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This paper examines the influences on entry modes for Australian service organisations internationalising to China. A conceptual model was developed utilising past research in the field and internationalisation theory. The model incorporated the constructs of: resource commitments, previous international experience and whether or not the service could be offered independently of any physical product. The model was empirically tested using qualitative data from interviews conducted with senior representatives from 23 Australian service organisations with operations in China. The data indicated that these organisations increased the resource commitments to their Chinese operations, the longer they were in operation and the more familiar the organisation became with the Chinese environment. The data also suggested that, whilst international experience was desirable prior to entering China, it was not mandatory for success. A bias was identified amongst the respondents towards exporting those services which were separable from products to China and foreign direct investment, representative branches and significant local investment for services that were not separable from products.

Field of research: International business

1 Introduction

In contrast to China's role as a major exporter of manufactured products, China is also a major importer of services. Consequently, the approaches that international service organisations have taken when establishing Chinese operations is a subject of much interest (Britton and Rossi, 2007). To date, however, few models for service internationalisation to China have been developed (Peinado and Barber, 2007). This paper extends the existing theory on service organisation internationalisation, using data

1 Deakin Business School, Deakin University, stuart.orr@deakin.edu.au

2 Deakin Business School, Deakin University, jane.menzies@deakin.edu.au
collected from Australian international businesses that have established service operations in China for the Chinese market.

China has a strong demand for services, which is growing strongly. This demand reflects the rapid growth of China's middle class, which is predicted to grow to 520 million people by 2025 (Farrell, Gersch and Stephenson, 2006). The growth of the Chinese economy is also a contributing factor. China has experienced an average growth rate of over 10% since 2005, returning to 10.4% in the fourth quarter of 2009 from a low of 8% during the global financial crisis (GFC); well ahead of the recovery of most countries (Economist, 2010a). In addition, per capita income was also rapidly increasing up to the beginning of the GFC, increasing from USD 1,132 in 2002 to USD 2,310 in 2007 (DFAT, 2008) and is expected to continue to grow strongly for the foreseeable future (Economist, 2010b).

Australian businesses establishing operations in China were selected as the unit of analysis for this research because of the rapid growth in exports from Australia to China, the significant proportion of total Australian GDP that results from trade with China and the high value of Australian service exports to China. Australia currently exports services worth AUD52 billion per annum (ABS, 2010). Australia's main service export to China is education, education-related travel and personal travel. In 2008, Australia exported USD 3 billion of services to China (DFAT, 2008) and its service exports to China have been continuously growing since 2005. Globally, world trade in services was USD 3,290 billion in 2008 (WTO, 2008a).

China has responded to this demand for services by liberalising its service sector and opening it to foreign providers. China is now a signatory to the General Agreement in Trade in Services (GATS). The general principle of GATS is that members must treat foreign service organisations exactly the same as their local service organisations (WTO, 2008b). The World Bank (2006) noted that China is leading many of the other World Trade Organisation (WTO) members in its commitment to liberalising the service industry. China joined the WTO in 2002. Despite the attractiveness to international businesses of the Chinese service sector, it still has several negative features, including an undeveloped local capability, industry structure and foreign ownership levels in certain parts (EAU, 2005).

This suggests that the entry mode selection and justification process for internationalisation of service organisations to China requires investigation. For example, the resource-based view suggests that the entry mode selected for Foreign Service Investment (FSI) is significant because of the implications for the resources that the business should commit to internationalisation, relative to the likelihood of success, the business performance that can be expected and the likely lifespan of the foreign investment (Li, 1994; Root, 1994). The importance of developing FSI theory has been noted in the literature for the last two decades (e.g., Terpstra and Sarathy, 1994), however, very little research in this area has been published (Peinado and Barber, 2007). This paper will examine the research question, "How do the resource commitments, type of service and internationalisation experience influence the entry mode adopted and its justification?"
2 Literature review

FSI is internationalisation of "intangible products and activities including various industries: transport and logistics, telecommunications and computer services, construction, financial services, health and education" (DFAT, 2005, p. 4). Services may be produced in the home country and supplied as an export, or they may be produced in the location of the foreign market. Service production can be internationalised through licensing, franchising, subsidiaries and partnerships (Taibi-Benziane, 2008: Root, 1994).

Buckley, Pass and Prescott (1992) first argued that service organisations follow a much different internationalisation pattern to manufacturing organisations. These observations have been supported by subsequent research (e.g., Javalgi and Martin, 2007; Coviello, Ghauri and Martin, 1998). Most of the internationalisation literature to date has concentrated on the manufacturing industry.

The difference between the internationalisation of service organisations and manufacturing businesses is that services are intangible, non-storable and untransportable, which reduces the options for exportation and long-distance distribution of services (Bhagwati, 1984). These international trade options are available to most international manufacturing businesses, and frequently form an important part of their internationalisation as it develops.

Johanson and Vahlne’s (1977) internationalisation theory is arguably one of the most significant contributions to the literature, even though its validity is challenged by the appearance of born global businesses (businesses that commence operations at international level) and international network effects (Johanson and Vahlne, 2009). In particular, it does not effectively describe services internationalisation because service organisations often cannot separate the service from the location in which it is to be provided, limiting their market entry mode options (Buckley et al., 1992). In addition, service organisations usually have a lower capital intensity than manufacturing organisations (as a result of the reduced need for plant and equipment) and may be able to justify commencing FSI with a local presence (such as a local office). By comparison, a manufacturer considering a foreign direct investment (FDI) will encounter much greater resource commitments, risk and switching costs. For example, Sharma and Johanson (1987: 28) found that Swedish technical consultancy service organisations bypassed the incremental establishment chain followed by manufacturing businesses, because "resource commitments are of minor significance".

Of course, some service organisations may be capital intensive, including telecommunications, energy, airlines, and hotels and are more likely to show the same investment patterns as the manufacturing sector. Capital intensive service organisations considering DSI may be biased towards lower international investment entry modes, providing more flexibility at the expense of lower control, particularly where the foreign
market is characterised by changing environmental conditions (Penaido and Barber, 2007).

Despite these limitations and qualifications, internationalisation theory suggests some important concepts that can be utilised in developing a theory for services internationalisation. One of the principal tenets of internationalisation theory is that organisations increase their resource commitments (and, therefore, risk) in a foreign market as their level of knowledge and understanding of the foreign environment increases and they develop knowledge in other [similar] markets. This suggests that the process of internationalisation involves a continuing increase in FDI over time. The rate of FDI is influenced by the organisation's uncertainty which, in turn, is affected by the degree of psychic distance between the home and host country. In the context of this research, psychic distance is considered to be “the sum of factors preventing or disturbing the flows of information between the organisations and markets” (Johanson and Wiedersheim-Paul, 1975, p. 308). Entering countries that are psychically distant increases the level of uncertainty the organisation faces in the new market; as psychically distant markets are more difficult to learn about (Kogut and Singh, 1988) and the greater the distance, the more risk that companies perceive. Therefore, psychic distance influences the information flow between a market and the foreign business investing in it (Brewer, 2007). Psychic distance is also likely to affect the level of FSI that an international service organisation makes, because of the impact of information flow on the organisation's uncertainty and its consequent FSI decisions.

Past research suggests that China is “psychically distant” from “Western countries” such as Australia, due to the differences in country characteristics including trade flows, FDI levels, trade agreements, aid programs, trade offices, colonial ties, shared wars, geography, culture, sports, language, information, immigration, development and corruption (Brewer, 2007). In comparison, the United Kingdom is “psychically close” to Australia because of the similarities in these countries’ characteristics. China’s strong psychic distance from Australia suggests that Australian service organisations will adopt entry modes that entail less risk when entering China and will display a slower rate of FSI.

Three internationalisation constructs are important for the internationalisation of a service organisation – the service tradability, connection to physical goods and the degree of separability of its production from the market location (Boddewyn et al., 1986). Tradable services may be exported, non-tradable services cannot be exported. When the service is connected with goods, they must be collocated in the market (Buckley et al., 1992). An example of service-good connection is the after sales service provided to customers by the automotive industry. Where the production of the service is inseparable from its consumption, a foreign presence is necessary (for example, legal advice). Where services comprise a mix of distinct goods and location bound elements, however, some location substitution is possible (Erramilli and Rao, 1993; Lovelock and Yip, 1996; Roberts, 1999).

Services which are separable from their location of production are referred to as hard services. Services where production and consumption cannot be separated are referred
to as *soft services*; they must be provided where the customer consumes the service. Hard services include engineering, architecture, computer software or motion pictures and education. For example, an architectural plan for a new building could be designed in one location and sent to a foreign location for construction; alternatively, a university could provide education to a student in China through distance learning. Hard services have also been described as a "separated service" in which direct contact between the consumer and supplier is not required (Sampson and Snape, 1995).

Hard service organisations are able to internationalise in the same way as manufacturing companies. They can export or engage in FDI as demanded, and the need for control over the end-use of the service dictates. Hard services are tradable services and can, therefore, adopt lower control modes than soft services which cannot be traded. Consistent with internationalisation theory, hard services are also more susceptible to gradual internationalisation, as are manufacturing organisations.

Soft services require the company to be physically present in the market as there is a low degree of inseparability. This category of service is non-exportable (Erramilli, 1991) and location bound (Boddewyyn, Hallbrich and Perry, 1986; Patterson and Cicic, 1995). Services such as restaurants or car rentals are soft services. The inseparability of soft services makes gradual internationalisation impossible. These organisations need to make resource commitments to the foreign market at the outset and so their internationalisation involves greater initial risk. Consultants, marketing research and legal services are soft services because they require a high level of contact with their markets (Cicic, Patterson and Shoham?, 1999). The most common form of internationalisation of these international service organisations is to adopt a multi-domestic international structure with independent subsidiaries in every country in which they operate (Czinkota and Ronkainen, 1995).

The literature indicates that service internationalisation is affected by three factors, resource commitments, international experience and the nature of the service, as shown in Figure 1 below. These three aspects will now be developed into propositions by considering the literature through the perspectives of hard and soft services, and the constructs of service tradability and connection separability to explain the research propositions used in the research. The data collected on service company internationalisation will then be used to analyse these propositions. Both the phenomena and the unit of analysis adopted for this research requires a positivist method, and so this paper will examine the validity of propositions, rather than hypotheses.
3.1 Resource Commitments

There are relatively few examples of born global international service organisations, even though the low capital intensity of international service organisations suggests that they do not need to internationalise through the incremental steps predicted by internationalisation theory (Johanson and Vahlne, 2009). The literature provides no strong conclusions regarding the ability of internationalisation theory to explain the internationalisation of service companies. For that reason, this research must commence with an examination of the ability of internationalisation theory to explain the internationalisation of services. To examine whether internationalisation theory can explain service internationalisation, the first research proposition has been formulated as:

Proposition 1a: International service organisations incrementally increase their level of internationalisation.

To test the extent to which internationalisation theory explains service internationalisation, a second proposition will be examined:

Proposition 1b: International service organisations may move directly to their preferred entry mode, bypassing stages such as exportation and licensing.

3.2 International Experience

There is some disagreement in the literature regarding the importance of international experience. Johanson and Vahlne (2009) suggest international experience is important for “psychically distant” countries, although the importance of internationalisation networks is growing (Johanson and Vahlne, 2009). International experience for international service organisations may be particularly important for international service organisations because of the greater importance of relationships with customers. This increases the importance of managing cultural differences and understandings (Czinkota and Ronkainen, 1995) and would be aided by internationalisation networks. Some of the literature suggests that a lack of international experience tends to force organisations to adopt less attractive entry modes because of uncertainty in making their
preferred entry mode successful (e.g., Erramilli 1990; Gatignon and Anderson, 1988; Johanson and Vahlne, 1977). Other literature, however, suggests that there is no relationship (e.g., Sharma and Johanson 1987). The influence of international experience clearly warrants further examination, particularly in the context of service internationalisation.

Proposition 2: International experience affects the entry mode that an international service organisation selects.

### 3.3 Nature of the service

The literature review has demonstrated that the nature of the service will influence the entry mode by which the service is internationalised. Internationalisation theory suggests that hard service internationalisation may be based on incremental commitments to a foreign market, will commence with exporting and (as knowledge of the local market and conditions increases), will move to higher investment entry modes with proportionately higher resource commitments. The selection of the entry mode usually results in two decisions (Ekeledo and Sivakumar, 1998): location selection for physical resources, and determination of the level of involvement in or control of the foreign subsidiary.

International businesses providing hard services will choose between exporting or FDI. Soft service providers, on the other hand, will choose between a full control mode with high resource commitment, or a low control mode and shared resource commitment, such as a Joint Venture (JV). The most important aspect of the control will be the authority to influence or direct the activities or operations of a foreign subsidiary (Erramilli and Rao, 1990). This suggests that, whilst internationalisation theory may predict the behaviour of a hard service provider, it is unlikely to correctly predict the behaviour of a soft service provider. To examine this further, two propositions were developed:

Proposition 3a: Hard service internationalisation may be correctly predicted by internationalisation theory and that they will initially export their service, ultimately moving to high control modes such as Joint Ventures or Foreign Direct Investment.

Proposition 3b: Soft service internationalisation may be correctly predicted by internationalisation theory and that they will initially export their service, ultimately moving to high control modes such as Joint Ventures or Foreign Direct Investment.

### 4 Classifications of Entry Mode

For the purpose of this research, entry mode has been classified into five categories: exporting, agencies, project or clients related, joint venture or FDI. The agency and exporting mode requires a minimum presence and level of control and the organisation employs an overseas intermediary to distribute and sell the service in a foreign
environment (Vandermerwe and Chadwick, 1989). The project or client mode involves performing the service in the foreign location within the context of a finite project, an image where there is no capital investment or enterprise development in the host country. Licensing can apply to either key brands or technology, and requires a local licensee. JV is a cooperative undertaking between two or more organisations. FDI involves making a direct investment into the foreign location and is most appropriate where the service requires a human presence and a high degree of customer contact. The establishment of local operations provides the necessary local human resources and control. This form of FDI is referred to as Wholly Owned Foreign Enterprises (WOFEs).

5 Methodology

A positivist research methodology was adopted for this research due to the exploratory nature of the proposition testing, and the likelihood that the data would be descriptive rather than numeric (and so, inappropriate for hypothesis testing). This unit of analysis of Australian service organisations internationalising to China was selected because of the buoyant nature of the Australian and Chinese economies. The strength of the Australian economy stimulated a greater level of service internationalisation than in other developed countries (most FDI originates from developed countries (Sekkat and Veganzones-Varoudakis, 2007). The strength of the Chinese economy created an attractive market for foreign country service organisation internationalisation. As a result, the opportunities to collect representative data in this unit of analysis were considered to be greater.

Interview data provides an explanation of the phenomena being examined from the perspective of the research participant, and an understanding of the meanings participants gave to their experience (Yin, 2009). Both of these dimensions were important perspectives for considering the impact of the three endogenous factors (resource commitments, international experience and nature of the service) on a management decision process of entry mode selection. This information would not be reliably collected by a survey protocol because the processes by which service organisation internationalisation decision-making occurs are not yet clearly understood.

A semi-structured interview guide (available from the authors) was developed to examine the propositions research. 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 from 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 participants who had extensive knowledge of their business operations in China, their organisation's internationalisation and the factors that affected it. The participants included 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 service industries so that the research could identify the variation in factors across industries operating within a single unit of analysis. A broader interpretation of results and the development of grounded theories are possible when the research is spread over several industries (Baird, Lyles and Orris, 1994).

The data were 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.

6 Findings

The industries (and number of participating companies) represented in the data 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).

All of the entry modes within the scope of the research were represented by the participants; some participants also engaged in multiple modes. The participants adopted entry modes of Project/Client Based (9), JVs (5), WOFE (4), exporting (1), Agency Agreements and Partnerships (4). The foreign locations that the participants selected were Shanghai (13), Beijing (9), Guangzhou (5), Hong Kong (4), Shenzhen (3), and Tianjin (2). The sizes of the participants were: large - over 5,000 employees (8), medium 50–5000 employees (7), and small 1-49 employees (9).

The findings are now considered under the three endogenous influencing factors for service organisation internationalisation identified for this project.

6.1 Resource Commitments

The findings indicated that the participants’ required resource commitments were greater when internationalising to China than for other countries. Of the 23 participants, 9 had utilised a progressive and incremental process for internationalisation to China. They indicated that, as they learnt more about the market, they were prepared to devote more resources to the market place. One of the participants described their internationalisation experience as follows:

9
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.

Nine participants indicated that they were not actually interested in other internationalisation modes, because they were not perceived to lead to success. For instance, the university participants preferred to use agents and partnerships to recruit students to bring back to Australia, rather than utilising WOFE (investing in campuses in China). Even though they understood the marketplace, they were not interested in increasing the resource commitment to the service internationalisation because they did not believe that the profit advantage would outweigh the resource cost. This indicated an overriding endogenous characteristic of low risk-tolerance. Some participants were also limited by the regulations applying to their service industry in China, as described below:

The banking regulator in China, which is called CBRC, ... 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 series of stages where they were increasingly licensed to do more and more business. But, at the stage when we opened our Shanghai branch, we were only allowed to do foreign currency transactions for foreign people and foreign companies. So we were quite restricted in what we could do. But then, over time, we got the license to do more and more things. And we have a rep office in Guangzhou, which we actually closed during the Asian crisis and reopened last year. There is a new form of license that foreign banks can now get in China which, if you choose to incorporate locally, you can effectively become a local bank, just by being 100% foreign owned. We've not gotten to that stage in China, but many foreign banks have.

These findings suggest that, in some cases, the resource commitment acceptable to the participants influenced the entry modes selected. Other exogenous forces, such as local Chinese industry level regulations, however, could provide a more dominant influence. This supports proposition 1a, with the qualification that other factors may be more significant. These findings also support proposition 1b, with no qualifications.

6.2 International Experience

Table 1 below shows that 9 of the 23 participants had no international experience. These nine organisations chose to enter China through the project/client mode (4),
WOFE (4) and by exporting (1). One of the respondents was an information technology organisation which entered China through a project/client based mode, but (because of their lack of success) had not progressed beyond this mode. Another was a management consulting organisation which specialised in corporate social responsibility and was invited into the Chinese market by its customers. It decided to enter the market immediately through a WOFE (without testing the market) because its clients provided it with some understanding of the Chinese market. They also received government support which gave them further confidence to make the resource investment in favour of achieving a high level of control over the local subsidiary from the outset. This is also reflected in the fact that the organisation provided a soft service (this aspect will be considered later in these findings).

Two of these participants used agents to source customers, and another two (a building, a construction company and a legal organisation) entered China via a project/client-based mode and then moved to a WOFE. These findings suggest that international experience did not influence the decision to alter entry modes in the future, and that participants with no international experience still chose to engage in high control modes such as WOFEs.

<table>
<thead>
<tr>
<th>Service</th>
<th>Agents and Exporting</th>
<th>Project or 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></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>

Fourteen participants had international experience and perceived it to be important for internationalisation into China, as the quote below demonstrates:

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.

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). The respondents using agency partnerships were all universities. Those respondents preferred to use only that entry mode.

These findings suggest that international experience does not explain the entry mode chosen, because international service organisations that had no international experience still chose high resource commitment modes such as WOFE. Therefore, proposition 2 was not supported.
6.3 Type of Service

Table 2 indicates that 14 out of the 23 organisations examined in the study were categorised as having soft services, which meant that the delivery of their service could not be separated from where it was produced.

<table>
<thead>
<tr>
<th>Service</th>
<th>Agents and Exporting</th>
<th>Project or 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>
<tr>
<td>Hard</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>9</td>
</tr>
</tbody>
</table>

Whilst 10 of the soft service participants made a resource commitment to the market by entering via JVs or WOFEs, 4 soft service participants were project or client-based and so did not make significant resource commitments to the market. These participants provided their services to the market by sending staff to China to provide services as required. One of the participants used their partner’s offices to locate their staff, rather than setting up their own local facilities, thus reducing the costs and risks associated with operating in that market, as the quote below indicates:

*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 establishment costs are the costs of travel, the cost of phone bills, translators and that sort of stuff.*

Table 2 shows that nine of the participants provided hard services. The hard service participants utilising the agent/partnerships model were mainly universities. In contrast to internationalisation theory, they did not increase their level of internationalisation as they learnt about the foreign market, or adopt a longer-term plan to commit more resources to that market as their understanding developed (e.g., WOFE through establishing local campuses). These findings suggest that hard service providers tended to adopt an exporting mode, while soft service providers did not use this mode, which supports both propositions 3a and 3b.

7 Discussion

The finding that the participants decided to invest in China because of the attractiveness of the market, despite the higher level of psychic distance between Australia and China, and often a low level of internationalisation experience, was strongly oppositional to internationalisation theory (Johanson and Vahlne, 1977). It is also contrary to Dunning’s eclectic theory, which suggests that “firms would first enter the foreign market about which they were most familiar … and then move on to less familiar territories” (Dunning,
This suggests that international service provision internationalisation departs significantly from internationalisation of non-service organisations.

This research supports the ability of internationalisation theory to explain the entry mode selections for service organisations entering China from Australia, with a number of important qualifications. The continuous increase in resource commitment predicted by internationalisation theory was strongly influenced by the level of success the participant experienced in the market, and whether regulatory constraints supported or interfered with entry mode stages such as WOFEs. For instance, a building and construction participant, which was invited by their clients to operate in China, found the market to be attractive and so decided immediately to enter via a WOFE. Other participants entering the market through low control/investment modes realised that it would not be profitable for them to engage in higher control modes later on, and did not progress, even though their understanding of the local market developed. Host country government industry regulations (e.g., Chinese banking industry regulations) also impacted on the entry modes possible.

These findings do not indicate a strong relationship between international experience and the selected entry mode. For example, participants with no international experience still chose to enter the market, initially, through WOFEs. The finding is inconsistent with internationalisation theory and other empirical research (e.g., Ekeledo and Sivakumar, 1998). Even though the psychic distance between Australia and China is large (Brewer, 2007), the lack of international experience was not a barrier to resource intensive entry modes. This finding is also inconsistent with the literature which suggests that organisations will only choose to make resource commitments in culturally distant countries, such as China, when they have learnt more about internationalisation (Brewer, 2007).

The participants providing soft services to market used high resource commitment modes, which included WOFEs, such as establishing offices in China to provide their service. This is consistent with the service internationalisation literature (e.g., Boddewyn et al., 1986; Patterson and Cicic, 1995). These participants were unable to separate the production of their services from the point of utilisation of the services and so were obliged to establish local resources.

The participants providing hard services predominantly used low resource commitment modes, such as exporting or using agency agreements. The hard services participants which utilised agencies to direct customers to Australia were universities and Australian located hotels. In these cases the service provision capacity was retained in the home country and, effectively, exported (although the customer did the travelling, rather than the service). These findings were consistent with the literature (e.g., Boddewyn et al., 1986; Ekeledo and Sivakuma, 1998; Erramilli and Rao, 1990).

### 7.1 Suggested Areas for Future Research
The sample size for this project was small. Future research should survey a large number of organisations in a single industry to identify whether the findings are supported for larger heterogeneous populations. This research will help to identify the optimal entry modes for different combinations of international experience and desired resource commitment. Testing to determine which of Dunning’s eclectic theory factors are influential is also appropriate, as suggested by Ekeledo and Sivakumar (1998).

8 Conclusion

The research determined that resource commitments for the Australian service organisation participants, when internationalising to China, increased over time on some occasions and, in other instances, remained static. International experience did not provide a prediction of the initial entry mode nor its progression. The participants sometimes adopted high resource commitment entry modes and entered the (challenging) Chinese market without the experience levels that internationalisation theory dictates. Internationalisation theory did, however, correctly predict the progression of resource commitment to the Chinese market of some of the participants.

Exogenous limitations on entry modes, such as government industry level regulations and the company’s internalisation objectives, also influenced the participants’ selected entry modes. The research identified differences between the selected entry modes of the hard and soft service organisation participants. Soft service participants were more likely to choose full control modes, and the hard service participants were more likely to choose to export their services initially. These findings suggest that internationalisation theory is able to explain some aspects of the internationalisation of service organisations, however, its predictive theory is subject to exogenous factors such as regulation, and endogenous factors such as the participant’s risk tolerance.

A number of implications for the internationalisation of service organisations have arisen from this research. The first is that the nature of the service (hard or soft) is an important factor in determining a suitable entry mode. Also, entry mode behaviours of non-service organisations are different to those of service organisations. This research also determined that, in some cases, entry modes altered over time and did reflect the participant’s increased knowledge of the local market and internationalisation. Therefore, service organisations should only view the entry mode they select as a short-term strategy, and acknowledge that other entry modes may become more suitable in the future. In addition, selected entry modes should allow for a smooth transition from the first mode to the second mode. Higher resource commitment and control entry modes will become more attractive as international service organisations learn more about that particular market and become more risk tolerant.
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