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Empirical Analysis of Distinct Entry Mode Strategies among Service Firms: Case Studies from Australia

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This paper investigates the aspect of market commitment by international service firms into the new host market. Australia was chosen as the host market because it is a strong service economy. This paper responds to several calls for studies focusing on service firm internationalization and the often neglected market commitment aspect. After splitting service firms into capital intensive and knowledge intensive categories, it is argued that they exhibit different patterns of initial resource commitment. Adopting a case study approach, the results indicate that capital intensive service firms enter a new host market with relatively lower resource commitment than knowledge intensive service firms and hence follow the Uppsala process model more closely.

1. Introduction

Resource commitment at the time of entry is a crucial starting point for firms in a new foreign market. This paper investigates the initial resource commitment in a new host market made by service firms. They were segmented into two categories, namely capital intensive and knowledge intensive, as previous research suggests that these two types of service firms follow different patterns of internationalization (Contractor, Kundu and Hsu, 2003; Peinado and Barber, 2006, Shukla and Dow, 2010). More specifically, this paper seeks to understand the differences in the level of initial resource commitment between knowledge intensive and capital intensive service firms.

The Uppsala process model suggests that firms tend to reduce the uncertainty associated with internationalization by entering the host market with low resource commitment (Johanson and Vahlne, 1977). Since initial resource commitment is heavily dependent on the entry mode choice, the Uppsala model suggests that firms should enter new markets with low commitment modes like exporting. However, service firms tend to use various shared and/or full control entry modes such as direct and indirect exports, agents, distributors, developmental agreements, piggybacking, joint ventures and foreign direct investments through acquisitions and/or green field investments (Patterson and Cicic, 1995; Fladmoe-Linquist and Jacque, 1995; Coviello and Munro, 1995, 1997; Winsted and Patterson, 1998; O'Farrell et al., 1996; Clancy, 1998; Gronroos, 1999). This study argues that while capital intensive service firms adopt entry modes with low resource

commitments, knowledge intensive service firms prefer to employ high resource commitment entry modes.

This study addresses the lack of research on services in an international context which is fairly limited in comparison with the manufacturing sector (Peinado and Barber, 2006). Currently, there is a rapid increase in the internationalization of service firms due to the liberalization, deregulation and privatization, especially in developing countries (Kundu and Merchant, 2008). Despite this, research on the service sector often has to rely on studies from the domain of manufacturing (Axinn and Matthyssens, 2002) due to the paucity of empirical studies (Javalgi and Martin, 2007; Javalgi and White, 2002; Johanson and Vahlne, 1990; Knight, 1994).

The nature and magnitude of the various entry mode choices which impact initial resource commitment in the context of service firms are reviewed briefly and the mixed findings are highlighted. Thereafter, a proposition is developed comparing the initial resource commitment of knowledge intensive and capital intensive service firms. The term "proposition" is used as opposed to hypothesis as it is investigated using case study methodology which is covered next. Discussion based on the results obtained is then presented and is followed by research contribution and limitations.

2. Literature Review

The literature search did not find any study which directly examines the initial resource commitment of a firm relative to its long run steady state resource commitment. Entry mode research has primarily used dichotomous variables as their dependent variables (DVs) to compare the entry mode of firms in a foreign market (Canabal and White, 2008). As reported by Canabal and White (2008), the most commonly used DV compared setting up a wholly owned subsidiary versus a joint venture (43 identified studies between 1980 and 2006). In the same time period, other categorical classifications tested include acquisition versus joint ventures (5 studies), export versus foreign direct investment (5 studies), majority versus minority owned (4 studies), greenfield versus joint venture (3 studies) and contract versus equity joint venture (2 studies). Thus the research on entry mode has focussed on contrasting alternative entry modes and ignored comparing the initial entry mode with subsequent modes of operation in the host market.

The initial resource commitment determined by the entry mode is a crucial decision in the internationalization process of service firms. In the context of service firms, the literature review highlighted that it is primarily determined by firm characteristics (e.g. international experience and size) and host market characteristics (e.g. size of host market and psychic distance). These are briefly covered as follows.

2.1 Entry Mode Based on Firm Characteristics

Firm characteristics like international experience and the size of the firm have been debated in the literature for their role in impacting the entry mode choice,

and seem correlated with the initial resource commitment of the firm.

Entry mode to a foreign market has been suggested to be dependent on firm's international experience (Erramilli, 1991). A U-shape relationship between experience and propensity for integrated entry modes is suggested for service firms. This implies that firms with little or no experience tend to opt for full control entry modes in order to reduce uncertainty in the foreign market. This generally requires a high initial resource commitment. Once the service firm has gained experience and has internationalized to some markets, it warms up to internationalization and its inhibitions/uncertainty goes down. Thus subsequent market entry is done with lesser control entry modes. The pattern changes again once the firm has gained considerable international experience. The service firm no longer needs partners to reduce its uncertainty and thus establishes high commitment entry modes. The suggested U-shape is empirically verified and is a departure from traditional linear conceptualizations of the relationship between experience and propensity for control through integrated entry modes. Support for the impact of experience on the entry mode choice comes from Contractor and Kundu (1998) as they conclude that service firms with considerable experience prefer equity-based entry modes.

Besides international experience, a service firm's size is also an important and influential factor in the entry mode choice (Brouthers et al., 1996). Penrose (1959) emphasized in her growth theory of the firm, the importance of "excess" management resources. According to the study, firms with "excess" resources would try to utilize these resources in the foreign market. Also, large companies tend to have the leverage to experiment in the new market and thus may enter at a high resource commitment.

Knight (1999) suggests that irrespective of the nature of the firm (manufacturing or services), firms with larger resource base would be less reluctant to use foreign direct investment as its entry mode. The Uppsala model of internationalization process also acknowledges that their suggestion of "incremental" and "gradual" approach to internationalization may not be applicable to large firms. Large and experienced firms tend to prefer integrated entry modes as compared to smaller and less experienced firms which adopt less risky entry modes. Erramilli and Rao (1990) support the same as they notice that smaller firms which have low asset specificity prefer shared-control modes.

However the net effect of the size of the firm has been contradicted by some researchers as well. Contractor and Kundu (1998), citing example of large firms in the hotel sector choosing low commitment entry modes like management service contracts and franchising, suggest that size is not necessarily correlated to the propensity to use "high ownership modes". Rennie (1993) suggested that the use of latest telecommunications and computer technologies enables "born global" firms to manage their business systems in the overseas market, with size of the firm notwithstanding. The information can be efficiently transferred across the various markets using the digital storage techniques with minimal retrieval costs.

2.2 Entry Mode Based on Host Market Characteristics

Characteristics of the host market are crucial in determining the entry mode to those markets by the service firms. Big host market size and/or absence of host market partners (in some cases, networks) push service firms to pick high commitment entry modes and increase the propensity of the firm to integrate its international operations (Erramilli, 1992). Similarly restrictions in the host market on foreign ownership and environmental risks increase the uncertainty factor and thus firms internationalizing to these markets tend to adopt low commitment entry modes.

From an organizational capabilities perspective, the capabilities and competence of a company are arguably strongly rooted in the home country (Kogut, 1988). High psychic distance between home and host market increases the risk of operating in a new market and of loss of firms valuable resources. Transferring a firm's capabilities to a psychically distant host country is difficult and is often linked to steep learning curves in an unfamiliar environment. On most occasions, this is a fairly costly process. Consequently, firms might prefer cooperative entry modes which require low resource commitment in the host markets. Such firms often rely on their partner's capabilities and cultural knowledge (Madhok, 1998) and consider cooperative entry modes as a risk-reduction strategy (Erramilli, 1991; Tihanyi et al., 2005).

Summarizing the above arguments, it seems that the existing entry mode literature only tangentially addresses the issue of whether a firm's initial foreign market resource commitment is lower than its subsequent levels of commitment to the same market. However, it does seem to support the notion that firms have an initial preference for low commitment entry modes; particularly in instances of high psychic distance and/or low international experience. This observation is consistent with the original Uppsala model predictions (Johanson and Vahlne, 1977). Firms will tend to initiate operations (i.e. select an entry mode) in a new market based on the level of (perceived) market risk that they are willing to accept. Firms tend to start with a low resource commitment in the host market for primarily two reasons. Firstly, ownership of foreign assets and establishing of foreign subsidiary often represents a considerable resource commitment which is risky and has high switching costs and secondly firms often have limited information/ knowledge about international markets. This is particularly true for manufacturing firms, which were the primary focus of the original Uppsala model (Johanson and Wiedersheim-Paul, 1975). However, over time, the firm's perceptions of foreign market risk diminishes as it gains experiential knowledge, making the firm more confident about the foreign market, and gradually the firm increases it's resource commitment in the market.

3. Proposition Development

This section explains the service classification used in this research and then builds arguments predicting the initial resource commitment of two types of services firms based on service classification.

3.1 Service Classification

For empirical testing, this study adopts the level of capital intensity as the underlining factor to classify services into capital intensive service firms and knowledge intensive service firms. There is interdependence between capital intensity and the level of resource commitment as the former represents the magnitude of investments in assets that are necessary to begin production and carry out operations in a given host market (Erramilli and Rao, 1993). A higher degree of capital intensity for any industry implies that it requires high investments in acquiring resources (see Peinado and Barber, 2006; Contractor et al., 2003; Shukla and Dow, 2010 for the same classification).

A service firm is considered capital intensive if it requires heavy capital investment in buying assets relative to the level of sales or profits that those assets can generate. The key resource for such firms is often physical or financial capital (Swart and Kinnie, 2003). It includes sectors such as wholesale, transport, construction and real estate among others (Contractor et al., 2003). On the other hand, knowledge intensive firms refers to those firms where most work is said to be of an intellectual nature and where well educated, qualified employees form the major part of the workforce. The key resource for such firms is often human capital or intellectual material (Swart and Kinnie, 2003). Examples of knowledge intensive firms include accounting and management consultancy, marketing, advertising, insurance and publishing firms among others (Peinado and Barber, 2006).

3.2 A Proposition Concerning Initial Resource Commitment

For some types of service firms – specifically capital-intensive service firms – the pattern of initial commitment as suggested by the Uppsala model (Johanson and Vahlne, 1977) seems to hold true. The issues of liability of foreignness and limited information/knowledge about international markets are not unique to manufacturing firms. Moreover, in some types of service industries, the initial set up costs are quite significant and huge investments are involved (e.g. international hotel chains and retail chains). Similar to manufacturing firms, the internationalization of capital intensive service firms demands sizeable investments due to the need of installation and equipments for service delivery (Ekeledo and Sivakumar, 1998; Cicic et al., 1999). Hence, capital intensive service firms may also try to reduce the risk associated with such large investments by initially making small resource commitments into the host market. In effect, these types of firms will tend to behave in a pattern similar to the original Uppsala model predictions.

In contrast, O’Farrell et al. (1998) suggest that knowledge intensive firms (e.g. business services) will tend to be more flexible in their internationalization than capital intensive firms. In a similar vein, Contractor et al., (2003) suggest that differences exist between capital and knowledge based service sectors on factors of liability of foreignness, initial learning costs, initial setup costs and economies of scale. These factors may cause a knowledge intensive service firm to deviate from the Uppsala model predictions for two primary reasons. First of all, as Erramilli and Rao (1993) argue, knowledge intensive service firms tend to have lower initial setup costs in a foreign market as establishment of a wholly owned subsidiary may

be limited to establishing an office which can be even rented; thus involves little asset contribution. In addition to the lower magnitude of the overall investment, these investments will also tend to be more reversible. This is found true in the case of professional and business services (Aharoni, 1993; Sharma and Johanson, 1987). The second factor concerns the limited window of opportunity available to capitalise on a foreign market opportunity due to the significant threat of imitation by competitors, as the services offered can rarely be patented (Arenius, Sasi and Gabrilesson, 2005). Knowledge intensive services typically involve an intangible output and the service provided can often be easily copied. Thus these firms must move quickly in order to secure their market. Thus, for immediate utilisation of their services, knowledge intensive service firms cannot afford a slow and gradual entry, but rather will tend to make a relatively quick single step to establish their local presence. The combination of the above arguments leads to the following proposition:

> ***Proposition:*** Knowledge intensive service firms will enter a host market through a relatively higher initial resource commitment than capital intensive service firms.

Before proceeding on to the research methodology, another important caveat needs to be acknowledged. It may be argued that, virtually by definition, knowledge intensive service firms may neither never reach, nor may never even need to reach, the same level of capital intensity as expected/required by capital intensive service firms. Thus, when exploring the above proposition, it is important to note that the initial resource commitment would be contrasted with the long term steady state resource commitment of the firm in the home market to control for this factor. The resource commitment of a firm in the home market is defined as in steady state if it does not vary a lot over a long period of time. It is assumed that under such circumstances, the resource commitment has achieved its dynamic equilibrium and produces optimal revenues in the home market. In essence, the resource commitment of the firm in its home market is used as a control for industry effects.

4. Methodology

A case study approach is utilized to test the proposition as it provides for an in-depth investigation of the initial resource commitment of service firms. In the overlapping domain of international business and service firms, approximately 63 % studies have adopted the case study approach between 1987 and 2007 (Merchant and Gaur, 2008). However, approximately 89 % of these studies were restricted to a single industry. For example, airlines (Debrah and Toroitich, 2005), banking and finance (Kakabadse et al., 2007; El-Din and Abdullah, 2007), education (Scherer et al., 2005), financial services (Argouslidis, 2004; Lawton and Harrington, 2006; Montealegre, 2004), hotels (Bui et al., 2006), logistics (Buckley et al., 2007) and software (Ojala and Tyrvainen, 2007; Zain and Ng, 2006). This is problematic as focusing on only one industry does not provide a holistic picture of the internationalization of service firms. Answering the calls for more multi

industry studies by Kundu and Merchant (2008) and following the methodology of Contractor et al (2003), Capar and Kotabe (2003) and, Nachum and Wymbs (2005), a multi industry case study approach was considered appropriate. The firms on which the case studies were conducted were grouped as capital intensive service firms and knowledge intensive service firms.

4.1 Operationalization of Proposition

The following sampling design, procedure and frame were adopted.

4.1.1 Sampling design

The sampling population for the proposition included service firms operating in Australia, both local and international. Australia was selected as the host market since it is one of the major service economies with over 70% of its wealth and almost four out of every five jobs fall in the service sector. The sampling frame consisted of only foreign service firms which are currently active in Australia. To be eligible for inclusion within the research, the service firms were required to:

- Be an overseas firm to Australia. An overseas firm is defined as a firm which is doing business in a country other than the one in which it was incorporated. This implies that it has a parent company which owns and/or controls the operations of the company by either possessing outright ownership or controlling a majority of the voting stock.
- Be operating in the service sector in Australia. They can either be publically listed or privately owned.
- Consistent with the earlier descriptions of capital intensive and knowledge intensive service firms, the service sector in Australia was divided into two groups according to their ANZSIC code. The chosen division of two categories is based on research conducted by Windrum, Flanagan and Tomlinson (1997) and den Hertog and Bilderbeek (1998). The list of sector split is produced as Table 1. Previous studies in international business like Contractor et al. (2003), den Hertog (2000) and Windrum and Tomlinson (1999) have employed the same classification.

Table 1: Industry Sectors in Australia Covered in the Sample

Knowledge Intensive Service Firms	Capital Intensive Service Firms
Business Services Communication Services Motion Picture, Radio and Television Services Personal Services Property Services Services to Finance and Insurance Printing, Publishing and Recorded Media	Accommodation, Cafes and Restaurants General Construction Road Transport Air and Space Transport Services to Transport Water Transport Basic Material Wholesaling Machinery and Motor Vehicle Wholesaling Personal and Household Good Wholesaling

4.1.2 Sampling procedure

Judgmental sampling was adopted for this proposition. Representativeness of different resource allocations by service firm was of primary concern. While this sampling is subject to researcher's bias, it reduces chances of data distortion.

4.1.3 Sample frame

There is no definitive answer to how many case studies are ideal. McCracken (1988) quoted "less is more" when selecting the number of case studies and suggested that 8 in depth case studies are adequate. Oppenheim (1992: 68) suggests, "it generally becomes obvious when the series has reached the point where no new ideas are emerging…quality rather than quantity should be the essential determinant of numbers". A similar philosophy was adopted in deciding the number of case studies. When the saturation point was believed to have been achieved in each category, the data generation ceased. For this investigation, the sampling frame eventually included 18 service firms with 10 from the capital intensive service category and 8 from the knowledge intensive service category. From amongst those 18 firms, eleven case studies in total were compiled (6 capital intensive service firms and 5 knowledge intensive service firms). At this point, the researcher felt that homogeneity within these two categories had been realized. It was believed that proper consistency in internationalizing patterns had been attained and no new themes were being raised during data generation.

4.2 Data Generation

No method of data generation is perfect (Easterby-Smith et al., 2002). However, triangulation maximizes the strength of research methodologies whilst minimizing weaknesses (Abrahamson, 1983). A weakness in one method could be compensated to an extent by another method. In the context of this proposition, methodological triangulation was achieved by combining input from qualitative interviews with quantitative secondary data regarding the respective firm obtained from financial databases. Qualitative research, alone, has received criticism in the past with issues based on questions of clarity, methodological transgressions and insufficient justification for the mixing of methodological approaches (Goulding, 1999). However, neither a qualitative nor a quantitative methodological approach has universal applicability (Patton, 1990). Thus, combining both methodologies and interpreting both primary and secondary data, together was expected to be more fruitful.

4.3 Qualitative Methodology

This investigation seeks to acknowledge the subjective reality of service firm internationalization as observed by other studies on initial entry in overseas markets. It emphasizes the diverse ways in which different service firms approach their host market without trying to generalize such findings to the entire population. Such qualitative component is essential as it facilitates the exploration of different entry mode control mechanisms, as reflected by corresponding resource commitment, with all the rich and meaningful characteristics intact (Lindgreen,

2001). The primary objective of the qualitative component for this proposition was to obtain the following two key opinions from the firm's top manager:

- comparison between the initial resource commitments in the host market with the long term steady state of resource commitment in the home market.

- the market knowledge measuring the accumulated information in the firm on the specific market.

Semi-structured interviews were considered to be most appropriate in addressing the proposition qualitatively. Such interviews help in developing insight and offer an opportunity to have a glimpse of the complicated character of the organization (in this case, their initial internationalization activities) and culture of logic (McCracken, 1988). The preference for interviews stemmed from the need to elicit detailed responses and to understand a complex phenomenon (entry into an overseas market and its associated resource commitment) in a relatively under studied area of service firm internationalization (Stokes and Bergin, 2006).

4.3.1 Desired information

The interview sessions aimed to provide an insight into the internationalization behaviour of capital intensive and knowledge intensive service firms. Information regarding the following subcategories was desired from each session:

Origin of the service firm included the country of the parent company and the number of years the firm had operated in its domestic market before internationalizing to Australia.

International experience prior to expanding to Australia: Information regarding the number of countries in which the overseas service firm had operations was requested. It also covered the length, measured in years, of previous foreign engagements. Approximate sales volume before investing in Australia was also enquired.

Appropriateness of the participant in commenting on the goals of the research proposition was determined by questions tracing his or her involvement in the firm's strategy decisions. The participants experience in the firm was explicitly asked.

Year of entry in Australia, which was known through prior background research, was confirmed by the manager. The research participants were given the option to choose from the five options of entry mode (based on literature review) that their firm utilized for its first engagement in Australia. Their motivations to enter into the Australian market were also informally traced.

Resource commitment decisions at the time of entry were investigated. With reference to the resource commitments in Australia, this study adopted the financial aspect of resources and defined the resource commitment as the total amount of investment by the foreign firm in a particular host market. The researcher requested for the approximate percentage of total assets at the time of initial entry into the Australian market relative to the steady state total assets at the home market.

Specific market knowledge at the time of entry was also sought. The relevant measurement for this variable was the managers' perception of their market knowledge rather than any objective measurement of their accumulated knowledge (Pedersen and Petersen, 1998). Therefore, the respondents (managers) were asked to indicate their assessments on two questions: (1) knowledge about the market conditions before establishment; and 2) how difficult it was to obtain sufficient knowledge about the foreign market.

4.4 Quantitative Methodology

The aim of gathering secondary information was to derive a quantitative measure of the "approximate percentage of total assets on initial entry into the Australian market relative to the steady state total assets at the home market", as quoted by the participants in the interview sessions. A quantitative measure helps to minimize the possibility of overstatements in the semi structured interviews and also reduce researcher, question and respondent biases.

Organizational documentations were collected from two primary sources, firm's website and financial databases IBIS World and Capital IQ. Secondary information thus gained includes size of financial investment at the time of initial entry in the host market and size of home and host markets. It further enhanced the understanding of the individual organization strategy as well as the initial resource commitment and its effects on revenues.

The rationale behind collecting information on size of markets is explained next. It also includes the operationalization of the quantitative measure used in testing the proposition.

4.4.1 Rationale of controlling for market size

As highlighted in the literature review, the size of the host market also determines the size of the resource commitment to that market. Not surprisingly, a larger host market requires a large investment. Most authors argue that increasing market size leads to an enhanced resource commitment in the country, i.e., market size is positively related to expansion in a host market (e.g., Davidson and McFetridge, 1985; Ekeledo and Sivakumar, 1998). A large host market implies that firms can expect returns that are commensurate with higher risks associated with high commitment of resources (Agarwal, 1994). Thus controlling for the market size in ascertaining the level of resource commitment that a firm is willing to put into the host market is critical.

The initial resource commitment in the host market and steady state average resource commitment in the home market were controlled for the market size. It is assumed that firms will invest into the market relative to the size of the market.

4.4.2 Calculation

Similar to studies like Waheeduzzaman and Rau (2006), the market size of the firm's home and host market is measured as the industry level gross domestic product (GDP) contribution in that country.

Using Capital IQ financial database, figures indicating the total assets of the firm in the home market over several years (maximum 10 available and minimum 6 available) are obtained. The total assets of each year are then individually divided by the industry level GDP contribution of the firm for that specific year.

$$\text{Resource commitment relative to home market size} = \frac{(\text{Total assets in Year i})}{(\text{Industry GDP in Year i})}$$

where i = 1999 to 2008 (depending on availability of data)

The (total asset / industry GDP) was then averaged over available years and expressed as a percentage to obtain the steady state resource commitment of the firm in the home market relative to its home market size.

The initial resource commitment in the host market is measured as the total assets in its first year of operation. It was then divided by the industry level GDP in the host market for that year and expressed as a percentage to obtain the initial resource commitment of the firm relative to its host market size.

$$\text{Initial Resource Commitment relative to host market size} = \frac{(\text{Total Assets in year 1})}{(\text{Industry GDP in year 1 })}$$

The initial resource commitment at the time of entry in the host market is then expressed as a percentage of the steady state resource commitment in the home market.

4.5 Data Analysis Technique

Carson et al (2001) suggests that most case study researchers use some form of content analysis as their preferred data analysis technique. The three distinguishing characteristics of content analysis are that it must be objective, systematic and quantitative (Kasaarjian, 1977). Objectivity refers to adequate coding of data such that replication of study is facilitated and it shall increase the chance that any other researcher would likely conclude the same output. Kassarjan (1977) emphasized that coding must be clearly defined in terms of the rules and procedures conducted to devise them. All attempts were made to specify all variables in detail to maintain high levels of objectivity. Using descriptive coding (Miles and Huberman, 1994) 6 capital intensive service firms were referred as CISF

A, B, C, D, E and F. Similarly 5 knowledge intensive service firms were coded as KISF A, B, C, D and E.

The second important characteristic, systematization, imply the development and application of rules when categorizing information. As elaborated in the methodology, literature support was used to devise and guide the study in a systematic way. Kassarjian (1977) cites the third characteristic, quantification as being the most distinctive feature of content analysis. The study suggests that this quantification should be treated loosely and based not on frequency counts but on the use of terminology such as “more”, ‘always”, “increases” and “often”. Easterby-Smith et al. (2002) also acknowledge quantitative approach to content analysis.

5. Descriptive Summary

11 international service firms operating in Australia (host market) who agreed to participate in the investigation were included in the analysis. They are briefly introduced in Table 2. The firms are also classified as capital intensive service firms and knowledge intensive service firms based on the classification elaborated in proposition development. They key characteristics of the firms are reviewed briefly below.

5.1 Industries Covered

The capital intensive service firms were represented through 6 case studies from the construction, wholesaling (basic material, machinery and motor vehicle) and transport industries. Among all primary services industries classified as capital intensive (also, as in Contractor et al., 2003), firms in the accommodation, cafes and restaurants are not represented in the sample of capital intensive case studies.

5 case studies were conducted on knowledge intensive service firms from communications, finance and insurance, property and business service industries. Due to non availability of data, firms in the printing, publishing and recorded media could not be included.

Taken collectively, 7 service industries (out of a total 9 identified) were covered through the case studies. It is assumed that the firms from the remaining two service industries which couldn’t be covered are also likely to follow similar initial resource commitment pattern as illustrated by firms in the other industries in their individual capital or knowledge intensive service firm categories. Table 2 presents a descriptive summary of the data.

Table 2: Descriptive Summary of Proposition

Type of Service	Case Company	Home Market	Industry	International Experience		Entry into Australia		Assets in the home market before entry into Australia *(in million AUD)*
				Geographical Scope	*Number of countries of overseas operation*	*Year of Entry*	*Entry Mode*	
Capital Intensive	CISF A	United States of America	Construction	25 business units in 12 countries	11	2001	Franchising	1888
	CISF B	Japan	Base Material Wholesaling	34 business units in 17 countries	16	2003	Acquisition	20558
	CISF C	United States of America	Machinery and Motor Vehicle Wholesaling	247 business units in 11 countries	10	2004	Strategic Alliance	1289
	CISF D	United States of America	Basic Material Wholesaling	38 business units in 13 countries	12	2002	Wholly owned subsidiary	672
	CISF E	Switzerland	Personal and Household Goods Wholesaling	8 business units in 6 countries	5	2003	Strategic Alliance	15576
	CISF F	United States of America	Transport	250 business units in 18 countries	17	1995	Franchising	1579
Knowledge Intensive	KISF A	Singapore	Communications Services	7 business units in 7 countries	6	2001	Acquisition	4496
	KISF B	United States of America	Services to Finance and Insurance	Business units in 12 countries	11	2001	Wholly owned subsidiary	1012
	KISF C	United States of America	Property services	Business units in 6 countries	5	1999	Acquisition	24
	KISF D	United States of America	Communication Services	Business units in 3countries	2	1998	Acquisition	220
	KISF E	United States of America	Business process outsourcing services	Business units in 31countries	30	1995	Strategic Alliance	1650

5.2 Size of Assets in the Home Market

The financial resources that were available to the firm prior to entry into Australia were measured as the size of the total assets in their home market one year before entry into Australia. It ranged from approximately 24 million (KISF C) to 20,558 million (CISF B).

Since the firms belong to different industries which have different financial requirements, it is hard to provide average figures for each category of service firms. Thus the total assets of each firm are considered individually in the analysis. Also, the total assets in the home market as presented in Table 2 were intended to only give an idea of the size of the 11 firms. The figures needed to be interpreted with caution because these firms often split up in sub units with independent structures and have their own financial undertakings.

5.3 International Experience

International experience of the firms in the sample was obtained before entering the Australian market. It was ascertained using two measures namely, geographical scope and the number of years of indulging in internationalization.

Most firms have established separate business units to operate in several countries. However, strictly in perspective of internationalization, international experience is measured as the number of countries in which the firm had operations prior to entering Australia. Company history was traced through organizational documents to identify the exact number of countries of operations. Capital intensive service firms in the sample had internationalized to 11.83 countries, on an average. On the other hand, knowledge intensive service firms had operations in 10.80 countries on an average. However this figure (10.80 countries) may be a little misleading as KISF E alone had operation in 30 countries outside its home market. This pushes the average for knowledge intensive service firms to a higher number. If KISF E is considered as an outlier and hence ignored, then the average number of overseas countries of operation for knowledge intensive service firms falls to 6.

International experience was also measured by the number of years that a firm has indulged in internationalization. Capital intensive service firms had 8.33 years of internationalizing experience as compared to 5.8 years for knowledge intensive service firms.

5.4 Participant Summary

Table 3 presents participant summary. Interviews were conducted with executive managers at firms under investigation. It was made sure that they were capable of commenting on resource commitment decisions.

6. Results

The Proposition predicts differences between knowledge and capital intensive service firms in terms of their initial resource commitment undertaken in a new host market. The case study data (i.e. both the semi structured interviews, and the secondary data), with the obvious caveats of generalizability to broader populations, suggests support for the proposition by indicating that the knowledge intensive service firms in the sample did, in general, enter Australia with relatively higher levels of initial resource commitment than the capital intensive service firms in the sample. The basis for this inference is explained in further detail next.

Table 3: Semi Structured Interview Participant Summary

Type of Service	Case Company	Participant Information		
		Position	*Years in Company*	*Involved in Strategy Decisions*
Capital Intensive	CISF A	Financial Controller (Australia)	12	Yes
	CISF B	General Manager Finance Accounting & General Affairs (Australia)	10	Yes
	CISF C	Finance & Administration Manager (Australia)	5	Yes
	CISF D	Managing Director (Australia)	7	Yes
	CISF E	Head of IT Australasia	3	No
	CISF F	Manager Financial Services (Australasia)	7	Yes
Knowledge Intensive	KISF A	Chief Financial Officer (Australia)	3	Yes
	KISF B	Finance Director (Australia)	9	Yes
	KISF C	Joint Company Secretary	2	Yes
	KISF D	Joint Chief Financial Officer	5	Yes
	KISF E	Chief Financial Officer (Australia)	13	Yes

6.1 Response from Semi Structured Interviews

The interviewed executive managers were able to comment on the resource commitment at the time of entry into Australia. Out of 11 firms studied, managers at 8 firms were part of the resource commitment decision making at the time of internationalization in Australia. At the remaining 3 firms, even though the manager joined the firm after its entry, they were able to comment on the initial resource commitment since the responses were based on documented archival tangible information.

The managers' responses to the question, "express investment in total assets on entry in Australia as a percentage of assets in the home market at the same time" are presented in Table 4. These quoted percentages lend support for the Proposition. Five out of six capital intensive service firms chose when entering into Australia, to commit resources less than 8 % of the equivalent assets required in their home market. On the other hand, 4 out of the 5 knowledge intensive service firms started in Australia with assets greater than 30% of their equivalent home market assets. While the sample size is insufficient for statistical analysis, such a wide difference in the percentages lends strong support to the claim that capital intensive service firms may indeed adopt a more cautious approach than knowledge intensive service firms when entering into a new host market. Although, capital intensive service firms by definition require substantial investment to operate at full capacity, yet their initial commitment in a new market is relatively very low.

The opinions expressed to the question assessing the knowledge about market conditions before establishments were rather mixed.

Four of the six capital intensive service firm (CISF A, B, E and F) managers reported that they were "sort of" confused about the "possible return on investments" and hence about efficiency of its operation in converting the potential asset commitments to revenue. They contended that, prior to entry into Australia they were worried about the level of direct and indirect competition that they

may face. Australia has been a lucrative market for service firms and hence their reservations translated into slow and cautious entry into Australia. On the other hand, the manager of CISF D was rather very confident and forthcoming in his response to the question. Due to his prior work experience in a similar industry in the Australian market for 17 years, he was very familiar with the market conditions and hence didn't have any reservations in entering direct with a wholly owned subsidiary (high resource commitment by theory). The manager of CISF C was not able to comment on this specific question.

Table 4: Host market initial resource commitment vs. steady state home market resource commitment in absolute percentages

Type of Service	Code	Initial resource commitmen as a percentage of assets in the host market (%)
Capital Intensive	CISF A	5
	CISF B	3
	CISF C	5
	CISF D	30
	CISF E	3
	CISF F	7.5
Knowledge Intensive	KISF A	50
	KISF B	10
	KISF C	30
	KISF D	60
	KISF E	65

Acquisition, a relatively higher resource commitment entry mode was the only available choice for 2 out of 5 knowledge intensive service firms (KISF A and KISF D) as reported by their managers. Hence, irrespective of the managers not knowing much about doing business in Australia, they chose to enter with relatively higher resource commitment. Both these firms belonged to the communications service industry. The managers of the remaining three firms (KISF B, C and E) contended that they knew the Australian market well through their ad hoc assignments and other key team members which had been exposed to Australia before.

Managers across all firms reported that market information about Australia was readily available but their own reservations due to lack of tangible experience was the limiting factor in accepting everything that they gathered.

6.2 Result of Quantitative Measurement

Resource commitment into a new market is relative to the size and attractiveness of that market (Ekeledo and Sivakumar, 1998). The size of home and host market for all firms was measured through the GDP contribution of their

respective industry in that market. Table 5 represents the results of the initial resource commitment in the host market measured as a percentage of the home market, controlled for market size through industry GDP contributions in respective markets.

The "Initial resource commitment in the host market" column and "Steady state resource commitment in the home market" columns were calculated. As an illustration, in a steady state, the resource commitment of CISF A contributes 0.42% of the GDP contribution of the construction industry in its home country, United States of America. However at the time of its entry into Australia in 2001, the initial resource commitment of CISF A was about 0.19% of the GDP contribution of the construction industry in its host market, Australia. Thus at the time of entry into Australia (host market), CISF A entered with only (0.19/0.42)*100 = 46% (approximately) assets of its normal operating assets in United States of America (home market). Similarly, KISF B at the time of entry into Australia (host market) in 2001 invested about (0.16/0.09)*100 = 185% (approximately) assets of its normal operating assets in United States of America (home market).

All but one of capital intensive service firms, at the time of entry into Australia, committed assets to the Australian market which were less than 60% of their steady state resource commitment in their home market (after controlling for market size). On the other hand, knowledge intensive service firms seemed more aggressive at the time of entry into Australia. Four out of the five investigated firms committed to greater asset intensity in Australia (i.e. greater than 100%) than in their own home market. These differences in percentages indicate that capital intensive service firms may indeed be much more cautious in committing resources into a new market than knowledge intensive service firms.

Table 5: Host market initial resource commitment vs. steady state home market resource commitment controlled for market size through GDP contribution

Type of Service	Code	Initial resource commitment in the host market	Steady state resource commitmenyt in the home market	Relative host market commitment
		(as a percentage of industry GDP)	*(as a percentage of industry GDP)*	*(host market commitment as a percentage of home market commitment)*
Capital Intensive	CISF A	0.19	0.42	45.9
	CISF B	0.32	6.96	4.6
	CISF C	0.04	0.15	26.7
	CISF D	0.5	0.1	515.3
	CISF E	0.18	0.33	54.3
	CISF F	0.12	0.22	56.7
Knowledge Intensive	KISF A	54.44	44.21	123.1
	KISF B	0.16	0.09	185
	KISF C	0.02	0.02	92.5
	KISF D	0.11	0.04	281.8
	KISF E	0.45	0.09	527.3

7. Discussion

In this paper, the initial resource commitment in a new host market for two types of service firms (knowledge intensive versus capital intensive) was compared and analyzed to establish distinctions based on the type of service firm. The external market conditions like host market restrictions and policies for both types of firms (capital and knowledge intensive services) were relatively constant given that Australia is a stable developed market. The other potentially confounding variable – the international experience of the firm was also comparable for both types of firms. The investigated capital intensive service firms had an average international experience in 11.8 countries of 8.3 years compared to10.8 countries of 5.8 years for knowledge intensive service firms. The effects of firm size were controlled as well by taking all measures as a percentage of the firm's own steady state home resource commitment. Overall, the results seem to support the proposition that knowledge intensive services may be more aggressive in approaching a new host market than capital intensive services.

As presented in the Table 6, five out of six capital intensive service firms indicate relatively lower initial resource commitment than all five knowledge intensive service firms, investigated through two different measures, absolute size of assets compared to the steady state home market and initial resource commitment compared to the steady state home market controlled for market size through industry GDP contributions. The focus is not on statistically generalizing the findings. Instead, following the case study approach by Kassarjian (1977), the results indicate that more knowledge intensive service firms enter a new host market with higher initial resource commitment than capital intensive service firms. Thus the findings support the proposition.

Operating in different host market and home markets indicates large differences between the firms' organizational and managerial practices (Kogut and Singh, 1988; Larimo, 2003). It is difficult for firms to integrate the new practices from the host market into their existing corporate network and culture. In certain cases, the strategy and structure in the home market maybe incompatible and difficult to transfer (Brock, 2005). Differences are likely to exist between knowledge and capital intensive service firms in the level of difficulty in integration. By definition, knowledge intensive service firms are generally more people centric and the services offered are more of intellectual nature. They rely more on hiring local talents while setting up business in a new host market and thus try to reduce their initial learning costs and liabilities of foreignness. Capital intensive service firms on the other hand focus more on replicating their home structure more closely and are less flexible due to specific technologies and equipments required for service delivery. Hence they have high initial learning costs and only through operations in the market over time, they gain experiential knowledge which helps them reduce their costs and achieve economies of scale. As a result, knowledge intensive service firms can be more forthcoming in their initial resource commitment than capital intensive service firms.

Table 6: Host market initial resource commitment vs. relative host market commitment

Type of Service	Code	Initial resource commitment *(as a percentage of assets in the host market)*	Relative host market commitment *(as a percentage of home market commitment)*
Capital Intensive	CISF A	5	45.9
	CISF B	3	4.6
	CISF C	5	26.7
	CISF D	30	515.3
	CISF E	3	54.3
	CISF F	7.5	56.7
Knowledge Intensive	KISF A	50	123.1
	KISF B	10	185
	KISF C	30	92.5
	KISF D	60	281.8
	KISF E	65	527.3

Also, since knowledge intensive service firms have a higher human element than capital intensive service firms, they have a higher likelihood of running into post entry integration issues. Given that inter-firm communications is culture and structure specific (Adler, 1986; Bandyopadhay and Robicheaux, 1993), interactions between dissimilar practices are likely to be problematic and could cause negative feelings and attitudes among employees, resulting in poor performance (Elsass and Veiga, 1994; Very, Lubatkin and Calori, 1996). In order to avoid such situations, it is much easier for them to adopt modes with higher control like wholly owned subsidiaries. They enable them to introduce their organizational and managerial practices from the outset, without being faced with existing ones, and to carefully select and hire employees who fit their organizational practices (Hennart and Park, 1993; Kogut and Singh, 1988). This again suggests a higher initial resource commitment for knowledge intensive service firms as compared to capital intensive service firms.

8. Limitations

One of the capital intensive service firms (CISF D) reported opposite findings to that reported in the results section. This is considered to be a limitation and hence no suggestions are offered to generalize the results to all capital intensive service firms. However, further investigation was carried out through a second telephonic interview with the managing director of the firm. The following three reasons were offered for the non-conformance:

The firm in the Australian market is a wholesaler of stationary and paper

products. It derives the majority of its revenue from the importation, manufacture and sale of these standardized products. Due to the constant nature of the product ("stationary in United States of America is very similar to stationary in Australia"), the impact of experiential learning is diminished to a large extent. Hence the firm was more confident in its approach and undertook a high initial resource commitment.

The firm has strong business to business networks which offer the firm sustainable competitive advantage. Prior to entry into Australia, through its operations in 12 other countries, it had established exclusive partnerships with leading global companies like Microsoft, HP and Canon. CISF D also enjoyed reputational advantages with the manager quoting "our brand is among the most recognisable in the industry".

The manager had a prior 17 year experience in the Australian market and hence the perceived risk of entering a new market was nonexistent.

Thus, due to nature of service offered, strong networking, different strategic focus and international experience of CISF D, it was able to enter Australia with a higher initial resource commitment.

9. Conclusion

Entry mode studies in the context of service firms are fairly limited (about 20%) as compared to studies investigating the manufacturing firms (Canabal and White, 2008). The percentage drops even further when entry into a host market is investigated. Moreover, most studies researching entry mode into host markets consider specific large multinational firms and all the countries that they have decided to enter. Thus, this research adds value by looking at 11 firms from different industries entering a specific host market, Australia.

After splitting service firms into two categories based on their capital and knowledge intensity, the Proposition argues that the knowledge intensive service firms will enter a new host market with a relatively higher resource commitment than capital intensive service firms. The size of investment required, liabilities of foreignness and initial learning costs were suggested as possible explanations. They were predicted to be higher for capital intensive service firms resulting in them adopting a more cautious approach in the new market. The proposition was explored using a case study approach in which data was collected using semi structured interviews with executive managers and through financial databases, IBIS World and Capital IQ. The initial resource commitment is measured as a percentage of the steady state home resource commitment. The analysis, done using content analysis, provides support for the proposition. The reasons suggested earlier impacted the initial resource commitment. The interviews also suggested that integration between the business units in the host and home markets is also an important criterion guiding the initial resource commitment. Knowledge intensive service firms were found to adopt a more aggressive initial resource commitment in the host market (Australia) as compared to capital intensive service firms.

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