104
Fax: +613 9244 5040

Professor Stuart Orr

*Deakin Business School, Deakin University, 70 Elgar Road, Burwood, VIC 3125*

Email: stuart.orr@deakin.edu.au
Ph: +613 9244 5535
Fax: +613 9244 5533

Dr Mona Chung

*Bowater School of Management, Deakin University, 70 Elgar Road, Burwood, VIC 3125*

Email: mona.chung@deakin.edu.au
Ph: +613 52272716
Fax: +613 9244 5040
Australian businesses in China: Examining motivations and influences on entry modes for service providers.

Abstract

Purpose The purpose of this paper is to examine the explanatory power of internationalisation theory for service firms internationalising into China.

Design/Methodology/Approach: Interviews were conducted with Australian based 23 service businesses that had entered China. Internationalisation theory was examined in this research. A number of constructs were investigated, which included the type of service (hard or soft), internationalisation motivation/pathways, previous international experience and whether companies plan or not. A number of propositions were tested in relation to these constructs.

Findings: The research found that soft services were more likely to choose full control modes, and hard services choose lower control modes. The most common motivation for entering China was to seek markets there, and these resulted in lower involvement modes. There was no relationship found between having international experience and entry mode, and it was found that businesses with low levels of planning still engaged high control modes. Internationalisation theory was partially supported in the research and was found to correctly predict the progression of equity in Chinese businesses owned by Australian companies.

Research Limitations/Implications: The limitation of the research was the small sample size, and future research should consider the constructs over a larger sample.

Practical Implications: The implications for other Australian service businesses is they should consider the type of service they have (hard or soft), and then make appropriate entry mode choices.

Originality/Value: There is limited research on the internationalisation of service businesses, and no other research has examined Australian service providers going to China.

Keywords: Internationalisation, Service Providers, Australian Businesses, China
Introduction

China has experienced double digit growth rates for the past five years (Austrade, 2007) and its per capita income has increased from USD 1,132 in 2002 to USD 2,310 in 2007 (Department of Foreign Affairs and Trade (DFAT), 2008). China also has a large emerging middle class; predicted to grow to 520 million by 2025 (Farrell, Gersch and Stephenson, 2006). Australia’s trade of services to China was AUD 3.3 Billion in 2008 (DFAT, 2008) and has been growing significantly for the past five years. Australia’s main service export to China includes education and educated related travel and personal travel. World trade in services was $3290 billion in 2008 (World Trade Organisation, (WTO), 2008a). In recent times, China has been liberalising its service sector and opening it up to foreign providers and is now a signatory to the General Agreement in Trade in Services (GATS). The general principle of GATS is to treat Foreign Service providers in the same manner as local providers (WTO, 2008b). It has also been commented by the World Bank that the commitments made by China in its accession to the WTO in relation to services, have been greater than other WTO members (World Bank, 2006).

Despite the attractiveness these conditions create, there are many impediments to operating in the services sector in China. For instance, the services sector in China has been criticized as being undeveloped; having structural weaknesses and foreign ownership is limited in particular industries (Economic Analytic Unit (EAU), 2005). Different industries receive different treatment and some industries are more restricted than others (EAU, 2008). Despite this, China has promised to eliminate barriers as part of its WTO commitments. An analysis of China’s foreign direct investment (FDI) laws and policies indicates that liberalisation has been provided in areas where a particular type of service is needed by the country, and restricts where they seek to protect their industry or organisations.

It is important to examine the entry modes that service businesses choose (Terpestra and Sarathy, 1994), as the type of mode has an implication for the amount of resources that the firm commits, and then the
amount of risk that the firm takes on. Which can then impact on the performance and longevity of the venture (Li, 1994; Root, 1994).

**Literature review**

Services are defined as “intangible products and activities including various industries; transport and logistics, telecommunications and computer services, construction, financial services, health and education”, by the Department of Foreign Affairs and Trade (DFAT, 2005, pg 4). According to this definition, service production may take place in the home country and be supplied to the customer in their country as an export. Or other approaches for internationalising services includes (Root, 1994):

- Licensing
- Franchising
- Subsidiaries
- Partnerships

Theories for the internationalisation of service firms and the impacts on entry modes are extremely limited in the literature (Peinado and Barber, 2007). The internationalisation of service providers is different to that of manufacturers (Javalgi and Martin, 2007) because services are intangible, nonstorable and untransportable, which means the provider usually has to physically relocate to provide the service in a foreign location (Bhagwati, 1984).

There are a number of theories that can explain internationalisation into foreign countries, which includes internationalisation theory (Johanson and Vahlne, 1977) and Dunning’s eclectic theory (1980). However, only internationalisation theory will be utilised in this research paper. This paper will examine the research question, “does internationalisation theory provide an explanation of the entry mode selections for service firms entering China from Australia”. This theory will now be briefly reviewed.
Internationalisation Theory

Johansson and Vahlne’s internationalisation theory (1977) suggests that firms will increase their resource commitments (and therefore risk) in a foreign market as their level of knowledge and understanding of the foreign environment increases. The term internationalization is used to describe the process of increased involvement in international operations. It is a gradual and incremental process with a number of steps over a period of time. A firm may commence exporting their products to foreign country, once the firm has learnt about the environment it may choose to make further resource commitments to the environment and engage in FDI or build a plant. Therefore, the uncertainty of the environment suggests that firms will use a gradual, step-by-step approach. Researchers have suggested that entering countries that are “psychically close” reduces the level of uncertainty firm’s face in the new market; and for countries that are “psychically close” it is easier for companies to learn about (Kogut and Singh 1988). The greater the closeness, the less risk that firms perceive when making an investment decision. For the purposes of this paper we define psychic distance as “a firm's degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there” (O'Grady and Lane, 1996, pg. 330).

In the research China is considered to be “psychically distant” from Australia because it has distinctly different cultural, legal and political systems. As a result it is expected that Australian businesses will use entry modes that entail less risk when entering China. Another impact on internationalisation is whether the business is engaging in merchandise or services trade. Bell (1995) has argued that internationalisation theory may not be relevant to service firms, because service firms often cannot separate the service from the location in which it is to be provided, limiting market entry mode options.

In addition to the inseparability of the service and customer location, service firms have lower capital intensity than manufacturing firms. Firms may need to start with full control modes that is have an office
to provide the service or the service could be provided without the office being there. The ownership of overseas manufacturing facilities entails considerable resource commitments, risk and switching costs. This may not be true, however, for many service firms, especially in the professional and business services sector (e.g., advertising agencies and management consultants). For these firms, the creation of a wholly owned foreign enterprise (WOFE) is limited to establishing a local office, which would be a much smaller investment. Sharma and Johanson (1987) found that Swedish technical consultancy service firms bypassed the incremental establishment chain followed by manufacturing firms, because "resource commitments are of minor significance". Therefore, control can be acquired at comparatively low expense by many service firms. However, it is difficult for the service firm to export its services in particular industries. The relationship between resource commitment and experiential learning may consequently not hold for service firms, making internationalisation more risky for a service provider than a manufacturer (Carmen and Langerard, 1980). Given this review the following proposition was developed:

*Proposition 1: Internationalisation step theory explains the modes by which service firms enter China.*

**Constructs for examining the entry mode**

To provide a basis for analysing internationalisation theory, the constructs which were important for internationalisation of service organisations were identified from the literature and used to frame the data collection and analysis for the project. Propositions were also developed under each construct. The most important construct was the type of service. In addition, internationalisation motivation/pathways, previous international experience and planning were also found to be significant for service internationalisation. These constructs are discussed below.

**Service Types**

The type of service appears to have an impact upon the entry mode adopted. Two broad categories of service type have emerged in the literature as requiring significantly different entry modes in response to
the type of service it is, whether it is soft or hard services. Soft services require the company to be physically present in the customer’s location; so there is a low level of inseparability. This category of service is non-exportable (Erramilli, 1991) and location bound (Boddewyn, Hallbrich and Perry, 1986; Patterson and Cicic, 1995). Services such as restaurants or car rentals may fall into this category. The inseparability of soft services makes gradual internationalisation impossible, so these firms need to make resource commitments to the foreign market and must take on the risk setting up operations to provide the service at the outset. Cicic, Patterson and Shohan (1999) found that consultants, marketing research and legal services require a high level of contact with customers and continuous presence in foreign markets. They frequently operate independent subsidiaries in each country in which they operate (Czinkota and Ronakainen, 1995).

Hard services including engineering, architecture, computer software or motion pictures and education. Hard services can be exportable because they can be separated from where they are produced to where they are provided, and are transportable over national borders (Boddewyn et al., 1996). For instance a University could provide education to an individual in China through the provision of distance learning internet based systems. Therefore, business in this category is susceptible to the gradual incrementalisation that is common for manufacturing firms and is consistent with internationalisation theory. See Figure 1, for the internationalisation of hard and soft service firms.
Figure 3.1: Process of Internationalisation of Service Firms: Hard Vs Soft


Usually, selection of entry modes involves two steps 1) determining the location of production facilities, and 2) deciding the firm’s involvement in or control of the foreign enterprise (Ekeledo and Sivakumar, 1998). For hard services their focus will be on choosing between exporting or a control mode. Soft services do not have this exporting option, and therefore must decide between having a full control mode, and high involvement or a low control mode and shared involvement, i.e. a joint venture strategy. Control refers to the authority to influence or direct the activities or operations of a foreign subsidiary, while involvement refers to the level of market specific managerial or financial resources, committed to a foreign subsidiary (Erramilli and Rao, 1990). Given this we developed the following proposition:

*Proposition 2: The mode by which service firms enter China is affected by whether the services are hard or soft.*
Motivations and Pathways for Foreign Expansion

Motivations may affect the internationalisation process and entry modes chosen. There are many motivators for foreign expansion and they can be either be internal or external to the firm. Internal factors can be growth opportunities, limited or saturated domestic markets, aspirations for a short or long term profit and inclination to spread risk over foreign countries and better utilisation of excess capacity. External factors can be unsolicited orders from abroad, government incentives and financial or Chamber of Commerce influences (O’Farrell et al., 2006).

One particular motivation for conducting business in a foreign country is that an organisation has a competitive advantage, or a desirable expertise which was developed in the ‘home’ market. To trade these services, businesses need to adapt these skills to the needs of other international markets (O’Farrell, et al., 2006). This suggests that having such assets, or resources and the ability to transfer those resources across borders is an explanation for internationalisation. Having a strong competitive advantage and being successful in a domestic marketplace is an opportunity to exploit that competitive advantage in foreign countries.

Past research has found that following clients overseas is a common motivator for service organisations (Terpstra and Yu, 1988; Erramilli and Rao, 1990). Li (1994) found that “client-following behaviour” is often the first stage in the international expansion of service MNCs (Weinstein, 1977; Khoury, 1979; Goldberg and Saunders, 1980; Ball and Tschogel (1982), Terpstra and Yu, 1988; Lu and Guisinger, 1992). This is common for the insurance, banking and advertising industries. One of the benefits of following clients abroad is the existence of pre-established relationships, business which reduces uncertainties of entering foreign markets. Li (1994) found that client following strategies was an important motivator for 180 service firms that he examined internationalising to the Asia Pacific. Li (1994) suggests that consulting, legal, accounting, banking and other professional business services may move into a foreign
country to prepare and facilitate for their home country clients to expand into international markets, or simply provide services when their international clients demand it. Once they have established their business, they extend their services to other foreign clients and local firms, who are also seeking internationalisation. This two stage process suggests that the importance of client following strategy might decrease over time. Li (1994) suggests that service firms might lead manufacturers rather than follow them. Cicic et al. (1999) suggest that servant type service firms will more likely use the “client following” or “defensive” modes. Previous research has found that service firms who follow their clients overseas favour FDI modes (Terpestra and Yu, 1988).

Market seeking behaviour is also a motivator for foreign expansion. These types of firms face greater risks, and they must compete with local service providers from day one (Ekeledo and Sivakumar, 1998). A firm utilising this method, that has a hard service can begin with exporting and then upgrade to a joint venture or sole ownership as it gains more experience in a market place (Ekeledo and Sivakumar, 1998). A firm utilising a soft service will not have this choice, and will therefore have to a sole ownership, joint venture or franchising mode. However, to protect against the risks a firm will choose a lower involvement mode. This can be classified as an offensive, rather than defensive move and is aimed at providing a competitive advantage for the firm by internationalising. In regard to China, there may also be insufficient local firms that can provide a particular service, an Australian business can provide. Consequently, the size of the Chinese market and the growth of the market may be an influential factor in regards to market seeking.

Another motivator for service firms is the international expansion of their competitors. This may be more apparent in oligopolisitic industries, where the actions of one firm in the industry, will impact of the performance of the other firm in that industry (Knickerbocker, 1973). Perceptions that the market place
trend is to ‘be in China’, or a belief that the income and scales of economy to be achieved from operating in China and servicing the Chinese market will support operations back in the home country.

**Proposition 3: The mode by which service firms enter China is affected by their motivation for international expansion.**

**Previous International Experience**

There is some disagreement in the literature regarding the importance of international experience. Johannson and Vahlne’s (1977) work suggested that international experience is important for culturally distant countries (and so is important to the participants in this project who internationalising from Australia to China, which is culturally distant). This may be especially more important for service firms as opposed to manufacturing firms, where close contact is required for customers and clients, and hence makes cultural issues more important and sensitive (Czinkota and Ronakainen, 1995). On the other hand, Sharma and Johnson (1987) suggested that international experience has no significant role to play under any conditions. Erramilli (1999) examined the effect of international marketing experience on entry modes, and found that there was a U shaped relationship between experience and desired entry mode choice. However, we suggest that firms who have international experience, and in particular in Asia will feel more comfortable in China due to its “psychic distance” from Australia. Those firms that feel more comfortable may have also had past international experience in Asia. Ekeledo and Sivakumar, (1998) points out that experience in international business complements abundant resources. Therefore, relative corporate sales internationally compared to domestic sales, number of markets currently served, and knowledge of the host country. Past research shows that preference for sole ownership increases with cumulative experience (Gatnignon and Anderson, 1988; Johanson and Vahlne, 1977). The fact that Eramilli (1999) found that there was a U shaped relationship between international experience and the
tendency to adopt sole ownership modes, and this is more likely to apply to soft services, because they are located there. Once the firm has established experience, they can then move to less control modes.

Proposition 4: The mode by which service firms enter China is affected by the firm's level of international experience, and the type of service it is.

Level of planning used by companies

The level of planning used by companies was also seen as important and an argument could be made that those firms who actually engaged in planning would more likely have higher control modes. Ekeledo and Sivakumar (1998) argued that firms with limited goals and objectives, favour entry modes with minimum commitment of resources, while firms with aggressive goals and objectives favour entry modes that involve substantial resource commitment and control over the foreign subsidiary (Douglas and Craig, 1995). This means that firms who do plan, are adequately able to plan out there ventures, and the resources that are needed such as human and financial resources, resulting in equity modes, as opposed to firms who do not plan. Those firms that do not plan may find themselves with project/client based modes, as their plans may not adequately factor in the opportunity, benefit or need to create higher control modes.

Proposition 5: The mode by which service firms enter China is affected by the firm's level of planning of their entry into China.

Entry Mode

We classified entry modes into 4 categories, including agents and exporting; being project or client based, joint venture or wholly owned foreign enterprise (WOFE). This classification is similar to that offered by Ekeledo and Sivakumar (1998), the difference being the licensing/franchising option. Erramilli and Rao (1990) classified nine entry modes based on the level of involvement that each entry mode had. For
instance, agents and exporting have the lowest involvement by the organisation and then project/client based, joint venture or having a WOFE.

**Methodology**

The data to be collected involved developing an understanding of phenomenon from the perspective of the research participant and understanding the meanings participants gave to their experience (Yin, 1994). Consequently, a qualitative research methodology was chosen to provide rich (Yin, 1994) and in-depth data about how service firms internationalise. This is information that cannot be meaningfully incorporated into a traditional survey protocol because the processes by which international business decision-making occurs are not yet clearly understood.

A structured interview guide (available from the authors) was developed based on the literature review above. A written invitation to participate was sent to a random selection of 400 companies operating in Australia which had either successfully or unsuccessfully established operations in China. The participants were identified from the membership list of the Australia China Business Council (ACBC) and companies which have identified themselves as being involved with China in recent public domain media. Follow-up phone contact was used to organise interview agreements with individuals, who had extensive knowledge of their business operations in China. These people were chosen, because they were intimately involved in starting up their Chinese business operations or were actively involved in at the current time. This means that the interviewees had an extensive understanding of their organisation's internationalisation and the factors that affect it. This often included individuals who were Managing Directors, CEOs, Senior Executive Staff, or Directors of International Operations. Representatives from a total of 23 organisations were interviewed for the study. The interviewees were intentionally selected from a range of industries so that the research could identify the effects of the constructs across industries.
Prior research has found that a broader interpretation of results and the investigation or development of grounded theories is possible when the research spreads several industries (Baird, Lyles and Orris, 1994).

The data was then coded using the NVivo (version 7.0) tool. NVivo is a categorising tool which enables segments (nodes) of data to be ‘tagged’ and linked into hierarchical patterns (trees) on the basis of a presumptive model (developed using the literature above) and thematic linkages appearing in the data. NVivo data interrogation (search) tools were used to facilitate the tagging process. The data was also simultaneously coded and categorised under the different constructs identified in internationalisation theory. The data from the themes relating to these constructs was extracted and is presented in the following section.

The Sample

The industries (and number of participating companies) involved in the study were Business and Property Services (5), Building, Construction and Engineering (3), Education (4), Finance and Insurance (4), Agriculture, Forestry and Fishing (2) and Government, Administration and Defence (1), Accommodation, Restaurants and Cafes (1), Legal (1), Transport and Logistics (1) and Information Technology (1).

A variety of entry modes were represented in the sample and some firms engaged in multiple modes. The modes represented in the study include being Project/Client Based (9) and some with representative offices (2 out of the 9). Other modes included Joint Ventures (JVs) (5), Wholly Owned Foreign Entity (WOFE) (4), others had a representative office (1) and Agency Agreements and Partnerships (4).

In terms of location, the popular areas for location included Shanghai (13), Beijing (9), Guangzhou (5), Hong Kong (4), Shenzhen (3) and Tianjin (2). In addition in terms of size, there were large (over 5000 employees) (8), medium 50 – 1000 (7) and small firms (1-49 employees) (9).
Findings

The findings are represented under internationalisation theory, and the constructs identified in this research, which include type of service, motivators for conducting business in China, international experience and planning. These are then used to examine the fit of the findings with that predicted by internationalisation.

Support for Internationalisation Theory

To examine whether internationalisation theory explained the participants internationalisation to China, the interview transcripts were examined to determine their process for internationalisation. The interviews gave some support that internationalisation theory was explanatory; in particular there were 9 organisations that used a step-by-step, or stage by stage, learning process for internationalisation to China (See Table 1).

Table 5.1: Evidence of Internationalisation Theory

<table>
<thead>
<tr>
<th>Table 5.1: Evidence of Internationalisation Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step by Step Process</td>
</tr>
<tr>
<td>----------------------</td>
</tr>
<tr>
<td>Participants</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Consistent with internationalisation theory, the study found that once ventures had proved themselves to be successful, further resource commitments were made, as described in the following quote from a building and construction participant:
So ’93 we did some design work for them on their new investment, a new facility that they were setting up... They then asked if we could manage the construction. Then in ’94, I went up with the team from here and we built our first project in China from scratch.... And we built it and it was a very successful project. They then asked us to stay on and do another one, which I did. So I lived there for 3 years at that time. And then during that time, a lot of other pharmaceutical companies, particularly the US, were investing in China and we managed to secure additional projects. It just really branched out from there. Then we decided to set up a division and we established an office in Shanghai, which is our main China office. We now have a Shanghai office and a Tianjin office.

There was evidence in the interviews that not all businesses were actually interested in further internationalisation modes. For instance, Universities used agents and partnerships to recruit students to bring back to Australia. They were not interested in further internationalisation development, even though they understood the market because they perceived that this route it would be difficult to make a profit. There were nine participants in this category. Another category that was apparent in the research was, that some participants were still in their early stages of internationalisation and therefore still waiting and testing the market to see if it was possible for them to further internationalise to China, which was inconsistent with internationalisation theory:

There were other examples in the study where internationalisation modes were limited by the Chinese government, as the following quote highlights:

*The banking regulator in China, which is called CBRC, actually came into existence whilst during that period. Previously it was governed by the People’s Bank of China, which is the Central Bank. And foreign banks, as they entered China, had to go through a*
In this case government limitations affected the entry mode they could choose, and therefore in this instance internationalisation was not supported. The banking participants had sufficient resources for WOFEs but did not consider that learning about the environment was important. Therefore based on the entire findings of this section, proposition 1 was partially supported by the research, and partially not supported.

5.2 Hard or Soft Services

Fourteen out of the 23 firms examined in the study were categorised into having soft services, which meant that the delivery of their service could not be separated from where it is produced (See Table 2).

<table>
<thead>
<tr>
<th>Service</th>
<th>Agents and Exporting</th>
<th>Project Client Based</th>
<th>Joint Venture</th>
<th>WOFE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft</td>
<td>0</td>
<td>4</td>
<td>3</td>
<td>7</td>
<td>14</td>
</tr>
</tbody>
</table>
Of the participants that had soft services, three had a JV arrangement, six had a WOFE (6) and four other organisations were project or client based, which meant that they did not make resource commitments to the market. For project/client based modes, they were representatives that travelled to China to provide services on a project to project basis, or what we have classified as a project/client based mode. In particular one of these participants used their partner’s offices, rather than setting up their own office and WOFE, which reduced their costs and risks with their ventures.

_We use business partners’ offices. So we’ve managed to get around all the expenses of setting up foreign owned enterprises and all the legal bills associated with joint ventures and all that sort of stuff. Basically, our establishments’ costs are the costs of travel, the cost of phone bills, translators and that sort of stuff._

Businesses that had hard services adopted the entry modes of; agents or exporting in China (4), project/client based (4), or JV. The participants utilising the agent/partnerships model were usually Universities. In contrast to internationalisation theory, their approach was not to spend time learning about the market place, with the longer term view of committing greater resources to their venture, such as setting up campuses or engaging in foreign direct investment (FDI). The Universities preferred to use agents and partnerships with Chinese Universities as a tool to attract students to Australia. This strategy was seen as more viable and profitable then setting up a WOFE (campus) in China.

In summary of this section, proposition 2 was supported as businesses that used hard services, did use the exporting mode, where businesses that had soft services did not use this mode.
Motivators for Conducting Business in China

The participants were motivated to go China for a number of reasons. As can be seen in Table 3, the main reason why firms internationalised was for market seeking purposes. Eleven firms in the study met this category. Most of the firms, in this category had used agency partnership models and were mainly universities. Other firm’s motivation for going overseas related to them being invited/asked by their clients to do work for them. These firms usually took a project/client based approach to their entry mode and later changed their mode to a WOFE, if their business in China was successful or they perceived that they had enough work to support having an office there. The WOFE usually comprised a representative office to provide their service. Five firms were in this category. For instance, a Building and Construction firm was initially asked to do the design work for a sterile pharmaceutical plant in Suzhou, and then once the design was successful they were then asked to build the project: “One of our international clients had a project in China that they asked us if we could help them with”. After a number of projects they then decided to setup an office, and make an investment into China, to meet the demand that they experienced.

Similarly a Legal firm also stated that they were motivated to enter China, because of client demand. Once demand was sufficient they then proceeded with opening an office, mainly to serve Australian clients wishing to invest in China and advise on Chinese law:

I had a client just ringing up and saying that they were going to do a joint venture in China and would I go to Beijing for a couple of weeks to negotiate. Of course, I said yes. But I hadn’t contemplated sort of China at that stage. So I suppose it was client-driven. It wasn’t as though this was an idea; we looked at a globe and thought, “Well, let’s expand and where will we expand,” and put a flag into China.
Table 5.3: Motivators for Conducting Business in China and Entry Mode Used

<table>
<thead>
<tr>
<th>Motivator</th>
<th>Agents Exporting</th>
<th>Project Client Based</th>
<th>Joint Venture</th>
<th>WOFE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Seeking</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>Follow Clients</td>
<td></td>
<td></td>
<td>5</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Follow Industry</td>
<td></td>
<td>2</td>
<td>1</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Competition</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Other participants commented on them following the industry to China. For these firms, their entry modes were scattered across either been project/client based (2) and one had a WOFE. The following is a quote is indicative of this:

*It’s the whole industry’s position. We are definitely only following the exporters, but we are also doing our own research and we know that it’s a huge market potential there – a lot of opportunities there. So the whole industry agrees that China has got great potential.*

Other strategies related to competitive pressures about the respondents business in Australia and competition from an international level. This firm was restricted to using a joint venture mode, because they were in the transport and logistics industry, as the following quote specifies:

*Our company was looking at the fact that most of the goods that are manufactured in China these days are things that are consumed in Australia, so if we didn’t do something to expand its offer, it would become eventually redundant. And the Australian*
marketplace has other competitors like the global logistics players and they were starting
to get a bigger footprint here... So our logistics strategic planning process identifies
competitors, the marketplace and what’s going on there, so this is a defensive strategy, if
you like, in terms of getting into the joint venture in the first place.

In summary of this section it did not appear that motivations for conducting business in China had an
influence on the entry modes chosen and therefore proposition 3 was not supported in the research.

**International Experience**

In terms of international experience, 9 organisations out of 23 had no international experience (See Table
4). These participants either entered China through a number of modes, which included being
project/client based (4), and having a WOFEs (4). Two of these participants with International Experience
used agents to source customers and two other participants (a Building and Construction and a Legal
Firm) started with a project/client based mode and then moved to a WOFE as stated above. An
Information Technology participant who had no international experience entered through a project/client
based mode, but because of their lack of success, had not progressed beyond this mode. A management
consulting participant that specialised in corporate social responsibility who had no international
experience was invited to China by academics/politicians, decided to setup their WOFE straight away
without testing the market, or having a specific project there. That is they utilised a full control mode
straight away, as they were being supported by the government to be there. The findings of the section
suggest that having international experience and learning did not really influence whether they would
engage in further modes, as there were firms that had no international experience, but still engaged in high
control modes.
Table 5.4: International Experience and Entry Mode Used

<table>
<thead>
<tr>
<th>Service</th>
<th>Agents Exporting</th>
<th>Project Client Based</th>
<th>Joint Venture</th>
<th>WOFE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Yes</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>14</td>
</tr>
</tbody>
</table>

In the study 14 participants had international experience. Those participants with international experience perceived that it was important as the following quote highlights:

*I can say what would have happened 30 years ago but I know that if we were an Australian company who had never operated overseas, it wouldn’t be the first place I’d necessarily go to so we were able to go there because we feel very comfortable working in that part of the world.*

In addition the participants that did have international experience indicated that they had used research to plan their ventures to China, however, those respondents who had no international experience did not plan as they probably did not know that they should plan. Suggesting that firms with previous learning in foreign markets had more sophisticated international research activities and planning, than those firms who had no international experience.

The respondents with international experience used the following types of entry mode; JV (4), project client based (4), WOFE with a representative office (3) and agency agreements (3). It appeared that the participants using the agency partnerships were universities and they were restricted and preferred to use only that entry mode, as noted before.
In summary of this section it appeared that international experience did not explain the entry mode chosen, and firms that had no international experience still choose modes that were high resource commitments such as WOFE. Therefore, proposition 4 was not supported.

**Level of planning**

As some participants were invited in by a client or a business partner, they might not have had the need to actually create a plan or conduct market research, as their business was already provided to them. Eleven of the participants did not originally have a plan to do business in China, eight had a plan and four developed plans later on down the track, once successful (See Table 5). The research therefore, supports internationalisation theory, on this point.

**Table 5.5: Level of Planning?**

<table>
<thead>
<tr>
<th>Did Companies Plan</th>
<th>Agents Exporting</th>
<th>Project Client Based</th>
<th>Joint Venture</th>
<th>WOFE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yes</strong></td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td><strong>No</strong></td>
<td>3</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td><strong>Evolved Later On</strong></td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

Of the participants that did have a plan, most were large (4 out of the 8) hence had the financial resources to do so and most had international experience. One participant who operated a marketing consultancy firm, who used a project/client based mode in Hong Kong, stated that due to resource constraints (time and money), it was difficult for them to conduct market research or create plans for their business ventures. These findings suggest that financial resources, size and past experience in the international arena gave them an ability to develop plans and know what should be included in those. The following quote is indicative of the types of items that one participant had included in their research activities:
But every time we go into a new country and we’ve just done a new one ... we consider everything. We consider taxation, we consider the capital restrictions, availability of talent to be able to run our bank, the capability to have our people go in and run the operations for a few years, whether ex-pats can work and how comfortably they can live, whether language is an absolutely vital thing or something that you can actually do without.

Surprisingly, 11 of the participants did not have a plan, as one information technology participant mentioned:

*It was tactical; no one sat down and planned. We developed our own strategies as far as China was concerned which is outside of the rest of the company strategy which was to diversify, we need to have more than one customer and we need to have local customers as opposed to foreign companies working over there.*

Or as a building and construction participant stated:

*No. It wasn’t on the radar. But our Chairman was enterprising enough to always have contacts with foreign clients and he would go on international trips that weren’t just junkets, but... We were doing projects here for international clients.*

In terms of the entry modes it was surprising that 4 participants that had no plans had actually adopted higher equity and resource commitment entry modes such as a WOFE. This may be the result of decision
makers feeling highly confident about their potential business activities in China, and therefore they are willing to devote significant resources to those ventures.

The findings suggests that proposition 5 is not supported by the research, as it was expected that businesses that had plans would have more involved methods of modes of entry however this was not the case. In fact 4 businesses which had not created plans to go to China ended up with WOFEs.

Discussion

In summary, the research found that internationalisation theory can provide an explanation of the entry mode selections for service firms entering China from Australia, but not always. This is evident as the proposition for internationalisation theory explaining entry modes, was partially supported by the research, and partially not supported. That is some participants took a step-by-step learning approach to entering China. Some factors impacted on the entry mode, such as whether the participant was successful in the market or whether a WOFE was needed. For, instance a building and construction participant who had been invited by their clients to do some work for them in China was successful there and then later decided on a WOFE once successful there. Internationalisation theory was not supported; however, where participants had entered the market using low control/investments modes, and had realised that it would not be profitable for them to engage in higher control modes later on down the track. Internationalisation theory was also not supported where the government limitations or a lack of further interest by the firm limited the entry mode options available.

Participants who had soft services used modes that required investment, which included WOFEs and the creation of offices in China to provide their service. This is consistent with past research on service based internationalisation, which suggests firms providing soft services will need to utilise these modes (Boddewyyn et al., 1986; Patterson and Cicic, 1995). The hard service participants used non-investment
type modes provide their services by exporting them or using agency relationships, which had the purpose of directing customers to Australia that is students for Universities, and guests for Hotels located in Australia. In some cases the service is not separated from its home country and transported to a foreign location, the consumer is. These findings hence supported past research in the field on hard services (Boddewyn et al., 1996; Ekeledo and Sivakuma, 1998; Erramilli and Rao, 1999), and proposition 2 was supported in this case.

The motivations for conducting business in China were generally consistent with that identified in the literature (eg O’Farrell et al., 2006; Li, 1994; Ekeledo and Sivakumar, 1998). An interesting finding was that the majority of participants who had the “followed clients” motivation, were invited by clients, or were asked to provide services often ended up with a WOFE. It may be the case that the support, relationships and business provided by the client made these businesses sufficiently confident in establishing a WOFE, in addition these participants had a stream of income. The participants with market seeking motivations adopted low risk modes such as agents, exporting or using project/client based modes, as predicted by Ekeledo and Sivakumar, (1998). It should be noted that market seeking participants decided against WOFEs and choose the agents/exporting, project/client based and JV mode instead. These are less control modes then the others, which supports the work by Ekeledo and Sivakumar, (1998), who argue that because of the risk associated with entry, that firms who are motivated by market seeking behaviours will choose entry modes that entail less control, involvement and hence risk. All of these modes entail less risk then the more involved WOFE. JVs may have the effect of reducing the risk that firms perceive when in China (Das and Teng, 1999). Therefore, the study did support proposition 3 that different motivations for internationalisation influenced the selection of entry modes.
In terms of international experience, there appeared to be no relationship between international experience and the entry mode chosen. For instance, even participants who had no international experience still established WOFEs. This finding is inconsistent with internationalisation theory and the research by Ekeledo and Sivakumar, (1998). Their suggests that firms with little or no experience of an international nature will start off with low risk modes such as exporting and then choose more involved modes, later down the track. In the sample there was one business that had no international experience, which choose a WOFE entry mode which suggested that the psychic distance between Australia and China (which is large) was perceived not to be an issue for them. Internationalisation theory suggests that firms would choose more culturally close countries and only enter more culturally distance countries like China, when they have been successful in culturally close countries. Therefore, the finding does not support internationalisation theory in this instance, nor does it support proposition 4.

The findings around level of planning and entry mode chosen was a contribution to knowledge as little past research has considered the effect of the level of planning on entry mode chosen. The study did not support the proposition that more planning and research for international ventures would influence the entry mode chosen. In particular, it was found that for firms that did not do any planning, still employed high control modes such as WOFEs. Therefore, proposition 5 was not supported in the research. This suggests that Ekeledo and Sivakumar (1998)’s work is not supported, which is businesses that have aggressive goals will end up with entry modes that are more involved.

Areas for Future Research and Implications for Business
The sample size for this project was small and future research should survey a large number of organisations to identify whether the findings are supported for larger populations. This type of research is important to determine the type of entry mode that a service business should consider when internationalising to China. Other areas for research require a more in-depth analysis of the other factors
that influence entry modes for service businesses. This could include testing an eclectic model of factors influencing entry modes, as advocated by Ekeledo and Sivakumar (1998). There are a number of implications for service businesses that arose out of this research. The first is that they should identify whether their service is a hard or soft, and should consequently focus on relevant entry modes, so as to choose the most correct entry mode for their business. In addition, entry modes followed by manufacturing firms should not be followed by service based firms (Ekeledo and Sivakumar, 1998). The other thing that this research found was that entry modes change after time, and experience has built up. Therefore, for decision makers the initial entry mode is only optimal in the short-term, and then other entry modes should be considered based on the success and learning of the venture. In addition, the initial mode should allow for a smooth transition from the first mode to the second mode. Consistent with internationalisation theory, it is suggested that businesses should initially use entry modes that entail less risk then spend time learning about the environment, and then depending on whether the business is successful in China, use entry modes that entail higher levels of control and investment. It is also suggested that businesses analyse their motivations for going overseas. If they do not already have experience in working in foreign environments, they should seek to work in culturally close countries first, and then move to a more psychically distant country later. The final suggestion is that firms need to create plans in regard to their China activities. Without appropriate planning organisations do not have an appropriate road map in China to operate efficiently and effectively, and to capitalise on opportunities, that they might not see yet.

**Conclusions**

The research partially supported internationalisation theory for service firms internationalising into China. The internationalisation theory was not supported in the predication of the initial entry mode, with participants adopting higher equity entry modes and internationalising into the challenging Chinese environment without the experience levels the internationalisation theory dictated. Internationalisation
theory did, however, correctly predict the progression of equity in the Chinese subsidiary as displayed by many participants. It is concluded that internationalisation theory is required to provide prediction of initial entry modes and its development over time. Limitations, such as government controls and the company’s internalisation objectives also influence the entry modes as they developed. The research also identified small differences between entry modes for hard service providers in comparison to soft service providers. Soft services were more likely to choose full control modes. In addition, the participants following their clients choose full control modes. Reasons cited for a lack of planning included a lack of resources, time or money to plan. The research did not find that more planning influenced entry modes, hence businesses which did no planning still used high involvement and control modes. In conclusion, the research highlighted that principles from internationalisation theory were important in explaining some aspects of internationalisation for Australian firms going to China.
References


Peinado, E. S. n. and J. P. Barber, (2007). Mode of entry in service firms: strategic variables and characteristics of services influencing the internationalization process. *Advances in International Marketing* (17), 159-192.


