INTERNATIONALIZATION OF MALAYSIAN SERVICE FIRMS

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THESIS SUBMITTED IN FULFILMENT
OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

THE GRADUATE SCHOOL OF BUSINESS
FACULTY OF BUSINESS AND ACCOUNTANCY
UNIVERSITY OF MALAYA
KUALA LUMPUR

2012

UNIVERSITI MALAYA

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ACKNOWLEDGEMENTS

First and foremost, I extend profound gratitude to Dr. Syed Zamberi Ahmad who made this academic journey valuable through his intellectual support and insightful guidance at every step of the study. He was not only my supervisor but was also generous with his time and compassionately provided the opportunity for extensive learning. I feel very lucky to have worked under his excellent supervision, inspiration and guidance. I give special thank to Dr. Chan Wai Meng my supervisor that facilitated the process of research, correction and submission by her guidance and suggestions. I also appreciate the excellent comments provided by the internal and external examiners as well as their guidance to correct and complete the thesis.

I am grateful for the attention and support that was given by Prof. Fazilah Abdul Samad who consented to be my supervisor in spite of her health problems. She was a great academician as well as the Dean of the Faculty with a wonderful style of management. I hope that God bless her and her soul can rest in peace. I also thank my former supervisor Prof. Mohd Nazari Ismail who inspired me in the initial stages of the study and encouraged me to read more, to go deep into the theoretical knowledge and to dedicate myself to the academic work. I am also grateful for the efforts of John Dilling and his excellent editing job.

I appreciate the contributions of my respective lecturers during the intensive coursework of the PhD programme, especially Prof. Che Ruhana Isa, Prof. Mohd Nor Othman, Dr. Syed Zamberi Ahmad and Dr. Yusniza Kamarulzaman, who taught me the required knowledge for undertaking valuable research and encouraged me through their high quality teaching. My special thanks go to the staff of the Faculty of Business and Accountancy as well as the Institute of Postgraduate Studies (IPS) who facilitated my studies in both the coursework and the research phases.

ABSTRACT

This study aims to investigate the process of the internationalization of firms in the context of Malaysian service industries. Unlike previous research that was limited to a specific theory, this study was inspired from nine theories of internationalization that have been developed since the 1960s and provide useful explanations for the three strategic choices of firms – market selection, entry timing and the choice of entry mode. However, there is no comprehensive theory to explain these strategies. Therefore, this study used different theoretical models to offer a proposed framework for examining the effects of organizational factors on the expansion strategies and investigating the moderating role of the inseparability of services.

Although previous research mainly studied the strategies of multinational firms from developed countries, this study focused on Malaysia, as a developing country with a rapid economic growth and an improving position in the global markets. The increasing foreign investment made by Malaysian service firms was a major motive for pursuing this study.

To explore the factors that facilitate the expansion of Malaysian service firms, a quantitative method was used by sending a mail survey to an initial sample of 303 service firms listed in the Bursa Saham Malaysia, from which 87 questionnaires were returned as the actual sample. For the data analysis process, a logistic binomial regression technique was used because the dependent variables were defined as a binary variable. To clarify and justify the results of hypotheses testing, each finding was matched with the literature. Based on the results of the study, four models were developed to explain the role of internal factors in shaping the strategies of Malaysian service firms in terms of market selection, the order of entry, the timing of entry and the choice of entry mode.

This study made various contributions to the body of knowledge by extending previous theoretical models and examining them in a new context using a quantitative method, considering all internationalization strategies and all service industries. This study can be used as a basis for future research in this field not only in the context of Malaysia but also in other developing countries. It can also be extended to the manufacturing and agriculture sectors. This research has theoretical and practical implications, and its results should be applied by the managers of Malaysian firms and the government agencies to adopt appropriate strategies, enhance the capabilities of firms and provide the required resources for their foreign expansion.

ABSTRAK

Kajian ini bertujuan untuk menyelidik proses pengantarabangsaan firma-firma di dalam konteks industri perkhidmatan di Malaysia. Berbanding dengan kajian-kajian terdahulu yang lebih tertumpu kepada satu teori sahaja, kajian ini lebih melihat kepada sembilan teori-teori pengantarabangsaan yang telah dibangunkan sejak tahun 1960an, dan memberikan penjelasan yang lebih bermanafaat untuk tiga pilihan strategik firma-firma – pilihan pasaran, masa meneroka dan cara pilihan meneroka. Walaubagaimanapun, tiada satupun teori secara keseluruhannya yang boleh menjelaskan strategi-strategi yang dinyatakan. Oleh itu, kajian ini telah menggunakan pelbagai model teori-teori dalam mencadangkan rangkakerja untuk menyelidik kesan faktor-faktor organisasi ke atas strategi-strategi pengembangan dan menyelidik peranan perkhidmatan "inseparability" sebagai moderator.

Kajian terdahulu lebih tertumpu kepada strategi-strategi firma-firma multinasional dari Negara-negara maju, dan kajian ini difokuskan kepada Malaysia, sebuah negara yang sedang membangun yang mengalami kadar pertumbuhan ekonomi yang pesat serta mempunyai kedudukan yang baik di dalam pasaran global. Pelaburan luar langsung yang semakin pesat yang dibuat oleh firma-firma perkhidmatan dari Malaysia ke luar negara juga merupakan motif utama kajian ini dilaksanakan.

Untuk meninjau faktor-faktor perkembangan firma-firma perkhidmatan dari Malaysia ini, satu kaedah kuantitatif telah dilaksanakan dengan menghantar borang kajian soal selidik kepada 303 firma-firma perkhidmatan yang tersenarai di dalam Bursa Saham Malaysia, dari mana 87 soal selidik telah dikembalikan dan digunapakai sebagai sampel kajian. Bagi tujuan penganalisaan data, teknik logistic binomial regression telah digunakan, dengan pembolehubah bersandar didefinasikan sebagai pembolehubah binari. Untuk menerangkan dan menjustifikasikan keputusan ujian

hipotesis, setiap hasil penemuan telah dipadankan dengan kajian terdahulu. Berdasarkan hasil keputusan-keputusan kajian, empat model telah dibangunkan untuk menerangkan peranan faktor-faktor dalaman dalam pembentukan strategi-strategi firma-firma perkhidmatan di Malaysia semasa memilih pasaran, masa meneroka dan pemilihan cara meneroka.

Kajian ini telah menyumbang kepada pengetahuan dengan melanjutkan model-model teori yang terdahulu dan menguji mereka dalam konteks yang baru dengan menggunakan kaedah kuantitatif, dan menimbangkan semua strategi-strategi pengantarabangsaan dan semua industri perkhidmatan. Kajian ini bukan sahaja boleh digunakan sebagai dasar untuk penyelidikan untuk masa akan datang dalam bidang ini dan dalam konteks Malaysia, tetapi juga boleh digunapakai kepada Negara-negara membangun yang lain. Ianya juga boleh dilanjutkan kepada sektor-sektor seperti perkilangan dan pertanian. Kajian ini mempunyai implikasi teori dan praktikal, dan penemuannya boleh diaplikasikan oleh pengurus-pengurus firma-firma di Malaysia dan juga agensi-agensi kerajaan lain untuk mengguna pakai strategi yang sesuai, penambahbaikan keupayaan firma-firma dan menyediakan sumber yang diperlukan untuk perkembangan operasi di luar negara.

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LIST OF ABBREVIATIONS

ASEAN	Association of South East Asian Nations
CFA	Confirmatory Factor Analysis
CIA	Central Intelligence Agency (of the United States)
CIDB	Construction Industry Development Board (of Malaysia)
EFA	Exploratory Factor Analysis
EOI	Export Oriented Industrialization
EU	European Union
FAO	Food and Agriculture Organization (of the United Nations)
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Trade and Tariffs
IJV	International Joint Venture
IMF	International Monetary Fund
IT	Information Technology
ICT	Information and Communication Technology
JV	Joint Venture
KLIA	Kuala Lumpur International Airport
KLSE	Kuala Lumpur Stock Exchange
MNC	Multinational Corporations
MNE	Multinational Enterprise
MOCAT	Ministry of Culture, Arts and Tourism (of Malaysia)
MTPB	Malaysia Tourism Promotion Board
NSDC	National SME Development Council (of Malaysia)
R&D	Research and Development
SME	Small and Medium-sized Enterprises
TDC	Tourist Development Corporation (of Malaysia)
TNC	Transnational Corporations
UK	United Kingdom (of Great Britain)
UNCTAD	United Nations Conference on Trade and Development
UOB	United Overseas Bank
US	United States (of America)
WOS	Wholly Owned Subsidiary
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION: JUSTIFICATION OF THE THESIS

1.0 Background of the Study

Rapid changes in the global business environment in recent decades have had a strong influence on the internationalization process of most companies around the world (see Laanti *et al.,* 2007). According to Douglas and Craig (1992), markets in many countries, and in various industries – consumer products, industrial goods and services, or markets for resources, such as capital, materials and proprietary technology, become more integrated worldwide. In addition, establishing international organizations, such as the International Monetary Fund (IMF), the World Bank and World Trade Organization (WTO), developing trade agreements, such as the General Agreement on Trade in Tariffs (GATT), and applying free trade policies by both developed and developing countries have resulted in the ending of protectionist regulations and the elimination of most trade barriers to the free flow of goods, services and capital (see Balabanis *et.al.,* 2004; Hill, 2008).

The ending of the cold war between the superpowers has caused changes in the world political environment and governmental policies. This has resulted in the removal of trade barriers, the emergence of new markets, and the evolution of international business activities. In addition, the revolution in technology, mainly in communications, transportation and information processing has made international business more feasible and more profitable. This phenomenon, named globalization, is making the world a 'global village' (Griffin and Pustay, 2002; Hill, 2008). Friedman (2000) stated that globalization is the unstoppable integration of markets, nations-states and technologies. It enables people, companies and countries to reach around the world and communicate with each other farther, faster and cheaper than ever before.

As Dicken (1986, 1992) explained, globalization is the result of the global behaviour and strategy of multinational corporations (MNCs). Although the first wave of investment in foreign markets was started by western MNCs, the second wave of investment has emerged by third world MNCs especially from Asian newly industrialized countries (NICs) since the last decade of 20th Century (Dunning *et al.*, 1998; Sim, 2006). Today, as a complex and challenging business phenomenon, even many small and medium-sized enterprises (SMEs) have entered the global market. These include firms from developing countries, such as Thailand and Malaysia, where the resources and financial assets are limited. Firms from these countries have emerged and grown rapidly in the international arena (see Pananond, 2007; Sim, 2006).

Many scholars have explained the various reasons that motivate firms to expand internationally. They argued that firms go abroad to increase shareholder profits and sales volume (Eisenhardt, 2002; Trim and Lee, 2006); to improve core competencies, obtain resources and supplies, look for new markets and compete more effectively with competitors (Griffin and Pustay, 2002); to sustain rapid sales growth, reduce product costs and improve quality (Mansumitrchai *et al.*, 1999); and to grow in the market and overcome intensive competition in the home country, which results in less time for innovation and the necessity of paying high costs for developing new products (Kumar and Subramaniam, 1997).

According to Scott (1989), firms increasingly comprehend that they need to have a confident future, a sure marketplace and a stable expansion. Therefore, they decide to cross their national borders and offer their products and services internationally. Firms have also expanded their operations into foreign markets in search of new customers and resources. Generally, the target destinations of such firms were emerging Asian and Latin American markets as well as large established markets in North America, Europe and Japan (Osland *et al.*, 2001). As Porter (1980) pointed out, firms follow independent

strategies in each foreign market, give autonomy in their business operation to their subsidiaries, and manage financial control and marketing through their headquarters. In other words, they decentralize their operations. Grune (1989) stated that global firms act as an integrated system, in which subsidiaries are independent in operation and strategy. Nevertheless, when a decision is made, it may affect the whole system worldwide.

When a firm decides to expand internationally, it may adopt different strategies of internationalization. At first, it must select a target market for entry and, subsequently, it should determine the nature of its operations in the foreign market, which depends on the choice of entry mode (Kumar and Subramaniam, 1997). The entry mode strategy is an organizational arrangement that is applied by a firm during the first three to five years of its operation in a foreign market to produce or market its products and services (Ekeledo and Sivakumar, 2004). During the foreign market entry process, firms face serious challenges related to time, costs, risks and trade barriers. Therefore, they should carefully evaluate the advantages and disadvantages of entering an international market (Scott, 1989).

Research on international strategic management has usually focused on the choice of entry mode strategy as one of the most important decisions that a firm may undertake in the international arena (Claver and Quer, 2005). An appropriate entry strategy should give rise to a greater market share and financial performance (Mansumitrchai *et al.*, 1999). If a firm adopts a suitable entry mode into a new foreign market, it may achieve better performance and be able to survive in that market, whereas, a company that adopts a badly chosen entry mode strategy will lose business opportunities and, ultimately, its advantage and reputation (see Davidson, 1982; Ekeledo and Sivakumar, 2004; Gatignon and Anderson, 1988; Root, 1994; Terpstra and Sarathy, 1994). However, firms entering a specific target market may use different entry strategies. In addition, a specific firm may enter different markets by dissimilar entry modes.

To explain the internationalization process and entry mode choice, researchers have suggested different models and theories starting with the market imperfection and behavioural paradigms or stage models. Between the 1970s and the 1990s, the industrial organization (IO) theories including the eclectic paradigm, internalization theory and transaction cost theory dominated the entry mode discussions (Sharma and Erramilli, 2004). As the IO theories and the stage models were flawed, three new approaches, i.e. the resource-based view, the networks approach and the contingency theory were introduced from the late 1980s onwards (Cumberland, 2006).

Based on different units of analysis, researchers have recognized various internal and external factors determining the internationalization strategies of firms, especially the choice of entry mode (see Agarwal and Ramaswami, 1992; Anderson and Gatignon, 1986; Barney, 1991; Brouthers, 1995, 2002; Dunning, 1977, 1980, 1988; Ekeledo and Sivakumar, 1998, 2004; Erramilli, 1991; Erramilli and Rao, 1990, 1993; Gilmore *et al.,* 2003; Kim and Hwang, 1992; Quer *et al.,* 2007; Root, 1987, 1994; Tsai and Cheng, 2002, 2004; Wernerfelt, 1984). However, researchers have often followed the flawed theories of internationalization in terms of their models, and in fact, have only focused on one or two factors. As a result, they have overestimated the influence of some factors, such as host country characteristics and firm-specific resources, while ignoring or underestimating the role of other factors, such as home country characteristics and industrial factors (Ekeledo and Sivakumar, 2004).

An important phenomenon in international business is the rapid growth of service firms. Due to the speedy globalization of economic activities, service firms have dramatically expanded their business into emerging markets (Ekeledo and Sivakumar, 1998). While trade in services comprised 20% of total international trade in 1980, this share increased to 24% in 2010 (UNCTAD, 2011a). In addition, in 1990, the service sector absorbed 48% of total world foreign direct investment flows, increasing to 63%

in 2009 (UNCTAD, 2011b). However, recognition of international trade in services by signing the General Agreement on Trade in Services (GATS) in 1994 provided the opportunity for services to have more contributions in international trade (Ekeledo and Sivakumar, 1998). According to Blomstermo *et al.* (2006), researchers have given more attention to the internationalization process of service firms. The present research also aims to focus on firms engaged in the service sector as a progressive economic sector.

Since the last decade of the 20th Century, a new wave of internationalization started, in which foreign investment not only flowed from the western countries to emerging markets, such as China and Eastern Europe, but also firms from developing countries began to internationalize their business activities and seek opportunities in foreign markets. Then, researchers paid attention to the study on the process of the internationalization of nascent firms from developing countries. The most important source of the new wave of investment is the new industrialized countries (NICs) of East Asia, such as South Korea, Taiwan, Singapore and Malaysia (Ahmad and Kitchen, 2008; Pananond, 2007; Tsai and Cheng, 2002, 2004).

The present study considers Malaysia as the research platform because Malaysia is a developing country with a fast growing economy in which services play a vital role. Table 1.1 shows a brief profile of economic indicators for the countries of the Southeast Asian region. According to Table 1.1, Malaysia has a high average income or GDP per capita of US$8,262, a fast economic growth rate of 7.2% and a considerable balance of trade with an export surplus of US$34 billion in 2010 (ASEAN, 2011). Therefore, such competencies have given a regional competitive advantage to the country in the Southeast Asian region although it has suffered from the global economic crisis that has taken place since the late 2008. However, in 2010, an improvement and recovery was observed in the economy.

Table 1.1: Economic Indicators of Malaysia and its Regional Rivals (2010)

Country	Population (1st July)	Annual growth	GDP US$ million	Per capita GDP $	GDP real growth	Exports US$ million	Imports US$ million
Brunei	414,600	2.2%	12,402	29,915	2.6%	8,615	2,384
Cambodia	15,269,000	2.1%	11,168	731	5.0%	5,584	4,897
Indonesia	234,181,000	1.2%	708,032	3,023	6.1%	157,779	135,663
Laos	6,230,000	1.7%	6,508	1,045	7.2%	2,433	2,076
Malaysia	28,909,000	2.1%	238,849	8,262	7.2%	198,801	164,733
Myanmar	60,163,000	1.1%	43,025	715	5.3%	7,600	4,199
Philippines	94,013,000	1.9%	189,326	2,014	7.3%	51,432	58,229
Singapore	5,076,700	1.8%	223,015	43,929	14.5%	371,194	328,079
Thailand	67,312,000	0.6%	318,709	4,735	7.8%	195,312	189,728
Vietnam	86,930,000	1.1%	107,650	1,238	6.8%	72,192	84,801

Adapted from: ASEAN (2011)

According to Ahmad (2008), Malaysia is an instance of an Asian economic miracle that has gained great success in business and industry in a short time in spite of its limited resources and capabilities. The economic development of the country commenced during the 1970s and 1980s because of export-oriented industrialization (EOI) policy. In the 1990s, the Malaysian government realized the opportunities in foreign markets and since then has encouraged Malaysian entrepreneurs to expand their activities and venture overseas. To facilitate foreign direct investment by Malaysian firms, the government offered tax incentives to the companies investing abroad. This policy resulted in the growth of outward FDI, mainly towards less developed ASEAN and South Asian countries.

The number of foreign affiliates of foreign Transnational Corporations (TNCs) doing business in Malaysia increased from 562 in 2005 to 2,761 in 2010 while the number of Malaysian firms operating overseas was 723 firms in 2010 (UNCTAD, 2008, 2011b). However, from 2007, for the first time in Malaysia’s history, outward FDI flows surpassed inward FDI flows (see Table 1.2). In 2010, Malaysia attracted 187 FDI Greenfield investments from overseas whereas Malaysian MNCs made 75 Greenfield investments in foreign markets. At the same time, Malaysian firms sold US$3.44 billion

of their equities to foreign partners while they purchased US$2.31 billion equity shares in international mergers and acquisitions (UNCTAD, 2011b). In spite of the negative effect of world financial crisis on the FDI flows in Malaysia in 2009, the stock of outward FDI for the first time surpassed the inward stock (UNCTAD, 2011b).

Table 1.2: Foreign Direct Investment Trends in Malaysia (US$ million)

FDI flows	1980	1990	2000	2006	2007	2008	2009	2010
Inward FDI flows	934	2,611	3,788	6,060	8,595	7,172	1,430	9,103
Inward FDI stocks	5,169	10,318	52,747	53,836	76,612	73,601	78,895	101,339
Outward FDI flows	201	129	2,026	6,021	11,314	14,965	7,930	13,329
Outward FDI stocks	305	753	15,878	36,073	58,233	66,926	79,579	96,758

Sources: UNCTAD (2011a, b)

The ranking of Malaysia in the inward FDI performance index improved from rank 73 in 2005 to rank 46 in 2010 (UNCTAD, 2011b). However, the economy of Malaysia is still highly dependent on agriculture and primary activities, such as plantation, forestry and fishing. Table 1.3 indicates the top agriculture-based Malaysian MNCs that focus on their international operations and their foreign sales contribute substantially to their total sales. According to UNCTAD (2009), six Malaysian companies are among the largest agriculture-based MNCs in the world, with Sime Darby Berhad being the largest with total assets of US$11 billion. In fact, the foreign sales of the six Malaysian companies contribute 60% of their annual sales, while only 33% of their assets are located overseas.

Table 1.3: Top Agriculture-based Malaysian MNCs (2007)

Company	World ranking	Total Assets ($ millions)		Annual Sales ($ millions)	
		Total	Foreign	Total	Foreign
Sime Darby	1	10,879	4,695	10,296	6,493
Kuala Lumpur Kepong	7	2,052	760	1,487	1,183
Kulim Malaysia	9	1,677	493	829	557
PPB Group	15	3,623	171	904	107
TSH Resources	17	359	94	261	35
Multi Vest Resources	18	121	79	N/A	15

Source: UNCTAD (2009)

Compared to the agriculture and manufacturing industries, the service sector has made an important contribution to Malaysia's economy. In 2011, 48% of the GDP was generated by services (CIA, 2011). In 2010, 69% of the labour force was engaged in services, construction and public utilities (JPM, 2011a). In 2010, the trade of services in Malaysia accounted for around 17.1% of exports and 20.5% of imports (UNCTAD, 2011a). As Table 1.4 reveals, four Malaysian firms are among the top 100 non-financial MNCs from developing countries (UNCTAD, 2011b). Between these MNCs, Axiata Group and Genting Group are service firms and more than 40% of their annual sales come from overseas. The other two firms also have subsidiaries that engage in service activities.

Table 1.4: Top Non-financial Malaysian MNCs (2009)

Company	Ranking in developing nations	Assets ($ millions)		Sales ($ millions)		Employees	
		Total	Foreign	Total	Foreign	Total	Foreign
Petronas	6	125,691	33,599	62,539	28,344	40,992	8,198
Axiata Group	37	10,847	8,958	3,719	1,936	24,744	21,250
Genting Group	38	12,703	8,721	2,524	633	35,749	24,544
Sime Darby	70	10,061	4,307	8,827	6,065	104,000	25,432

Source: UNCTAD (2011b)

This shows the importance of a study on the international strategies of Malaysian service firms especially because as the level of development in Malaysia improves, Malaysian companies enhance their resources and capabilities and, in turn, the number of Malaysian firms expanding overseas increases. This results in the advancement in overall foreign trade and outward FDI flows of the country.

1.1 Statement of the Problem

The rapid progress in the service sector has attracted scholars to study the behaviour and decisions of service firms. Firms from Malaysia, with its fast growing economy that is increasingly reliant on services, have shown a remarkable expansion into foreign markets, which has resulted in high outward foreign direct investment

flows and increasing exports of services. To continue such a positive trend in the national economy and find a sustainable advantage in the world market, it is necessary to know what factors motivate Malaysian firms to expand abroad and operate their activities internationally.

Although many Malaysian firms, such as Petronas, IOI and Sime Darby, have entered foreign markets by investment, only a few service companies, for example the Genting Group, Berjaya Corporation and Media Prima, have ventured abroad since the 1980s and the 1990s. Generally, firms from developing countries, such as Malaysia, suffer from location disadvantages as well as the liability of smallness and the liability of newness, which increase the risk of investment and hinder them from direct investment and resource commitment in foreign markets (see Ahmed *et al.*, 2002; Cuervo-Cazurra, 2007; Pananond, 2007). Because of resource deficiency and the lack of experience, most Malaysian service firms have concentrated their international activities on the regional markets, where there are similar ethnic groups and cultural linkages as well as geographical proximity (Ahmad and Kitchen, 2008; Reiner *et al.*, 2008).

According to Ahmad (2008), the government has a vital role in the international expansion of Malaysian firms. Since the 1990s, the Malaysian government has applied various programmes to encourage Malaysian firms to engage in international business activities. In addition, several government agencies are in charge of such programmes. However, the number of service firms that have expanded internationally is limited, or if they have ventured abroad, their investments are limited to a few regional markets with a close geographic distance. In addition, some Malaysian service firms follow their clients to the regional and global markets because they are not required to get extra knowledge and information about the niche markets to predict the customer behaviour. This, in turn, decreases the risk of investment. However, it prevents such firms to access the opportunities of new markets. Malaysian service firms use the

ethnic and family networks to strengthen their position in the regional markets, especially because there are three distinctive ethnical and cultural communities in the country, i.e. the Malays, the Indians and the Chinese. Such firms can easily expand into the South Asian and East Asian markets with cultural similarities.

Most Malaysian firms compete with other companies in foreign markets based on their efficiency, i.e. their ability in reducing the production cost and offering low cost services or products. This is a valuable competitive advantage, especially to enter emerging Asian markets and less developed countries (Ahmad and Kitchen, 2008). However, to expand into the markets of developed countries and newly industrialized countries (NICs), such as South Korea and China, Malaysian firms need to enhance their capabilities and increase the quality of their products and services. This also can improve the country image of Malaysia in international markets as well as the share of Malaysian service firms in the global markets.

Generally, the present research aims to investigate the major issues concerning the international expansion of Malaysian service firms in order to provide an extensive knowledge about the internationalization strategies of firms from developing countries. It also aims to recognize the main factors that determine the international strategies of Malaysian service firms in foreign markets and the differences between Malaysian service firms that engage in various industries in terms of their international operation strategies. Such an effort helps understand how to motivate such firms to expand into foreign markets, strengthen their capabilities and benefit from the available foreign market opportunities.

1.2 Research Gaps

The present study has revealed some gaps in the literature of internationalization. These gaps give an opportunity for conducting new research, especially because of the progressing and turbulent environment of business, which always embeds new

phenomena. Researchers have offered various theories to explain the process of market selection, entry timing and entry mode choice made by business firms under internal and external pressures. However, these theories have many deficiencies and there is no agreement between them in terms of the determinants of international expansion, the process of decision making and the default form of market entry (Cumberland, 2006; Decker and Zhao, 2004; Sharma and Erramilli, 2004). The existing theories believe in different default modes of entry adopted by firms in international markets. For example, the IO theories argue that firms use low-control modes as their starting entry mode, whereas the resource-based view considers wholly owned subsidiaries as the initial form of operation in foreign markets (Ekeledo and Sivakumar, 2004).

A major research gap is that each theory introduces a different set of variables that determine the internationalization strategies of firms. For example, the stage model of internationalization believes that experiential market knowledge is the main determinant of the expansion strategies (see Johanson and Wiedersheim-Paul, 1975). However, the networks theory argues that network relations can help to gain such experiential knowledge (Håkansson, 1987; Johanson and Mattsson, 1988; Sharma and Blomstermo, 2003). In addition, while the IO theories has overestimated the role of the external market or industry factors as primarily factors that influence the international strategies of manufacturing firms, the resource-based view considers firm-specific resources as the major determinant of the entry mode choice of firms from both manufacturing and service sectors (Ekeledo and Sivakumar, 2004).

The focus of previous research has been mainly on the international strategies of firms from developed countries (Ahmad, 2008; Kim *et al.*, 2002; Li, 2007; Pananond, 2007; Sim, 2006; Yeung, 1994). These firms have financial resources, advanced technology and business experience that helps them to be early movers into foreign markets and adopt high control entry modes (see Blomstermo *et al.*, 2006; Ekeledo and

Sivakumar, 2004). However, as firms from developing countries do not have enough experience, financial support or technological advantage to establish their own affiliates in foreign markets, they cannot always follow the strategies of firms from developed nations. The firms from developing countries may depend highly on the government support (Ahmad, 2008; Sim, 2006). This fact requires empirical studies in developing countries. However, few researchers have studied the internationalisation strategies of firms from developing countries, especially for those from Malaysia (Ahmad and Kitchen, 2008; Riedel, 1998; Wells, 1983).

Due to this gap, recently some researchers have conducted works on the international strategies and the outward FDI flows of firms from developing countries (see Cheng, 2006; Erramilli *et al.*, 1999; Kim *et al.*, 2002; Lin, 1996; Lin, 2009; Lu and Zhu, 1995; Oh *et al.*, 1998; Pananond, 2007; Pananond and Zeithaml, 1998; Pang, 1995; Sim, 2006; Sim and Pandian, 2002, 2003; Tsai and Cheng, 2002, 2004; Young *et al.*, 1996; Zutshi and Gibbons, 1998). In the Malaysian context, only a few studies regarding investment risks, FDI activities and the internationalization of Malaysian manufacturing or construction firms have been conducted (see Ahmad, 2008; Ahmad and Kitchen, 2008; Ahmed *et al.*, 2002; Chia, 1996; Ramayah *et al.*, 2009; Rogayah, 1999; Sim, 2006; Yeung, 1998). However, there is no extensive study concerning all types of the internationalization strategies of Malaysian service firms.

The literature of international business focuses on the international strategies of multinational companies or MNCs while it ignores the strategies of smaller firms (Brouthers and Nakos, 2004; Choo and Mazzarol, 1998, 2001; Decker and Zhao, 2004; Pinho, 2007). While MNCs have access to more resources and capabilities to compete in global markets, SMEs suffer from the lack of resources. Therefore, researchers such as Brouthers and Nakos (2004), Erramilli and D'Souza (1993), Pinho (2007) and Ruzzier *et al.* (2006) have paid attention to study the internationalization of SMEs.

Nevertheless, as the definition of SMEs in Malaysia is different between manufacturing and service enterprises and all service firms with more than 50 full time employees are considered as large firms, the sample of this research does not relate mainly to SMEs.

Researchers have focused on the internationalization strategies of manufacturing firms because the IO theories were product-oriented (see Axinn and Matthyssens, 2002; Blomstermo *et al.*, 2006; Domke-Damonte, 2000; Ekeledo and Sivakumar, 1998, 2004; Erramilli and Rao, 1993; Freeman *et al.*, 2007; Grönroos, 1999). However, the progress of the service sector has attracted scholars to study the expansion strategies of service firms (see Bharadwaj *et al.*, 1993; Blomstermo *et al.*, 2006; Brouthers, 1995; Erramilli and Rao, 1990, 1993; Kim *et al.*, 2002; Quer *et al.*, 2007; Terpstra and Yu, 1988).

Another gap is that the scope of previous research in the internationalization of services was limited to a single industry or a few industries (Ekeledo, 2000; Kogut and Singh, 1988). Such a limitation has resulted in the ignorance of the differences between services in their choice of entry modes because soft service firms that offer inseparable services should exercise higher control than hard service firms with separable services (see Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 1998, 2004; Erramilli, 1991; Erramilli and Rao, 1990, 1993).

As the service sector in Malaysia has recently experienced rapid growth and the number of service firms that expand their activities overseas is increasing, this study aims to investigate the strategies of Malaysian service firms. However, there is no theory that clearly explains the internationalization process of Malaysian firms (Ahmad, 2008; Ahmad and Kitchen, 2008). In addition, previous research in this context mostly studied firms from the manufacturing sector. Therefore, this study aims to fill research gaps by investigating the internationalization strategies of Malaysian service firms as well as the factors that determine their strategic decisions and the differentiate between the entry mode choice of service firms based on the inseparability of services.

1.3 Purpose and Scope of the Research

This study has three major purposes:

1) Contributing to the body of knowledge by investigating the process and pattern of the internationalisation of service firms in the context of Malaysia as a developing country,

2) Examining the effects of internal or organizational factors including firm-specific resources, strategic considerations and product characteristics as the major determinants of the internationalisation strategies of Malaysian service firms, and

3) Investigating the differences between the entry mode choices of Malaysian service firms due to the inseparability of services that they offer.

For the first purpose, this study conducts an empirical investigation and compares the results with previous research that were carried out in developed nations in order to build up an appropriate theoretical model for explaining the internationalisation pattern of Malaysian service firms. This can give rise to new findings and respond to some contradictions that occurred in former research. Applying a quantitative method can lead the study to a deeper knowledge concerning the conditions that enable managers to accept the risk and decide to enter and invest in foreign markets.

Firms are motivated by different factors to expand overseas, and, therefore, they need to adopt different strategies and make special decisions. Consequently, this study aims to investigate the logics behind such differences and the factors that influence the form of foreign operation and the level of resource commitment. Gaining knowledge concerning such factors helps the government to prepare successful plans to motivate Malaysian firms to invest overseas, especially as they tend to operate in the regional markets due to the lack of resources, cultural difference and perceived uncertainty. Studying differences between Malaysian service firms in their strategic considerations gives the opportunity to predict the future trend of their outward investment and to manage it in a proper way.

To enter foreign markets and compete successfully with local firms, Malaysian service firms need valuable assets and capabilities. The availability of resources helps firms to achieve competitive advantage and offer their services with higher quality or a lower price. As Malaysian firms have deficiency in resources, they usually collaborate with local firms in foreign markets. However, the collaborative modes of operations often decrease the profitability of firms (Ekeledo and Sivakumar, 2004). To increase the level of resource commitment and the ability to set up wholly owned subsidiaries, Malaysian service firms need to enhance their capabilities and acquire valuable resources. The government can play a vital role in this regard by supporting such firms financially and technically, increasing their market knowledge and information, and strengthening their networks and marketing channels in foreign markets.

According to the literature, firms that involve in inseparable service industries, such as hotels and airlines, adopt different entry mode strategies compared to those that engage in separable services, such as software engineering firms (see Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993). By conducting an empirical research, this study aims to investigate the moderating effect of the inseparability of services in the context of Malaysia. This can confirm the results of previous studies and answer the contradictions occurred in the literature.

To achieve the research goals, it is necessary to use the relevant literature, conduct an empirical study, collect relevant primary and secondary data, analyze the findings using research methods and develop a conceptual model that is applicable to Malaysian service firms in their internationalization strategies. Through this systematic approach, the study intends to answer the following questions:

RQ1. What is the proper explanation of the internationalization process of Malaysian service firms?

RQ2. To what extent the internal or organizational factors, i.e. firm-specific resources, strategic considerations and product characteristics influence the internationalization strategies of Malaysian service firms?

RQ3. Is there any difference between the choices of foreign market entry mode made by Malaysian service firms based on the inseparability of their services?

The scope of the study includes Malaysian service firms operating in international business that have at least two years experience in exporting, business contracts or foreign direct investment. To have an inclusive viewpoint and reliable results, the study covers service firms from different industries and business sectors. The study inspects the independent effects of firm-specific resources, strategic considerations and service intangibility that probably generate competitive advantage for firms and influences their strategies to operate in international markets. It also examines the moderating effect of the inseparability of services that may differentiate between the strategies of Malaysian service firms.

1.4 Methodology

The present study utilizes two types of data to analyze and evaluate the trend of internationalization among Malaysian service firms. This data includes secondary data and primary data. Secondary data is extracted from various sources inside and outside the country including the annual reports of firms, the statistical reports of government agencies, such as Bank Negara Malaysia, the Department of Statistics and the Ministry of International Trade and Industry (MITI), and international organizations, such as the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD). In addition, analysing the secondary data by quantitative methods allows the research to provide a suitable background of the past and current trends of foreign trade, partnership and investment made by Malaysian firms, especially in the service sector.

The primary data is provided through a mail survey, in which the chief executive officers (CEOs) or the managing directors (MDs) of the selected research sample are requested to explain their opinions and perceptions concerning the internationalization process and strategies of their firms. The target population of the study refers to all Malaysian service firms that are involved in international business activities from exporting to foreign direct investment. Since the number of such firms is not exactly known and there is no inclusive database to indicate the list of all the internationalized firms, the study uses the public-listed service firms that operate overseas as its sample. A pilot study is conducted to help design a proper and easy to understand questionnaire. This can increase the chance of getting responses that are more reliable and achieving a higher rate of return for data collection.

The research questionnaire is structured and it utilizes various measurements for each factor mainly in the form of a Likert system. However, some questions are open ended in order to provide an opportunity for the respondents to explain their opinions and give more information. Such a method will help the study to identify new ideas, gaps and solutions concerning the international expansion of service firms in the context of Malaysia. Using a quantitative method and selecting the sample from various service industries increases the ability to generalize the results to other Malaysian service firms. Furthermore, comparing the research findings with the findings of previous studies may lead to a deeper understanding of the process of internationalization. This helps the study propose a model to explain the factors that influence the internationalization process of Malaysian service firms.

1.5 Contribution of the Study

This study not only contributes to the body of knowledge theoretically, but also in practice. The present research intends to fill the existing gaps in the literature of internationalization. To do so, a new model of internationalization is proposed to fit

with the conditions applicable to service firms in the context of Malaysia. Then, the study focuses on service industries, the market conditions in developing countries such as Malaysia, the different strategies adopted by large and small firms, and the difference within service industries in terms of their international strategies.

According to Whetten (1989), some researchers try to offer a comprehensive approach that considers all relevant variables while others prefer a parsimony method, in which they mention major determinants, focus on the main relationships and delete the factors that have little effect on the phenomenon. The eclectic paradigm and the resource-based theory have used a parsimony approach while some researchers tried to develop a model that comprises all factors inclusively (see Ekeledo and Sivakumar, 1998; Gannon, 1993; Gao, 2004). Accordingly, this study also provides a parsimony model including major determinants of internationalization related particularly to the international strategies of Malaysian service firms.

In the "existing models of internationalization", researchers have considered two sets of factors including internal or organizational factors and external or environmental factors (see Brouthers and Nakos, 2004; Ekeledo and Sivakumar, 1998; Koch, 2001b; Root, 1994). Each theory has focused on some internal and external factors depending on its basic assumptions. As the resource-based theory argued that the major motives for expansion and the sources of competitive advantage reside in organizational factors including firm-specific resources and the strategic orientations of firms, the present research also concentrates on the role of such internal factors.

However, according to "previous research" on the firms from developing countries, the competitive advantage of these firms originates in their technological capability and networking (Ahmad, 2008; Ahmad and Kitchen, 2008; Pananond, 2007; Thirawat *et al.*, 2007). Therefore, network relations are added to the firm-specific resources in the theoretical model of the study. Network relations refer to both formal

and informal networks, especially the link between firms and the government. In addition, as “previous research” did not provide a clear distinction between different firm resources and strategies, this study designs a model with a well-defined classification and clear boundaries between the variables.

The present study is an attempt to investigate theoretical propositions empirically in the context of Malaysia, as a developing country with relatively high economic growth and recently, a high level of outward FDI flows, while “previous research” mostly studied the strategies of firms from developed nations, such as the USA and Japan, and generalized their findings to firms throughout the world (see Agarwal and Ramaswami, 1992; Blomstermo *et al.*, 2006; Brouthers, 2002; Brouthers and Brouthers, 2001, 2003; Brouthers and Nakos, 2004; Chang, 1995; Chang and Rosenzweig, 1998; Chen and Mujtaba, 2007; Chen and Hennart, 2002; Dunning, 1980; Ekeledo and Sivakumar, 2004; Erramilli and D’Souza, 1993; Erramilli and Rao, 1990, 1993; Hennart, 1991; Kogut and Chang, 1991; Kwon and Konopa, 1993; Morschett, 2006; Nakos and Brouthers, 2002; Quer *et al.*, 2007; Taylor *et al.*, 2000; Yip, 1996).

Although most “previous research” focused on the entry mode strategies of manufacturing firms (see Caves and Mehra, 1986; Chung and Enderwick, 2001; Kwon and Konopa, 1993; Morschett, 2006; Tsai and Cheng, 2002, 2004), the sample of this research is chosen from Malaysian service firms involved in exporting, contractual agreements or foreign direct investment beyond their national boundaries. A major contribution of this research is that it is a cross-sectional study, in which companies that engage in different service industries are investigated. This provides a better understanding of differences between the international strategies of Malaysian service providers, especially between separable services and inseparable services.

The “previous research” on the internationalization of firms from Southeast Asian countries usually has been conducted by the qualitative methods due to the limited

number of firms that ventured abroad and the nature of research questions or to obtain an in-depth knowledge (Ahmad, 2008; Pananond, 2007; Yin, 2009). However, as the number of Malaysian service firms that have expanded overseas has dramatically increased in recent years, and also because of the qualitative research method limitations, especially the lack of cooperation from managers of Malaysian firms for personal interview due to the protection of their business secrets, the present study utilizes a quantitative method by sending mail questionnaires to the CEOs or managing directors of Malaysian service firms. This approach has been widely used in the literature of internationalization and entry mode strategy (see Agarwal and Ramaswami, 1992; Blomstermo *et al.*, 2006; Brouthers, 2002; Brouthers and Nakos, 2004; Chen and Mujtaba, 2007; Chung and Enderwick, 2001; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1990, 1993; Evans, 2002; Harzing, 2002; Kwon and Konopa, 1993; Nakos and Brouthers, 2002; Tsai and Cheng, 2002, 2004).

1.6 Organization of the Study

As Figure 1.1 shows, the present thesis consists of six chapters, which are organized in an integrated structure. The research chapters are as follows:

Chapter 1) Introduction: Justification of Thesis - This chapter provides a brief explanation about the research topic discussed, research problems introduced, research gaps, the objectives and scope of the study, research questions, methodology and data, contribution of the study, and the organization and structure of the study.

Chapter 2) Literature Review: Internationalization of Firms from Theory to Practice - This chapter provides a definition of internationalization process and its components, and describes the types of entry mode and the criteria for selecting an appropriate mode of operation in foreign markets. It also conducts a critical review of the major theories of internationalization to discover the strengths and weaknesses of each theory. In addition, the role of the liberalization of services in the rapid expansion of services is

discussed. Finally, the internationalization of Malaysian service firms is explained based on secondary data and a brief summary of previous research is offered.

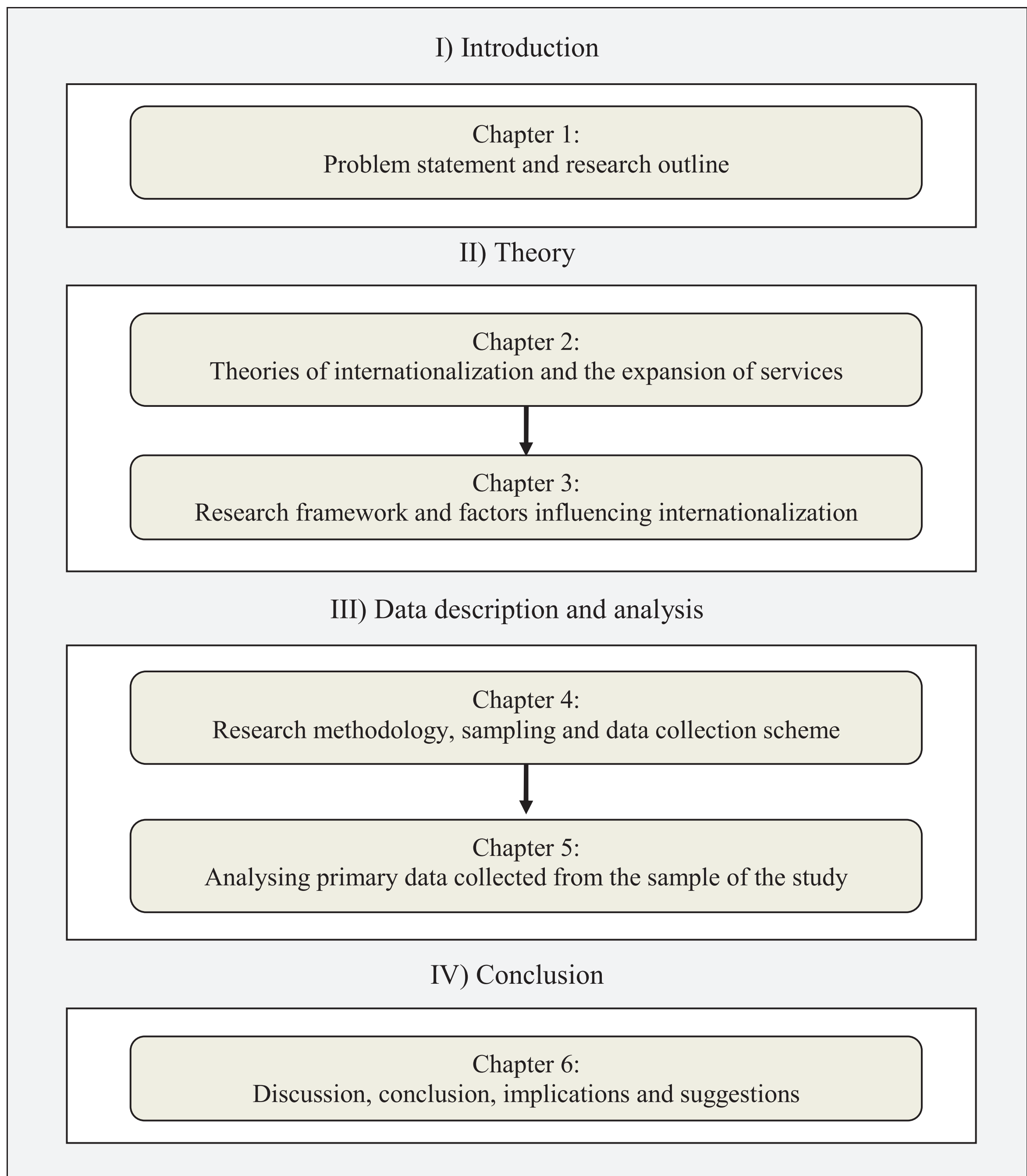
Chapter 3) Research Framework: Internal Factors as Determinants of International Expansion – In this chapter, a conceptual model is proposed to indicate the process of the internationalization of Malaysian service firms. Such a model encompasses the major factors that influence the decision of firms to expand internationally and to adopt an appropriate entry mode. These factors include firm-specific resources, strategic considerations and product characteristics while viewing the inseparability of services as a moderating factor.

Chapter 4) Research Methodology: Conducting a Quantitative Study - This chapter explains sampling methods and desired techniques for data collection and data analysis. The logics behind selecting such methods are also discussed. In addition, measurement items used for measuring each variable of the research framework are developed. After selecting an appropriate methodology, the next stage is to analyse the findings.

Chapter 5) Research Findings: Analysis of the Survey Data - In this chapter, the results of the empirical survey on the selected sample from Malaysian service firms that ventured abroad are analysed in detail. The characteristics of survey respondents, tests used for examining the validity and reliability of the scale and the hypothesis testing are described in detail.

Chapter 6) Discussion and Conclusion: Research Findings, Contributions, Implementations and Limitations – In the final chapter, research findings are justified and discussed in detail and the contributions of the study are explained. A conclusion of the findings of the study is offered to predict the future trend of the internationalization of Malaysian service firms. In addition, the research implications and constraints are explained and the guidance for further studies is provided.

Figure 1.1: Structure of the Dissertation



1.7 Conclusion

This chapter highlights the importance of internationalization for the success and survival of firms. It explains the purpose of the research to conduct an inclusive study in Malaysia, as a developing country with a rapid economic growth. The significance of the study is revealed by the fact that in 2010, exports contributed 83% to Malaysia's GDP and outward FDI stocks were equal to 40% of its GDP (UNCTAD, 2011a).

The present research aims to investigate the international strategies of Malaysian service firms that ventured into foreign markets. Therefore, the study is conducted at the firm level. The study contributes to the knowledge in theory and practice. It follows a parsimony approach considering major factors that influence the internationalization process of service firms from Malaysia. It supposes that the international strategies of such firms are a consequence of their strategic views and specific resources. The relationship between these factors and the process of international expansion is shown in a proposed model to build a frame for the further stages of study.

To collect data, a quantitative method using mail questionnaires is applied regarding the nature of research questions. Research findings can confirm the model of research that can be guidance for future studies in this field. This study consists of six chapters explaining the theoretical assumptions, describing and analyzing data, and making conclusions based on the research findings.

Chapter 2 will define the internationalization process and its components including market selection, entry timing and entry mode strategy, explaining the types of entry mode, and analyzing the logics behind market selection and the choice of appropriate entry mode. In addition, major theories of internationalization are described in order to provide a suitable theoretical background for investigating the international strategies of Malaysian service firms. Finally, the rapid internationalization of service firms and the expansion of Malaysian service industries in recent decades are discussed.

CHAPTER 2

LITERATURE REVIEW: INTERNATIONALIZATION OF FIRMS FROM THEORY TO PRACTICE

2.0 Introduction

As Deardorff (2000) stated, the best strategy for a poor country to develop and grow is to benefit from international trade. Therefore, since the 1980s many developing countries have opened their markets to international trade and foreign direct investment. However, there are some restrictions that hinder firms from developing countries to access the markets of developed countries. The internationalization process of firms, especially the choice of entry mode, has been widely studied by scholars and they have created different theories and models to describe this process (Harzing, 2002).

In this chapter, the process of internationalization and theories that explain such a process are studied in detail. In addition, an overview of the internationalization of services is provided and the strategies used by Malaysian services in foreign markets are discussed. The present study aims to generate extensive knowledge concerning the theoretical aspects of the expansion of firms into foreign markets in order to achieve a broad insight before conducting an empirical research on the internationalization strategies of Malaysian service firms.

2.1 Internationalization Process from Decision to Practice

According to Ahmad and Kitchen (2008), during the internationalization process, firms gradually expand their business activities beyond their national authority and launch operations in other countries. To expand its activities to a foreign market, a firm must make three essential decisions - which markets to enter, when to enter the market, and on what scale and strategic commitments to enter the market (Hill, 2008).

The first key feature of international marketing strategy formulation is to decide which markets to enter (Griffin and Pustay, 2002). To do this, decision makers need to

assess market potential and market size, and then choose the target market (Brewer, 2001). Hohenthal *et al.* (2003) argued that firms should find the gaps between demand and supply in foreign markets and discover markets with more opportunities. In fact, the process of internationalization is influenced by the core competencies of firms as well as the opportunities existing in emerging markets (see Sakarya *et al.*, 2007).

The second decision is the timing and order of entry. A firm that is able to be a first mover and enter a market first has achieved a timing advantage (Keegan and Green, 2008). When a business firm arrives in a market before other competitors, it can gain a timing advantage, which is known as first-mover advantage. A firm may gain some benefits from such advantage although sometimes it can result in pioneering costs (Hill, 2008; Keegan and Green, 2008).

The third aspect of internationalization concerns to what scale and how a firm should enter a foreign market. Some firms prefer to enter the market on a large-scale, which needs greater resource commitment. They have to consider the benefits and risks of large-scale entry and compare it with those of small-scale entry (Hill, 2008). For example, sole ownership requires the highest resource commitment (Lotayif, 2003).

2.1.1 Market Selection

The literature on internationalization has tried to explain how firms select target markets for expanding their operations internationally. However, Brewer (2001) pointed out that firms do not always make a rational choice because in the real world there are different factors, such as business environment, cultural distance and chance, which affect the process of market selection. The strategies that firms adopt depend on the structure and attractiveness of the markets in which they operate (Whitelock, 2002).

Root (1994) divided market structure into monopolistic market, in which only a single dominant firm offers products or services; oligopolistic market, in which a few

firms create an oligopoly and dominate the market; and competitive market, in which many firms operate and compete with each other. Researchers consider competitive markets as perfect markets, in which firms compete freely and can utilize equally from market opportunities while the monopolistic and oligopolistic markets are viewed as imperfect markets, in which some firms take advantage of their superior abilities and dominate the market by investing in the form of full ownership (see Anderson and Gatignon, 1986; Chen and Mujtaba, 2007; Ekeledo and Sivakumar, 1998; Kim and Hwang, 1992; Root, 1994).

The monopolistic market gives the opportunity to a dominant firm to strengthen its resources and benefit from the economies of scale by expanding internationally (Hymer, 1976). In an oligopolistic market, a company that is able to cut the price can increase its sales and market share by absorbing potential customers of competitors. In such a market, firms can imitate the strategies and methods of their rivals (Hill, 2008). In contrast, in a competitive market, firms avoid activities that require high resource commitment because the profitability is low (Ekeledo and Sivakumar, 1998).

Koch (2001b) explained the stages of the market selection process as screening, country identification, in-depth screening and selection. According to Brewer (2001), in the market selection process, a firm should establish a feasible country set, identify a country and evaluate it based on its experience or information sources, and, finally, select it as a suitable location for its foreign operations. To obtain information, firms can use various sources including visiting markets, using partners' experience or published reports, networking, doing primary research, participating in exhibitions, conferences and government programmes, and so on.

The criteria to evaluate and select a target market is usually divided into market potential or attractiveness, which refers to the opportunities available in the host country and market uncertainty, which refers to the risks and threats existing in the host country

(Brewer, 2001). Market potential depends on the size, demand and growth of the market, available marketing facilities, economic development, available resources and infrastructure. Countries with high market potential are attractive and encourage firms to invest and operate there. In contrast, market uncertainty is the result of high competition intensity, economic and political instability, cultural difference and government restrictions that increase the risk of investment and discourage firms to enter a specific country or region (see Agarwal and Ramaswami, 1992; Brewer, 2001; Brouthers *et al.*, 2009; Chen and Mujtaba, 2007; Hitt *et al.*, 2006; Nakos and Brouthers, 2002). Selecting markets with greater market potential and stability increases the performance of foreign affiliations (Brouthers *et al.*, 2009).

Firm's knowledge about the economic and cultural environment of a foreign market facilitates entry to that market (Mitra and Golder, 2002). Firms prefer to enter countries that have similar cultures because they can understand customers' needs better, collect the required market knowledge more easily and face fewer risks (Hitt *et al.*, 2006; Johanson and Vahlne, 1977; Lopez and Fan, 2009). However, today, business firms enter markets with more cultural distance to benefit from market opportunities (Hitt *et al.*, 2006).

Koch (2001b) suggested that market selection is related to the choice of entry mode. Lee *et al.* (2006) introduced a matrix based on economic value portfolio that indicates the profitability of the target market. According to Papadopoulos *et al.* (2002), market selection is a consequence of the tradeoff between market potential, trade barriers and firm strategy. Koch (2001a) offered a broader model in which market selection depends on internal factors, such as firm strategic orientation and objectives, firm resources, market share and networking, as well as external factors, such as target market potential, competition intensity and estimated market risk.

2.1.2 Entry Timing

According to Brandts and Giritligil (2008), the time-structure of the entry process influences firm behaviour and market efficiency. Effective entry timing also helps the survival and sustainability of foreign subsidiaries and partnerships (Papyrina, 2007). Firms that enter the market early and utilize first mover advantage may gain various benefits, such as prime physical locations or positive customer perception (Brandts and Giritligil, 2008). Firms that enter a target market before their competitors in the industry and benefit from a first mover advantage can acquire more resources and capabilities, benefit from a temporary monopoly, minimize costs, obtain economies of scale and achieve better performance (Hill, 2008; Keegan and Green, 2008; Tuppura *et al.*, 2008). However, first mover advantage is not absolute and depends on the factors related to the firm, target market and its environment (Sivakumar, 2002). As Sivakumar (2002) suggested, the order of entry timing into foreign markets and the level of involvement are interrelated and mutually affect a firm's performance.

Brandts and Giritligil (2008) explained a dynamism, in which firms that are more efficient replace less efficient firms over time. This means that new entrants may succeed in taking in the market share of previous movers into a specific market. However, late entry into a market increases the risk of failure in accessing the market demand and opportunities (Tuppura *et al.*, 2008). According to Lee (2009), in the early stage of a product life cycle, first movers focus on innovation and new product development, however, when the product matures, firms that are early movers to the market compete through cost reduction.

The experiential knowledge about foreign markets affects entry timing. When a firm collects required knowledge regarding a specific country and finds socio-cultural similarities between its home country and that target market, it will perceive the host country as a near market and can enter it earlier. In fact, market knowledge decreases

the perceived risk of investment in foreign markets. If a market has a high cultural distance with a firm's home country, the firm will postpone its entry to that market (Mitra and Golder, 2002; Tuppura *et al.*, 2008). Lévesque and Shepherd (2002) in their model of optimal entry timing, linked entry timing to the market potential, competition intensity and environmental instability of the host country.

The institutional setting of the host market is another vital factor in entry timing. If the government of the host country sets rules and regulations to restrict foreign investment and ownership, firms will find it difficult to operate in such a market. In contrast, countries with supportive and incentive regulations and efficient institutions encourage foreign firms to enter their markets earlier (Papyrina, 2007). Papyrina (2007) also mentioned the role of business networks and linkage with other firms and partners in the host country in increasing market knowledge and facilitating earlier entry. Furthermore, Lee (2009) emphasized the effect of firm resources and capabilities on entry timing while Tuppura *et al.* (2008) linked entry timing to strategic considerations.

2.1.3 Entry Mode Choice

Entry mode is the strategy and form of resource commitment and ownership of affiliates that a firm adopts when it decides to enter a foreign target market. Entry mode is an institutional arrangement by which a company transfers its products and resources, such as technology, managerial skills and human capital, into foreign markets (Pinho, 2007; Root, 1994). According to Kwon and Konopa (1993), participation in international business activities and entering foreign markets is a risky action because of certain factors, such as cultural differences, political instability, changes in market demand and changes in exchange rate value. Therefore, when a firm makes the decision to enter a foreign market, the question arises as to what mode of entry is the best (Hill, 2008). As firms desire to minimize their risk, the mode that can decrease the risk and give them higher return is considered favourable (Kwon and Konopa, 1993).

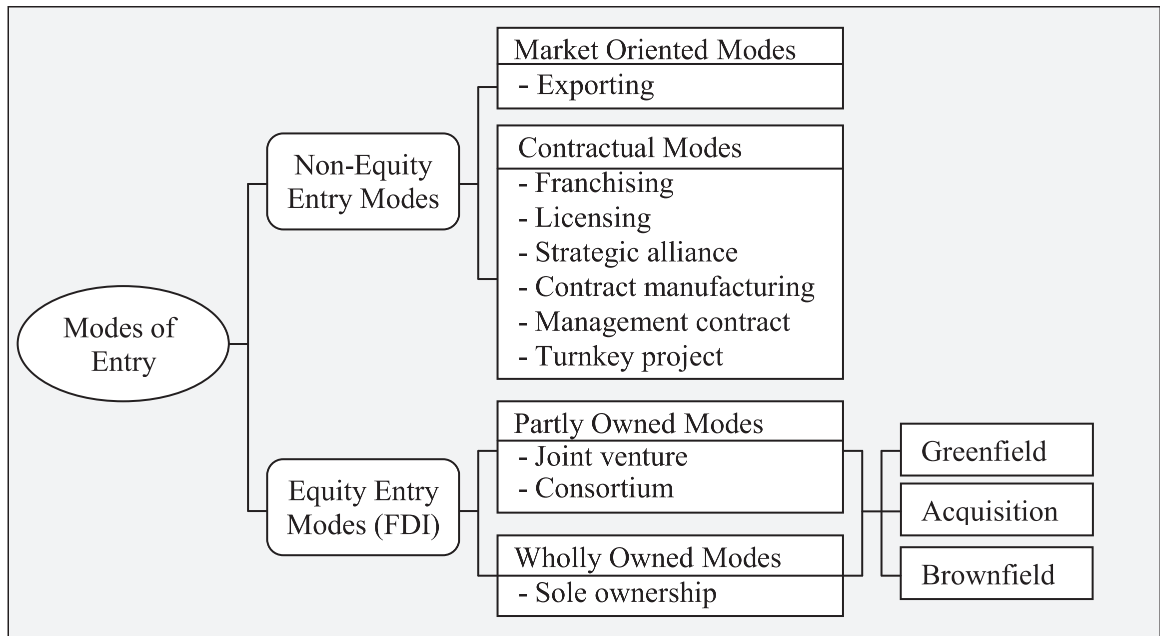
Choice of entry mode as a strategy for using foreign market opportunities has attracted many marketing researchers (see Agarwal and Ramaswami, 1992; Barney, 1991; Blomstermo *et al.*, 2006; Brouthers, 1995, 2002; Choo and Mazzarol, 1998, 2001; Ekeledo and Sivakumar, 1998, 2004; Erramilli and Rao, 1990, 1993; Evans, 2002; Kim and Hwang, 1992; Kwon and Konopa, 1993; Nakos and Brouthers, 2002; Pan and Tse, 2000; Quer *et al.*, 2007; Root, 1987, 1994; Terpstra and Yu, 1988).

Selecting an optimal entry mode to enter a foreign market is one of the most significant strategies for firms and a crucial decision in the internationalization process of firms (Chung and Enderwick, 2001; Decker and Zhao, 2004; Nakos and Brouthers, 2002; Quer *et al.*, 2007; Root, 1994; Tsai and Cheng, 2004). Choosing a suitable entry mode into a foreign market can affect a firm's international business performance and survival (Bradley and Gannon, 2000; Chen and Mujtaba, 2007; Choo and Mazzarol, 2001; Chung and Enderwick, 2001; Davidson, 1982; Ekeledo and Sivakumar, 2004; Gatignon and Anderson, 1988; Root, 1994; Terpstra and Sarathy, 1994).

As many countries welcome foreign investment and the number of firms using global strategies increases, the nature of international business changes severely. Business companies enter foreign markets to overcome harsh domestic competition and the high cost of developing new products, and to continue their growth (Kumar and Subramaniam, 1997). However, during international expansion, firms face numerous defensive entry barriers (Cheng, 2006). Foreign investors are confronted with many challenges and troubles upon entry into a new market (Fisher and Ranasinghe, 2001).

As Figure 2.1 shows, entry modes are divided into non-equity modes including market-oriented modes and contractual modes, and equity modes or FDI modes, which include partly owned and wholly owned modes (Ahmed *et al.*, 2002; Decker and Zhao, 2004; Kumar and Subramanian, 1997; Lotayif, 2003; Pan and Tse, 2000; Quer *et al.*, 2007; Wild *et al.*, 2008). Each mode has some advantages and disadvantages.

Figure 2.1: Types of Entry Mode



Adapted from: Kumar and Subramanian (1997), Lotayif (2003), Pan and Tse (2000)

a. Exporting: The Fastest Mode of Entry

Exporting is the fastest and simplest entry mode. Researchers suggest that firms usually start their internationalization process by importing technology, machinery and raw materials, and then, enter foreign markets by exporting their products or services (Griffin and Pustay, 2002). Firms export their products when international markets present opportunities to increase sales and profits. The aim of exporting is to expand sales, spread sales and acquire market experience (Wild *et al.*, 2008). Exporting is a low risk strategy that lets a firm internationalize only with a low resource commitment (Chung and Enderwick, 2001). Through exporting, firms supply foreign markets with commercial exchanges (Quer *et al.*, 2007).

According to Griffin and Pustay (2002), exporting is done in three forms: first, direct exporting through sales to customers in foreign countries by direct selling or through sales subsidiaries and export intermediaries in a foreign market. Firms may also use electronic marketing to sell their products or offer their services over the Internet; second, indirect exporting by selling products to another party or other firms as export intermediaries in order to be exported to other countries; and third, intra-corporate

transfer, in which a company produces its product in one country and sends it to its foreign subsidiary, as its export subsidiary, to sell it in a foreign market. In this case, the benefit of exporting remains within the company.

Although exporting is considered as a non-equity entry mode with the lowest resource commitment, direct exporting requires full control and higher resource commitment (Ekeledo and Sivakumar, 2004). Exporting through an export subsidiary should be taken into account as an equity mode of entry since it is wholly owned by the company. Therefore, some researchers consider export subsidiary as a type of direct exporting and include it in full control entry modes (see Ekeledo, 2000).

One advantage of exporting is that it allows a firm to enter a market gradually and helps it gain business experience in foreign markets as well as market knowledge. It requires low financial exposure and resource commitment. It also keeps the company away from the limitations of foreign direct investment (Griffin and Pustay, 2002; Hill, 2008; Keegan and Green, 2008). However, it has some disadvantages, as it needs high transportation costs that increase the price of products. In exporting, firms may face tariff barriers and import quotas set by host governments. They may also experience some conflicts with distributors. In addition, lower production costs of a certain product in a foreign market hinder the company in competing with local products (Griffin and Pustay, 2002; Hill, 2008; Keegan and Green, 2008).

b. Contractual Modes: Managing a Project or Selling a Brand

In this type of entry mode, firms enter a foreign market by making a contract with a local partner in order to overcome the difficulties of the entry process. These contracts are long-term, non-equity associations between a company and local partners. Such agreements involve the transfer of technology, processes, trademarks and managerial skills (Cateora and Graham, 1999). Contractual modes include management contracts, turnkey projects, contract manufacturing, strategic alliances, licensing and franchising.

A turnkey project is an agreement under which a firm agrees to fully design, build and equip a facility, and then, turn the project over to the purchaser when it is ready for operation. It can be for a fixed price or based on cost-plus (Griffin and Pustay, 2002). Turnkey contracts often involves government agencies and its aim is to build large-scale and complex projects, such as airport, power plant or oil refinery, that need advanced technology (Wild *et al.*, 2008). In a turnkey project, the contractor agrees to conduct every detail of the project for a foreign purchaser and also to teach and train operating staff. When the project is completed, the contractor hands the key to the foreign client for operation. Through turnkey projects, technology is exported from developed countries to other countries (Hill, 2008).

By contract manufacturing, a firm outsources some or all of its manufacturing operations to other companies as subcontractors. Then, the firm concentrates on its core competencies (Griffin and Pustay, 2002). A management contract is an agreement whereby one firm presents managerial help, technical knowledge or specialized services to a second firm for a specific time in return for financial compensation. This reward may be a fixed fee or a percentage of sales (Griffin and Pustay, 2002). Through a management contract, two types of knowledge are transferred, i.e. the specialized expertise of technical managers, and the business-management abilities of general managers. Management contracts are usually used in the public utility sector of both developed and emerging markets (Wild *et al.*, 2008).

A strategic international alliance (SIA) or a global strategic partnership (GSP) is formed when two or more companies collaborate with each other in a business to achieve strategic objectives without establishing a separate firm (Cateora and Graham, 1999; Griffin and Pustay, 2002; Hill, 2008; Keegan and Green, 2008; Wild *et al.*, 2008, 2008). The motives for a non-equity alliance are to gain economies of scale, access to technology and distribution channels, and decrease the investment risk by sharing

(Johansson, 2005). In a strategic alliance, firms share their benefits and control over the performance. They are also continuously involved in providing technology, products, and services related to the business of alliance (Keegan and Green, 2008). Although strategic alliance is a non-equity form of partnership, sometimes it becomes an equity mode, such as joint venture and consortia.

According to Johansson (2005), a strategic alliance can be formed in three linkages: vertical alliances, in which a firm participates in an alliance with its suppliers or customers in order to decrease resources or distribute uncertainly; horizontal alliances, in which a firm cooperates with its competitors in the same industry or other companies to gain complementary skills and assets; and hybrid alliances, which is shaped by a firm using both vertical and horizontal alliances at the same time, i.e. the firm unites with its suppliers and competitors simultaneously. As Bouchard (1992) pointed out, a successful alliance requires the compatibility of business objectives and similarity of corporate cultures between the partners. Otherwise, the conflicts may result in failure of the strategic alliance and the loss of resources or market opportunities.

Licensing is an agreement in which a firm, as licensor, permits the rights to its intellectual properties, such as patents, inventions, formulas, processes, trade secrets, designs, copyrights, brand names and trademarks to another company, as licensee, for a specific period. In return, the licensee pays the licensor a royalty fee, which is normally a specified percentage of sales or a fixed amount per unit sold (Cateora and Graham, 1999; Griffin and Pustay, 2002; Hill, 2008; Keegan, 2002; Keegan and Green, 2008; Wild *et al.*, 2008). Sometimes the licensee pays a one-time licence fee for the intangible property (Wild *et al.*, 2008). In addition, licensing is used by firms that possess advanced technology, knowhow or a strong brand image in order to earn more profit with little investment (Keegan, 2002). SMEs usually choose licensing as a preferred strategy for entering new markets (Cateora and Graham, 1999).

Sharing technology with the licensee can create a potential competitor in future that knows the manufacturing secrets and may lend or sell the technology to other companies. After the expiry date of the agreement, the licensee may extend its activity into the licensor's home country and compete with it. To overcome losing technological advantages, firms can restrict the licensee through a licensing contract to prevent it from competing with the licensor in future or selling technology to other firms. Another way is swapping intellectual properties by both parties (Hill, 2008; Wild *et al.*, 2008).

Franchising is a different form of licensing in which the franchiser or franchisor obliges the franchisee to follow strict rules related to business operations (Hill, 2008). Franchising is a longer-term agreement than licensing. Although licensing is primarily used by manufacturing firms, franchising is the favourite entry mode for service firms (Hill, 2008; Wild *et al.*, 2008). In franchising, the parent company or franchiser provides intangible assets, operating system, management training, advertising and financial aid to the franchisee in order to operate in a foreign market according to the standards and policies set by the franchiser. The franchiser usually receives a royalty fee (Griffin and Pustay, 2002; Hill, 2008; Keegan and Green, 2008; Wild *et al.*, 2008).

Franchising is the fastest growing entry mode and combines the patent, systems and management services of the franchiser with the market knowledge, financial assets, and human resources provided by the franchisee. This allows the franchisee to be flexible in dealing with the local market and enables the franchiser to have more control over products, services and processes. Franchising agreements can be in the form of licensing in which the franchisee only has the right to use intangible assets in its operation for a fee, or as a master franchise, which provides greater control by giving the franchisee the rights to set up franchises in a region (Cateora and Graham, 1999).

Table 2.1 shows the advantages and disadvantages of each contractual mode. Firms should consider these benefits or shortages when decide to select such modes.

Table 2.1: Advantages and Disadvantages of Contractual Entry Modes

Contracts	Advantages	Disadvantages
Turnkey project	- It allows a firm to a firm to specialize in its core competencies - Firm can earn economic returns from its valuable assets - It is useful when FDI is restricted by the host government - It helps transfer of technology to developing countries - It transfers investment risk to the contractor	- Financial risks and cost overruns are high - Contractors may lose competitive advantage - It may create future competitors - Contractor does not have long-term interest in the host country - A potential for inflexible design - Sometimes project costs are not clear
Contract manufacturing	- It needs low risk, responsibility and recourse commitment - It helps firms to focus resources on product design and marketing - It helps a firm enter a target market rapidly	- Firms will lose control over the production process - It can decrease product quality or postpone delivery - It reduces the market learning potential of a company
Management contract	- It helps a firm to gain extra income without risks or responsibilities - It helps a company focus on its core competencies - It helps a government to overcome its shortage of investment financing - It improves skills of local managers	- Investment returns are limited by contract - It endangers firm's personnel in politically unstable foreign countries - It may create a future competitor by transferring technology and knowledge to the contractee
Strategic alliances	- It can minimize risk and maximize profit by sharing costs and assets - It increases the competitive power of partners - It helps firms to enter new markets easier, faster, and with less risk - It helps to establish technological standards for the industry	- It may fail due to incompatibility of partners, lack of information, conflicts or low profitability - Cultural differences and weak communication can result in conflict - It may create a future competitor - It provide a low-cost way for rivals to gain technology or enter a market
Licensing	- It helps the licensor enter market quickly with lower investment risk - Firms can escape tariffs, quotas, and government restrictions for FDI - The licensee provides appropriate knowledge of the local market - The licensee can offer products in other markets with less R&D costs - It helps the licensee to learn new manufacturing technologies	- The least profitable entry modes - It limits market opportunities and profits for both parties - It is only suitable if host country protects intellectual property by law - Licensor has no control over its production and marketing process - Licensee performance may damage brand image and product quality - Conflicts may hurt both partners
Franchising	- It is a low-cost and low-risk entry mode - It helps the franchiser to obtain a first mover advantage - Franchisee can enter a business with a tested product or process - Franchiser can gain expertise and cultural knowledge - It decreases investment risks	- It limits market opportunities and profits for both parties - Franchiser and franchisee become dependent upon each other - Cultural differences and weak communication can result in conflict - Franchisee performance damage brand image and product quality - Difficulty in transferring profits - Creating future competitors

Sources: Bouchard (1992), Cateora and Graham (1999), Griffin and Pustay (2002), Hill (2008), Keegan and Green (2008), Wild *et al.* (2008)

c. Foreign Direct Investment: From Partnership to Full Ownership

Traditionally, after a firm obtains market experience through exporting, licensing, or franchising, its managers try to participate more in business activities outside their home country. This motivates them to invest internationally (Keegan and Green, 2008). However, in recent decades, foreign direct investment (FDI) has become the primary economic mode of international investment or the default mode of entry (Cheng, 2006). FDI exposes investment flows out of the home country. It allows firms to transfer their capabilities to foreign markets and produce their products in other countries, complete them locally, and sell to foreign customers. FDI modes can take the form of joint venture in which a firm owns some parts of a business, or wholly owned subsidiaries in which a firm has full ownership (Keegan and Green, 2008; Quer *et al.*, 2007).

Since the 1990s, FDI has experienced rapid growth with the main flows of capital, technology and assets directed towards the emerging markets of Eastern Europe and developing countries, especially East Asia and Latin America (Keegan, 2002). World inward FDI flows, which were US$54 billion in 1980 increased to US$1,403 billion in 2000 while it reached a peak of US$1,971 billion in 2007. Because of financial crisis, inward FDI flows decreased to US$1,185 billion in 2009 but rose again to US$1,244 billion in 2010, from which 48.4% flowed into the developed countries, 5.5% into the economies in transition and 46.1% into developing countries (UNCTAD, 2011a).

At the same time, outward FDI flows in the world increased from US$52 billion in 1980 to US$1,232 billion in 2000 and US$2,174 billion in 2007 whereas it dropped to US$1,171 billion in 2009 due to financial crisis and rose again to US$1,323 billion in 2010, from which 70.7% belonged to developed countries, 4.6% to the economies in transition and 24.7% to developing countries. Besides, in 2010, only the BRIC countries including Brazil, Russia, India and China invested $222 billion in other countries (UNCTAD, 2011a).

A joint venture (JV) or equity joint venture (EJV) is a firm that is established and owned by two or more independent companies to attain a common business goal in a single market (Hill, 2008; Wild *et al.*, 2008). In a joint venture, a firm shares equity and control of the business enterprise with a partner from the host country (Taylor *et al.*, 2000). In other words, JV is an equity type of strategic alliance (Johansson, 2005). Joint venture is a more widespread form of foreign market entry than exporting or licensing (Keegan, 2002; Keegan and Green, 2008). In a joint venture, the parent companies can be from the same country or different countries and may be private firms, government agencies or state-owned firms. Each partner can share in the new company's assets including managerial skills, technology, capital, market knowledge, and so on (Cateora and Graham, 1999; Hill, 2008; Wild *et al.*, 2008).

Due to the rapid changes in technology, telecommunications and government policies, the number of JVs is growing (Griffin and Pustay, 2002). For example, until the 1980s, China was a risky country for partnership. However, after changing some government policies, it has become one of the best emerging markets for joint ventures (Cateora and Graham, 1999). The same situation is observed in Southeast Asia, India and Brazil, where new partnerships are rapidly forming. Another form of partnership is a consortium, which is a collaborative agreement among a large number of participants that share in a huge project to decrease investment risks by sharing capital, assets and resources. Such huge projects such as extracting oil and gas require high resource commitment (Cateora and Graham, 1999). Consortia are formed by partners with a varying proportion of shares (Johansson, 2005). Sometimes government agencies join a consortium as partners (Cateora and Graham, 1999).

Many firms desire to own and control their assets in foreign countries and try to enter markets by full ownership. They seek coordination among their subsidiaries and control over them (Griffin and Pustay, 2002). A wholly owned subsidiary (WOS) is a

business completely owned and controlled by a single parent company. This entry mode requires full ownership of the facilities such as offices, factories, shops, machinery and equipment (Wild *et al.*, 2008). In such a case, the company owns 100% of the stock of the new business (Hill, 2008). A wholly owned subsidiary enables a firm to benefit from location advantages and concentrate its activities in markets that provide raw materials, cheap labour force, skilled workers and transportation facilities (Wild *et al.*, 2008). Full ownership requires the greatest resource commitment, especially capital and managerial attempts; however, it creates higher profits, quick market expansion and greater control for a firm (Keegan and Green, 2008).

As Table 2.2 shows, each equity mode has some advantages and disadvantages that should be considered by firms when deciding to adopt such modes.

Table 2.2: Advantages and Disadvantages of FDI Entry Modes

Contracts	Advantages	Disadvantages
Joint venture	- It helps a firm to gain more profit, avoid tariffs and exert higher control - By sharing costs and risks, market entry becomes easier and less risky - It helps partners to gain synergy by merging value chain strengths - It facilitates investment when host government restricts full ownership - The local partner provides market knowledge while foreign firm brings technology and management skills	- It causes the risk of transferring valuable technology to local partner - The firm cannot have tight control over its subsidiaries - Partners may struggle to gain more control - Having different goals or cultural differences may cause conflict
Consortium	- It helps decrease investment risks	- Having more than one partner in a business makes it more complicated
Wholly owned subsidiary	- It decreases the risk of losing assets and technology to competitors - It enables a firm to form a global production system - It is the most profitable mode and there is no conflict over benefits - It allows firms to control global operations and coordinate branches - It decreases communication gaps and improves market knowledge - Firms can transfer technology and get into new production techniques - It is encouraged by governments and helps firms to avoid tariffs	- It requires the highest investment, costs and resource commitment - It causes higher investment risks and complexity of operations - It requires more time, energy and managerial skills - It is more useful for large MNCs and less favored by SMEs - Cultural differences can affect the firm's foreign operations negatively - It may result in political risks and endanger firm's assets and personnel - Local governments may acquire the assets of foreign companies

Sources: Cateora and Graham (1999), Griffin and Pustay (2002), Hill (2008), Johansson (2005), Keegan (2002), Keegan and Green (2008), Wild *et al.* (2008)

2.3 Buying or Building Strategy: Greenfield versus Acquisition

Firms that intend to make foreign direct investment by setting up a wholly owned subsidiary or participating in a joint venture with local firms may perform it in three ways including Greenfield investment or building strategy, which requires constructing and start-up a new business entirely; merger and acquisition (M&A) or buying strategy, which requires purchasing an existing enterprise in the target market; and Brownfield or mixed strategy, which requires using a mixture of Greenfield and acquisition strategies in a foreign market (Griffin and Pustay, 2002; Hill, 2008; Wild *et al.*, 2008).

With Greenfield strategy, firms start a business from scratch. In fact, Greenfield investment requires high resource commitment and the firm bears high risks because the firm has to buy or rent land, construct or buy buildings and facilities, install machinery, transfer its employees and recruit new local staff (Griffin and Pustay, 2002). In contrast, merger and acquisition is a type of partnership in which a company unites with another firm in order to do business or conduct a project. It enables firms to gain a larger market share, find new customers, compete with their rivals more easily and benefit from other firms' experience and technology (Badrtalei and Bates, 2007). In addition, sometimes a firm may adopt a Brownfield strategy, which requires a mixture of Greenfield and acquisition. In Brownfield, a company purchases an existing firm, and then restructures it by changing its system, equipment or employees (Cheng, 2006).

Cartwright and Cooper (1992) recognized two waves of partnership. The first wave was the conglomerate partnership in the 1960-1970s in which a firm collaborates with a partner from an unrelated industry based on financial and economic information. In a merger, the operating systems of the two firms remained independent meaning that the organizational cultures could not interconnect and match. Therefore, at least 25% of such mergers failed. The second wave was the horizontal partnership in the 1980-1990s in which firms from the same industry or related business join mergers.

There is a broad discussion among scholars concerning the choice between Greenfield and acquisition. While mergers and acquisitions accounted for 47% of FDI inflows in 2005, it decreased to 27% in 2010 (UNCTAD, 2011b). This shows a public tendency towards Greenfield investment, especially by large MNCs. In addition, a study of 150 large acquisitions in 1990-1995 shows that only 17% of them were successful (Hill, 2008). In acquisition, a company not only buys a local firm's market share but it also acquires its employees and their expertise. Therefore, the buyer should decide whether to keep the existing management team or replace them with its expatriates. However, if there is cultural distance between the parent firm and the acquired firm, the success of business will be in danger (Bouchard, 1992). Since the 1970s, many auto industry mergers such as Daimler Benz-Chrysler failed. This resulted in higher turnover rate, weaker performance, and decreased stock value (Badrtalei and Bates, 2007).

As Table 2.3 indicates, adopting a Greenfield investment, acquiring an existing firm or using a combination of both methods has some benefits or shortcomings.

Table 2.3: Advantages and Disadvantages of the Buying and Building Strategies

Contracts	Advantages	Disadvantages
Greenfield investment	- A firm can choose the best place and facilities to fit its operations - It enables a firm to adapt itself to new business cultures - It provides jobs for the technical employees of developing countries - There is no need to deal with and modify previous debts, equipment, properties and processes	- It is a time consuming strategy and its returns take a long time - Firms face uncertainty that makes investment difficult - The training process for local employees is costly - Well-located land and buildings may be expensive and construction costs are high
Merger and acquisition	- The buyer gains control over the resources of the acquired firm - It helps to expand activities or enter a new market easier and faster - It allows a firm to compete better and pre-empt its rivals - It has fewer risk than Greenfield - It can increase the revenue of the acquiring firm	- It helps attain the goals of growth, diversification, synergy, economies of scale and global expansion - Employees of the acquired firm may lose their jobs - The acquiring firm should deal with all debts of the acquired firm - The buyer may overpay for the assets of the acquired firm
Brownfield investment	- It helps firm to achieve integration - Firm can acquire local resources	- It requires the high costs of restructuring the acquired firm

Sources: Badrtalei and Bates (2007), Cheng (2006), Griffin and Pustay (2002), Hill (2008), Meyer and Estrin (2001)

2.2 Choice of Entry Mode: A Trade-off between Risks and Returns

The choice between different entry modes is a problematic decision for managers of various companies. Whether they are aware of their decision or not, their choice is affected by some important factors, which are considered as internal or organizational factors and external or environmental factors (see Ekeledo and Sivakumar, 1998, 2004). Entry mode choice is a strategic selection that results in business success or failure (Ekeledo and Sivakumar, 2004). As Harzing (2002) stated, to expand a business into a foreign market, a firm has to first decide on non-equity entry modes, such as exporting, licensing and franchising, or equity-based modes or FDI including joint venture and sole ownership. Second, if a firm selects FDI, it should make a choice between the Greenfield investment and acquisition.

Table 2.4 shows the taxonomy of five major entry modes and the requirements and conditions of each mode (Blomstermo *et al.*, 2006; Kumar and Subramaniam, 1997; Lotayif, 2003). To decide what entry mode is suitable for adoption, firms can judge based on four factors - opportunities or risks offered by each entry mode, continuity likelihood of the risks and opportunities, required resources for each entry, and time needed for each entry (Lotayif, 2003).

Table 2.4: Taxonomy of Foreign Market Entry Modes

Assessment Criteria	Entry Modes				
	Exporting	Licensing	Franchising	Joint Venture	Sole Ownership
Production Location	Home	Host	Host	Host	Host
Ownership	Non-equity	Non-equity	Non-equity	Equity	Equity
Time Required	Short	Medium	Medium	Medium	Long
Resource Commitment	Low	Low	Moderate	Moderate	High
Risk Imposed	Low	Low	Moderate	Moderate	High
Return	Low	Low	Moderate	Moderate	High
Control	Low	Low	Moderate	Moderate	High
Involvement	Low	Low	Moderate	Moderate	High
Integration	Negligible	Negligible	Low	Low	High
probability	Volatile	Moderate	Moderate	Moderate	High
Conflicts	High	High	Moderate	Moderate	Low

Adapted from: Blomstermo *et al.* (2006), Kumar and Subramaniam (1997), Lotayif (2003)

To select an appropriate entry mode, initially, a firm should decide whether to locate its production and operation in the home country or host country. If the first choice is selected, the firm has to export its products or services. Otherwise, it can choose other entry forms (Ekeledo and Sivakumar, 1998; Sharma and Erramilli, 2004). If the firm is not willing to have any equity in its operations overseas, it can choose a non-equity mode. Otherwise, FDI or equity mode is a favourite choice (Sharma and Erramilli, 2004). If the firm needs to enter a market in a very short time, it is better to start with exporting. However, if it can allocate more time for entering the market and resource allocation, it will move toward FDI (Lotayif, 2003).

In the non-equity modes, the company needs a limited resource commitment but if it favours FDI, it should use a high amount of resources for its foreign operations (Blomstermo *et al.*, 2006; Lotayif, 2003). When the resource commitment increases, the risk of investment also increases. Consequently, by selecting FDI modes, a firm faces a higher imposed risk (see Kwon and Konopa, 1993; Kumar and Subramanian, 1997; Lotayif, 2003). If a firm bears more risk, it can expect a higher return of investment (ROI). Then, FDI brings a high profitability for the firm in the long term (Johanson and Wiedersheim-Paul, 1975; Kumar and Subramanian, 1997; Kwon and Konopa, 1993). In addition, if a firm faces a higher risk, it will need to exert higher control over its assets and operations in a foreign market. Without a suitable degree of control, a firm becomes more vulnerable from environmental threats (see Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004; Kumar and Subramanian, 1997; Wild *et al.*, 2008).

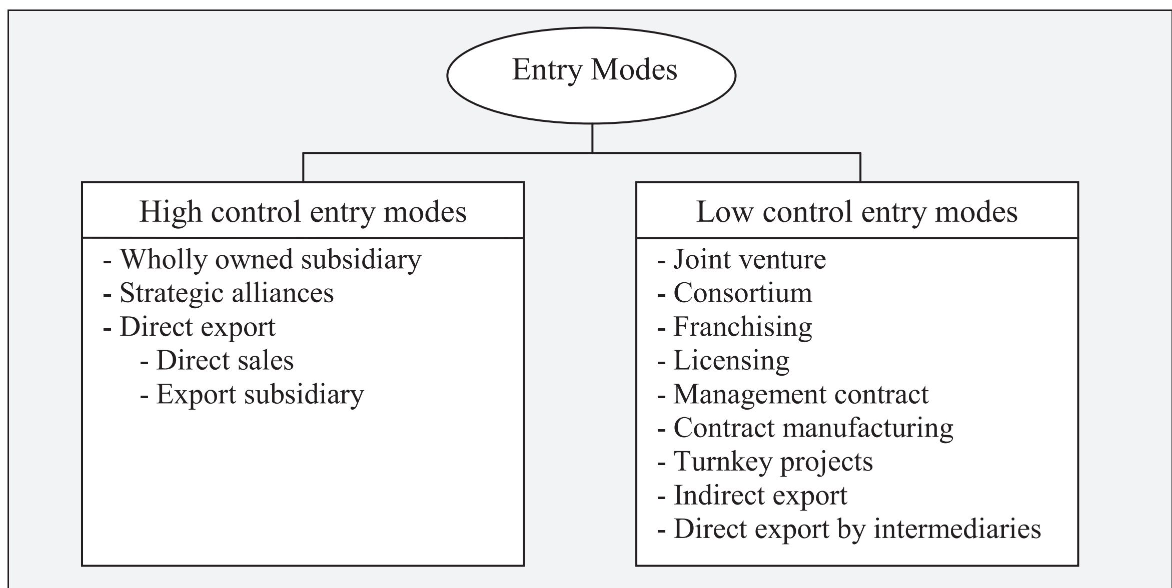
By selecting a non-equity mode, a firm will have a low level of involvement in the business activities. In contrast, in FDI, firms are more involved in foreign operations and the marketing of products and services (Ekeledo and Sivakumar, 1998). According to Kumar and Subramanian (1997), when a firm decides to invest in a foreign market and buy or build a subsidiary there, it needs greater integration between its operations.

Although non-equity modes endanger a firm's foreign operations and cannot guarantee the continuity of business in the long term, FDI is a favourite choice that can provide a longer presence in a target market (Lotayif, 2003). While FDI modes increase the risk of investment and operation, it decreases conflicts between a firm and its partners or agencies. Blomstermo *et al.* (2006) described such a conflict as relational friction.

Researchers have used the degree of control as the main factor that indicates the type of entry a firm adopts (Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004; Taylor *et al.*, 2000). This is because control is the most important determinant of risk and return (Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 2004). Control refers to the level of authority a firm may exercise over the resources, systems, processes and decisions of its foreign affiliates during a business activity or investment (Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004). According to Ekeledo (2000), in equity modes control is much higher than non-equity modes. Hence, if a firm needs full control over its foreign affiliates, sole ownership is the best choice.

Table 2.2 shows a comprehensive classification of all the types of entry modes including high or full control modes versus low control or shared control modes.

Figure 2.2: Types of Entry Modes Based on the Degree of Control



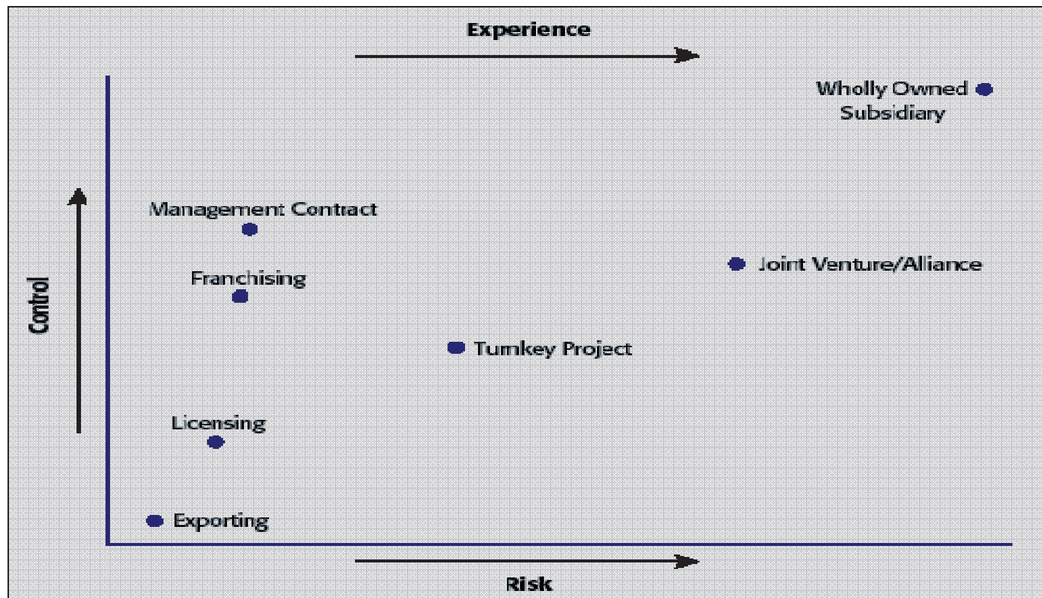
Adapted from: Ekeledo (2000), Keegan (2002), Kumar and Subramanian (1997), Lotayif (2003)

High control entry modes require sole ownership. The early literature of entry mode choice considered wholly owned subsidiary as the only form of sole ownership. However, Ekeledo and Sivakumar (2004) added direct exporting as a full control mode, as firms may export their products by direct sales or wholly owned export subsidiaries. Keegan (2002) added non-equity strategic alliances to sole ownership because in which each firm has full ownership and control over its own resources. Low control modes include joint venture, consortium, contractual agreements, indirect exporting, and direct exporting through agents and local export intermediaries (see Keegan, 2002; Kumar and Subramanian, 1997; Lotayif, 2003). Keegan (2002) considered management contract as a high control mode although it requires no ownership. However, other researchers put management contract among low control modes (Ekeledo and Sivakumar, 1998).

If the level of control is high, a company participates more in the operations and marketing activities of its subsidiaries. This means a high level of involvement while in exporting, a firm only locates its marketing efforts in the host country and production facilities are placed in the home country (Ekeledo, 2000; Sharma and Erramilli, 2004). Firms that exercise higher control over their affiliates need higher resource commitment and can benefit from high integration between its subsidiaries (Anderson and Gatignon 1986; Ekeledo, 2000; Erramilli and Rao 1990). However, such firms may experience higher uncertainty in foreign markets and to reduce risks, they may choose low control modes, such as licensing or management contract (Blomstermo *et al.*, 2006).

As Figure 2.3 indicates, Wild *et al.* (2008) suggested a three-dimensional model in which firms can choose entry modes in terms of the level of control, the amount of risk perceived and business experience in foreign markets. If a firm has no experience and desires to take the least risk, it will acquire exporting and exerts the least control. In contrast, when a firm has wide experience and desires to exercise high control, it will choose wholly owned subsidiary with a high level of investment risk.

Figure 2.3: Entry Modes in Terms of Control, Risk and Experience



Source: Wild *et al.* (2008)

Some researchers consider the type of ownership as the criteria for entry mode (Nakos and Brouthers, 2002; Quer *et al.*, 2007; Sharma and Erramilli, 2004). Sharma and Erramilli (2004) described entry mode choice based on the form of ownership and the location of production and marketing. According to Figure 2.4, in exporting, a firm only locates its marketing efforts in the host country, while in other modes of entry both production and marketing are assigned to the foreign affiliations. Wholly owned subsidiaries and direct exporting require full ownership.

Figure 2.4: Entry Mode Classification by Location and Ownership

	Marketing only	Production and marketing
Full Ownership	Direct export via Company owned channels (Sales subsidiary, Direct-to-customer)	Wholly owned subsidiary (Greenfield or Acquisition)
Partial Ownership		Joint ventures in Production or marketing (Majority, 50-50, or minority)
None Ownership	Indirect exporting, Direct exporting via Host country intermediaries	Contractual modes (Licensing, Franchising)

Source: Sharma and Erramilli (2004)

2.3 Theories of Internationalization: From Evolution to Application

To select suitable foreign markets and adopt an appropriate entry mode, it is necessary to have conceptual models and explanations that are rooted in profound theories (Anderson and Gatignon, 1986; Dunning, 1977; Sharma and Erramilli, 2004). Therefore, during the past half century, the literature has offered different theories and models to explain the process of internationalization process and the factors that affect the strategic decisions of firms. However, in spite of their experiential support, these theories have many shortcomings and are not able to explain a firm's international behaviour adequately (Axinn and Matthyssens, 2002; Ekeledo and Sivakumar, 2004; Kwon and Konopa, 1993; Sharma and Erramilli, 2004; Zacharakis, 1997).

As Table 2.5 shows, since the 1960s, the early theories of internationalization introduced by researchers are grouped into three paradigms – market imperfection, behavioural and market failure paradigms (Sharma and Erramilli, 2004). Since the late 1980s, the resource-based view (RBV) and contingency theory emerged to overcome the flaws of traditional approaches (Cumberland, 2006). Andersen (1993) criticized the current theories because researchers have not paid enough attention to the assessment of potential methodological and theoretical flaws.

Axinn and Matthyssens (2002) argued that most of these theories originated from the economics approaches and the industrial organization (IO) theories. These theories were developed in the 1970s and 1980s when U.S. MNCs dominated the world economy and started to invest in European markets. At the same time, European firms expanded their exports to their neighbouring regions. However, since the 1990s, the rapid environmental changes in the world, such as the removal of trade and investment barriers, the progress of service industries and the emergence of new markets, have created a global economy. Therefore, the existing theories are no longer able to explain and clarify the international behaviour of firms.

Table 2.5: Theories of Internationalization and Entry Mode

Theory	Explanatory Constructs	Choice of Entry Explanation	Outstanding Studies
Monopolistic Advantage Theory	Monopolistic advantage, degree of market imperfection	Market imperfection: - High: FDI - Low: licensing	Hymer (1960, 1976), Kindleberger (1969), Caves (1971)
IPLC Theory	Life cycle stage of the product	- Early PLC stage: exporting - Later stages: FDI	Vernon (1966, 1971), Poh (1987)
Internationalization Theory	Market commitment, market uncertainty	Sequential entry choice from exporting to full ownership	Johanson & Wiedersheim-Paul (1975), Johanson & Vahlne (1977)
Networks Theory	Firm-specific resources, home country networks	Competitive advantages: - High: FDI - Low: low control modes	Håkansson (1987), Johanson & Mattson (1988), Sharma & Blomstermo (2003)
Internalization Theory	Firm knowledge, degree of market failure	Market failure: - High: FDI - Low: licensing	Buckley & Casson (1976), Buckley (1988), Chen & Hennart (2002)
Eclectic Paradigm (OLI model)	Ownership advantage, location advantage , internationalization advantage	L in home market: exporting L in host market: - I is high: FDI - I is low: licensing	Dunning (1977,1980,1988), Agarwal & Ramaswami (1992), Brouthers *et al.* (1996), Robins *et al.* (2002)
Transaction Cost Theory (TC)	Transaction-specificity of an asset	Transaction-specificity: - High: high control modes - Low: low control modes	Anderson & Gatignon (1986), Anderson & Coughlan (1987), Erramilli & Rao (1993)
Resource-based View (RBV)	Firm-specific resources	Firm-specific resources: - Strong: high control modes - Weak: low control modes	Wernerfelt (1984), Barney (1986, 1991), Ekeledo & Sivakumar (2004)
Contingency Theory	Product classification	Industry separability: - Separable: JV, licensing - Inseparable: franchising, wholly owned subsidiary	Okoroafo (1990, 1991), 0'Farrell & Wood (1994), Kumar & Subramaniam (1997), Ekeledo & Sivakumar (1998)

Adapted from: Burgel and Murray (1998), Cumberland (2006), Sharma and Erramilli (2004), Zhao and Decker (2004)

The market imperfection paradigm originated from the industrial organizational theory of the firm introduced by Bain (1956). Based on this theory, industries with few competitors and high entry barriers can provide higher returns. Such imperfect markets are the result of controlling the number of existing and potential competitors by mergers and acquisitions, contractual obligations, or making entry barriers by heavy investment in capital-intensive production or product differentiation (Sharma and Erramilli, 2004). The industrial organizational theory assumes foreign operation is more costly than doing business in the home country. Therefore, MNCs need to have some advantages to be able to operate in foreign markets and bear the costs (Axinn and Matthyssens, 2002). In an imperfect market, the certainty of the competitive environment is higher and a

firm has greater market power, controls output and price, and benefits from higher returns (Sharma and Erramilli, 2004). The market imperfection paradigm includes the monopolistic advantage theory of Hymer (1960) and the international product life cycle (IPLC) theory of Vernon (1966).

The behavioural paradigm originated from the behavioural theories of Cyert and March (1963), and Aharoni (1966). They considered foreign market entry as a reactive and progressive learning process, in which gathering knowledge drives firms to expand into international markets (Blomstermo *et al.*, 2006). They suggested that the market knowledge of a firm grows gradually over time because the cost of gaining information is high and managers have bounded rationality. In an imperfect market, a firm seeks short-term benefits, avoids risk and instead of maximizing profit, favours satisfaction. Therefore, firms evade inter-firm relationships, as it needs a high resource commitment in the long-term (Sharma and Erramilli, 2004). The internationalization theory was the major behavioural theory and believed that the internationalization of firms takes place slowly and gradually after gaining the required market knowledge. However, the networks theory argues that firms can obtain knowledge through network relations.

The market failure paradigm is based on the theory of firms' nature offered by Coase (1937) who believed that firms select between markets and hierarchies by considering their relative efficiency. When market competition is perfect, low control modes such as exporting or licensing are more efficient. Therefore, only if the market fails, a firm prefers FDI and internalizes its operations. Since the late 1970s, the market failure paradigm, including the internalization theory, the eclectic paradigm and the transaction cost theory, has been the dominant pattern in entry mode studies (Sharma and Erramilli, 2004). Since the 1980s, researchers who criticized the existing static models of internationalization offered new theories based on the role of firm-specific resources in gaining competitive advantage and the contingency of decision making.

2.3.1 Monopolistic Advantage Theory

Hymer (1960) studied the FDI of U.S. companies after World War II and founded the monopolistic advantage theory. He argued that if a firm owns valuable assets that cannot be replicated by other firms, it can generate higher rents and bear the high costs of investment and foreign operations (Burgel and Murray, 1998). Hymer regarded the United States as the birthplace of modern MNCs because in the 1950s, most world FDI flows were carried out by U.S. firms (Buckley, 2006; Yamin and Forsgren, 2006). He viewed the nationality of firms as an influencing factor, which refers to the firm itself, its stakeholders and its managers (Buckley, 2006). The strategic motive of MNCs for expansion at that time was market seeking and they entered foreign markets to supply their existing products to those markets (Pearce and Papanastassiou, 2006).

According to Hymer (1960, 1976), firms may have three types of advantage in a market including monopolistic advantage, by which a single firm dominates the market and forms a monopoly; oligopolistic advantage, by which a firm together with a few rivals create an oligopoly and dominate the market; and competitive advantage, by which a firm can compete with numerous rivals in a competitive market (Root, 1994). MNCs obtain monopolistic advantages based on their economies of scale, or superior proprietary technology and knowledge in marketing, management or finance (Barnat, 2005). As Hymer (1970, 1971) suggested, monopolistic advantages enable American MNCs to dominate the world economy and act as the agents of capitalism, which causes inequality and poverty for developing countries. They also can form cartels or groups in an industry that gives them an oligopolistic dominance. Therefore, governments should control the market and prevent unlimited monopolies (Buckley, 2006; Dunning, 2006).

As Hymer (1960) stated, when a firm enters foreign markets, it faces additional costs related to the business operations in unfamiliar environments where local rivals have both tangible and intangible advantages. The costs of doing business abroad

(CODBA) include expenses for acquiring information about cultural, political and economic differences and the attitudes of customers, suppliers and government agencies in the host countries. To overcome the CODBA costs and increase profitability, firms have to utilize their resources and advantages, or adapt them with local institutional settings (Bunyaratavej *et al.*, 2007; Chen *et al.*, 2006; Elango and Sambharya, 2004; Fahy, 2002; Garg and Delios, 2007; Malhotra *et al.*, 2003).

Hymer (1960) believed that structural market imperfections in foreign markets, such as economies of scale, knowledge advantages and diversification, allow a firm to use its advantages and gain a monopolistic power. Firms with a superior advantage in an imperfect product market would favour FDI. Otherwise, licensing is preferred. In addition, the direction of FDI is influenced by the ease of entry into particular countries (Buckley, 2006; Claver and Quer 2005). As Hymer (1960) pointed out, FDI is an important mechanism for cross-border expansion of firms for two reasons: first, FDI enables to transfer organizational and technological advantages generated by the firm-specific resources that were developed in the home country into foreign subsidiaries; and second, FDI helps firms to remove conflict by controlling foreign operations (Barnat, 2005; Buckley, 2006; Claver and Quer 2005; Kumar and Subramaniam, 1997; Pitelis, 2006; Quer *et al.*, 2007; Sharma and Erramilli, 2004; Teece, 2006).

Although the traditional concept of FDI implies control of the operation, Hymer (1960, 1976) used a portfolio investment view, which gives no control but a share of ownership. In a portfolio investment, firms distribute the risk by investment overseas and expect to earn higher returns (Buckley, 2006; Pitelis, 2006; Sharma and Erramilli, 2004). Hymer (1968) emphasized the role of MNCs in the international division of labour. At that time, most countries produced raw materials for the industries owned by MNCs that had a technological advantage. Therefore, market imperfections led large firms to internalize and take their control across national borders (Casson, 1990). These

imperfections enable firms to cut the price and can motivate the firm for backward or forward integration. Imperfections in the capital market may push shareholders to prefer diversification and gain more profits by reinvesting their revenue rather than dividing profits. However, market regulations may restrain large firms (Buckley, 1990).

The monopolistic advantage theory is a direct application of Bain's (1956) theory of the industrial organization in the international context (Sharma and Erramilli, 2004). This theory believes in the role of Ricardian rents, which include returns surplus to their opportunity costs, in the international expansion of firms. Therefore, this theory is a basis for the resource-based theory, which was introduced by Wernerfelt (1984) and Barney (1986) who claimed that the internationalization of firms is determined by their resources and capabilities (Burgel and Murray, 1998; Kumar and Subramaniam, 1997).

Although the monopolistic advantage theory of Hymer (1960, 1976) was the foundation of international business theory, it was criticized by many researchers. According to Sharma and Erramilli (2004), Hymer only offered a partial explanation of ownership that cannot clarify the conditions under which joint venture or exporting is chosen. Erramilli *et al.* (1997) argued that a firm cannot transfer all types of ownership advantages to foreign markets. This theory has ignored the concept of value creation, as when a firm has valuable capabilities and ventures abroad, it can acquire new resources through efficiency. Therefore, resource seeking can be a motive for expansion (Pitelis, 2006). Although Hymer (1970) emphasized the innovation process and believed that MNCs can develop low cost new products by exploiting their advantages in foreign markets, he viewed innovation only as a means for extending MNCs' dominance over the world economy (Pearce and Papanastassiou, 2006; Yamin and Forsgren, 2006).

The radical ideas of Hymer were shaped based on his experiences in the third world countries with poor agriculture-based economies. Therefore, his theory is not able to interpret the international business activities in the modern global village (Buckley,

2006). Today, MNCs supply developing countries with resources and capabilities that they cannot obtain easily or should buy at a higher cost (Dunning and Rugman, 1985). In addition, the relationship between MNCs and host governments is no longer hostile. He also overlooked the responsibility of governments in shaping their institutions and setting effective policies to attract FDI (Dunning, 2006). According to Pitelis (2006), Hymer did not pay attention to intra-firm conflicts and decision-making. He ignored the role of small firms in the world economy and insisted on central planning while such a strategy failed in most socialist countries.

Kindleberger (1969) continued Hymer's studies on the FDI of the US firms. He claimed that firm's superior advantages may arise from market imperfections and could decrease competition intensity in a host country because they are imperfectly imitable (Fahy, 2002). As firm-specific resources are not easily imitable, firms can gain market power or competitive advantage (Elango and Sambharya, 2004; Porter, 1980, 1985). Caves (1971) expanded Hymer's theory and introduced the imperfect market theory in which product differentiation is a key ownership advantage, which encourages firms to locate their production in foreign countries, use FDI modes and obtain full returns (Barnat, 2005; Fahy, 2002). Knickerbocker (1973) introduced the oligopolistic theory, which explains that FDI will occur if competition is imperfect and a few companies have oligopoly in the market, whereas in a competitive market with low imperfection, licensing is preferred.

2.3.2 International Product Life Cycle Theory

Vernon (1966) in the international product life cycle (IPLC) theory developed a new perspective regarding the delocalization of production activity. He suggested that internationalization is a sequential process and depends on different levels of production costs between various countries (Mardanov, 2003; Reiner *et al.*, 2008). This theory explains how a firm switches from exporting to FDI (Sharma and Erramilli, 2004). If a

decline occurs in market demand, it may result in relocating the production line to countries with lower technologies but available or cheaper resources (Deardorff, 2000). Therefore, increasing the product maturity justifies the relocation of production line to foreign markets (Melin, 1992). Hymer (1968) also considered product life cycle (PLC) as a motive for the international expansion of firms in mature industries (Pitelis, 2006).

According to Vernon (1966, 1971, and 1979), new products are usually introduced in high-income countries, such as the U.S., to take advantage of high domestic market demand. These products go through four stages of their life cycle: first, the introduction stage in which production quantity is low with no standardization, costs are not a key factor, and firms focus on flexibility, communication and control. Hence, U.S. firms benefit from exporting their products to potential markets in other developed countries; second, the growth stage in which firms try to increase standardization, cut production costs and gain economies of scale. Therefore, U.S. MNCs start investing in moderate-income developed countries, such as Europe; third, the maturity stage in which local competitors produce alternative products to gain high profit and share the market. Then, U.S. MNCs move their production line to developing countries in order to keep their market position; and fourth, the decline stage in which market demand in the U.S. declines. Therefore, firms from host countries enter the U.S. market and compete with American MNCs by offering cheaper products (Malhotra *et al.*, 2003; Reiner *et al.*, 2008; Rutashobya and Jaensson, 2004; Sharma and Erramilli, 2004).

Although the IPLC model considers the firm level, its focus is mainly on trade between countries (Mardanov, 2003; Rutashobya and Jaensson, 2004). It emphasizes the location advantages of the host countries that determine why MNCs make different decisions to invest in different markets (Kumar and Subramaniam, 1997). Toyne and Walters (1993) merged the first two stages and developed a three-stage IPLC model including the new product stage, the maturity stage and the standardization stage.

Malhotra *et al.* (2003) modified this model and suggested that firms with innovation capability can benefit from the comparative advantage that the U.S. firms enjoyed.

Kwon and Konopa (1993) criticized the IPLC model because it is too general and is not able to explain the globalization patterns of all firms while the entry mode choice is more selective and strategic. This theory does not consider products that are traded without experiencing all the stages of their life cycle due to technological changes and deregulation of markets (Rutashobya and Jaensson, 2004). The IPLC theory explains a time-dependent process and deterministic evolutionary path (Andersen, 1997; Malhotra *et al.*, 2003). This model is suitable for manufacturing firms rather than service firms. It does not describe products with a short life cycle. It is also unable to explain how a firm with previous experience expands overseas (Mardanov, 2003).

In addition, the IPLC theory does not address the choice of different forms of exporting and joint ventures (Sharma and Erramilli, 2004). Therefore, Johansson (2005) developed an optimal entry mode matrix, in which a company can decide to choose a suitable entry mode based on the stage of product life cycle or market situation and regarding the strategic attitude of the firm. As Table 2.6 shows, in an incremental entry, firms start from indirect exporting and when products enter the maturity stage, direct exporting is adopted. High control modes are appropriate when firms need to exert control over their affiliates and for emerging and matured markets or products.

Table 2.6: Optimal Entry Mode Matrix

Firm strategic concern	Product or market situation			
	Emerging	High-growth	Mature	Services
Incremental	Indirect exporting	Indirect exporting	Direct exporting	Licensing, Alliance
Protected	Joint venture	Indirect exporting	Alliance, Licensing	Licensing
Control	Wholly owned subsidiary	Acquisition, Alliance	Wholly owned subsidiary	Franchising, Alliance, Exporting

Source: Johansson (2005)

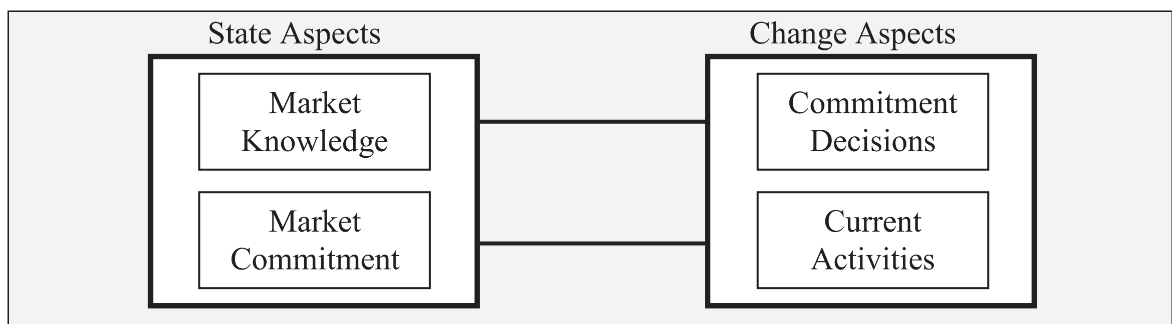
2.3.3 Internationalization Theory

Johanson and Wiedersheim-Paul (1975) tried to explain the internationalization of individual firms over time based on the behavioural theories of Cyert and March (1963) and Aharoni (1966). They were also influenced by the theory of the growth of the firm offered by Penrose (1959). Later, Johanson and Vahlne (1977) introduced the Uppsala model (U- model), which is the most recognized stage model (Andersen, 1993; Aspelund *et al.*, 2006; Sharma and Erramilli, 2004). According to Johanson and Wiedersheim-Paul (1975), internationalization is a gradual process in which firms enter foreign markets by four different modes and through the sequential stages that represent higher levels of involvement and resource commitment. In stage 1, firms have no regular exports activities. In stage 2, firms export their products or services via host country intermediaries or agents (indirect exporting). In stage 3, firms establish a sales subsidiary abroad (direct exporting). Finally, in stage 4, firms relocate their production lines overseas (wholly owned subsidiary).

Based on this theory, firms first gain experience from the domestic market before they move to foreign markets (Larimo, 2003). When a firm has low market knowledge or faces greater psychic distance, it perceives more uncertainty. Therefore, to avoid the risk of investment, the firm primarily enters the markets, which are known and have less psychic distance from its home country (Johanson and Wiedersheim-Paul, 1975). According to Johanson and Vahlne (1977), psychic distance includes differences in language, education, culture, business practices and industrial development. These factors hinder information flow from and to the market. The best way to minimize the perceived uncertainty and to use market opportunities is gaining experiential knowledge through personal experience in the specific markets. By obtaining such knowledge, the firm can bear higher resource commitment and enter the markets with higher psychic distance and greater geographical distance (Johanson and Wiedersheim-Paul, 1975).

As Figure 2.5 illustrates, the Uppsala model of Johanson and Vahlne (1977, 1990) is based on four concepts including market commitment, market knowledge, current activities and commitment decisions. The market commitment refers to the amount of resources committed to foreign markets or the investment size, which may include marketing, organization, personnel and other areas. The market knowledge is the firm's knowledge about foreign markets and operations. It is divided into general knowledge about marketing methods and customer tastes, and market-specific knowledge about business environment, market structure and cultural patterns. Current activities refer to the current business operations of firms that help them to gain experience, identify foreign opportunities, achieve the desired outcomes, and start a new business easier. Commitment decisions include the decisions made to commit resources to foreign operations. These decisions are made in response to market opportunities and threats.

Figure 2.5: The Internationalization Process of the Firm



Source: Johanson and Vahlne (1990)

As Johanson and Vahlne (1977) suggested, firms try to increase their long-term profits and avoid taking high risks. In addition, the status of the internationalization affects the perceived opportunities and risks, which, in turn, influence the resource commitment decisions and current business activities. They viewed the firm as the unit of analysis and a loosely coupled system in which the individuals have the knowledge, separate interests and opinions about the firm's development. Therefore, expatriates working in foreign markets will perceive opportunities and risks in those markets and try to find solutions that increase their benefit.

The internationalization theory provides a dynamic view of entry mode choice and recognizes the role of management in entry mode decisions. This theory considers both location and ownership aspects (see Sharma and Erramilli, 2004). According to Johanson and Wiedersheim-Paul (1975), firms adopt high control entry modes when their knowledge about foreign markets is low and also when they gain more experiential knowledge. Melin (1992) suggested that the progressive learning, which is acquired through increasing resource commitment, helps a firm make strategic decisions. Chetty and Eriksson (2002) supported the idea that the experiential knowledge in a firm affects the mutual relationship commitment, which, in turn, has an effect on experiential knowledge. Luostarinen (1979) offered the POM model, which is similar to the Uppsala model but suggests that when a firm starts exporting, the first sales object is consumer goods, while later, it can include services and knowledge and systems (Larimo, 2003).

According to Cumberland (2006), the Uppsala model was criticized for using an experimental survey method approach that was not explained in detail. Therefore, it is difficult to make a logical link between empirical study and theoretical concept. This model assumes that experiential knowledge is gained through a seek-and-learn process. It also believes that firms generally avoid risk. However, such assumptions have been questioned. In addition, the basic conditions of this model change during international expansion and the variables of the model might turn into constants.

As Melin (1992) stated, the internationalization theory is not based on rational analysis and is only applicable in the early stages of internationalization. This theory is too deterministic and sequential (Chetty and Eriksson, 2002; Mardanov, 2003). The sequential stages proposed by the theory are restricted to a specific country market. The stage model is not able to define boundaries between stages, or adequately explain the processes that lead to movement between stages (Andersen, 1993). It also ignores contractual modes and joint ventures (Root, 1987; Sharma and Erramilli, 2004).

2.3.4 Networks Theory

In the late 1980s, the networks theory was developed based on organizational sociology (Cumberland, 2006). Based on this approach, network relationships enable firms to expand overseas much faster and the traditional models of internationalization are no longer applicable (Johanson and Mattsson, 1988; Laanti *et al.*, 2007). In addition, the internationalization process of a firm takes place in a more complex and less structured way than what was explained by the Uppsala model, especially (Bell, 1995; Malhotra *et al.*, 2003; Moen *et al.*, 2004; O'Farrell *et al.*, 1998). This is because the nature of business activities of firms is collaborative, especially in service industries (O'Farrell *et al.*, 1998). In fact, competitive advantage is obtained not only by internal resources, but also through interaction and relationship with other firms (Coviello *et al.*, 1998; Hutchinson *et al.*, 2006; Johanson and Mattsson, 1988; O'Farrell *et al.*, 1998).

Networking enables firms to create a network of relationships with the potential for mutual complimentary actions, and to exploit the synergy made by the network for achieving a common goal (Cunningham and Calligan, 1991; O'Farrell *et al.*, 1998). By networking, a firm can employ the complementary resources of its partners and to turn them into its own benefits (Pananond, 2007). In fact, networks of the home country are the starting point for the internationalization of the firm. Networks are the individual links of value chains – both horizontal and vertical (Cumberland, 2006). Networks are formed by interrelated exchange relationships between firms with increased mutual knowledge and trust, which results in greater commitment between international market actors (Johanson and Mattsson, 1988; O'Farrell *et al.*, 1998).

Networks consist of three components including actors, resources and activities. These components are closely related and bound together. Actors include the firm, its customers (buyers) and suppliers (sellers), which develop and maintain relationships with each other (Freeman and Sandwell, 2008; Håkansson and Johanson, 1993; Pinho,

2007). Markets are structured as networks, in which a firm depends upon its connected actors and their interactions. The firm's foreign market entry is affected by internal entry forces including network knowledge, connected relationships and network internationalization, and external entry forces including conflicting interests, visibility of the firm to the actors and activeness of the external factors (Blankenburg, 1995; Freeman and Sandwell, 2008).

According to Sharma and Blomstermo (2003), inter-firm ties in a network help the firm accumulate knowledge. Network inter-firm ties are firm specific and difficult to imitate. These ties enable the firm to gain information about market conditions. In addition, central firms in a network receive more, better and early knowledge compared to their rivals. As Chetty and Eriksson (2002) stated, the knowledge developed within a relationship with a partner is unique, as it is formed by information transferred through connected relationships. As networks provide access to various sources of information, they offer more learning opportunities than relying on internal knowledge. To turn experiences into helpful market knowledge, a firm should have absorptive capacity, which enables the firm to recognize the value of external information, absorb it and apply it in business operations. By learning, a firm can use its prior knowledge and develop creative ideas (Cohen and Levinthal, 1990; Eriksson and Chetty, 2003).

Based on the networks theory, the market-specific experiential knowledge used by firms is the knowledge of the local network of business relationships in a market. These networks are often target market networks but when firms enter into foreign markets, they use domestic and international network relationships to develop a target market. Therefore, networking with home country suppliers and business partners may be crucial for the firm's ability for foreign expansion. Firms that enter various target markets can accumulate more international experiential knowledge, find this knowledge more useful and experience a better performance (Blomstermo *et al.*, 2004).

The networks theory has inverted the social exchange view on social networks to business networks (Chetty and Eriksson, 2002). The social exchange theory considers exchange relations as a dynamic process, and then, it helps to understand buyer-seller relationships (Cook and Emerson, 1978; Emerson, 1972). Business networks are a set of two or more connected business relationships in which each exchange relation is between business firms that are viewed as collective actors (Axelsson and Easton, 1992; Chetty and Eriksson, 2002; Emerson, 1981). In addition, service providers should use collaborative relationship as their core strategy (Freeman *et al.*, 2007).

According to Hutchinson *et al.* (2006), social and business networks are a means for international expansion. They can overcome internal resource deficiencies and help firms to access knowledge and experience not present within the firm. Actually, firms interact with international network actors and develop relationships in order to exploit their own resources and take advantage of other firms' resources (Laanti *et al.*, 2007). Furthermore, as new firms suffer from both the liability of newness and the liability of smallness, which result in limited access to resources required for growth and survival, network relations help entrepreneurs conquer these liabilities (Kiss and Danis, 2008).

Networking is made by both informal and formal contacts in the home country and target markets. It includes a range of relations from friendship and family links overseas to contacts with other firms and government agencies (see Coviello *et al.*, 1998; Hutchinson *et al.*, 2006; Sydow *et al.*, 2010). Malhotra *et al.* (2003) considered business networks as formal and social networks as informal networks. In networking, both downstream and upstream contacts are important (Hutchinson *et al.*, 2006; Koch, 2001b). When a firm becomes a member of a network, its business opportunities arise (Sasi and Arenius, 2008). Although network exchanges require long-term relationships, industrial networks are both stable and changing (Salmi, 2000). The relationships in networks are developed in an evolutionary three phase pattern in which a firm moves

slowly and progressively from the childhood stage to the growth and maturity stages (Zineldin, 1995, 2002). In this dynamic process, any relationship starts with recognizing the need for a relationship and ends with satisfaction or failure (Zineldin, 2007).

According to Elg *et al.* (2008), the networks approach focuses on business relationships with other firms. However, researchers have extended the networks to include political actors and government links (see Ahmad, 2008; Ghauri *et al.*, 2005; Hadjikhani and Ghauri, 2001). Managers should respond to the political environment, firm-state interdependencies, industrial structures and lobbying activities of MNCs. Therefore, relationships with socio-political players are vital in the internationalization process and the development of market position. To obtain approval and support from the political actors, such as local government, trade unions and suppliers, a firm should adapt its activities with their requirements (Elg *et al.*, 2008).

Pananond (2007) described two approaches regarding the importance of networking for Asian MNCs. First, the sociological or cultural view suggested that business networks in Asian societies, particularly between the Chinese, rely on cultural attributes that dominate personal relationships, which are a competitive advantage and reduce transaction costs. The second approach views network relationships between Asian firms as a response to the underdeveloped institutional setting of Asian countries, which forces firms to rely on networking in order to compensate for the insufficient or weak institutional intermediaries. In addition, MNCs from the Asian countries that industrialized after World War II have to develop additional skills to compensate for their lack of proprietary technology. Therefore, networking enables them to utilize the technology and assets of their partners and compete better in foreign markets.

Despite its empirical support, the networks theory has been criticized by researchers. According to Malhotra *et al.* (2003), the networks theory does not offer a predictive model, and the network relations are naturally ad hoc and unplanned. In

addition, the qualitative methodology used in this approach is not able to test the theory. This theory does not explain the internationalization process of the firms that have no network relationships or show how a firm can recognize network contacts. According to O'Farrell *et al.* (1998), network relationships are a semi-permanent system based on structured interdependence. However, in some industries such relations only survive for a few exchanges. The relationships in business networks are not always stable and if a firm enters into turbulent business networks, it will face uncertainty (Salmi, 2000). Hadley and Wilson (2003) argued that sometimes firms imitate the internationalization strategies of other firms without direct communication with them.

2.3.5 Internalization Theory

Buckley and Casson (1976) initiated the internalization theory to explain the growth of American MNCs after World War II. They viewed MNCs as internalized collections of resources that are allocated between product groups and national markets. Firms select optimal structures by evaluating the costs related to each stage of production in order to minimize costs. The internalization theory focuses on the relative costs and benefits of collaboration, based on the type of knowledge that is transferred between partners (Chen and Mujtaba, 2007). If firms consider any transaction as a risk that causes significant resource commitment, they will internalize it (Freeman *et al.*, 2007). In fact, MNCs internalize their foreign markets for transitional products, such as firm-specific knowledge, if the cost of internalization is less than the exporting or contractual agreements (Buckley and Casson, 1976; Kumar and Subramaniam, 1997). Other factors that influence the internalization decision of firms include the access to capital markets and the assimilation of assets under acquisition (Chen and Hennart, 2002; Hennart, 1986; Hennart and Park, 1993).

The internalization theory has roots in the theory of the nature of the firm offered by Coase (1937), which used an argument about the internalization of external

transactions to explain the nature, existence and growth of firms. He suggested that the existence of firms is related to the transaction costs of using the price mechanism. Such costs arise in connection with determining property rights, negotiating, monitoring and enforcing contracts (Doherty, 1999; Ekeledo and Sivakumar, 2004). According to Quer *et al.* (2007), the internalization theory is the most significant application of transaction cost economics (TCE). Therefore, some researchers use the terms internalization theory and transaction costs theory interchangeably (see Cumberland, 2006; Doherty, 1999; Ekeledo and Sivakumar, 2004; Slangen and Hennart, 2007).

Based on the internalization theory, markets are naturally imperfect. MNCs avoid the market imperfections in host countries by internalizing business processes relating to tacit knowhow, perishable goods, intermediate products and raw materials. However, Internalization reduces economies of scale and results in the problems of cross-border communication and the restrictions made by host governments (Doherty, 1999; Fisch, 2008). The internalization theory focuses on the intermediate markets of technology and knowledge. Therefore, when markets for intermediate inputs face high transaction costs, FDI or hierarchical coordination will be more efficient (Doherty, 1999; Hennart, 1996; Slangen and Hennart, 2007). In fact, MNCs are formed when markets are internalized across national boundaries (Buckley and Casson, 1993; Doherty, 1999).

Buckley and Casson (1976) stated that internalizing an imperfect external market has five general advantages: First, coordination of a multistage process that includes time delays but lacks future markets. Second, discriminatory pricing in internal markets allows the efficient use of market power. Third, internalization or the bilateral concentration of market power reduces instability. Fourth, buyer uncertainty or the inequality of knowledge between the buyer and seller is removed. Fifth, tax liability on international transactions is reduced by internal transfer pricing. Firms have to compare these points with the cost of internalization including higher resource costs, increasing

communication costs in internal markets, political problems of foreignness and the costs of managing complex multi-plant multicurrency operations. When internalization costs exceed its benefits, market solutions such as licensing or outsourcing are preferred by firms (Buckley, 2009).

According to Buckley and Casson (1998), when a firm enters foreign markets, it will face additional costs of market entry including marketing costs required for obtaining market knowledge, adaptation costs required for adapting the product to the preferences in new markets, and the costs of building trust in newly acquired production or distribution facilities in foreign markets. In the case of exporting, the firm bears additional costs such as transportation costs and tariffs. Furthermore, the transfer of technology through the external market by licensing or contracts may cause higher costs than what is required for internalization (Görg, 2000). In an imperfect market, resources held by different firms are brought together, and then, transaction costs increase either for the firm's control or for balancing assets in the host countries. Therefore, transaction costs in developing countries are high (Meyer and Estrin, 2001).

The internalization theory considers low control entry modes, such as licensing, as the default mode of operations in foreign markets. Firms prefer FDI and build up facilities abroad only when the transaction costs related to exporting or collaboration in the market are higher than the costs associated with internal transactions (Buckley and Casson, 1976; Burgel and Murray, 1998; Ekeledo and Sivakumar, 2004). In addition, firms only participate in FDI projects if the expected performance is higher than that of domestic investment (Verbeke and Brugman, 2009). Firms select the host countries that provide lowest costs for their operations and let them grow by internalizing markets and integrating their independent activities to increase their benefits (see Buckley, 1988; O'Farrell *et al.*, 1998; Tahir and Larimo, 2006). Based on the economic models of Hirsch (1976), firms should decide where to locate their operations, marketing and

R&D activities. They should also decide which activities to internalize or externalize in order to minimize the costs. Such decisions depend on the costs of knowledge transfer and the ratio of fixed costs to variable costs (Buckley and Hashai, 2005; Hashai, 2009).

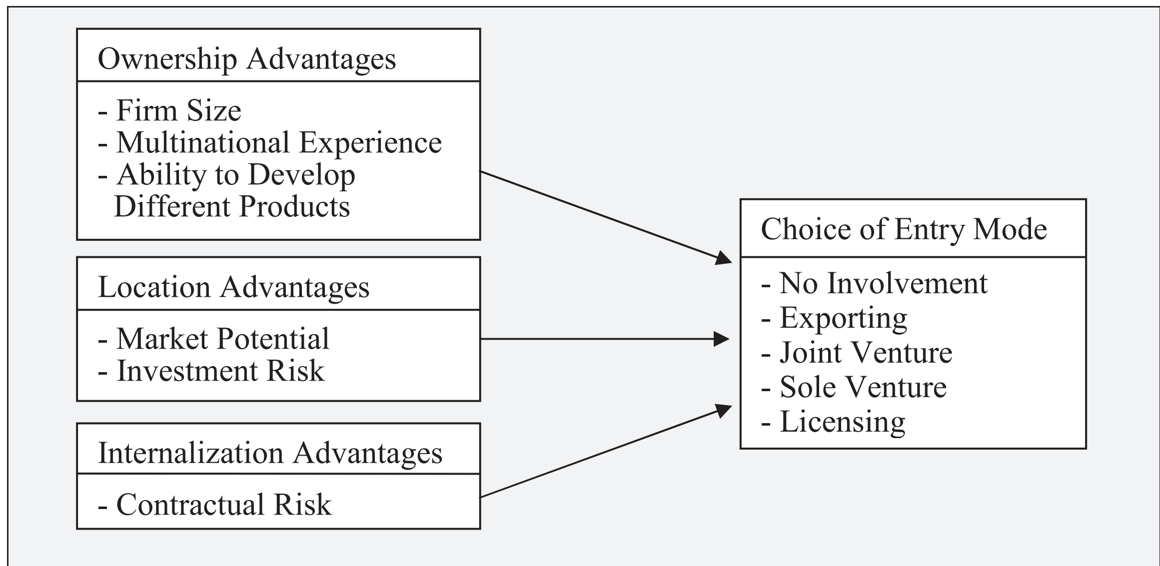
The internalization theory has been criticized, as its cost minimization focus is restrictive because it does not include firms motivated for entry to enhance their capabilities. In other words, it only discusses the situation in which firms enter foreign countries to seek new markets or gain access to a specific market (Görg, 2000; Sharma and Erramilli, 2004). This theory does not explain the effect of the location advantages on the choice of entry mode. Furthermore, it assumes that competition in the host country involves a monopolistic firm with inferior technology and inactive in dealing with the entrant while the dynamic nature of competition in today's markets is different (Sharma and Erramilli, 2004). The internalization theory does not explain the uncertainty caused by the behaviour of local partners (Fisch, 2008). It also ignores the role of networks in the internationalization process of firms (Freeman *et al.*, 2007).

2.3.6 Eclectic Paradigm

Dunning (1977) introduced the eclectic paradigm about the location of economic activities. This theory was a further development on the internalization theory in order to overcome its weaknesses (Ekeledo and Sivakumar, 2004). The term 'eclectic' refers to the fact that his model embeds previous theoretical models, such as the localization advantages explained by Vernon (1966, 1974), the ownership advantages introduced by the theory of the growth of the firm (Penrose, 1959), the monopolistic advantage theory of Hymer (1960), and the transaction cost views of Buckley and Casson (1976) or the internalization theory (Vannoni, 1999; Zhao and Decker, 2004). Later, Dunning explained, modified and extended the eclectic paradigm (see Dunning, 1980, 1988, 1993a, 1995, 2000). In addition, he introduced an investment development path or IDP (see Dunning, 1981, 1986).

According to Figure 2.6, the eclectic paradigm suggests that a firm will decide to engage in FDI activities and exert control over its resources if it has three key advantages including ownership advantages (O), location advantages (L), and internalization advantages (I). Therefore, this theory is also known as the OLI model (Agarwal and Ramaswami, 1992; Choo and Mazzarol, 2001).

Figure 2.6: An Eclectic Model of Entry Mode Choice



Source: Agarwal and Ramaswami (1992); Choo and Mazzarol (2001)

In the OLI model, the ownership advantages show how the unique and sustainable resources of a firm, as competitive or monopolistic advantages, help it to compete with local firms in foreign markets. They include firm-specific resources and the market size and potential in the home country. If a firm can utilize its ownership advantages at the time of entry, it can achieve a superior market position although these assets are not all internationally transferable. The location advantages depend on the availability and cost of resources that should be committed by a firm in a foreign market as well as the entry barriers and risks exposed. If the market potential in a country is high and investment risks are low, a firm will have a profitable business. The internalization advantages show whether firms organize and coordinate their activities through the market or internalize them in the value added chain in order to reduce transaction costs. These advantages refer to relative market efficiency in managing exchanges and transferring

information. If contractual risks in the host country are high, firms prefer to exploit their ownership advantages internally through FDI rather than selling or licensing it (see Agarwal and Ramaswami, 1992; Axinn and Matthyssens, 2002; Buckley and Hashai, 2005; Canabal and White III, 2008; Choo and Mazzarol, 2001; Czinkota *et al.*, 2009; Dunning, 1977, 1980, 1988, 2000; Galán and González-Benito, 2001; Li *et al.*, 2005; Nakos and Brouthers, 2002; O'Farrell *et al.*, 1998; Park and Sternquist, 2008; Pinho, 2007; Quer *et al.*, 2007; Stoian and Filippaios, 2008; Tsang, 2005; Vannoni, 1999).

In the OLI model, the ownership advantages (O) explain who can locate its operations overseas, the location advantages (L) show where to locate the operations, and the internalization advantages (I) indicate why a firm chooses FDI rather than licensing its technology and brand (Stoian and Filippaios, 2008). Based on this model, if the home market has a location advantage over the target market, exporting is the favourite mode. If the host market has a location advantage, firms look at contractual risk. If the risk of contracts with local partners is high, FDI is the best mode. Otherwise, licensing is adopted (Sharma and Erramilli, 2004). Although all firms have access to the location advantages of a specific market, only firms that possess required ownership advantages can take advantage of such endowments (Nakos and Brouthers, 2002).

According to Dunning (1980), ownership, location and internalization advantages are interrelated and cannot determine the firm's decision for internalizing its operations alone. Therefore, FDI occurs when all three advantages work together (Galán and González-Benito, 2001; Hennart and Park, 1994). As Dunning (1977) suggested, FDI occurs when internalizing firm-specific assets is less risky for a firm than licensing or contracting its operations to local firms (see Andersson and Svensson, 1994). This means that if keeping an activity within a firm is profitable, internalization by FDI is preferred. The profitability of firms is estimated by trade-offs between ownership shares and risks (Cumberland, 2006).

According to Dunning (1980), if a firm has ownership advantages, it will exploit foreign market opportunities using its ownership advantages. However, its decision for internalization depends on market imperfection and price system. Market imperfections occur when transaction costs are high, a firm cannot completely utilize the economies of scale and when obtaining product information is difficult and costly. For a firm that buys supplies for its operations, market imperfections include uncertainty over the availability of resources, their prices and the ability to control their timing and delivery while for a supplier firm, imperfections happen when it has to follow market price, bear the cost of implementing property rights and controlling information flows, and protect its reputation by controlling products or service quality, or offering after sales services. In addition, government policies towards FDI, licensing of technology, copyright rules, currency exchange and tax can affect the entry mode choice (Dunning, 1980, 1988).

The OLI model assumes that MNCs operate generally in technology-intensive industries. The pattern of FDI made by MNCs depends on their home country, where they obtain their ownership advantages (Buckley *et al.*, 2007). MNCs should respond to imperfect foreign markets for intermediate products, such as information, technology and management capabilities, and create them. By internalizing such imperfect markets, MNCs supply the host countries with resources and capabilities, which otherwise they could not obtain, or could only gain at a higher cost (Dunning and Rugman, 1985).

As Petrou (2007) stated, market imperfection is a basic assumption in the eclectic paradigm because if a firm operates in a perfect market, it will not be motivated for FDI, as it does not own any competitive advantage. When the market is imperfect, it will never achieve full efficiency (Tsai and Cheng, 2002). In addition, the entry mode choice of MNCs depends on their motives of entry. Firms enter foreign markets in order to seek markets, resources, strategic assets or efficiency. In each case, there are different scenarios based on the firm’s advantages (Dunning, 1988, 1993c, 2001).

In the eclectic paradigm, the unit of analysis is the MNC and its behaviour in the choice of entry mode (Cumberland, 2006). This theory provides a rational choice based on the transaction costs analysis (Whitelock, 2002). In this paradigm, location-specific assets are important, as firms tend to invest in the countries that have a comparative advantage in a specific industry or provide required resources more efficiently (Dunning *et al.*, 2007; Hill *et al.*, 1990; Pan and Tse, 2000; Tahir and Larimo, 2004; Vannoni, 1999). However, firm-specific and market-specific factors together may affect the perceived risk and return on investment (ROI) as well as the level of resource commitment made by firms and their need to control their ventures (Nakos and Brouthers, 2002).

According to Dunning *et al.* (2007), firms choose target markets that have a high market demand, supply raw materials and resources, and provide learning and innovation capability for firms (Dunning *et al.*, 2007). However, such markets can also be a potential source of the opportunistic behaviour of management (Forssbæck and Oxelheim, 2008). Agarwal and Ramaswami (1992) found that in countries that have a low market potential, larger and more multinational firms will prefer wholly owned subsidiary and joint venture to other entry modes; in countries with high market potential, smaller and less multinational firms avoid joint venture to reduce costs and risks; in countries with high contractual risks, firms with high ability to develop differentiated products prefer FDI to exporting; and in countries with high market potential and high investment risks, firms prefer exporting to FDI.

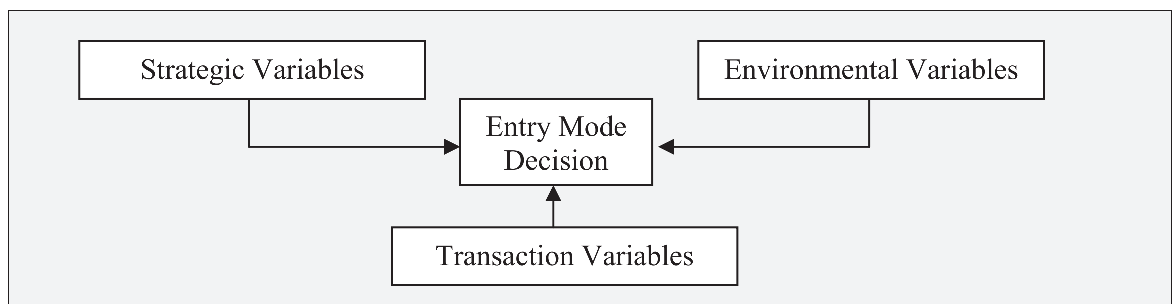
Dunning (1995, 1998, and 2000) tried to reconfigure the eclectic paradigm based on the technological and political changes that took place in the 1990s. He modified his theory by considering the partners' capabilities, spatial integration between locations, and cooperative structures. In the modified approach, a broader concept of ownership advantages offered that goes beyond the firm's boundaries, the location advantages

include the success factors of strategic alliances, knowledge accumulation capability, innovation, technological standards and the role of trading blocs, and the internalization advantages exceed transaction costs and consider dynamic objectives, such as strategic asset seeking or efficiency seeking (Malhotra *et al.*, 2003; Sharma and Erramilli, 2004; Zhao and Decker, 2004).

Other researchers also modified the eclectic paradigm. Guisinger (2001) offered the OLMA model as a revision of the traditional OLI model. In this model, he added the mode of entry (M) that is chosen by firms and adaptation (A), as firms should adapt their operations to the international business environment (Stoian and Filippaios, 2008). Some studies extended the OLI model to the international strategies of SMEs (see Brouthers *et al.*, 1996; Choo and Mazzarol, 2001; Nakos and Brouthers, 2002; Pinho, 2007). Petrou (2007) compared the application of this theory by MNCs from developed and developing countries.

As Figure 2.7 shows, Hill *et al.* (1990) proposed a new eclectic framework, which consists of strategic factors that refer to the level of control required by a firm, environmental factors that influence the resource commitment in foreign markets, and transaction factors that determine the risks exposed to a firm. They also argued that the internationalization of firms depends on their strategic views, i.e. global strategy using integration and centralization versus multi-domestic strategy based on customization and decentralization (see Chen and Mujtaba, 2007; Gannon, 1993; Hill *et al.*, 1990).

Figure 2.7: A Decision Framework for the Choice of Entry Mode



Source: Gannon (1993)

The eclectic paradigm has found empirical support to some extent. However, it is criticized because it cannot present an integrated view in the justification and prediction of entry mode choice. It does not show why two firms in the same business and with similar ownership, internalization and location advantages do not necessarily adopt the same entry mode in the same foreign market. In addition, this theory only predicts FDI if there is market failure, however, firms may form alliances (joint ventures) to improve their competitive advantage or competitive position (Ekeledo and Sivakumar, 2004).

The eclectic paradigm emphasizes static market failure and does not provide a dynamic model. It is also rooted in traditional hierarchy capitalism and is not valid in the alliance capitalism that is dominant in the world economy today (Li, 2007; Li *et al.*, 2005). In addition, this static model cannot reflect the issues relating to strategic factors, situational contingency and competitive forces (Ahmad and Kitchen, 2008; Zhao and Decker, 2004). This theory uses four decision criteria including risk, return, control and resources that make the choice of entry mode complicated and difficult (Andersen, 1997; Malhotra *et al.*, 2003). The focus of this theory on location advantages has been criticized, especially as it may confuse the relationship between market selection and the choice of entry mode (Malhotra *et al.*, 2003; Pan and Tse, 2000).

The OLI model is based on the experiences of large MNCs from developed countries that are early movers and can easily access resources required for international expansion. However, the born-global international new ventures (INVs) or the emerging multinationals (EMNCs) are latecomers and have less capabilities. Therefore, they go abroad to gain resources and build advantages (Aykut and Goldstein, 2008; Li, 2007). This theory neglects the role of host country in providing financial capital for FDI (Forssbæck and Oxelheim, 2008). It also ignores the role of home country factors, networking, managerial characteristics and the nature of products in internationalization (Ekeledo and Sivakumar, 2004; Pinho, 2007; Rutashobya and Jaensson, 2004).

2.3.7 Transaction Cost Theory

The transaction cost (TC) theory or transaction cost analysis (TCA) model was introduced by Anderson and Gatignon (1986). They tried to explain why a firm decides to own and operate a production line or service system in a foreign market rather than licensing its operation technology or signing contracts with local firms (Ekeledo and Sivakumar, 2004). They applied the theory of a firm's nature offered by Coase (1937) and the theory of market and hierarchies suggested by Williamson (1975) to the entry mode choice of US firms (Sharma and Erramilli, 2004).

The TC model is a further extension of the internalization theory, and due to their common ideas concerning the role of transaction costs in the internalization of business activities, these two views are sometimes considered as one theory (Burgel and Murray, 1998; Cumberland, 2006; Doherty, 1999; Ekeledo and Sivakumar, 2004; Shrader, 2001; Slangen and Hennart, 2007). In addition, some researchers consider Williamson (1975, 1985) as the founder of the transaction cost theory because he contributed to the transaction cost economics (TCE) approach and the vertical integration of firms (see Domke-Damonte, 2000; Reiner *et al.*, 2008; Rutashobya and Jaensson, 2004; Shrader, 2001; Slangen and Hennart, 2007; Zhao and Decker, 2004).

In the TC theory, the unit of analysis is the transaction cost (Cumberland, 2006). Forming contracts depends on the costs related to market transactions. Such transaction costs include the costs related to negotiating for making a contract, monitoring the performance of business partners and implementing a contract (Baek, 2003; Brouthers, 2002; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Gannon, 1993; Malhotra *et al.*, 2003; Pan and Tse, 2000; Williamson, 1985). Firms may bear other transaction costs to detect and stop the opportunistic behaviour of their partners (Baek, 2003).

Firms compare transaction costs with the costs of integrating operations within the firm resulting in internalizing foreign operations. Based on this comparison, they

can choose an appropriate governance structure that can be market governance in which transactions occur in the open market, or hierarchy governance in which transactions take place within a firm, or a hybrid form of both ((Brouthers, 2002; Malhotra *et al.*, 2003; Williamson, 1985; Zacharakis, 1997). Williamson (1981) stated that contracts are put into effect by the control system, which minimizes transaction costs and maximizes efficiency (Ekeledo and Sivakumar, 2004). Therefore, in the TC analysis, efficiency is the primary rationale for the choice of entry mode (Gannon, 1993).

The transaction cost theory supposes that in the market, competition is perfect, firms are harmonized, and resources can be transferred among firms, especially if there is perfect mobility of knowledge between the parent company and its foreign affiliates (Ekeledo and Sivakumar, 2004). In a fully competitive market, transactions will be regulated by price mechanisms. In such a market, people usually are opportunist, rationality is limited and information is unevenly shared among all business firms (Cheng, 2006; Tsai and Cheng, 2002; Williamson, 1975; Zacharakis, 1997).

Anderson and Gatignon (1986) considered the degree of control as the decision criterion and defined it as the need of firms to have authority over systems, methods and decisions made by their affiliates in foreign markets. They divided entry modes into high control modes including wholly owned subsidiaries and majority joint venture versus low control modes including licensing and minority joint ventures. To choose a suitable mode of entry, firms use a trade-off between control and resource commitment (Cumberland, 2006; Domke-Damonte, 2000; Kwon and Konopa, 1993; Malhotra *et al.*, 2003; Palenzuela and Bobillo, 1999; Sharma and Erramilli, 2004). High control modes require higher resource commitment in foreign markets, which increases uncertainty. However, they can provide greater integration for firms (Blomstermo *et al.*, 2006). Anderson and Coughlan (1987) regarded exporting through sales subsidiary as a high control mode and exporting through local agents as a low control mode.

Based on the TC theory, the default mode of operation in foreign markets is low control or market-based modes, which help firms benefit from the economies of scale of target markets. However, when transaction costs and agency conflicts in a target market are high, contractual risk increases and high control modes are preferred (Baek, 2003; Brouthers, 2002; Dunning, 1977; Ekeledo and Sivakumar, 2004; Williamson, 1985). Transaction costs increase due to the complexity in estimating all contingencies in the agreement or the failure to receive a reasonable price due to problems with information asymmetry (Williamson, 1985). Such conditions mostly occur in high-tech industries in which buyers and sellers have different level of information (Burgel and Murray, 1998).

In a competitive market, firms collaborate with each other in order to minimize costs, increase efficiency in their foreign operations and achieve a better performance (Canabal and White III, 2008; Chen and Mujtaba, 2007; Hennart, 1989; Whitelock, 2002; Williamson, 1985). Then, if competition intensity in a market is high, firms will favour entry modes that require less resource commitment because profitability is low (Chen and Mujtaba, 2007). They may also collaborate to acquire complementary assets (Cheng, 2006; Lu, 2002). In contrast, in imperfect markets, firms tend towards FDI, which requires higher resource commitment and greater control (Morschett, 2006; Reiner *et al.*, 2008; Tsang, 2005). If firms face market failure and the opportunistic behaviour of partners, they will favour internalization (Palenzuela and Bobillo, 1999).

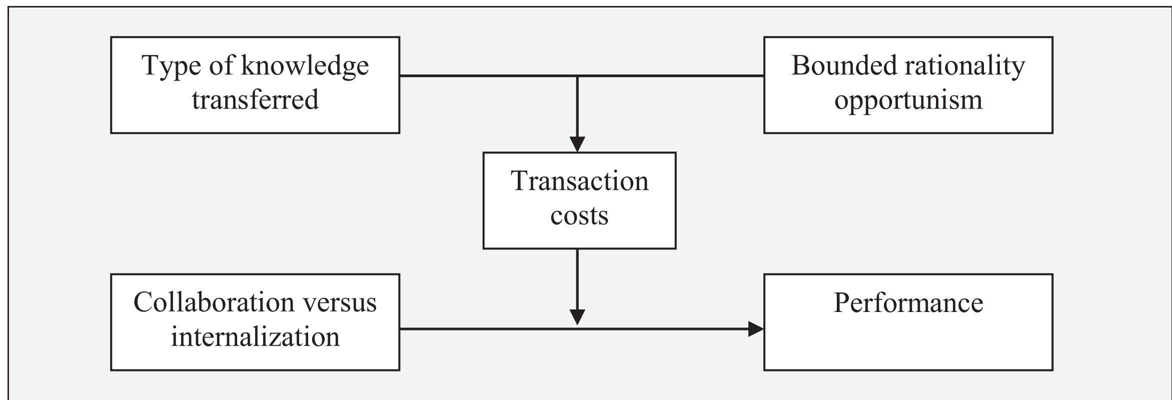
The transaction theory suggests that transaction costs and control costs are increased by asset specificity, behavioural uncertainty and environmental uncertainty. Firms with high asset specificity rely on their transaction-specific assets, i.e. physical and human resources. Therefore, they face higher transaction costs. When internal or behavioural uncertainty is high, transaction costs will increase due to the opportunistic behaviour of partners. External or environmental uncertainty relates to the perceived country risk due to macroeconomic instability, government restrictions, socio-cultural

distance and political changes (Anderson and Gatignon, 1986; Baek, 2003; Benito and Welsh, 1994; Brouthers, 2002; Brouthers and Brouthers, 2003; Brouthers and Nakos, 2004; Erramilli and Rao, 1993; Morschett, 2006; Richards and Yang, 2007; Rutashobya and Jaensson, 2004; Williamson, 1985; Zhao and Decker, 2004).

According to Malhotra *et al.* (2003), asset specificity causes protection costs, behavioural uncertainty results in performance costs and environmental uncertainty causes adaptation costs. If these costs exceed the production cost advantages in a target market, high control modes are preferred. Otherwise, contracting is appropriate. Firms with high asset specificity favour wholly owned subsidiaries to receive higher returns and experience more efficiency. If the costs of integration business activities are high, firms with less asset specificity prefer joint venture. When behavioural uncertainty is high, firms prefer FDI to licensing. This helps them to reduce the risk of partnership. If environmental uncertainty is high, investment risks increase and make licensing more profitable or less risky (Anderson and Gatignon, 1986; Baek, 2003; Brouthers, 2002; Brouthers and Nakos, 2004; Cumberland, 2006).

Erramilli and Rao (1993) modified the TC theory to apply it in service industries. Hill *et al.* (1990) added strategic, environmental and transaction cost variables to their TC model and argued that control is not enough as a decision criterion while resource commitment and dissemination risk should be considered (Benito and Welsh, 1994). Shrader (2001) studied the effect of collaboration on the performance of high-tech industries. As Figure 2.8 shows, MNCs transfer their technological knowledge to their local partners whereas the local firms provide MNCs with market knowledge. However, bounded rationality makes the transfer of knowledge difficult. In addition, contracts fail to protect this knowledge and prevent opportunism. Hence, transaction costs increase and the performance and efficiency of collaboration decrease. Consequently, firms prefer to internalize their activities (Shrader, 2001; Slangen and Hennart, 2007).

Figure 2.8: The Effects of Transaction Costs on Collaboration Performance



Source: Shrader (2001)

The TC model has been widely applied in the literature of internationalization (Erramilli and Rao, 1993; Malhotra *et al.*, 2003; Taylor *et al.*, 2000; Zacharakis, 1997). However, this theory has been criticized, as it does not provide a dynamic approach to the entry mode choice (Benito and Welsh, 1994; Cumberland, 2006). It is not able to justify the choice of entry mode in the new global business setting. It cannot compare FDI with exporting effectively (Ekeledo and Sivakumar (2004). The TC model is only effective in the choice between dichotomous entry modes (Gatignon and Anderson 1988; Erramilli and Rao 1993; Globerman and Nielsen, 2007). This theory is relevant only when transaction costs are high (Erramilli and Rao 1993; Morschett, 2006). Furthermore, it may not result in increasing firm performance (Brouthers, 2002).

Taylor *et al.* (2000) believe that the TC model is only applicable in developed western countries. In this theory, the only purpose of entry mode is profit maximization (Zhao and Decker, 2004). Focusing on minimizing transaction costs alone is not enough to explain an optimal entry mode choice (Chen and Mujtaba, 2007; Florin and Ogbuehi, 2004). In addition, integration incentives are not always related to the reduction of transaction costs. Therefore, this model should consider non-TC factors, such as global integration, market power, the evasion of conflict with local partners, mutual trust and respect (Andersen, 1997; Erramilli and Rao, 1993; Globerman and Nielsen, 2007; Hill *et al.*, 1990; Malhotra *et al.*, 2003; Morschett, 2006; Zhao and Decker, 2004).

2.3.8 Resource-based View

Wernerfelt (1984) and Barney (1986, 1991) initiated the resource-based view of the firm (RBV) based on the fundamental ideas of Penrose (1959) in the theory of the growth of the firm and Rubin (1973) in the theory of expansion of firms. The RBV believes that the firm can compete and achieve its long-term goals if it has enough resources and uses them effectively (Sharma and Erramilli, 2004). The RBV originated from the monopolistic advantage theory of Hymer (1960) in which the resources and capabilities of firms help them overcome the primary costs of competing in foreign markets. Therefore, internationalization is the result of firms' resources and capabilities that are not equally distributed across business firms within an industry. Each firm has its unique assets, which are called firm-specific resources (Burgel and Murray, 1998; Carpano *et al.*, 2003). Therefore, some firms can benefit from the Ricardian rents, i.e. economic rents caused by limited resources (Fahy, 2002).

Although Porter (1980) believed that competitive forces related to the industry structure are the key factors for a firm's success, the resource-based view insists on the role of firm-specific resources (Galbreath and Galvin, 2008). This theory suggests that a firm's success in the market depends not only on the environmental factors but also on the firm's influence on the environment (Barney, 1991; Conner, 1991; Ekeledo and Sivakumar, 2004; Forlani *et al.*, 2008). In other words, a firm's competitive advantage is the result of the heterogeneity of firm-specific resources and utilizing them not the outcome of different industry factors (Almor and Hashai, 2004).

According to the RBV, every firm is the source of competitive advantage, which is caused by its valuable internal resources including assets and capabilities (Barney, 1991; Camisón and Villar, 2009; Cheng, 2006; Ekeledo and Sivakumar, 2004). These firm-specific resources can be tangible, such as physical assets, financial resources and labour force, or intangible, such as technology, knowledge, business experience, brand

name, reputation and organizational culture (Camisón and Villar, 2009; Carpano *et al.*, 2003; Ekeledo and Sivakumar, 2004; Knott, 2009; Sharma and Erramilli, 2004; Wernerfelt, 1984). A firm's resources can also be divided into physical capital, human capital and organizational capital (Barney, 1991; Carpano *et al.*, 2003; Wilson and Amine, 2009). These resources are used by firms in the process of production and distribution in order to create efficiency and compound skills (Barney, 1991; Camisón and Villar, 2009; Ekeledo and Sivakumar, 2004; Grant, 1991).

Firms create their competitive advantages in their home country and transfer it to the host countries through internationalization. The level of international expansion determines the cross-border transfer of assets, the competitive advantage of the firm and its knowledge about foreign markets (Camisón and Villar, 2009). The ability of a firm to create competitive advantage in a foreign market depends on to what extent the firm can transfer its valuable resources to that market and utilize them with efficiency and effectiveness (Sharma and Erramilli, 2004). Therefore, a firm needs knowledge and information in order to deploy its resources (Knott, 2009; Prahalad and Hamel, 1990).

A firm has a set of interconnected tangible and intangible resources that generate organizational capabilities, which explain the firm's ability to carry out a specific task and increase the efficiency of its operations and customer value (Almor and Hashai, 2004; Barney, 1986, 1991; Camisón and Villar, 2009; Cheng, 2006; Claver and Quer, 2005; Grant, 1991, 1996; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984). Capabilities help the firm to transform its resources into products or services. Capabilities are intangible but are different from intangible assets because they require tacit knowledge and skills whereas resources comprise explicit knowledge. Resources are independent from the individuals and firms that possess them while capabilities relate to individuals and firms. Furthermore, intangible resources are usually under legal protection whereas it is difficult to protect capabilities (Camisón and Villar, 2009).

In the resource-based theory, the unit of analysis is the firm and the focus is on its resources. The criteria for decision making is the trade-off between value and cost, which means that a firm that possesses valuable resources can bear the costs of internalization and avoid the high costs of transaction (Cumberland, 2006; Sharma and Erramilli, 2004). Therefore, a firm's capability and valuable assets bring cost efficiency for the firm. In fact, firm-specific resources determine the business strategy of firms. Firms with valuable resources tend towards diversification. They enter target markets, where resource demands match their resource capacity (Cumberland, 2006).

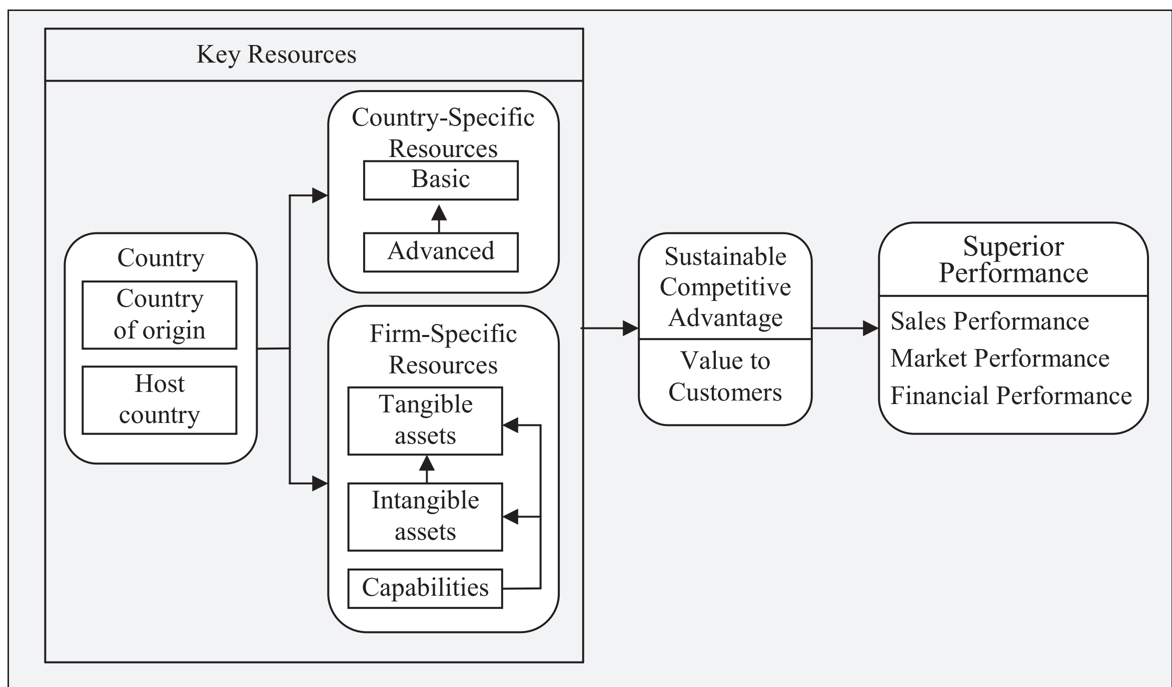
A firm can gain a sustainable competitive advantage if it owns an advanced combination of internal resources compared to its rivals that create superior capabilities and distinctive competencies. These resources should be valuable, durable, unique and complicated, and firms cannot transfer or duplicate them (Almor and Hashai, 2004; Barney, 1986, 1991; Camisón and Villar, 2009; Carpano *et al.*, 2003; Cheng, 2006; Claver and Quer, 2005; Collis, 1991; Cumberland, 2006; Ekeledo and Sivakumar, 2004; Grant, 1991, 1996; Fahy, 2002; Fredericks, 2005; Penrose, 1959; Peteraf, 1993; Prahalad and Hamel, 1990; Sharma and Erramilli, 2004; Trevino and Grosse, 2002; Wernerfelt, 1984; Wilson and Amine, 2009). However, resources may differ in terms of asset specificity, opacity, complexity and tacitness (Meschi and Metais, 2006).

To make competitive advantage sustainable, firms should have dynamic capabilities and should be able to adapt and reconfigure its resources and capabilities to discover market opportunities and respond quickly to environmental changes (Camisón and Villar, 2009; Knott, 2009; Teece *et al.*, 1997). The RBV focuses on innovation as a way to achieve and sustain competitive advantage. Consequently, firms need to invest in their R&D programmes (Trevino and Grosse, 2002). In addition, firms need an interaction between systemic knowledge, innovation and external information networks (Johannessen and Olsen, 2009). A firm with a sustainable competitive advantage may

accomplish superior performance in terms of factors, such as market share, profitability or marketing capabilities (Fahy, 2002; Wilson and Amine, 2009). Such a firm can maximize its profits and returns in the long term (Conner, 1991; Sharma and Erramilli, 2004; Wernerfelt, 1984).

As figure 2.9 indicates, Fahy (2002) offered a model of sustainable competitive advantages in a global environment and explained that these resources are accessible in both home and host countries, and include firm-specific resources and country-specific resources. They can be basic resources, such as raw materials, or advanced resources, such as technology. Therefore, if a firm operates in a global environment, it will have access to a pool of various resources.

Figure 2.9: A Resource-Based Model of Sustainable Competitive Advantage



Source: Fahy (2002)

According to the resource-based theory, firms select strategies that their resources can support. Strategic management reveals that a firm can compete satisfactorily when its resources match external opportunities (Ekeledo and Sivakumar, 2004). A firm can find many benefits if it can duplicate its original operations and transfer its specific resources to the host countries, where local markets lack such resources. Transferring

assets is an essential condition for a firm to succeed in a foreign market (Cheng, 2006; Sharma and Erramilli, 2004). When a firm decides to collaborate with local partners in a foreign market, it is necessary to be able to protect its valuable resources and technological capabilities by means of legal protection (Camisón and Villar, 2009).

In the resource-based view, FDI in the form of wholly owned subsidiary is the default mode of entry that is preferred by firms while in the transaction cost theory, shared-control mode, such as licensing, are the default mode (Cumberland, 2006; Ekeledo and Sivakumar, 2004; Forlani *et al.*, 2008). A firm with valuable resources and capabilities does not need to collaborate with local firms and, instead, it favours full ownership in foreign markets (Claver and Quer, 2005; Malhotra *et al.*, 2003). Empirical studies have supported this claim and suggested joint venture as the second preferred mode (Ekeledo and Sivakumar, 2004). Firms participate in alliances in order to access knowledge, obtain resources and complementary assets, minimize costs, and increase efficiency and effectiveness (Camisón and Villar, 2009; Ekeledo and Sivakumar, 2004; Malhotra *et al.*, 2003; Morschett, 2006; Sharma and Erramilli, 2004). However, alliances decrease the level of control exercised by a firm (Shimizu *et al.*, 2004).

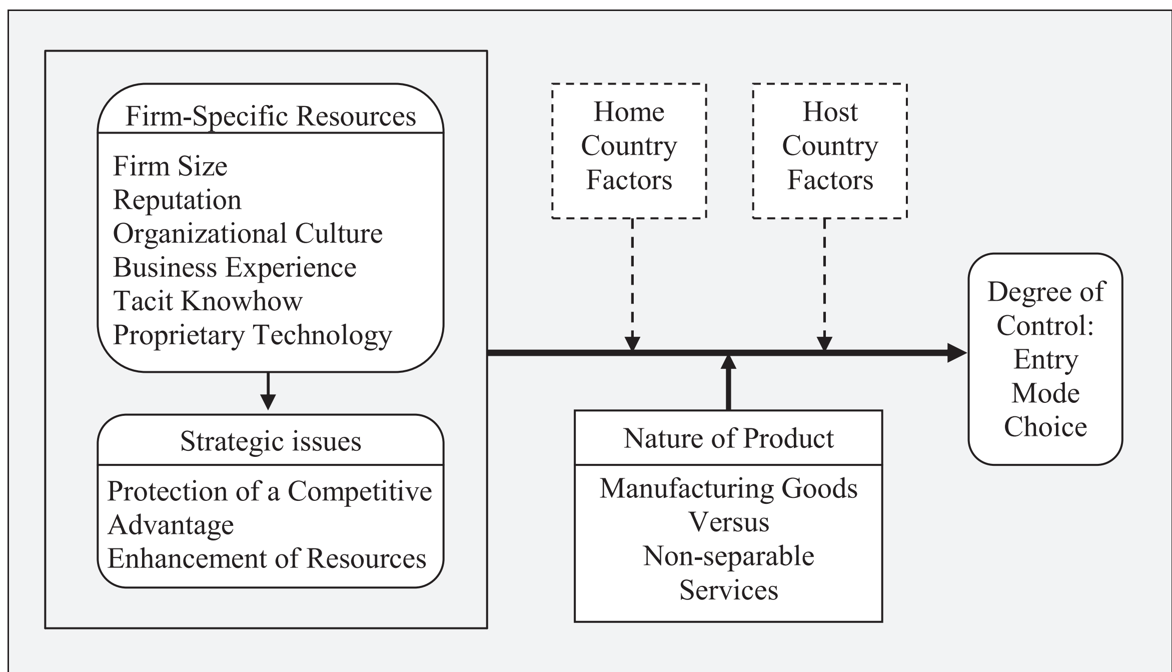
The resource-based view considers competition as a dynamic phenomenon while the eclectic paradigm and transaction cost theory assumed a static competition in the market. Based on the RBV, as firm's resources are heterogeneous and competitors can try to duplicate these resources and develop efficient alternatives, firms should always observe the actions of their rivals and partners (Sharma and Erramilli, 2004). To prevent the opportunistic behaviour of competitors, firms should build barriers by deploying unique and non-duplicable assets (Sharma and Erramilli, 2004; Wernerfelt, 1984).

Hunt and Morgan (1995) introduced a new version of the resource-based view – the resource advantage (RA) theory. The RA theory assumes that firms and consumers have imperfect and costly information, firms' objective is to achieve superior financial

performance, market demand is heterogeneous across and within industries, firm resources are heterogeneous and immobile, and the role of management is to create, select and implement strategies. Therefore, firms enter global markets to exploit their competitive advantage and superior financial performance (Hunt, 2002, 2010).

In the RBV, degree of control is a central point, based on which firms can assess entry modes. Firms like to control their foreign operations in order to enhance their competitive position and maximize earnings from their resources and capabilities (Chen and Mujtaba, 2007; Pehrsson, 2008). Ekeledo and Sivakumar (2004) offered a modified resource-based model shown in Figure 2.10. They divided entry modes into high control modes and low control modes. A high control mode or sole ownership requires the highest resource commitment. Based on this model, entry mode choice is determined by firm-specific resources and the strategic considerations, which originate from these resources and refer to marketing alternatives or limitations that a firm has to deal with because of the strength or weakness of its resources and capabilities. This model assumes that firms are different based on the nature of the product they offer.

Figure 2.10: Modified Resource-based Framework



Source: Ekeledo and Sivakumar (2004)

The resource-based theory assumes that manufacturing and hard service firms make different entry decisions from soft service firms due to the issue of separability of production and consumption. This means that in inseparable services, as the production and consumption of services are simultaneous, they require a close physical distance. Therefore, inseparable service firms need to provide a desired quality for their services that necessitates high control over their operations. Such firms usually favour a wholly owned subsidiary and if they decide to collaborate with local partners, they will franchise their operation to control the quality of services provided under their brand name (Ekeledo and Sivakumar, 2004).

The resource-based view has been criticized by researchers because it is static and does not explain how a specific resource can create sustainable competitive advantage while firms do not have enough knowledge about the productivity of each individual asset (Cumberland, 2006). In addition, the concept of firm-specific resources is ambiguous and it is not easy to operationalize measures for them (Cumberland, 2006; Knott, 2009; Malhotra *et al.*, 2003). According to Knott (2009), the RBV is only useful if it can recognize resources that can generate competitive advantage in future while many of the valuable resources develop during foreign operations. A firm may have some superior capabilities while it has other weaknesses (Almor and Hashai, 2004).

The resource-based view focuses on the heterogeneity of firm resources within an industry and does not consider the role of the institutional context in which a firm operates (Carpano *et al.*, 2003). This theory suggests that firm-specific resources determine firm performance while researchers found a stronger effect from industry factors (Galbreath and Galvin, 2008). This theory should consider the effect of strategic considerations on the choice of entry mode (Ekeledo and Sivakumar, 2004; Morschett, 2006; Pehrsson, 2008). It also ignored the role of network relationships as a source of competitive advantage, especially for SMEs (Rutashobya and Jaensson, 2004).

2.3.9 Contingency Theory

The literature of internationalization has offered different models for the choice of entry mode. Nevertheless, these models were content-oriented and ignored the role of decision makers (Decker and Zhao, 2004). Therefore, in the early 1990s, researchers offered a contingency theory or business strategy approach (see Okoroafo, 1990, 1991; O'Farrell and Wood, 1994; Woodcock *et al.*, 1994). This theory originated in the contingency model of Fiedler (1967), who suggested that the leadership style depends on situational factors including leader-member relationships, task structure and leader position power. In the contingency theory, managers seek a satisfactory choice not an optimal one. They make decisions under organizational and environmental constraints (Cumberland, 2006). In this pragmatic view, firms adopt their expansion strategies by trade-offs between factors such as market attractiveness, firm-specific resources and management attitudes (Whitelock, 2002).

According to Rundh (2001), firms do not necessarily follow the stage models of internationalization but they may need to expand their activities into foreign markets at an early stage of their operations due to the limited domestic market. Then, decision makers choose the appropriate entry mode based on the firm's market position. Ekeledo and Sivakumar (1998) stated that there are three strategic views about decision-making: first, the situation-specific view, in which the firm's decisions are related to the unique situations it deals with; second, the universal view, in which the universal strategic laws are applicable to all firms and in all situations; and third, the contingency view, in which there is no universal optimal choice for all firms and situations but the optimal choice depends on organizational and environmental conditions.

In the contingency theory, the unit of analysis is the decision maker, which refers to the top managers of a firm who make the decision of expansion and the choice of entry mode. They try to make the decision task simpler, only consider a few variables,

use a hierarchical process, and decompose the problem into stable sub-systems and the environment into constant sub-systems (Cumberland, 2006). According to Cumberland (2006), the contingency theory believes that market selection and choice of entry mode are two interdependent strategic decisions. Market selection is influenced by market opportunities and risks while the choice of entry mode is the result of firm resources and market characteristics (Whitelock, 2002). In addition, the nature, depth and the types of modes of interaction between supplier and client influence the choice of entry mode (O'Farrell and Wood, 1994).

According to Beach and Mitchell (1978), strategic decision-making depends on the characteristics of decision makers, such as the knowledge of the available strategies, ability to execute the strategy successfully, and motivation for making a decision and select an appropriate strategy; and the characteristics of the decision task, which can be simple and well defined or complicated and ill-defined. A decision problem may be unfamiliar, ambiguous, complex or unstable. The decision environment can also affect the choice. Decisions are often irreversible and significant while decision makers are usually accountable for the results of their decisions (Cumberland, 2006; Kumar and Subramanian, 1997). Kumar and Subramanian (1997) divided strategies into two types including rational analytic strategy, in which managers make decision by considering all the alternatives, and cybernetic strategy, in which managers make judgments based on only a few significant alternatives at a time and use a hierarchical model. Contingency decision making usually follows a cybernetic strategy using limited options.

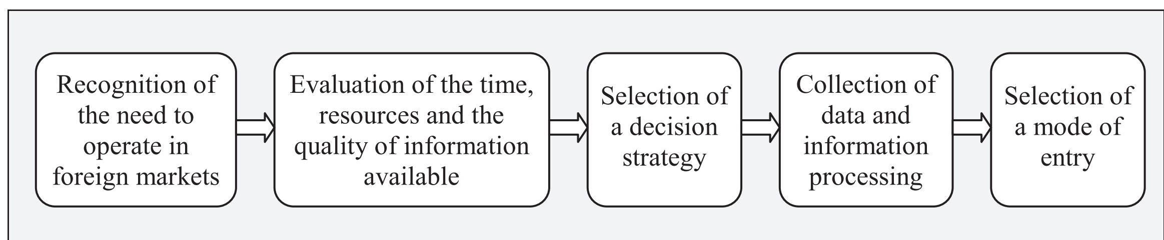
The contingency theory has used the eclectic paradigm as its basis for explaining the factors that influence the choice of entry mode (see Ekeledo and Sivakumar, 1998; O'Farrell and Wood, 1994; O'Farrell *et al.*, 1998; Woodcock *et al.*, 1994). This theory considers environmental factors, such as the political environment and cultural distance, as contingency variables that are not under a firm's control. Researchers also added

organizational factors, such as product differentiation, to contingency factors to provide a broader framework of factors affecting the firm's strategy (Ekeledo and Sivakumar, 1998). Woodcock *et al.* (1994) suggested that choice of entry mode depends on the contingency characteristics of resource requirements and organizational control factors. In other words, different modes may result in different outcomes due to their resource and organizational control demands. Therefore, new ventures should go beyond joint ventures and acquisitions, and consider organizational culture as a threat for mergers.

O'Farrell *et al.* (1998) argued that a firm's behaviour in foreign markets is shaped by its early clients in those markets. In addition, the strategic position of firms is formed by the total pattern of commitment of their limited capabilities and the need to control its product or service quality and ownership rights. Firms may succeed in their entry into a specific foreign market if they can develop a continuous relationship with their initial clients, acquire new clients based on recommendations, collaborate with potential partners available in the market, respond to increasing market demand by firm-specific knowledge and capabilities, offer after-sales and delivery services, and benefit from a rising demand in their home market, where their capabilities are developed.

Kumar and Subramanian (1997) offered a contingency model in which five steps are used for selecting a suitable entry mode. According to Figure 2.11, managers can follow a logical process and move from recognizing the need for expansion towards the choice of entry mode by evaluating time, resources and information quality, choosing a decision strategy, and collecting and analyzing data.

Figure 2.11: A Contingency Decision Model for Entry Mode

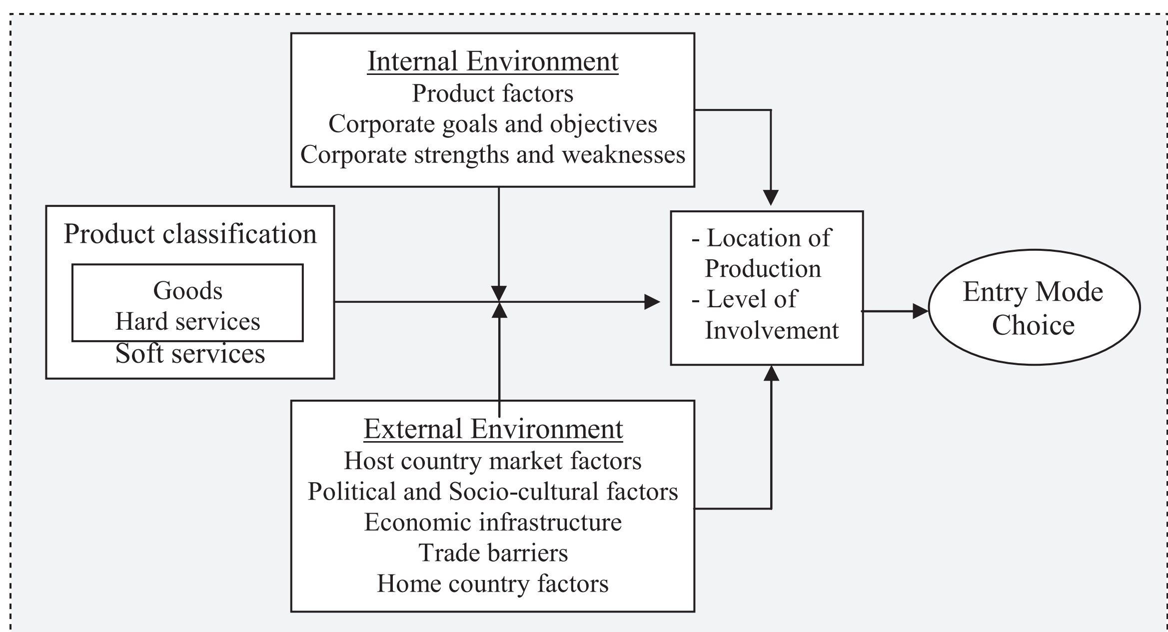


Source: Kumar and Subramaniam (1997)

Lu and Hébert (2005) linked the contingency model to the transaction cost theory and offered a model in which firms that participate in a joint venture should fit between asset specificity, uncertainty and governance structure. Kumar and Subramanian (1997) suggested the hierarchical (H) model, in which a decision maker first makes a choice between equity and non-equity modes, and then selects a specific alternative, e.g. joint venture versus wholly owned subsidiary. However, Decker and Zhao (2004) claimed that such a model does not show what decision rules a decision maker should follow at the individual level.

O'Farrell and Wood (1994) suggested that the models used by manufacturing firms for decision making should be modified when applying to services. Accordingly, Ekeledo and Sivakumar (1998) offered a modified model for service firms in which firms select the location of production and determine the level of involvement. Figure 2.12 shows that the entry mode choice is defined by the factors existing in the internal and external environment while product category differentiates between soft services and those that offer consumer goods or hard services. Due to inseparability, soft service firms should exert higher control through FDI, franchising or management contracts.

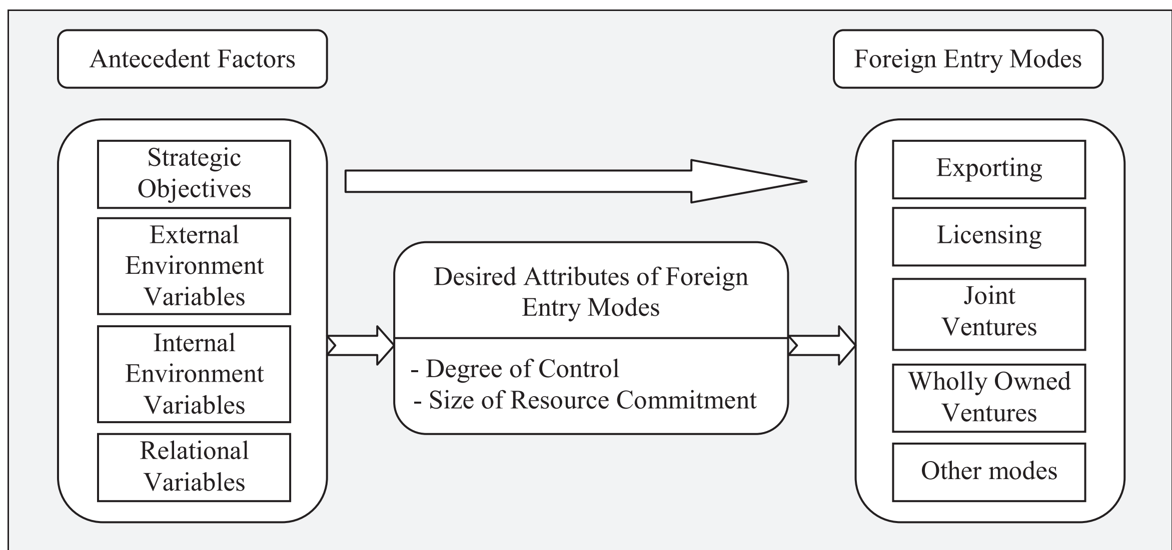
Figure 2.12: A Contingency Model of Entry Mode Choice



Source: Ekeledo and Sivakumar (1998)

Based on the contingency theory, a firm's performance depends on the similarity between the firm, its strategy, organizational structure and surrounding environment. The firm's environment provides inputs for its operations as well as opportunities and threats. The strategy verifies the firm's market position. Organizational structure refers to the arrangement of firm-specific resources and capabilities, and coordinating them in order to attain corporate goals. Firms should maintain a balance between strategy and structure to achieve a better performance (Chandler, 1962; Fredericks, 2005; Gao, 2004; O'Farrell and Wood, 1994). As Figure 2.13 illustrates, Gao (2004) offered a modified contingency model in which the choice of entry mode relates to the degree of control and the level of resource commitment. Control shows to what extent a firm can ensure the behaviour of its partners. Then, lower trust results in the higher level of control.

Figure 2.13: A Modified Contingency Model of Entry Mode Choice



Source: Gao (2004)

There are some criticisms regarding the contingency theory because there is no clear definition regarding the contingency variables and their operational measurements (Cumberland, 2006). In addition, firms need enough information about the contingency factors when making decisions (Whitelock, 2002). Firms need flexibility to respond to dynamic changes (Fredericks, 2005). This theory also ignores the network relationships that a firm needs for its international expansion (Rundh, 2001; Whitelock, 2002).

2.4 Internationalization of Services: The Global Supply of Services

In the recent decades, the rapid globalization of economic activities has persuaded service firms to expand overseas and enter emerging markets (Ekeledo and Sivakumar, 1998). According to Wirtz (2000), services are the most dynamic and promising area of economic activities. In services, performance is not an object, there is no inventory, people are a part of service experience, customer can involve in production, and time is an important factor. In addition, controlling service quality for providers and evaluating such a quality for customers is difficult. Services also benefit from electronic channels of distribution (Lovelock and Yip, 1996).

As Miozzo and Soete (2001) pointed out, people traditionally used a haircut view and considered services as labour-intensive activities with low capacity for productivity growth. However, the rapid technological changes and the growing dependence of services on information processing have introduced services as technology procedures in which innovation and R&D programmes are essential. Braga (1996) suggested that due to advances in information technology (IT), a service revolution has occurred and a wide range of services are traded internationally. Service industries link economic activities scattered in different geographic locations and increase the interdependence of markets and production activities across nations. As services rely increasingly on IT and find a higher need to financial and human capitals, they seek opportunities for growth around the world and go beyond their national boundaries.

2.4.1 Classification of Services

One of the major gaps in the literature is the lack of a common classification for services that helps to discuss the similarities and differences between services and the application of theories for each category (Knight, 1999; Netlands and Alfnes, 2007). Miozzo and Soete (2001) offered taxonomy of services based on the technology used in their service delivery. They divided services into three types: first, supplier-dominated

sectors including personal services, such as laundry, restaurants and hotels, and public services, such as education, healthcare. These services are based on professional skills, trademark, visual design, and advertising; second, information networks, such as finance, insurance and communications, and scale-intensive physical networks, such as transportation, travel and wholesale trade. These services rely on innovation, and specialized knowledge and experience; and third, science-based services, such as software developers and R&D firms, and specialized supplier sector, such as business services. These firms are small and provide services for other firms, such as electronics manufacturers.

Lovelock and Yip (1996) divided service industries into three categories: first, people processing services, such as healthcare, passenger transportation and food services, which require the presence of consumers during service delivery process and co-operating with the service operation; second, possession processing services, such as freight transport and car repair and laundry services, which involve in people's possessions and are less complex; and third, information-based services, such as education, finance and consulting, which relate to knowledge, communication and information processing.

Researchers name the people processing services as soft services, which offer inseparable services while the other two categories are viewed as hard services (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993). Lovelock and Yip (1996) called the people processing services as 'service factory' in which customer needs enter and remain during service delivery. Therefore, service providers should adapt their services to the tastes and preferences of local consumers. This process needs a close distance and local geographic presence. This is why the resource-based view and the contingency models insist on the tendency of soft service firms to adopt high control modes or involving franchising agreements (see Ekeledo and Sivakumar, 1998, 2004).

2.4.2 Globalization Drivers for Services

According to Netlands and Alfnes (2007), the literature has focused on three meta-drivers for the internationalization of services including development trends in service industries, multi-lateral trade agreements and the increased presence of global networks. Although in the 20th Century, the main motive of entry for services was to follow their clients, today, services such as professional service firms aim to attract new customers through market seeking. Major drivers for globalization of services include common customer needs, global customers, global distribution channels, global economies of scale, government policies and regulations, transferable competitive advantage, information technology and favourable logistics (Lovelock and Yip, 1996).

As Etemad-Sajadi (2008) pointed out, there are increasing opportunities for marketing services in the world markets including the advances in information and communication technologies, the removal of trade barriers for services, the international and regional agreements on trade and investment, the openness of governments toward international trade, the emergence of new markets, the emergence of new technologies requiring more service components, the growing tendency towards service outsourcing, and the tendency of services to follow their clients to foreign markets.

Hufbauer and Warren (1999) argued that the basic economics of the global markets are based on the inequality of: $(Pxc + Txcj + Mxj) > Pxj$, which explains that if the price of services in country j or the host market (Pxj) is less than the sum of their price in country c (Pxc), transportation costs (Txcj) and the monetary value of market entry barriers (Mxj), firms from country c prefer to locate their operations in country j instead of involving in the trade of services. Therefore, the decision of firm to enter global markets depends on the factors such as the national competitiveness in services and reductions in transportation costs as well as reductions in trade barriers, tariffs and FDI restrictiveness.

2.4.3 Liberalization of Services and the Role of GATS

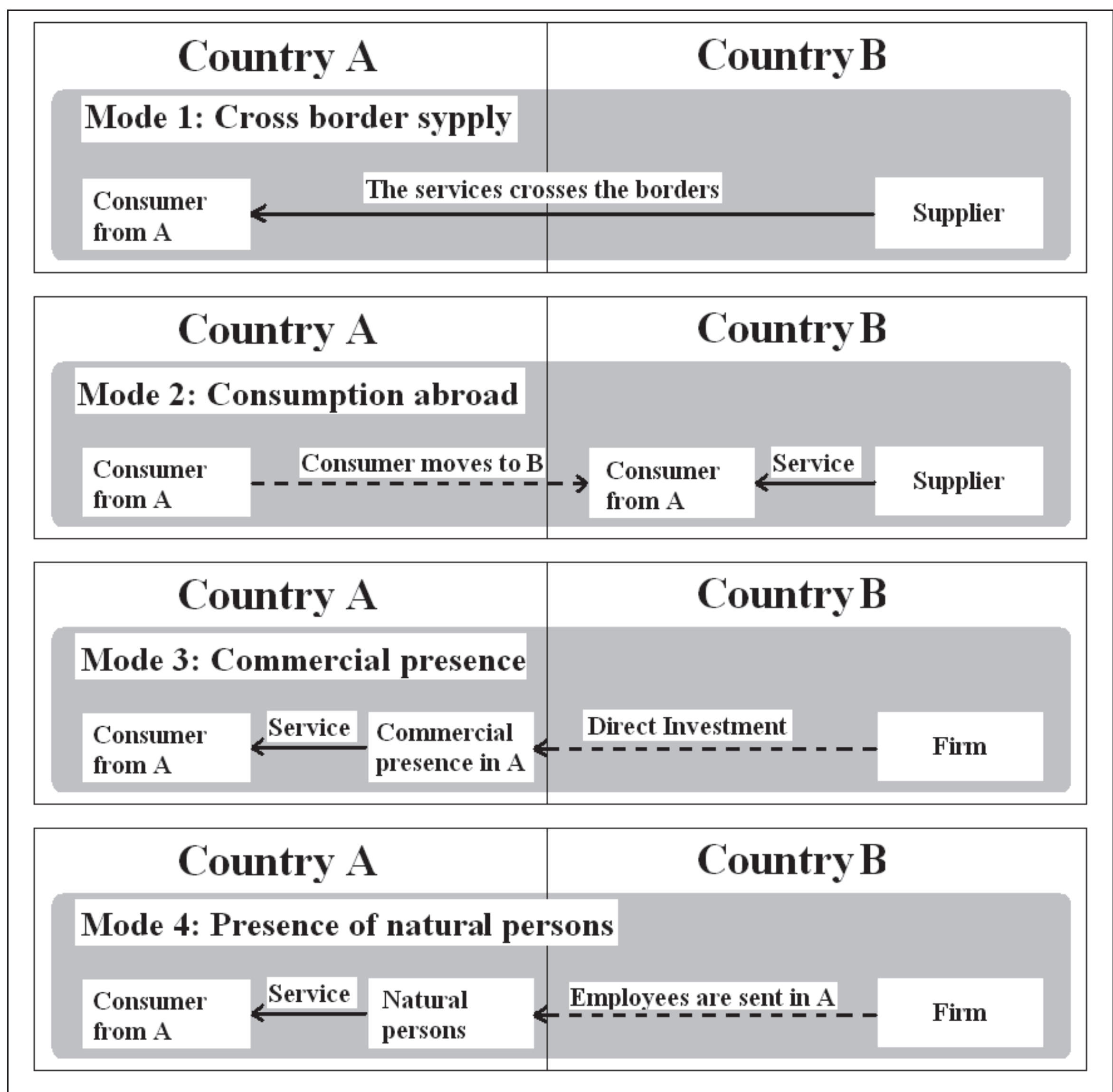
After World War II, due to the barriers and limitations existed in trade activities between different countries, a series of multilateral trade negotiations began in 1947 resulting in signing the General Agreement on Tariffs and Trade (GATT) to regulate the trade between member countries. However, the negotiations continued over time to remove more barriers. In 1986-1994, the eighth round of negotiations took place as the Uruguay Round among 123 countries and expanded the GATT to new areas, such as services, capital, intellectual property, textiles and agriculture. The negotiations resulted in the establishment of the World Trade Organization (WTO) in January 1995 together with the enforcement of the General Agreement on Trade in Services (GATS), which aimed at the liberalization of services (Gallagher, 2005; Martin and Winters, 1996).

As Figure 2.14 illustrates, based on the GATS, there are four modes of service activities: first, mode 1 or cross-border supply, in which a firm supplies a service from its home country into the territory of any other member. This mode requires exporting services to customers in target markets; second, mode 2 or consumption abroad, in which a firm supplies services in its home country to the consumer from any other member. This requires the movement of customers to the countries that provide services they need; third, mode 3 or commercial presence, in which the service provider can have commercial presence in the territory of any other member through agents or by establishing its branches and wholly owned subsidiaries; and fourth, mode 4 or presence of natural persons, in which the service provider or expatriates move temporarily to the territory of any other member to offer a service (see Etemad-Sajadi, 2008; Hoekman, 2006; Hufbauer and Warren, 1999; Karsenty, 1999, 2000; Lücke and Spinanger, 2004 ; WTO, 1995).

In fact, mode 1 of service supply refers to indirect exporting. Mode 2 relates to the sales of services to tourists and foreigners in the home country that does not require

expanding abroad. In mode 3, firms may enter foreign markets through FDI activities, contractual modes or direct exporting. Finally, mode 4 requires the transfer of service labours and expatriates to foreign countries. However, as Lücke and Spinanger (2004) pointed out, the GATS definition of mode 4 service trade is ambiguous and it is not clear what kind of movements by people across borders are included in this mode. For example, the immigration of natural persons for seeking employment in other countries and permanent immigration was excluded from mode 4 by the Marrakesh Annex while it could be considered. Therefore, it can mainly include the temporary skilled workers who supply services to the host countries and send remittances to their own countries.

Figure 12.14: Four Modes of Service Supply



Source: Etemad-Sajadi (2008)

The main objective of the GATS is to remove barriers to trade in services through establishing a multilateral framework of principles and rules to expand such trade under conditions of transparency and progressive liberalization in order to promote the economic growth of all trading partners and the development of developing countries. Therefore, its member countries should recognize the growing importance of trade in services for the growth and development of the world economy (WTO, 1995). Although some services, such as finance, tourism and maritime transport, have been subjected to international trade for centuries, many service activities were not open to international trade and investment. Therefore, they needed basic technological and regulatory changes to reduce entry barriers and attract the participation of private companies (Lücke and Spinanger, 2004).

Since the late 1990s, by applying the GATS and liberalizing services the world economy has experienced a rapid growth of the trade and investment in services. In addition, due to technological changes, the nature of services has changed (Lücke and Spinanger, 2004; Miozzo and Soete, 2001). According to Karsenty (1999), in 1997, 41% of trade in services was in the form of mode 1 or cross-border supply, 19.8% mode 2 or consumption abroad, 37.8% mode 3 or commercial presence and only 0.1% mode 4 or the movement of personnel (see Hufbauer and Warren, 1999). However, in 2001, the share of commercial presence increased to 56% of trade in services (Karsenty, 2000).

According to Martin and Winters (1996), developing countries have shown a higher economic growth than industrial countries in the recent decades and the Uruguay Round was an important milestone for their integration into the global economy. In fact, the GATS focused on the increasing participation of developing nations in the trade of services by strengthening their domestic service capacity and efficiency, improving their access to distribution channels and information networks, and liberalizing market access in different service sectors and various modes of supply (WTO, 1995).

Lücke and Spinanger (2004) argued that the concerns about the impact of trade in service on developing countries have increased because: first, technological progress in information technology (IT) has reduced the cost of the international transmission of information and helped many IT-related service firms to enter international markets. Therefore, the exports of IT-related services in developing countries such as India have noticeably increased; second, the international aid policy to help developing countries in reducing poverty has caused the growth of services such as public utility, healthcare and telecommunications to improve living standards and increase the competitiveness of export industries in these countries; and third, the liberalization of service imports based on the Uruguay Round negotiations and the GATS created a potential for service providers and business services from developing countries to supply foreign markets.

As Table 2.7 indicates, between 1990 and 2010, due to the implementation of the GATS and liberalization of service trade, exports of services increased from US$827 billion to US$3,765 billion while the share of developing countries increased from 18% to 30%. At the same time, remittances received by foreign labours rose from US$79 billion to US$444 billion whereas the share of developing countries increased from 23% to 36% (UNCTAD, 2011a). In addition, the inward FDI stocks in services had a rapid growth from US$1,015 billion in 1990 to US$11,309 billion in 2009 while the share of developing countries increased from 18% to 27%. Moreover, these countries' share in the outward FDI stocks rose from only 1% to 14% (UNCTAD, 2011b).

Table 2.7: International Supply and Trade of Services (US$ billions)

Type of Supply	World			Developing Countries		
	1990	2009	2010	1990	2009	2010
Exports of Services	826,926	3,454,563	3,764,890	150,468	939,776	1,123,442
Imports of Services	873,506	3,291,334	3,585,832	198,058	1,087,070	1,281,723
Worker Remittances	79,553	421,744	443,627	33,392	280,882	297,305
Inward FDI Stocks	1,014,812	11,308,933	-	179,573	3,019,982	-
Outward FDI Stocks	997,871	12,668,324	-	11,715	1,816,645	-

Adapted from: UNCTAD (2011a, 2011b)

2.5 Internationalization of Malaysian Services: A Historical Review

Since the 1990s, Malaysia has been one of the most progressive developing countries due to the gradual industrialization plans as well as the rapid advances in services such as IT, infrastructure, transportation and finance. Therefore, the country has become a favourite market for foreign companies to invest (Masud *et al.*, 2008). In addition, it is the second country among the Association of South East Asian Nations (ASEAN) to absorb FDI made by western MNCs and Asian nascent MNCs. In 2007, for the first time in its history, the outward FDI flows of Malaysia surpassed its inward FDI flows. Therefore, Malaysia is considered as a major investor country in the region (UNCTAD, 2011a).

According to Sim (2006), the outward FDI of firms depends on the economic development of their home country. Malaysia is one of the new industrialized countries or NICs (Ahmad, 2008). The country was a colony of the UK from 1786 to 1957 and during the colonial era, its remarkable natural resources, such as plantations, fisheries, timber and minerals, were widely exploited by the British (Clairmont, 1994). At the time of independence in 1957, Malaysian economy was based on the agriculture-based activities. However, since 1970s, because of the export-oriented industrial development plans implemented by the government, the country has changed from a raw material producer to an emerging market with a multi-sector economy (Ahmad, 2008; CIA, 2011; Clairmont, 1994; Felker, 2003). This resulted in growing industrial investment by the Japanese and Western MNCs and helped Malaysia become a major manufacturer, especially in the electronics and automotive industries (Clairmont, 1994).

Unlike the manufacturing sector, Malaysian services are mainly run by SMEs, which usually face a lack of capital and resources (Saleh and Ndubisi, 2006). However, since the 1990s, the rapid changes in technology and IT services encouraged Malaysian service firms to expand their activities within and across their national borders. Using

strong network relationships, service firms such as Telecom Malaysia ventured abroad primarily by the joint venture mode (Ahmad, 2008). Later, as a result of the mergers and acquisitions made by local banks, the financial support for foreign investment was provided (Sufian, 2007). Therefore, a new wave of outward FDI flows by Malaysian service firms began in recent decades.

2.5.1 Malaysian Overseas Investments

The quick market growth, natural resources and cheap labour in Southeast Asia helped this region absorb a huge amount of FDI from developed countries (Ismail and Yussof, 2003). During the 1980s and the early 1990s, western MNCs invested heavily in the manufacturing sector of countries such as Singapore, Malaysia and Thailand. Therefore, the inward FDI flows to the region increased from US$2.6 billion in 1980 to US$32.5 billion in 1997 (Felker, 2003; UNCTAD, 2011a). However, after the regional economic crisis in 1997-2001, foreign MNCs reorganized and moved their production lines to emerging markets such China due to political instability, insufficient economic reforms and problems in the global electronics market. This decreased the inward FDI flow to US$15 in 1999 (see Felker, 2003; Martinez, 2000).

As a result, the regional governments began to reform their economic policies and provide new opportunities for MNCs to increase their investment (Haggard and Low, 2000). In addition, countries such as Singapore, Malaysia and Thailand encouraged their firms to invest in foreign markets (see Ahmad, 2008; Pananond, 2007; Sim, 2006). Consequently, as Table 2.8 shows, inward FDI flows increased from US$23.7 billion in 2000 to US$75.7 billion in 2007. At the same time, outward FDI flows US$8.3 billion to US$55.4 billion as a peak. However, the global financial crisis caused a dramatic drop in FDI flows in the region in 2008-2009. After the recovery, the inward FDI flows increased to US$79.4 billion in 2010 while the outward FDI reached to US$42.2 billion (UNCTAD, 2011a).

Table 2.8: Foreign Direct Investment Trend in Southeast Asia

Countries	Inward FDI Flows (Million US$)					Outward FDI Flows (Million US$)				
	2000	2007	2008	2009	2010	2000	2007	2008	2009	2010
Brunei	549	260	239	370	496	30	-7	16	9	6
Cambodia	149	867	815	539	783	16	5	24	18	7
Indonesia	-4,495	6,928	9,318	4,877	13,304	150	4,675	5,900	2,249	2,664
Laos	34	324	228	319	350	10	1	-	1	6
Malaysia	3,788	8,595	7,172	1,430	9,103	2,026	11,314	14,965	7,930	13,329
Myanmar	208	715	976	579	756	0	0	0	0	0
Philippines	2,240	2,916	1,544	1,963	1,713	125	3,536	259	359	487
Singapore	16,484	37,033	8,588	15,279	38,638	5,915	32,702	-256	18,464	19,739
Thailand	3,410	11,355	8,448	4,976	5,813	-20	3,003	4,053	4,116	5,122
Timor-Leste	0	9	40	50	280	0	0	0	0	0
Vietnam	1,289	6,739	9,579	7,600	8,173	0	184	300	700	853
Total	23,656	75,740	46,947	37,981	79,408	8,253	55,413	25,185	33,845	42,223

Adapted from: UNCTAD (2011a)

According to Table 2.8, the inward FDI flows in Malaysia increased from US$3.8 billion in 2000 to US$8.6 billion in 2007 whereas due to the financial crisis it dropped to US$1.4 billion in 2009. However, in 2010, foreign MNCs invested US$9.1 billion in Malaysian market that is a sign of the improvement in the world economy. The outward FDI flow of Malaysia has experienced a higher growth rate in that it increased seven times from US$2 billion in 2000 to US$15 billion in 2008. Even the financial crisis could not stop Malaysian investors in 2009, as they invested US$7.9 billion. In 2010, the outward FDI flows increased to US$13.3 billion (UNCTAD, 2011a).

Since 2007, the outward FDI flow of Malaysia has surpassed its inward flow and the country has become a major investor in the region. According to Dunning (1981, 1986) in his theory of the investment development path (IDP), this happened because countries with higher economic growth usually invest in less developed countries. In addition, as the flying geese theory explains, countries with higher wages and salaries transfer their technology and knowledge to the countries with a low-cost labour force (see Ahmad, 2008). Therefore, Malaysian companies increased their investment in less developed countries such as Indonesia, Vietnam and the Philippines.

According to Bank Negara (2010), the increasing presence of Malaysian firms in foreign markets, especially Asian countries, is the result of pull factors such as seeking new markets for their products, gaining access to more efficient resources, acquiring brands and technology, expanding into fast growing industries and using host countries' advantages. In addition, the small domestic market acts as a push factor that forces Malaysian firms to go abroad and achieve economies of scale. Such firms may enhance their supply chain system by integrating their domestic and international operations. In the long term, the increasing trend of FDI made by Malaysian firms will provide higher profits for their shareholders and greater job opportunities for Malaysian citizens.

According to Table 2.9, cross-border mergers and acquisitions have a substantial portion in the Malaysian investment profile (Masud *et al.*, 2008). This is because of two reasons: first, Malaysian rules and regulations force foreign firms to share their equity with local business partners in their new ventures in most industries. Second, Malaysian firms usually lack enough capital, experience or technological capability to establish a business from scratch in foreign markets.

Table 2.9: Mergers and Acquisitions versus Greenfield in Malaysia's FDI Trend

Year	Inward FDI Flows (US$ million)				Outward FDI Flows (US$ million)			
	Greenfield	%	Acquisition	%	Greenfield	%	Acquisition	%
2005	2,924	72	1,141	28	1,130	37	1,946	63
2006	3,551	59	2,509	41	3,357	56	2,664	44
2007	1,619	19	6,976	81	7,660	68	3,654	32
2008	4,391	61	2,781	39	5,214	35	9,751	65
2009	1,076	75	354	25	4,653	59	3,277	41
2010	5,662	62	3,441	38	11,023	83	2,306	17

Adapted from: UNCTAD (2011b)

The outward FDI of Malaysia was primarily made by the government-linked plantation firms and the Malaysian national oil company (PETRONAS) in order to explore oil and gas resources, and gain access to more lands for plantations. However, recently, investment in services has noticeably increased. Most of the inward FDI flows

to Malaysia are received by the manufacturing sector. However, share of services and construction firms in inward FDI flows has increased from 18% in the 1990s to 41% in 2000s. At the same time, share of services in the outward FDI flows has increased from 53% to 72%. This shows that services are the main source of the outward FDI of the country (Bank Negara, 2010). Although most FDI that was absorbed by services flow to financial institutions, this amount has decreased from 80% in 2003 to 44% in 2007 showing that other service industries grew rapidly (Masud *et al.*, 2008). The major sources of outward FDI flows include financial services, telecommunication, utilities and business services.

According to Masud *et al.* (2008), the inward FDI flows to Malaysia mainly originate from four regions: Asia, North America, Europe, and the Caribbean Islands. Between 2003 and 2007, more than 85% of foreign investment in the Malaysian market was undertaken by seven countries including the United States, Singapore, Japan, the Netherlands, the United Kingdom, Switzerland and Germany. In addition, most of the outward FDI made by Malaysian firms flows into Southeast Asian (ASEAN) countries, China, West Asia and the Asian Newly Industrialized Economies (NIES), such as South Korea and Taiwan (Bank Negara, 2010).

2.5.2 Role of Services in Malaysian Economy

Services play a major role in the economic development of Malaysia. According to Table 2.10, in 2009-2010, the growth domestic product (GDP) originated 10% from agriculture-based activities, 38% from manufacturing and 52% from the service sector. In addition, the total labour force of Malaysia in 2010 amounted to 11,517,200, of which 96.6% were employed and 3.4% unemployed. From the employed labour, 13.3% were engaged in agriculture, 17.4% in manufacturing and 69.3% in services (JPM, 2011a, 2011b). However, in 2010, services comprised 17% of exports compared to 69% manufacturing goods and minerals, and 14% agriculture products (UNCTAD, 2011a).

Table 2.10: Share of the Economic Sectors in Malaysia's GDP and Labour Force

Economic Activities	Gross Domestic Product (RM million)				Labour Force	
	2009	%	2010	%	2010	%
Agriculture	64,724	9.3	81,400	10.4	1,475,100	13.3
Manufacturing and mining	257,660	37.2	296,159	38.0	1,935,000	17.4
Services and construction	371,323	53.5	402,488	51.6	7,719,300	69.3
Total Sectors	693,707	100.0	780,047	100.0	11,129,400	100.0

Sources: JPM (2011a, 2011b)

As Table 2.11 indicates, the highest value added is achieved by retailers, hotels, financial services, transportation and communications. In addition, construction, as a labour-intensive service, has developed rapidly in recent decades due to the high market demand. 80% of service revenues are gained by the private sector while the government has a 20% share, mainly in public administration, healthcare, education and defence.

Table 2.11: Share of Service Industries in Malaysia's GDP and Labour Force

Service Activities	GDP of Industry (RM million)				Labour Force of Industry			
	2009	%	2010	%	2009	%	2010	%
Construction	22,436	6.0	24,773	6.2	1,015,900	13.4	1,019,000	13.2
Finance and real state	93,455	25.2	100,754	25.0	873,400	11.6	955,300	12.4
Public admin and defense	55,096	14.8	58,488	14.5	813,800	10.8	772,100	10.0
Public utilities	17,803	4.8	19,213	4.8	58,100	0.8	113,700	1.5
Trade, retail, food & hotel	100,518	27.1	111,037	27.6	2,632,300	34.8	2,617,200	33.9
Transport, communications	46,649	12.6	50,802	12.6	592,000	7.8	693,000	9.0
Education, health & others	35,367	9.5	37,421	9.3	1,570,600	20.8	1,549,000	20.0
Total services	371,323	100	402,488	100	7,556,100	100	7,719,300	100

Adapted from: JPM (2011b)

Number of Malaysian firms that engage in foreign trade and exporting activities is increasing. Therefore, as Table 2.12 reveals, the country's exports has increased from US$13 billion in 1980 to US$199 billion in 2010. In addition, the share of services in total exports has increased from 8.8% in 1980 to 17.1% in 2010. However, the share of services in the imports of Malaysia is constantly around 20%. In other words, while Malaysia was mainly the importer of services, there has been a balance between the imports and exports of services since 2007. This explains a growing potential for Malaysian service firms to export their service output to international markets.

Table 2.12: Share of Services in the Foreign Trade of Malaysia

Year	Exports (US$ million)			Imports (US$ million)		
	Total	Services	%	Total	Services	%
1980	12,945	1,135	8.8	10,779	2,957	27.4
1990	29,452	3,859	13.1	29,258	5,485	18.7
2000	98,229	13,941	14.2	81,963	16,747	20.4
2005	140,870	21,681	15.4	114,410	23,651	20.7
2007	176,028	29,462	16.7	146,767	28,668	19.5
2008	209,719	30,321	14.5	164,406	30,270	18.4
2009	157,516	28,769	18.3	123,695	27,472	22.2
2010	198,791	33,973	17.1	164,733	33,695	20.5

Source: UNCTAD (2011a)

Besides FDI activities and exporting, Malaysian enterprises involve many cases of contractual agreements. Most contracts made by foreign MNCs in Malaysia are in the form of licensing and franchising that helps them transfer their proprietary technology and brand name to Malaysian partners. In contrast, most Malaysian firms engage in management contracts with their business collaborators in foreign markets. However, in food services, such as the Marybrown Family Restaurant, Secret Recipe and Big Apple Donuts, franchising is the typical contract form because they provide soft services. In 2008-2009, Malaysian firms paid US$2,401 million royalty fees to foreign companies while they only received US$465 million royalty fees for licensing or franchising their technology and brands overseas (UNCTAD, 2011a).

2.5.3 Government Policies towards Trade and Investment

According to Ahmad (2008), Asian governments have supported and pushed their MNCs to internationalize and compete in global markets. Although Anglo-American economic policies suggest that governments should reduce their involvement in the economic and social activities, the experience of Asian countries, such as Malaysia and Singapore, has shown that governments can play a vital role in economic development by supporting business activities, developing industrial facilities and infrastructure, and enhancing the education system to improve labour force capabilities (Callender and Johnston, 1998).

At the time of independence in 1957, Malaysia was an underdeveloped country, which highly relied on the exports of agriculture products, palm oil, and its natural resources, such as tin and crude oil (see Klitgaard and Katz, 1983). Since the 1970s, the Malaysian government adopted a policy to lead the country towards an export-oriented industrialization (EOI) strategy, in which the structure of exports was changed from reliance on resources to an increasing share manufactured goods, such as electronics (Ahmad, 2008). According to Felker (2003), this policy reduced the country's reliance on natural resources and raw materials.

The economic policy of the Malaysian government is based on central planning as a method for directing its economic development (Clairmont, 1994). In 1966-1970, the government applied the First Malaysia Plan (FMP) to help all races to participate in economic activities. However, following the racial riot in 1969, the government tried to make economic reforms in order reduce poverty and inequality. Therefore, the long term planning schemes started in 1971 by the New Economic Policy (NEP), which was put into effect through the Outline Perspective Plan (OPP) to develop the nation over the long term (Chee, 1973; Hainsworth, 1979; Jomo, 1991; Klitgaard and Katz, 1983; Krishnan, 2006). In addition, since the late 1970s, the Malaysian government acquired British-owned firms, such as Boustead, Barlows and Sime Darby, which were involved in trading, tin mining and plantations. This was a crucial step in developing national economy and expanding such activities across national borders (Ariff and Lopez, 2007; Ahmad and Kitchen, 2008).

In the 22-year term of Prime Minister Mahathir Mohamad in 1981-2003, the government tried to decrease the economic dependence on the exports of raw materials, increase the industrial capabilities of the country, and expand services and tourism (CIA, 2011). Therefore, Malaysia became an unstoppable tiger or a capitalist nation with a booming economy, quick industrial growth, full employment, high consumption,

improved savings and increased social indicators. In fact, Mahathir followed Japan and Singapore to develop his country rather than western nations (Clairmont, 1994). Such policies increased the export capacity of the country from US$13 billion in 1980 to US$98 billion in 2000 (UNCTAD, 2011a). In addition, economic growth rose from 6% in 1981-90 to 8.7% in 1991-96 while the financial crisis of Southeast Asia in 1997-2001 caused a downfall in the national economy (Haggard and Low, 2000; IMF, 1999).

At this time, the Malaysian government aimed at developing national economy and improving infrastructure in order to attract foreign investors (Karimi and Yusop, 2009). In addition, the availability of rich resources and low-cost labour force provided a location advantage for Malaysia (Felker, 2003). The government offered incentives to foreign MNCs to encourage them to invest in Malaysia, especially in manufacturing and high-tech industries. This facilitated the transfer of capital, technology and knowledge to the country (Edwards *et al.*, 2002; Felker, 2003). Actually, by encouraging the 'economic nationalism', the Malaysian government contributed to the growth in the inward and outward FDI flows (Ariff and Lopez, 2007).

To obtain competitive advantage, Malaysian firms imported technology from developed countries and adjusted it with smaller regional markets by using local resources, relying on the labour force instead of machinery, and using it on a smaller scale (Ahmad, 2008). These firms used the opportunities that occurred in the 1990s through the globalization of economics and liberalization of foreign trade, and penetrated in the world markets by focusing on their technological capabilities and network relationships with other businesses and the local government (see Ahmad, 2008; Dunning *et al.*, 1998; Pananond, 2007).

By implementing Vision 2020 or the mother of all plans in 1991-2020, the government aimed at establishing a united Malaysian nation based on a liberal, secure and developed society. Therefore, the government should develop a mature democratic

system, create a society with equal economic opportunities and a fair distribution of wealth, and establish a fully competitive economy, which is capitalist and industrialized with full employment (Clairmont, 1994; Krishnan, 2006). This resulted in reducing the investment risk in Malaysia compared to its neighbours (Selvarajah, 1994). However, the financial crisis of Southeast Asia in 1997-2001 caused difficulties in financial markets, foreign trade and investment. Therefore, the Mahathir's government adopted specific policies, merged Malaysian banks and financial institutions with each other, and pegged the national currency to the U.S. Dollar to prevent its devaluation (Felker, 2003; Haley, 2000; Sufian, 2008).

Since 2003, the new Malaysian government tried to move the national economy forward by facilitating the outward FDI flows, developing domestic investment, improving the labour force, distributing income fairly, encouraging the liberalization of financial services, and dealing with new emerging Asian economic powers, i.e. China and India (Krishnan, 2006). By applying progressive plans, Malaysia achieved a rapid economic development that enabled Malaysian firms to invest in foreign countries (Sim, 2006). In 2009, Najib Tun Razak became the Prime Minister and aimed to overcome the effects of the global financial crisis. In October 2010, he started economic reforms based on the instructions of Mahathir and introduced the concept of '1 Malaysia – people first, performance now'. He insisted on the national unity as a dynamic goal, which requires social justice and racial equality (see Krishnan, 2010; Sayuthi and Waheed, 2010).

To promote exports and foreign trade, the Malaysian government offered export incentives, established free trade zones and signed free trade agreements (FTA) with other countries (Karimi and Yusop, 2009). Since 2000, Southeast Asian countries, including Malaysia, put bilateral FTAs and sub-region FTAs into effect (Lim and Kimura, 2010). In addition, Malaysia was the first country in ASEAN that encouraged

its business firms to invest overseas. However, to minimize the perceived investment risks, Malaysian firms, such as Sime Darby, selected low control entry modes including joint ventures (Ahmad, 2008; Ahmad and Kitchen, 2008; Ahmed *et al.*, 2002).

As Ismail and Yussof (2003) pointed out, Malaysian firms have lost their competitive advantage to some extent because of the emergence of new markets, such as China, India and Vietnam, with cheaper labours and raw materials. Consequently, the government encourages Malaysian firms to enhance their technological capabilities in order to compete successfully in foreign markets. To persuade Malaysian firms to invest overseas, the Malaysian government has offered four types of incentives, i.e. fiscal incentives, tariff-related incentives, financial incentives and non-financial incentives. These investment incentives were given to the firms by the Ministry of International Trade and Industry (MITI) and its adjunct agencies – the Malaysian External Trade Development (MATRADE) and the Malaysian Industrial Development Authority (MIDA). MITI has assisted firms to access new markets and obtain information about market conditions and available business partners (Ahmad, 2008; Felker, 2003).

2.5.4 Malaysian Service Firms and their International Expansion

Because of the rapid economic growth, the number of Malaysian companies is continuously increasing. In 2010, there were 922,675 local firms registered in Malaysia with US$770 billion authorized share capital, which shows 32% increased compared to US$585 billion in 2006. The average capital of the Malaysian firms also increased from US$778,000 to US$835,000 in 2006-2010. According to Table 2.13, there were also 4,370 foreign companies registered and operating in the country (JPM, 2011b).

Table 2.13: The Number of Companies Registered in Malaysia

Type of Firms	2006	2007	2008	2009	2010
Local companies	752,073	795,350	836,949	878,527	922,675
Foreign companies	4,172	4,232	4,256	4,316	4,370
Total companies	756,245	799,582	841,205	882,843	927,045

Source: JPM (2011b)

As Table 2.14 indicates, firms that engage in transportation, telecommunications, construction, computer services and hotels have higher revenue and assets. In addition, commercial banks support services firms for their foreign operations (JPM, 2011b).

Table 2.14: Major Malaysian Service Activities by Value Added (2007)

Industry	Number of Companies	Financial Values (RM million)			Total Personnel
		Gross Input	Value Added	Total Assets	
Trade and retailing	--	293,787	60,000	--	430,550
Transportation and logistics	5,560	60,774	21,437	60,256	204,254
Telecommunications	189	38,857	18,825	24,384	44,303
Construction	5,543	60,716	18,099	8,395	595,139
Computer services	1,261	13,200	4,965	1,943	47,357
Hotels and accommodation	2,144	8,445	4,849	19,328	103,444
Private education	6,318	6,014	3,832	5,983	89,153
Engineering and consultancy	3,575	7,056	3,384	942	51,521
Healthcare services	5,815	7,509	3,363	4,017	66,933
Legal services	3,429	2,105	1,570	354	35,545
Broker and money changer	335	2,486	1,530	492	9,891
Accounting services	2,209	1,459	1,147	183	23,357
Advertising agencies	397	2,062	659	154	6,354
Real estate	563	338	165	87	3,945
Cinema and motion picture	49	236	85	134	1,330

Source: JPM (2011b)

As stated earlier, since the 1970s, Malaysia moved towards an export-oriented economy, in which local industries make efforts to increase their export capacity by producing raw materials and licensed manufacturing goods while services have a small share in foreign trade because most services cannot be exported. However, the share of services in exports has been doubled in 1980-2010 (UNCTAD, 2011a). According to Table 2.15, as Malaysia is a major tourist destination, 72% of total exports of services in 2007-2009 related to travel and transportation services, followed by trade and business services 14% and construction 4%. Malaysia is the second exporter of cultural services among developing countries. It also is the fifth developing country in exporting IT and construction services. In addition, the royalty fees received by Malaysian services from franchising their brand and technology increased from US$37 million to US$266

million in 2007-2009, while Malaysian businesses pay US$1.2 billion royalty fees annually to foreign franchisors, such as KFC, McDonalds, Carrefour and IKEA. This shows the weakness of Malaysian brands to penetrate in international markets.

Table 2.15: Malaysian Trade of Services by Industry

Service Industry	Exports (US$ millions)			Imports (US$ millions)		
	2007	2008	2009	2007	2008	2009
Travel	14,053	15,293	15,798	5,586	6,709	6,508
Transportation	7,155	6,766	4,408	10,994	11,391	9,265
Trade and business services	4,087	3,857	4,218	4,737	5,363	5,400
Construction	1,361	1,212	909	1,696	1,412	1,034
Cultural and entertainment	832	872	646	1,996	1,177	897
Computer and IT services	788	1,025	1,454	644	896	1,206
Communications	613	602	560	855	817	772
Insurance	370	371	379	686	728	734
Financial services	89	87	90	207	301	307
Royalties and license fees	37	199	266	1,180	1,268	1,133
Other services	87	37	41	201	208	216
Total	29,472	30,321	28,769	28,782	30,270	27,472

Source: UNCTAD (2010, 2011a)

In spite of the small contribution of services to the exports of Malaysia, more than 72% of the country's outward FDI was made by service and construction firms in the 2000s (Bank Negara, 2010). According to Ariff and Lopez (2007), the rapid expansion of Malaysian services was the result of the globalization of the economy after ending the Cold War in the late 1980s, the foundation of the ASEAN Free Trade Area (AFTA) in 1992, and the formation of World Trade Organization (WTO) in 1994.

The outward FDI of Malaysian firms is considered as south-south investment, in which firms from Malaysia, as a developing country, invest in less developed countries (Aykut and Ratha, 2004; Jomo, 2002). The major markets targeted by Malaysian service firms include the Asia-Pacific region, Africa and the Middle East. According to Dwinger (2010), Malaysia is the third foreign investor into African markets after South Africa and China. In 2006-2008, Malaysian firms invested US$600 million in African countries, especially in construction, finance and transportation.

From the outward FDI of Malaysian services, 43% was committed by financial services, 20% transportation and communications, 20% public utilities, 12% trade, hotels and restaurants, and 5% other services (Ariff and Lopez, 2007). To finance their foreign operations, Malaysian services rely on their domestic capital market. The low interest rate of banking facilities is a motive for Malaysian firms to use the local capital market. Although the interest rate increased from 7% in 1997 to 13% in January 1998, during the Southeast Asian financial crisis, this rate decreased to 6% in 2010 (Bank Negara, 2010; JPM, 2011b; Haggard and Low, 2000).

A major source for financing international operations is the domestic stock market. The Malaysian stock exchange market is controlled by Bursa Malaysia, which was founded in 1964 as the Singapore Stock Exchange. In 1989, the Kuala Lumpur Stock Exchange (KLSE) separated from the Singapore Stock Exchange (see Haggard and Low, 2000). In 2004, the KLSE was renamed Bursa Malaysia. At the end of 2010, Bursa Malaysia was ranked 26th in the world with 960 public listed companies and a total market value of US$410 billion (CIA, 2011). The largest stocks by market value belong to MayBank, CIMB Bank, Sime Darby, Maxis, Genting Group, MISC, IOI, Tenaga Nasional, Axiata and Public Bank, which are mostly service firms.

a. Financial Services

Malaysian banking system is controlled by Bank Negara Malaysia or the Central Bank. Commercial banks include the Maybank, Public Bank, CIMB Bank, RHB Bank, AmBank, Alliance Bank, Hong Leong Bank, Affin Bank and EON Bank. In 2010, the total assets of the commercial banks were US$460 billion, and Bank Negara had US$121 billion assets (JPM, 2011b). Foreign banks include HSBC Bank, Citibank, Standard Chartered Bank, Royal Bank of Scotland, OCBC Bank, Bank of Nova Scotia and United Overseas Bank (UOB). In addition, 13 Islamic bank and 11 state-owned banks and financial institutions operate in the country.

Internationalization of financial services started in 1963 when MayBank opened its branch in Singapore. However, Singapore was a part of Malaysia at that time. Later, MayBank ventured into 12 other countries in ASEAN, East Asia, the UK, the U.S. and the Middle East, mainly in the form of a wholly-owned subsidiary (WOS). The Hong Leong Bank Group (HLG) expanded in 1982 to Hong Kong and later, to Singapore and Vietnam. Although HLG used WOS for its expansion, recently, it has participated in two joint ventures in China (HLG, 2010). OSK Holdings commenced its international operation since 1987 by investing in the ASEAN region, China and Hong Kong. In addition, CIMB Bank, which was established in 1965 as the Bumiputra Bank, now operates in 10 countries.

b. Transportation and Logistics

Transportation and logistics firms provide various transport, travel and courier services. In 2009, the transportation network of Malaysia include 135,226 kilometres roadways (from which 81% paved) and 19,016,782 motor vehicles, 1,792 kilometres railway, 7,200 kilometres waterways, 9 major seaports, 315 merchant ships and oil tankers, 118 airports and 3 heliports (CIA, 2011; JPM, 2011b). Transportation services have expanded rapidly, especially in shipping and air transportation. Major shipping firms that have expanded their operations overseas include Malaysian Merchant Marine, MISC, Alam Maritime Resources, NCB Holdings and Freight Management Holdings.

The Malaysian Airline System or MAS, founded in 1971, provides both domestic and international flights. Air Asia is another airline that provides low cost flights to 15 destinations inside Malaysia and 60 destinations in 21 foreign countries. Air Asia was founded in 1993 and renamed in 2001 after being acquired by Anthony Fernandes. The company has ventured abroad since 2003 by establishing its branches in Thailand, Indonesia and the Philippines. The Berjaya Corporation and Transmile also own

domestic and cargo airlines. Malaysia Airports Holdings provides airport support operations in Malaysia as well as India, Mauritius and Turkey.

c. Communications and IT Services

Malaysia has experienced a rapid development in communications and media. Today, people have access to over 35 daily newspapers, 6 state-run radio networks, and 2 state-run and 4 private TV channels. In 2009, there were 15,355,000 Internet users in Malaysia or more than 55% of the total population (CIA, 2011). Four major telecom firms, i.e. TM, Maxis, DiGi and Axiata (Celcom), provide telephone and mobile services for people. In 2010, there were 4,406,000 fixed lines and 33,106,000 mobile cellular phones in use in the country (JPM, 2011a, 2011b).

There are many opportunities for the telecommunication industry in foreign markets. Telekom Malaysia (TM) was founded in 1984 and established its international operation under TMI in 1992 to enter the ASEAN region. Later, the TMI expanded into South Asia, Iran, UK and USA. In 2009, the TMI renamed Axiata. Another telecom firm is Maxis that was founded as a mobile network operator in 1993 and has ventured into Indonesia and India since 2006. Astro All Asia Networks was founded in 1996 to operate satellite TV programs in the country and started its operations in the Philippines in 2003. The company has also started its operates in Hong Kong and Vietnam.

The international expansion of the information technology and communication services or ITC firms started since the 1990s by the rapid changes in the IT industry. Although most Malaysian ITC firms are relatively small, the nature of IT services and the use of tangible means, such as disks and CDs, enabled them to export their services and software to the regional markets. They also sign contracts to run and support digital operations and payment transactions in industries such as banks, retailers, hospitals and government offices. Major ITC firms that have expanded overseas include Symphony House, IRIS, Formis Resources, HeiTech Padu and Green Packet.

d. Tourism and Leisure Services

One of the most profitable services in Malaysia is the tourism industry including hotels, restaurants, food chains and leisure firms. The Malaysian government has highly invested in this industry to attract more foreign visitors and help the local economy to boost. Malaysia the 9th tourist destination in the world and the number of tourist arrivals increased from 16.4 million in 2005 to 24.6 million in 2010, from which 53% were from Singapore, 10% Indonesia, 6% Thailand and 5% China. Total receipts from tourism increased from US$8.8 billion in 2005 to US$17.5 billion in 2010 (Tourism Malaysia, 2011). The growing tourism industry has provided a good opportunity for hotels and food services to expand their business overseas in recent years.

To support and develop tourism in Malaysia, the government established the Tourist Development Corporation of Malaysia (TDC) in 1972 under the Ministry of Trade and Industry. However, in 1987, it joined the Ministry of Culture, Arts and Tourism (MOCAT). In 1992, the TDC was renamed 'Tourism Malaysia' following the Malaysia Tourism Promotion Board (MTPB) Act. As Malaysia is a desired destination for tourists, local hotels, food services and leisure companies have a profitable service, which enables them to finance their operations, expand rapidly and venture abroad. Sunway City and the Genting Group are two major firms engaging in the hotel and leisure industry both in the domestic market and foreign markets. The Genting Group was founded in 1965 by the late Lim Goh Tong, and in 1984 it expanded its activities to Singapore. Today, Genting is the largest casino operator in the UK and the group has a presence in 30 countries.

e. Construction and Property Services

Construction industry has experienced a high growth rate, especially because of the increasing number of tourists and foreign residents. Public utility, engineering, and oil and gas services are also booming. The economic development and industrialization

of Malaysia has necessitated the expansion of construction services. The main motive for such firms to operate internationally is to gain access to new markets, especially if the firms fail in acquiring local projects (Hanid *et al.*, 2008). According to Abdul Aziz and Wong (2010), 74 Malaysian construction firms are operating as contractors in 57 countries worldwide including China, Europe, Africa and South America. These firms engage in construction projects, such as commercial and residential buildings, roads, infrastructure and airports.

After the independence, Malaysia had a rapid development and due to the high market potential, foreign MNCs operated many projects in the country. They transferred their technology to the Malaysian contractors. This helped Malaysian construction firms to enhance their technological capabilities. Since the 1980s, the government of Prime Minister Mahatir encouraged Malaysian contractors to venture abroad. These firms gained their competitive advantage form their firm-specific resources and the Malaysian market, as their home country (Abdul Aziz and Wong, 2010). According to Ahmad and Kitchen (2008a), Malaysian construction firms usually use joint venture for foreign operations. Using a partnership mode helps such firms to benefit from the experience and financial resources of their qualified local partners, to reduce investment risks, to increase flexibility and to operate easily.

As Table 2.16 indicates, the first overseas projects by Malaysian construction firms started in 1986. However, the international operation of these firms was slow and gradual. In 1986-2000, 203 projects with a value of RM 10.7 billion were undertaken while it increased to 434 projects in the recent decade with the value of RM 93.1 billion (CIDB, 2010). This also shows that Malaysian contractors started with smaller projects with lower value and over time, they undertook larger projects so that the average value of projects increased from RM 10 million between 1986 and 2000 to RM 311 million between 2006 and 2010.

Table 2.16: The overseas Projects of Malaysian Contractors by Year

Year	Number of Projects			Project Value (RM million)		
	Total	Completed	Ongoing	Total	Completed	Ongoing
1986-1990	9	9	0	92	92	0
1991-1995	48	48	0	4,236	4,236	0
1996-2000	146	146	0	6,413	6,413	0
2001-2005	228	220	8	28,980	20,372	8,608
2006-2010	206	131	75	64,106	29,714	34,392
Total	637	554	83	103,827	60,827	43,000

Adapted from: CIDB (2010)

Due to the lack of financial, Malaysian construction firms have a limited scope for expansion and seek new markets with high potential. According to Ahmad and Kitchen (2008a), India has been the main market for Malaysian contractors. Although Asian markets are within a close geographic distance of the country, Malaysian contractors have mainly expanded into the Middle East and North Africa because the Malaysian government has a close relationship with the Islamic countries. Between 1986 and 2009, 60% of the value of contracts undertaken by Malaysian firms was assigned to India, Saudi Arabia, Qatar, Libya, China, Sudan and Bahrain. According to Table 2.17, 41% of the value of projects related to the Middle East, 20% South Asia, 14% Africa, 14% Southeast Asia, 6% East Asia, 2% Europe and 3% other countries (CIDB, 2010).

Table 2.17: Overseas Projects Undertaken by Malaysian Construction Firms (2009)

Region	Number of Foreign Projects			Project Value (RM million)		
	Total	Completed	Ongoing	Total	Completed	Ongoing
Middle East	126	101	25	36,678	20,409	16,269
South Asia	117	93	24	17,942	10,194	7,748
Africa	42	36	6	12,684	5,651	7,033
Southeast Asia	236	218	18	12,242	6,239	6,003
East Asia	82	78	4	5,720	5,417	303
Europe	9	7	2	1,913	82	1,831
Australia & Oceania	8	8	0	1,221	1,221	0
Latin America	3	3	0	628	628	0
North America	1	1	0	103	103	0
Central Asia	4	3	1	61	9	52
Total	628	548	80	89,192	49,953	39,239

Adapted from: CIDB (2010)

2.5.5 Social Networks of Malaysian Service Firms

According to Ahmad and Kitchen (2008a), networking capability can compensate the lack of resources of the firms from developing countries. Family-controlled firms are the dominant form of ownership in East Asian countries. In Malaysia 70% of companies are family-controlled and provide more than half of the country's GDP (Amran and Ahmad, 2009). Previous research shows that family-controlled firms have higher value added and performance than other firms (Amran and Ahmad, 2009, 2010; Ibrahim *et al.*, 2008). Anderson *et al.* (2005) argued that as the international expansion of firms is usually a critical decision made by entrepreneurs, family networks play a vital role in such a process.

Family business is a 'powerful engine of economic development' and plays a vital role in the global economy (Neubauer and Lank, 1998). According to Anderson *et al.* (2005), family business is a private firm owned, controlled and operated by two or more family members. In such a firm, policy-making is the duty of the members of the dominant family, who inherit the ownership. Family-owned firms in their business operations benefit from the support provided by external family networks. The family network can provide information needed for investment, high quality resources and financial support rapidly and at a lower cost.

Graves and Thomas (2008) applied the stage model of the internationalization and identified that the internationalization behaviour of family-owned firms is determined by three key factors, i.e. the level of resource commitment overseas, the availability of financial resources and the ability to use such resources to develop required capabilities for foreign operations. However, Andersson *et al.* (2006) found that the rapid expansion of firms from developing countries, such as Malaysia, does not follow the stage model. Malaysian firms not only expand rapidly and not gradually, but also they enter markets with psychic distance because they benefit from networking. Fernández and Nieto

(2005) argued that family-owned firms are less likely to involve in foreign business activities because they lack financial resources and managerial skills. Nevertheless, family networks help SMEs access to resources required for foreign operations.

Ethnicity is another factor that facilitates the internationalization of Malaysian service firms. According to Dwinger (2010), the dominance of the Chinese on most Malaysian firms caused them to venture more easily to countries such as Mauritius and South Africa, where there are Chinese minorities with developed business networks. This provides a positive country image for Malaysia and strong support for its government in Africa. According to Lee and Lee (2003), the Chinese survived the financial crisis between 1997 and 2001 due to their ethnic and family networks. The Chinese community networks have made it easy for the Chinese businesses to spread throughout Asia, where they connect to other Chinese nationals who dominate the major regional markets (Gomez and Hsiao, 2004).

In Malaysia, the Chinese community, which comprises 22% of the population in 2010, owns 40% of the corporate equity. Although the New Economic Policy (NEP) limited the share of non-Malays in corporations, following the financial crisis, the government allowed the non-Malays and foreigners to hold higher shares in business firms. In 1998, share of the ethnic Chinese in agriculture was 58%, manufacturing 53%, mining 45%, construction 55% and services 52% (Lee and Lee, 2003). Chinese-owned business firms, such as the Genting Group, use their ethnic networks to expand their activities not only into Asian markets but also into every country with a considerable Chinese minority such as the UK, Canada and the United States.

2.5.6 Government Participation in Malaysian Service Firms

Selvarajah (1994) argued that government intervention increases the investment risk for foreign companies. However, as Ahmad (2008) stated, government involvement is an essential factor in developing the overseas investment of Malaysian firms. The link

between firms and the government may create competitive advantage. The model of government-business relationship building that was introduced by MITI facilitated the intervention of government in business. Since the 1980s, Prime Minister Mahathir used the Japanese model and encouraged businesses and the government to work together in order to achieve a better performance in foreign markets. Therefore, the public sector should support and strengthen the private sector (Callender and Johnston, 1998).

According to Callender and Johnston (1998), the focus of Malaysia on high-tech industries has forced the government to plan for improving the labour force and high skilled workers, attracting foreign investment and expanding export markets. However, by implementing the Vision 2020, the government paid attention to the concept of productivity as well. Based on such a plan, Malaysian firms adopted long-term strategic expansion plans to enter foreign markets and strengthen their core business through vertical integration (Selvarajah, 1994). One of the strategies that the government used to support local firms and overcome racial inequality was to intervene in business firms on behalf of the Bumiputra (see Ahmad, 2008; Ariff and Lopez, 2007).

In terms of ownership, Malaysian firms are divided into three types: first, the government-linked companies (GLCs), in which the Malaysian government has more than 50% equity shares and their annual sales volume is more than RM 100 million; second, the resident-controlled companies (RCCs), in which Malaysian residents have more than 50% equity shares; and third, the non-resident controlled companies (NRCCs), in which foreigners have more than 50% equity shares (see Ariff and Lopez, 2007). Ahmad (2008) studied the international strategies of three major GLCs, i.e. Petronas, Sime Darby and Telekom Malaysia. However, most service firms are RCCs and just a few firms, such as Malaysian Airlines (MAS), Tenaga and Telekom, are mainly owned by the government.

Between 1999 and 2005, the share of Malaysian-controlled companies including GLCs and RCCs in the outward FDI flows of Malaysia increased from 65% to 83% whereas the share of the NRCCs or foreign-controlled companies reduced from 35% to only 17%. In addition, 48% of the total outward FDI of the Malaysian-controlled companies flowed to the service industries. However, the main areas of investment for the GLCs were oil and gas services, and telecommunications while the RCCs mainly invested in public utility, trade and retailing, hotels, construction and financial services. In addition, the Malaysian-controlled companies financed their investments – 62% from the internal capital market while the foreign-controlled companies relied 91% on the offshore banking system (Ariff and Lopez, 2007).

2.6 Gaps Found in the Literature

As the review of the literature of the internationalization of firms showed, there are various gaps in both the theoretical and practical aspects. This chapter described different theoretical explanations about the international strategies of firms, their strategic motives and the form of their foreign operation. However, there is no agreement between the existing theories in explaining the internationalization process of firms and its determinants (Cumberland, 2006; Decker and Zhao, 2004; Ekeledo and Sivakumar, 2004; Gannon, 1993; Sharma and Erramilli, 2004).

The existing theories of internationalization have many shortcomings. The first gap is that these theories believe in different starting points for the international expansion of firms, as the default mode or the typical form of market entry. While the internationalization theory and the IO theories consider low-control modes, such as exporting, as the default entry mode, the resource-based view insists that sole ownership or establishing wholly owned subsidiaries in foreign markets is the basic form of operation that a firm may adopt. If a firm lacks sufficient resources to establish its own subsidiaries, it will switch to other entry modes, such as joint venture (see Ekeledo and

Sivakumar, 2004). According to the contingency theory, the type of entry mode that a firm selects is defined by the market position of the firm and the nature of products or services that the firm is offering (see Ekeledo and Sivakumar, 1998; Rundh, 2001).

The second gap refers to this fact that each theory considers a distinct set of variables as the main determinants of the internationalization strategies, especially the choice of entry mode. The stage model of internationalization focused on experiential market knowledge as the main determinant of the expansion strategies (see Johanson and Wiedersheim-Paul, 1975). However, other determinants such as networking, strategic considerations and industry requirements may influence the strategic decisions of the firm (Galbreath and Galvin, 2008; Morschett, 2006; Rutashobya and Jaensson, 2004). Hence, the networks theory introduces network relations as a way to gain knowledge and take the risk of investment (Håkansson, 1987; Johanson and Mattsson, 1988; Sharma and Blomstermo, 2003).

The IO theories concentrate on the country-specific and industry factors that primarily affect the international strategies of manufacturing firms (see Anderson and Gatignon, 1986; Dunning, 1977, 1980). This is because for the manufacturing firms it is important to obtain raw materials and labour force from the host countries, and seek customers for their products in foreign markets. However, the IO theories overestimated the role of environmental factors in international expansion (Ekeledo and Sivakumar, 2004; Pan and Tse, 2000). In contrast, the resource-based view considers firm-specific resources as the source of competitive advantage for both manufacturing and service firms. According to the resource-based approach, large and experienced companies favour the establishment of wholly owned subsidiaries in foreign markets. Such firms protect their proprietary technology and corporate image by avoiding partnership and contractual agreements with local firms (Barney, 1991, 1992; Ekeledo and Sivakumar, 2004; Fahy, 2002; Wernerfelt, 1984).

Some researchers tried to merge the previous approaches, however, even the efforts of Gannon (2003) to develop a comprehensive model of internationalization was not successful. This is because firms operate in different settings and under different conditions. Consequently, the contingency approach suggests that it is necessary to consider both internal and external factors that influence the international strategic decision-making of a firm and to investigate the situations under which the firm decides to internationalize its activities. In addition, the contingency theory emphasizes the characteristics of decision makers, as they are the ones who take the risk of investment and determine the form of expansion into foreign markets (see Ekeledo and Sivakumar, 1998; Kumar and Subramaniam, 1997; Okoroafo, 1990). However, the contingency model does not provide an optimal explanation for the entry mode choice of firms in foreign markets.

The third major gap in the literature is that previous research focused mainly on the international strategies of firms from developed countries or the Western MNCs (Ahmad, 2008; Kim *et al.*, 2002; Li, 2007; Pananond, 2007; Sim, 2006; Yeung, 1994). According to Table 2.18, previous studies mostly relate to firms based in developed nations, such as the US, European countries and Japan. Such firms are experienced and wealthy with established markets and advanced technology. They are usually early movers and enter foreign markets with higher resource commitment. This may affect the results of research concerning high control entry modes (Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004).

In addition, FDI studies have mostly focused on the flow of foreign investment from developed nations into developing countries and emerging markets (Asiedu, 2006; Bhaumik and Gelb, 2005; Buckley *et al.*, 2007; Chung and Enderwick, 2001; Claver and Quer, 2005; Erdal and Tatoğlu, 2002; Hennart, 1986; Jaumotte, 2004; Luo, 1998; Menzies and Orr, 2010; Sakarya *et al.*, 2007; Zhang *et al.*, 2007).

Table 2.18: Major Studies of the Internationalization of Developed Country Firms

Country of origin	Major studies
United States	Agarwal and Ramaswami (1992), Chen and Mujtaba (2007), Dunning (1980), Domke-Damonte (2000), Ekeledo and Sivakumar (2004), Erramilli and D'Souza (1993), Erramilli and Rao (1990, 1993), Herrmann and Datta (2002, 2006), Kwon and Konopa (1993), Terpstra and Yu (1988)
European Union	Blomstermo *et al.*(2006), Bradley and Gannon (2000), Brouthers (2002), Brouthers and Brouthers (2003), Brouthers and Nakos (2004), Brouthers *et al.* (2000), Claver and Quer (2005), Morschett (2006), Nakos and Brouthers (2002), Quer *et al.* (2007), Reiner *et al.* (2008)
US and EU	Brouthers and Brouthers (2001), Erramilli (1996)
Japan	Chang (1995), Chen and Hennart (2002), Hennart (1991), Kimura (1989), Kogut and Chang (1991), Pak and Park (2004), Taylor *et al.* (2000), Yip (1996)
US and Japan	Johanson and Yip (1994), Mansumitrchai *et al.* (1999), Taylor *et al.* (1998)
EU and Japan	Chang and Rosenzweig (1998), Kotabe and Omura (1989)
Canada	Driscoll and Paliwoda (1997)
Australia	Choo and Mazzarol (2001), Menzies and Orr (2010)
New Zealand	Chung and Enderwick (2001), Ratnayake and Townsend (1999)

As countries are in various stages of development and firms from developing countries do not have enough experience, financial support or technological advantage to run a business from scratch in foreign markets, it is not acceptable for them to follow the strategies of firms from developed nations. In addition, according to Sim (2006), the theories of internationalization have ignored the active role of the government and overlooked the institutional settings that are essential for the internationalization of Asian firms. Therefore, it is necessary to study the strategies of firms from developing countries. However, there are few researches about the internationalisation process and entry strategies of firms from developing countries (Ahmad and Kitchen, 2008; Riedel, 1998; Wells, 1983).

The fourth gap in the internationalization literature arises from researchers paying more attention to the manufacturing sector and industrial firms in their study of entry strategies (see Axinn and Matthyssens, 2002; Blomstermo *et al.*, 2006; Brouthers *et al.*, 2006; Domke-Damonte, 2000; Ekeledo and Sivakumar, 1998, 2004; Erramilli and Rao,

1993; Freeman *et al.*, 2007; Grönroos, 1999). According to Axinn and Matthyssens (2002), the internationalization theories mostly are product-oriented and focus on the behaviour of manufacturing firms. This is due to the dominance of IO theories since the 1970s, which resulted in the greater number of the manufacturing studies. Nevertheless, the progress of the service sector since the late 1980s has motivated scholars to study the expansion strategies of service firms (see Bharadwaj *et al.*, 1993; Blomstermo *et al.*, 2006; Brouthers, 1995; Brouthers *et al.*, 1996, 2006; Domke-Damonte, 2000; Dunning, 1993b; Ekeledo and Sivakumar, 1998; Erramilli, 1991, 1996; Erramilli and D'Souza, 1993; Erramilli and Rao, 1990, 1993; Erramilli *et al.*, 2002; Grönroos, 1999; Kim *et al.*, 2002; Quer *et al.*, 2007; Terpstra and Yu, 1988; Weinstein, 1977).

The fifth research gap refers to the disagreement between researchers in terms of generalizing the strategies that are applicable in manufacturing firms to those in the service sector. Some researchers believe that such strategies can be generalized to service firms (see Agarwal and Ramaswami, 1992; Terpstra and Yu, 1988; Weinstein, 1977). However, other scholars could not generalize the strategies of manufacturing firms to service firms because manufacturing firms are distinct from some services in terms of their strategic motives of entry and favourite entry modes (Brouthers and Brouthers, 2003; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1990, 1993).

The sixth gap is that most studies on the internationalization of services have been limited to a unique industry or a small number of industries (Ekeledo, 2000; Kogut and Singh, 1988). This is because they ignored the differences between various service firms in terms of their entry mode choice. In fact, there are two types of services, i.e. hard services with a separable output and soft services with an inseparable output. According to previous research, soft service firms need to exercise higher control over their foreign affiliates (see Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 1998, 2004; Erramilli, 1991; Erramilli and Rao, 1990, 1993).

2.7 Summary of the Previous Research

The literature review for this study includes the theoretical and empirical research within the areas of internationalization of firms and entry mode strategy. As shown in Table 2.19, previous research tried to justify the decision of the firm to internationalize its operations and to adopt a suitable entry mode. As stated before, most of the researchers have studied the internationalization strategies of manufacturing firms from developed countries while a few studies relate to service firms from developing nations.

Table 2.19: Major Studies on Internationalization and Entry Mode Choice

Researchers	Type of Study	Explanatory Constructs	Exploratory Constructs	Findings
Agarwal and Ramaswami (1992)	Empirical	Ownership advantages, location advantages, internalization advantages	Four types of entry mode strategies	Firms tend to present only in markets with high potential and hesitate to enter risky markets.
Ahmad (2008)	Empirical	Technological capability, Networking capability	FDI flows and competitive advantages	Malaysian firms use network relationships and accumulated technology to venture abroad.
Ahmed *et al.* (2002)	Empirical	Control risks, market complexity risks, international risks factors	Non-equity modes vs. equity modes	International risk has a negative effect on the level of resource commitment as well as control.
Blomstermo *et al.* (2006)	Empirical	Type of service, relational friction, business experience, cultural distance	High control modes vs. low control modes	Soft services prefer high control entry modes. Greater cultural distance results in selecting high control modes.
Bradley and Gannon (2000)	Empirical	Marketing strategy, demand uncertainty, transaction specificity, value-added activities	High control modes vs. low control modes	Firms with high R&D costs and technically complicated products are more likely to choose a high-control mode.
Brouthers (2002)	Empirical	Transaction cost, asset specificity, legal restrictions, investment risk, market potential	Wholly owned subsidiary vs. joint venture	Entry mode choice is driven by general transaction cost factors, institutional context and cultural context variables.
Brouthers and Brouthers (2001)	Empirical	Cultural distance, investment risk	Wholly owned subsidiary vs. joint venture	Firms entering markets with high investment risk and more cultural difference favour JV.
Brouthers and Brouthers (2003)	Empirical	Asset specificity, environmental uncertainty, behavioural uncertainty	Wholly owned subsidiary vs. joint venture	Services entry relates to asset specificity and behavioural uncertainty. Manufacturing entry mode relates to the environmental uncertainty.
Brouthers and Nakos (2004)	Empirical	Asset specificity, environmental uncertainty, behavioral uncertainty	Equity modes vs. Non-equity modes	The transaction cost model can be used by SME managers as a useful tool for decision-making.

Table 2.19: Continued…………..

Researchers	Type of Study	Explanatory Constructs	Exploratory Constructs	Findings
Brouthers *et al.* (2000)	Empirical	Perceived environmental uncertainty, industrial sector	Wholly owned subsidiary vs. joint venture	MNCs should consider multiple dimensions of international risk to have a better performance.
Buckley *et al.* (2007)	Empirical	Foreign ownership, Spillovers absorbed, Industry factors	FDI flows and ownership	Firms from developing countries such as China may use spillovers from Western firms and benefit from FDI inflows.
Chang and Rosenzweig (1998)	Empirical	Nationality, industry globalization, speed of globalization	Sequential entry mode	European and Japanese firms exhibit a pattern of sequential entry based on industry factors.
Chen and Mujtaba (2007)	Empirical	Firm-specific factors, country-specific factors, market-specific factors	High control modes vs. low control modes	MNCs with high asset specificity and international experience tend to high control entry modes.
Cheng (2006)	Empirical	Investor resources, host firm resources, host country risks	Greenfield vs. acquisition & Brownfield	To compete with host country firms, a company should own valuable specific resources.
Chung and Enderwick (2001)	Empirical	International experience, immigrant effect, market size, service requirements	Exporting vs. FDI	Firms established by immigrants originating from the host country favour FDI. Experience helps firms enter foreign
Dunning (1980)	Empirical	Ownership advantages, location advantages, internalization advantages	Exporting vs. FDI	OLI model can explain the difference in entry mode choice.
Ekeledo and Sivakumar (1998)	Theoretical	Product classification, Service classification	Five types of entry mode strategies	Based on a contingency model of entry strategy, service firms choose different entry modes.
Ekeledo and Sivakumar (2004)	Empirical	Firm specific resources, firm capabilities, strategic consideration	High control modes vs. low control modes	Firm resources are vital factors. Manufacturing and soft service firms follow different patterns.
Erramilli (1996)	Empirical	Home country factors	Three types of JV versus non-equity modes	There is a strong preference for majority or full ownership among US MNCs compared to European and Japanese MNCs.
Erramilli and D'Souza (1993)	Empirical	Firm size, capital intensity	FDI modes vs. non-equity modes	When capital intensity is high, large firms tend to FDI more than small firms.
Erramilli and Rao (1990)	Empirical	Motives for entry, Following clients, Market seeking	Entry modes based on the involvement	Service firms adopt more aggressive entry modes when following their existing clients in foreign markets.
Erramilli and Rao (1993)	Empirical	Asset specificity	Shared-control vs. full-control modes	The effect of asset specificity on entry mode choice is modified by costs of integration or firm's ability to have its own affiliates.
Evans (2002)	Empirical	Internal determinants	Entry mode strategy	Foreign experience, psychic distance and decision-making structure affect entry choice.

Table 2.19: Continued…………..

Researchers	Type of Study	Explanatory Constructs	Exploratory Constructs	Findings
Evans *et al.* (2000)	Theoretical	Psychic distance, organizational factors, management factors	Entry mode strategy and performance	A theoretical framework of the effect of psychic distance on performance was suggested.
Gannon (1993)	Theoretical	Marketing strategy variables	High control modes vs. low control modes	Marketing strategy variables have a major effect on entry mode rather than other factors.
Gao (2004)	Theoretical	Internal environment, external environment, strategic objectives, relational variables	Four types of entry mode strategies	A contingency model explains entry choice regarding firm's bargaining power based on its setting, goals and relations.
Javalgi *et al.* (2010)	Empirical	Firm size and experience, multinationality, market growth	Involvement level and entry mode	Current involvement in foreign markets may have effect on the future expansion of firms.
Kwon and Konopa (1993)	Empirical	Host country factors, language similarity, competitors' resources	FDI modes vs. exporting	Markets with a good business environment and abundant production factors attract FDI.
Mayrhofer (2004)	Theoretical	Home country factors	Entry mode strategy	The impact of the home country factors on entry mode depends on the host country factors.
Meyer (2001)	Empirical	Institutional reform, geographic distance, technology transfer, management capability	Four types of entry mode strategies	Foreign entrants to East Europe should adjust to local conditions to accommodate high transaction costs due to institutional factors.
Morschett (2006)	Empirical	Global strategic motives, competitive strategy, firm-specific variables	Wholly-owned mode vs. cooperative modes	Manufacturing firms use after sales services to seek global integration, experience, market and competitive advantage.
Nakos and Brouthers (2002)	Empirical	Ownership advantages, location advantages, internalization advantages	Equity modes vs. non-equity modes	Product differentiation, market potential, industry type, legal restriction and contractual risk affect entry mode of SMEs.
Osland *et al.* (2001)	Empirical	Target market factors, company factors	Four types of entry mode strategies	Target market factors and risk are vital to Japanese while firm factors to Americans.
Pan and Tse (2000)	Empirical	Location factors, host country risk, national cultural, industry factors	Equity modes vs. non-equity modes	Choice of entry modes can be a hierarchical process that starts with the choice between equity and non-equity modes.
Pananond (2007)	Empirical	Technological capability, networking capability	FDI flows and competitive advantage	Accumulation of technology and using network relationships help Thai firms to gain competitive advantage and adopt FDI modes.
Quer *et al.* (2007)	Empirical	Country factors, firm factors	Equity modes vs. non-equity modes	If country risk and cultural distance is high, the firm will commit more resources.
Sharma and Erramilli (2004)	Theoretical	Firm-specific resources, competition	Five types of entry mode strategies	Competitive advantage and transfer advantage to the host country affects entry mode.

Table 2.19: Continued…………..

Researchers	Type of Study	Explanatory Constructs	Exploratory Constructs	Findings
Sim (2006)	Empirical	Motives for entry, Strategic Advantages	Wholly owned subsidiary vs. joint venture	Entry strategies of firms depend on cost-based competencies and other location-based advantages.
Taylor et al. (2000)	Empirical	Motives for entry, firm factors, host country factors	High control modes vs. low control modes	Entry mode of firms is affected by local contribution, country risk and government restriction.
Tsai and Cheng (2002)	Empirical	Investment motivation, ownership advantages, asset specificity, investment environment	High control modes vs. low control modes	Investment motivation, foreign market environment, asset specificity and firm resources affect entry choice.
Tuppura et al. (2008)	Empirical	Accumulated expertise, resources versatility, Networks dependence	Timing of market entry	Gaining knowledge, adaptability of resources and dependence on networks affects entry timing.
Woodcock et al. (1994)	Empirical	Resource requirements, Organizational control	Greenfield vs. JV and acquisition	Contingency factors modify the transaction costs of acquiring resources and exerting control.

2.8 Conclusion

In this chapter, a brief view of the literature concerning the internationalization process and its components, i.e. market selection, entry timing and entry mode choice was provided. The choice between equity and non-equity entry modes or the choice between high control and low control modes is a critical decision that managers should make based on the trade-off between risks and returns. The existing theories and models that explain the logic behind adopting different internationalization strategies, especially the choice of entry mode, were discussed using a critical approach.

In recent decades, researchers have paid attention to the rapid internationalization of services, especially after the formation of the WTO and the implementation of the GATS that was explained in this chapter. In addition, a brief overview of the overseas investments of Malaysian services was provided as well as the economic policies set by the government as a push factor to encourage Malaysian firms to internationalize their activities. A historical review of the internationalization of Malaysian services was also provided and the role of social networks in the internationalization of these services was

discussed. Finally, the intervention of the government in Malaysian service firms and its support for SMEs was briefly evaluated.

To investigate the impact of organizational factors on the internationalization strategies of service firms in the context of Malaysia, a research framework is developed to guide the empirical research. In the next chapter, the variables used in such a model and the hypotheses that explain the relationships between such variables are described in details. These variables are related to firm-specific resources, strategic considerations and product characteristics.

CHAPTER 3

RESEARCH FRAMEWORK: INTERNAL FACTORS AS DETERMINANTS OF INTERNATIONALIZATION

3.0 Introduction

As stated in Chapter 2, there are two types of factors, which have a direct effect on the internationalization process of firms and the choice of entry mode – internal or organizational factors and external or environmental factors (see Erramilli, 1992; Ekeledo and Sivakumar, 2004; Gao, 2004). In previous studies, because of the flaws of the internationalization theories, there was no clear universal classification of these elements that all scholars agreed upon it. The eclectic theory considered both factors but focused mainly on the location factors including the market potential, which refers to the size, demand and growth of the host country's market as well as its level of development and resources, and country risk, which refers to the political and legal environment of the host country as well as host government restrictions and policies, and the socio-cultural distance between home and host countries (Agarwal and Ramaswami, 1992; Choo and Mazzarol, 1998, 2001; Dunning, 1977, 1980, 1988). In addition, some researchers suggested that industry characteristics have a major effect on internationalization and entry mode strategy (Chang and Rosenzweig, 1998; Elango and Sambharya, 2004; Fisher and Ranasinghe, 2001; Kogut and Singh, 1988).

However, the monopolistic advantage theory of Hymer (1960, 1976), and the resource-based view of Wernerfelt (1984) and Barney (1991) believe that firms rely mostly on their specific resources and capabilities in order to expand internationally. Ekeledo and Sivakumar (2004) added strategic considerations as other major factors that determine the decision of international expansion and the choice of entry while, in turn, they are affected by firm resources. Johanson and Vahlne (1977) mentioned that market knowledge is the basis for internationalization. However, the networks approach

argued that this knowledge could be achieved through networking with other firms (Ahmad, 2008; Hutchinson *et al.*, 2006; Johanson and Mattsson, 1988; Sharma and Blomstermo, 2003). Finally, the contingency theory considered all factors related to the internal and external environment of firms while focusing on the characteristics of decision makers and the situation in which the strategic choices of internationalization are made (Ekeledo and Sivakumar, 1998; Gao, 2004; Kumar and Subramaniam, 1997).

In this chapter, a conceptual framework is developed for the purpose of study to explain the major factors that determine the internationalization strategies of service firms from Malaysia, as a developing country. Subsequently, all variables in the model are explained in detail and their relation with internationalization strategies is discussed in order to develop hypotheses for empirical testing.

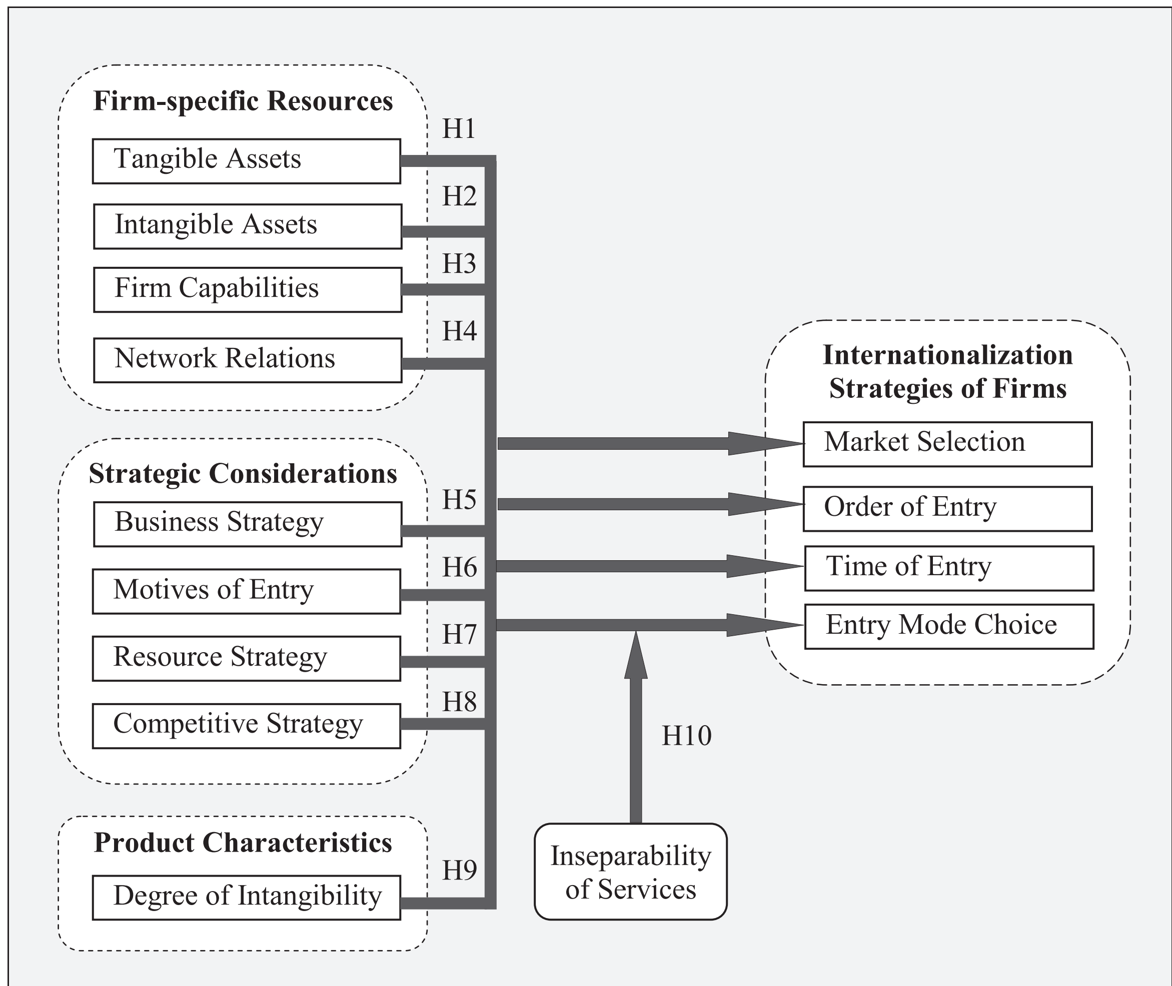
3.1 Conceptual Framework of the Study

This study focuses on the internal or organizational factors that can give a firm a competitive advantage, which distinguishes it from other companies and gives it a strong position in the market (Quer *et al.*, 2007). Therefore, these factors are the source of the competitive advantage of firms and affect the strategic motives of firms to enter new markets. Organizational factors are controlled by the firm and managers can plan to enhance them. According to Ekeledo and Sivakumar (1998), internal factors include firm-specific resources, strategic considerations and product characteristics.

Figure 3.1 illustrates the conceptual framework of the study, which describes the internal factors or the predictors of internationalization as nine independent variables (IVs) classified in three second-order constructs including firm-specific resources, strategic considerations and product characteristics. These independent variables are supposed to influence the internationalization strategies of Malaysian service firms including four dependent variables (DVs), i.e. market selection, the order of market entry, the time of entry and entry mode choice. The effect of the independent variables

on the internationalization strategies may be moderated by the inseparability of services. The literature has found some differences between separable services and non-separable services in terms of their international business strategies (see Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993).

Figure 3.1: Proposed Model of the Internationalization of Malaysian Services



As shown in Table 3.1, based on the research framework, this study proposes a set of general hypotheses, which explain the existence of relationships between the independent variables and the dependent variables as well as the moderating effect of inseparability. By conducting an empirical study, it is possible to assess the strength of each relationship and provide empirical support for the proposed model. This helps to explore a new approach concerning the internationalization strategies of Malaysian service firms.

Table 3.1: Hypotheses Concerning Internationalization of Malaysian Services

No.	Hypotheses Explanation
H1a	There is a relationship between tangible assets and market selection
H1b	There is a relationship between tangible assets and the order of entry
H1c	There is a relationship between tangible assets and the time of entry
H1d	There is a relationship between tangible assets and entry mode choice
H2a	There is a relationship between intangible assets and market selection
H2b	There is a relationship between intangible assets and the order of entry
H2c	There is a relationship between intangible assets and the time of entry
H2d	There is a relationship between intangible assets and entry mode choice
H3a	There is a relationship between firm capabilities and market selection
H3b	There is a relationship between firm capabilities and the order of entry
H3c	There is a relationship between firm capabilities and the time of entry
H3d	There is a relationship between firm capabilities and entry mode choice
H4a	There is a relationship between network relations and market selection
H4b	There is a relationship between network relations and the order of entry
H4c	There is a relationship between network relations and the time of entry
H4d	There is a relationship between network relations and entry mode choice
H5a	There is a relationship between business strategy and market selection
H5b	There is a relationship between business strategy and the order of entry
H5c	There is a relationship between business strategy and the time of entry
H5d	There is a relationship between business strategy and entry mode choice
H6a	There is a relationship between motives of entry and market selection
H6b	There is a relationship between motives of entry and the order of entry
H6c	There is a relationship between motives of entry and the time of entry
H6d	There is a relationship between motives of entry and entry mode choice
H7a	There is a relationship between resource strategy and market selection
H7b	There is a relationship between resource strategy and the order of entry
H7c	There is a relationship between resource strategy and the time of entry
H7d	There is a relationship between resource strategy and entry mode choice
H8a	There is a relationship between competitive strategy and market selection
H8b	There is a relationship between competitive strategy and the order of entry
H8c	There is a relationship between competitive strategy and the time of entry
H8d	There is a relationship between competitive strategy and entry mode choice
H9a	There is a relationship between degree of intangibility and market selection
H9b	There is a relationship between degree of intangibility and the order of entry
H9c	There is a relationship between degree of intangibility and the time of entry
H9d	There is a relationship between degree of intangibility and entry mode choice
H10	Inseparability of services moderates the effects of the IVs on entry mode choice

As already stated, each independent dependent variable has different dimensions. Therefore, each hypothesis encloses the relationship between each dimension of the IVs and each one of the DVs. The present study aims at testing the proposed relationships in the context of Malaysia and among various service industries to explore the process under which Malaysian service firms venture into foreign markets and operate there.

3.2 Firm-specific Resources and their Effect on Internationalization

Each company that operates in the market has special assets and resources that help it benefit from business operations. Firm-specific resources are specific attributes, which separate a firm from others or give a relative advantage to the firm (Carpano *et al.*, 2003). Barney (1991) divided firm's resources into three types, i.e. physical capital including firm's properties, equipment, raw material and tangible technology used by firms; human capital comprising knowledge, skills, intelligence, experience, judgment, training, relationships, and insights of managers and employees; and organizational capital consisting of planning, coordinating systems, formal reporting procedure, formal or informal organizational routines, and informal relationships within and outside the firm (see Carpano *et al.*, 2003; Wilson and Amine, 2009).

Other researchers have classified firm-specific resources into two groups including tangible assets, such as physical assets, human resources and financial assets, and intangible assets, such as organizational culture, intellectual properties and firm reputation (Carpano *et al.*, 2003; Ekeledo and Sivakumar, 2004; Fahy, 2002; Knott, 2009; Sharma and Erramilli, 2004; Wernerfelt, 1984). Some studies considered certain intangible assets as firm capabilities, which are the result of a firm's assets, and through these capabilities, a firm can utilize its assets. Proprietary technology, tacit knowhow and business experience are major firm-specific capabilities (Anderson and Gatignon, 1986; Camisón and Villar, 2009; Ekeledo, 2000; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Hill *et al.*, 1990; Madhok, 1997).

The limitations of resources cause an economic rent for the firms that possess valuable resources in the market (Fahy, 2002). As Dunning (1977, 1980, 1981, 1988, and 1993a) explained in his eclectic paradigm, ownership advantage, which refers to a firm's specific resources, plays a vital role in the internationalization decision and presents a unique advantage for a firm. Such an advantage distinguishes a firm from its competitors and gives it a better position in the market (Nakos and Brouthers, 2002). Firm-specific resources also refer to the monopolistic advantages that were introduced by Hymer (1960, 1976) and the concept of asset specificity of the transaction theory (see Chen and Mujtaba, 2007; Claver and Quer, 2005). Hymer (1960) believed that every firm entering a foreign market should have some ownership advantage to be able to compete with local companies (see Quer *et al.*, 2007).

The resource-based theory focused on firm-specific resources as the sources of competitive advantage and the main determinants of a firm's decision strategy to enter foreign markets (see Barney, 1991; Camisón and Villar, 2009; Carpano *et al.*, 2003; Conner, 1991; Ekeledo and Sivakumar, 2004; Fahy, 2002; Wernerfelt, 1984). Almor and Hashai (2004) argued that the heterogeneity of firm-specific resources and utilizing them causes a competitive advantage for firms. If a firm has a sustainable competitive advantage, it can achieve superior performance and increase its profitability (Fahy, 2002; Wilson and Amine, 2009).

A firm obtains its resources initially from its home country and generates its competitive advantage there; however, through internationalization it can transfer its resources to foreign countries and enhance such assets by utilizing available resources and opportunities in the foreign markets (Camisón and Villar, 2009). Furthermore, in the contingency theory, the resources of firms are considered as internal factors that affect their internationalization strategies and their choice of entry mode (Ekeledo and Sivakumar, 1998; Gao, 2004).

Each firm, with regard to its specific resources, decides to expand its operations into foreign markets and selects an appropriate entry mode strategy. According to Erramilli *et al.* (1997), firms cannot transfer all types of ownership advantages to foreign markets. If these firm specific resources are not transferable, firms may favour non-equity modes in order to enhance their ownership advantages through the host country firms and partners. In cases, in which the ownership advantage is transferred globally without losing its value, firms will select an equity entry mode, such as sole ownership or joint venture. These equity modes help a firm protect its resources and competitive advantage (Anderson and Gatignon, 1986; Nakos and Brouthers, 2002).

As stated earlier, firm-specific resources are divided into two categories - tangible assets and intangible assets. Tangible assets or physical capital is defined as the fixed or current assets of a company that can create a relatively fixed long-term value (Fahy, 2002; Wernerfelt, 1989). Tangible assets are divided into physical assets, natural resources, human resources and financial assets while intangible assets consist of technological resources and organizational resources (Carpano *et al.*, 2003; Cloninger, 2004; Ekeledo and Sivakumar, 2004; Fahy, 2002; Wilson and Amine, 2009).

Researchers have classified some intangible assets, such as business experience, tacit knowhow and proprietary technology, as firm capabilities, which differentiate the employees of a firm from its competitors (Day, 1994; Ekeledo and Sivakumar, 2004). In addition, network relations is considered as another capability that resides in a firm and enables it to promote its foreign operation in international markets (see Ahmad, 2008; Ahmad and Kitchen, 2008; Pananond, 2007; Thirawat *et al.*, 2007). According to Fahy (2002), firm capabilities have a more vital role in creating sustainable competitive advantage for firms than intangible assets and tangible assets. Consequently, it is necessary to investigate the effect of firm-specific resources on the international expansion of service firms based on the literature.

3.2.1 Tangible Assets: The Physical Inputs and Outputs of Firms

Tangible assets are divided into physical assets including land, buildings, machinery, technological instruments and facilities; natural resources including raw materials and the energy supply available to a firm; human resources or the number of employees and managers; and financial assets such as internal funds, bank deposits, stocks and sales volume (Carpano *et al.*, 2003; Ekeledo and Sivakumar, 2004; Fahy, 2002; Williamson, 1975; Wilson and Amine, 2009). However, to explain a firm's tangible assets, the literature has often used firm size as an important factor influencing the international strategy of firms (see Ekeledo and Sivakumar, 2004; Morschett, 2006). Financial strength and profitability are considered as other factors that indicate the ability of a firm to finance its operations and access to capital and financial markets (Claver and Quer, 2005; Lin, 2009; Quer *et al.*, 2007; Trevino and Grosse, 2002; Wilson and Amine, 2009).

According to Sharma and Erramilli (2004), a firm with strong tangible assets may produce its products with lower costs and benefit from efficiency. However, some researchers have argued that tangible assets cannot be viewed as a source of competitive advantage for two reasons: first, these resources are easily obtained in the factor markets. Then, all firms can benefit from such resources. Second, competitors can duplicate them easier than intangible assets. Therefore, they have less importance in creating sustainable competitive advantage and superior returns for a firm (see Barney, 1986, 1991; Fahy, 2002; Galbreath and Galvin, 2008; Teece, 1998).

a. Firm Size

Firm size refers to the tangible assets of a firm, such as the number of employees, total sales volume, the number of branches and outlets, total capital or total firm's financial assets (see Blomstermo *et al.*, 2006; Brouthers and Brouthers, 2003; Chung and Enderwick, 2001; Claver and Quer, 2005; Ekeledo and Sivakumar, 2000; Erramilli

and D'Souza, 1993; Erramilli *et al.*, 2002; Gatignon and Anderson, 1988; Kaya and Erden, 2008; Morschett, 2006; Quer *et al.*, 2007; Trevino and Grosse, 2002; Tsai and Cheng, 2004). Firm size points out the competitive advantage of firms in financial, physical, human, technological and organizational resources. Larger firm size is a driver to invest in foreign markets and increase profitability (Czinkota *et al.*, 2009; Ekeledo and Sivakumar, 2004; Javalgi *et al.*, 2010; Lin, 2009; Nakos and Brouthers, 2002).

A large size enables a firm to integrate individual activities and expand into foreign markets (Erramilli and Rao, 1993; Erramilli and D'Souza, 1995; Morschett, 2006). Based on the transaction cost approach, integration requires a higher level of resource commitment and firms should bear more risks. Larger firm size enables firms to greater financial and managerial resources, bear transaction costs and the costs of operation, and make direct investment in foreign markets (Agarwal and Ramaswami, 1992; Buckley and Casson, 1976; Chen and Mujtaba, 2007; Claver and Quer, 2005; Kaya and Erden, 2008; Morschett, 2006). Therefore, firm size has a positive effect on the decision of firms for international expansion (Agarwal and Ramaswami, 1992; Chen and Hu, 2002; Lin, 2009; Trevino and Grosse, 2002).

Firms need more resources in order to afford the high cost of foreign operations. Firm size indicates the market power or the asset power of a firm, which helps the firm to expand internationally, achieve economies of scale and compete with other firms in foreign markets (Agarwal and Ramaswami, 1992; Choo and Mazzarol, 1998; Trevino and Grosse, 2002). Larger firms have higher production ability and their managerial and financial resources are more flexible than the resources of SMEs (Czinkota *et al.*, 2009). Such large firms benefit from advanced technology and innovation, offer diversified products or services and achieve economies of scale (Javalgi *et al.*, 2010).

Large firms can use the opportunities of target markets better, reduce transaction costs and decrease the uncertainty of foreign investment (Fisher and Ranasinghe, 2001;

Kaya and Erden, 2008). Furthermore, large firms can utilize their resources, achieve strategic motives through foreign investment, protect their brand and intellectual properties, and develop global synergy. This enables them to enter unfamiliar emerging markets with higher risk of investment (Lin, 2009). In contrast, SMEs use selective strategies and enter a few countries with high market potential that offer high returns (Nakos and Brouthers, 2002; Pinho, 2007).

According to Kaya and Erden (2008), home country is the origin of a firm's size and resources. Firms from developed countries usually have a larger size, a high amount of capital and advanced technology. Therefore, they can benefit from economies of scale and offer differentiated products and services in global markets. However, firms from developing countries are usually smaller with less resources resulting in operating in labour-intensive industries. They offer undifferentiated products and services, and enter regional markets or niche markets (Kaya and Erden, 2008).

Empirical studies have found a positive relationship between large firm size and the high level of involvement and resource commitment by choosing equity entry modes or FDI modes (Caves and Mehra, 1986; Chen and Hu, 2002; Javalgi *et al.*, 2010; Kimura, 1989; Lin, 2009; Talay and Cavusgil, 2009; Terpstra and Yu, 1988; Yu and Ito, 1988). The internalization theory also believes that larger firms can benefit from international business by internalizing their foreign operation. Through sole ownership, a firm can take more risks and afford the higher costs of international market expansion (Buckley and Casson, 1976).

The eclectic paradigm considers firm size as a major source of ownership advantage, which influences the choice of entry mode. Larger firms are able to expand into international markets and adopt equity entry modes whereas, smaller firms with fewer resources prefer to exploit their abilities by adopting non-equity modes or joint venture with local firms (see Agarwal and Ramaswami, 1992; Brouthers *et al.*, 1999;

Chen and Mujtaba, 2007; Claver and Quer, 2005; Dunning, 1977, 1980, 1988; Nakos and Brouthers, 2002; Pinho, 2007; Quer *et al.*, 2007).

The transaction cost theory suggests that large firms have access to abundant resources and can bear the costs of transactions. Consequently, firm size has a strong effect on entry mode choice (Anderson and Gatignon, 1986; Gatignon and Anderson, 1988; Claver and Quer, 2005; Tsai and Cheng, 2004; Morschett, 2006; Sanchez-Peinado *et al.*, 2007). Sanchez-Peinado *et al.* (2007) indicated that large firms are able to finance their foreign operations and commit resources overseas through an internalized flow of assets. Furthermore, the bargaining power theory suggests that larger firms have more bargaining power and can negotiate easier to gain higher control and ownership equity in foreign markets as well as financial resources (Chen and Mujtaba, 2007; Erramilli and Rao, 1993; Javalgi *et al.*, 2010; Taylor *et al.*, 2000).

The resource-based view (RBV) insists that the size of firms is a source of their competitive advantage, which enables them to expand their operations into foreign markets and use the opportunities for growth (see Czinkota *et al.*, 2009; Ekeledo and Sivakumar, 2004; Trevino and Grosse, 2002). Large size enables firms to commit more resources and exert higher control over their foreign operations. Therefore, larger firms prefer high control modes, especially wholly owned subsidiary. In contrast, small firms can access supplementary assets by collaborating with local firms in foreign markets (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Morschett, 2006).

As Ekeledo and Sivakumar (2004) suggested, firm size is a relative measure. This means that the size of a firm should be considered in relation to its rivals. Therefore, a small or medium-sized enterprise (SME) in a home country may be viewed as a large firm compared to its competitors in a foreign market. A firm that is relatively larger than its competitors may own more resources and will be able to do business in a foreign market alone or with a majority ownership. In contrast, small firms prefer to

export their products or involve in contractual entry modes and partnership to enter foreign markets. Nevertheless, even among small firms there is a difference in entry mode choice so that medium-sized firms or larger SMEs tend to adopt equity modes while smaller SMEs prefer non-equity or low control entry modes (Ekeledo and Sivakumar, 2004; Nakos and Brouthers, 2002; Osborne, 1996; Pinho, 2007). Therefore, researchers have claimed that there is a positive relationship between the size of a firm compared to its competitors in a foreign market and the adoption of a high control entry mode (see Chen and Mujtaba, 2007; Domke-Damonte, 2000; Ekeledo and Sivakumar, 2004; Evans, 2002; Morschett, 2006; Taylor *et al.*, 2000).

Some researchers did not find a strong positive relationship between firm size and the adoption of high control modes or found contradiction (see Chen and Mujtaba, 2007; Morschett, 2006; Quer *et al.*, 2007; Taylor *et al.*, 2000). According to Quer *et al.* (2007), firms sometimes grow in size not through capital investment but by building a network of contractual alliances. Consequently, some large service firms may expand through contractual agreements rather than sole ownership or joint venture. Some large manufacturers prefer to outsource their after sales and customer services (Morschett, 2006). In addition, other factors such as international experience and market potential may affect the choice of entry mode. Small firms may decide to invest directly in foreign countries with a high market potential. If such firms have low business experience, they will probably use joint venture in order to decrease the costs and risks of investment (Agarwal and Ramaswami, 1992; Chen and Mujtaba, 2007).

b. Financial Strength

The financial strength of a firm enables it to handle its business activities and solve its financial problems easier and more effectively. After doing investment abroad and committing required resources, a firm needs to support its subsidiaries financially (Quer *et al.*, 2007). To have abundant financial resources, firms need high financial

performance (Lin, 2009). Although in the literature concerning entry mode little attention was given to this fact, some researchers have mentioned financial standing including the internal and external funds available for investment and operation as an important factor affecting firm business strategy and international success (Bobillo *et al.*, 2007; Cort *et al.*, 2007; Quer *et al.*, 2007; Pablo, 2009).

As Pablo (2009) stated, firms can create internal capital markets to avoid the high cost of funding for their activities. Penrose (1959) believed that due to idle productive resources that are usually available, a firm finds opportunities to grow. In addition, Quer *et al.* (2007) considered internal funds as a driver for firms to choose growth strategy and international expansion strategy. Chatterjee and Singh (1999) divided internal funds into liquid money and unused debt capacity. Using such a capacity helps the firm to strengthen its market position and business strategy.

According to Bobillo *et al.* (2007), firms need external funds to grow. They need a strong financial system to exploit their assets and capabilities in order to compete in foreign markets. Therefore, financial resources of firms, such as access to banking and capital markets, may create competitive advantage for firms. Forssbæck and Oxelheim (2008) argued that availability of low cost capital is a traditional ownership advantage of firms, especially large MNCs with high R&D expenditures that enter countries with liquid, efficient and integrated financial markets. Such firms try to enhance their financial standing in the market. Then, financial strength is vital, especially for the firms operating in small industrial countries or emerging markets with liquid or segmented domestic capital markets.

According to Ahmad and Kitchen (2008), one of the strengths of Sime Darby, as a leading Malaysian firm that ventured abroad, is its access to the funds provided by the government agencies and financial institutions. They suggested that such a financial standing not only gives the company reputation for credibility among other Malaysian

firms but also it gives them the ability to establish successful network relationships with other business partners. It also helps the company to withstand financial crises resulting from the shortage of investment funds.

Financial strength and the access to both internal and external funds can help firms make decisions for expansion into foreign markets and bear the risk of investment. Forssbæck and Oxelheim (2008) mentioned factors such as the cost of debt, receiving government grants, tax reduction and free cash flow as major factors affecting the financial strength of firms. Galán and González-Benito (2001) considered financial structure and government grants as the ownership advantages of a firm. According to Cort *et al.* (2007), a firm with financial strength is able to commit more resources and can succeed in its international operations. Greater financial resources give managers the opportunity to take risk and invest abroad, whereas the lack of financial resources hinders firms from foreign investment. Therefore, American MNCs with strong financial assets easily enter foreign markets (Trevino and Grosse, 2002).

According to Chatterjee and Singh (1999), a company with strong financial resources tends to commit more resources. This means that it can pursue high control entry modes. Companies such as General Motors, Microsoft and Toyota are able to allocate a large amount of funds to their operations. Surplus internal funds available for firms allow them to internationalize by FDI strategies and high resource commitment. Otherwise, the lack of financial resources motivates firms to collaborate with local firms in foreign markets in order to provide the required capital for their operations (Quer *et al.*, 2007; Trevino and Grosse, 2002). Choo *et al.* (2007) suggested that franchising is a means for the access to financial capital, especially through master franchising. In addition, firms use cross-border mergers and acquisitions to provide their financial needs through an internal capital market. Such firms should not pay a high cost to access funds from external capital markets (Pablo, 2009).

c. Profitability

One of the important sources for financial capital and internal fund is the company's revenue and financial performance. Although in the literature profitability has been considered as an outcome of internationalization and entry mode choice, it can also be a source of tangible assets for business companies (Claver and Quer, 2005; Quer *et al.*, 2007; Trevino and Grosse, 2002). This means that firms that are more profitable can provide greater financial capital, which is required for expansion overseas. Based on the resource-based view, profitability can indicate the sustainable competitive advantage of a firm. Actually, a firm should be competitive to earn profit and, in turn, higher financial performance gives a better competitive position to the firm (Quer *et al.*, 2007; Trevino and Grosse, 2002).

According to Sharma and Erramilli (2004), achieving maximum profits in the long term is a primary objective for business firms. Fahy (2002) argued that firms with a superior performance and higher profitability are able to exploit their resources and capabilities easier in order to compete in foreign markets. Profitability is a driver for managers to expand their firms' capabilities into foreign markets (Trevino and Grosse, 2002). Therefore, Hymer and Rowthorn (1970) believed that there is a positive relationship between the profitability of a firm and its international expansion.

Quer *et al.* (2007) suggested that profitability shows a firm's wealth. Firms accumulate profits to find a better market position. Profitability increases the level of resource commitment made by a firm and has a positive effect on the mode of market entry. A firm with ex ante profitability in its operation and access to financial resources will have a sustainable competitive advantage and can compete with other companies in order to gain more profits. A firm with accumulated profitability is able to use high control modes and take the financial risks of FDI (Claver and Quer, 2005; Lin, 2009; Quer *et al.*, 2007; Trevino and Grosse, 2002).

3.2.2 Intangible Assets: The Organizational Resources of Firms

Intangible assets may consist of technological resources, such as proprietary technology and tacit knowhow, and organizational resources, such as international business experience, organizational culture, intellectual properties and firm reputation. Intangible assets can increase firms' revenue from foreign markets (Cloninger, 2004). However, researchers consider some intangible assets such as technology, tacit knowhow and international experience as firm capabilities (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Hill *et al.*, 1990). Therefore, this study only considers organizational culture and firm reputation as intangible assets.

To invest in intangible assets and enhance firm capabilities, a firm needs research and development (R&D) as well as advertising activities (Bobillo *et al.*, 2007; Chang and Rosenzweig, 1998; Kogut and Chang, 1991). According to Fahy (2002), intangible assets are more difficult to imitate or duplicate by rivals, especially firms that protect their intangible assets and intellectual properties by means such as copyright regulations. Furthermore, some of these assets, such as firm reputation, brand image or tacit knowhow are complex and firms should accumulate them in the long term.

a. Organizational Culture

Organizational culture is the personality of the organization (McNamara, 2002). Organizational culture represents a firm's beliefs, knowledge, thoughts, attitudes and customs. It can differentiate the employees of a firm from other firms by influencing their values, habits and opinions (see Hall 1992; Ekeledo and Sivakumar, 2004). Based on the purpose and mission of each company, culture is different. According to Gregory *et al.* (2009), the dominant cultural values of a company can influence the behaviour of its employees and direct their decisions. In addition, corporate culture may affect the managerial behaviour, decision-making and control system in firms (Williams and Triest, 2009).

Organizational culture is a source of competitive advantage and has a positive effect on the effectiveness of a company (Barney, 1986; Gregory *et al.*, 2009). To keep this competitive advantage sustainable, a firm should preserve its specific capabilities, and also socialize and motivate its new labour force (Grant, 1991). According to McNamara (2002), corporate culture is a system, which its input includes feedback from the society, careers, rules, stories, idols, values on competition or service, and so on. The process of such a system is done based on employees' assumptions, values and norms. The output of corporate culture includes organizational behaviour, corporate strategy, technological advances, company image, product quality and diversity, and the appearance of employees.

Organizational culture is the dominant culture to which employees and managers of a firm are highly committed. It can significantly affect the motivation and performance of human resources. If there is a high fit between organizational culture and strategy, a firm can experience the best performance. This is especially important in inseparable services in which the presence of the customer in the production process requires shared values and beliefs between the firm and its customers. Sales force or the immediate personnel of a firm have to respond to customer needs, complaints and compliments (Arogyaswamy and Byles, 1987; Ekeledo, 2000; Ekeledo and Sivakumar, 2004).

Based on the resource-based theory, organizational culture is a major source of sustainable competitive advantage for a firm (Coyne, 1986; Ekeledo and Sivakumar, 2004; Hall, 1992). A firm that owns a valuable innovative culture selects a high control entry mode and avoids collaboration in order to preserve its cultural advantage. In contractual agreements, potential competitors may access this firm's resource and duplicate it. Therefore, wholly owned subsidiaries can help a company protect its corporate culture (Ekeledo and Sivakumar, 2004; Wernerfelt, 1989).

As Table 3.2 shows, researchers classify cultures dominating on business corporations into different types to explain their specifications and differentiate firms based on their leading norms and values. According to Wallach (1983), bureaucratic culture restrains employees from being creative and developing new products. Therefore, innovative personnel leave the company. A firm with a supportive culture is a pleasant place to work. Innovative culture makes the work challenging and encourages employees for innovation and risk taking. Then, Chow and Liu (2007) insisted on the role of innovative culture in the expansion of firms.

Table 3.2: Types of Organizational Culture

Researchers	Type of Culture	Characteristics
Wallach (1983)	Bureaucratic culture	Power-oriented, hierarchical, defined authority lines, systematic work, clear procedures and rules
	Supportive culture	Relationship-oriented, support, trust, friendship, cooperation
	Innovative culture	Active, exciting, challenging
Deshpande *et al.* (1993), Dosoglu-Guner (1999)	Hierarchical culture	Established procedures, uniformity
	Clan culture	Tradition, loyalty, commitment to firm
	Market culture	Competition, challenge, achievement
	Adhocracy culture	Entrepreneurship, creativity, flexibility
Denison and Spreitzer (1991)	Hierarchical culture	Established regulations, uniformity, rigidity, control, efficiency, coordination, internal focus
	Group culture	Teamwork, cohesiveness, cooperation, flexibility, support, participatory decision-making, internal focus
	Rational culture	Competition, productivity, achievement, control, external focus
	Development culture	Entrepreneurship, creativity, adaptation, change, resource acquiring, flexibility, external focus
	Balanced culture	Balance between control and flexibility, balance between internal and external focus

Adapted from: Chow and Liu (2007), Evans (2002), Gregory *et al.* (2009)

According to Evans (2002), hierarchical and clan cultures can reduce firm's profitability in foreign markets while an adhocracy culture, which encourages creativity and innovation, gives a firm a competitive advantage compared to its rivals and results in higher profitability. Hence, firms with an adhocracy culture can take greater risks and invest directly in foreign countries. Gregory *et al.* (2009) argued that corporate culture affects the effectiveness of an organization. They suggested that firms with a group culture and balanced culture are more effective.

One of the key aspects of organizational culture is the resistance of employees against the culture of a partner firm that may result in the failure of a partnership (Badrtalei and Bates, 2007). In recent years, many companies have participated in joint ventures and partnerships. According to Badrtalei and Bates (2007), some mergers were successful, such as Chrysler-Jeep (1987) and Ford-Volvo (1999). In contrast, mergers such as Fiat-Lancia (1969), Ford-Jaguar (1984), and Daimler-Benz and Chrysler (1997) were considered a failure, especially due to differences in organizational culture. Therefore, blending two organizational cultures may cause higher uncertainty.

Another aspect of corporate culture relates to the decentralization of MNCs. According to Williams and Triest (2009), many MNCs today have left their hierarchical form and decentralized their decision making to their subsidiaries. MNCs need transnational management in order to take advantage of global efficiency and adapt to local markets. Therefore, each foreign subsidiary can be a unique firm and the parent firm does not control all its affiliates in the same way. In this situation, firms with innovative cultures and greater shared values experience higher decentralization.

Innovative firms learn from their mistakes, use external information to create new products and focus on innovation and productivity. This innovative culture helps firms to expand into international markets and set up autonomous subsidiaries, which are connected to their parent firm based on their common goals and shared cultural values. These shared values refer to the control of subsidiaries through normative integration, strong trust between managers of the parent firm and subsidiaries, common interests among employees, and a group culture and collectivism rather than individualism (Williams and Triest, 2009). Therefore, researchers suggest that there is a positive relationship between a valuable innovative or adhocracy organizational culture as a competitive advantage in a foreign market and the adoption of a high control entry mode (Chow and Liu, 2007; Ekeledo and Sivakumar, 2004; Evans, 2002).

b. Firm Reputation

A firm's reputation is reflected by public opinion and customer perception about its products and services. When a firm has a positive reputation, it finds a valuable asset and a competitive advantage in foreign markets that determines firm strategy and business success (Ekeledo, 2000; Ekeledo and Sivakumar, 2004; Hall, 1992; Michaelis *et al.*, 2008). This advantage allows a firm to keep cost leadership and decrease prices to increase its market share (see Ekeledo, 2000). Galan and Gonzalez-Benito (2001) considered firm reputation and its public image as major ownership factors that explain why firms enter and invest in foreign markets. This can relate to the superior products compared to competitors in those markets or technological capabilities. Local customers in foreign markets view firms with a high reputation as trustworthy and show their loyalty by purchasing their products and services (Michaelis *et al.*, 2008).

Firm reputation is a result of the high quality products, high-tech processes, managerial skills, advertisement and marketing strategy of a firm. High reputation in the world markets provides an opportunity to firms to enter new markets and operate there alone through sole ownership. These companies have a high sales volume that provides the firm with higher internal funds supported by external debts. In addition, a reputable firm is able to absorb the best employees, technicians, experts and managers. Therefore, it can overcome problems in unfamiliar markets. Consequently, firms with a high reputation are more likely to expand internationally while internationalization, in turn, brings high reputation for the firm (Ekeledo, 2000).

Firm reputation is rooted in possessing valuable intellectual properties, such as a patent, trademark, brand name or copyright, which give firms a competitive advantage, enables them to sell their products with premium prices or sell their stocks at a higher rate (Griffin and Pustay, 2002). To protect such a precious asset from their competitors, firms that own valuable intellectual properties favour sole ownership. If such firms have

to use contractual entry modes, they prefer franchising or majority joint venture to exercise higher control to their brand value or product image (Anderson and Gatignon, 1986; Lee, 1986). For example, Sime Darby, as a leading Malaysian MNC, has obtained its international reputation by franchising its brand products and management contracts with its foreign partners. The company's reputation depends on its quality brands and extensive distribution channels (see Ahmad and Kitchen, 2008).

Some researchers use reputation and brand name or brand value as exchangeable concepts (see Gao, 2004). Brand value or the public image of a firm is a consequence of user experience, which refers to the general opinion and inclusive communication that an individual has with a firm or its products and services. If this experience is positive, customer will be satisfied. A valuable brand, which is determined by brand equity, product features and price, helps a firm save costs because of having loyal customers, lower advertising costs and lower product launching costs (Goto, 2004).

Researchers have related reputation and brand image to perceived quality and perceived value (Martinez *et al.*, 2008; Park and Sternquist, 2008). Therefore, firms that offer high quality products using advanced technology will have a strong reputation in international markets for their superior products. Familiarity with products and services can increase brand image. Consequently, firms invest in advertising and marketing promotion programmes to introduce their offerings to foreign customers. When they obtain a strong public image, their need for advertising expenses will decrease (Martinez *et al.*, 2008).

As Melewar and Saunders (1999) pointed out, to introduce the company and acquaint customers with products and brands, firms use corporate visual identity (CVI) including name, slogan and graphics, such as logo and symbols. Some firms use standard visual identities while others try to adapt their logos and brands with local requirements, especially after they gain experience in a foreign market.

Michaelis *et al.* (2008) suggested that firm reputation is more important for service firms because the evaluation of service quality is usually vague and imperfect. Therefore, brand image and firm reputation have higher benefits for service industries in order to expand their markets. They also insisted on the role of home country image in creating company reputation, and increasing customer trust and loyalty. Firms from developed countries usually take advantage of their home country image in foreign markets. According to Businessweek (2011), 70% of the top most valuable brands in the world are American brands, as they are the leader of high quality production. Service firms, such as Google and McDonald's, have experienced a rapid growth in their brand value due to the world progress in services. However, 75% of the best global brands are manufacturing firms (see Appendix 1).

The eclectic paradigm considers firm reputation and brand image as a source of ownership advantage (see Ahmad and Kitchen, 2008; Galan and Gonzalez-Benito, 2001; Park and Sternquist, 2008). A strong brand helps firms develop differentiated products and services in global markets. Retailers such as Zara own valuable brands with high reputation, which gives them the ability to expand internationally. To protect their brand value, firms need to use equity modes and control their foreign subsidiaries. High advertising cost is another reason for using equity modes, especially for wholly owned subsidiaries (Park and Sternquist, 2008; Tsang, 2005). According to Tsang (2005), in the industries with higher advertising intensity, brands have higher values and foreign partners seek a higher share in equity ownership.

The resource-based view regards firm reputation as a competitive advantage and an important asset, which is not easily duplicated (see Ekeledo, 2000; Ekeledo and Sivakumar, 2004; Grant, 1991; Hall, 1992). Reputation can also bring rent and profit for a firm (Barney, 1991). However, according to Ekeledo and Sivakumar (2004), firm reputation is a frail resource that a company may lose, simply because most firms prefer

to make a partnership or strategic alliance with a reputable firm. Although this offers an opportunity to reputable firms, it can be a threat that results in the high risk of losing brand name and reputation (Ekeledo and Sivakumar, 2004; Hall, 1992).

According to Thomas and Kohli (2009), brand values can decline due to issues, such as managerial actions, environmental factors and competitive actions. Therefore, firms need to protect their reputation and image by exerting higher control (Ekeledo and Sivakumar, 2004). Erramilli *et al.* (2002) stated that collaboration with local partners provides the opportunity for free riding. Therefore, firms with a strong reputation in host markets prefer to use high control modes and avoid collaboration in order to decrease the risk of the opportunistic behaviour of their partners. Consequently, it is supposed that there is a positive relationship between the reputation of a firm in a foreign market and the adoption of a high control entry mode (Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004).

3.2.3 Firm Capabilities: The Competence of Firms to Utilize their Assets

As Ekeledo and Sivakumar (2004) suggested, firm-specific capabilities refer to what a firm can do with its assets and how it can take its assets into operation. These abilities include a firm's technology, managerial skills and the knowledge, which locates in the firm's employees and managers. Firm-specific capabilities can distinguish the employees of a firm from those of its competitors (see Day, 1994; Ekeledo and Sivakumar, 2004).

According to the literature, market knowledge, international business experience, tacit knowhow and proprietary technology are major firm-specific capabilities (see Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Hill *et al.*, 1990; Madhok, 1997). As Fahy (2002) stated, the effect of firm capabilities on the entry mode strategy of firms is stronger than the impact of other intangible assets or tangible assets.

a. Market Knowledge

To conduct business activities in foreign markets, firms need to acquire market knowledge, which is regarded by the internationalization theory as a firm resource that is increasing continuously and explains the firm's information about foreign markets and their business environment (Johanson and Vahlne, 1977). Ahmad and Kitchen (2008) suggested that to increase firm strength and ability in international markets, a firm should enhance its learning culture and encourage obtaining market knowledge. Anh *et al.* (2006) also insisted on the ability of affiliates' employees and managers in learning, and gaining market knowledge and experience.

According to Penrose (1959), firms possess two types of knowledge – objective and experiential knowledge. The objective knowledge is a type of public goods, which is accessible to any firm while experiential knowledge is a firm-specific resource that is obtained by engaging in business operations in foreign markets. Experiential knowledge may result in other capabilities, such as innovation, which is not easily transferrable but can be acquired through collaboration with local firms or by merger and acquisition (Meschi and Metais, 2006; Morschett, 2006).

Johanson and Vahlne (1977, 1990) also divided market knowledge into general knowledge and market-specific knowledge, which is experiential. During international expansion, firms accumulate experiential knowledge about market conditions, such as market entry barriers, human capital, technology and managerial skills available in target markets, as well as the abilities and behaviour of local partners and competitors. This experiential knowledge plays a vital role in recognizing opportunities and risks (Blomstermo *et al.*, 2006; Chang, 1995; Czinkota *et al.*, 2009; Kogut and Singh, 1988; Lin, 2009; Morschett, 2006; O'Grady and Lane, 1996; Pehrsson, 2004, 2008). As Pehrsson (2008) stated, knowledge about competitors' actions, especially their product differentiation, helps firms take immediate action against environmental threats.

Eriksson *et al.* (1997) classified market knowledge into two concepts including foreign business knowledge and foreign institutional knowledge. The foreign business knowledge is obtained by seeking experiential knowledge related to clients, their needs and their decision making process as well as competitors and the market actors while the foreign institutional knowledge refers to the knowledge of the government, culture and foreign institutions as well as current rules and regulations. These two types of knowledge make a firm aware of foreign market opportunities and threats (Hadley and Wilson, 2003; Sharma and Blomstermo, 2003).

Anh *et al.* (2006) pointed out that to gain market knowledge firms should study the policies and business patterns of their parent firms, partners and competitors in foreign markets. The deficiency of knowledge about a foreign market may cause uncertainty (see Aharoni, 1966; Morschett, 2006). The lack of market experience results in avoiding internalization in order to reduce risk because uncertainty makes managing foreign operations difficult (Root, 1987; Davidson, 1982; Erramilli and D'Souza, 1995; Morschett, 2006). According to Blomstermo *et al.* (2004), firms that enter various target markets are able to accumulate greater experiential knowledge, which helps managers to make better decisions and increase their firms' international performance.

The internationalization theory insists on the role of market knowledge in the process of internationalization. Through doing business in foreign markets, firms can gain experiential knowledge, which reduces uncertainty and investment risk. Firms with higher experience in international markets can bear the cost of investment. Therefore, in an incremental behaviour pattern, firms start their market entry by indirect exporting and with increasing experiential knowledge, they move to contractual modes, such as licensing. Finally, after acquiring a mature experiential knowledge, firms can move to high control entry modes (Anderson and Gatignon, 1986; Blomstermo *et al.*, 2006; Daniels *et al.*, 1976; Driscoll and Paliwoda, 1997; Erramilli, 1991; Evans, 2002;

Gatignon and Anderson, 1988; Hadley and Wilson, 2003; Johnson and Vahlne, 1977; Johnson and Wiedersheim-Paul, 1975; Majkgard and Sharma, 1998; Morschett, 2006; Nakos and Brouthers, 2002; Okoroafo, 1997; Pinho, 2007).

The networks theory also emphasizes the role of market knowledge in the international expansion of firms (Blomstermo *et al.*, 2004; Hadley and Wilson, 2003; Johanson and Mattsson, 1988). Hadley and Wilson (2003) argued that business experience not only resides in firms but that it can also be accumulated in the market. A major source of acquiring knowledge about foreign markets is the network relationships between firms and their competitors, suppliers, customers and government. This helps firms to obtain external information and use opportunities in new foreign markets (Axelsson and Johanson, 1992; Blomstermo *et al.*, 2004; Eriksson and Chetty, 2003; Hadley and Wilson, 2003).

The internalization theory and transaction cost theory explains that market knowledge reduces both cost and uncertainty of foreign operations and enables firms to internalize their activities in foreign markets through FDI (Anderson and Gatignon, 1986; Buckley and Casson, 1976, 1985; Gilmore *et al.*, 2003; Sanchez-Peinado *et al.*, 2007). The resource-based view considers experiential market knowledge as a source of competitive advantage, which increases the effectiveness and performance of firms (Meschi and Metais, 2006). Firms with valuable market knowledge prefer high control entry modes whereas firms with a low knowledge of a certain market usually stay away from sole ownership and select lower resource commitment through low control modes (see Kim and Hwang, 1992; Morschett, 2006; Randøy and Dibrell, 2002).

Some researchers did not find a relationship between the access to higher market knowledge and the selection of a high control entry mode (Blomstermo *et al.*, 2006). According to Blomstermo *et al.* (2006), as firms collect more experiential knowledge in a foreign country, they develop skills, managerial processes and routines. Therefore,

they are able to control their foreign operations without using high control entry modes. Furthermore, such firms can select the right business partner and the right foreign market for doing business. Firms can control their foreign operations through social methods, such as trust in the relationship and dependence. However, they still prefer FDI but in the form of joint venture not sole ownership.

Ekeledo and Sivakumar (2004) argued that this contradiction might happen because of the type of experiential knowledge that researchers have tested. According to Gomes-Casseres (1989), two kinds of market experience are obtained in international business – geographic and industry experience. In geographic experience, a firm becomes familiar with the region, in which the target foreign market is located. Industry experience is obtained when a firm operates in a special industry and can gain knowledge about the industry functions in foreign markets. If a firm owns both industry and geographic experience, it will favour sole ownership as the entry mode (Ekeledo and Sivakumar, 2004). Therefore, Ekeledo and Sivakumar (2004) claimed that there is a positive relationship between market knowledge gained by the previous geographic experience and industry experience of a firm in a foreign market and the adoption of a high control entry mode.

Firms prefer to enter those markets about which they have enough information and with which they are more familiar (Whitelock and Jobber, 2004). For instance, Javalgi *et al.* (2010) argued that firms that have already operated in Latin American markets are more likely to enter the Mexican market. Lin (2009) also pointed out that firms that have experienced Asian markets have a higher tendency to operate and invest in China. Bhaumik and Gelb (2005) also argued that MNCs with prior experience in developing countries favour investment in emerging developing markets. Therefore, market knowledge gained by geographic experience can influence the market selection strategy of firms as well.

b. International Business Experience

International business experience reflects the degree of the multinationality of a firm that is often assessed by the number of countries, in which a firm operates or has set up its subsidiaries (Caves and Mehra, 1986; Domke-Damonte, 2000; Fisher and Ranasinghe, 2001; Kogut and Singh, 1988). The international experience of a firm's managers shows whether the firm can implement control and manage its operation abroad or not. Consequently, it affects internationalization and the choice of entry mode (Ahmed *et al.*, 2002; Anderson and Gatignon, 1986; Driscoll and Paliwoda, 1997; Vernon, 1985).

According to Nakos and Brouthers (2002), new ventures hire a management team with high international experience in order to transfer their market knowledge into the firm. The experience of the managers may lead firms to expand into international markets and commit more resources (Trevino and Grosse, 2002; Whitelock and Jobber, 2004). The increase in the international experience of firms improves their performance, especially in markets with high psychic distance (Evans *et al.*, 2000). Foreign market experience is obtained through regional experience or expansion into global markets (Brouthers and Brouthers, 2003; Claver and Quer, 2005; Kogut and Singh, 1988). Therefore, firms with both regional and international experience are more successful in their internationalization strategies (Javalgi *et al.*, 2010; Okoroafo, 1997).

Previous research suggested that firms that have already experienced foreign markets conditions tend to expand their business into global markets and adopt high control entry strategies or FDI modes (Ahmad and Kitchen, 2008; Blomstermo *et al.*, 2006; Brouthers and Brouthers, 2003; Chen and Mujtaba, 2007; Chung and Enderwick, 2001; Evans, 2002; Gatignon and Anderson, 1988; Gilmore *et al.*, 2003; Kathuria *et al.*, 2008; Kogut and Singh, 1988; Lin, 2009; Pehrsson, 2008; Shimizu *et al.*, 2004). In contrast, inexperienced firms prefer low control or non-equity modes to minimize

financial risks, to share the risks and responsibility, and to gain experience before using equity modes (Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 1998; Erramilli, 1991; Evans, 2002; Nakos and Brouthers, 2002).

The eclectic paradigm views multinational experience as a source of ownership advantage, which enables firms to internationalize their activities and to use equity modes of entry (Agarwal and Ramaswami, 1992; Brouthers *et al.*, 1996; Choo and Mazzarol, 2001; Czinkota *et al.*, 2009; Dunning, 1977, 1980, 1988; Nakos and Brouthers, 2002; Pinho, 2007). Multinational experience decreases the risk of investment and helps firms acquire higher ownership shares. Therefore, firms with higher experience are able to conduct FDI activities in foreign markets (Choo and Mazzarol, 2001; Nakos and Brouthers, 2002).

According to Agarwal and Ramaswami (1992), in countries with a low market potential, firms with higher multinational experience favour sole venture and joint venture as the mode of entry. Ahmad and Kitchen (2008) suggested that previous experience in dealing and managing regional projects gives the firm an advantage for expanding internationally, segmenting its business activities and spreading into global markets. Galán and González-Benito (2001) divided a firm's business experience into domestic market experience as an ownership advantage and foreign markets experience as an internalization advantage.

According to the transaction cost theory, firms that have greater international experience are usually able to develop management processes and systems for foreign operations (Anderson and Gatignon, 1986). This may motivate such firms to choose equity or high control entry modes, which give them a control advantage (Agarwal and Ramaswami, 1992; Hennart, 1991). When a firm has international business experience, its customers believe that it can create more value added rather than those firms that lack foreign experience (Bouchard, 1992).

Firms that lack business experience in international markets are not able to assess foreign market conditions. They usually overstate the risks and costs of international business activities and underestimate the returns and opportunities available in foreign markets. Therefore, they avoid direct involvement in foreign operations (Anderson and Gatignon, 1986; Blomstermo *et al.*, 2006; Choo and Mazzarol, 1998; Davidson, 1980; Driscoll and Paliwoda, 1997; Tsai and Cheng, 2004).

The networks theory insists on the role of international experience in the internationalization of firms (Blomstermo *et al.*, 2004; Johanson and Mattsson, 1988). According to Hadley and Wilson (2003), firms that have a higher commitment to the market will have stronger information channels. Firms need absorptive capacity to turn business experiences into helpful market knowledge. This capacity enables firms to recognize the value of external information, absorb it and apply it in their business activities (see Anh *et al.*, 2006; Cohen and Levinthal, 1990; Eriksson and Chetty, 2003).

Based on the resource-based view, international business experience is a potential source of competitive advantage (see Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Meschi and Metais, 2006; Pehrsson, 2008; Pinho, 2007; Trevino and Grosse, 2002). Therefore, firms with high foreign market experience favour high control entry modes (Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Erramilli *et al.*, 2002; Morschett, 2006). In contrast, firms with a low business experience favour low control modes (Kim and Hwang, 1992; Morschett, 2006; Randøy and Dibrell, 2002).

The contingency theory also insists on the impact of business experience on the entry mode (Ekeledo and Sivakumar, 1998; Okoroafo, 1997). However, according to Ekeledo and Sivakumar (1998), separable services with low international experience prefer exporting while inseparable service firms will set up a wholly owned subsidiary to avoid the risk of partnership with local firms in unknown markets that may result in losing their firm reputation and increasing the investment risk.

Some researchers found contradictions in the relationship between business experience and the adoption of a high control entry mode (see Ekeledo and Sivakumar, 2004; Erramilli, 1991; Kogut and Singh, 1988; Nakos and Brouthers, 2002). However, according to Anderson and Gatignon (1986), only in non-competitive industries, there is a negative relationship between international experience and the degree of control. Erramilli (1991) suggested a U-shaped relationship between firm experience and entry mode choice for service companies. This means that for either a low level of business experience or a high level, firms may choose sole ownership. This is because lack of market knowledge makes it difficult to assess the performance of a local partner (Driscoll and Paliwoda, 1997; Ekeledo and Sivakumar, 1998, 2004).

c. Tacit Knowhow

Eriksson *et al.* (1997) divided firm experiential knowledge into two categories – market knowledge at the market level and internationalization knowledge at the firm level. The internationalization knowledge or tacit knowhow is the technical part of experiential knowledge that firms need in order to facilitate their international operations. The internationalization knowledge has a strong causal relationship with market knowledge (see Hadley and Wilson, 2003).

Tacit knowhow or implicit expertise includes the knowledge, expertise and daily work habits of the employees of a firm as well as the firm's informal routines (Hill *et al.*, 1990; Johannessen and Olsen, 2009). Some researchers also focused on the expertise of a firm's managers as managerial skills, which is an advantage for a firm (Choo and Mazzarol, 2001; Erramilli *et al.*, 2002). According to Camisón and Villar (2009), firms with higher managerial capabilities or skills will have more involvement in international business.

Each business firm has some work routines and customs that are unique and cannot be explained, taught or easily transferred to another partner by contractual

modes (Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Kim and Hwang, 1992). Although some knowhow can be explained by written handbooks and software, most firm routines are informal and embodied in operation processes (Driscoll and Paliwoda, 1997; Kogut and Zander, 1993). Firms are not able to duplicate these routines and it is very difficult for them to transfer such expertise to other firms in a foreign market (Ekeledo and Sivakumar, 2004; Kathuria *et al.*, 2008; Madhok, 1997). This is because tacit knowhow as an organizational capability is usually complex and experiential, a firm develops it continuously, and learning it requires observation, practice and feedback (Park and Sternquist, 2008). However, Johannessen and Olsen (2009) argued that transferring such knowledge is only difficult when firms incorporate the knowledge of their individual employees in an integrated knowledge system.

The internalization theory considers tacit knowhow as a firm-specific factor that creates competitive advantage for firms. Firms with valuable tacit knowhow face higher transaction costs in dealing with local firms in foreign markets. Therefore, they favour high control entry modes to protect their expertise (Buckley and Casson, 1976; Claver and Quer, 2005; Rugman, 1981). When a firm has a highly embedded knowledge, using a collaborative operation mode will not be a suitable growth strategy (Kathuria *et al.*, 2008). Camisón and Villar (2009) argued that in order to internationalize its activities, a firm needs personal technical knowledge and skills, management systems for generating and controlling knowledge, and technical systems including stored information, formal procedures and proprietary knowledge and skills.

The eclectic paradigm suggests that firms with tacit knowhow as their ownership advantage are able to expand internationally and conduct FDI operations by selecting equity modes (Dunning, 1988; Dunning *et al.*, 2007; Park and Sternquist, 2008; Talay and Cavusgil, 2009). Previous studies divided firm knowledge into marketing knowhow or managerial skills and technological knowhow (Andersson and Svensson, 1994; Talay

and Cavusgil, 2009). Such expertise can affect the international expansion and the level of a firm's ownership, especially in a joint venture, because the implicit knowledge gives superiority to a firm compared to its local partners (Almor and Hashai, 2004; Forlani *et al.*, 2008; Gatignon and Anderson, 1988; Talay and Cavusgil, 2009). However, when developing new products requires tacit knowhow, which is difficult to transfer, it is more efficient to transfer it within a firm (Driscoll and Paliwoda, 1997).

The transaction theory also views tacit knowhow as a major factor that drives a firm to select high control entry modes based on the trade-off between transaction costs and the investment costs. Hence, a firm with valuable implicit expertise avoids partnership with other firms in foreign markets and prefers FDI and high control modes (Anderson and Coughlan, 1987; Anderson and Gatignon, 1986; Chen and Hu, 2002; Kim and Hwang, 1992; Sanchez-Peinado *et al.*, 2007). According to Williamson (1985), to transfer and maintain tacit knowhow, firms should have unified governance, such as wholly owned subsidiaries, which requires less transaction costs compared to contractual modes and partnership with local firms (Driscoll and Paliwoda, 1997). Such an entry strategy brings more efficiency for the firm when host governments cannot provide sufficient legal protection for their intellectual property (Claver and Quer, 2005; Ekeledo and Sivakumar, 1998).

In the resource-based view, tacit knowhow is a source of competitive advantage that enables firms to internalize their business activities in foreign markets (Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Fahy, 2002). A firm with a precious tacit knowhow is more likely to adopt a high control entry mode, such as establishing a wholly owned subsidiary, exporting directly or conducting a management contract to protect such a capability (Ekeledo and Sivakumar, 2004). When a firm with specific managerial skills enters markets that lack competent managers, it prefers management contract to franchising in order to protect its knowhow (Erramilli *et al.*, 2002).

According to Hill (2008), firms with valuable management knowledge and skills face fewer threats than those companies that have a technological advantage. However, firms need to protect their knowhow against the opportunistic behaviour of their partners or competitors. When tacit knowhow is less codified, less teachable and more complex, a firm with such an advantage is more likely to adopt a sole ownership entry mode to exert full control, especially as it cannot transfer this expertise to a foreign partner (Chen and Hu, 2002; Hill *et al.*, 1990; Kogut and Zander, 1993; Park and Sternquist, 2008). In contrast, if technical knowhow is less complex and can be taught, firms can learn it and acquire it from their partners and this can create a common language between firms resulting in an easier transfer of knowledge within a collaborative venture (Hau and Evangelista, 2007).

c. Proprietary Technology

According to Keegan (2004), the most powerful driver in the global market in the twenty-first century will be technology, which is divided into hard technologies, which are based on science and discovery in all fields, and soft technologies, which include marketing. A proprietary technology can give a competitive advantage to a firm in foreign markets. Such a technology helps firms to offer high quality products, develop differentiated products, respond to customer needs and produce low cost products due to the economies of scales (Kaya and Erden, 2008).

As Grosse (1996) explained, proprietary technology may exist in the products, process or the managerial skills and abilities of a firm. Therefore, such a technology is classified into three types – product technology or the knowledge of producing goods and services; process technology or the technical knowledge used to transform inputs into outputs using machinery and equipment; and management technology or the ability and knowledge of administering a business firm, solving problems, and making suitable decisions. These technologies are vital in both manufacturing and service firms.

As stated earlier, the capability of a firm to create and use experiential knowledge can be divided into managerial skills or tacit marketing knowhow, and technological knowledge or proprietary technology (Andersson and Svensson, 1994; Talay and Cavusgil, 2009). According to Andersson and Svensson (1994), proprietary technology relates to innovation and the ability of firms to develop new products and services. To obtain such a capability, firms need to invest in their R&D activities. Technological knowhow is accumulated over time and managers should adopt suitable strategies in order to acquire advanced technology and respond to rapid technological changes.

Proprietary technology is a necessary requirement for international expansion and a major source of competitive advantage for MNCs from developed countries (Ahmad, 2008; Ahmad and Kitchen, 2008; Pananond, 2007; Yeung, 1994). As Pananond (2007) pointed out, such MNCs utilized their advanced technological capability in order to reduce the costs of production and operation and offer low-cost products, especially for the markets of developing countries. Later, they used such a technology to compete with their rivals by producing high quality or differentiated products.

On the contrary, firms from developing countries do not have access to advanced technologies (Ahmad and Kitchen, 2008). Such firms usually have a low technological capability and their technologies are out of date. Hence, they need access to complementary assets and technologies of other firms through network relationships (Thirawat *et al.*, 2007). Because of this, researchers have considered technological capability and networking as two major strategies that affect the internationalization process of the third world MNCs (Ahmad, 2008; Ahmad and Kitchen, 2008; Kaya and Erden, 2008; Pananond, 2004, 2007; Pananond and Zeithaml, 1998; Thirawat *et al.*, 2007). However, networking is more effective in the short-term and during the initial stages of entry while technological capability is necessary for long-term success in foreign markets (Pananond, 2004; Thirawat *et al.*, 2007).

Third world MNCs accumulate technological skills through an incremental learning process (Pananond, 2007). According to Ahmad and Kitchen (2008), firms need to participate in joint ventures with domestic and foreign partners to learn their technical skills and accumulate technological knowledge, especially when a firm diversifies its operations into industries in which it has no expertise or prior experience. After acquiring new technology, a firm may modify it or add value to it in order to increase its profitability and effectiveness. MNCs from developing countries utilize imported technologies from developed nations and adapt them to their market requirements. Such firms use labour-intensive technologies and flexible innovative methods to offer low cost products and services (Thirawat *et al.*, 2007).

According to Bharadwaj *et al.* (1993), technology is only considered as a competitive advantage when it becomes a proprietary asset for firms. Consequently, firms should protect the technology by means of intellectual property rules using patents, trademarks, copyrights, brand image or trade secrets (Ekeledo and Sivakumar, 2004). If a firm has a proprietary technology, valuable trademark or well-recognized brand name, and it is protected by intellectual property rules, the firm can franchise its services to other firms and use a subsidiary to control its franchises in a foreign market. Such a subsidiary can be a wholly owned branch or a joint venture (Hill, 2008).

Sometimes a firm licenses its technology to foreign partners in order to obtain global acceptance before imitation by competitors. Such a strategy can create a stable royalty fee for the firm, introduce the firm's technology as the dominant blueprint in the industry and prevent competitors from developing alternative technologies (Hill, 2008). However, firms usually prefer not to offer a new technology and innovation to licensees or local partners to prevent its duplication and the creation of potential rivals. In a joint venture also a foreign partner may run an independent business in future and use the proprietary technology, as a new competitor (Ekeledo, 2000).

Previous research has considered the role of proprietary technology in the ability of a firm to expand internationally and its effect on entry mode choice (Almor and Hashai, 2004; Davidson, 1982; Forlani *et al.*, 2008; Kaya and Erden, 2008; Talay and Cavusgil, 2009). Although the internationalization theory of Johanson and Vahlne (1977) focused mostly on the importance of market knowledge on the ability of firms for international expansion, Moen *et al.* (2004) argued that as proprietary technology is almost independent from cultural difference, firms with a high technical capability are be able to enter the markets with a high psychic and cultural distance.

The transaction cost theory argued that because of market failure, which results from bounded rationality and the opportunistic behaviour of business partners, firms that own valuable proprietary technology face high transaction costs while transferring their technology into foreign markets. Therefore, the best way to reduce operation costs and protect such an asset is to internalize business activities using a high control entry mode, especially a wholly owned subsidiary (Anderson and Gatignon, 1986; Chen and Hu, 2002; Douglas and Craig, 1995; Erramilli and Rao, 1993; Gatignon and Anderson, 1988). Chen and Hu (2002) suggested that to decrease transaction costs, developing countries, such as China, have to implement strict intellectual property laws in order to protect the proprietary technologies of foreign MNCs and encourage them to invest and transfer their technology into those markets by partnership with local firms.

The resource-based view regards proprietary technology as a major source of competitive advantage, which increases a firm's power and market position. However, to maintain such a capability, firms have to exert higher control through wholly owned subsidiaries (Ekeledo and Sivakumar, 2004; Hill, 2008; Hill *et al.*, 1990). Ekeledo and Sivakumar (1998) in their contingency approach suggested that a high technological content gives provides a firm with marketing power and bargaining power. Such a firm does not need to seek for a local partner, and, thus, prefers sole ownership.

If a firm's core competency is its proprietary technology, it has to evade licensing or joint venture, if possible, to reduce the risk of losing control over the technology. Accordingly, wholly owned subsidiary is a suitable mode, especially for firms involved in high-tech industries (Hill, 2008). Another way to protect technology is exporting products or separable services, especially through export subsidiaries; however, it is not applicable in inseparable services (Ekeledo and Sivakumar, 2004).

3.2.4 Network Relations: Using Networks to Facilitate Foreign Expansion

As stated earlier, according to the stage models of internationalization, a firm needs to gather market knowledge in order to enter foreign markets successfully, and that internationalization is an incremental process, which starts with the lowest resource commitment or exporting and ends in the wholly owned subsidiaries (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). However, these models ignored the fact that firms can shorten this process by networking. Therefore, researchers introduced the networks theory to explain why some firms do not follow the stage models of internationalization. They insisted on the role of network relationships in the internationalization of firms and their choice of entry mode (Axelsson and Johanson, 1992; Blankenburg, 1995; Håkansson and Johanson, 1993; Johanson and Mattsson, 1988; Moen *et al.*, 2004). Furthermore, Sydow *et al.* (2010) named foreign market entry as network entry.

Malhotra *et al.* (2003) argued that internationalization is the result of multilateral external expansion through business and social networks rather than through internalization. As Kiss and Danis (2008) stated, networking also increases the speed of internationalization. Networking not only helps firms expand into foreign markets faster and easier but it also allows them to strengthen their competitive position in foreign markets (Axelsson and Johanson, 1992; Blankenburg, 1995; Freeman and Sandwell, 2008; Salmi, 2000).

The networks theory suggests that competitive advantage originates not only in a firm's internal resources but also by creating external network relations (Hutchinson *et al.*, 2006; Johannessen and Olsen, 2009; O'Farrell *et al.*, 1998; Pananond, 2007). Firms build up formal and informal network relationships with their business partners, trade unions, governments and other market players to collect information and experiential knowledge required for decision making about resource commitment in foreign markets and business plans (Blomstermo *et al.*, 2004; Freeman *et al.*, 2007; Hutchinson *et al.*, 2006; Johanson and Mattsson, 1988). Sasi and Arenius (2008) pointed out that networks are created gradually while trust and commitment increases.

Networking combines two abilities, i.e. the ability to create network relationships to increase the potential for mutual corresponding action, and the ability to exploit the synergy through networking to follow a common goal (Cunningham and Calligan, 1991; O'Farrell *et al.*, 1998). Business firms use network relationships to gain competitive advantage and economies of scale. Firms from a specific home country expand within a network into foreign markets in order to reduce uncertainty and investment risks. Therefore, firms use FDI modes by linking their domestic and foreign networks. They decide to involve in FDI activities in order to enhance their abilities and access to external resources in foreign markets (Chen and Chen, 1998; Johanson and Mattsson, 1988; Lin, 2009).

The effect of networking seems to be more crucial for firms involved in service industries, such as retailing (Bianchi, 2009; Freeman and Sandwell, 2008; Freeman *et al.*, 2007; Hutchinson *et al.*, 2006). Small firms rely highly on networks to minimize their disadvantages through sharing resources and learning from network members (Rutashobya and Jaensson, 2004). Therefore, Tuppura *et al.* (2008) suggested that networking helps firms gain knowledge, technology and reputation, learn from the experiences of other firms and overcome the liability of smallness.

Blomstermo *et al.* (2004) suggested that firm need market-specific knowledge, which is the knowledge of local business relationships in a market. This network experiential knowledge is obtained by both local market networks and the network with domestic firms and suppliers. Furthermore, firms that have a presence in various global markets will collect more network experiential knowledge, which helps them to succeed in foreign operations, have a rapid growth and increase their profitability.

Networking allows firms to combine domestic and foreign resources in order to expand internationally (Bianchi, 2009). Tuppura *et al.* (2008) argued that networking causes a synergy in which firms accumulate more expertise and capability through cooperation and sharing. To achieve this synergy, firms need a high level of integration in their organizational structure. Consequently, networking is viewed as a capability through which a firm can access the complementary resources and managerial skills of its partners, and turn them into its own resources. This process reduces the costs and increases the profits of doing business in foreign markets (see Pananond, 2007).

As networks grow and firms depend on each other for resources, new business opportunities develop over time (Sydow *et al.*, 2010). The dependency of firms on networks relates to the type of industry. In the knowledge-intensive industries, developing social network relations and trust with professionals is necessary because they are both producers and marketers of service (O'Farrell *et al.*, 1998). Lin (2009) argued that in the industries such as the information technology (IT) industry in which the uncertainty and risk increases, firms rely more on network relationships, especially if they need to participate in a joint venture because of the lack of resources. Saglietto (2009) studied the role of social networks in airline strategic alliances. He argued that business networks give competitiveness to airlines and the sustainability of such alliances depends on the strength of network relationships and the need of firms for complimentary assets of network members.

As firms from developing countries have a deficiency in resources, especially market knowledge and distribution channels, networking is considered as a major factor in the internationalization process of third world MNCs (see Ahmad, 2008; Ahmad and Kitchen, 2008; Bianchi, 2009; Kaya and Erden, 2008; Pananond, 2004, 2007; Pananond and Zeithaml, 1998; Rutashobya and Jaensson, 2004; Thirawat *et al.*, 2007). According to Pananond (2007), MNCs from developing countries depend on networking because of their underdeveloped institutional setting, which is the result of late industrialization. However, the strong reliance on network ties may limit them in the choice of markets, increase transaction costs due to inefficiency and political instability, or cause firms to suffer from financial crises that spread out rapidly across networks. This is the dark side of networking that creates a hold-up risk and hinders firms from further growth and international expansion (Tuppura *et al.*, 2008).

Networking is a major factor in the internationalization of new ventures (Kiss and Danis, 2008; Sasi and Arenius, 2008). Lack of resources motivates new ventures to join networks and access to the complimentary assets of other firms to be able to operate in foreign markets. However, dependency on networks for resources makes new firms vulnerable and under the control of resource providers (Sasi and Arenius, 2008). According to Kiss and Danis (2008), as new firms have no market experience and suffer from the liability of newness, networking gives them the opportunity to learn from the experiences of other firms. This is more critical for new SMEs because they suffer from the liability of smallness too. Consequently, they need to join social and business networks. Networking helps new ventures perceive business opportunities abroad, improve their capabilities and expand into competitive foreign markets.

According to O'Farrell *et al.* (1998), network relationships are cooperative and typically long term. Each network consists of three elements – actors, resources and activities. These components are closely related. A firm, together with its suppliers and

customers, are the network actors that exchange information and resources to enhance their market position. Resources refer to the available assets of the firm and activities are defined as the business interactions within the network (Elg *et al.*, 2008; Freeman and Sandwell, 2008; Hakansson and Johanson, 1993). Blankenburg (1995) divided network actors into internal actors within the network and external actors in the environment. Firms have to acquire knowledge about the nature and importance of the relationships between a network's internal and external actors in order to extend the boundaries of their network and achieve their foreign operation targets (Freeman and Sandwell, 2008; Schmid and Schurig, 2003).

Firms will succeed in their international strategies if their managers develop and direct interests among internal actors successfully to build new exchange relationships in foreign markets (Blankenburg, 1995; Freeman *et al.*, 2007). Schmid and Schurig (2003) divided networks into the internal network between a parent firm and its subsidiaries in foreign markets, and the external network between the firm and its suppliers and customers. Firms with stronger capabilities and resources can internalize their activities within their internal network; however, to access more resources, firms with resource deficiency join business networks and alliances with other firms.

O'Farrell *et al.* (1998) insisted on the role of networks in responding to customer needs, especially in business-to-business interactions. By networking, firms can provide complementary expertise for their client firms with high quality and at a competitive price. Network relationships cause dynamic contacts and consultancy between firms and their clients that help firms recognize the need and acquire the necessary technology and resources for offering better products and services. Therefore, networking can be a source of sustainability for a business. Sydow *et al.* (2010) found that networking could result in collective entry strategies based on the access to long-term experiences of network members and the cooperation between them.

Firms set up network relationships in two directions – by downstream activities in the form of personal networks and informal social contacts via family and friendship links, or by upstream activities in the form of formal contacts through joining organizational and social networks, participating in international trade fairs and exhibitions or sharing the same suppliers and buyers by participating in strategic alliances and joint ventures (Coviello *et al.*, 1998; Hutchinson *et al.*, 2006; Koch, 2001a; Malhotra *et al.*, 2003; Sydow *et al.*, 2010).

Formal networks are essential to acquire technological knowledge (Johannessen and Olsen, 2009). Innovators and entrepreneurs need strong external networks with business professionals and government agencies. These networks help them to access informal information from different organizations (Johannessen and Olsen, 2009; Kiss and Danis, 2008). Informal network relationships are mainly created based on ethnic networks, friendship and family relationships (Thirawat *et al.*, 2007). Therefore, based on the literature, this study divides networks into three categories – business networks, social networks and government link. Each one of these networks plays a major role in the international expansion of firms.

a. Business Networks

According to Ahmad and Kitchen (2008), most firms use networking and business alliances as a strategy for growth. Through networking with business players in an industry, firms can collect market information, obtain resources and discover business opportunities in both domestic and international markets (Ahmad and Kitchen, 2008; Moen *et al.*, 2004). Malhotra *et al.* (2003) suggested that networking is a basis for inward internationalization, in which a firm imports technology or other resources from foreign suppliers through business networks. Over time, the firm can develop new technologies and start outward internationalization by licensing or exporting technology or resources to the original suppliers or other firms through network relations.

Networking with banks and financial institutions helps firms finance their foreign operations and get knowledge about financial markets in foreign countries (Bianchi, 2009; Hutchinson *et al.*, 2006). Large firms can financially support smaller firms within a network enabling them to operate in foreign markets. The large networks can act as an umbrella to protect firms (Hutchinson *et al.*, 2006). Firms usually own networks with other service providers in target markets. This allows customers access to the firm's products or services through various distribution channels (Bianchi, 2009).

As networking requires a set of relationships between different business firms and individuals in the home and host countries, the role of culture in forming networks is critical. However, the literature has overlooked this effect. According to Zineldin (2007), business networks are vulnerable against cultural differences and conflicts. This is the reason that many strategic alliances as partnership businesses with collaborative networks fail. Environmental pressures and cultural dissimilarity may have a negative effect on the relationships between sellers and buyers, and collapse the network before succeeding in achieving synergy and efficiency.

However, Moen *et al.* (2004) argued that business networks influence both market selection and the choice of entry mode because they can reduce psychic distance, especially in high-tech industries. Therefore, firms with strong network relationships can enter the markets that have high psychic distance (Moen *et al.*, 2004; Reiner *et al.*, 2008). In addition, networking with local business firms can decrease the negative effects of nationalistic feelings and animosity in the host countries (Bianchi, 2009). Close relations with trade unions and professional pressure groups are important for the company. Firms have to participate in marketing conferences and research projects in each market in order to increase their market knowledge and respond to environmental threats (Bianchi, 2009). They should also match their activities with the requirements of trade unions, suppliers and other business actors (Elg *et al.*, 2008).

b. Social Networks

Social networks are based on the internal and personal sources of information provided by family or friend networks, which are more important than external and impersonal sources (Hutchinson *et al.*, 2006). According to Thirawat *et al.* (2007), while developed country MNCs use business networks to acquire knowledge and resources, firms from developing countries rely typically on social networks based on ethnic relationships. Ethnic networks are important in both regional and global markets. Ethnic networks have helped firms from Asian developing countries, such as Singapore and Malaysia, to enter regional markets. They use a broad network of suppliers and clients with a similar ethnic background (Sim, 2006).

A well-known ethnic network is the basic form of Guanxi or informal relationships between the Chinese executives. This relationship is formed based on friendship, trust and collaboration (Menzies and Orr, 2010; Pananond, 2007; Sim, 2006). Firms that establish ethnic networks such as Guanxi in their home country will benefit from this competitive advantage in foreign markets and will face lower transaction costs (Pananond, 2007).

The internationalization literature has given considerable attention to the role of family networks in foreign expansion (Ahmad, 2008; Bianchi, 2009; Kim *et al.*, 2004). Family conglomerates or large family companies are dominant in emerging markets, such as East Asia and Latin America (Bianchi, 2009; Sim, 2006). These firms benefit from well-established distribution networks and a deep understanding of markets and consumers (Bianchi, 2009). According to Sim (2006), Asian firms develop networks of family connections and extend their business within their family conglomerates. Family businesses find legitimacy and reputation for their family backgrounds. Managers of such firms usually have close contacts with their peers in their regional markets by participation in conferences and trade association meetings (Bianchi, 2009).

c. Government Links

The relationship with government is the third type of networks. According to Chen *et al.* (2005), government-controlled firms have a lower performance than that of other firms. However, the link with government is critical for private companies in foreign markets. Successful companies have close ties to the government and ruling political parties (Bianchi, 2009). According to Sim (2006), the government can play a vital role in the internationalization of firms from developing countries.

As in western countries the government does not intervene in the business activities directly, the literature has ignored the role of government intervention as a hidden advantage in the internationalization of firms from developing countries, especially Asian MNCs (Ahmad, 2008). Actually, the governments of the Asian newly industrialized countries (NICs), such as Singapore and Malaysia, have encouraged firms to expand their business operations into the regional and international markets. They have set up special institutions to facilitate the outward investment of their indigenous firms and promote entrepreneurial activities (Ahmad, 2008; Sim, 2006). The role of governments is also important in the external networks of entrepreneurs that help them access the information necessary for innovation (Kiss and Danis, 2008).

Thirawat *et al.* (2007) viewed the network between a firm and government as a reciprocal process in which firms provide crucial information for the government in order to set effective policies, and, in return, the government introduces policies to facilitate business and promote firms and their products or service in foreign markets. MNCs usually try to influence the host country governments in order to create a favourable business environment (Ahmad, 2008; Grosse, 1996; Menzies and Orr, 2010; Vernon, 1971). Firms may influence the governments by forming government policies through lobbying with leading political parties, creating and managing network relationships with government organizations and using suitable communication

techniques (Baysinger, 1984; Chen, 2007; Menzies and Orr, 2010). The relationship between firms and local governments depends on the bargaining power of each party. Consequently, cooperation with local government and political behaviour are the key factors that help firms launch foreign operations. In addition, in some industries, such as banking and education, firms need a stronger government link because the intervention of local government is high (Menzies and Orr, 2010).

The link with the home country government is an important advantage for firms because the home government can support international expansion operations of firms through its diplomatic and business connections with the host governments (Menzies and Orr, 2010). Government agencies can offer consultancy services and provide firms with the required information, which makes expansion into foreign countries easier and less risky (Ahmad, 2008; Hutchinson *et al.*, 2006; Menzies and Orr, 2010). In addition, the home country government may negotiate with business partners on behalf of firms and industries or make free-trade negotiations to facilitate easier access to markets in the host country (Menzies and Orr, 2010).

A major strategy to set up a strong link with the government is to network with government officials. Some firms hire reputable officials and place them on their board of directors or management teams in order to gain their support and influence in negotiations with the government and access to financial resources (Ahmad and Kitchen, 2008; Menzies and Orr, 2010). Furthermore, MNCs encourage their staff to have personal relationships with government officials in the host countries to create trust and recognize business opportunities (Menzies and Orr, 2010). In some cultures, personal relationships, such as Guanxi networks, are vital for expanding a business. However, the importance of the Guanxi relationships is reduced by the emergence of market institutions established by governments (Menzies and Orr, 2010). Therefore, the importance of government links can be even more than social networks.

Nowadays, business firms create their own interest groups and support their favourite candidates in elections in order to improve their link with the government or influence the local authorities. By this political behaviour, firms show their support for the interests of their employees, partners or shareholders (Baysinger, 1984). The main purpose of business political activities of firms and connection with government is to obtain support and approval for their foreign operations, receive special financial incentives and anti-competitive protection from the government, and manage and respond to governmental restrictions, such as changes in FDI rules (Baysinger, 1984; Menzies and Orr, 2010).

3.3 Strategic Considerations and their Effect on Internationalization

Strategic Considerations reflect the values, attitudes and the individual and group experience of firms' employees, the established strategic goals of the company and the turbulent business environment (Hamel and Prahalad, 1994; Koch, 2001b). According to Ekeledo and Sivakumar (2004), the strategic considerations of a firm originate from its firm-specific resources. They refer to the marketing opportunities exposed to a firm because of its resources and the limitations that the firm faces due to a lack of particular resources (Ekeledo and Sivakumar, 2004). A firm's strategic goals and objectives depend on its organizational culture, industry requirements and the personal interests of its shareholders and decision makers (Koch, 2001b). The firm may change its objectives and strategic considerations during its foreign operations (Ekeledo, 2000).

Researchers have emphasized the strong influence of strategic considerations on the internationalisation process of firms and their choice of entry mode (Calof and Beamish, 1995; Dunning, 1993a; Ekeledo and Sivakumar, 1998, 2004; Hennart, 1991; Hill *et al.*, 1990; Kim and Hwang, 1992; Morschett, 2006; Randøy and Dibrell, 2002; Terpstra and Sarathy 1994). Tuppura *et al.* (2008) suggested that the orientation of a firm towards international growth gives them more motivation to internationalize their

operations. In addition, firms' strategic views can explain why two companies with rather similar specific resources in the same industry and under the same environmental factors select different entry mode strategies (Dunning, 1993b).

According to Tuppura *et al.* (2008), firms that seek a premium market position might try to enter a foreign market earlier in order to gain the first-mover advantage. However, pioneering strategy can cause higher risks for the company due to newness of market, technology or products. Strategic consideration may also influence market selection. Increasing profitability is a strong motive for a firm to enter international markets and invest there (Kim and Hwang, 1992; Tsai and Cheng, 2002). As Koch (2001b) suggested, firms that set their strategic plans and goals for the long term prefer to enter markets and countries, which provide long-term profitability and growth opportunities. Without considering firm strategy, internationalization models cannot provide a dynamic response to rapid environmental changes (Li *et al.*, 2005).

According to Koch (2001b), strategic consideration may affect the choice of entry mode by persuading companies to collaborate with other firms or their competitors. If a company has limited objectives, it will tend to use entry modes that require minimum resource commitment but if a company has aggressive or ambitious goals, it will commit more resources to enter foreign markets and favour greater control over its subsidiaries (Douglas and Craig, 1995; Ekeledo and Sivakumar, 1998). As Ekeledo and Sivakumar (1998) suggested, corporate strategic objectives determines its motives for entry into foreign markets and the level of control over its resources.

3.3.1 Business Strategy: The Geographic Scope of Foreign Expansion

When a firm decides to enter foreign markets, it has to pursue a specific business strategy (Hill *et al.*, 1990; Kim and Hwang, 1992). This strategy depends on the motivation for international expansion. Firms may seek growth in international markets, aim to attack their competitors in foreign markets aggressively, set up a branch overseas

for future expansion, or establish a base for global sourcing (Kim and Hwang, 1992; Lopez and Fan, 2009; Tsai and Cheng, 2002; Tuppura *et al.*, 2008). Researchers have insisted on the role of international growth orientation on the internationalization of firms (Doherty, 2007; Tuppura *et al.*, 2008). According to Tuppura *et al.* (2008), managers who seek growth in foreign markets take the risk of investment easier. Managers who have a global mindset prefer to expand their business globally, especially in knowledge-intensive industries where there are more growth opportunities in global markets. Therefore, international growth orientation has a positive effect on geographical diversification. However, relying on network relations for acquiring resources may hinder firms from their international growth objectives.

Firms may use two types of business strategy in foreign markets, i.e. market concentration or international intensity, in which firms expand internationally and allocate their operation and marketing activities to a few important target markets; and market diversification or global diversity, in which firms enter numerous markets on a global scale to achieve high returns from a low resource commitment in those markets. Global firms need to have more resources compared to international firms. Being involved in global business activities may result in lower revenues from each market and a lower commitment to each market (Aspelund *et al.*, 2006; Bradley and Gannon, 2000). As Bradley and Gannon (2000) explained, the choice of each business strategy depends on four factors including the product characteristics and the need for product adaptation, market conditions and competition intensity, economies of scale in distribution and the need for controlling operations.

Each expansion strategy has its own outcomes for firms. Global expansion helps firms to spread resource commitment into various markets and to minimize the costs and risk in each market. Therefore, they tend to adopt low control or non-equity modes of entry (Bradley and Gannon, 2000; Lopez and Fan, 2009). However, Aspelund *et al.*

(2006) reasoned that global diversity is risky for new ventures. Market concentration allows firms to commit more resources in a small number of markets and exert higher control over their operations and resources by using equity entry modes (Bradley and Gannon, 2000). MNCs from developing countries usually expand into regional markets because of the lack of resources for a global scope of business (Aykut and Goldstein, 2008). Dicken (1986) also insisted on the importance of regional blocs in the development and expansion of MNCs.

Some researchers have suggested three kinds of international business strategies including multinational or multi-domestic strategy, in which firms consist of independent subsidiaries that do not depend on the headquarters or other branches in their operations; transnational or hybrid method, in which firms try to integrate the transfer of knowledge, technology, and skills in their subsidiaries around the world and make a high interdependency among them; and global strategy, in which firms may centralize their operations and coordinate their branches in order to achieve economies of scale and cut costs (Bartlett, 1986; Domke-Damonte, 2000; Heenan and Perlmutter, 1979; Morschett, 2006; Perlmutter, 1969; Sanchez-Peinado *et al.*, 2007).

The difference between these strategies is reflected in the degree of dependency between the parent firms and their subsidiaries and their ability to respond to customer needs (Harzing, 2000; Morschett, 2006). Firms always face a conflict between the benefits of integrating foreign business operations and the need for adjusting to the local conditions of each market (Fahy, 2002). According to Florin and Ogbuehi (2004), some firms may view the world as small and standardized markets while others consider the world as a large number of customized markets. To be able to respond to the needs of customers in global markets, firms tend to standardize their products and services while firms with a multinational strategy use adaptation methods and make some adjustments in their products based on the preferences of local customers (Evans *et al.*, 2008).

Standardization is rooted in the idea of the homogenization of markets and the buyers cost consciousness (Florin and Ogbuehi, 2004; Kolk and Margineantu, 2009). As Kolk and Margineantu (2009) stated, firms that follow such an approach seek for similarities among consumers around the world while ignoring the regional and national differences. In contrast, the adaptation strategy considers the differences between countries in their culture and economic development. Li *et al.* (2005) related the adaptation strategy to location advantages introduced by the eclectic paradigm. They believed that host countries conditions enforce firms to adapt their products or services to local requirements.

According to Evans *et al.* (2008), the level of standardization of business strategy depends on factors such as host government policies, competition forces, differences in customer taste, cultural difference and nationalism in target markets. Fahy (2002) added industry conditions as another factor that differentiates the business strategies of firms. He proposed that a global strategy is suitable for highly globalized industries. In contrast, Hit *et al.* (2006) argued that in some specific industries, firms use geographic clustering or agglomeration strategies and spread into a few regional markets with valuable human resources, and available suppliers and technology.

a. Multinational Strategy

Firms with a multinational strategy and a polycentric viewpoint consider each foreign market as a single and unique segment and let each foreign subsidiary act autonomously in their production, operation, and marketing activities. These firms try to decentralize their decision-making process, distribute their resources, and delegate authority and responsibility to their subsidiaries in foreign countries. Therefore, they are more flexible to the market conditions and can respond to the needs of local customers on time and adapt their products or services to the local taste and preferences (Domke-Damonte, 2000; Leong and Tan, 1993; Morschett, 2006; Sanchez-Peinado *et al.*, 2007).

In multinational firms, subsidiaries have a close relationship with local customers and businesses rather than their headquarters. These firms share control with local partners and, instead, enhance their market knowledge and capabilities (Bartlett and Ghoshal, 1989; Malhotra *et al.*, 2003). McDonald's is a famous company that tries to adopt local tastes in its burgers and food. Therefore, by franchising its operation, it provides an opportunity for each subsidiary to have autonomy and serve customers according to their preferences and cultural habits (Hill, 2008). This refers to the idea of 'think global, act local' (Fahy, 2002). Consequently, low control or shared control entry modes are more suitable for such firms (Domke-Damonte, 2000; Hill *et al.*, 1990; Sanchez-Peinado *et al.*, 2007).

According to Rugman (2003, 2009), the business operations of MNCs mostly have a regional scope rather than global. This is also viewed as a fact about the entrepreneurial activities of SMEs. Rugman (2005) discussed the advantages of regional MNCs, especially their first-mover advantage in emerging markets, which helps them to establish market barriers for other firms. Kolk and Margineantu (2009) found regionalization as a preferred strategy among service firms due to the intangible nature of services. The motive behind regional expansion may refer to factors such as low transportation costs, less geographic distance and the availability of a high quality infrastructure (Chidlow *et al.*, 2009). Li *et al.* (2005) pointed out that firms with regional adaptation compared to global MNCs are less vulnerable to decreased performance due to the events and shocks in the global business environment.

Jansson and Sandberg (2008) attributed the regionalization of SMEs to the lack of experiential knowledge and resources. They suggested a five-stage model, in which SMEs start with a domestic business focus and while gaining experience, spread into regional markets, initially by exporting and after acquiring enough experience and abilities they become international firms. This is consistent with the assumptions of the

internationalization theory. In addition, firms tend to regionalize because of cultural similarities in specific regions. These companies prefer to conduct FDI activities in regions with less cultural distance (Slater *et al.*, 2007).

b. Global Strategy

A global strategy allows a firm with an ethnocentric view to generate synergy across its different global businesses through enforcing an interdependent relationship between units or exerting control over their operations, products, management and marketing. High control helps the firm to coordinate its actions, prevent conflicts, gain synergy and accomplish its strategies (Kim and Hwang, 1992; Malhotra *et al.*, 2003; Randøy and Dibrell, 2002; Morschett, 2006). A global firm arranges its value chain in order to gain the highest value added at every phase of production (Hout *et al.*, 1982). According to Malhotra *et al.* (2003), global synergy has a positive effect on firms and to exploit this synergy, firms should exercise higher control over their foreign operations. The synergy between a firm's existing operations and its perspective affiliates gives it a competitive advantage (Taylor *et al.*, 2000).

Sanchez-Peinado *et al.* (2007) pointed out that firms with a global strategy develop their foreign activities in a similar way to their home country, transfer knowledge and technology from the parent firm to their foreign subsidiaries, and use managers from their home nation to manage and control their foreign affiliates. Thirawat *et al.* (2007) suggested that some Asian MNCs, such as Korean firms, have increasingly adopted global strategies to coordinate their foreign operations and value adding activities. These firms entered both developed and developing countries in order to achieve their strategic goals and gain more experience.

Javalgi and Martin (2007) reasoned that the expansion of service firms into global markets depends on the global mindset of their managers. The management attitudes towards internationalization influence a firm's business strategy. Managers with a

global attitude admit the interdependence between their firms and the global economy. Such managers are open-minded and view the world as a global village with cultural and market diversity.

Based on the transaction cost theory, firms prefer to internalize their foreign operations through integration. To achieve integration and exploit synergy, global oriented firms exert a high control and integrate their affiliates (see Kim and Hwang, 1992; Malhotra *et al.*, 2003). In firms with a global strategy, subsidiaries should follow headquarters and the knowledge and technology flows from the headquarters to the foreign units and is controlled. Consequently, subsidiaries are dependent on the headquarters (Harzing, 2000; Leong and Tan, 1993; Morschett, 2006). In order to coordinate their subsidiaries, firms that offer standardized products and have a global strategy or transnational strategy tend towards sole ownership (Domke-Damonte, 2000; Morschett, 2006).

The resource-based view has paid special attention to the role of business strategy in the internationalization strategies of firms (Ekeledo and Sivakumar, 2004; Fahy, 2002; Hill *et al.*, 1990). According to Hill *et al.* (1990), only a highly internalized company can be flexible in operation, enhance its foreign business and follow a global strategy. Therefore, researchers argue that there is a positive relationship between the practice of a global strategy by a firm and the adoption of a high control entry mode (Ekeledo and Sivakumar, 2004; Kim and Hwang, 1992). However, high control requires more resource commitment that may result in more risk exposure, higher prices and less flexibility (Anderson and Gatignon, 1986; Davidson, 1982; Morschett, 2006). The need to exert high control may also limit the geographical expansion of firms because controlling foreign subsidiaries in global markets is difficult (Reiner *et al.*, 2008). Hence, firms that enter emerging markets with a global strategy initially choose joint venture and later, switch to sole ownership (Zhang *et al.*, 2007).

3.3.2 Motives of Entry: Serving Home Clients or Market Discovery

Firms expand internationally in order to increase their sales and profits, overcome the competitive pressure and limited opportunities of their domestic market, gain reputation as an international firm, increase their size and obtain competitive advantage (Doherty, 2007; Kim *et al.*, 2002; Ling and Chan, 2008). Some firms go abroad to serve their domestic customers in foreign markets while others search for new customers for their products and services in international or regional markets (Álvarez-Gil *et al.*, 2003; Bouchard, 1992; Chidlow *et al.*, 2009; Ekeledo and Sivakumar, 1998; Erramilli and Rao, 1990; Grönroos, 1999; Kim *et al.*, 2002; Sanchez-Peinado *et al.*, 2007).

According to Grönroos (1999), a firm can enter a market to serve its own clients and at the same time look for a local market. However, each strategy requires a different form of operation and investment. Erramilli and Rao (1990) argued that early entrants to foreign markets usually follow their clients while late entrants are market seekers. Firms may also use electronic marketing and promote their products and services in foreign markets through the Internet. This helps them collect data and information about market conditions and customer needs (Grönroos, 1999).

a. Following Clients

When firms follow their clients into foreign markets, they usually enter regional markets with less cultural and psychic distance. For example, Spanish MNCs follow their clients to Latin American countries where there are many similarities with their home country (see Álvarez-Gil *et al.*, 2003). In addition, firms that follow their clients face less competitive pressure and risk because of the available domestic customers in the market for their product (Ekeledo and Sivakumar, 1998; Kim *et al.*, 2002). Therefore, they favour FDI and high control entry modes to keep their competitive advantage (Banerji and Sambharya, 1996; Ekeledo, 2000; Ekeledo and Sivakumar, 1998; Sanchez-Peinado *et al.*, 2007; Terpstra and Yu, 1988).

According to Bouchard (1992), firms that follow their customers into foreign markets strengthen their network relationship with those clients and also increase their managerial skills and knowledge about their competitors in foreign markets. The best way to promote foreign sales is to have a personal relationship with clients in foreign markets (Ling and Chan, 2008). Furthermore, due to the globalization of markets, if firms do not follow their clients in foreign markets, they will provide an opportunity for potential rivals (Bouchard, 1992).

The eclectic paradigm believes that firms may follow their home clients or their competitors and industry leaders into foreign markets in order to exploit their ownership advantages abroad (Dunning, 1995; Sanchez-Peinado *et al.*, 2007). In oligopolistic markets, firms follow their competitors in foreign countries in order to judge the reaction of the competitors and improve their home market position (Sanchez-Peinado *et al.*, 2007). Erramilli and Rao (1990) pointed out that early entrants that follow their clients use wholly owned subsidiaries while late entrants prefer joint ventures.

b. Market Seeking

Market seeking is a major motive for entry into foreign markets (Chen *et al.*, 2006; Chidlow *et al.*, 2009; Doherty, 2007; Dunning, 1993a; Enderwick, 2009; Li and Clarke-Hill, 2004; Luiz and Charalambous, 2009; Luo, 2003). Bouchard (1992) argued that firms seek new markets in order to strengthen their position in the domestic market. Firms view host countries as major sources for their limited resources (see Luo and Zhao, 2004). According to Chen *et al.* (2006), firms try to exploit the opportunities of a foreign market and increase their profits by absorbing prospective customers. The selection of the host country depends on the size and potential growth of the target market. However, cultural proximity and familiarity with the market setting can also affect this choice. Large markets such as China provide a high potential for MNCs to find consumers for their products and services.

The eclectic paradigm views market seeking as a strategy for new ventures to overcome their liability of newness. Such firms use contractual modes to access new markets, and gain experience and market knowledge (Dunning, 1993a; Erramilli and Rao, 1990; Sanchez-Peinado *et al.*, 2007). Enderwick (2009) suggested that expansion into new markets enables firms to access high growth markets, extend their products' life cycle, educate customers and raise their awareness about their offerings, learn to manage dynamic markets and decentralize by moving from the headquarters to regional offices. To exploit these capacities, firms may adopt their products and services with local needs and preferences, develop new products, reduce the costs through economies of scale, invest in host country resources and manage rapid changes successfully.

According to Ekeledo and Sivakumar (1998), it is not easy for new entrants to compete with local firms and absorb their loyal customers. In fact, firms that enter foreign markets in search of new customers are exposed to greater risk and competition intensity. Manufacturing and separable service firms start their foreign operation by exporting their products and after becoming better acquainted with the market, use contractual modes or invest there, while inseparable services should initially invest through sole ownership and majority joint venture or franchise their operation. Therefore, firms that enter foreign markets seeking local customers and new markets tend to adopt low control entry modes (Ekeledo and Sivakumar, 1998, 2004).

3.3.3 Resource Strategy: Protecting Firm Assets or Need for New Assets

To enter foreign markets, a firm requires strong resources and capabilities. The internationalization strategy of the firm depends on the availability and abundance of these resources. Firms adopt two types of strategies in international markets including asset exploitation and asset seeking (Sanchez-Peinado *et al.*, 2007). Based on each strategy, firms require exerting a suitable level of control and integration for their foreign operations.

a. Resource Exploitation

Exploiting the resources and capabilities of the firm in foreign markets is a major objective of MNCs (Chen *et al.*, 2006; Cheng, 2006; Dunning, 1993a). Some firms own valuable resources, such as managerial skills and proprietary technology. If these corporations want to exploit such assets and capabilities in foreign markets, they will feel the necessity to protect their resources by exerting higher control. Therefore, they prefer to set up a wholly owned subsidiary (Ahammad and Glaister, 2008; Ekeledo, 2000; Ekeledo and Sivakumar, 2004; Sanchez-Peinado *et al.*, 2007).

The transaction cost theory emphasizes that firms that transfer their resources to foreign markets need to protect them. This is possible through internalizing the flow of knowledge and resources that is more efficient than bearing transaction costs (Lu, 2002). The ideal mode of entry is the one that allows a firm to exert full control over its operations or the marketing of its products in a foreign market (Ekeledo and Sivakumar, 1998; Osland *et al.*, 2001; Stopford and Wells, 1972). Controlling business activities in foreign markets can increase firm performance, minimize uncertainty in unfamiliar markets and facilitate the learning process of firms (Chen *et al.*, 2006; Dunning *et al.*, 2007; Kirca, 2005).

Control is necessary when the protection laws are not effective enough to protect the intellectual properties of firms (Ekeledo and Sivakumar, 1998). The level of resource commitment in a foreign venture defines the degree of control. According to Douglas and Craig (1995), when a firm exports its products or licenses its operations to local companies or individuals, it requires a minimum commitment of resources and, consequently, the firm exercises little or no control over marketing its products. In a franchise agreement or joint venture, a firm has a limited control over its subsidiaries or affiliates. This may result in creating conflict between business partners with different goals and objectives.

The eclectic paradigm argues that control over foreign subsidiaries is necessary to protect a firm's ownership advantages, such as innovation capacity, tacit knowhow, quality, brand name and efficiency. Therefore, firms tend to use equity entry modes (Dunning *et al.*, 2007; Jaussaud and Schaaper, 2006; Karhunen *et al.*, 2008). Firm capabilities reside in human resources, such as production, marketing and managerial personnel (Kim and Hwang, 1992). Consequently, firms should control their human capital in order to prevent the potential shrinking of their knowledge and capabilities (Dunning *et al.*, 2007).

Researchers argue that a firm that practices higher control over its resources in a foreign market favours the adoption of a high control entry mode (Baek, 2003; Ekeledo and Sivakumar, 1998; Kim and Hwang, 1992; Malhotra *et al.*, 2003). As Baek (2003) suggested, control helps firms decrease conflict between subsidiaries and the parent firm. However, exercising higher control over operations may limit the geographical scope of expansion as controlling foreign subsidiaries in regional markets is easier than global markets (Reiner *et al.*, 2008).

b. Resource Seeking

If firms lack sufficient resources or face time limits to gain more experience and expertise, they have to seek business partners with valuable resources to enhance their abilities. Therefore, collaborative modes of entry, such as joint venture or strategic alliances, are more suitable for such firms (Ekeledo, 2000; Ekeledo and Sivakumar, 2004; Ghoshal, 1987; Huber, 1991; Kogut, 1988; Madhok, 1997; Sanchez-Peinado *et al.*, 2007; Terpstra and Sarathy, 1994). If such a firm decides to have a wholly owned subsidiary, it may acquire an existing firm through merger and acquisition. In contrast, when Japanese MNCs decided to enter European markets, as they had superiority in technical expertise and resources, they preferred to set up their own business from scratch (Ahammad and Glaister, 2008).

The transaction costs theory believes that the need of MNCs for resources and complimentary assets can affect their entry mode strategy (Bhaumik and Gelb, 2005; Cheng, 2006). According to Kim and Hwang (1992), firms participate in foreign business activities in order to enhance their innovative and technological capability through global synergy. This synergy gives firms an increasing commitment to business units and economies of scale. It can help firms to produce their products at a lower price and compete better. However, to utilize this synergy, firms require using hierarchical control over their operations.

The size of firms is a major factor that shows their need for resources. Small firms do not have the required knowledge and technology or sufficient financial assets to take risks and bear the costs of going abroad through sole ownership. Therefore, they adopt collaborative modes in the form of strategic alliances and joint venture in order to gain market knowledge, use effective distribution channels and access to local authorities (Ekeledo and Sivakumar, 2004; Zacharakis, 1997). In addition, if foreign subsidiaries have a large size compared to their parent firms, they will perceive a greater need to seek resources in foreign markets. These affiliates cannot rely on their parent firms to provide their required resources (Cheng, 2006).

Based on the resource-based view, firms rely on their resources to operate successfully. If a firm lacks necessary resources or need a specialized asset to exploit its valuable asset or intellectual property, it can provide it through the complementary assets of other firms in foreign markets. The need for complementary assets of other firms can influence the choice of entry mode (Barnat, 2005; Ekeledo and Sivakumar, 2004; Taylor *et al.*, 2000). It may also cause the dependence of a firm on local suppliers and partners (Taylor *et al.*, 2000). Complementary assets or paired resources are the supportive products and operations that help firms to utilize its competitive advantages completely through their products and services (Cheng, 2006). Therefore, if a company

with a valuable asset needs a suitable production or marketing skill to influence the market, it may use a paired application by choosing a merger or a joint venture as the entry mode (Ekeledo, 2000; Wernerfelt, 1989).

Complementary assets may be in the form of physical resources including property, capital, raw materials and labour force, and strategic assets, such as proprietary technology, tacit knowhow, marketing channels or network relationships (Cheng, 2006; Li and Clarke-Hill, 2004). According to Barnat (2005), some firms seek natural resources in foreign markets in order to reduce the cost of production and offer lower costs. The need for resources such as low cost labour force and raw material can motivate firms to enter a target market (Chidlow *et al.*, 2009; Lin, 2009).

Marketing ability is one of the most important complementary resources that firms seek. In general, smaller firms need marketing channels and the capabilities of other firms to sell and offer their products in foreign markets, especially when a firm from a developing country wants to enter the market of a developed country (Barnat, 2005). In addition, Enderwick (2009) argued that expanding into emerging markets provides the opportunity for learning and gaining necessary experience, which helps managers to control rapid changes in the business environment.

The need for technological capability can affect market selection and increase firm performance (Tsai and Wang, 2008). According to Chidlow *et al.* (2009), seeking knowledge and capabilities is a motive for MNCs to invest in certain markets, such as Poland, with a large number of scientists and educated people, high R&D intensity and well-known innovations. According to Cantwell *et al.* (2004), MNCs tend to invest in the countries with available innovation and advanced technology. American MNCs have a high amount of FDI in the UK, where managerial skills are available due to high R&D costs. Knowledge seeker firms should have a learning intention and capacity, absorptive capability and prior experience (Hau and Evangelista, 2007).

As Lu (2002) mentioned, need for acquiring complementary resources encourages firms to collaborate with local partners. Therefore, in industries such as the automotive industry many joint ventures and mergers took place. For example, the GM and Toyota venture was formed, as GM needed to know how the Japanese were able to produce cheaper cars for their customers. Therefore, there is a negative relationship between using a resource seeking strategy for acquiring complementary assets or seeking local contribution and the adoption of a low control entry mode (Ekeledo and Sivakumar, 2004; Cheng, 2006; Lu, 2002; Taylor *et al.*, 2000).

3.3.4 Competitive Strategy: Using Firm Advantages to Compete

As Porter (1985) explained, a firm needs a competitive strategy to achieve a sustainable competitive advantage in a specific industry. To find a better market, increase their profitability and gain competitive advantage, firms should use a suitable strategy. A competitive strategy shows the firm's orientation and positioning and is a factor in the internalization decision of a firm in foreign markets (Morschett, 2006). Firms may adopt three different competitive strategies in their foreign operations including cost reduction or efficiency seeking, product differentiation and focus strategy (Ling and Chan, 2008; Luo and Zhao, 2004; Porter, 1980).

In the cost reduction strategy, firms try to minimize production and marketing costs in order to attract new customers and gain a higher market share. In the product differentiation strategy, firms invest in R&D activities to offer products with higher value and quality than those of their rivals. In the focus strategy, firms concentrate their activities on a niche market based on geographical region, income level, demographic groups or product specialty (Ling and Chan, 2008; Luo and Zhao, 2004; Porter, 1980). Competitive strategies may also be divided into four building blocks including price or efficiency orientation, quality orientation, innovation orientation and service orientation (Luo and Zhao, 2004; Miller, 1992; Morschett, 2006; Porter, 1985).

a. Cost Reduction

A cost reduction or cost leadership strategy is rooted in the price orientation of firms, which enforces them to seek cost efficiency in their operations (Morschett, 2006). In such a strategy, firms attempt to produce their products at a lower cost than the costs of their competitors in the industry using their efficient production and processes to be able to offer lower prices (Griffin and Pustay, 2002; Ling and Chan, 2008; Luo and Zhao, 2004). To find a cost advantage and be a cost leader, firms require economies of scale, proprietary technology and better access to raw materials. A firm that achieves overall cost reduction will have an above average performance in its industry and can control prices at or near the industry average (Porter, 1985).

Cost reduction and maximizing efficiency is the main motive for international expansion (Malhotra *et al.*, 2003; Reiner *et al.*, 2008). Hymer (1972) explained that cost reduction and achieving efficiency is the result of the monopolistic advantage of MNCs from developed countries (see Pearce and Papanastassiou, 2006). Kim and Hwang (1992) stated that firms enter foreign markets in order to use global synergy and reduce production costs, which, in turn, increases the profitability of the firm's operations. Cost pressure may affect market selection so that firms offering low cost products and services as their competitive advantage enter emerging markets in developing countries to benefit from their cheap labour costs, raw materials and resources (Chen *et al.*, 2006; Chidlow *et al.*, 2009; Enderwick, 2009; Reiner *et al.*, 2008; Sim, 2006). For example, Singaporean textile companies ended their operation in the home country and moved to cheaper Asian countries (Sim, 2006).

Enderwick (2009) explained that firms with a cost reduction strategy enter international markets in order to access new suppliers and new resources, increase their specialization, utilize economies of scale, integrate with local suppliers, and find regional integration. Such firms use different strategies in order to reduce costs and gain

a competitive advantage. These strategies include outsourcing to global partners, incorporating cheaper land, labour and local knowledge in foreign markets, dividing and delegating tasks and operations, developing and sharing capabilities, and merging the supply chains of multinational and local firms.As Chidlow *et al.* (2009) pointed out, MNCs invested in markets with transitional economies, such as Eastern Europe, in order to access skilled workers. However, increasing wages and living costs in countries such as Hungary forced western MNCs to transfer their operations to other markets (Reiner *et al.*, 2008).

Moser Baer India (MBI) as the third largest manufacturer of optical storage media in the world produces CD-Rs at one of the lowest prices globally. It can manufacture its product at one third of the production cost per unit of its Taiwanese rival. MBI has invested highly in the production lines of CDs and DVDs with a 2 billion unit annual production. It has set up a factory in Germany and is going to invest in the US. The advantage of the company is its methods to cut material cost, reduce labour costs, and use well-built distribution channels to serve its global customers (Oburai and Baker, 2005). In contrast, firms such as Zara, which offer products with high prices, suffer from their vulnerable market position in foreign markets (Lopez and Fan, 2009).

In order to decrease production and marketing costs, firms can take two different actions – internalization and externalization. Through internalization, firms set up their own production lines and subsidiaries overseas to benefit from the available natural resources and raw materials, and cheaper labour forces as well as to save transportation costs. Internalization allows firms to manufacture products or offer services with an absolutely lower price that enables the company to compete easier. In contrast, firms with an externalization strategy usually choose partnership with other firms to outsource some parts of their production line, marketing units or after-sales services in foreign markets (Morschett, 2006).

In the transaction cost theory, externalization is viewed as the default mode of businesses in a perfect competitive market and results in lowering transaction costs. Therefore, contractual entry modes can decrease the costs of production and marketing (Singh and Kogut, 1989). According to Morschett (2006), outsourcing is a cost efficient solution. In outsourcing, the costs decrease because fixed costs are replaced by variable costs and local partner advantages from economies of scale, market experience and specialized knowledge (Heshmati, 2003; Morschett, 2006). Internalization is only suitable when the market is imperfect. Otherwise, if there are enough suppliers available, a firm can take advantage of their expertise and economies of scale in special operations, and in cases of unacceptable performance, replace them with new partners (Anderson and Gatignon, 1986).

According to Morschett (2006), in inseparable services, where production and consumption is simultaneous, providing a satisfying level of service is more critical. Therefore, a third party partner in the host country can provide on time and specialized services for customers of different firms. This specialized and concentrated activity can lower the costs for outsourcing companies and increase service quality for customers. Outsourcing by contractual agreements is a common form of partnership. In General, firms that rely on the price as their competitive advantage and need for cost saving tend to collaborate with local partners. Therefore, there is a negative relationship between using a cost reduction strategy and the adoption of a high control mode (Ekeledo and Sivakumar, 2004; Morschett, 2006).

b. Product Differentiation

A firm with a product differentiation strategy that is rooted in quality orientation aims at attracting consumers by being unique in its industry regarding product features and quality. A firm needs a distinctive capability, such as proprietary technology or tacit knowhow, which enables it to produce differentiated products with a superior quality

and special features in response to customer needs. Therefore, customers pay a premium price for such products (Griffin and Pustay, 2002; Hamel and Prahalad, 1994; Ling and Chan, 2008; Luo and Zhao, 2004; Porter, 1985). Firms that offer high quality products or services can enter markets with higher investment risks (Czinkota *et al.*, 2009).

A firm with differentiated products faces a dilemma, as it likes to gain more profit from its proprietary technology and tacit knowhow, however, at the same time, it has to protect that technology and expertise from potential competitors (Anderson and Gatignon, 1986; Erramilli and Rao, 1993; Nakos and Brouthers, 2002). Having this ability causes high profitability for the company. To be able to evaluate the technology and market profit, a firm may need to introduce its technology or knowledge to local partners. Therefore, the company takes a risk and partners can access the proprietary technology and knowledge, and even duplicate it later (Agarwal and Ramaswami, 1992; Choo and Mazzarol, 2001; Nakos and Brouthers, 2002).

Empirical studies show that the firms with differentiated and unique products or services tend to protect their knowledge, technology and methods by using high control entry modes (Anderson and Coughlan, 1987; Brouthers *et al.*, 1996; Coughlan, 1985; Czinkota *et al.*, 2009; Nakos and Brouthers, 2002; Osborne, 1996; Pantelidis and Kyrkilis, 2005). Luo and Zhao (2004) argued that in the product differentiation strategy, firms face higher uncertainty and different customer demands and preferences. Therefore, links with the host government and network relationships are necessary, and subsidiaries need to have a close relationship with their parent firms. In addition, when a firm produces differentiated products in a single market, it is able to exploit the same technology in other markets because it has already developed systems and processes to market and deliver the product. In this case, a high control entry mode is suitable but if the firm chooses collaborative modes like licensing, it will limit the profits (Anderson and Gatignon, 1986; Czinkota *et al.*, 2009; Nakos and Brouthers, 2002).

The eclectic paradigm has considered product differentiation as a source of ownership advantage. Therefore, firms with differentiated products will favour high control entry modes (Brouthers *et al.*, 1996; Nakos and Brouthers, 2002; Osborne, 1996; Pinho, 2007). Czinkota *et al.* (2009) argued that education institutions with a patent or copyright for their process and technology, teaching methods, information resources and brand name are able to adopt high control modes and take higher risks. However, there is a contradiction in the literature, as SMEs with less differentiated products usually choose wholly owned subsidiaries (Choo and Mazzarol, 2001).

c. Focus Strategy

The focus strategy requires firms to use a narrow competitive advantage within an industry. Firms with a focus strategy concentrate their operations to serve customers in a limited segment of the market. They can exploit a niche market within an industry, which is different from other segments. In such a strategy, the level of required resource commitment is higher than the cost reduction and lower than product differentiation. Therefore, foreign subsidiaries need a closer link with their parent firms compared to cost efficient firms, however, they require lower control than what is exerted in firms with differentiated products (Luo and Zhao, 2004). Therefore, there is no meaningful relationship between the focus strategy and the adoption of high control modes.

d. Innovation Orientation

To offer differentiated products, firms need an innovation orientation, which helps them to increase their international performance and compete successfully in foreign markets (Bianchi, 2009; Pantelidis and Kyrkilis, 2005). According to Gollin (2008), innovation provides a firm with new methods and designs in developing products and services. An innovative firm can offer new products, introduce new technology or process, develop a new business line or new cost saving method, and increase its competitive power (Gollin, 2008; Pantelidis and Kyrkilis, 2005; Pinho, 2007).

Porter (1990) argued that technological advantage is a key to gain competitive advantage rather than the abundance of resources. To obtain technological advantage, a firm needs innovation that is the result of an extraordinary attempt. Usually when the company is under pressure and fears losing its market share, it requires innovation efforts. One of the reasons why the firms become innovative is the lack of adequate resources. For example, in Switzerland where the labour force is limited, watch manufacturers changed their models to high-end watches that are less labour-intensive. As Bianchi (2009) pointed out, service firms also use innovative techniques to facilitate their market expansion. For example, Falabella, a Chilean retailer issued special credit cards for its low-income customers and increased its annual sales.

Tsai and Wang (2008) insisted on the role of acquiring external technology in increasing innovation and responding to customer demands. Partnership with other firms with valuable technological capability allows a firm to leverage its technology and skills and achieve a better performance. Ahammad and Glaister (2008) argued that because of rapid technological changes and growing R&D costs, many firms use mergers and acquisitions to share the cost of innovation and increase their innovatory potential by acquiring new technologies. An innovative firm can have a higher performance, stock market value, customer loyalty, and employee morale. It is able to introduce new products and sustain its business activity; however, innovation may also cause stress for employee and reduce product quality (Simpson *et al.*, 2006).

According to Hargroves and Smith (2005), the new dynamic paradigm of international competition is based on innovation, which helps a firm to respond to customer needs by producing differentiated products or modifying products or services. Globalization, less time for innovation and emerging MNCs have forced competitors to be innovative and gain more profits of productivity (Porter, 1990). R&D programmes also increase the innovation capacity of firms (Trevino and Grosse, 2002).

Innovation is an intellectual property that firms need to protect from their competitors by adopting equity modes or FDI modes (Gollin, 2008; Pinho, 2007; Trevino and Grosse, 2002). According to Pantelidis and Kyrkilis (2005), when a firm increases its product innovation and differentiation, it is able to invest directly in foreign markets and use market demand and information. Innovation and the capability of producing differentiated products, enables a firm to adjust its products to the needs of local customers in foreign markets. However, the benefits of innovation give a unique position to the firm in the competitive market and to protect new processes and products from its rivals, a firm needs to exert higher control over its operations. Thus, there is a positive relationship between innovation orientation and the adoption of a high control entry mode, such as wholly owned subsidiary (Morschett, 2006).

e. Service Orientation

Service orientation helps firms to succeed in foreign competition. In recent decades, many manufacturing firms have paid more attention to their complementary services, such as delivery, before and after-sales services, and customer service (Chung and Enderwick, 2001; Morschett, 2006). Javalgi and Martin (2007) suggested that manufacturing firms have shifted their focus from tangible product differentiation towards intangible service differentiation. These firms compete with other suppliers of products based on the quality of services they offer to the consumer of their products. In some industries such as the automotive industry or mobile communications after-sales services are vital for competition and providing customer satisfaction.

According to Morschett (2006), a firm with high quality services during the sales process and afterwards will have a competitive advantage and attain customer loyalty. As goods become exchangeable, customer service finds more significance and shows that the firm has a better performance rather than its competitors in the long term. Firms focus on services in order to have loyal customers, as a suitable delivery and after-sales

service can be more effective than advertising. After-sales service is a core competency of a firm and helps it to gain a sustainable competitive advantage, which can lead it to success. However, no company can purchase this advantage in the market but it has to be developed over time.

If after-sales service is a core competency for the firm, it should provide it by its own subsidiaries to keep it confidential and decrease spreading risk. In this case, service becomes a tacit knowhow that a company has to prevent from transferring to partners. Therefore, the firm should internalize its services using a high control entry mode (Morschett, 2006). According to Chung and Enderwick (2001), manufacturing firms that offer products that require before or after sales services, need to locate their operations near consumer markets and have a local presence. In addition, service industries, such as retailers or consultancy firms, that need to provide supporting services for their customers require close contact between suppliers and buyers. Therefore, firms that offer additional services as their competitive advantage tend to adopt a high control entry mode, such as a wholly owned subsidiary (Chung and Enderwick, 2001; Morschett, 2006). However, firms whose competency is production but do not have enough facilities, knowledge or expertise to handle after-sales services, tend to outsource these services to professional service providers.

3.4 Product Characteristics and their Effect on Internationalization

Firm's products have two types of attributes – micro and macro characteristics. The micro characteristics refer to the features that specify a product and differentiate goods or services from others in a similar industry. These items include composition, ratio value to weight, packaging, brand name or image, technology, and so on. In the models that considered product factors as a determinant of entry mode, the focus was more on product micro characteristics (see Anderson and Gatignon, 1986; Douglas and Craig, 1995; Gannon, 1993; Root, 1994). Macro characteristics of products and services

include tangibility, perishability, separability and homogeneity. Macro characteristics are the basis for classifying products in different categories based on their fundamental features (Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 1998, 2004; Javalgi and Martin, 2007; Zeithaml *et al.*, 1985).

As Table 3.3 indicates, based on the macro characteristics, firms' outputs are traditionally divided into manufacturing or consumer goods that are tangible and services that are intangible. In addition, researchers divide service industries into two types including hard services, which are separable, homogenous and storable, and soft services, which are inseparable, perishable and heterogeneous (Blomstermo *et al.*, 2006; Erramilli, 1991; Erramilli and Rao, 1990; Ekeledo and Sivakumar, 1998, 2004; Javalgi and Martin, 2007; Majkgård and Sharma, 1998; Sanchez-Peinado *et al.*, 2007). According to Blomstermo *et al.* (2006), this classification helps researchers to compare their findings about service firms and generalize their results easier. Erramilli and Rao (1990) attributed the difference between services mainly to their heterogeneity while other scholars focused on the degree of intangibility and inseparability of services (see Axinn and Matthyssens, 2002; Domke-Damonte, 2000).

Table 3.3: Characteristics of Goods and Services

Business Sectors	Product characteristics				Industry examples
	Tangibility	Separability	Perishability	Homogeneity	
Manufacturing	Tangible	Separable	Storable	Homogenous	Automotive, electronics
Hard services	Intangible	Separable	Storable	Homogenous	Software, consulting
Soft services	Intangible	Inseparable	Perishable	Heterogeneous	Hotel, restaurant, bank

Adapted from: Ekeledo and Sivakumar (1998)

3.4.1 Degree of Intangibility: Using Tangible Means in Service Delivery

Tangibility refers to the physical appearance of products. Manufacturing firms use raw materials to produce physical, consumer or industrial goods, however, in services, the output is intangible (Ekeledo and Sivakumar, 1998). Services are defined as activities, endeavours and efforts that firms provide for their customers. These

operations are distinct from manufacturing goods, minerals and agricultural products because their output is not visible or touchable like tangible objects (Cloninger, 2004; Javalgi and Martin, 2007). Intangibility means that there is no physical product as a catalyst to connect foreign subsidiaries and partners together (Blomstermo *et al.*, 2006). Although most services, such as music cassettes, have two components including a manufactured good piece and a service element, customers usually benefit from the service component (Ekeledo and Sivakumar, 1998).

Because of intangibility, the marketing of services is more challenging and difficult than manufacturing products because marketers should promote services that they are not able to exhibit before consumption. Therefore, service firms need higher efforts for marketing activities in international markets and stable relationships with their local partners (Blomstermo *et al.*, 2006; Javalgi and Martin, 2007). Intangibility also affects the customer perception of service quality because the physical exhibition of services is not possible and service quality is usually based on individual experience in a specific time and space. Therefore, evaluating service quality before and even after consumption is difficult (Blomstermo *et al.*, 2006; Domke-Damonte, 2000). Hence, traditional quality control methods used by manufacturing firms are inapplicable in services (Blomstermo *et al.*, 2006).

According to Cloninger (2004), service firms with a higher degree of intangibility tend to choose a high control entry mode because they need to locate their service delivery process near customers and provide high quality services based on customer preference. As the evaluation of service quality for customers is difficult, services with higher intangibility require greater marketing efforts and proven quality to compete in foreign markets and gain more market share by persuading local customers to switch from their current service providers. This makes competition for such firms more difficult. Therefore, traditional views supposed that the internationalization of service

firms with a high level of intangibility is more difficult and not profitable. However, Cloninger (2004) suggested that these firms could receive higher returns from their foreign operations because they have more ownership advantages and valuable assets, such as tacit knowhow and proprietary technology.

3.4.2 Inseparability of Services: The Moderating Role of Inseparability

Inseparability refers to the need for face-to-face contacts and the participation of customers in the service production process (Axinn and Matthyssens, 2002; Domke-Damonte, 2000; Kim *et al.*, 2002). In many services, such as education, consultancy, engineering and software development, decoupling production and consumption is possible. In contrast, some services, such as car rental, healthcare, restaurants and hotels, require immediate delivery, in which both suppliers and customers must be present during the process of service delivery (Blomstermo *et al.*, 2006; Erramilli and Rao, 1990, 1993; Kim *et al.*, 2002).

Separable or hard services can be transferred and stored by tangible means and physical goods such as disks, CDs and documents, while inseparable or soft services are not storable and firms cannot provide their daily needs by storing and holding inventory (see Blomstermo *et al.*, 2006; Erramilli and Rao, 1993; Javalgi and Martin, 2007). Inseparable services cannot be exported whereas separable services are often exported easily. For example, music albums, software, books and satellite TV programmes are offered through mass production and exported to other markets (Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 1998, 2004; Erramilli and Rao, 1990; Root, 1987).

Perishability causes a challenge for soft service firms in balancing the supply and demand, especially as predicting customer demands and local supply in foreign markets is difficult (Javalgi and Martin, 2007). Thus, the degree of tangibility of inseparable services is higher than separable services. This requires soft service providers to be

ready to offer their services on time based on customer demand. Therefore, inseparable services need a higher level of resource commitment in foreign markets and face greater risks (Blomstermo *et al.*, 2006; Erramilli and Rao, 1993).

In separable services, firms can provide similar and standard services to their customers whereas in inseparable services, customers intervene in the service delivery process. Consequently, the adaption of service to customer preferences results in a wide variety and heterogeneity of the services offered (Blomstermo *et al.*, 2006). Heterogeneity means that soft services are different in terms of time, location and service provider. In services that are labour-intensive, a variation in labour force results in dissimilarity in the services offered (Javalgi and Martin, 2007).

As inseparable services have high intangibility, need to adopt their services to customer preferences and local obligations, and require frequent interactions between buyers and sellers, such services are location-bound. Consequently, at the time of entry, soft service firms should provide their services in their complete form without getting initial market experience (Blomstermo *et al.*, 2006; Erramilli and Rao, 1993; Ekeledo and Sivakumar, 2004). Therefore, inseparable services need to have a local presence in foreign markets in order to customize their services and monitor the performance of their employees to guarantee their service quality (Javalgi and Martin, 2007).

Product characteristics can influence the choice of entry mode. Therefore, there is no unique strategy applicable to all firms but each firm based on the nature of its outputs calls for a certain entry mode, especially because of the different degree of uncertainty (Ekeledo and Sivakumar, 2004). Therefore, researchers found that entry strategies adopted by manufacturing is not completely applicable in services (Ekeledo and Sivakumar, 1998, 2004; Erramilli and Rao, 1993). However, some researchers have suggested that the strategies adopted by manufacturing firms are generalized to the service firms (see Agarwal and Ramaswami, 1992; Terpstra and Yu, 1988; Weinstein,

1977). This is because they focused on the strategies of separable services, such as advertising agencies and leasing firms. Therefore, they could not find any meaningful difference between these industries and the manufacturing sector.

Inseparability of services can determine firm strategy. As in soft services, suppliers are an integral part of service and should be present at the time of delivery, exerting high control over operations is necessary. Consequently, inseparable service firms are more likely to choose high control entry modes in comparison to separable services (Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004; Erramilli, 1991; Erramilli and Rao, 1993). Formal organizational arrangements in foreign markets helps inseparable service firms collect market knowledge in order to build distinctive core competencies and increase perceived service quality, as these firms become familiar with the market conditions and local customer tastes, adapt their services to meet such tastes, and manage the relationship with customers (Blomstermo *et al.*, 2006).

In manufacturing firms and hard services, proprietary technology is reflected by their patent or copyright and protected by copyright rules. However, the service technology in soft service firms is formed as the trade secrets of firms with a high proprietary content of output, process or managerial skills. Therefore, protecting these trade secrets from the opportunistic behaviour of partners is not easy (Ekeledo and Sivakumar, 2004). According to Erramilli and Rao (1993), inseparable services are more sensitive to uncertainty compared to separable services and manufacturing firms. They use a high level of tacit knowhow to protect their reputation and to prevent the duplication of services (Cloninger, 2004). Consequently, inseparable services are more likely to use sole ownership (Cloninger, 2004; Ekeledo and Sivakumar, 2004).

According to Domke-Damonte (2000), the type of technology used by service firms may affect their mode of operation. In addition, the transaction cost theory considers the role of asset specificity so that inseparable services with highly

specialized assets prefer high control modes while those with low asset specificity prefer low control entry modes (Erramilli and Rao, 1993; Kim *et al.*, 2002). According to Erramilli and Rao (1993), high asset specificity refers to the use of professional skills, specialized knowhow and the adaptation of services to customer needs. These characteristics are all are found in inseparable services at a high level. Therefore, soft services with high asset specificity will favour high control modes.

Because of the inseparability of production and consumption, firms may adopt multiple entry modes in a foreign market at the same time because inseparable services should use multiple affiliates and outlets to offer their services to a greater number of clients. Establishing multiple sites requires high costs and resource commitment. Therefore, to offer services in several locations with lower costs, soft service firms, such as fast food chains, may simultaneously use a mixture of operation modes such as sole ownership, joint venture and franchising (Bharadwaj *et al.*, 1993).

According to Ekeledo and Sivakumar (1998), both hard service firms and soft service firms are sensitive to firm size so that larger service firms prefer sole ownership to joint venture and partnership. However, the industry-specific demand for resources and the need for investment capital can moderate the effect of firm size on the choice of entry mode and differentiate service firms from manufacturing industries (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Koch, 2001a).

Manufacturing industries are capital-intensive and need greater investment in fixed assets and physical capital whereas services are knowledge-intensive, and depend on the flow of knowledge and expertise, which resides in human capital or intellectual property (Erramilli and Rao, 1993; Morschett, 2006; Sanchez-Peinado *et al.*, 2007). Therefore, service firms tend to adopt FDI modes (Ekeledo and Sivakumar, 2004; Terpstra and Yu, 1988). In addition, when capital intensity is low, there is no difference between service firms in market selection but small firms with high capital intensity

prefer to enter target markets that are more similar to their home country in order to avoid investment risk (Erramilli and D'Souza, 1993).

Some services, such as hotels, need a larger size for direct investment because they require higher capital intensity or fixed investment (Ekeledo and Sivakumar, 1998; Erramilli and Rao, 1993). In such services, the limitation of resources and the lack of capital hinder small service firms from international expansion (Erramilli and D'Souza, 1993). Therefore, such firms usually do not favour FDI modes for entering foreign markets. For example, small retailers prefer franchising to FDI (Evans *et al.*, 2000). However, inseparability of services can moderate the effect of firm size on the choice of entry mode so that, compared to small manufacturing firms, small inseparable services show a higher tendency for using sole ownership (Ekeledo and Sivakumar, 2004).

Inseparability of services may moderate the effect of international experience on the entry mode choice of service firms (Ekeledo and Sivakumar, 2004). According to Blomstermo *et al.* (2006), inseparable services use high control modes to gain more experiential market knowledge. Erramilli (1991) argued that manufacturing firms follow a linear pattern in their entry strategy in which they start with exporting and while gaining more experience in foreign markets, they move towards FDI modes and sole ownership. In contrast, inseparable services pursue a U-shape model in which service providers prefer sole ownership when they are new to foreign markets, switch to partnership when they get some experience, and finally, return to sole ownership when they become experienced in the market. The reason behind this U-shape pattern is that service firms, which follow their clients to foreign markets, have enough knowledge about the niche market and have no need to collaborate with local firms at the beginning of their foreign activity. In contrast, service firms with a market seeking strategy need partnership to collect market knowledge (Ekeledo and Sivakumar, 1998, 2004).

As inseparable services need close physical proximity between producers and consumers, they need more cultural and ethnic familiarity to be able to adjust their services with the preferences and cultural orientation of their customers. To have a close interaction with customers and adapt services to local requirements, firms need communication skills, which depend on experience in the market and familiarity with local languages and culture (Aykut and Goldstein, 2008; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Javalgi and Martin, 2007). Therefore, inseparable service firms that are market seekers and are not familiar with market conditions, have a greater tendency than hard services and manufacturing firms to choose collaboration modes, such as joint ventures with local firms (Ekeledo and Sivakumar, 2004).

Another moderating effect of the inseparability of services is found in the relationship between firm reputation and the entry mode choice of service firms. According to Aaker (1989), due to the intangibility of services, reputation for service quality is the most important source of competitive advantage for service firms whereas in the manufacturing industry, proprietary technology is more important. In inseparable services, customers cannot evaluate service quality easily and prefer to choose their service provider based on their reputation. Therefore, to gain customer loyalty in foreign markets, inseparable services need a good reputation, which depends on delivering high quality services (Cloninger, 2004; Ekeledo and Sivakumar, 2004).

To protect their reputation and brand image, inseparable service firms such as McDonalds, which offer their services in multiple branches widely use franchising or FDI modes. Franchising helps the parent firm to maintain the quality of services at a satisfactory level (Ekeledo and Sivakumar, 2004). Therefore, soft services have a greater tendency to adopt franchising for their activities in foreign markets whereas manufacturing and separable services adopt a combination of FDI and licensing in their foreign operations (Ekeledo and Sivakumar, 2004).

3.5 Conclusion

In this chapter, the research framework was developed and a detailed description of the major factors that influence the internationalization strategies of service firms was provided. Internal or organizational factors have a greater impact on the expansion of service firms than the environmental factors. Internal factors include firm-specific resources, strategic consideration and product characteristics (Ekeledo and Sivakumar, 1998; 2004). In addition, the inseparability of services may moderate the effects of internal factors, such as size, business experience and reputation, on the entry mode choice of service firms (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993).

In the next chapter, the research methodology for doing an empirical study will be explained in detail. The next chapter will discuss the target population of study, sampling frame and design, sources of data, data collection methods, measurements items used to assess each factor and statistical techniques used to analyse data, as research methodology is the basis for both data collection and data analysis.

CHAPTER 4

RESEARCH METHODOLOGY: CONDUCTING A QUANTITATIVE STUDY

4.0 Introduction

This chapter describes the methodology used to conduct the empirical part of the study based on the conceptual framework that was proposed in Chapter 3 to explain the effect of internal factors on the internationalization strategies of service firms. To examine the relationships suggested by previous research, pertinent hypotheses were formulated using a deductive reasoning method. By testing such hypotheses, a new perspective about the internationalization of Malaysian service firms can be developed. To develop the research approach, an empirical study using both secondary data and primary data is required.

Like other empirical studies, it is necessary to justify the type of empirical study that is applicable, the unit of analysis, the target population of the study, sampling frame and design, the methodology for data collection and the statistical techniques required for analysing data. Therefore, first, the logic behind the choice of whether to use the quantitative or qualitative method for this study is discussed. The unit of analysis refers to the entity that the study wants to investigate about it, whether it refers to individuals or the companies, or to the behaviour or attitude (Yin, 2009). The study is conducted on a sample chosen from the target population of the research. The target population describes what type of business firms the study encompasses, and how many companies are included in the scope of study. As the access to all the target population is usually impossible, a sample is chosen to represent the population for the purpose of the study. Another step is to decide by what means data is collected and how to analyse it.

To test the hypotheses, a set of measurement items for each variable of the research model is explained. The research questionnaire utilizes such measurement to

investigate each relationship and premise. To increase the validity of the instrument, different measurements used by the previous research are discussed. From these criteria, the study utilizes the most suitable measurements that may result in appropriate findings for analysis based on the research hypotheses and theoretical model while considering the conditions of Malaysian service firms, as the target population of the study. Finally, a questionnaire using such measurement items is developed and used for the purpose of data collection and data analysis.

4.1 Research Design: From Exploratory Studies to a Descriptive Research

As Malhotra (2007) suggested, a research design is a framework or blueprint that is used to carry out a marketing research. Each research design consists of five modules including research questions, research hypotheses, the unit of analysis, data analysis methods or the logic linking the data to the hypotheses, and the criteria for analysing and interpreting data (Yin, 2009). According to Kerlinger and Lee (2000), research design helps answer to research questions and control variance. Actually, there are three types of research design comprising exploratory, descriptive, and explanatory or causal research (Cooper and Schindler, 2006; Malhotra, 2007; Yin, 2009).

An exploratory research is a method to provide insights into the research problem and to realize it (Hipsher, 2008; Malhotra, 2007). According to Malhotra (2007), when the information required for the study is not clear or to hand, or the sample of study is small and cannot represent the target population of study, conducting an exploratory research is useful. Such a research design is flexible and usually requires a qualitative method for data collection and analysis. However, Yin (2009) argued that both quantitative and qualitative methods can be used for all three types of research design. Through an exploratory research, scholars can achieve a more accurate definition of the research problem, recognize alternatives, develop hypotheses and identify key factors and relationships for further studies (Malhotra, 2007).

A descriptive research is usually designed to test specific hypotheses in order to confirm or examine pre-established theories. When the information required is available and well defined, or the sample of study is large enough to represent the population, doing a descriptive study is appropriate. Such a design is formal, structured and usually based on a quantitative approach. The descriptive research design helps the researcher to study and predict the behaviour of customers and suppliers as well as managers. The findings of such a research can be used as input by decision makers (Malhotra, 2007).

According to Yin (2009), an explanatory study tries to explain the causal relationships that exist in an event or a defined problem in order to evaluate the effect of the factors that cause a problem or an event. This type of research requires experiments and the investigation of events during a time period. The causal relationship between variables can be symmetrical or reciprocal (Cooper and Schindler, 2006). Explanatory research requires the intervention and presence of the researcher. Therefore, researchers may manipulate the variables and cause a bias in the study (Kerlinger and Lee, 2000; Malhotra, 2007; Yin, 2009). Experimental designs are widely used in social sciences. However, in the international business studies, it is difficult to control the events and explain the phenomena based on experiments. According to Yang *et al.* (2006), 60% of the empirical works published in major international business journals are descriptive, 38% exploratory and secondary data analysis, and only 2% explanatory studies.

As the internationalization of firms from developing countries is a relatively new phenomenon, especially in countries such as Malaysia and Thailand, most previous studies used an exploratory design and applied the qualitative method by interviewing key managers involved in the international operation of firms (see Ahmad, 2008; Ahmad and Kitchen, 2008; Hanid *et al*., 2008; Hipsher, 2008; Lim, 2010; Pananond, 2007; Tham, 2007; Touvinen, 2002; Yeung, 1998). Juan (2008) used a descriptive research using mail survey. However, to increase the response rate, Abdul-Aziz and

Wong (2010) used a mixed method in which they initially applied the quantitative method, and to confirm the result, conducted in-depth interviews with some key managers. In addition, in FDI descriptive studies, researchers use a quantitative method to analyse secondary data (Ariff and Lopez, 2007; Karimi and Yusop, 2009).

This study applies a descriptive research design by developing a structured questionnaire in order to examine the hypotheses proposed based on the pre-established theories of internationalization. This is because of two reasons; first, at the end of 2010, a larger number of Malaysian firms including service firms have ventured abroad. Therefore, it is possible to access a larger sample for data collection; second, previous research has provided some insights into the international strategies of Malaysian firms, which enables the study to propose a basic model and hypotheses for investigation (see Ahmad, 2008; Ahmad and Kitchen, 2008; Andersson *et al.*, 2006; Pananond, 2007).

4.2 Sampling Frame: Towards an Effective Sampling Method

To select an appropriate sample for the study, it is necessary to define a sampling frame, which indicates selection criteria. As shown in Table 4.1, the sampling frame of the research is determined by defining the characteristics of the target population that is studied and identifying a list of parameters, based on which, the sample is drawn.

Table 4.1: Sample Selection Criteria

Parameters	Sample characteristics
Unit of analysis	Strategic decision-making behaviour of firms
Type of activity	Business firms
Nature of product	Service industries
Type of service	Both hard service firms and soft service firms
Type of home country	Developing country
Country of origin	Malaysia, as a country in which outward FDI> inward FDI
Location of operation	Firms that have presence in foreign markets
International experience	At least two years experience in international business
Firm size	Both large firms and SMEs
Target population	303 Malaysian public listed service firms ventured abroad
Type of sample company	Public listed firms
Sample size	87 firms
Hierarchy of respondents	Upper level managers
Position of respondents	Key executive managers such as CEO and MD

4.2.1 Target Population

The target population for this research consists of Malaysian service firms that are active in international markets and have international business experience. However, there is no available directory to indicate the exact number of such firms and their information like the directories that are published in the US or Japan. Although most of the 878,527 registered firms in the companies' commission of Malaysia in 2009 were service firms, 99% of such firms were micro firms or small businesses that are not usually able to invest beyond national borders due to the lack of resources (see JPM, 2010b; Saleh and Ndubisi, 2006). The number of Malaysian service firms that engage in international business is limited and does not exceed 500 firms; however, this study used 303 public listed service firms as the target population for data collection.

As Malaysia is a young country in international business and one of the emerging economic powers, the limited number of Malaysian service firms that entered into foreign markets, as the target population of this study, forces the research to deal with a small sample size and limited respondents. Nevertheless, for the first quantitative study in Malaysia in this field, using such a limited sample for analysis is still helpful and informative. Obviously, in future, rapid expansion of Malaysian service industries into international markets will provide a wider range of respondents for further studies.

4.2.2 Unit of Analysis

According to Yin (2009), researchers need to have a clear understanding of the unit of analysis in their study. Unit of analysis refers to the entity or concept, which should be studied. In the present research, the unit of analysis is the decision-making behaviour of firms concerning international strategies. When a firm decides to venture overseas or engage in international business activities, it should select favourite target markets for operation, select suitable entry timing and choose an appropriate mode of entry (Ekeledo and Sivakumar, 2004; Hill, 2008; Kumar and Subramaniam, 1997).

4.2.3 Characteristics of the Sample

This study does not consider all types of firms but only considers firms that engage in business activities and excludes non-profit firms and government agencies. From business firms, this study focuses on those that operate in various service industries while excluding agriculture and manufacturing firms. Generally, service industries are divided into two categories: hard services or separable services, and soft services or inseparable services (see Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993). As one of the objectives of this study is to investigate the difference between the internationalization strategies of separable services and inseparable services, firms from both categories are selected.

As stated in chapter 1, one of the contributions of this study is to investigate the internationalization of firms from developing countries, as the previous research mostly focused on developed countries (Ahmad, 2008; Li, 2007; Pananond, 2007; Sim, 2006). Malaysia was selected as the setting of this study because it is one of a few developing countries in which the amount of outward FDI is more than the inward FDI. This trend started in 2006 and has given a special position to Malaysia among other developing countries, especially in the Southeast Asian region. Malaysian service firms generate 48% of the country's GDP (CIA, 2011). They have an important share in Malaysia's foreign investment. In addition, the contribution of services to the exports of Malaysia has increased from 14% in 2008 to 17% in 2010 (UNCTAD, 2011a).

As this research is about the internationalization of firms, it only studies the decision behaviour of service firms, which have international business activities. Therefore, many of Malaysian service firms, which conduct their operations within the country, are not considered. In the literature, researchers only studied the strategies of firms with at least three to five years experience in international markets (Ekeledo and Sivakumar, 2004; Erramilli and D'Souza, 1993). According to Ekeledo and Sivakumar

(2004), firms complete their entry process within five to seven years after entering foreign markets. However, this is not yet applicable in the context of Malaysia because most Malaysian service firms have recently expanded overseas and have a short-term international experience. Therefore, in this study, firms with at least two years experience in foreign markets are considered. This is because managers should be able to evaluate the performance of firms after internationalization.

Most researchers have investigated the international strategies of large firms, especially MNCs, while overlooked the strategies of smaller firms (see Ahmad, 2008; Ahmad and Kitchen, 2008; Ekeledo and Sivakumar, 2004; Sim, 2006). However, some scholars have exposed their interest in studying the internationalization of SMEs (Brouthers and Nakos, 2004; Choo and Mazzarol, 1998, 2001; Decker and Zhao, 2004; Pinho, 2007).

Therefore, the present research does not discriminate between firms in sample selection based on firm size for three reasons: first, firm size is a dimension of tangible assets, which is an independent variable and studying firms with different sizes allows it to assess the effect of firm size on the international strategies of firms; second, some Malaysian service firms that have ventured abroad are SMEs, especially in information and communication technology or ICT services. However, based on the definition of large firms and SMEs in Malaysia, especially in service industries, most service firms with foreign operations are considered as large firms (see Saleh and Ndubisi, 2006); and third, large firms have access to more resources and can make higher resource commitment (Agarwal and Ramaswami, 1992; Buckley and Casson, 1976; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993). Therefore, selecting only large firms as the sample may affect the results of the research and cause bias towards large MNCs with higher business experience. In such firms, managerial decisions seem to be more logical and based on scientific regulations.

4.2.4 Sample Size

Although the target population of the study is limited, it is impossible to collect data about all companies within target population, as there is no directory to identify all the Malaysian service firms that engage in international business. Therefore, using a sample for the study is necessary. However, the lack of information about the target population makes sampling difficult because, at present, there is no published list showing all the Malaysian service firms that engage in foreign business. To overcome such a problem, this study uses the list of Malaysian public-listed companies published by the Malaysian exchange market or Bursa Malaysia. The public-listed companies are usually MNCs and large firms that have more resources than other firms, and it is more likely for them to venture abroad. Using such a list as a directory for sample selection resulted in a population of 303 firms, from which 87 firms participated in the survey. Therefore, the sample is equal to 26% of the target population.

4.2.5 Characteristics of the Respondents

In the present study, the key informant approach is used for data collection, in which researchers recognize the source of information in selected samples in order to gather required data (Ekeledo and Sivakumar, 2004). Therefore, upper level managers are the respondents in this study because they are engaged in strategic decision-making such as internationalization strategies, while other managers are involved in operational decisions. Top managers gather information and decide when and where to venture, and how to enter foreign markets. In some companies, the executive chair or founder makes strategic internationalization decisions while in most firms, the chief executive officer (CEO) or managing director (MD) is responsible for dealing with foreign operations and responding to the threats and opportunities of international markets.

Although key executive managers are the best source of useful information about the internationalization process, they are usually busy and are not willing to allocate

their time for surveys. This has decreased the return rate of the survey to less than 40 percent in the previous research (see Agarwal and Ramaswami, 1992; Bradley and Gannon, 2000; Brouthers and Nakos, 2004; Chen and Mujtaba, 2007; Cheng, 2006; Chung and Enderwick, 2001; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1990; Kwon and Konopa, 1993; Morschett, 2006; Taylor *et al.*, 2000; Tsai and Cheng, 2002, 2004). In Malaysia, access to key executive managers is even more difficult. However, this study relies on the opinions of these managers because they make the strategic decisions of expansion, and, they also have enough information about the firm's strategy at the time of entry.

4.2.6 Sampling Design

A non-probability sampling is used in this study because the likelihood of any member of the selected population is not known (see Cooper and Schindler, 2006). To have a probability sampling it is necessary to gather enough statistics about all Malaysian service firms that are engaged in international business. In addition, there is no exact estimation about the percentage of hard service firms versus soft service firms. Because of such limitations and the lack of required information in Malaysia, it is more suitable to do the sampling process based on a non-probability sampling.

The sampling design of the present research is convenience sampling in which sample members are selected based on specific characteristics consistent with the study requirements (Cooper and Schindler, 2006; Ekeledo and Sivakumar, 2004). Previous research has used convenience sampling because there is no comprehensive sampling frame for selecting an actual representative sample in the study of internationalization and the entry mode choice of firms (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1990, 1993). Based on the convenience sampling method, firms that are selected as the sample for this study are those with a minimum experience in doing service operations in foreign markets.

Convenience sampling is a meaningful way to investigate the internationalization strategies of firms. However, the main challenge is that the validity of research to generalize the results to all potential Malaysian service firms that are engaged in international business is low and usually there are some deviations of fact. In addition, sample selection should be conducted carefully. However, the advantage of this sampling design is that with access to experienced firms in international business and questioning key executive managers, the reliability of the study increases and the findings can be more reliable so that if other researchers repeat the same research process, they will more likely achieve the same results as the present study. Another important fact is that these firms are more familiar with research methods and it is more likely for them to participate in the survey.

In August 2010, Bursa Malaysia listed 981 companies in two categories; the main market list with 864 firms and the ACE market with 117 firms, mainly in information and communication technology or ICT services (Bursa Malaysia, 2010). From these 981 companies, more than half are manufacturing and agriculture firms that are excluded from this research. The total number of public listed service firms is around 450 companies, however, after investigating these firms, only 303 firms were found eligible for being in the target population of the study based on the criteria shown in the sampling frame and 87 firms responded the survey as the sample (see Table 6.2).

The sample firms chosen for the study operate in different service industries from both hard and soft services. As shown in Table 4.2, some industries such as finance, transportation, engineering and utility, construction and telecommunications have higher revenue and financial strength while others such as retailing and ICT services have smaller size and a lower financial strength. Other services mainly include healthcare, education and business service firms. There are also some firms that engage in diversified industries.

Table 4.2: Financial Status of the Sample of Malaysian Service Firms (2009)

Industry	Number of companies	Financial values (RM million)			
		Total Assets	Total Equity	Revenue	Net Profit
Finance and real estate	21	1,041,043	89,337	58,668	9,744
Transport and logistics	35	133,613	52,547	50,829	5,061
Engineering and utility	47	123,581	46,760	53,656	2,280
Construction and property	68	99,741	42,054	41,004	2,040
Diversified	15	91,517	36,529	31,402	2,563
Communication and telecom	20	88,122	41,903	36,109	4,729
Hotel, leisure and food	11	57,642	33,298	15,653	2,897
Trade and retailing	19	11,281	5,761	6,909	1,212
ICT services	57	6,158	3,325	5,583	-102
Other services	10	3,118	1,708	2,202	186
Total	303	1,655,819	353,222	302,015	30,620

Adapted from: Bursa Malaysia (2010)

4.3 Data Collection Method: Conducting a Survey

The information that is used in this research includes both primary and secondary data. The sources of secondary data are the previous published literature including books, journal articles, reports and statistical books, as well as online databases and websites. Any documents that have adequate reliability are used; however, the focus is mainly on ISI academic journals and the reports of Malaysian government agencies as well as international organizations, such as the United Nations, WTO and UNCTAD.

4.3.1 Mail Survey

In order to gather primary data, a mail survey method is implemented using a structured questionnaire. A survey provides the opportunity to gain insight into the complex process of internationalization (see Ekeledo and Sivakumar, 2004), and is the most appropriate research method to collect empirical data on the factors that influence internationalization and the entry mode choice (Galán and González-Benito, 2001). According to Ekeledo and Sivakumar (2004), surveys are a useful method when the study aims to question the relationships among the characteristics of the target population, to investigate the motives and consequences of specific phenomena, such as

the international expansion of firms, and to discriminate between subgroups within the sample, such as hard services versus soft services. An important advantage of the survey method is that it decreases the bias related to the researcher's opinions in the process of research (Cooper and Schindler, 2006; Yin, 2009).

The mail survey method is used for all firms, especially because top managers are always busy or are not easily accessible. In addition, because of time constraints and limited budget, a mail survey is reasonable for this type of study (Cooper and Schindler, 2006). However, using a mail survey, in which the rate of participation is low, may decrease the reliability of research significantly (see Fowler, 2009). To gather the information about the addresses of Malaysian service firms that operate in foreign markets, the study referred to websites of the sample companies, their annual reports, the Google business directory and certain other directories from the government and private sources.

A structured questionnaire was designed and used for the purpose of data collection, in which a combination of scales was utilized including nominal scales, as in yes/no questions, interval scales used in the Likert system, and ratio scales. In this study, a seven-point Likert system was used in order to obtain information that is more accurate (Cooper and Schindler, 2006; Fowler, 2009). The Likert system allows the respondents to evaluate items from very low to very high or show their agreement from strongly disagree to strongly agree. In addition, some open-ended questions were used in the questionnaire in order to ask managers to explain their opinions and experiences easier and with no limitations. As Fowler (2009) suggested, the study avoided using inadequate wording, ambiguous questions and poorly defines terms in order to increase the response rate. The length of questionnaire was limited to ten pages because an appropriate length for a survey questionnaire is between 8 to 12 pages (Ekeledo and Sivakumar, 2004).

4.3.2 Pilot Study

The research questionnaire was sent to seven scholars in different universities around the world to use their useful comments and suggestions. However, only three researchers offered their opinions and comments including Prof. Dr. Zolfagharian, the head of marketing department in the University of Texas - Pan American, the United States; Prof. Dr. Toke Reichstein, an associate professor from the Copenhagen Business School, Denmark; and Dr. Hojjat Goodarzi, a former lecturer of the University of Tehran, Iran, who recently graduated from the University of Puna, India. They gave some useful comments to improve the quality of the survey questionnaire.

Following this stage and after correcting the preliminary questionnaire, a pilot study was conducted by sending the questionnaire to a group of managers to review the weaknesses of the questionnaire and correct it before distributing it by mail to all the sample firms. This helped reduce the ambiguity of the questions. As the target population of the study is limited and doing a pilot study needs more time, it was only conducted for a limited number of 20 managers, from which only six responded. Based on the responses, a few modifications were made to the questionnaire. For example, one respondent suggested adjusting the scale that was used in question 6 to the scales used in its following questions.

4.3.3 Distribution of the Questionnaire

The process of data collection was conducted within three months. From 28th August 2010, the distribution of the final questionnaire to the sample firms started with mailing the questionnaire. It was necessary to prepare a mailing list of all respondents before the data collection starts (see Cooper and Schindler, 2006; Malhotra, 2007). Therefore, a list of all the sample firms with the name of their top managers and the mailing address of the companies' headquarters was prepared together with the name of the company secretaries and their contact number in order to follow up on the

process of collecting data with them. As there is no directory available in Malaysia for such a purpose, the company websites were checked as well as their annual reports. This was to prevent errors as sometimes the address in the reports has changed or there is a difference between the registered office and the actual location of the headquarters.

To collect data from the selected sample, the final questionnaire together with a cover letter and a stamped return envelope was sent by mail to 303 senior executive managers of Malaysian service firms who are in charge of decision making for their firms' foreign expansion and international strategies. Because of the high accuracy in the process of data collection by preparing a detailed list of sample firms contact addresses, no packets were returned undelivered. This contrasts with previous research in which the amount was considerable (see Blomstermo *et al.*, 2006; Chung and Enderwick, 2001; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1990, 1993; Taylor *et al.*, 2000).

One month after sending the questionnaire, 36 responses were received and one company sent a letter showing that its management was not willing to participate in the survey without mentioning any reason. Therefore, follow-up telephone calls were made to the CEO's secretaries of the remaining companies in order to encourage them to participate in the survey and increase the return rate. However, four companies refused to answer the survey due to their policy not to participate in surveys or because of time limitation. Some firms could not participate because their CEO was not in the country for a long time. Some secretaries claimed that they had not received the survey packet and requested to receive the questionnaire through email. Thus, the survey was emailed to those companies through the email addresses provided by the secretaries. However, many of them did not respond again and in some cases, they sent an email to explain their refusal.

4.4 Scale Evaluation: Assessing the Quality of Research Design

According to Yin (2009), as an empirical research is designed to explain a rational set of proclamations and predictions, it is necessary to evaluate the quality of research design through definite logical tests. These tests examine whether the research design is trustworthy, credible and confirmable, and, also, whether the data has dependability. Therefore, the literature has introduced various tests to assess the validity and reliability of the research instrument and scale (see Cooper and Schindler, 2006; Hair *et al.*, 2010; Kerlinger and Lee, 2000; Malhotra, 2007; Yin, 2009).

4.4.1 Examining Scale Validity

The validity of a scale indicates to what extent differences in the measured scale scores reveal real differences among items on the variable that is measured. According to Malhotra (2007), if a research has measurement scales with perfect validity, the measurement error will be: $X_O = X_T$, $X_R = 0$, $X_S = 0$. In general, validity is divided into internal validity and external validity (Cooper and Schindler, 2006; Yin, 2009). As Cooper and Schindler (2006) pointed out, the external validity indicates to what extent research findings from the sample can be generalized to the target population while the internal validity explains to what extent the research instrument is able to measure what it is supposed to measure. The internal validity, in turn, is classified into three concepts including content validity, criterion validity and construct validity.

The content validity shows how well the content of the scale or instrument measures what it has to measure. This means that the measurement items should answer the research questions properly and meet the standards. In order to be valid in content, an independent variable should include all dimensions that explain a characteristic (Cooper and Schindler, 2006; Malhotra, 2007). For example, some researchers have used an item such as the number of employees to measure firm size (see Blomstermo *et al.*, 2006; Claver and Quer, 2005; Erramilli and Rao, 1993; Lin, 2009; Nakos and

Brouthers, 2002), while it does not indicate the real size of firms compared to other predictors, such as annual sales or total assets (see Ekeledo and Sivakumar, 2004).

In the present study, each variable includes different dimensions used in the literature in order to cover all its aspects and increase the content validity. As stated earlier, to increase the content validity of the research instrument, the questionnaire was sent to seven scholars in the universities of the United States, Iran and Europe. Three of them offered useful comments to modify the instrument and confirmed the overall validity of the scale.

The criterion validity is only applicable in explanatory or causal studies (Yin, 2009). In such studies, researchers try to evaluate the success of measures used for predicting an outcome or estimating the continuation of a specific behaviour within a time frame (Cooper and Schindler, 2006). According to Malhotra (2007), the criterion validity examines whether the measurement scale has expected performance in relation to other criteria used in the study. This validity is divided into two types – concurrent validity and predictive validity. To test the criterion validity, researchers use special techniques explained by Yin (2009), however, as this study does not apply an explanatory research, these methods are not applicable.

The construct validity examines what construct or variable is measured by each factor or scale. This type of validity is assessed based on the correlation between factors and items in a research instrument. In fact, each item should load on the right factor or construct. The major technique to evaluate and test the construct validity is factor analysis in which all factors or items related to the independent variables are placed in a matrix and classified to different factors or dimensions. If an item has high correlation with more than one factor, it can be deleted. In addition, if an item has no significant correlation with any of the factors, it should be removed (see Cooper and Schindler, 2006; Ekeledo and Sivakumar, 2004; Kerlinger and Lee, 2000; Malhotra, 2007).

The factor analysis helps the researcher to classify items adequately and reduce the unobserved items. However, the factor analysis is only useful when the final sample size is large or the number of responses is greater than 200 (Malhotra, 2007). According to Hair *et al.* (2010), factor analysis is applicable if the sample size is greater than 50. In addition, the result of factor analysis will be desirable if the number of respondents is at least five times larger than the total number of items or variables. Although this research has a relatively small sample of 303 service firms, 87 responses returned, and thus, factor analysis is applicable. However, as the number of responses is less than five times larger than the number of items used, the results should be carefully interpreted (Ekeledo and Sivakumar, 2004).

4.4.2 Examining the Generalizability of Findings

The external validity of a research design refers to the degree to which the results of data analysis are able to be generalized to the universe or the target population of the study (Kerlinger and Lee, 2000; Malhotra, 2007; Yin, 2009). To be able to generalize the findings, it is necessary that the respondents represent the primary sample of research. Some statistical methods such as the test-retest technique and single-facet generalizability test can be used to examine the degree of generalizability (Malhotra, 2007). After data collection it is crucial to compare the respondent firms with those that do not participate based on some major characteristics, such as firm size and strategies applied (Ekeledo and Sivakumar, 2004).

In the present study, to make sure that the collected data is satisfactory and to assess the degree of generalizability of the result, a validity test will be run in the next chapter. This test investigates the association between respondent and non-respondent firms based on statistical methods. Therefore, a comparative analysis will be conducted to measure to what extent the 87 respondent firms can represent the 303 firms in the initial sample.

4.4.3 Examining Scale Reliability

A research scale is reliable if it provides consistent results if the measurement is repeated. This means that there is less random error in the measurement process so that in a perfectly reliable scale, $X_R = 0$. The reliability is assessed by determining the ratio of systematic variation in a scale (Malhotra, 2007). Reliability is a required condition for a factor to have validity but it is not a sufficient condition; perfect validity requires perfect reliability. However, although an item is reliable, it may be unacceptable or invalid because of the existence of systematic errors or X_S. To examine the reliability of a research scale, some methods are used, such as test-retest reliability, alternative-forms reliability and internal consistency test (Cooper and Schindler, 2006; Kerlinger and Lee, 2000; Malhotra, 2007).

The internal consistency test is applied to evaluate the reliability of a summed scale where several items are summed to form a total score, which measures a variable or one of its dimensions. Any item that is not reliable should be excluded from the scale. To test the reliability of the set of items forming the scale, two major techniques are used including split-half reliability and coefficient alpha or Cronbach's alpha (Hair *et al.*, 2010; Malhotra, 2007). Ekeledo and Sivakumar (2004) suggested that researchers widely use the Cronbach's alpha method for the purpose of reliability analysis.

According to Malhotra (2007), Cronbach's alpha is the average of all feasible split-half coefficients that result from different ways of splitting the items of the scale. This coefficient varies between 0 and 1. If the value of alpha is greater than 0.6, the scale is reliable while items with a correlation of less than 0.3 are excluded from the scale. However, Hair *et al.* (2010) believe that a reliable scale should have an alpha greater than 0.7 while in exploratory studies 0.6 is enough. In this study, the Cronbach's alpha method is applied to test the reliability of scales, especially as the factor analysis is not properly applicable. In addition, a minimum of 0.6 for alpha is accepted.

4.5 Measure Development for Dependent Variables

To increase the content validity and construct validity of the research scales, it is necessary to adopt measurement items that are supported by the literature. As already mentioned, the independent variables (IVs) in the present research are the nine variables constituting internal factors. These variables influence the internationalization strategies of Malaysian service firms, as the dependent variables (DVs). In addition, the inseparability of services offered by firms is a moderating variable (MV) that intervenes in the relationship between the IVs and the entry mode choice, as one of the DVs.

In order to measure each construct or variable, it is required to define the variable operationally because these variables are subjective perceptions. This process is named as operationalizing the concepts, which defines a construct in terms of specific criteria for testing or measurement. In other words, statistical numbers should be assigned to empirical events in compliance with a set of rules (Cooper and Schindler, 2006; Kerlinger and Lee, 2000).

4.5.1 Internationalization, its Drivers and Consequences

The internationalization process of firms is completed by adopting three different strategies. This means that in the pattern of internationalization, after a firm decides to expand overseas, first, the managers must select a target market for expansion; second, they have to decide on the timing of entry; and third, they should make a choice between the different forms of entry modes to operate in a foreign market (see Ekeledo and Sivakumar, 2004; Kumar and Subramaniam, 1997). As entry timing also includes the order of entry, therefore, this study has four dependent variables.

In the research questionnaire, question 2b asked managers to explain how the internationalization pattern and process of their company took place and question 2c asked them whether they have imitated the internationalization process of other firms or not. These questions are consistent with previous research (see Ahmad, 2008).

Kim and Hwang (1992) assessed the motivation of firms for entry into foreign markets by asking managers to indicate their motivations for attacking their competitors in foreign markets, establishing a strategic unit for future expansion, or developing a site for global sourcing. Pak (2002) measured firms' motives for entry based on their desire to gain overall competitiveness, learn new knowledge and marketing skills, improve production quality and technology, improve management skills, and expand by aggressive competition with the rival firms. Ekeledo (2000) argued that firms enter foreign markets to develop new capabilities in product technology, acquire international experience, establish a strong competitive position in the market and acquire supplementary assets.

In the present study, motivations for expansion are viewed in two groups including push factors or home limitations, which encourage firms to go beyond their domestic market; and pull factors or foreign market attractions, which exist in host countries and attract firms to establish their presence in those target markets. Question 9 of the research questionnaire lists 12 items as major push factors and question 10 provides a list of 14 items as pull factors according to the literature. Managers are asked to explain their agreement with each factor using a seven-point Likert scale system.

According to the internationalization literature, involvement in international business and the choice of an appropriate entry strategy affects the performance of firms (Chen and Mujtaba, 2007; Choo and Mazzarol, 2001; Chung and Enderwick, 2001; Ekeledo and Sivakumar, 2004; Gatignon and Anderson, 1988; Root, 1994; Terpstra and Sarathy, 1994). This study is not going to examine the effect of internationalization on the performance of firms empirically. This is because most Malaysian service firms are new in international business and it is too soon to evaluate their performance in international markets. In addition, to examine the impact of performance, it is necessary to have reliable data for the years before the foreign expansion of firms and after that to compare. However, such information is not presently available.

Blomstermo *et al.* (2004) assessed the performance based on expected growth, knowledge increase and business progress. To have a background knowledge, in this study, a list of 10 items in question 15 of the research questionnaire is used to question the perception of managers about the progress of their firm concerning its financial performance, market share, service quality, brand value and customer loyalty after their expansion into foreign markets and the effects of their international activities in leveraging the country image of Malaysia as their home country in those markets.

4.5.2 DV1: Market Selection

The market selection variable is assessed based on a dichotomous variable, i.e. firms may venture into regional markets or diversify their operations to global markets. Researchers have divided the regions of business activities into North America, Europe, Latin America, Asia-Pacific, Middle East and Africa (see Chen, 2005; Kim, 2005; Malhotra, 1999). In the context of Malaysia, service firms that only ventured into the Asia-Pacific region, including the sub-regions of Southeast Asia, East Asia, South Asia and Oceania, are considered as regional players. The countries of this region, such as Singapore, the Philippines, Thailand and Vietnam, have a close geographic distance to Malaysia. In addition, some countries such as Brunei, China, India, Indonesia, Singapore, Sri Lanka and Taiwan have cultural and ethnic similarity with Malaysian firms' employees and managers. Others such as Australia, South Korea and Japan have close trade links with Malaysia. In contrast, firms that have an active presence in other parts of the world are considered as global players.

In the present study, questions 3a and 3b asks what countries the firms selected first for their expansion and for what reason. In question 3c, managers mention the name of all foreign markets in which their firm is operating. As shown in Table 4.3, using a seven-item Likert scale, question 3d asked managers to rate the criteria that they applied to select an appropriate target market.

Table 4.3: Measurement Items for the Criteria Used for Market Selection

Measurement	Outstanding Research
Geographic closeness	Beckerman (1956), Brewer (2007), Kwon & Konopa (1993), Ratnayake & Townsend (1999)
Large market size and potential	Brouthers *et al.* (1996), Gilmore *et al.* (2003), Erdal & Tatoğlu (2002), Jaumotte (2004), Kwon & Konopa (1993), Mardanov (2003), Pak (2002), Terpstra & Yu (1988)
High economic growth	Ahammad & Glaister (2008), Kwon & Konopa (1993), Mardanov (2003)
Strong currency and high exchange rate	Erdal & Tatoğlu (2002), Ekeledo & Sivakumar (1998), Kwon & Konopa (1993)
Attacking competitor's business	Chen & Mujtaba (2007), Ekeledo & Sivakumar (1998)
Available resources and raw materials	Asiedu (2006), Erdal & Tatoğlu (2002), Gilmore *et al.* (2003), Kim (2005), Sun (1999)
Available low-cost labor force	Asiedu (2006), Gilmore *et al.* (2003), Jaumotte (2004)
Available skilled labor force	Gilmore *et al.* (2003), Kim (2005), Kwon & Konopa (1993)
Advanced technological capability	Gilmore *et al.* (2003), Kim (2005), Kwon & Konopa (1993), Javalgi & Martin (2007)
Available qualified foreign partners	Ekeledo & Sivakumar (1998), Erramilli *et al.* (2002), Pak (2002)
Similar cultural values and customs	Brewer (2007), Gilmore *et al.* (2003), Johanson & Vahlne (1990), Kim (2005), Kim & Hwang (1992), Tsai & Cheng (2004)
Similar language with shareholders	Brewer (2007), Kim (2005), Kwon & Konopa (1993)
Similar religion with shareholders	Brewer (2007)
Similar business environment	Kim (2005), Kim & Hwang (1992)
Political stability of the host country	Asiedu (2006), Ekeledo & Sivakumar (1998), Pak (2002), Hadjikhani & Johanson (1996), Kwon & Konopa (1993), Mardanov (2003)
Protecting laws for intellectual properties	Asiedu (2006), Chen (2005), Keegan (2002), Lskavyan & Spatareanu (2007)
Receiving host government support	Chen (2005), Chen & Mujtaba (2007), Gilmore *et al.* (2003)
Trade relationship with home country	Chen (2005), Mardanov (2003)
Diplomatic relationship with home country	Chen (2005)
Colonial link with Malaysia	Chen (2005)

4.5.3 DV2: The Time of Entry

Entry timing is another aspect of the internationalization process. According to Chen *et al.* (2009), in the new world business environment, emerging markets and new ventures are dominant. One of the most discussed phenomena of economic development

is the globalization of the international new ventures or INVs (Guriev and Ickes, 2002). As Biggadike (1979) suggested, a firm becomes profitable after an average of 8 years and it is no longer considered as a new venture. Therefore, to evaluate the timing of entry for Malaysian service firms, a dummy variable is created, in which firms that expanded within the first 8 years of their domestic operation are coded 1 and firms that expanded after 8 years operation are coded 0. To classify respondent firms based on their time of entry, question 2a of the questionnaire asks managers to explain when their firm started its international business while question 1a asks them when they started to operate in Malaysia, as their domestic market. The difference between these two dates shows that after how many years of domestic operation the firm has ventured abroad.

4.5.4 DV3: The Order of Entry

Another aspect of entry timing is the order of entry. Firms may have three types of entry order including first mover, early mover and late mover. Actually, the literature focused mostly on 'first mover advantage' as a source of competitive advantage, which gives a firm the opportunity to dominate a market (Brandts and Giritligil, 2008; Hill, 2008; Keegan and Green, 2008; Tuppura *et al.*, 2008). MNCs from developed countries usually have used such an advantage. However, like other developing nations, Malaysian service firms are considered as late movers. Nevertheless, in some emerging markets, Malaysian service firms have entered earlier than many other MNCs because of their ability in networking (see Papyrina, 2007). This gives them a good opportunity to compete and get market share. Question 3e of the research questionnaire asks managers of Malaysian service firm to place their firm in one of these three types.

4.5.5 DV4: Entry Mode Choice

Choice of entry mode is the most discussed variable in the internationalization process of firms. Some researchers studied the choice between four or five types of entry modes (see Agarwal and Ramaswami, 1992; Ekeledo and Sivakumar, 1998; Gao,

2004; Kalliny and Lemaster, 2005; Meyer, 2001; Osland *et al.*, 2001; Sharma and Erramilli, 2004). However, most scholars categorized entry modes into two groups and usually considered it as a dichotomous variable for those hypotheses involving logistic regression (Ekeledo and Sivakumar, 2004).

Some studies divided entry modes into equity modes or FDI modes including wholly owned subsidiary and joint venture versus non-equity modes including contractual modes and exporting (Ahmed *et al.*, 2002; Brouthers and Nakos, 2004; Erramilli and D'Souza, 1993; Nakos and Brouthers, 2002; Pan and Tse, 2000; Quer *et al.*, 2007). Others assessed entry modes based on the degree of control over foreign affiliates, involvement in foreign business or the resources committed in foreign markets (see Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1990).

Most researchers have divided entry modes into high control or full control modes versus low control or shared control modes (Anderson and Gatignon, 1986; Blomstermo *et al.*, 2006; Bradley and Gannon, 2000; Chen and Mujtaba, 2007; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Gannon, 1993; Hill *et al.*, 1990; Taylor *et al.*, 2000; Tsai and Cheng, 2002). Low control or shared control modes include joint venture, contractual modes and indirect exporting (see Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Hill *et al.*, 1990). High control or full control modes refer to wholly owned subsidiary or sole ownership (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993). Keegan (2002) added non-equity strategic alliances to high control modes because, in such alliances, each firm has full ownership and control over its own affiliates and operations.

The present study follows the rational used by Ekeledo and Sivakumar (2004) who considered direct exporting through wholly owned export subsidiaries as another form of high control mode. They coded high control modes 1 and low control modes 0. Question 3f and 3g of the research questionnaire asks managers to explain the primary

entry strategy that was used by their firm in foreign markets and the logic behind the choice of such entry mode. In question 3h, they are asked about switching to another entry mode after entering foreign markets in order to evaluate the dynamic changes that occur during involvement in international business.

4.6 Measurement Development for Independent Variables

4.6.1 Tangible Assets

According to the literature, tangible assets include firm size, financial strength and profitability or financial performance. Tangible assets indicate the ability of firms to finance and handle their international operations.

a. Firm Size

Firm size is the most discussed tangible asset and is measured based on different criteria. Researchers usually measured firm size based on the number of employees (see Blomstermo *et al.*, 2006; Brouthers and Brouthers, 2003; Chung and Enderwick, 2001; Claver and Quer, 2005; Erramilli and Rao, 1993; Gatignon and Anderson, 1988; Kaya and Erden, 2008; Lin, 2009; Morschett, 2006; Nakos and Brouthers, 2002). The number of employees is counted worldwide including the firms' headquarters as well as their subsidiaries (Morschett, 2006; Nakos and Brouthers, 2002). Czinkota *et al.* (2009) used the number of students enrolled in MBA programmes as a measure for the size of business schools. However, in some industries such as hotels, the number of employees is not a good measurement of the firm size because there are many temporary and seasonal workers who are not included in the reported lists of employees (Quer *et al.*, 2007). In addition, Erramilli *et al.* (2002) used the number of rooms in each hotel as a measure of its size.

Another measure for firm size is the revenue or annual sales (see Chung and Enderwick, 2001; Claver and Quer, 2005; Domke-Damonte, 2000; Ekeledo and Sivakumar, 2004; Erramilli and D'Souza, 1993; Evans, 2002; Fisher and Ranasinghe,

2001; Javalgi *et al.*, 2010; Kaya and Erden, 2008; Quer *et al.*, 2007; Taylor *et al.*, 2000; Trevino and Grosse, 2002; Tsai and Cheng, 2004; Tuppura *et al.*, 2008). The sales volume of firms is considered annually and worldwide (Taylor *et al.*, 2000); however, some researchers use an average of the sales of recent years (see Quer *et al.*, 2007). Others considered the sales volume of the year before market entry (Agarwal and Ramaswami, 1992; Sanchez-Peinado *et al.*, 2007). Another method is to use the logarithm of sales or company assets as a measure for size (Pablo, 2009; Pehrsson, 2008; Quer *et al.*, 2007; Sanchez-Peinado *et al.*, 2007; Talay and Cavusgil, 2009).

Some researchers assessed firm size as the total assets of a firm (Kaya and Erden, 2008; Kogut and Singh, 1988). According to Kaya and Erden (2008), total equity may reflect the size of a firm adequately, as in some industries such as financial institutions, a major part of assets are liabilities. Another measurement items for firm size is the number of subsidiaries or outlets worldwide (Erramilli *et al.*, 2002; Kim, 2005; Malhotra, 1999; Park, 2000). In addition, Ekeledo and Sivakumar (2004) argued that firm size is a relative concept so that the size of a firm should be evaluated by comparing the firm size to its competitors in an industry, or comparing the zise of foreign subsidiaries to the size of the parent firm.

According to Table 4.4, the present study used 7 items to measure firm size by asking managers in question 4a to evaluate the size of their firm compared to their rivals and their foreign subsidiaries. In question 4b, they should indicate the annual sales, total assets and total equity of their firm during the three years prior to the research. This is because firms may have numerous market entries and current managers may have no easy access to previous records while financial items of the last three years can be found in recent annual reports. In question 4c, they are asked to determine the total number of their full time employees as well as their branches or outlets, within Malaysia and in foreign countries.

Table 4.4: Measurement Items for Firm Size in the Questionnaire

Measurement	Researchers
The size of firm compared to its rivals in the industry	Ekeledo and Sivakumar (2004)
The size of foreign subsidiary compared to the parent firm's size	Ekeledo and Sivakumar (2004)
Revenue or total sales volume	Chung and Enderwick (2001), Claver and Quer (2005), Ekeledo and Sivakumar (2004), Javalgi *et al.* (2010), Kaya and Erden (2008), Park (2000), Quer *et al.* (2007), Trevino and Grosse (2002), Tuppura *et al.* (2008)
Total assets	Kaya and Erden (2008), Kogut and Singh (1988)
Total equity or capital	Kaya and Erden (2008)
Number of employees	Blomstermo *et al.* (2006), Chung and Enderwick (2001), Erramilli and Rao (1993), Gatignon and Anderson (1988), Kaya and Erden (2008), Kim (2005), Lin (2009), Malhotra (1999), Morschett (2006), Nakos and Brouthers (2002)
Number of branches or outlets	Erramilli *et al.* (2002), Kim (2005), Malhotra (1999)

b. Financial Strength

To evaluate the financial strength of firms, researchers have widely used raised capital or the ratio of debt to total equity of firms. Such a ratio shows the ability of a firm to diversify its operations by internationalization (Galbreath and Galvin, 2008; Trevino and Grosse, 2002). Galbreath and Galvin (2008) also used financial investments such as a firm's stocks and bonds as a measurement of tangible assets. A firm's liquidity ratio is another criterion for internal financial funds and market value of firms. It is calculated by current assets minus stocks or inventories divided by liquid liabilities (Quer *et al.*, 2007). Quer *et al.* (2007) used an average of three years prior to the analysis period in order to have a better interpretation. However, Tan and Vertinsky (1996) could not find a relationship between firm liquidity, as cash flow divided by total assets, and the probability of FDI strategy.

Pablo (2009) measured the financial advantage of firms by the ratio of interest bearing debt over the total assets of the firm. He also used the ratio of cash and equivalents over total assets to assess the idle resources of the company. Forssbæck and Oxelheim (2008) used factors such as cross-listing the firm's stock in an exchange

market, the ratio of sales to price, the cost of debt influenced by interest rate, firm's credit risk and its interaction with the cost of debt, the receipt of government grants five years before investment, tax reduction and free cash flow.

In the present study, question 4b asks managers about the total liabilities or debts as well as the total equity of their firm in the three years prior to the study in order to calculate the ratio of debt to total equity as a good measurement for financial strength. In addition, as shown in Table 4.5, in questions 5a and 5b, a list of six items is used to ask managers about the financial standing of their firm. They should rate their opinion from strongly agree to strongly disagree in a seven-point scale Likert system.

Table 4.5: Measurement Items for Financial Strength in the Questionnaire

Measurement	Researchers
Ratio of liability to total equity	Galbreath and Galvin (2008), Trevino and Grosse (2002)
Sufficient internal funds for foreign projects and operations	Quer *et al.* (2007)
Receiving financial support from domestic banks amd institutions	Quer *et al.* (2007)
Receiving financial support from Malaysian government	Forssbæck and Oxelheim (2008)
Receiving tax reduction from host country governments	Forssbæck and Oxelheim (2008)
High profitability in Malaysia	-
Achieving expected profit	Tan and Vertinsky (1996)

c. Profitability

Profitability or financial performance is another dimension of tangible assets. Researchers have divided performance into sales performance or sales turnover, market performance or market share, and financial performance or profitability (Fahy, 2002; Galbreath and Galvin, 2008). According to Fahy (2002), measuring financial performance is a controversial issue. He argued that based on the resource-based view, the strategy of a firm is to deploy resources in order to gain economic rents. Therefore, previous research used two major proxy measurements to assess financial performance including return-on-total-assets (ROA) and return-on-sales (ROS).

While Trevino and Grosse (2002) applied ROS as their measurement, most researchers used ROA as the measurement and proxy for firm financial performance and ex ante profitability (Claver and Quer, 2005; Lin, 2009; Pablo, 2009; Quer *et al.*, 2007). Claver and Quer (2005) used another criterion as the rate of sales increase. ROA is defined by operating income before depreciation or the profit before tax divided by the total assets of the firm (Pablo, 2009; Quer *et al.*, 2007). Quer *et al.*, (2007) calculated ROA based on an average of three years prior to the analysis period. ROS is the result of the ratio of the profit before tax divided by annual sales turnover. It can also be counted for an average of three years.

In the present study, question 4b of the research questionnaire asks managers to announce the annual sales, profit before taxation and total assets of their firm in order to calculate both the ROA and ROS as the measurements of profitability.

4.6.2 Intangible Assets

Two major dimensions of intangible assets include corporate culture and firm reputation. For measuring each dimension, the literature has suggested different items that are explained as follows.

a. Organizational Culture

As stated in chapter 4, firms may have two major types of organizational culture including hierarchical or bureaucratic culture and adhocracy culture, which can be supportive or innovative. The strategies used by firms with a bureaucratic culture are different from those that have a supportive or innovative corporate culture. To assess the type of dominant organizational culture, researchers used various measurement items (see Deshpande *et al.*, 1993; Ekeledo and Sivakumar, 2004; Evans, 2002; Williams and Triest, 2009). Ekeledo and Sivakumar (2004) used four items as the criteria for a valuable organizational culture. Gregory *et al.* (2009) applied a 32-item scale to measure different cultural values in business corporations.

Williams and Triest (2009) used five items to measure an innovate culture, i.e. creative destruction, seeking new combinations, ability to learn from past mistakes, filtering information from external sources in the search for new products, and strategic concentration on innovation and productivity. In addition, they used four items for a shared value or supportive culture including corporate efforts to control the subsidiary through normative integration, reducing the different preferences and interests among firm employees, having strong trust between subsidiaries and headquarters' managers, and establishing collectivism as part of the corporate culture.

As shown in Table 4.6, in the present study, a list of 9 items was used in question 5c of the questionnaire based on a seven-point Likert system to determine the type of corporate culture dominating over the respondent firms and identify to what extent their culture is supportive or innovative.

Table 4.6: Measurement Items for Organizational Culture in the Questionnaire

Measurement	Researchers
Supportive culture:	
Encouraging open discussion	Ekeledo and Sivakumar (2004)
De-emphasizing position distinction	Ekeledo and Sivakumar (2004)
Favouring promotion from within	Ekeledo and Sivakumar (2004)
Encouraging teamwork	Williams and Triest (2009)
Recognizing team efforts not individual efforts	Williams and Triest (2009)
Establishing a strong trust between foreign branches and headquarters' managers	Williams and Triest (2009)
Innovative culture:	
Encouraging experiments and enduring mistakes	Ekeledo and Sivakumar (2004)
Ability to learn from past mistakes	Williams and Triest (2009)
Focusing on innovation and productivity	Williams and Triest (2009)

b. Firm Reputation

Previous research measured firm reputation by various items. Michaelis *et al.* (2008) evaluated the reputation of service firms based on offering quality services, having knowledge about services provided, having a good relationship with customers and keeping their commitments. To measure firm reputation in a foreign country, it is

possible to ask managers how they evaluate public familiarity with corporate identity. Melewar and Saunders (1999) defined visual identity or corporate brand components as corporate name, slogan and symbol or logo. Ekeledo and Sivakumar (2004) assessed firm positive reputation in foreign markets based on a firm's superior management, superior production process, superior quality of products or services and technological innovativeness. He believed that to protect such their reputation, firms should use high control modes in their foreign expansion. In addition, Malhotra (1999) related firm reputation to the reliability of the firm and its technical competence.

In this study, based on the literature, 11 items were used in questions 5d, 6a and 6b of the questionnaire using a seven-point Likert scale to measure the reputation of firms in international markets at the time of their market entry. Table 4.7 indicates all these items and the references for each item. As the reputation of firms is usually originate from the image of their home country in foreign markets, a new measurement item was created to consider this concept that was ignored by previous research.

Table 4.7: Measurement Items for Firm Reputation in the Questionnaire

Measurement	Researchers
Importance of protecting positive reputation	Ekeledo and Sivakumar (2004)
Brand publicity in the host countries	Melewar and Saunders (1999)
Firm reputation for superior service quality	Ekeledo and Sivakumar (2004)
Firm reputation for superior service delivery	Ekeledo and Sivakumar (2004)
Firm reputation for superior management	Ekeledo and Sivakumar (2004)
Firm reputation for superior customer service	Michaelis *et al.* (2008)
Firm reputation for reliability and promise	Malhotra (1999), Michaelis *et al.* (2008)
Firm reputation for its previous projects	Malhotra (1999)
Firm reputation for technical competence	Malhotra (1999)
Firm reputation as an innovative firm	Ekeledo and Sivakumar (2004)
Firm reputation as a Malaysian company	-

4.6.3 Firm Capabilities

Researchers have applied different items to measure firm capabilities including market knowledge, business experience, tacit knowhow and proprietary technology.

a. Market Knowledge

According to Hadley and Wilson (2003), the international market knowledge can be assessed by the perceived lack of senior management international experience, the inability to determine foreign business opportunities, the lack of proprietary knowledge, the lack of international marketing planning and execution experience, and difficulty of modifying marketing mix elements for foreign markets. Ekeledo and Sivakumar (2004) measured market experience based on the firm's knowledge about the host market, cultural similarity between the home and host countries, and firm's geographical knowledge about the region in which the host country is located. Brouthers and Brouthers (2003) measured the regional experience by the number of years a firm operated in a specific region, such as Eastern Europe.

As Table 4.7 indicates, this study applied a list of 4 items using a seven-point Likert scale in question 6c and 6d to measure market knowledge at the time of entry.

Table 4.8: Measurement Items for Market Knowledge in the Questionnaire

Measurement	Researchers
Familiarity with cultural values, language and work ethics in host countries	Malhotra (1999)
Having knowledge about the geographic region	Ekeledo and Sivakumar (2004)
Having knowledge about the industry sector	Ekeledo and Sivakumar (2004)
Having knowledge about local culture	Ekeledo and Sivakumar (2004)

b. Business Experience

The literature has often measured international business experience by the number of years that a firm has operated in foreign markets since its first foreign entry (see Blomstermo *et al.*, 2006; Chen and Mujtaba, 2007; Ekeledo and Sivakumar, 2004; Erramilli, 1991; Erramilli *et al.*, 2002; Erramilli and D'Souza, 1993; Evans, 2002; Morschett, 2006; Nakos and Brouthers, 2002; Pehrsson, 2008; Sanchez-Peinado *et al.*, 2007; Tsai and Cheng, 2004). Erramilli and D'Souza (1993) divided firms into inexperienced firms with less than 5 years foreign operations and experienced firms

with more than 5 years presence in international markets. Morschett (2006) classified the experience of firms into four categories. Blomstermo *et al.* (2006) used an ordinal scale to measure the number of years of foreign operation because managers do not remember exactly when their firm entered its first foreign market.

The second measurement for business experience is geographical scope or the number of foreign countries in which a firm currently operates or has subsidiaries (Domke-Damonte, 2000; Ekeledo and Sivakumar, 1998; Evans, 2002; Fisher and Ranasinghe, 2001; Kim, 2005; Kogut and Singh, 1988; Pehrsson, 2008). Some researchers assessed the experience of a firm based on the ratio of its foreign sales to its total revenue or annual sales (see Ekeledo and Sivakumar, 1998, 2004; Evans, 2002; Fisher and Ranasinghe, 2001; Javalgi *et al.*, 2010; Trevino and Grosse, 2002). Fisher and Ranasinghe (2001) preferred the ratio of firm's foreign assets as the measurement item because it is clearly reflected in firms' annual reports. Kathuria *et al.* (2008) used the ratio of a firm's foreign affiliates to its total subsidiaries.

Agarwal and Ramaswami (1992) measured international experience as perceived multinationality and perceived ability to handle foreign market operations. Another assessment was made using a dichotomous variable as prior entries made by full-control modes versus prior entries made by shared-control modes (Lu, 2002; Sanchez-Peinado *et al.*, 2007). Eriksson *et al.* (1997) used two items as the lack of foreign experience and the lack of unique knowledge. Blomstermo *et al.* (2004) considered experiential knowledge as the firm's experience in developing and adapting its products in international markets, its experience in doing business in new emerging markets and its international experience in cooperation with other firms.

According to Table 4.9, the present study used 13 measurement items to assess business experience. Question 2b of the questionnaire asks managers to specify when their company started its international business. Question 3c provides the answer for the

number of countries in which a firm operates. Questions 4b helps calculate the ratio of foreign sales to total annual sales. Using question 4c, it is possible to calculate the ratio of foreign affiliates to total subsidiaries. Question 6c and 6d used a seven-point Likert scale for measuring business experience at the time of entry.

Table 4.9: Measurement Items for Business Experience in the Questionnaire

Measurement	Researchers
Experience in doing business in emerging markets	Blomstermo *et al.* (2004)
Experience in cooperation with other firms overseas	Blomstermo *et al.* (2004)
Experience in adaptation of services to customer needs	Blomstermo *et al.* (2004)
Ability to recognize opportunities in foreign markets	Hadley and Wilson (2003)
Ability to handle foreign expansion in terms of technological, managerial and financial abilities	Agarwal and Ramaswami (1992), Ekeledo and Sivakumar (2004)
Having knowledge about host market conditions	Ekeledo and Sivakumar (2004)
Having knowledge about host market players	Ekeledo and Sivakumar (2004)
Having knowledge about local institutions	Ekeledo and Sivakumar (2004)
Having knowledge about government policies	Ekeledo and Sivakumar (2004)
Number of target countries	Ekeledo and Sivakumar (1998), Fisher and Ranasinghe (2001), Kim (2005), Pehrsson (2008)
Ratio of foreign branches to total firm affiliates	Kathuria *et al.* (2008)
Ratio of foreign sales to annual sales	Ekeledo and Sivakumar (2004), Fisher and Ranasinghe (2001), Javalgi *et al.* (2010), Trevino and Grosse (2002)
Number of the years of operation overseas	Blomstermo *et al.* (2006), Ekeledo and Sivakumar (2004), Morschett (2006), Nakos and Brouthers (2002), Pehrsson (2008), Sanchez-Peinado *et al.* (2007)

c. Tacit Knowhow

Tacit knowhow is usually related to marketing knowhow and managerial skills. To measure marketing knowhow, some researchers utilize the ratio of advertising costs to the annual sales of a firm (Almor and Hashai, 2004; Chen and Hu, 2002; Talay and Cavusgil, 2009). Forlani *et al.* (2008) measured the completeness of the managerial and marketing capabilities of a firm. Erramilli *et al.* (2002) assessed firm capability based on the availability of qualified managerial staff in a target market. In addition, Hau and Evangelista (2007) used other measurements, such as restricting knowledge sharing and acquiring marketing knowhow by the firm's employees in foreign markets.

Fahy (2002) considered tacit knowhow as design and engineering knowhow. Another study measured tacit knowledge based on knowledge acquisition for marketing knowledge, management knowledge and the knowledge about different cultures and tastes (Anh *et al.*, 2006). To measure tacit knowhow, previous research used the Likert system and asked management perception about the difficulty in transferring skills and knowledge, the difficulty in evaluating the exact price of the service or marketing knowhow, the difficulty in learning, understanding and replicating the knowledge and expertise of the firm's employees and managers (see Ekeledo and Sivakumar, 2004; Fahy, 2002; Kim, 2005; Kim and Hwang, 1992; Madhok, 1998; Park, 2000; Sanchez-Peinado *et al.*, 2007).

According to Table 4.10, this study used a list of 11 items in question 6e of the questionnaire for measuring tacit knowhow by asking managers to evaluate the nature of the firm's service delivery process. Question 6f measures the difficulty of learning, documenting, pricing and transferring the firm's technology to another firm.

Table 4.10: Measurement Items for Tacit Knowhow in the Questionnaire

Measurement	Researchers
High complexity of service delivery process	Ekeledo and Sivakumar (2004)
High formality of service delivery process	Kim (2005)
Technical content of service delivery process	Ekeledo and Sivakumar (2004), Kim (2005)
Proprietary content of service delivery process	Ekeledo and Sivakumar (2004), Kim (2005)
Difficulty in writing a useful manual for describing firm's service delivery process	Ekeledo and Sivakumar (2004)
Difficulty in documenting critical parts of firm's service delivery process	Ekeledo and Sivakumar (2004), Park (2000)
Difficulty in learning firm's service delivery process by talking with skilled employees	Malhotra (1999)
Difficulty in learning firm's service delivery process by studying blueprints	Ekeledo and Sivakumar (2004), Kim (2005)
Difficulty in educating and training new customer contact personnel	Ekeledo and Sivakumar (2004), Kim (2005), Malhotra (1999)
Difficulty in transferring firm's service delivery knowhow	Ekeledo and Sivakumar (2004), Kim and Hwang (1992), Madhok (1998), Park (2000), Sanchez-Peinado *et al.* (2007)
Difficulty in assessing proper price for firm's marketing knowhow	Ekeledo and Sivakumar (2004), Kim and Hwang (1992), Madhok (1998), Sanchez-Peinado *et al.* (2007)

d. Proprietary Technology

To measure proprietary technology, previous research has frequently used R&D intensity or the ratio of a firm's research and development expenditure to its annual sales (see Almor and Hashai, 2004; Andersson and Svensson, 1994; Kim, 2005; Talay and Cavusgil, 2009). The problem with this measurement is the lack of data offered by firms about their R&D activities (Andersson and Svensson, 1994). Forlani *et al.* (2008) measured production and R&D capabilities of a firm based on a seven-point scale. Ekeledo and Sivakumar (2004) measured proprietary technology as the management perception about the firm's unique patent or trademark and its brand name recognition in the host country.

Chen and Hu (2002) measured technological capability based on the number of high technology projects conducted by a firm, which gives it technological advantage in foreign markets. Kaya and Erden (2008) assessed technological capability as the ability to adapt imported technologies to new markets, respond to customer needs, apply effective management functions, offer competitive prices, and develop differentiated or high quality products. As shown in Table 4.11, this study used 12 items in question 7 of the questionnaire to assess the proprietary technology of the respondent firms.

Table 4.11: Measurement Items for Proprietary Technology in the Questionnaire

Measurement	Researchers
Having unique patents	Ekeledo and Sivakumar (2004)
Having valuable trade mark	Ekeledo and Sivakumar (2004), Kim (2005)
Having valuable trade secret	Ekeledo and Sivakumar (2004)
Recognized brand name in host countries	Ekeledo and Sivakumar (2004)
Good logistics and distribution technology	Ekeledo and Sivakumar (2004)
Developing new services frequently	Ekeledo and Sivakumar (2004)
High service quality compared to rivals	Ekeledo and Sivakumar (2004)
Offering innovative services compared to rivals	Ekeledo and Sivakumar (2004), Park (2000)
Higher R&D activities compared to rivals	Ekeledo and Sivakumar (2004), Kim (2005)
Valuable technological knowledge	Malhotra (1999)
Ability to adapt technology to market needs	Kaya and Erden (2008), Malhotra (1999)
Ability to respond to local customer needs	Kaya and Erden (2008), Malhotra (1999)

4.6.4 Network Relations

Network relations are important firm resources that facilitate its expansion into foreign markets. Lin (2009) identified network linkage when a firm follows its major clients, suppliers or other firms in the same industry to a foreign market such as China. Ahmad (2008) studied business networks, family conglomerates and government links at the same time. Malhotra (1999) measured a firm's networking ability based on the prior relationship of managers or employees with business partners in the host country or the host government, prior relationship between firm's partners in the domestic market and other firms in foreign countries, following clients into host countries or prior working for a client in foreign markets, prior collaborating with the same foreign partner on a project, and gaining projects from international organizations in foreign countries.

Thirawat *et al.* (2007) assessed government links with a focus on the flow of critical information provided by firms for the government to set new policies and the direction of government policies towards facilitating international business activities, and promoting firms and their products or services in foreign markets. Baysinger (1984) viewed the political behaviour of firms in relation to the government based on three items – domain management or gaining government support, domain defence or challenging with the government restrictions, and domain maintenance or challenging with the government policies that conflict with corporate mission and goals. To manage these challenges, firms use strategies such as lobbying, public relations and negotiations with government agencies and trade unions.

According to Table 4.12, this study used 17 items to measure the network relations of firms using a seven-point Likert scale. Questions 8a and 8b of the questionnaire relate to the business networks in Malaysia or target markets. In addition, question 8c measures the firm's social networks while question 8d and 8e investigate firms' link with the domestic government as well as host governments.

Table 4.12: Measurement Items for Network Relations in the Questionnaire

Measurement	Researchers
Established relationships with domestic service firms in the industry	Malhotra (1999)
Established relationships with domestic banks and financial institutions	Bianchi (2009), Hutchinson *et al.* (2006)
Established relationships with trade unions in domestic market	Baysinger (1984)
Collaboration activities with foreign companies in the home market	Malhotra (1999)
Established relationships with a local business partner in the foreign market	Ahmad and Kitchen (2008), Bianchi (2009), Malhotra (1999)
Previous working for a client in the foreign market	Lin (2009), Malhotra (1999)
Established relationships of the firm's business partners with clients in the foreign	Bianchi (2009), Malhotra (1999)
Gaining a project from the international organizations in the foreign market	Malhotra (1999)
Family relationship of the firm's managers with a business partner in the foreign market	Ahmad (2008), Hutchinson *et al.* (2006), Sim (2006), Thirawat *et al.* (2007)
Ethnic relationship of the firm's managers with a business partner in the foreign market	Pananond (2007), Sim (2006), Thirawat *et al.* (2007)
The prior relationships of the firm's staff in the foreign market	Malhotra (1999)
Employing government officers in the firm's management team or the board of directors	Ahmad and Kitchen (2008), Baysinger (1984), Malhotra (1999), Menzies and Orr (2010)
Established relationships with the government agencies in Malaysia	Ahmad (2008), Baysinger (1984), Sim (2006), Menzies and Orr (2010), Thirawat *et al.* (2007)
Established relationships with dominant political parties in Malaysia	Baysinger (1984), Bianchi (2009)
Prior interactions with the local government in the foreign market	Ahmad (2008), Baysinger (1984), Chen (2007), Menzies and Orr (2010)
Gaining a project from the government in the foreign market	Menzies and Orr (2010)
The firm's previous participation in social development projects in the foreign market	Menzies and Orr (2010)

4.6.5 Business Strategy

To differentiate the business strategies of firms, researchers measured the global strategy by asking managers about the firm's desire to compete in various global markets and delegating competition to each subsidiary, while assessed the multinational strategy based on the firm's desire to concentrate on a few countries and adapt its products to the local market needs (Harzing, 2002; Sanchez-Peinado *et al.*, 2007).

Baek (2003) suggested that the ratio of the number of subsidiaries located in the same hemisphere to the total affiliates of firms is a measure of global diversity. Jansson and Sandberg (2008) considered SMEs that concentrated their operations in one or two regions as regional firms while the firms that are active in various regions are viewed as global firms. Some studies focused on the difference between the need of firms to customize their offerings or projects as a regional strategy versus their desire to offer standardized products or services to global markets as a global strategy (see Malhotra, 1999; Park, 2000). In addition, Bradley and Gannon (2000) divided firms into those that follow a diversification strategy (coded 0) and those that follow a concentration strategy (coded 1).

As shown in Table 4.13, a number of 8 measurement items were used in this study based on the literature to measure the business strategy of the respondent firms. Question 11a of the questionnaire evaluates the global approach or diversification strategy whereas the question 11b measures the regional expansion or concentration strategy.

Table 4.13: Measurement Items for Business Strategy in the Questionnaire

Measurement	Researchers
Global strategy:	
Desire to compete in global markets that are closely interconnected	Harzing (2002), Sanchez-Peinado *et al.* (2007)
Offering standard services to domestic and foreign markets	Park (2000),
Diversifying operations to various regions across the world	Bradley and Gannon (2000), Jansson and Sandberg (2008)
Delegating competition to foreign subsidiaries because markets are too different	Harzing (2002), Sanchez-Peinado *et al.* (2007)
Multinational strategy:	
Desire to achieve economies of scale by operating in a few foreign markets	Harzing (2002), Sanchez-Peinado *et al.* (2007)
Concentrating the firm's business activities in the Asia-Pacific region	Bradley and Gannon (2000), Jansson and Sandberg (2008)
Customizing services to customer needs in order to respond to national differences	Harzing (2002), Park (2000), Sanchez-Peinado *et al.* (2007)
Customizing services to the requirements of each foreign project	Malhotra (1999)

4.6.6 Motives of Entry

Motives of entry are divided into following clients into foreign markets versus market seeking. To measure the motives of entry, researchers questioned managers about their perception of the importance of following clients and competitors in foreign markets or, in contrast, entering target markets to seek new clients, exploit market potential or establish the firm's brand name in overseas markets (Sanchez-Peinado *et al.*, 2007; Weinstein, 1977). Ling and Chan (2008) assessed the motives of entry based on items such as ensuring a high degree of customer awareness of the firm, relying on verbal communications, establishing good relationships with clients, creating a good corporate image for clients, being able to collect information about competitors, relying on recommendations made by clients, consultants or contractors, and relying on repeating business.

To assess the motives of Spanish firms for following clients, Álvarez-Gil *et al.* (2003) used the total amount of exporting and FDI made by Spanish firms in Latin America as well as the index of de-regulation and liberalization in Latin American countries. They also compared the internationalization pattern of Spanish financial firms with leading world banks and insurance companies in order to measure market seeking activities. However, these criteria seem to be vague and insufficient. Li and Clarke-Hill (2004) related market seeking motive to the host market size and growth, access to regional and global markets, country-specific customer needs, and the structure of market.

Chen *et al.* (2006) measured market seeking and expanding into new markets based on the total value of industrial output of markets, as an indicator of market size. Chidlow *et al.* (2009) used customers' demand and economies of scale as the criteria for market seeking. Luiz and Charalambous (2009) assessed market seeking by evaluating market growth, profit growth, and closeness to local customers and knowing their

needs. They measured the motive of firms to follow clients based on following competitors to respond them, following related industry, and escaping from the pressure of competition in the home country.

In the present study, question 12a of the questionnaire asks managers whether they followed Malaysian clients or their competitors into foreign markets or not, while in question 12b, their motive for market seeking is questioned. Table 4.14 shows a list of 8 items that were used to measure the motives of entry of the respondent firms, and indicates their sources in the literature.

Table 4.14: Measurement Items for Motives of Entry in the Questionnaire

Measurement	Researchers
Following clients:	
Following Malaysian customers in foreign markets	Malhotra (1999), Sanchez-Peinado *et al. (*2007), Weinstein (1977)
Following a foreign affiliate of a Malaysian client firm in foreign markets	
Following competitors or responded to them in foreign markets	Luiz and Charalambous (2009), Sanchez-Peinado *et al. (*2007), Weinstein (1977)
Escaping from the pressure of competition in Malaysia by expanding overseas	Luiz and Charalambous (2009)
Market seeking strategy:	
Seeking new local customers in foreign markets	Sanchez-Peinado *et al. (*2007), Weinstein (1977)
Entering foreign markets after gaining a project there	Malhotra (1999)
Entering foreign markets to exploit market potential and seek new clients	Malhotra (1999)
Entering foreign markets to establish the firm's brand name internationally	Malhotra (1999), Sanchez-Peinado *et al. (*2007), Weinstein (1977)

4.6.7 Resource Strategy

To measure resource strategy, some researchers utilized a Likert scale and asked management perception about firm orientation towards asset exploitation and asset seeking in foreign markets (see Chang, 1995; Lu, 2002; Sanchez-Peinado *et al.*, 2007). According to Ekeledo and Sivakumar (2004), resource exploitation depends on the ability of a firm to exploit its technology in foreign markets without the need to collaborate

with a local partner. If such a firm cannot maintain the quality standard of its products or services in a collaborative operation or perceive a high risk of misusing its competitive advantage by partners, and when transaction costs to enforce contracts are high, controlling resources and protecting firm capabilities in foreign markets is necessary. In contrast, if firms cannot exploit their technology without partnership, perceive a lower risk of losing its advantage, or face a low transaction cost, the resource seeking strategy is preferred in order to acquire complementary assets.

To measure the resource seeking strategy, Cheng (2006) used the ratio of the size of foreign affiliates to the size of their parent firms, based on the number of employees, which shows the need of affiliates to seek resources in foreign markets. Chidlow *et al.* (2009) assessed the knowledge seeking strategy of firms based on the level of education in a regional market and quality of local universities and research centres in the region. Luiz and Charalambous (2009) related resource seeking to the availability of cheaper labour, skills and capital in the host markets. In addition, Li and Clarke-Hill (2004) measured resource seeking based on the availability of raw materials, low-cost workers, skilled labour and infrastructure in foreign markets. They considered strategic assets as available tacit knowledge, technology, innovative capacity, and the cultural and institutional setting of the target market.

Researchers used the Likert system to assess the desire of firms for exercising a high control over their affiliates or resources (see Dunning *et al.*, 2007; Jaussaud and Schaaper, 2006). Chen *et al.* (2006) measured control over resources by the percentage of equity ownership in a joint venture. Kim and Hwang (1992) assessed control over affiliates based on global synergies by sharing knowhow, managerial skills, R&D activities, production personnel and distribution channels. Kirca (2005) measured control over marketing activities as the number of visiting marketing personnel, controlling the budget of advertising and the choice of media and message.

According to Table 4.15, in the research questionnaire, question 12c measures the desire of firms for asset exploitation, question 12d evaluates the need for complementary resources, questions 12e and 12f relate to the need for control or desire for autonomy.

Table 4.15: Measurement Items for Resource Strategy in the Questionnaire

Measurement	Researchers
Resource exploitation:	
Desire to exploit firm's valuable resources and capabilities in foreign markets	Chang (1995), Sanchez-Peinado *et al.* (2007)
Ability to exploit firm's technology in foreign markets without collaboration with others	Ekeledo and Sivakumar (2004)
Perceiving the high risk of misusing the firm's expertise or technology by business partners	Ekeledo and Sivakumar (2004), Malhotra (1999)
Uncertainty to maintain quality standard of firm's services in a collaborative operation	Ekeledo and Sivakumar (2004)
The high cost of enforcing a business contract in the foreign market	Ekeledo and Sivakumar (2004)
Resource seeking strategy:	
Firm's desire to acquire new capabilities and complementary assets in foreign markets	Chang (1995), Lu (2002), Sanchez-Peinado *et al.* (2007)
Need to collaborate with others to exploit firm's service technology in foreign markets	Ekeledo and Sivakumar (2004)
Need to use host country resources to offer services customized to foreign client needs	Li and Clarke-Hill (2004), Luiz and Charalambous (2009)
Expanding internationally to obtain knowledge and managerial skills	Li and Clarke-Hill (2004),
Expanding internationally to acquire advanced technology and innovative capacity	Li and Clarke-Hill (2004),
Need for control:	
Desire to control and coordinate the activities of foreign subsidiaries as they are independent	Dunning *et al.* (2007), Ekeledo and Sivakumar (2004)
Need to monitor operations of franchisees or firm's partners to maintain service quality	Park (2000)
Having regular monitoring visits to each one of firm's foreign subsidiaries	Jaussaud and Schaaper (2006), Kirca (2005)
Concentrating decision making in the firm's headquarter office	Kim (2005)
Need for autonomy:	
Viewing each one of foreign subsidiaries as a unique unit	Ekeledo and Sivakumar (2004)
Giving autonomy to each foreign subsidiary over decisions relating to marketing services	Ekeledo and Sivakumar (2004)
Difficulty and high cost of monitoring foreign subsidiaries because of geographic distance	Kim (2005)
Sharing managerial skills, marketing knowhow and R&D activities with foreign subsidiaries	Kim and Hwang (1992)

4.6.8 Competitive Strategy

To measure the cost reduction strategy, Chen *et al.* (2006) divided the industries in which a firm operates into intensive and non-intensive based on their resource intensity. Chidlow *et al.* (2009) measured efficiency seeking by the availability of a cheap labour force and low cost raw materials. Li and Clarke-Hill (2004) measured cost reduction as reducing the costs of resources, transportation and communications in the host country as well as membership in regional integration agreements. Luo and Zhao (2004) measured cost leadership based on the level of operating efficiency, level of capacity utilization, efficiency in securing raw materials, emphasis on finding ways to reduce costs and emphasis on price competition. Luiz and Charalambous (2009) evaluated cost reduction based on improving productivity and available local incentives for investment, such as tax reduction.

Product differentiation was assessed based on the higher quality of products and services compared to competitors in foreign markets (Ekeledo and Sivakumar, 2004; Morschett, 2006). Luo and Zhao (2004) measured product differentiation based on firm emphasis on using new technology and new product development, the number and rate of new products introduced to the market, advertising intensity, developing sales force and emphasis on building a strong brand image. They also assessed the focus strategy based on offering a unique product, targeting a specific segment, offering expensive products for high-income customers, and offering specialty products to the market.

The innovation orientation was assessed based on introducing new products and services (Kim, 2005; Luo and Zhao, 2004; Morschett, 2006). Kim (2005) emphasized on making continuous changes in firm's operation process. Trevino and Grosse (2002) used the ratio of R&D expenditure to total annual sales as a measurement for innovation and product differentiation. Chung and Enderwick (2001) measured service orientation based on the extent to which the firm's products require before or after sales services.

As shown in Table 4.16, this study used a set of 23 items to measure competitive strategies. Question 13a asks managers to rate their cost reduction strategy, question 13b assesses product differentiation, question 13c measures the focus strategy, question 13d evaluates innovation orientation, and question 13e measures service orientation.

Table 4.16: Measurement Items for Competitive Strategy in the Questionnaire

Measurement	Researchers
Cost reduction:	
Offering low cost services compared to firm's competitors	Ekeledo and Sivakumar (2004), Luo and Zhao (2004), Morschett (2006)
Emphasizing on finding ways to reduce the costs of service delivery	Luiz and Charalambous (2009), Luo and Zhao (2004)
Expanding internationally to access to low cost raw materials	Chidlow *et al.* (2009), Li and Clarke-Hill (2004), Luo and Zhao (2004)
Expanding to countries with cheaper labour	Chidlow *et al.* (2009)
Expanding to markets with lower costs of transportation and communications	Li and Clarke-Hill (2004)
Seeking for local government incentives	Luiz and Charalambous (2009)
Product differentiation:	
Offering services with superior quality compared to competitors	Ekeledo and Sivakumar (2004), Morschett (2006)
Emphasizing on using new technology to increase service quality	Luo and Zhao (2004), Morschett (2006)
Emphasizing on building a strong brand image	Luo and Zhao (2004)
Spending a high budget for advertising	Luo and Zhao (2004)
Focus strategy:	
Offering services to a specific group of clients in the target market	Ekeledo and Sivakumar (2004), Luo and Zhao (2004)
Offering unique services compared to rivals	Luo and Zhao (2004)
Offering high quality services for people with a high level of income	Luo and Zhao (2004)
Offering services for a specific segment	Ekeledo and Sivakumar (2004)
Innovation orientation:	
Offering information and IT solutions	-
Introducing new services frequently to foreign markets	Kim (2005), Luo and Zhao (2004), Morschett (2006)
Spending a high budget for R&D activities	Trevino and Grosse (2002)
Emphasizing on changes in service delivery	Kim (2005)
Encouraging employees to offer new solutions	-
Service orientation:	
Offering services that require before or after sales services	Chung and Enderwick (2001), Morschett (2006)
Offering better after sales services	Morschett (2006)
Offering on-time delivery services	-
Offering installation services for customers	-

4.6.9 Degree of Intangibility

Cloninger (2004) measured the intangibility of services by using a Likert scale and asking managers to explain to what degree their firm's products and services are composed of manufactured or assembled goods, specialized tasks, mechanical skills, professional knowhow or design, tasks based on reports or documents, and services offered through tangible means. Malhotra (1999) suggested that in highly intangible services, people are the most critical assets because such firms sell the intellect, expertise or experience of their employees that are intangible. He measured the intangibility of services based on the difficulty of evaluating the value of services by customers, as services are highly intangible, the importance of the relationship with customers and partners, and the use of professional knowhow in the process of service delivery.

As Table 4.17 indicates, this study used 9 items in question 14a and 14b in order to measure degree of service intangibility using a seven-point Likert scale.

Table 4.17: Measurement Items for Degree of Intangibility in the Questionnaire

Measurement	Researchers
High intangibility:	
Requiring professional knowledge, specialized skills or design	Cloninger (2004), Blomstermo *et al.* (2006), Javalgi and Martin (2007), Malhotra (1999)
Requiring mechanical skills for installation, repairing or maintenance	Cloninger (2004)
Difficulty of evaluating service quality since firm's service is highly intangible	Blomstermo *et al.* (2006), Domke-Damonte (2000), Malhotra (1999)
Offering services based on firm's relationship both with clients and business partners	Blomstermo *et al.* (2006), Javalgi and Martin (2007), Malhotra (1999)
Low intangibility:	
Offering services related to information technology, finance and data processing	-
Offering services including reports, audits, manuals or documents	Cloninger (2004)
Offering services by tangible means such as videos, software, films, tickets or money	Cloninger (2004), Ekeledo and Sivakumar (1998)
Offering educational or professional services in the form of books, booklets and slides	Cloninger (2004)
Possibility of evaluating service quality because firm's service is lowly intangible	Malhotra (1999)

4.7 Measure Development for Moderating Variable

As stated in chapter 3, the inseparability of service delivery and consumption can moderate the effect of organizational factors on the strategies of international expansion (Ekeledo and Sivakumar, 1998; Erramilli and Rao, 1993). The inseparability of services offered by firms is a dichotomous dummy variable, which is measured based on the ability to decouple production from consumption. To examine the moderating effect of inseparability, previous research divided firms into two groups, i.e. hard services with separability of their offerings coded 0, and inseparable services or soft services coded 1 (Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 1998, 2004; Erramilli, 1990, 1991; Erramilli and Rao, 1990, 1993). Erramilli and Rao (1993) linked the inseparability of services with high asset specificity, which refers to the use of professional skills, specialized knowhow and customization or the adaptation of services to customer needs and preferences.

The inseparability of services requires the face-to-face contacts with clients and the participation of customers in service delivery process (Axinn and Matthyssens, 2002; Domke-Damonte, 2000; Kim *et al.*, 2002). Inseparable services cannot be stored or exported and service providers should have a local presence in foreign markets in order to adapt their services to local requirements (see Blomstermo *et al.*, 2006; Erramilli and Rao, 1993; Ekeledo and Sivakumar, 1998, 2004; Javalgi and Martin, 2007; Root, 1987).

Table 4.18 shows the measurement items used in the research questionnaire to measure the inseparability of services offered by the respondent firms. These five items were selected based on the previous research. Question 14c uses a seven-point Likert scale and asks managers to rate each item based on the level of inseparability of services provided by their firm in foreign markets.

Table 4.18: Measurement Items for Inseparability of Services in the Questionnaire

Measurement	Researchers
Need for physical presence of employees and clients during service delivery process	Blomstermo *et al.* (2006), Ekeledo and Sivakumar (1998, 2004) Javalgi and Martin (2007), Malhotra (1999)
Importance of face-to-face interaction with clients to identify their preferences	Axinn and Matthyssens (2002), Kim *et al.* (2002), Malhotra (1999)
Inability to store or consume firm's services in another time after delivery	Blomstermo *et al.* (2006), Erramilli and Rao (1993), Javalgi and Martin (2007)
Customizing firm's services to clients needs and tastes during service delivery process	Blomstermo *et al.* (2006), Erramilli and Rao (1993), Javalgi and Martin (2007)
Inability to export firm's services or decouple service delivery and consumption	Blomstermo *et al.* (2006), Erramilli (1991), Erramilli and Rao (1990, 1993), Ekeledo and Sivakumar (1998, 2004)

4.8 Statistical Analysis Techniques

The present study implements a set of statistical techniques for analysing the survey results. These techniques are based on using the SPSS software, which runs various statistical tests required for data analysis. The SPSS 18.0 is the latest version that was used in this study. In the first step, to make a descriptive analysis about the characteristics of the survey respondent firms and to analyse the opinions of the participants regarding major issues relating to the internationalization process, frequency tables were applied. A frequency table helps to analyse data that is categorized from the lowest to highest value (Cooper and Schindler, 2006). According to Malhotra (2007), the frequency tables are used to count the amount of responses related to a variable, however, to compare data from two or more groups of respondents, a cross-tabulation method or contingency table is used, in which the frequency and percentage of the responses are compared and analysed (Cooper and Schindler, 2006).

In the second step of data analysis, two major techniques were used to test the validity and reliability of the survey scale. The factor analysis was employed to examine the correlation between items used in the questionnaire and the factors or dimensions

that explain each independent and moderating variable in the research model (see Ekeledo and Sivakumar, 2004; Hair *et al.*, 2010; Malhotra, 2007). The second method was the Cronbach's alpha technique, which shows the correlation between items within a dimension or variable that, in sum, should result in an alpha greater than 0.6 (Hair *et al.*, 2010; Malhotra, 2007). Based on this method, items with a low correlation were excluded and factors with a higher reliability were extracted.

In the final step of data analysis, to examine the hypotheses, a regression method was used. According to Cooper and Schindler (2006), a regression analysis employs simple and multiple calculations to predict Y from X values. Most previous research in the field of international business used the regression method (see Agarwal and Ramaswami, 1992; Blomstermo *et al.*, 2006; Brouthers and Nakos, 2004; Erramilli and D'Souza, 1993; Evans, 2002; Gatignon and Anderson, 1988; Jaumotte, 2004; Kim and Hwang, 1992). According to Malhotra (2007), a regression method determines whether the independent variable explains a significant effect in the dependent variable, evaluates the strength of the relationship and verifies its form, predicts the values of the dependent variable, and, controls the effect of other independent variables on the dependent variable.

As the independent variables of the study are explained on a ratio scale and the dependent variables are categorical and dichotomous, a binary or binomial logistic regression method was employed. The binary logistic regression tests the effect of an independent variable on a dependent variable, which is categorical or explained as coded 0 and 1 (see Ekeledo and Sivakumar, 2004; Hair *et al.*, 2010; Mardanov, 2003). In the regression analysis, if the coefficient of the independent variable has a positive sign, it means that increasing values of the IV results in an increase in the DV while a negative sign shows a negative relationship (Hair *et al.*, 2010). According to Malhotra (2007), the bivariate regression model is explained as $Y = \beta_0 + \beta_1 X$.

In the regression model, Y is the dependent variable, X is the independent variable, β_0 is the intercept of the regression line, and $\beta_1, \beta_2, \ldots, \beta_P$ are the slopes of the regression line. The estimated or predicted value of the dependent variable is explained as $\hat{Y}_i = a + bx$, where $\hat{Y}_i$ is the predicted value, a is constant or the predictor of β_0, and b is the estimator of β. The estimator b is also called the non-standardized regression coefficient (Malhotra, 2007). According to Hair *et al.* (2010), the probability of each status of the dependent variable is determined as:

$$\text{Odds} = \frac{\text{Probability of event}}{\text{Probability of no event}}$$

The binary or binomial logistic regression has been widely used in the literature, especially for the choice of entry mode (see Brouthers and Brouthers, 2001, 2003; Dunning, 1980; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Harzing, 2002; Morschett, 2006; Quer *et al.*, 2007; Tsai and Cheng, 2004). As there are four dependent variables in this study, if the purpose was to evaluate the effect of the IVs on all the DVs at the same time, other techniques such as the Logit model should be applied (Malhotra, 2007). However, the objective of this study is to explore the effect of the IVs on the DVs in different time perspectives. For example, market selection occurs before the entry while the choice of entry mode is a process, which takes place in the first five years after market entry (see Ekeledo and Sivakumar, 2004).

To inspect the role of the inseparability of services as the moderator, the interaction between each independent variable and its dimensions with inseparability is calculated by the logistic regression analysis. Such interaction shows that if services are inseparable, to what extent the relationship between internal factors or IVs on the internationalization strategies of firms (DV) will change. Researchers have applied the interaction method in the literature to examine the moderating effect of inseparability (see Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993).

4.9 Conclusion

In this chapter, the methodology that is used for testing the research hypotheses and relationships was described by clarifying the target population, sampling frame and design, and data collection methods. The data used includes secondary and primary data. Secondary data is obtained from the published research and reports while a mail survey is utilized for collecting primary data from an initial sample of 303 Malaysian service firms, which are engaged in international business operations. In addition, to measure each variable of the research model that was explained in Chapter 3, certain measurement items were developed based on the literature.

In the next chapter, the primary data gathered by a survey method is analysed. The information gathered from the sample of study including Malaysian service firms public-listed in Bursa Malaysia provides a broad vision about the internationalization strategies of Malaysian services in foreign markets. By analysing primary data, research hypotheses and the proposed model of study are examined to explain the process of internationalization followed by Malaysian service firms.

CHAPTER 5

RESEARCH FINDINGS: ANALYSIS OF THE SURVEY RESULTS

5.0 Introduction

This chapter presents the results of the data analysis based on a mail survey of the top managers of Malaysian service firms that have already ventured into foreign markets. The survey was actually conducted within three months between August and November 2010. Although the return rate of such a collection method is low, it provides useful information and insight about the strategies of firms. As Malaysian service industries are mostly in their initial years of foreign operation, studying their decision behaviour in international markets and their limitations can help develop a framework for successful expansion and better performance.

The chapter consists of two main sections. The first section is a summary of descriptive data about the responses of the survey. The second part is an analysis of the results of hypotheses testing, in which the relationships between the independent and dependent variables are examined and the role of the moderating variables is tested through relevant statistical methods. For each hypothesis, a comparison is made between the results of this research and the previous studies to identify the similarities and differences as well as the cause of probable contradictions.

5.1 Survey Response Rate

As explained in chapter 4, the final survey questionnaire was sent by mail to a sample of 303 top executive managers of Malaysian service firms who are in charge of making strategic decisions in their firms, especially the decisions related to the expansion into foreign markets. After a process of three months and using follow-up calls and emailing surveys to some firms again, only 87 questionnaires were returned, which indicates a response rate of 28.7%. This was because some managers were not

willing to participate in surveys and reveal any information about their strategies even for academic purposes due to their competitive position. In addition, some managers were outside the country for business missions and others were too busy with their duties to answer the survey questionnaire.

The return rate of 28.7% is acceptable compared to the usual return rate of similar surveys in the United States, which is between 15% and 24% (Ekeledo and Sivakumar, 2004). Moreover, previous studies in the Malaysian context have usually achieved a response rate of less than 20% (see Abdul Aziz and Wong, 2010; Ahmed *et al.*, 2002; Amran and Ahmad, 2010). According to Ahmed *et al.* (2002), Malaysian firms are not willing to participate in surveys to protect their confidential information. Therefore, the return rate of the survey questionnaire in the country is low.

5.2 Descriptive Analysis: International Strategies of the Respondents

Before testing hypotheses and investigating the relationships proposed by the research model, it is necessary to describe respondent firms based on their features and explain descriptive opinions extracted from the questionnaire. To analyse descriptive data, frequency tables using SPSS software are calculated.

5.2.1 Industry Distribution of Respondent Firms

In this study, respondent firms were classified in ten major service industries based on the nature of their services. As Table 5.1 indicates, 23% of the respondents are engaged in construction and property. This is not surprising, as many Malaysian construction firms have ventured abroad. For this reason, previous research focused on the internationalization of Malaysian construction firms (see Abdul Aziz and Wong, 2010; Ahmad and Kitchen, 2008a; Hanid *et al.*, 2008; Ramayah *et al.*, 2010). The second industry is information and communication technology (ICT), in which 20.7% of the respondent firms operate. However, few studies have been made regarding the strategies of ICT firms (see Jarman and Chopra, 2008). In addition, 14.9% of the

respondents belong to the engineering and utility sector, especially oil and gas services. Other major industries include transportation 11.5%, finance 6.9%, communication 6.9%, and retailing 5.7%.

Table 5.1: Primary Service Industry of the Survey Respondents

Service Industry	Frequen	Percent	Major Activities
Construction and property	20	23.0	Construction, property
ICT services	18	20.7	IT, software, human resource, customer contact, outsourcing
Engineering and utility	13	14.9	Engineering, oil and gas, electricity, water, waste management
Transportation and logistics	10	11.5	Transportation, highway, toll, shipping, airline, freight, storage, carrier services
Finance and real estate	6	6.9	Banking, insurance, real estate
Communication and telecom	6	6.9	Media, telecommunications
Trade and retailing	5	5.7	Trading, retailing and wholesale
Hotel, leisure and food services	3	3.4	Hotel and resort, restaurant, food chain, leisure, gaming
Other services	3	3.4	Healthcare, education, consultancy, advertising, recruiting, other services
Diversified	3	3.4	Services, construction, manufacturing, plantation, timber
Total respondents	87	100.0	-

According to Table 5.2, 56.3% of respondents operate in only one industry, and 76% of the respondent firms are not involved in more than two industries. This may result in gaining more industry knowledge and experience, which, in turn, increases the likelihood of adopting a high control entry strategy and committing more resources overseas (see Ekeledo and Sivakumar, 2004). However, some firms are engaged in various service industries.

Table 5.2: Number of the Service Industries of the Respondents

Number of Industries	Frequency	Percent	Cumulative %
One industry	49	56.3	56.3
Two industries	17	19.5	75.9
Three industries	13	14.9	90.8
Four industries	5	5.7	96.6
Five industries or more	3	3.4	100.0
Total respondents	87	100.0	-

5.2.2 Timing of Foreign Market Entry

Although Malaysian service firms are young and have little experience in their industry, a considerable number of them have ventured abroad in recent years. As Table 5.3 reveals, all our respondent firms were established after the independence of Malaysia in 1957. However, while half of the firms started their domestic operation before 1990, only 9.2% of them had a presence in foreign markets at that time. The result is consistent with Ahmad (2008), who stated that the internationalization of MNCs from developing countries commenced in the 1970s and 1980s, however, actually, the international expansion of Malaysian firms in the service sector mainly started since the 1990s.

Table 5.3: Starting Time of the Respondents' Domestic and Foreign Operations

Year	Starting Time of Domestic Operation			Starting Time of Foreign Operation		
	Frequency	Percent	Cumulative	Frequency	Percent	Cumulative
1960-1969	10	11.5	11.5	0	.0	.0
1970-1979	14	16.1	27.6	1	1.1	1.1
1980-1989	19	21.8	49.4	7	8.0	9.2
1990-1999	30	34.5	83.9	21	24.1	33.3
2000-2009	14	16.1	100.0	58	66.7	100.0
Total	87	100.0	-	87	100.0	-

Another finding of this study is that the internationalization of different Malaysian service industries did not commence at the same time. According to Table 5.4, the first firms that expanded overseas were engaged in the engineering, finance, construction and transportation industries. In other words, while 69.3% of engineering firms and 66.7% of financial firms went abroad before 2000, in other industries, over 60% of the respondents started their foreign operation in the last decade. In the communication and ICT industries all respondents commenced their internationalization in the 2000s as new ventures with a low industrial and geographic experience.

This rapid internationalization is mainly the result of the heavy investment made at the time of Prime Minister Mahathir in high-tech industries, such as electronics and

semiconductors, which facilitated transferring knowledge and technology from Western MNCs to Malaysian firms (see Edwards *et al.*, 2002; Felker, 2003). Another reason is the liberalization in recent years of Asian markets, such as China, which facilitated the expansion of high-tech industries into their high demand markets.

Table 5.4: Foreign Entry Time of the Respondents based on Industry

Service Industries		Starting Time of Foreign Entry				Total
		1970-1979	1980-1989	1990-1999	2000-2009	
Construction and property	Count	0	2	5	13	20
	% within industry	.0%	10.0%	25.0%	65.0%	100.0%
Engineering and utility	Count	0	3	6	4	13
	% within industry	.0%	23.1%	46.2%	30.8%	100.0%
Transportation and logistics	Count	0	1	3	6	10
	% within industry	.0%	10.0%	30.0%	60.0%	100.0%
Trade and retailing	Count	0	0	1	4	5
	% within industry	.0%	.0%	20.0%	80.0%	100.0%
Hotel, leisure and food services	Count	0	0	1	2	3
	% within industry	.0%	.0%	33.3%	66.7%	100.0%
Finance and real estate	Count	0	1	3	2	6
	% within industry	.0%	16.7%	50.0%	33.3%	100.0%
Communication and telecom	Count	0	0	0	6	6
	% within industry	.0%	.0%	.0%	100.0%	100.0%
ICT services	Count	0	0	0	18	18
	% within industry	.0%	.0%	.0%	100.0%	100.0%
Other services	Count	0	0	1	2	3
	% within industry	.0%	.0%	33.3%	66.7%	100.0%
Diversified	Count	1	0	1	1	3
	% within industry	33.3%	.0%	33.3%	33.3%	100.0%
Total respondents	Count	1	7	21	58	87
	% within industry	1.1%	8.0%	24.1%	66.7%	100.0%

As stated in chapter 4, to measure entry timing, this study used two different criteria. First, firms were divided into new ventures, which have expanded overseas within the first 8 years of their domestic operation, and experienced firms, which expanded after 8 years operation in their home country (see Biggadike, 1979). Based on the results of the survey, 46% of the respondent firms were considered as new ventures at the time of their entry. This means that they have ventured abroad within 8 years of the inception of the company. As Table 5.5 indicates, firms that engage in industries such as construction, engineering, retailing and finance expand abroad after gaining experience in the domestic market, while firms involved in transportation,

communication and ICT services, as well as hotels and restaurants, do not wait to gain more experience. While Lee (2009) insists on the ownership of valuable resources as the factor, which helps firms enter foreign markets earlier, Papyrina (2007) believes that networking is a catalyst and facilitator for decreasing the time of foreign market entry.

Table 5.5: Entry Timing of the Respondents based on Industry

Service Industries		Starting Time of Foreign Entry		Total
		After 8 years	Within 8 years	
Construction and property	Count	18	2	20
	% within industry	90.0%	10.0%	100.0%
Engineering and utility	Count	8	5	13
	% within industry	61.5%	38.5%	100.0%
Transportation and logistics	Count	3	7	10
	% within industry	30.0%	70.0%	100.0%
Trade and retailing	Count	4	1	5
	% within industry	80.0%	20.0%	100.0%
Hotel, leisure and food services	Count	0	3	3
	% within industry	.0%	100.0%	100.0%
Finance and real estate	Count	4	2	6
	% within industry	66.7%	33.3%	100.0%
Communication and telecom	Count	1	5	6
	% within industry	16.7%	83.3%	100.0%
ICT services	Count	5	13	18
	% within industry	27.8%	72.2%	100.0%
Other services	Count	2	1	3
	% within industry	66.7%	33.3%	100.0%
Diversified	Count	2	1	3
	% within industry	66.7%	33.3%	100.0%
Total respondents	Count	47	40	87
	% within industry	54.0%	46.0%	100.0%

The second measure for entry timing is to divide firms into three categories, including first mover firms, which penetrate in a specific target market and a specific industry before other foreign companies enter; early mover firms, which enter a specific target market earlier than firms from other countries; and late movers, which enter a specific target market and a specific industry later than other foreign competitors (see Hill, 2008; Keegan and Green, 2008; Papyrina, 2007). As shown in Table 5.6, 51.7% Malaysian service firms are late movers while half are early or first movers. This is inconsistent with the previous research, which assumed that firms from developing countries are mostly late movers to foreign markets (see Li, 2007).

To justify such a contradiction, Papyrina (2007) argued that networking enables firms from developing countries to enter emerging markets as early movers. In some industries such as ICT services, construction and other services including healthcare, the majority of firms are early or first movers. This is because of the liberalization of regional emerging markets such as China and Vietnam.

Table 5.6: Order of the Respondents' Foreign Entry based on Industry

Service Industries		Timing of Foreign Market Entry			Total
		First Mover	Early Mover	Late Mover	
Construction and property	Count	2	9	9	20
	% within industry	10.0%	45.0%	45.0%	100.0%
Engineering and utility	Count	0	6	7	13
	% within industry	.0%	46.2%	53.8%	100.0%
Transportation and logistics	Count	0	1	9	10
	% within industry	.0%	10.0%	90.0%	100.0%
Trade and retailing	Count	0	2	3	5
	% within industry	.0%	40.0%	60.0%	100.0%
Hotel, leisure and food services	Count	0	2	1	3
	% within industry	.0%	66.7%	33.3%	100.0%
Finance and real estate	Count	1	2	3	6
	% within industry	16.7%	33.3%	50.0%	100.0%
Communication and telecom	Count	1	1	4	6
	% within industry	16.7%	16.7%	66.7%	100.0%
ICT services	Count	2	9	7	18
	% within industry	11.1%	50.0%	38.9%	100.0%
Other services	Count	2	1	0	3
	% within industry	66.7%	33.3%	.0%	100.0%
Diversified	Count	0	1	2	3
	% within industry	.0%	33.3%	66.7%	100.0%
Total respondents	Count	8	34	45	87
	% within industry	9.2%	39.1%	51.7%	100.0%

5.2.3 Internationalization Pattern

Ahmad (2008) explained the internationalization pattern and process of Malaysian firms based on their entry timing, target markets and the pattern of expansion. As he found out, the cases of his study had a gradual expansion after gaining experience in the domestic market. In the case of manufacturing firms, they started by exporting their products and then, ventured abroad. However, the findings of this study show that some Malaysian service firms, especially in the high-tech industries have experienced an immediate expansion in their early years of operation.

As Table 5.7 reveals, 28.7% of the respondents stated that their firms started foreign operation through a partnership with local firms in target markets, which helped them use their partners' experience and knowledge; 19.5% of firms ventured abroad following the acquisition of a project in foreign markets, especially in construction, engineering, utility, and oil and gas services; the same percentage relates to firms that explored market opportunities overseas.

Some firms explained their internationalization based on the expansion into regional markets while others believe that getting market experience or industrial experience helped them expand abroad. In some cases, firms ventured to markets such as Singapore or Hong Kong in order to handle their regional operations. This is because of the available financial resources and supportive facilities available in these countries. Such firms tried to penetrate in niche and high potential markets such as China and Vietnam. Another factor that was mentioned as the pattern of internationalization is taking benefit from business networks. According to the literature, networking facilitates foreign expansion and provides firms with market knowledge and complementary resources, which is necessary for succeeding in foreign operations (Ahmad, 2008; Pananond, 2007; Papyrina, 2007).

Liberalization of Asian markets, since the 1990s, has also played an important role in forming the internationalization pattern of Malaysian service firms, especially for those firms that escaped from the small and limited market of Malaysia. Some firms ventured abroad in an effort to increase their profits through foreign sales, and some respondents stated that they followed their competitors in foreign markets. Expansion after gaining technological capability and going abroad to conduct development projects in a poor country such as Cambodia are among other explanations made by the survey respondents.

Table 5.7: International Pattern of the Survey Respondents

No.	Explanation	Frequency	Percent
1	Through partnership with other firms or local government	25	28.7
2	After gaining a foreign project or an outsourcing contract	17	19.5
3	After exploring market opportunity and potential customers	17	19.5
4	Through expansion into regional markets	15	17.2
5	After getting experience in domestic market	12	13.8
6	After getting experience in a unique and fast growing industry	9	10.3
7	To handle firm's regional operations or control its supply chain	8	9.2
8	Immediate expansion after commencing domestic business	7	8.0
9	After identifying high potential and growing niche markets	6	6.9
10	Gradual expansion by getting experience and regional entry	5	5.7
11	After using business networks to grab market opportunities	4	4.6
12	To get access to foreign production and marketing facilities	3	3.4
13	After liberalization of high potential emerging Asian markets	2	2.3
14	To increase profitability or improve service quality	2	2.3
15	To escape from limited and highly competitive domestic market	2	2.3
16	Following the expansion of firm's competitors	1	1.1
17	After gaining technological capability and growth	1	1.1
18	Through operating development projects in poor countries	1	1.1
19	Due to the lack of similar service providers in the region	1	1.1
20	Due to the high volume transaction between two countries	1	1.1
21	Other reasons	3	3.4
-	Total answers	142	-
-	Total respondents	87	100.0

5.2.4 Home Limitations and Foreign Market Attractions

The literature of international business has suggested two sets of factors, which motivates firms to internationalize their business operations. These motivators are divided into push factors, which force firms to go abroad and seek markets outside their home country, and pull factors, which attract firms to select specific target markets and enter them with different forms of operation and investment (see Ahmad, 2008; Doherty, 2007; Ling and Chan, 2008). To find out what factors have motivated Malaysian service firms to go beyond their national borders, this survey questioned the respondents to rate the importance of 12 push factors and 14 pull factors based on the literature (as explained in chapter 4).

According to Table 5.8, the survey respondents mostly agreed that the main push factor that they faced was the small and limited market of Malaysia. When a firm operates in a limited market, it may move towards foreign markets even in the early years of its operation in order to find new customers (Doherty, 2007; Rundh, 2001). Therefore, Malaysian service providers need to find larger markets outside the country to achieve efficiency and economies of scale. This is because Malaysia has a low population compared to its regional neighbours such as China, India, Indonesia, Japan, Vietnam, the Philippines and Thailand.

In some companies, the vision and decision of the founder or directors pushed them to internationalize, especially in smaller firms and family firms. This is consistent with the contingency theory, which insists on the role of decision makers in the expansion of firms (see Ekeledo and Sivakumar, 1998; Kumar and Subramaniam, 1997; Rundh, 2001). Government pressure and incentives may also motivate firms to expand. Researchers have also insisted on the role of the home country government in persuading firms to venture abroad (Ahmad, 2008; Ling and Chan, 2008). Another factor that, to some extent, was agreed by the respondents is the high cost of operation in Malaysia compared to low cost markets such as Thailand, Indonesia and Vietnam. This is especially important because Malaysian firms usually compete based on their lower price of services (see Ahmad, 2008).

Other push factors are not significant or relevant in the context of Malaysia, as the survey respondents did not agree with their importance as motives for expansion overseas. For example, Malaysia is a country with high economic growth, a stable economy, relatively high population growth and political stability. Therefore, such factors are not considered as major push factors in the context of Malaysia. The respondents believe that there are reliable partners available in the country. However, they expand overseas for other reasons and motives.

Table 5.8: Factors Motivated the Respondent Firms to Venture abroad

Push Factors	Mean	Standard Deviation	Variance
Small and limited domestic market	6.253	1.250	1.563
Influence form the founder	4.540	2.415	5.833
Government pressure and incentives	4.540	1.848	3.414
High operating costs in Malaysia	4.276	1.757	3.086
Low economic growth in Malaysia	3.793	2.058	4.236
Lack of resources and technology	3.563	1.872	3.505
Low population growth in Malaysia	3.356	1.772	3.139
Lack of capable partners in Malaysia	2.816	1.980	3.919
Hostile competitive environment	2.770	1.553	2.412
Restrictive regulatory environment	2.655	1.546	2.391
Instability of Malaysian economy	2.080	1.193	1.424
Political instability in Malaysia	1.908	1.096	1.201

As Table 5.9 shows, unlike push factors, the survey respondents confirmed all the proposed pull factors as the elements that motivated their firms to enter target markets. However, they rated some factors as more important. While the literature suggested that the primary objective of firms in their business is to increase profitability (Johanson and Vahlne, 1977; Sharma and Erramilli, 2004; Trevino and Grosse, 2002), this study shows that Malaysian service firms mainly seek gaining competitive advantages in terms of international reputation and market experience. This means that they prefer to acquire intangible assets and the capability. Therefore, market attractiveness including larger size, foreign market opportunities, profitability and growth are in the lower rank.

The survey respondents pointed out that their firms ventured to target markets to increase the quality of their services, develop new capabilities and learn managerial skills. This is consistent with the resource-based theory, which suggests that firms may expand into foreign markets in order to acquire resources (see Ekeledo and Sivakumar, 2004; Fahy, 2002). Some firms go abroad to compete with their regional or global rivals. In highly competitive industries, such as construction, engineering and finance, this is a major reason. Receiving host government incentives is also attractive for

Malaysian services but not as much as what was suggested by Ahmad (2008) regarding Malaysian manufacturing firms. For some managers it is important to receive incentives from local governments to operate in foreign markets with lower costs, especially receiving tax reductions. However, unlike manufacturing firms, service firms have less need for such incentives, and, therefore, they gain a lower rate compared to others.

Table 5.9: Factors Attracted the Respondent Firms to Enter Target Markets

Pull Factors	Mean	Standard Deviation	Variance
Obtaining international reputation	6.667	0.604	0.364
Gaining competitive advantage	6.632	0.612	0.375
Getting foreign market experience	6.632	0.649	0.421
Entering larger markets	6.575	0.802	0.643
Access to niche market opportunities	6.563	0.604	0.365
Increasing sales and profits	6.540	0.586	0.344
Achieving international growth	6.529	0.587	0.345
Being pioneer in a new market	6.414	0.756	0.571
Improving service quality	6.402	0.813	0.662
Developing new service capabilities	6.368	0.929	0.863
Improving managerial skills	6.345	0.887	0.787
Acquiring resources	6.103	1.294	1.675
Competing with global competitors	5.942	1.233	1.520
Government support and incentives	5.540	1.669	2.786

5.2.5 Target Market Selection

To evaluate the process of market selection of Malaysian service firms, this study uses different measures. The first analysis is about the first choice of target market made by the respondent firms. As Table 5.10 illustrates, Singapore was the first country that was selected by these firms. This result is not surprising because previous studies show that the geographic proximity between the two countries encourages Malaysian firms to venture into Singapore as the primary destination for the operation and investment of Malaysian businesses, especially in the 1970s and 1980s as well as factors such as similarity of business environment, ethnic relationships, historical ties, cultural resemblance and availability of advanced technology.

China, together with Hong Kong and Macau, comprise 21.8% of all target markets. The choice of such a market relates to the ethnic link between the Chinese minority of Malaysia and China as their original hometown with similar cultural roots as well as similar language and religion. However, only after the liberalization of Asian markets in the 1990s, China emerged as a major destination for investment.

Table 5.10: First Target Markets Selected by the Respondent Firms over Time

Target country		Starting Time of Foreign Entry				Total
		1970-1979	1980-1989	1990-1999	2000-2009	
Singapore	Count	1	7	9	14	31
	% within target	100.0%	100.0%	42.9%	24.1%	35.6%
China	Count	0	0	2	10	12
	% within target	.0%	.0%	9.5%	17.2%	13.8%
Thailand	Count	0	0	1	7	8
	% within target	.0%	.0%	4.8%	12.1%	9.2%
Hong Kong	Count	0	0	1	5	6
	% within target	.0%	.0%	4.8%	8.6%	6.9%
Indonesia	Count	0	0	2	3	5
	% within target	.0%	.0%	9.5%	5.2%	5.7%
India	Count	0	0	2	3	5
	% within target	.0%	.0%	9.5%	5.2%	5.7%
Cambodia	Count	0	0	3	0	3
	% within target	.0%	.0%	14.3%	.0%	3.4%
United Arab Emirates	Count	0	0	0	3	3
	% within target	.0%	.0%	.0%	5.2%	3.4%
Australia	Count	0	0	1	1	2
	% within target	.0%	.0%	4.8%	1.7%	2.3%
Saudi Arabia	Count	0	0	0	2	2
	% within target	.0%	.0%	.0%	3.4%	2.3%
United States	Count	0	0	0	2	2
	% within target	.0%	.0%	.0%	3.4%	2.3%
Vietnam	Count	0	0	0	1	1
	% within target	.0%	.0%	.0%	1.7%	1.1%
Macau	Count	0	0	0	1	1
	% within target	.0%	.0%	.0%	1.7%	1.1%
South Korea	Count	0	0	0	1	1
	% within target	.0%	.0%	.0%	1.7%	1.1%
Papua New Guinea	Count	0	0	0	1	1
	% within target	.0%	.0%	.0%	1.7%	1.1%
Qatar	Count	0	0	0	1	1
	% within target	.0%	.0%	.0%	1.7%	1.1%
Switzerland	Count	0	0	0	1	1
	% within target	.0%	.0%	.0%	1.7%	1.1%
Ghana	Count	0	0	0	1	1
	% within target	.0%	.0%	.0%	1.7%	1.1%
Mali	Count	0	0	0	1	1
	% within target	.0%	.0%	.0%	1.7%	1.1%
Total respondents	Count	1	7	21	58	87
	% within target	100.0%	100.0%	100.0%	100.0%	100.0%

Thailand, Indonesia, India, Cambodia and Vietnam are the major neighbouring countries of Malaysia with large markets, similar culture and religion, availability of low cost resources and cheap labour force as well as available construction and utility projects. Australia and the United States are the main developed markets that were targeted by Malaysian service firms in order to use their opportunities and technological capability. The Middle East markets of the UAE, Saudi Arabia and Qatar are other major targets of the respondents while only two firms commenced their foreign operation from African countries including Ghana and Mali.

To explore the logic behind the choice of a specific country as the first target market for overseas operations, the survey respondents were questioned with an open-ended question and the results are shown in Table 5.11. The findings show that 25.3% of the respondents considered geographic proximity as a criterion for selecting their target. Therefore, neighbouring countries such as Singapore, Thailand and Indonesia are preferred for starting foreign expansion. A total of 18.4% focused on high market demand and potential as well as available projects and opportunities. Emerging Asian markets, such as China, are also attractive target countries. Another reason for choosing first market is the incentives and facilities provided by local governments.

While 8% of the respondents insisted on a similar business environment and advanced technology in countries such as Singapore and Hong Kong, large market size and rapid development also attracted some firms to specific markets. Sometimes, the selected host country is a major player in the industry. For example, a respondent firm, which operates in the gaming industry, initially ventured to Macau because it is a regional centre for casinos. Countries with a free market economy and less government restrictions were selected as the first target, especially when they provide financial resources. Another major reason is the high volume of transportation between Malaysia and its neighbours, i.e. Thailand and Singapore.

Table 5.11: Reason for Selecting the First Target Market by the Respondents

No.	Explanation	Frequency	Percent
1	Geographic proximity to Malaysia	22	25.3
2	High market demand and potential	16	18.4
3	Available projects and market opportunities	16	18.4
4	Emerging market and growing service industry	10	11.5
5	Local government support and incentives	8	9.2
6	Similarity of business environment and market conditions	7	8.0
7	Available advanced and growing technological capability	7	8.0
8	Rapid development and economic growth	6	6.9
9	Large market size and available customers	6	6.9
10	Position of the host country as major player in the industry	6	6.9
11	Free market economy and less government restrictions	4	4.6
12	High volume transportation link between two countries	4	4.6
13	Available financial institutions and resources	3	3.4
14	Close relationship and transactions between two countries	3	3.4
15	Market attractiveness and high profitability	2	2.3
16	Available marketing facilities	2	2.3
17	Familiarity with the market	2	2.3
18	Managing regional projects from the host country	2	2.3
19	Developed infrastructure and trade facilities	1	1.1
20	Existing considerable Chinese community	1	1.1
21	To gain competitive advantage	1	1.1
-	Total answers	129	-
-	Total respondents	87	100.0

Table 5.12 shows all the target markets selected by the Malaysian service firms that participated in this survey. Among these markets, Singapore is the destination of 52 firms or 59.8% of the respondent firms. This could be because of its geographic proximity, attractive market, economic development, cultural and language similarity, ethnic relationships, similarity of business environment, political stability, and government policies. China as an emerging market is the second destination of these firms. However, many of the firms entered Hong Kong in order to use its abundant technological and financial resources and to manage and handle their operations in Mainland China.

Indonesia, Thailand, Vietnam, India and the Philippines are other major regional targets of Malaysian service providers, such as the respondent firms. The British Virgin

Islands is a small colony of the UK in the Caribbean Sea, which only has a population of almost 30,000. Nevertheless, 26.4% of the respondent firms have established their subsidiaries there in order to take benefit from its tax redemption.

Table 5.12: Foreign Markets Targeted by the Respondent Firms

Target Country	Frequency	Percent	Target Country	Frequency	Percent
Singapore	52	59.8	Sudan	2	2.3
China	40	46.0	Brazil	2	2.3
Hong Kong	36	41.4	Mexico	2	2.3
Indonesia	37	42.5	Mongolia	1	1.1
Thailand	32	36.8	Maldives Islands	1	1.1
Vietnam	27	31.0	Iraq	1	1.1
British Virgin Islands	23	26.4	Kuwait	1	1.1
India	19	21.8	Libya	1	1.1
Australia	18	20.7	Oman	1	1.1
Philippines	17	19.5	France	1	1.1
United Arab Emirates	17	19.5	Germany	1	1.1
Brunei	14	16.1	Guernsey Islands	1	1.1
Cambodia	14	16.1	Hungary	1	1.1
Saudi Arabia	11	12.6	Isle of Man	1	1.1
South Korea	10	11.5	Romania	1	1.1
Mauritius	10	11.5	Russia	1	1.1
United States	10	11.5	Slovakia	1	1.1
Pakistan	9	10.3	Switzerland	1	1.1
Taiwan	8	9.2	Algeria	1	1.1
Japan	7	8.0	Cameroon	1	1.1
United Kingdom	7	8.0	Chad	1	1.1
Bangladesh	7	8.0	Congo	1	1.1
Sri Lanka	6	6.9	Gabon	1	1.1
Qatar	6	6.9	Ghana	1	1.1
Myanmar	4	4.6	Kenya	1	1.1
New Zealand	4	4.6	Mali	1	1.1
Bahrain	4	4.6	Mozambique	1	1.1
Jersey Island	4	4.6	Nigeria	1	1.1
Netherlands	4	4.6	South Africa	1	1.1
Cayman Islands	4	4.6	Uganda	1	1.1
Laos	3	3.4	Bermuda Islands	1	1.1
Macau	3	3.4	Canada	1	1.1
Papua New Guinea	2	2.3	Venezuela	1	1.1
Egypt	2	2.3	Azerbaijan	1	1.1
Iran	2	2.3	Kazakhstan	1	1.1
Turkey	2	2.3	Turkmenistan	1	1.1
Norway	2	2.3	Total respondents	87	100.0

Australia, the United States, Japan and the UK are major developed countries that have attracted Malaysian services for investment and operation. The main reason might be because of the use of the available technological capabilities, financial resources and operational knowledge in such target markets. In the Middle East, countries such as the United Arab Emirates, Saudi Arabia, Qatar and Bahrain are major destinations of many construction firms as well as engineering firms that offer oil and gas services.

This study has requested the top managers of the sample of Malaysian service firms to rate the importance of the major market selection criteria explained by the literature of internationalization. According to Table 5.13, the survey respondents revealed that their choice of target market was mainly based on factors such as market size and potential, political stability, economic growth and similar business environment, intellectual property laws and geographic proximity.

Table 5.13: Market Selection Criteria Used by the Respondent Firms

Selection Criteria	Mean	Standard Deviation	Variance
Large market size and potential	6.667	0.641	0.411
Political stability of the host country	6.644	0.591	0.348
High economic growth	6.563	0.659	0.435
Similar business environment	6.552	0.727	0.529
Intellectual property protection laws	6.471	0.805	0.647
Geographic closeness	6.057	1.279	1.636
High currency exchange rate	6.057	1.384	1.915
Similar cultural values and customs	5.988	1.289	1.663
Trade relationship with Malaysia	5.977	1.430	2.046
Advanced technological capability	5.965	1.289	1.662
Skilled labor force	5.954	1.311	1.719
Diplomatic link with Malaysia	5.954	1.388	1.928
Receiving host government support	5.919	1.542	2.377
Low-cost labor force	5.402	2.008	4.034
Qualified foreign partners	5.379	2.222	4.936
Similar language with shareholders	5.310	1.800	3.240
Resources and raw materials	5.299	2.108	4.445
Attacking competitor’s business	5.276	1.909	3.644
Similar religion with shareholders	4.782	2.202	4.847
Colonial link with Malaysia	3.736	2.375	5.639

The choice between regional and global markets is an important aspect of the international business strategies of firms. According to Aykut and Goldstein (2008), MNCs from developing countries normally expand into regional markets because of the lack of resources. The result of this research supports this idea as most respondent firms have a regional scope of operation. In the context of Malaysia, regional markets include all of the Asia-Pacific countries, which are located in four regions of Southeast Asia, East Asia, South Asia, and Oceania. The advantage of regional expansion is geographic proximity, lower costs of transportation and communication, ethnic relationships and cultural similarity in the form of similar language, religion and customs.

Of the 87 firms that participated in the survey, 61 firms or 70.1% concentrated their operations in the Asia-Pacific region including four smaller regions, i.e. Southeast Asia, East Asia, South Asia and Oceania. In contrast, 26 firms or 29.9% of the respondent firms operate in global markets including the Middle East, Africa, Europe, America and Central Asia. In fact, Malaysian service firms like other MNCs from developing countries follow the concentration strategy or regionalism due to the lack of resources and market knowledge (Aykut and Goldstein, 2008). This allows them to commit their resources in a small number of markets (Bradley and Gannon, 2000).

However, the ratio of firms with global scope differs between various service industries. As Table 5.14 reveals, in some industries such as finance and retailing as well as hotels and restaurants, all the respondent firms only operate in the Asia-Pacific region. Transportation and communication firms have also mainly focused on regional operation. 38.9% of ICT services have a global presence, especially through exporting software, outsourcing agreements and research subsidiaries. In addition, 45% of construction firms and 53.8% of engineering firms have ventured into global markets. These firms offer low cost services to gain oil and gas as well as construction projects in the Middle East, Africa, Northern Europe and North America.

Table 5.14: Scope of the Expansion Made by the Respondents based on Industry

Service Industries		The Scope of Expansion		Total
		Regional Scope	Global Scope	
Construction and property	Count	11	9	20
	% within industry	55.0%	45.0%	100.0%
Engineering and utility	Count	6	7	13
	% within industry	46.2%	53.8%	100.0%
Transportation and logistics	Count	8	2	10
	% within industry	80.0%	20.0%	100.0%
Trade and retailing	Count	5	0	5
	% within industry	100.0%	.0%	100.0%
Hotel, leisure and food services	Count	3	0	3
	% within industry	100.0%	.0%	100.0%
Finance and real estate	Count	6	0	6
	% within industry	100.0%	.0%	100.0%
Communication and telecom	Count	5	1	6
	% within industry	83.3%	16.7%	100.0%
ICT services	Count	11	7	18
	% within industry	61.1%	38.9%	100.0%
Other services	Count	3	0	3
	% within industry	100.0%	.0%	100.0%
Diversified	Count	3	0	3
	% within industry	100.0%	.0%	100.0%
Total respondents	Count	61	26	87
	% within industry	70.1%	29.9%	100.0%

As the population of Malaysia consists of three major ethnic groups, each group has ethnic relationships and roots outside the country. The Malay majority has a close relationship with other Austronesian people in Southeast Asia and Oceania. The Malaysian Chinese take benefit from their ethnic networks with the Chinese in East Asia as well as the Chinese minorities in other Southeast Asian countries, where they control the business. In addition, the Malaysian Indian minority has a strong relationship with Tamils and Indians in South Asia.

Table 5.15 indicates that 88.5% of the respondent firms are operating in Southeast Asian markets with 200 market entries, 62.1% have a presence in East Asia, especially China. Although the American continent has attracted 37.9% of the firms, they have mostly established investment holdings subsidiaries in small islands such as the British Virgin Islands and Cayman Islands just to receive tax incentives. The Middle East and Africa are the major global markets for Malaysian services, especially because of their

high potential for oil and gas services, shipping and construction projects. In fact, the respondent firms operate in 62.5% of the Asia-Pacific countries while they only have a presence in 74 target markets (including Malaysia) or 36.6% of the countries and colonies of the world.

Table 5.15: Target Regions Selected by the Respondent Firms

Regions of Presence	Respondent Firms		Market Entry		Countries of the Region		
	Number	Percent	Number	Percent	Total	Targeted	Percent
Asia-Pacific:	-	-	371	71.8	40	25	62.5
Southeast Asia	77	88.5	200	38.7	10	10	100.0
East Asia	54	62.1	105	20.3	8	7	87.5
South Asia	26	29.9	42	8.1	7	5	71.4
Oceania	20	23.0	24	4.6	15	3	20.0
Global markets:	-	-	146	28.2	162	49	30.2
America	33	37.9	44	8.5	38	8	21.1
Middle East	27	31.0	48	9.3	17	11	64.7
Europe	15	17.2	26	5.0	48	13	27.1
Africa	15	17.2	25	4.8	51	14	27.5
Central Asia	3	3.4	3	0.6	8	3	37.5
Total respondents	87	100.0	517	100.0	202	74	36.6

5.2.6 Market Entry Strategies

As the most important part of the internationalization process, the choice of entry mode is investigated among the respondent firms. Table 5.16 shows that more than 90% of the sample of Malaysian service firms adopted equity entry modes or operate based on foreign direct investment (FDI) in their selected target markets. However, from FDI modes, 43 firms or 49.4% of these respondents used the Joint venture arrangements or equity partnership with local firms as their primary entry strategy whereas 36 firms or 41.7% of the 87 respondents adopted a sole ownership operation through wholly owned subsidiaries in the target markets. This is in conflict with the results of the previous studies in developed countries, where the major entry strategy is establishing wholly owned subsidiaries and firms prefer to use a sole ownership mode (see Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993).

In addition, 4 firms or 4.6% of the respondents involved management contracts at the time of entry into foreign markets, two firms or 2.3% of the total involved exporting through agents, one firm (1.1%) used a franchising strategy and one firm (1.1%) involved direct exporting through its own subsidiary. Another point is that there is a difference between hard service firms or firms that offer separable services and soft service firms with non-separable or simultaneous service delivery and consumption (see Chapter 3). According to Table 5.16, while 53.2% of separable services adopted a joint venture mode at the time of their first entry into foreign markets, 62.5% of inseparable services used a wholly owned subsidiary.

Table 5.16: Entry Modes Used by the Respondents based on Separability

Type of Entry Mode		Type of Service		Total
		Separable	Inseparable	
Indirect exporting	Count	1	0	1
	% within mode	1.3%	.0%	1.1%
Direct exporting	Count	1	1	2
	% within mode	1.3%	12.5%	2.3%
Licencing	Count	0	0	0
	% within mode	.0%	.0%	.0%
Franchising	Count	0	1	1
	% within mode	.0%	12.5%	1.1%
Management contract	Count	4	0	4
	% within mode	5.1%	.0%	4.6%
Turnkey projects	Count	0	0	0
	% within mode	.0%	.0%	.0%
Joint Venture	Count	42	1	43
	% within mode	53.2%	12.5%	49.4%
Wholly owned subsidiary	Count	31	5	36
	% within mode	39.2%	62.5%	41.7%
Total respondents	Count	79	8	87
	% within mode	100.0%	100.0%	100.0%

As explained in the previous chapters, the literature concerning the choice of entry mode has divided the entry strategies into high control and low control modes. The high control modes include wholly owned subsidiaries and exporting through wholly owned export subsidiaries or direct exporting. Other entry modes provide firms with a lower level of control (see Ekeledo and Sivakumar, 2004). Table 5.17 indicates

that 49 firms or 56.3% of the respondents used a low control mode at the time of their primary market entry whereas 38 firms or 43.7% utilized a high control mode. However, further analysis shows a difference among various service industries in the choice of entry mode strategy.

According to Table 5.17, the majority of construction and engineering firms use low control modes. This may relate to the requirement of such industries to use more financial and technological resources and the requirement of host countries to use partnership in oil and gas, utility and construction projects. In contrast, firms that involve high-tech industries, such as ICT services, have a high tendency to adopt high control modes in order to protect their technological capability. In the finance and communication industries, the ratio of firms using low control modes is equal to those that use high control modes.

Table 5.17: Primary Entry Mode Used by the Respondents based on Industry

Service Industries		Type of Entry Mode		Total
		Low-control	High-control	
Construction and property	Count	12	8	20
	% within industry	60.0%	40.0%	100.0%
Engineering and utility	Count	12	1	13
	% within industry	92.3%	7.7%	100.0%
Transportation and logistics	Count	5	5	10
	% within industry	50.0%	50.0%	100.0%
Trade and retailing	Count	3	2	5
	% within industry	60.0%	40.0%	100.0%
Hotel, leisure and food services	Count	2	1	3
	% within industry	66.7%	33.3%	100.0%
Finance and real estate	Count	3	3	6
	% within industry	50.0%	50.0%	100.0%
Communication and telecom	Count	3	3	6
	% within industry	50.0%	50.0%	100.0%
ICT services	Count	7	11	18
	% within industry	38.9%	61.1%	100.0%
Other services	Count	1	2	3
	% within industry	33.3%	66.7%	100.0%
Diversified	Count	1	2	3
	% within industry	33.3%	66.7%	100.0%
Total respondents	Count	49	38	87
	% within industry	56.3%	43.7%	100.0%

Table 5.18 compares firm size based on employees with the choice of entry mode strategy as reported by the respondent firms. Surprisingly, the result shows that smaller service firms in the context of Malaysia have a higher tendency to use high control entry modes. Even among seven SMEs, which have less than 50 employees, 4 firms or 57.1% adopted a high control mode at the time of market entry. If the American definition for size is used, i.e. firms with less than 500 employees are considered as small firms, 47 firms or 54% of the respondent firms are small firms, from which 26 firms or 55.3% used low control modes.

This contradiction may refer to the fact that most Malaysian service firms with less than 100 employees involve high-tech industries such as ICT services and telecommunication. Among 40 larger firms with more than 500 employees, 23 firms or 57.5% adopted low control modes and preferred to find local partners for their operations in foreign markets. A detailed analysis concerning the relationship between firm size and the choice of entry mode will be presented later in the discussion of hypothesis 1.

Table 5.18: Primary Entry Mode Used by the Respondents based on Firm Size

Firm size based on employees		Type of Entry Mode		Total
		Low-control	High-control	
Less than 50 employees	Count	3	4	7
	% within firm size	42.9%	57.1%	100.0%
50-99 employees	Count	2	4	6
	% within firm size	33.3%	66.7%	100.0%
100-499 employees	Count	21	13	34
	% within firm size	61.8%	38.2%	100.0%
500-999 employees	Count	6	7	13
	% within firm size	46.2%	53.8%	100.0%
1,000-4,999 employees	Count	15	9	24
	% within firm size	62.5%	37.5%	100.0%
5,000-9,999 employees	Count	1	1	2
	% within firm size	50.0%	50.0%	100.0%
More than 10,000 employees	Count	1	0	1
	% within firm size	100.0%	.0%	100.0%
Total respondents	Count	49	38	87
	% within firm size	56.3%	43.7%	100.0%

5.2.7 Internationalization and Performance

According to the internationalization literature, firms that involve international business will have a better performance if they adopt suitable strategies in terms of market selection, entry timing and the choice of entry mode (see Chen and Mujtaba, 2007; Choo and Mazzarol, 2001; Chung and Enderwick, 2001; Ekeledo and Sivakumar, 2004; Gatignon and Anderson, 1988). In this study, the top managers of the respondent firms were initially questioned to rate the impact of foreign operation on their firms' performance based on ten items including both financial and nonfinancial aspects of the performance. Table 5.19 summarizes the result of the survey, in which the respondents identified all the items as important.

Table 5.19: Impact of Foreign Operation on the Respondent Firms' Performance

Performance Measures	Mean	Standard Deviation	Variance
Improving brand image and value	6.483	0.745	0.555
Improving competitive position	6.437	0.694	0.481
Improving knowledge and capability	6.425	0.709	0.503
Increasing customers brand loyalty	6.379	0.796	0.634
Improving service quality	6.356	0.747	0.558
Improving Malaysia's country image	6.310	0.767	0.589
Increasing market share	6.264	0.982	0.964
Increasing firm's size and assets	6.264	0.994	0.987
Increasing profits and sales volume	6.230	0.985	0.970
Improving growth rate	6.207	0.990	0.980

The important point is that unlike the literature that emphasizes the desire of managers to increase the profitability and financial performance of their firms, according to Table 5.19, the respondents rated the items related to nonfinancial performance higher. This means that internationalization helps a firm to strengthen its intangible assets and capabilities more than tangible resources. Although Fahy (2002) insisted on the greater position of intangible assets and capabilities as the sources of competitive advantage, it is important to understand that the output of the internationalization process will be more intangible. Therefore, the respondents agreed

that engaging in international business activities can improve the competitive position of firms through improving brand image and customer loyalty, service quality, knowledge and capability. It can also improve the country image of Malaysia in both regional and global markets. The financial outcomes of internationalization include increased profitability, firm assets, annual sales, growth rate and market share.

At the end of the survey, through an open-ended question, the respondents were asked to explain their opinion about the ways that result in the success of their international operations. Table 5.20 summarizes 22 items identified by the respondents as the success keys.

Table 5.20: Success Keys for the International Business of the Respondent Firms

No.	Success Factors	Frequency	Percent
1	Acquiring and improving technological capability	17	19.5
2	Improving market knowledge and marketing abilities	16	18.4
3	Increasing innovation capacity and investing in R&D activities	14	16.1
4	Improving service quality and on time delivery	11	12.6
5	Market discovery and identifying opportunities in niche markets	11	12.6
6	Globalization or expanding into diversified global markets	9	10.3
7	Creating efficient business networks with market players	9	10.3
8	Working together with qualified partners based on mutual trust	8	9.2
9	Identifying foreign customer needs and values	6	6.9
10	Improving human capital and providing well-trained employees	5	5.7
11	Acquiring financial resources to handle foreign operations	4	4.6
12	Using a portfolio investment and an effective risk management	4	4.6
13	Leveraging operational knowledge and expertise	3	3.4
14	Improving managerial skills	3	3.4
15	Establishing a strong brand name and a positive image overseas	3	3.4
16	Diversifying into profitable industries	3	3.4
17	Expanding into emerging markets and developing countries	2	2.3
18	Having a proper business model and marketing plan	2	2.3
19	Gaining competitive advantage	2	2.3
20	Using a systematic organizational learning process	2	2.3
21	Knowledge sharing with foreign subsidiaries	1	1.1
22	Gaining incentives from domestic and local governments	1	1.1
23	Missing value	6	6.9
-	Total answers	142	-
-	Total respondents	87	100.0

The major success keys refer to improving firm capabilities through acquiring technological capability, market knowledge and innovation capacity, which, in turn, results in a better service quality and delivery. In addition, some respondents emphasized the role of market discovery and expansion globally, networking with other firms and finding qualified partners. To compete in global markets, Malaysian service providers should identify foreign customer needs and tastes.

Another vital item is improving human capital, especially through training programmes. To operate in foreign markets successfully, firms need to prepare their employees and managers to adjust to the market conditions, collect the required information, acquire knowledge and react to environmental changes on time. Therefore, firms need to use a systematic learning process.

5.3 External Validity Test: Ability to Generalize the Results

One of the major concerns of researchers is to generalize the result of a study to a universe or the population of interest. However, a mail survey usually faces limitations in generalizability due to the low return rate of the responses (Cooper and Schindler, 2006; Ekeledo and Sivakumar, 2004; Malhotra, 2007). Therefore, a response error may occur or perhaps a bias as the respondents may differ from non-respondents. If the respondents do not represent the survey sample, the responses will be skewed and not have enough external validity to be generalized (Cooper and Schindler, 2006). Some researchers believe that in a survey with a return rate lower than 50%, actual respondents may not perfectly represent the entire sample or potential respondents (see Ekeledo and Sivakumar; 2004).

Table 5.21 summarizes the profile of the respondent firms and non-respondents firms in the sample of the study to evaluate the degree of generalizability of the findings of data analysis and hypotheses testing that will be presented later.

Table 5.21: Profile of Firm Size for the Respondents and Non-respondents

Firm size based on employees		The Sample of Study		Total
		Respondents	Non-respondents	
Less than 50 employees	Count	7	5	12
	% within sample	8.0%	2.3%	4.0%
50-99 employees	Count	6	26	32
	% within sample	6.9%	12.0%	10.6%
100-499 employees	Count	34	62	96
	% within sample	39.1%	28.7%	31.7%
500-999 employees	Count	13	38	51
	% within sample	14.9%	17.6%	16.8%
1000-4999 employees	Count	24	40	64
	% within sample	27.6%	18.5%	21.1%
5000-9999 employees	Count	2	10	12
	% within sample	2.3%	4.6%	4.0%
More than 10000 employees	Count	1	10	11
	% within sample	1.1%	4.6%	3.6%
Missing value	Count	0	25	25
	% within sample	.0%	11.6%	8.3%
Total respondents	Count	87	216	303
	% within sample	100.0%	100.0%	100.0%

The criterion used to compare the respondent and non-respondent firms is firm size based on the number of fulltime employees, which was applied by some researchers as a measure for firm size (see Blomstermo *et al.*, 2006; Erramilli and Rao, 1993; Gatignon and Anderson, 1988; Lin, 2009). As shown in Table 5.21, while 43% of the non-respondent firms are smaller firms with less than 500 employees, 54% of the respondents are in the same category. In addition, while 9.2% of the non-respondent firms have more than 5,000 employees, only 3.4% of the respondent firms are among such large firms.

However, the result of the two-sample Pearson Chi-Square test is $\chi^2 = 24.466$ at DF = 7 and N = 303. This reveals that there is no significant difference between the two groups as the amount of χ^2 is greater than the critical value of χ^2 in p = 0.001, which equals 24.32. Therefore, the respondents can represent the sample statistically and the findings can be generalized.

Another comparison between the respondent firms and non-respondents firms in the sample of the study refers to the service industry to which firms belong. As shown in Table 5.22, in some industries, there is a difference between two groups. For example, while 18.8% of the sample firms operate in ICT services, 20.7% of the respondent firms belong to this industry. This is because most ICT firms in the sample were smaller firms and the managers of smaller firms have a greater tendency to participate in the survey. In contrast, whereas 5% of the sample firms belong to diversified industries, this ratio in the respondent firms is only 3.4%. In addition, in the trade and retailing industry, participation in the survey was lower than other industries. The two-sample Pearson Chi-Square test shows a $\chi^2 = 0.916$ at DF = 9 and N = 303. This reveals a slight difference between two groups.

Table 5.22: Profile of Industry Sector for the Respondents and Non-respondents

Service Industries		The Sample of Study		Total
		Respondents	Non-respondents	
Construction and property	Count	20	48	68
	% within sample	23.0%	22.2%	22.4%
Engineering and utility	Count	13	34	47
	% within sample	14.9%	15.7%	15.5%
Transportation and logistics	Count	10	25	35
	% within sample	11.5%	11.6%	11.6%
Trade and retailing	Count	5	14	19
	% within sample	5.7%	6.5%	6.3%
Hotel, leisure, food services	Count	3	8	11
	% within sample	3.4%	3.7%	3.6%
Finance and real estate	Count	6	15	21
	% within sample	6.9%	6.9%	6.9%
Communication and telecom	Count	6	14	20
	% within sample	6.9%	6.5%	6.6%
ICT services	Count	18	39	57
	% within sample	20.7%	18.1%	18.8%
Other services	Count	3	7	10
	% within sample	3.4%	3.2%	3.3%
Diversified	Count	3	12	15
	% within sample	3.4%	5.6%	5.0%
Total respondents	Count	87	216	303
	% within sample	100.0%	100.0%	100.0%

5.4 Construct Validity Test: Examining the Correlation of the instrument

To prepare the survey questionnaire, a set of 164 items were selected for variables proposed in the research framework based on the literature. Most items had been widely used in previous research while some measurement items were new or only used in a few studies. Therefore, a construct validity test was required to purify the measures and reduce irrelevant items. As explained in chapter 4, the most popular method to evaluate construct validity is an exploratory factor analysis (EFA), which examines the structural relationships among the variables based on theoretical support and the literature (Ekeledo and Sivakumar, 2004). According to Hair *et al.* (2010), the primary objective of the factor analysis is to identify the factors or latent dimensions in the set of data collected. In addition, it helps to reduce data by deleting items with low correlation with factors or cross-loading. This test inspects which items are correlated with what factor or, in fact, investigates whether the items load on the right construct. If every single factor only includes a set of measurement items, the scale has unidimensionality. Otherwise, the validity of the scale is questioned.

The survey questionnaire of this study consists of eight constructs as independent variables and moderating variables including 164 measurement items. To run the EFA test, a component analysis was conducted. The principle components method is widely used when data reduction is vital whereas the common factor analysis is preferred when theoretical structure is well-defined (Hair *et al.*, 2010). According to Hair *et al.* (2010), the first condition for running a factor analysis is that the number of observations or responses must be larger than the number of items used in data collection. However, in this study, there were only 87 responses collected while 164 items used. This means that conducting a single factor analysis is impossible. In addition, the nature of constructs was different in terms of reflective and formative items. Therefore, as shown in Table 5.23, nine separate factor analysis tests were run for eight distinctive constructs.

Initially, in each analysis, the overall significance of all correlations was tested by the Bartlett test of sphericity. If the Kaiser-Meyer-Olkin (KMO) measure is greater than 0.5, the model can be used for analysis. The number of factors extracted by the factor analysis is may be determined by the latent root criterion, the percentage of variance explained, the Scree Plot or applying a priori criterion based on the literature (see Hair *et al.*, 2010). Although based on the latent root criterion method, factors with the latent roots or the initial Eigenvalues greater than 1.0 are included in the analysis, in this study, the a priori criterion was used in which the number of factors for each construct was fixed based on the literature. For example, three factors were extracted for tangible assets because it has been divided into three dimensions in previous research.

After fixing the number of factors, the first step for data reduction in each factor analysis was to refer to check the communalities among items. Communality shows the total amount of variance a variable shares with all other items or variables in the analysis. If there is any item with communality lower than 0.5, it should be excluded from the analysis (Hair *et al.*, 2010). If all items have communality above 0.5, the next step is to use the rotated component matrix. As Table 5.23 indicates, 34 items were deleted from 8 factors, as they had communality below 0.5.

In the next stage, to rotate factors, an orthogonal rotation method based on varimax rotation was used. The rotated component matrix indicates items loaded on each factor. Items with a minimum loading of ±0.5 were considered as acceptable. If the item has a loading lower than ±0.5 or it has cross-loading with more than one factor, it should be omitted. In addition, single-item factors are not appropriate for the analysis (Hair *et al.*, 2010). As the number of factors was fixed, there was no single item factor or loadings below ±0.5. However, 4 items were deleted due to cross-loading. Finally, as Table 5.23 indicates, from 164 items that were loaded on 26 factors, 39 items were excluded while 125 items were retained to be used in the reliability test.

Table 5.23: Factor Analysis Summary based on Data Reduction Methods

Constructs	Items	Factors	Bartlett's Test		Communality < 0.5	Rotated Matrix	
			KMO	Sig.		Loading < 0.5	Cross-Loading
Tangible assets	16	3	0.762	0.000	3	-	-
Intangible assets	20	2	0.841	0.000	2	-	-
Firm capabilities	40	4	0.826	0.000	12	-	1
Network Relations	17	4	0.704	0.000	5	-	-
Business strategy	16	2	0.867	0.000	-	-	1
Motives of entry	8	2	0.778	0.000	1	-	-
Resource strategy	10	2	0.888	0.000	1	-	2
Competitive strategy	23	5	0.771	0.000	3	-	1
Nature of services	14	2	0.693	0.000	7	-	-

5.5 Reliability Tests: Factor Reduction through the Coefficient Analysis

As stated in chapter 4, a reliability test is used to confirm that a scale can provide consistent results if repeated (Yin, 2009; Malhotra, 2007). This means that the random error in the measurement process is low. The reliability is a necessary condition for a scale to be valid. However, it does not confirm the validity of the scale completely as there may be some systematic errors remaining (Malhotra, 2007). The most widely used technique for testing reliability is the coefficient alpha or Cronbach's alpha method, which examines the internal consistency of a scale (Ekeledo and Sivakumar, 2004; Hair *et al.*, 2010). Internal consistency means that the items that comprise a dimension or factor are correlated and, in sum, are able to measure that factor (Cooper and Schindler, 2006; Malhotra, 2007).

The Cronbach's alpha was calculated for each one of the 26 factors or dimensions extracted by the factor analysis. Each item that did not significantly contribute to the coefficient alpha was deleted. This means that the items with an item-total correlation of less than 0.3 were excluded. In addition, if the deletion of an item helped to achieve a higher amount of the Cronbach's alpha or if an item did not contribute to the alpha, it would be excluded. In fact, a reliable scale should have a Cronbach's alpha greater than 0.6. Otherwise, it explains inconsistency in measurement (Hair *et al.*, 2010; Malhotra,

2007). As Table 5.24 summarizes, from 125 items in 26 factors, 14 items were deleted to increase the amount of alpha. By excluding these items, a total number of 111 items remained to be used for further analysis (see Appendix 3 for the detailed result).

Table 5.24: Cronbach's Alpha Reliability Test for Factors Used in the Survey

No.	Constructs-Factors	Total Items	Items Deleted	Scale Mean	Standard Deviation	Cronbach's Alpha	
						Initial	Final
IV1	Tangible assets	13	2	-	-	-	-
IV1F1	Firm size	5	2	10.759	5.254	0.668	0.943
IV1F2	Financial strength	6	0	25.034	8.231	0.902	0.902
IV1F3	Profitability	2	0	6.494	3.809	0.855	0.855
IV2	Intangible assets	18	2	-	-	-	-
IV2F1	Organizational culture	8	0	41.368	7.192	0.891	0.891
IV2F2	Firm reputation	10	2	36.759	9.859	0.962	0.964
IV3	Firm capability	27	3	-	-	-	-
IV3F1	Market knowledge	3	1	10.126	2.583	0.024	0.788
IV3F2	Business experience	10	2	28.678	12.828	0.958	0.959
IV3F3	Tacit knowhow	10	0	46.379	9.301	0.941	0.941
IV3F4	Proprietary Technology	4	0	18.092	4.554	0.878	0.878
IV4	Network relationships	12	1	-	-	-	-
IV4F1	Home business networks	4	1	17.264	3.384	0.822	0.856
IV4F2	Host business networks	3	0	15.552	4.492	0.746	0.746
IV4F3	Social networks	2	0	8.747	3.613	0.733	0.733
IV4F4	Government link	3	0	14.402	4.950	0.665	0.665
IV5	Business strategy	15	1	-	-	-	-
IV5F1	Global strategy	8	1	20.460	14.923	0.965	0.968
IV5F2	Need for control	7	0	27.713	10.439	0.888	0.888
IV6	Motives of Entry	7	0	-	-	-	-
IV6F1	Following clients	4	0	8.333	5.293	0.827	0.827
IV6F2	Market seeking	3	0	4.621	3.043	0.813	0.813
IV7	Resourcing strategy	7	0	-	-	-	-
IV7F1	Resource exploitation	4	0	17.058	7.216	0.872	0.872
IV7F2	Resource seeking	3	0	6.828	3.966	0.814	0.814
IV8	Competitive strategy	19	4	-	-	-	-
IV8F1	Cost reduction strategy	5	2	10.874	6.056	0.859	0.885
IV8F2	Product differentiation	3	1	11.517	2.834	0.758	0.791
IV8F3	Focus strategy	3	0	7.103	4.188	0.699	0.699
IV8F4	Innovation orientation	6	1	23.713	5.785	0.843	0.864
IV8F5	Service orientation	2	0	7.184	2.599	0.873	0.873
-	Nature of services	7	1	-	-	-	-
IV9	Service intangibility	3	1	7.471	4.106	0.722	0.732
MV	Inseparability of Services	4	0	7.977	5.996	0.891	0.891

After obtaining the summated scale for each one of the 26 factors or dimensions retained, the sum of the dimensions of each construct was entered into a second factor analysis in order to investigate the correlation between independent variables as well as the presence of multicollinearity. The result yielded a KMO = 0.710 and the Bartlett's Test of Sphericity shows that $\chi^2 = 324.552$ at DF = 36 and $p = 0.000$. This means that factor analysis is an appropriate method for assessing the construct validity of this study. Table 5.25 shows the correlation matrix between the independent variables.

Table 5.25: Correlation Matrix for Independent Variables

	TNGST	INTST	CAPBL	NTWRK	BUSN	MOTIV	RSOR	COMP	INTNG
TNGST	1.000	0.239	0.006	0.221	0.082	0.110	0.034	-0.237	0.267
INTST		1.000	0.788	0.020	0.352	0.356	0.635	0.443	-0.052
CAPBL			1.000	0.153	0.223	0.411	0.739	0.649	-0.241
NTWRK				1.000	-0.208	-0.048	-0.087	-0.049	-0.131
BUSN					1.000	0.227	0.325	0.229	0.132
MOTIV						1.000	0.561	0.374	-0.094
RSOR							1.000	0.653	-0.149
COMP								1.000	-0.430
INTNG									1.000

5.6 Hypothesis Testing: Examining the Main Effects of Predictors

In this study, ten hypotheses were proposed and this section explains the results of testing those hypotheses through the statistical methods. Nine hypotheses relate the independent variables (IVs) to the internationalization strategies of Malaysian service firms including four dependent variables, i.e. market selection, order of entry, entry timing and entry mode strategy. A hypothesis suggests the moderating effects caused by the inseparability of services. The statistical techniques used to analyse the result consist of the binary logistic regression method, which is used for testing the main effects of the IVs and the interactive role of the moderator (MV).

As stated in chapter 4, a regression analysis employs simple and multiple calculations to predict *Y* from *X* values (Cooper and Schindler, 2006). This means that a

change in independent variable (Y) results in an alteration in the dependent variable (X). If the relationship is in a positive direction, Beta or the sign of the coefficient of the independent variable will be positive. Otherwise, a negative sign indicates a converse or negative relationship. In addition, an expected Beta shows the strength of relationship. As the dependent variables of this study are explained as categorical variables and coded as 0 and 1, a binary logistic regression model is applied to assess the relationship between each independent variable and each dependent variable (see Blomstermo *et al.*, 2006; Ekeledo, 2000; Erramilli and Rao, 1993; Malhotra, 2007; Mardanov, 2003).

To test the hypotheses, the dependent variables of this study were classified into two different categories. The market selection variable or the choice of target market was assessed based on the choice of global markets versus regional markets (Harzing, 2002; Jansson and Sandberg, 2008). Based on the information collected in question 3c of the questionnaire, market entry into countries that belong to four regions within the Asia-Pacific zone were considered as regional market selection whereas entry into the markets of Europe, America, Africa and the Middle East was considered as selecting global markets. Some firms have registered their subsidiaries in UK dependencies, such as the British Virgin Islands and Cayman Islands in the Caribbean or the Guernsey and Jersey Islands in Europe in order to use incentives and escape from tax payment. This presence was not considered as a global expansion because it is just nominal and does not require an active operation of firm in those markets.

The entry timing variable has two dimensions. The first dimension or the order of entry is divided into the late mover situation versus the early mover advantage (see Brandts and Giritligil, 2008; Hill, 2008; Keegan and Green, 2008; Tuppura *et al.*, 2008). The second dimension or the time of entry includes the expansion after 8 years operations in domestic market versus new venture expansion or the expansion within 8 years domestic operation (see Biggadike, 1979).

The choice of entry mode is divided into the choice of low control modes of operation, including indirect exporting, contractual modes and joint venture versus the adoption of high control modes including sole ownership or establishing a wholly owned subsidiary as well as direct exporting (see Anderson and Gatignon, 1986; Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Hill *et al.*, 1990; Taylor *et al.*, 2000; Tsai and Cheng, 2002). Table 5.26 indicates the coding used for each condition of the dependent variables used in the present study.

Table 5.26: The Coding Process of the Dependent Variables

No.	Dependent Variables	Condition Coded 0	Condition Coded 1
1	Choice of target market	Choice of regional markets	Choice of global markets
2	Order of entry	Late mover	First and early mover
3	Timing of entry	Expansion after 8 years	Expansion within 8 years
4	Choice of entry mode	Adopting low control modes	Adopting high control modes

The independent variables of the study were measured based on a seven-scale Likert system, in which the lowest value was coded 1 and the highest 7. To test the hypotheses related to the main effects, initially, the relationship of each independent variable and its dimensions was tested separately. Each test is shown in a regression analysis table. As Erramilli and Rao (1993) suggested, the bivariate regression model is as follows:

$$Y = \beta_0 + \beta_1 X$$

In the regression model, Y is the dependent variable, X is the independent variable, β_0 is the intercept of the regression line, and β is the slope of the regression line. In the regression analysis table, C indicates β_0, which is also called the constant, B indicates β or the coefficient of determination and W represents the Wald statistic. The amount of P or α indicates the probability of H_0, which supposes that there is no relationship between the variables. In contrast, the odds of H_1 or the probability of the existence of relationship is explained by the confidence interval or (1-α). In this study,

all the tests are conducted based on a confidence level of α = 0.05 and N = 87. This means that the confidence interval is 95%. If a relationship is strong at a confidence level of 0.05 < α < 0.1, it is called marginally significant (see Cooper and Schindler, 2006; Malhotra, 2007).

5.6.1 Examining the Effect of Tangible Assets

The study supposes that there is a significant relationship between the tangible assets of the Malaysian service firms and their internationalization strategies, or the four dependent variables of the study. To evaluate the main effect of tangible assets on the international strategies of the respondent firms, the binary logistic regression method was used. The results of hypothesis testing indicate whether each one of hypotheses is acceptable at a confidence level of α = 0.05 or not.

a. H1a: The Effect of Tangible Assets on Market Selection

As Table 5.27 shows, the results of hypothesis testing did not find any significant relationship between the tangible assets of the respondent firms and their choice of target market. Therefore, H1a is not accepted. In other words, the tangible assets of Malaysian service firms have no strong relationship with their choice of target markets.

Table 5.27: The Effect of Tangible Assets on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Firm size	-0.740	0.041	0.103	0.748	1.042	0.103	0.748	64.4
Financial strength	-0.391	-0.048	0.088	0.767	0.953	0.088	0.767	64.4
Profitability	-0.426	-0.051	0.187	0.665	0.950	0.188	0.665	64.4
Tangible assets	-0.474	-0.032	0.031	0.859	0.969	0.031	0.859	64.4

b. H1b: The Effect of Tangible Assets on the Order of Entry

Table 5.28 indicates no considerable association between the tangible assets of the respondent firms and the order of their entry. This means that there is no meaningful effect of tangible assets on the order of entry. Hence, H1b is rejected.

Table 5.28: The Effect of Tangible Assets on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Firm size	0.349	-0.117	0.877	0.349	0.890	0.886	0.346	51.7
Financial strength	-0.656	0.141	0.790	0.374	1.151	0.798	0.372	54.0
Profitability	-0.199	0.040	0.125	0.724	1.041	0.125	0.724	50.6
Tangible assets	-0.111	0.011	0.004	0.947	1.012	0.004	0.947	51.7

c. H1c: The Effect of Tangible Assets on the Time of Entry

According to Table 5.29, there is a significant negative relationship between the tangible assets of the respondent firms and their time of foreign market entry since Wald = 4.862 (B = -0.411, p = 0.027). The logistic regression model is also significant and fits the data as χ^2 = 5.223 (DF = 1, p = 0.022). Therefore, H1c is acceptable. This means that tangible assets have a negative impact on the time of entry of the Malaysian service firms. In other words, Malaysian services with stronger tangible assets favour a late expansion after 8 years of domestic operation.

This effect is the result of the negative effects of firm size and profitability that were marginally significant. In other words, Malaysian service firms with larger size or higher profitability do not expand their business within the first 8 years of their operation. In contrast, those firms that ventured early into foreign markets were smaller and less profitable firms that lack financial capital and resources. This is in conflict with the literature, which suggests that firms need high financial resources and tangible assets in order to bear the costs of international operation (see Bobillo *et al.*, 2007; Cort *et al.*, 2007; Quer *et al.*, 2007; Pablo, 2009).

Table 5.29: The Effect of Tangible Assets on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Firm size	0.646	-0.227	3.106	0.078	0.797	3.237	0.072	58.6
Financial strength	0.750	-0.219	1.882	0.170	0.803	1.919	0.166	58.6
Profitability	0.512	-0.209	3.193	0.074	0.811	3.292	0.070	60.9
Tangible assets	1.333	**-0.411**	4.862	**0.027**	0.663	5.223	0.022	64.4

d. H1d: The Effect of Tangible Assets on Entry Mode Choice

This study did not find a significant relationship between the tangible assets of the respondent firms and their choice of entry mode. Therefore, H1d is rejected. However, as Table 5.30 indicates, the results of hypothesis testing shows a positive significant relationship between the financial strength of the respondent firms and their entry mode choice, as Wald = 13.987 (B = 0.763, p = 0.000). In addition, the regression model is significant and fits the data, since $\chi^2 = 17.925$ (DF = 1, p = 0.000). This means that with high confidence, Malaysian service firms with a high financial strength select a high control entry mode for their foreign operations.

The literature also suggests that firms with access to both internal and external funds can bear the risk of investment and decide greater resource commitment through involving FDI activities and adopting high control modes (Chatterjee and Singh, 1999; Cort *et al.*, 2007). In contrast, firms that lack required financial resources need to collaborate with local firms in foreign markets (Quer *et al.*, 2007; Trevino and Grosse, 2002). According to Forssbæck and Oxelheim (2008), available funds create ownership advantage for firms. Ahmad and Kitchen (2008) argued that firms that benefit from the financial support can gain reputation and establish business networks.

Table 5.30: The Effect of Tangible Assets on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Firm size	-0.227	0.130	3.058	0.080	0.564	3.189	0.074	59.8
Financial strength	-3.529	**0.763**	13.987	**0.000**	2.146	17.925	0.000	67.8
Profitability	0.293	-0.171	2.137	0.144	0.843	2.183	0.140	54.0
Tangible assets	-0.199	-0.015	0.007	0.931	0.985	0.007	0.931	56.3

The results show no significant effect from firm size and profitability on the choice of entry mode while previous research mainly found such relationship. Researchers believed that firms with a larger size can be more profitable, achieve economies of scale, access abundant resources and finance their foreign operations.

This enables them to commit more resources overseas and use high control modes in foreign markets (Czinkota *et al.*, 2009; Ekeledo and Sivakumar, 2004; Javalgi *et al.*, 2010; Lin, 2009; Nakos and Brouthers, 2002). However, some studies also found no effect or contradictory results (Morschett, 2006; Quer *et al.*, 2007; Taylor *et al.*, 2000). In addition, Quer *et al.* (2007) argued that some firms grew in size through using contractual agreements and joining business networks.

Ekeledo and Sivakumar (2004) suggested that to solve this contradiction, it is necessary to compare the size of firms with their competitors in the industry in which a firm operates. Consequently, they divided firm size into the average size of the industry. However, in the context of Malaysian services, even considering industry size, no significant difference was found between small firms and large firms in terms of their choice of entry mode.

The literature also assumed that profitability can positively influence the choice of entry mode because it enables firms to access more financial resources and strengthens their competitive position in foreign markets. Therefore, firms with higher profitability compared to their rivals in the industry can take the risks of investment and adopt high control modes (Fahy, 2002; Quer *et al.*, 2007; Trevino and Grosse, 2002). However, such a claim was not confirmed by the findings of this study.

5.6.2 Examining the Effect of Intangible Assets

The second assumption of the study is that there is a significant relationship between the intangible assets of Malaysian service firms and their internationalization strategies. To test this statement and explore the relationships in detail, a binary logistic regression model was used. The intangible assets were explained in terms of two dimensions, i.e. organizational culture and firm reputation. The result of hypothesis testing show that whether a strong relationship is found at a confidence level of $\alpha = 0.05$ or not.

a. H2a: The Effect of Intangible Assets on Market Selection

According to Table 5.31, the result of hypothesis testing found no significant relationship between the intangible assets of the respondent firms and their choice of target market. Therefore, H2a is not acceptable. In other words, the intangible assets cannot notably influence the market selection strategy of the Malaysian service firms.

Table 5.31: The Effect of Intangible Assets on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Organizational culture	-0.379	-0.041	0.027	0.870	0.960	0.027	0.870	64.4
Firm reputation	-0.334	-0.056	0.095	0.758	0.945	0.095	0.758	64.4
Intangible assets	-0.226	-0.075	0.087	0.768	0.928	0.087	0.768	64.4

b. H2b: The Effect of Intangible Assets on the Order of Entry

As shown in Table 5.32, there is no significant relationship between the intangible assets of Malaysian service firms and the order of their foreign market entry. Therefore, H2b is rejected. In other words, the intangible assets have no significant impact on the order of entry of the Malaysian service firms.

Table 5.32: The Effect of Intangible Assets on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Organizational culture	-2.068	0.386	2.434	0.119	1.471	2.509	0.113	59.8
Firm reputation	-1.275	0.262	2.124	0.145	1.300	2.180	0.140	58.6
Intangible assets	-2.296	0.455	3.208	0.073	1.576	3.357	0.067	59.8

c. H2c: The Effect of Intangible Assets on the Time of Entry

According to Table 5.33, the relationship between the intangible assets of the respondent firms and the time of their market entry is not considerable. Therefore, H2c is not acceptable. This means that the intangible assets do not determine the time of entry of the Malaysian service firms.

Table 5.33: The Effect of Intangible Assets on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Organizational culture	-1.266	0.213	0.772	0.380	1.238	0.779	0.378	65.5
Firm reputation	1.342	-0.328	3.248	0.072	0.720	3.372	0.066	59.8
Intangible assets	0.821	-0.201	0.671	0.413	0.818	0.677	0.410	59.8

d. H2d: The Effect of Intangible Assets on Entry Mode Choice

The results of hypothesis testing shown in Table 5.34 indicate that there is a significant positive relationship between the intangible assets of the respondent firms and their choice of entry mode, as Wald = 23.272 (B = 2.427, p = 0.000). The logistic regression model is also significant and fits the data as $\chi^2 = 45.840$ (DF = 1, p = 0.000). Consequently, H2d is acceptable. This means that with high confidence it is expected that the Malaysian service firms with valuable intangible assets adopt a high control entry mode in foreign markets. This is supported by the literature that believes that intangible assets increase the revenue of firms and enables them to commit more resources overseas (Cloninger, 2004). Therefore, firms exercise high control modes in order to protect their valuable intangible assets (see Fahy, 2002).

Table 5.34: The Effect of Intangible Assets on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Organizational culture	-7.895	**1.463**	18.479	**0.000**	4.320	25.899	0.000	72.4
Firm reputation	-6.029	**1.224**	21.258	**0.000**	3.399	31.310	0.000	81.6
Intangible assets	-12.322	**2.427**	23.272	**0.000**	11.322	45.840	0.000	85.1

This significant relationship originates from the significant effects of both dimensions of intangible assets on the choice of entry mode. The organizational culture factor has a Wald = 18.479 (B = 1.463, p = 0.000) and the logistic regression model is significant as $\chi^2 = 25.899$ (DF = 1, p = 0.000). Thus, with high confidence it is supposed that the Malaysian service firms with an adhocracy culture, which is supportive and innovative, prefer to adopt high control modes. This is because such firms encourage

their managers to take risk and support their employees to gain market knowledge (Ahmad and Kitchen, 2008). Innovative firms emphasize productivity and encourage their employees to use trial and error to acquire technology and knowledge. In addition, a supportive culture allows open discussion and decision-making based on teamwork (Ekeledo and Sivakumar, 2004; Williams and Triest, 2009). Therefore, firms with an innovative and supportive culture will have a competitive advantage in foreign markets and effectiveness (Barney, 1986; Gregory *et al.*, 2009).

In addition, the firm reputation factor has a positive influence on the entry mode choice of the respondent firms because Wald = 21.258 (B = 1.224, p = 0.000) and the logistic regression model is also significant as $\chi^2 = 31.310$ (DF = 1, p = 0.000). This means that Malaysian service firms with a high reputation in foreign markets are more likely to select a high control entry mode. Previous research supports this relationship suggesting that firms with a positive public image or a high brand value can access valuable assets, increase their market share, gain customer loyalty and invest in foreign markets (Ekeledo and Sivakumar, 2004; Galan and Gonzalez-Benito, 2001; Hall, 1992; Michaelis *et al.*, 2008). Firms with high reputation usually possess valuable intellectual properties, such as patents, trademarks and brand names (Griffin and Pustay, 2002). Firms prefer to exercise higher control to protect their intellectual properties from the opportunistic behaviour of their competitors in foreign markets (see Anderson and Gatignon, 1986; Erramilli *et al.*, 2002; Lee, 1986).

5.6.3 Examining the Effect of Firm Capabilities

This study supposes that there is a significant relationship between the capabilities of the Malaysian service firms and their internationalization strategies. To assess the existence of such a relationship at the confidence level of $\alpha = 0.05$, a logistic regression was used. The capabilities of the Malaysian service firms were measured in the form of market knowledge, business experience, tacit knowhow and proprietary technology.

a. H3a: The Effect of Firm Capabilities on Market Selection

As shown in Table 5.35, there is a significant negative relationship between the capabilities of the respondent firms and their choice of target market, as Wald = 5.462 (B = -0.578, p = 0.019). Therefore, H3a is acceptable. In other words, firm capabilities negatively influence the market selection strategy of the Malaysian service firms. This means that Malaysian service firms with valuable capabilities, especially higher market knowledge, operate in the regional markets, i.e. the Asia-Pacific countries. However, previous research suggest that experienced firms are more likely to operate in emerging global markets, as they accumulate knowledge about various foreign markets (Axelsson and Johanson, 1992; Blomstermo *et al.*, 2004; Eriksson and Chetty, 2003; Hadley and Wilson, 2003).

This contradiction may have three different reasons. First, as the most attractive emerging markets, such as China and India, are located in the Asia-Pacific region, Malaysian services prefer to operate in markets that have geographic proximity as well as a similar culture to the Malaysian ethnic groups. Second, the lack of resources and capital hinders many experienced Malaysian services from expanding into global markets. Therefore, they concentrate their operations in regional markets. Third, new ventures and inexperienced firms are able to hire managers with considerable business experience in international markets. Therefore, such firms gain market knowledge from their managers and can commit resources in global markets (Nakos and Brouthers, 2002; Trevino and Grosse, 2002; Whitelock and Jobber, 2004).

Table 5.35: The Effect of Firm Capabilities on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Market knowledge	3.041	**-0.732**	11.447	**0.001**	0.481	14.551	0.000	69.0
Business experience	0.305	-0.257	3.112	0.078	0.774	3.223	0.073	65.5
Tacit knowhow	-0.625	0.007	0.001	0.976	1.007	0.001	0.976	64.4
Proprietary Technology	0.676	-0.283	1.984	0.159	0.753	2.031	0.154	64.4
Firm capabilities	1.944	**-0.578**	5.462	**0.019**	0.561	5.847	0.016	70.1

b. H3b: The Effect of Firm Capabilities on the Order of Entry

According to Table 5.36, the result of hypothesis testing show that H3b is not acceptable and the firm capabilities have no significant relationship with the order of market entry made by the respondent firms. Nevertheless, there is a strong positive relationship between market knowledge gained by Malaysian services and the order of their market entry so that Wald = 4.020 (B = 0.369, p = 0.045). In addition, the logistic regression model is significant and fit as $\chi^2 = 4.406$ (DF = 1, p = 0.036). This means that with a high confidence it is expected that the Malaysian service firms with valuable market knowledge enter foreign markets as early movers. As Malaysian firms like firms from other developing countries gather market knowledge through networking, it enables them to use opportunities in emerging markets and enter earlier than their rivals (see Axelsson and Johanson, 1992; Blomstermo *et al.*, 2004; Pananond, 2007).

Table 5.36: The Effect of Firm Capabilities on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Market knowledge	-1.946	**0.369**	4.020	**0.045**	1.446	4.406	0.036	58.6
Business experience	-0.418	0.097	0.517	0.472	1.102	0.520	0.471	58.6
Tacit knowhow	-0.071	0.000	0.000	0.999	1.000	0.000	0.999	51.7
Proprietary Technology	-0.360	0.064	0.114	0.735	1.066	0.115	0.735	43.7
Firm capabilities	-1.159	0.244	1.164	0.281	1.277	1.182	0.277	54.0

c. H3c: The Effect of Firm Capabilities on the Time of Entry

As Table 5.37 shows, the relationship between firm capabilities and the time of market entry is not significant. Therefore, H3c is rejected. However, a negative significant relationship found was between business experience and the time of entry. This means that Malaysian service firms with higher experience prefer not to venture abroad early. In other words, such firms enter foreign markets after the first 8 years of their domestic operation. This is because firms need more time to accumulate valuable capabilities and gain enough market knowledge. In addition, the networks theory

suggests that less experienced firms can gain knowledge and resources through networks and expand into foreign markets before going through the growth stages explained by the classic stage models of internationalization (see Freeman and Sandwell, 2008; Kiss and Danis, 2008; Sasi and Arenius, 2008).

Table 5.37: The Effect of Firm Capabilities on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Market knowledge	1.072	-0.244	1.985	0.159	0.784	2.057	0.151	56.3
Business experience	0.844	**-0.283**	4.062	**0.044**	0.754	4.219	0.040	60.9
Tacit knowhow	-0.838	0.146	0.388	0.533	1.157	0.390	0.532	56.3
Proprietary Technology	-0.752	0.130	0.461	0.497	1.139	0.465	0.495	56.3
Firm capabilities	0.816	-0.220	0.947	0.330	0.803	0.957	0.328	52.9

d. H3d: The Effect of Firm Capabilities on Entry Mode Choice

As Table 5.38 illustrates, there is a strong positive relationship between the capabilities of the respondent firms and their choice of entry mode while Wald = 23.223 (B = 2.177, p = 0.000), and the logistic regression model is significant, as χ^2 = 44.866 (DF = 1, p = 0.000). Therefore, H3d is acceptable. This means that it is predicted that the Malaysian service firms with valuable capabilities will favour high control entry modes. This is consistent with the previous research (see Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Fahy, 2002; Hill *et al.*, 1990). In other words, the capabilities of the Malaysian service firms positively influence their entry mode choice. Such a significant relationship originates from the significant effects of all four dimensions of the firm capabilities on the choice of entry mode.

Table 5.38: The Effect of Firm Capabilities on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Market knowledge	-3.912	**0.707**	9.928	**0.002**	2.029	12.825	0.000	64.4
Business experience	-4.799	**1.207**	28.041	**0.000**	3.345	47.030	0.000	85.1
Tacit knowhow	-4.316	**0.867**	9.484	**0.002**	2.379	11.345	0.001	67.8
Proprietary Technology	-6.546	**1.355**	18.802	**0.000**	3.875	29.257	0.000	70.1
Firm capabilities	-10.254	**2.177**	23.223	**0.000**	8.821	44.866	0.000	79.3

The relationship between market knowledge gained by Malaysian services and their entry mode choice is positive and significant because of Wald = 9.928 (B = 0.707, p = 0.002). This means that Malaysian service firms with higher market knowledge tend to adopt high control modes in their foreign operations. This is consistent with the literature, especially the internationalization theory, which argues that gaining market knowledge decreases uncertainty and investment risks. Therefore, firms with higher accumulated knowledge about their target markets can commit more resources through FDI and high control modes (Anderson and Gatignon, 1986; Blomstermo *et al.*, 2006; Erramilli, 1991; Johnson and Vahlne, 1977; Johnson and Wiedersheim-Paul, 1975; Morschett, 2006; Nakos and Brouthers, 2002; Pinho, 2007).

The business experience factor has a significant positive effect on the entry mode choice, as Wald = 28.041 (B = 1.207, p = 0.000). This means that a Malaysian service firm with a high business experience in foreign markets is more likely to adopt a high control entry mode. This is consistent with the previous empirical works, which stressed the role of international business experience on the choice of entry mode (see Choo and Mazzarol, 2001; Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Erramilli *et al.*, 2002; Kim and Hwang, 1992; Morschett, 2006). This experience helps the firm to collect market knowledge, evaluate investment risk and reduces information asymmetry (Anderson and Gatignon, 1986; Johanson and Vahlne, 1977, 1990; Hadley and Wilson, 2003; Pinho, 2007; Williamson, 1985).

The tacit knowhow factor also has a significant positive influence on the choice of entry mode, as Wald = 9.484 (B = 0.867, p = 0.002). Therefore, with high confidence it is suggested that the Malaysian service firms with a highly tacit service technology favour a high control entry mode. Such a tacit knowhow refers to the managerial skills, employees' expertise and marketing knowledge of a firm (Choo and Mazzarol, 2001; Hill *et al.*, 1990; Johannessen and Olsen, 2009). According to Camisón and Villar

(2009), firms with higher managerial skills will have more involvement in international business. Therefore, the literature views tacit knowhow as a reason to use high control entry modes (see Anderson and Gatignon, 1986; Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Fahy, 2002; Kim and Hwang, 1992; Sanchez-Peinado *et al.*, 2007).

Proprietary technology has also a positive significant effect on the entry mode choice of the respondent firms since Wald = 18.802 (B = 1.355, p = 0.000). This means that with high confidence it is supposed that the Malaysian service firms with a valuable proprietary technology favour a high control mode. According to Ahmad and Kitchen (2008), technological capability is a necessary requirement for international expansion. The literature suggests that to protect proprietary technology, firms need to exercise higher control over their operation (see Chen and Hu, 2002; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Hill *et al.*, 1990).

5.6.4 Examining the Effect of Network Relations

This study explains that there is a relationship between the network relations of the Malaysian service firms and their internationalization strategies. To investigate the existence of such a relationship, a regression analysis was used. The network relations of the Malaysian service firms were measured in the form of their business networks at the home country as well as host countries, the social networks used by the firms and their link with the government. The results of hypotheses testing indicates whether at the confidence level of $\alpha = 0.05$ a significant relationship is found or not.

a. H4a: The Effect of Network Relations on Market Selection

As shown in Table 5.39, there is a significant negative relationship between the network relations of the respondents and their choice of target market, as Wald = 5.555 (B = -0.622, p = 0.018). Therefore, H4a is accepted. This means that Malaysian service firms with valuable network relations prefer to operate in the regional markets instead of global markets.

Table 5.39: The Effect of Network Relations on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Home business networks	-0.006	-0.102	0.261	0.609	0.903	0.260	0.610	64.4
Host business networks	-0.434	-0.030	0.041	0.839	0.970	0.041	0.839	64.4
Social networks	1.827	**-0.580**	14.817	**0.000**	0.560	18.241	0.000	74.7
Government links	-0.055	-0.112	0.631	0.427	0.894	0.633	0.426	64.4
Networks relations	2.511	**-0.622**	5.555	**0.018**	0.537	6.429	0.011	67.8

Such a negative effect comes from the negative significant relationship between the social networks of the respondents and their market selection while Wald = 14.817 (B = -0.580, p = 0.000). Therefore, Malaysian service firms with strong social networks are expected to expand into the regional markets. This explains the existence of the ethnic relationships between the managers and employees of Malaysian service firms and their partners or customers in the Asia-Pacific region. According to Thirawat *et al.* (2007), firms from developing countries have more reliance on their social networks based on the ethnic relationships.

As the majority of the employees of the Malaysian service firms belong to three ethnicities, i.e. the Malays or Bumiputra, the Chinese and the Indians, they are able to expand into countries with similar ethnic groups. In addition, these three ethnic groups comprise the majority of the population of the Asia-Pacific countries and control the business activities in the region. The most famous ethnic network used by Malaysian firms is Guanxi relationships between Chinese executives based on friendship, trust and cooperation (see Menzies and Orr, 2010; Pananond, 2007; Sim, 2006).

b. H4b: The Effect of Network Relations on the Order of Entry

The result shows that H4b is not acceptable, as according to Table 5.40, the network relations of the respondents have no significant relationship with the order of entry made by the respondent firms. In other words, the network relations of Malaysian services do not positively influence their order of entry into foreign markets.

Table 5.40: The Effect of Network Relations on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Home business networks	1.842	-0.331	2.445	0.118	0.718	2.676	0.102	54.0
Host business networks	1.038	-0.213	2.043	0.153	0.808	2.120	0.145	56.3
Social networks	-0.026	-0.010	0.007	0.934	0.990	0.007	0.934	51.7
Government links	0.479	-0.113	0.701	0.402	0.893	0.706	0.401	54.0
Networks relations	1.575	-0.326	1.918	0.166	0.722	2.027	0.155	55.2

c. H4c: The Effect of Network Relations on the Time of Entry

As Table 5.41 shows, the relationship between network relations and the time of market entry is not significant. Therefore, H4c is not acceptable. However, the business networks of Malaysian services in the host countries have a significant positive effect on their time of entry, as Wald = 5.371 (B = 0.383, p = 0.020). The logistic regression model is significant and fit as $\chi^2 = 6.087$ (DF = 1, p = 0.014). Consequently, with high confidence it is anticipated that the Malaysian service firms with stronger business networks at host countries expand overseas earlier within their first 8 years of operation. This is consistent with the networks theory, which argued that new ventures can gain market knowledge and resources through their business networks and enter foreign markets before going through the growth stages suggested by the classic stage models (see Freeman and Sandwell, 2008; Kiss and Danis, 2008; Sasi and Arenius, 2008).

Table 5.41: The Effect of Network Relations on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Home business networks	-2.107	0.335	2.395	0.122	1.399	2.648	0.104	54.0
Host business networks	-2.171	**0.383**	5.371	**0.020**	1.467	6.087	0.014	64.4
Social networks	-0.740	0.132	1.166	0.280	1.141	1.186	0.276	54.0
Government links	0.065	-0.047	0.120	0.729	0.954	0.120	0.729	52.9
Networks relations	-2.291	0.420	2.900	0.089	1.522	3.175	0.075	52.9

d. H4d: The Effect of Network Relations on Entry Mode Choice

As Table 5.42 illustrates, the results of hypothesis testing did not find a strong relationship between the network relations of the respondent firms and their choice of

entry mode. Therefore, H4d is not acceptable. In other words, the networks relations are not major determinants of the entry mode choice. However, two significant effects were observed from business networks at host countries and social networks on the choice of entry mode but in two different directions.

Table 5.42: The Effect of Network Relations on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Home business networks	-1.022	0.133	0.438	0.508	1.142	0.450	0.503	56.3
Host business networks	2.819	**-0.594**	10.880	**0.001**	0.552	13.579	0.000	65.5
Social networks	-1.904	**0.369**	7.321	**0.007**	1.446	8.241	0.004	65.5
Government links	0.964	-0.254	3.286	0.070	0.776	3.399	0.065	59.8
Networks relations	0.475	-0.145	0.413	0.521	0.865	0.416	0.519	58.6

The relationship between the business networks of the respondent firms at the host countries and their entry mode choice is significant and negative, as Wald = 10.880 (B = -0.594, p = 0.001). The logistic regression model is also significant and fit the data, as χ^2 = 13.579 (DF = 1, p = 0.000). This means that with high confidence it is suggested that firms with effective business networks in foreign markets adopt low control modes for their operations. This is because such firms are able to find suitable local partners and gain information about the existing businesses in target markets through their business networks. This is consistent with the literature, in which networking helps a firm to use collaborative modes of entry and access to resources and long-term experiences of network members (see Coviello *et al.*, 1998; Hutchinson *et al.*, 2006; Moen *et al.*, 2004; Sydow *et al.*, 2010).

In contrast, the social networks factor has a significant positive effect on the choice of entry mode, as Wald = 7.321 (B = 0.369, p = 0.007). The logistic regression model is significant and fit because χ^2 = 8.241 (DF = 1, p = 0.004). This means that Malaysian service firms with stronger social networks are more likely to adopt a high control entry mode in foreign markets. This is because firms from developing countries

use ethnic networks to acquire market knowledge and resources (see Sim, 2006; Thirawat *et al.*, 2007). As Pananond (2007) stated, firms that use informal relationships, such as Guanxi for the Chinese, benefit from their networking ability and will counter lower transaction costs. Therefore, such firms are able to commit more resources and adopt full ownership.

Although researchers have insisted on the role of government link in the process of internationalization of firms (see Ahmad, 2008; Bianchi, 2009; Sim, 2006), this study could not find a significant relationship between the government link and the entry mode choice of the respondent firms. However, the marginal negative relationship observed in Table 5.42 shows that government links may enable firms to find partners in foreign countries and use low control modes. According to Chen *et al.* (2005), firms that rely on the government link and support usually have a lower performance. This may result in their tendency for committing fewer resources. Another reason is that governments usually restrict foreign ownership and force foreign companies to join a partnership with local firms or the government agencies.

5.6.5 Examining the Effect of Business Strategy

This study supposes that there is a significant relationship between the business strategy adopted by the Malaysian service firms and their internationalization strategies. This study applied a regression analysis to examine the likelihood and the strength of this relationship. The business strategy adopted by the Malaysian service firms were measured in terms of two dimensions, i.e. using a global strategy versus a multinational strategy, and the need for control versus desire for autonomy. The multinational strategy and desire for autonomy were conversely coded and added to the two factors in order to achieve a measurement for the business strategy. The result of hypotheses testing shows whether at a confidence level of $\alpha = 0.05$ there is a significant relationship between the business strategies of the respondent firms and their international strategies or not.

a. H5a: The Effect of Business Strategy on Market Selection

According to Table 5.43, the results of the binary logistic regression reveals a significant positive relationship between the business strategy of the respondent firms and their choice of target markets as Wald = 17.590 (B = 2.108, p = 0.000). The logistic regression model is significant and fit as χ^2 = 42.216 (DF = 1, p = 0.000). Therefore, H5a is acceptable. In other words, the business strategy of the Malaysian service firms may influence their market selection strategy. This significant relationship originates from the significant effects of both dimensions, however, in opposite directions.

Table 5.43: The Effect of Business Strategy on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Global strategy	-4.532	**1.343**	21.296	**0.000**	3.830	66.282	0.000	89.7
Need for control	0.694	**-0.334**	4.315	**0.038**	0.716	4.578	0.032	66.7
Business strategy	-8.342	**2.108**	17.590	**0.000**	8.230	42.216	0.000	82.8

The global strategy of the respondents has a significant positive effect on their market selection as Wald = 21.296 (B = 1.343, p = 0.000). The logistic regression model is significant and fit because χ^2 = 66.282 (DF = 1, p = 0.000). This relationship means that with high confidence it is expected that the Malaysian service firms with a global strategy expand their operations into global markets. This is because according to Javalgi and Martin (2007), the expansion of firms into global markets is the result of their global mind set. In contrast, firms with a multinational strategy concentrate their operations in the regional markets. This is consistent with the findings of the previous research (Domke-Damonte, 2000; Kolk and Margineantu, 2009; Rugman, 2003, 2009). In the global strategy, firms view the world as small and standardized markets and offer their standardized services to homogenous global markets whereas in a multinational strategy, firms view the world as a large number of customized markets. Therefore, they need to adapt their products or services based on the preferences of local customers (Evans *et al.*, 2008; Florin and Ogbuehi, 2004; Kolk and Margineantu, 2009).

Another effect of business strategy refers to the significant negative relationship between the need of respondent firms for control and their market selection strategy, as Wald = 4.315 (B = -0.334, p = 0.038). The logistic regression model is significant and fit as $\chi^2 = 4.578$ (DF = 1, p = 0.032). Therefore, with high confidence it is expected that the Malaysian service firms that need higher control over their foreign operations prefer to expand into the regional markets instead of global markets. This is consistent with the literature that suggests that the need for exercising higher control may limit the geographic scope of internationalization because it is difficult for firms to control their foreign subsidiaries in global markets (Reiner *et al.*, 2008).

b. H5b: The Effect of Business Strategy on the Order of Entry

According to Table 5.44, the result of the binary logistic regression indicates no empirical support for H5b, as there is no considerable relationship between the business strategy of the respondent firms and the order of their foreign market entry.

Table 5.44: The Effect of Business Strategy on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Global strategy	0.264	-0.115	1.239	0.266	0.892	1.261	0.262	51.7
Need for control	-0.073	0.001	0.000	0.994	1.001	0.000	0.994	51.7
Business strategy	0.639	-0.206	1.109	0.292	0.814	1.129	0.288	56.3

c. H5c: The Effect of Business Strategy on the Time of Entry

Table 5.45 reveals no relationship between the business strategy of the respondent firms and the time of their entry into foreign markets. Therefore, H5c is not acceptable. Hence, the business strategy has no effect of the entry timing of Malaysian services.

Table 5.45: The Effect of Business Strategy on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Global strategy	-0.194	0.011	0.012	0.913	1.011	0.012	0.913	54.0
Need for control	0.224	-0.098	0.448	0.503	0.907	0.451	0.502	55.2
Business strategy	0.067	-0.066	0.118	0.731	0.936	0.119	0.730	54.0

d. H5d: The Effect of Business Strategy on Entry Mode Choice

The results of hypothesis testing, shown in Table 5.46, reveals a significant positive relationship between the business strategies of the respondent firms and their entry mode choice, as Wald = 6.405 (B = 0.548, p = 0.011). The logistic regression model is significant and fit as $\chi^2 = 7.169$ (DF = 1, p = 0.007). Consequently, H5d is acceptable. In other words, the entry mode choice of the Malaysian service firms is influenced by their business strategy. This relationship originates from the effects of both dimensions on the entry strategy, however, in opposite directions as follows.

Table 5.46: The Effect of Business Strategy on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Global strategy	0.476	**-0.260**	5.224	**0.022**	0.771	5.783	0.016	50.6
Need for control	-8.551	**2.016**	25.483	**0.000**	7.507	69.448	0.000	88.5
Business strategy	-2.160	**0.548**	6.405	**0.011**	1.729	7.169	0.007	47.1

The global strategy of the respondent firms has a strong negative relationship with their choice of entry mode so that Wald = 5.224 (B = -0.260, p = 0.022). The logistic regression model is significant and fits the data because $\chi^2 = 5.783$ (DF = 1, p = 0.016). Therefore, with high confidence it is supposed that the Malaysian service firms with a global strategy adopt a low control entry mode while those with a multinational strategy will favour a high control mode. This is inconsistent with the literature, which suggests that the global oriented firms exercise higher control to integrate their affiliates (see Domke-Damonte, 2000; Ekeledo and Sivakumar, 2004; Fahy, 2002; Kim and Hwang, 1992; Malhotra *et al.*, 2003). However, according to Zhang *et al.* (2007), firms that enter new emerging markets with a global strategy initially adopt a joint venture mode and later switch to wholly owned subsidiaries.

In addition, the need of the respondents for control has a significant positive influence on their entry mode choice because of Wald = 25.483 (B = 2.016, p = 0.000).

The logistic regression model is significant and fit as $\chi^2 = 7.169$ (DF = 1, p = 0.007). Consequently, with high confidence it is expected that the Malaysian service firms with the need for exercising higher control over their foreign operations adopt a high control entry mode. This is because high control requires more resource commitment that may result in more risk exposure, higher prices and less flexibility (Anderson and Gatignon, 1986; Davidson, 1982; Morschett, 2006). As in such firms subsidiaries are dependent on the headquarters, firms tend towards sole ownership to coordinate these affiliates (Domke-Damonte, 2000; Morschett, 2006). In contrast, service firms with the desire for autonomy prefer low control modes, which enable their affiliates to participate in decision making.

5.6.6 Examining the Effect of the Motives of Entry

This study suggests that there is a relationship between the motives of entry that attracted Malaysian service firms to expansion and their internationalization strategies. A regression analysis was used to examine the odds of such a relationship and its strength. The motives of entry were measured based on two dimensions, i.e. following clients versus market seeking. The market seeking factor was conversely coded and added to the following client factor in order to achieve a measure for the motives of entry. The results of hypothesis testing show whether at a confidence level of $\alpha = 0.05$ any significant relationship between the motives of entry and the internationalization strategies of Malaysian services is found or not.

a. H6a: The Effect of the Motives of Entry on Market Selection

According to Table 5.47, the findings of the binary logistic regression test found no significant relationship between the motives of entry of the respondent firms and their market selection. Therefore, H6a is not acceptable. In other words, the motives of entry of Malaysian service firms do not influence their market selection strategy.

Table 5.47: The Effect of the Motives of Entry on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Following clients	-0.296	-0.143	0.636	0.425	0.867	0.662	0.416	64.4
Market seeking	-1.030	0.068	0.085	0.771	1.070	0.087	0.768	64.4
Motives of Entry	-0.297	-0.163	0.466	0.495	0.849	0.484	0.486	64.4

b. H6b: The Effect of the Motives of Entry on the Order of Entry

The findings of the binary logistic regression test found no significant relationship between the motives of the respondent firms for foreign market entry and the order of their entry. However, according to Table 5.48, both dimensions show a strong effect on the order of entry but in opposite directions. Therefore, H5b is acceptable.

Table 5.48: The Effect of the Motives of Entry on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Following clients	-1.686	**0.376**	4.596	**0.032**	1.457	4.753	0.029	71.3
Market seeking	3.551	**-0.557**	4.101	**0.043**	0.573	5.188	0.023	60.9
Motives of Entry	-0.601	0.292	1.650	0.199	1.339	1.725	0.189	56.3

There is a significant positive relationship between the motive of firms to follow their clients into foreign markets and the order of their entry because of Wald = 4.596 (B = 0.376, p = 0.032). The logistic regression model is significant and fit as $\chi^2 = 4.753$ (DF = 1, p = 0.029). This means that Malaysian service firms that follow their clients in foreign markets can benefit from a first or early mover advantage. Erramilli and Rao (1990) suggested that early entrants to foreign markets usually follow their clients while late entrants are market seekers. Therefore, the relationship between market seeking strategy and the order of market entry is negative and significant so that Wald = 4.101 (B = -0.557, p = 0.043) and the logistic regression model is significant, as $\chi^2 = 5.188$ (DF = 1, p = 0.023). This means that the Malaysian service firms, which seek new markets, enter foreign markets as late movers because they face greater risk and higher competition intensity in foreign markets (Ekeledo and Sivakumar, 2004).

c. H6c: The Effect of the Motives of Entry on the Time of Entry

Another analysis shows no significant relationship between the motives of entry of the respondent firms and the time of their market entry (see Table 5.49). Therefore, H6c is rejected. This means that the time of foreign expansion is not related to the motives of firms for following their existing clients or seeking new markets.

Table 5.49: The Effect of the Motives of Entry on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Following clients	-0.723	0.266	2.437	0.119	1.304	2.558	0.110	55.2
Market seeking	-1.034	0.135	0.362	0.547	1.144	0.372	0.542	54.0
Motives of Entry	-0.466	0.167	0.573	0.449	1.181	0.578	0.447	52.9

d. H6d: The Effect of the Motives of Entry on Entry Mode Choice

As shown in Table 5.50, the relationship between the motives of the respondent firms for entry and their entry mode choice is significant and positive, as Wald = 10.268 (B = 0.995, p = 0.001). The logistic regression model is significant and fit as χ^2 = 14.592 (DF = 1, p = 0.000). Consequently, H6d is acceptable. In other words, the motives of entry of the Malaysian service firms can influence their choice of entry mode. This relationship originates from the effects of both dimensions on the entry mode, however, in opposite directions as follows.

Table 5.50: The Effect of the Motives of Entry on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Following clients	-1.699	**0.692**	10.637	**0.001**	1.999	13.878	0.000	66.7
Market seeking	3.724	**-0.613**	4.981	**0.026**	0.542	6.367	0.012	63.2
Motives of Entry	-2.036	**0.995**	10.268	**0.001**	2.704	14.592	0.000	67.8

The following clients strategy has a positive effect on the choice of entry mode made by the respondent firms, as Wald = 10.637 (B = 0.692, p = 0.001). The logistic regression model is significant and fit as χ^2 = 13.878 (DF = 1, p = 0.000). Therefore, with high confidence it is predicted that the Malaysian service firms, which follow their

clients in foreign markets, will adopt a high control entry mode. This is consistent with the literature, which suggested that by following their clients, firms face less investment risk and competitive pressure in foreign target markets (Ekeledo and Sivakumar, 1998; Kim *et al.*, 2002). In addition, such firms have a strong network relationship and personal contact with their customers (Bouchard, 1992; Ling and Chan, 2008). Therefore, they can adopt high control modes to keep their clients and protect their competitive advantage (Banerji and Sambharya, 1996; Ekeledo and Sivakumar, 1998; Erramilli and Rao, 1990; Sanchez-Peinado *et al.*, 2007; Terpstra and Yu, 1988).

In contrast, the market seeking strategy has a significant negative effect on the entry mode choice of the respondent firms due to Wald = 4.981 (B = -0.613, p = 0.026). The logistic regression model is significant and fits the data because $\chi2$ = 6.367 (DF = 1, p = 0.012). Consequently, it is expected that the Malaysian service firms, which seek new markets or look for new customers in foreign markets favour a low control entry mode. Such firms perceive greater risks and higher competition intensity. Therefore, they join a partnership with local firms (Ekeledo and Sivakumar, 1998; Erramilli and Rao, 1990; Sanchez-Peinado *et al.*, 2007). However, inseparable service firms prefer sole ownership or a franchising agreement (see Ekeledo and Sivakumar, 1998, 2004).

5.6.7 Examining the Effect of Resource Strategy

This study assumes that there is a significant relationship between the resource strategies used by the Malaysian service firms and their internationalization strategies. To examine the probability of such a relationship, a regression analysis was used. The resource strategies of the respondent firms were divided into the resource exploitation strategy versus resource seeking. The resource seeking factor was conversely coded and added to the resource exploitation factor in order to achieve a useful measurement. The hypothesis testing shows that whether any important relationship is observed at a confidence level of α = 0.05.

a. H7a: The Effect of Resource Strategy on Market Selection

As shown in Table 5.51, based on the binary logistic regression test, there is a significant negative relationship between the resource strategy adopted by the respondents and their market selection because Wald = 4.224 (B = -0.358, p = 0.040) and the logistic regression model is significant and fit as $\chi^2 = 4.527$ (DF = 1, p = 0.033). Therefore, H7a is acceptable. In other words, the resource strategy of the Malaysian service firms can affect their choice of target markets.

This relationship originates from the significant negative effect of the resource exploitation factor on market selection, as Wald = 4.084 (B = -0.269, p = 0.043). The logistic regression model is significant and fit since $\chi^2 = 4.328$ (DF = 1, p = 0.038). This means that with high confidence it is expected that the Malaysian service firms, which own valuable resources and venture abroad to exploit them concentrate their operations in the regional markets. This is consistent with the literature, which suggests that when firms venture abroad to exploit their valuable resources, they need to operate in the regional markets in order to protect their resources and capabilities through exercising higher control (see Dunning *et al.*, 2007; Ekeledo and Sivakumar, 1998; Kim and Hwang, 1992; Malhotra *et al.*, 2003). Moreover, the high level of control over operations and foreign subsidiaries limits the scope of expansion and prevents firms from entering into global markets (Reiner *et al.*, 2008). Consequently, Malaysian firms that possess valuable resources and capabilities prefer to concentrate their operations in the regional markets.

Table 5.51: The Effect of Resource Strategy on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Resource exploitation	0.525	**-0.269**	4.084	**0.043**	0.764	4.323	0.038	60.9
Resource seeking	-2.340	0.301	2.560	0.110	1.351	2.780	0.095	64.4
Resource strategy	0.546	**-0.358**	4.224	**0.040**	0.699	4.527	0.033	63.2

b. H7b: The Effect of Resource Strategy on the Order of Entry

According to Table 5.52, the binary logistic regression test shows no significant relationship between the resource strategy of the respondent firms and their order of market entry. This result does not empirically support H7b. However, there is a negative significant relationship between the resource seeking strategy and the order of entry, as Wald = 4.535 (B = -0.375, p = 0.033). In addition, the logistic regression model is significant and fit since χ^2 = 4.894 (DF = 1, p = 0.027). This means that the Malaysian service firms that enter foreign markets to seek resources are less likely to use a first or early mover advantage.

Firms with a resource seeking strategy expand their operations into the global markets to access complementary resources and capabilities. Such firms can benefit from the global synergy, which gives them economies of scale and enables them to reduce the price of their products and services (Barnat, 2005; Kim and Hwang, 1992). However, expanding into global markets needs time to collect more information and market knowledge in order to overcome high uncertainty. This may hinder firms from an early expansion.

Table 5.52: The Effect of Resource Strategy on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Resource exploitation	-0.545	0.111	0.843	0.358	1.118	0.850	0.357	51.7
Resource seeking	2.080	**-0.375**	4.535	**0.033**	0.688	4.894	0.027	58.6
Resource strategy	-0.912	0.257	2.603	0.107	1.293	2.681	0.102	54.0

c. H7c: The Effect of Resource Strategy on the Time of Entry

Table 5.53 reveals that there is no relationship between the resource strategy of the respondents and the time of their market entry. Therefore, H7c is not acceptable. In other words, the resource strategy of the Malaysian service firms does not affect their entry timing strategy in international markets.

Table 5.53: The Effect of Resource Strategy on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Resource exploitation	-0.189	0.006	0.003	0.957	1.006	0.003	0.957	54.0
Resource seeking	-1.053	0.155	0.862	0.353	1.168	0.879	0.348	48.3
Resource strategy	0.046	-0.063	0.165	0.684	0.939	0.166	0.684	54.0

d. H7d: The Effect of Resource Strategy on Entry Mode Choice

As shown in Table 5.54, there is a significant positive relationship between the resource strategies of the respondent firms and their choice of entry mode considering Wald = 20.120 (B = 3.002, p = 0.000). The logistic regression model is also significant and fits the data as $\chi 2$ = 81.929 (DF = 1, p = 0.000). Therefore, H7d is acceptable. This means that the resource strategy of Malaysian service firms may influence their entry mode choice. Such a significant relationship originates from the impacts of both dimensions on the entry mode choice, however, in opposite directions.

Table 5.54: The Effect of Resource Strategy on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Resource exploitation	-7.804	**1.711**	24.957	**0.000**	5.533	71.436	0.000	90.8
Resource seeking	8.557	**-1.526**	23.116	**0.000**	0.217	42.922	0.000	81.6
Resource strategy	-10.611	**3.002**	20.120	**0.000**	20.122	81.929	0.000	88.5

The effect of the resource exploitation factor on the respondent firms' choice of entry mode is significant and positive, as Wald = 24.957 (B = 1.711, p = 0.000). The logistic regression model is significant and fit since χ^2 = 71.436 (DF = 1, p = 0.000). Therefore, the Malaysian service firms that own valuable resources and venture abroad to exploit them are more likely to adopt a high control entry mode. This is supported by the literature, which suggests that firms with valuable resources need to use high control modes in order to protect their capabilities and assets in foreign markets (see Ahammad and Glaister, 2008; Baek, 2003; Dunning *et al.*, 2007; Ekeledo and Sivakumar, 1998; Kim and Hwang, 1992; Malhotra *et al.*, 2003).

Conversely, there is a significant negative relationship between the resource seeking strategy of the respondent firms and their entry mode choice, as Wald = 23.116 (B = -1.526, DF = 1, p = 0.000). The logistic regression model is significant and fits the data as $\chi 2$ = 42.922 (DF = 1, p = 0.000). This means that the Malaysian service firms that seek to acquire new capabilities or complementary resources in foreign markets will prefer to adopt a low control entry mode. This finding is consistent with the previous research, which explained that to acquire resources from foreign markets, firms should join a partnership with local businesses using low control modes, such as joint venture and alliances (see Ekeledo and Sivakumar, 2004; Lu, 2002; Madhok, 1997; Sanchez-Peinado *et al.*, 2007; Taylor *et al.*, 2000).

5.6.8 Examining the Effect of Competitive Strategy

This study assumes that there is a relationship between the competitive strategy used by the Malaysian service firms and their internationalization strategies. To test the odds of such a relationship and its strength, a logistic regression analysis was applied. The competitive strategies of the respondent firms were measured by five dimensions including cost reduction strategy, product differentiation, focus strategy, innovation orientation and service orientation. The cost reduction and service orientation factors were conversely coded and added to the product differentiation and innovation orientation factors in order to achieve a measurement for the competitive strategy while the focus strategy was not considered in the variable sum. The results of hypothesis testing helps to find out whether there are substantial relationships at a confidence level of $\alpha = 0.05$ or not.

a. H8a: The Effect of Competitive Strategy on Market Selection

According to Table 5.55, the result of the binary logistic regression reveals no significant negative relationship between the competitive strategy of the respondent firms and their choice of target markets. Therefore, H8a is not acceptable. However, the

cost reduction strategy has a significant positive relationship with market selection, as Wald = 4.209 (B = 0.242, p = 0.040). The logistic regression model is significant and fit as $\chi^2 = 4.440$ (DF = 1, p = 0.035). This means that with high confidence it is predicted that the Malaysian service firms, which offer low-cost services expand into global markets end do not restrict their operations to the regional markets.

This is consistent with the literature suggesting that to reduce production and operation cost, firms need to access advanced technology and raw materials, and achieve economies of scale and efficiency (Griffin and Pustay, 2002; Ling and Chan, 2008; Luo and Zhao, 2004; Porter, 1985). By expanding into global markets, firms can use global synergy and reduce production costs (Kim and Hwang, 1992). Such firms may show a higher performance in their industry and experience a growth in their profitability (Kim and Hwang, 1992; Porter, 1985). Therefore, cost reduction strategy requires a global scope of market expansion.

Table 5.55: The Effect of Competitive Strategy on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Cost reduction	-1.685	**0.242**	4.209	**0.040**	1.274	4.440	0.035	55.2
Product differentiation	-0.235	-0.062	0.052	0.820	0.940	0.052	0.820	64.4
Focus strategy	-0.757	0.069	0.201	0.654	1.071	0.199	0.655	64.4
Innovation orientation	0.350	-0.200	1.004	0.316	0.819	1.016	0.314	65.5
Service orientation	-0.978	0.087	0.243	0.622	1.091	0.247	0.619	64.4
Competitive strategy	1.311	-0.434	2.801	0.094	0.648	2.933	0.087	63.2

b. H8b: The Effect of Competitive Strategy on the Order of Entry

According to Table 5.56, the results of the binary logistic regression show no meaningful relationship between the competitive strategy of the respondent firms and the order of their entry into foreign markets. Therefore, H8b is rejected. This means that the competitive strategies of Malaysian service firms cannot determine whether they use an early mover advantage or enter foreign markets as a late mover.

Table 5.56: The Effect of Competitive Strategy on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Cost reduction	0.820	-0.204	3.401	0.065	0.816	3.513	0.061	55.2
Product differentiation	-0.022	-0.008	0.001	0.975	0.992	0.001	0.975	51.7
Focus strategy	-0.790	0.304	3.451	0.063	1.355	3.801	0.051	56.3
Innovation orientation	-0.040	-0.006	0.001	0.974	0.994	0.001	0.974	51.7
Service orientation	0.753	-0.186	1.187	0.276	0.830	1.225	0.268	51.7
Competitive strategy	-1.568	0.338	1.955	0.162	1.402	1.999	0.157	56.3

c. H8c: The Effect of Competitive Strategy on the Time of Entry

As shown in Table 5.57, the results of hypothesis testing do not indicate a significant relationship between the competitive strategies of the respondent firms and their time of entry. Therefore, H8c is not acceptable. In other words, with high confidence it is not possible to claim that the Malaysian service firms follow their competitive strategies while deciding the timing of their market entry.

Table 5.57: The Effect of Competitive Strategy on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Cost reduction	0.446	-0.140	1.646	0.200	0.870	1.671	0.196	54.0
Product differentiation	-2.743	0.448	2.720	0.099	1.565	2.822	0.093	63.2
Focus strategy	-0.341	0.075	0.251	0.616	1.078	0.252	0.616	51.7
Innovation orientation	-1.963	0.378	3.573	0.059	1.459	3.758	0.053	59.8
Service orientation	-0.875	0.161	0.879	0.349	1.175	0.906	0.341	52.9
Competitive strategy	-1.604	0.325	1.807	0.179	1.384	1.843	0.175	62.1

d. H8d: The Effect of Competitive Strategy on Entry Mode

According to Table 5.58, the results of the binary logistic regression identifies a significant positive relationship between the competitive strategy of the respondent firms and their choice of entry mode, as Wald = 19.168 (B = 1.436, p = 0.000). The logistic regression model is significant and fit as $\chi^2 = 26.319$ (DF = 1, p = 0.000). This means that H8d is acceptable. In other words, the competitive strategy of Malaysian service firms can influence their entry mode choice in foreign markets.

Table 5.58: The Effect of Competitive Strategy on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Cost reduction	1.481	**-0.405**	11.099	**0.001**	0.667	12.550	0.000	66.7
Product differentiation	-8.603	**1.435**	16.183	**0.000**	4.201	21.775	0.000	74.7
Focus strategy	0.049	-0.128	0.679	0.410	0.880	0.700	0.403	56.3
Innovation orientation	-4.266	**0.832**	12.594	**0.000**	2.299	15.356	0.000	67.8
Service orientation	1.450	**-0.388**	4.302	**0.038**	0.679	4.857	0.028	63.2
Competitive strategy	-6.688	**1.436**	19.168	**0.000**	4.204	26.319	0.000	70.1

As Table 5.58 shows, such a relationship originates from the significant effects of four dimensions; however, in opposite directions so that the product differentiation and innovation orientation factors have positive effects while the cost reduction and service orientation factors negatively influence the choice of entry mode.

The cost reduction factor has a significant negative effect on the entry mode choice of the respondent firms, as Wald = 11.099 (B = -0.405, p = 0.001). The logistic regression model is significant and fit as χ^2 = 12.550 (DF = 1, p = 0.000). This means that the Malaysian service firms, which offer low-cost services, are more likely to adopt a low control entry mode. This is consistent with the literature in which researchers argued that firms need to acquire new technologies and the complementary assets of local partners in order to reduce the costs of operation and production (Griffin and Pustay, 2002; Ling and Chan, 2008; Luo and Zhao, 2004; Malhotra *et al.*, 2003; Morschett, 2006; Porter, 1985). Therefore, such firms select low control entry modes; especially in the form of joint venture or outsourcing contracts (see Enderwick, 2009; Morschett, 2006; Singh and Kogut, 1989).

In contrast, the product differentiation factor has a significant positive relationship with the choice of entry mode, as Wald = 16.183 (B = 1.435, p = 0.000). The logistic regression model is significant and fit as χ^2 = 21.775 (DF = 1, p = 0.000). Therefore, with high confidence, it is possible to say that the Malaysian service firms, which offer differentiated and high quality services, are expected to adopt a high control mode. This

is consistent with the previous research, which claimed that firms with differentiated products or services need to protect their technology and tacit knowhow from being duplicated by local firms and potential competitors by using a high control entry mode (see Anderson and Coughlan, 1987; Brouthers *et al.*, 1996; Czinkota *et al.*, 2009; Nakos and Brouthers, 2002; Osborne, 1996; Pantelidis and Kyrkilis, 2005; Pinho, 2007).

In addition, the focus strategy has no significant effect on the entry mode choice. This means that Malaysian service firms that offer services to a specific segment in the market may use a high control or a low control entry mode. According to Luo and Zhao (2004), firms with a focus strategy gain access to a niche market and need a moderate resource commitment. Therefore, such firms can exercise higher control than firms with the cost reduction strategy and lower than firms with the product differentiation strategy. However, this is an empirical contribution of this study as the previous studies did not use the focus strategy in their models.

The relationship between the innovation orientation of the respondent firms and their entry mode choice is also significant and positive since Wald = 12.594 (B = 0.832, p = 0.000). The logistic regression model is significant and fits the data as $\chi^2 = 15.356$ (DF = 1, p = 0.000). Therefore, with high confidence it is expected that the Malaysian service firms, which offer innovative and new services adopt a high control entry mode for their foreign operations. Previous research argued that innovative firms can gain competitive advantage by offering differentiated products, increase profitability and attract loyal customers. Therefore, such firms need to protect their intellectual property from the opportunistic behaviour of local partners through using FDI activities and high control modes (see Gollin, 2008; Morschett, 2006; Pantelidis and Kyrkilis, 2005; Pinho, 2007; Trevino and Grosse, 2002).

In contrast, the service orientation factor has a significant negative influence on the choice of entry mode due to Wald = 4.302 (B = -0.388, p = 0.038). The logistic

regression model is significant and fit as $\chi^2 = 4.857$ (DF = 1, p = 0.028). Consequently, with high confidence it is possible to say that the Malaysian service firms, which offer before or after sales services as their competitive advantage, have a tendency towards adopting low control entry modes. The literature suggests that service-oriented firms need to provide before or after sales services, product delivery and customer service in foreign markets to retain their consumers. However, if these firms are not able to offer such services by their own subsidiaries, they will delegate the responsibility of supportive services to local firms through adopting low control modes, especially in the form of outsourcing contracts (Chung and Enderwick, 2001; Morschett, 2006).

5.6.9 Examining the Effect of the Degree of Intangibility

This study supposes that there is a relationship between the degree of intangibility of services offered by Malaysian service firms and their internationalization strategies. A logistic regression analysis was used to examine the existence and strength of such a relationship. The degree of intangibility differentiates between services with a high level of intangibility and those that offer their services by tangible means, such as books, slides, software and money. The low intangibility items were reverse coded and added to the high intangibility aspects in order to achieve a useful measurement for the degree of intangibility. The results of hypothesis testing shows whether at a confidence level of $\alpha = 0.05$ there is a significant relationship between the degree of intangibility and the international strategies of Malaysian service firms or not.

a. H9a: The Effect of the Degree of Intangibility on Market Selection

According to Table 5.59, the findings of the binary logistic regression test found no significant relationship between the degree of intangibility of the services offered by the respondent firms and their market selection. Therefore, H9a is not acceptable. In other words, the degree of intangibility does not influence the market selection strategy of Malaysian service firms.

Table 5.59: The Effect of the Degree of Intangibility on Market Selection

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Degree of intangibility	-1.284	0.180	2.549	0.110	1.198	2.624	0.105	64.4

b. H9b: The Effect of the Degree of Intangibility on the Order of Entry

According to Table 5.60, the result of the binary logistic regression indicates no empirical support for H9b, as there is no considerable relationship between the degree of intangibility of the services offered by the respondent firms and the order of their foreign market entry.

Table 5.60: The Effect of the Degree of Intangibility on the Order of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Degree of intangibility	0.133	-0.054	0.265	0.607	0.947	0.265	0.607	58.6

c. H9c: The Effect of the Degree of Intangibility on the Time of Entry

As Table 5.61 shows, there is a significant negative relationship between the degree of intangibility of the services offered by the respondent firms and the time of their market entry, as Wald = 9.317 (B = -0.354, p = 0.002). The logistic regression model is significant and fit as χ^2 = 10.264 (DF = 1, p = 0.001). Therefore, H9c is accepted. This means that Malaysian service firms that offer services with higher degree of intangibility will prefer a late entry into foreign markets so that most of them will venture abroad after the first 8 years of their operation in the domestic market. Firms that offer highly intangible services need to make a greater effort for marketing their services in foreign markets because evaluating service quality is difficult for customers. These firms also need to locate their services close to their customers. Therefore, to venture abroad, they should collect more market knowledge, business experience and financial support. This hinders them from an early expansion before gaining required resources. However, such a relationship has not been examined in the literature.

Table 5.61: The Effect of the Degree of Intangibility on the Time of Entry

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Degree of intangibility	1.142	**-0.354**	9.317	**0.002**	0.702	10.264	0.001	66.7

d. H9d: The Effect of the Degree of Intangibility on Entry Mode Choice

According to Table 5.62, the result of hypothesis testing does not show a strong relationship between the degree of intangibility of the services offered by the Malaysian services and their choice of entry mode. Consequently, H9d is rejected. This means that there is no support for this claim that services with higher intangibility require adopting a high control mode. This is inconsistent with the findings of Cloninger (2004) who suggested that service firms with a higher degree of intangibility use high control entry modes because they should locate their service delivery process near customers and provide high quality services based on customer preference.

Table 5.62: The Effect of the Degree of Intangibility on Entry Mode Choice

Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
Degree of intangibility	0.268	-0.141	1.721	0.190	0.868	1.749	0.186	50.6

5.7 Hypotheses Testing: Examining the Moderating Effect of Inseparability

As hypothesis 10 suggests, the inseparability of services offered by the Malaysian service firms can moderate the effects of the independent variables or internal factors on the choice of entry mode. This moderating influence was introduced by the literature in relation to some independent variables, such as firm size, business experience and firm reputation (see Ekeledo and Sivakumar, 2004). To examine the moderating role of the inseparability of services, the interaction of each factor and the inseparability was calculated using the logistic binary analysis (Ekeldeo, 2000; Erramilli and Rao, 1993). Table 5.63 indicates the moderating effect of the inseparability of services on all the IVs and their dimensions while only three effects were significant.

Table 5.63: Interaction of Inseparability and the Effect of IVs on Entry Mode Choice

Interaction with the Independent Variables	Constant (C)	Beta (B)	Wald (W)	Sig. (P)	Exp (B)	Model Fit		Predict (%)
						χ^2	Sig.	
*Firm size	0.250	0.006	0.003	0.956	1.006	6.673	0.083	64.4
*Financial strength	-2.971	0.066	0.167	0.683	1.069	18.145	0.000	66.7
*Profitability	0.241	0.054	0.273	0.601	1.056	4.604	0.203	57.5
*Tangible assets	0.362	0.106	0.404	0.525	1.112	2.481	0.479	60.9
*Organizational culture	-8.141	0.063	0.051	0.821	1.065	28.647	0.000	72.4
*Firm reputation	-3.937	0.245	0.750	0.386	1.277	32.370	0.000	81.6
*Intangible assets	-10.733	0.174	0.188	0.665	1.190	46.432	0.000	82.8
*Market knowledge	-3.122	0.125	0.477	0.490	1.133	14.585	0.002	67.8
*Business experience	-5.794	-0.118	0.849	0.357	0.889	47.765	0.000	85.1
*Tacit knowhow	-8.895	-0.229	1.454	0.228	0.795	19.721	0.000	69.0
*Proprietary Technology	-9.150	-0.210	1.538	0.215	0.811	32.518	0.000	71.3
*Firm capabilities	-13.486	-0.249	1.293	0.256	0.779	47.632	0.000	81.6
*Home business networks	-6.793	**-0.297**	3.875	**0.049**	0.743	7.052	0.070	67.8
*Host business networks	1.995	-0.048	0.115	0.734	0.953	16.086	0.001	65.5
*Social networks	-4.734	**-0.263**	4.703	**0.030**	0.769	14.724	0.002	66.7
*Government links	0.981	0.041	0.187	0.665	1.042	5.511	0.138	54.0
*Networks relations	-3.141	0.259	1.648	0.199	0.772	4.242	0.236	60.9
*Global strategy	0.939	**0.250**	4.187	**0.041**	1.283	11.556	0.009	60.9
*Need for control	-8.910	0.228	2.482	0.115	1.256	74.172	0.000	88.5
*Business strategy	-1.127	0.363	2.748	0.097	1.438	14.114	0.003	60.9
*Following clients	-1.774	0.102	0.237	0.626	1.108	15.728	0.001	66.7
*Market seeking	1.893	-0.081	0.191	0.662	0.922	7.192	0.066	66.7
*Motives of Entry	-1.806	0.139	0.270	0.604	1.149	15.589	0.001	71.3
*Resource exploitation	-10.137	-0.113	0.285	0.593	0.893	74.420	0.000	92.0
*Resource seeking	10.969	0.158	0.787	0.375	1.172	43.807	0.000	80.5
*Resource strategy	-13.186	-0.272	0.693	0.405	0.762	82.741	0.000	88.5
*Cost reduction	0.816	-0.031	0.141	0.707	0.969	13.781	0.003	65.5
*Product differentiation	-7.648	0.224	0.545	0.460	1.251	26.160	0.000	75.9
*Focus strategy	0.552	0.140	1.673	0.196	1.150	5.319	0.150	59.8
*Innovation orientation	-6.649	-0.187	1.303	0.254	0.829	18.923	0.000	72.4
*Service orientation	1.593	0.054	0.258	0.611	1.056	6.723	0.081	64.4
*Competitive strategy	-7.075	0.013	0.566	0.452	1.013	28.263	0.000	70.1
*Degree of intangibility	0.130	0.041	0.119	0.730	1.041	3.845	0.279	56.3

According to Table 5.63, the first moderating effect that is significant is the effect of inseparability on the relationship between using business networks in home country and the choice of entry mode. As Table 5.42 revealed, the main effect of home business networks on the entry mode choice was not significant. However, a negative

significant relationship is observed due to the inseparability of services offered by the respondent firms, as Wald = 3.875 (B = -0.297, p = 0.049). The logistic regression model is marginally significant and fit as $\chi^2 = 7.052$ (DF = 1, p = 0.070). Therefore, H10 is partially accepted. This means that soft services that rely on the business networks of their home country are more likely to use low control modes in their foreign operations. This means that although firms with inseparable services usually favour high control modes to control their service quality, those that benefit from business networks in their home country can gain market knowledge about the conditions of the target markets through their network members. This enables them to expand their operations to other countries by using franchising or joint ventures. This is a new finding of this study while the literature has ignored such an effect.

The second moderating effect relates to the impact of inseparability of services on the relationship between using social networks and the choice of entry mode. As stated earlier, social networks have a significant positive relationship on the entry mode choice (see Table 5.42). This suggests that service firms, which rely on social networks to access resources and market knowledge, are able to use high control modes because they can finance their foreign operations. However, the inseparability of services has changed such a positive relationship to a significant negative effect due to Wald = 4.703 (B = -0.263, p = 0.030). The logistic regression model is significant and fit the data, as $\chi^2 = 14.724$ (DF = 1, p = 0.002). This means that Malaysian service firms that have strong social networks and offer inseparable services may prefer to use low control modes, such as franchising. This is because using social networks enable them to find qualified local partners to offer their services with a high quality in foreign markets. Therefore, social networks can decrease the perceived uncertainty while increasing the speed and scope of market entry for such firms. This moderating effect is neglected by the literature and can be a contribution of this research.

The third moderating effect of the inseparability is on the relationship between the global strategy of the respondent firms and their entry mode choice. As Table 5.46 shows, the relationship between global strategy and the choice of entry mode was significant and negative. This means that service firms that have a global mindset and prefer to operate in global markets by offering standardized services are more likely to use low control modes while those with multinational strategy adopt high control modes in the regional markets. The reason is that firms that enter global markets perceive higher risks and uncertainty. Therefore, they prefer to use joint venture first and then, switch to sole ownership (Zhang *et al.*, 2007). However, the interaction of inseparability and global strategy yields a significant positive effect so that Wald = 4.187 (B = 0.250, p = 0.041). The logistic regression model is significant and fit the data, as $\chi^2 = 11.556$ (DF = 1, p = 0.009). This means that service firms with global strategy that offer inseparable services in foreign markets tend to high control modes because they need to maintain the quality of services in foreign markets through exercising higher control. This effect was also ignored in previous research.

Due to the moderating effects of inseparability, compared to separable service firms, a higher percentage of firms that offer inseparable services favour high control entry modes (see Ekeledo and Sivakumar, 2004). Table 5.64 reveals that in the context of Malaysian services, while only 40% of the respondent firms with separable services exercise high control modes, 75% of inseparable firms adopt such modes.

Table 5.64: Entry Mode Used by the Respondents based on Inseparability

Type of service		Type of Entry Mode		Total
		Low-control	High-control	
Separable services	Count	47	32	79
	% within industry	59.5%	40.5%	100.0%
Inseparable services	Count	2	6	8
	% within industry	25.0%	75.0%	100.0%
Total respondents	Count	49	38	87
	% within industry	56.3%	43.7%	100.0%

The literature suggested that small firms have a higher tendency to adopt low control modes. However, compared to small firms that offer separable services, a larger proportion of small inseparable firms favour high control modes because inseparability can moderate the effect of firm size so that small inseparable firms that suffer from the liability of smallness adopt a high control mode. This is because the inseparability of services requires simultaneous service delivery and consumption. Therefore, service providers regardless of their size need to locate their service delivery process in a close proximity to their customers (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993). However, the results of hypothesis testing do not show such a moderating effect.

Another proposed moderating effect of inseparability is regarding business experience. Although most inexperienced respondent firms have a higher tendency to select low control modes, inseparability moderates the effect of business experience so that even non-separable firms that suffer from the lack of experience may adopt a high control mode due to the inseparability of services that forces them to locate their operations near their customers and exercise higher control (Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993). Nevertheless, the results of hypothesis testing do not show a significant moderating effect from inseparability on the relationship between business experience of the respondent firms and their entry mode choice.

5.8 Conclusion

In this chapter, the primary data that was collected by a mail survey method was put into analysis. First, a descriptive analysis was conducted in order to explain the characteristics of the respondent firms and compare their internationalization strategies. The result was taken from 87 respondent firms or the actual sample of the study. The internationalization of more than 90% of the respondent firms has taken place since the 1990s, while 46% of these firms were new ventures at the time of entering foreign markets. More than 70% of the respondent firms concentrated their operations in the

regional markets while others have a presence in global markets. Among the respondent firms, 56.3% have adopted low control entry modes whereas 43.7% have used high control modes. This is similar to service firms from other developing countries.

In the second section, three tests were used to evaluate the validity and reliability of the research instrument and purify the collected data. By a comparative analysis, the generalizability of the data analysis result was examined. After that, a factor analysis method was applied to reduce the measurement items that were not consistent with the factors used in the survey. To complete the data cleaning process, the Cronbach's alpha technique was used and the items with low correlation with other items within a factor were excluded. Finally, 111 items out of the 164 measurement items of the survey questionnaire remained to be used in the next stage or the hypotheses testing.

In the third section, by applying a binary logistic regression technique, the main effects of the nine independent variables or the internal factors on the four dependent variables were tested in order to support or reject the hypotheses proposed in the research framework. The hypotheses were identified acceptable or not acceptable with a confidence level of $\alpha = 0.05$. In addition, the moderating effects of the inseparability of services on the relationship between the independent variables and the choice of entry mode were investigated in detail while only three effects were identified significant.

The next chapter will discuss the findings of data analysis based on the literature and a conclusion for the study will be provided. In addition, the contributions and limitations of the study will be explained. The implications of the study can provide a broad perspective for managers and the government to apply the results of the study for enhancing the capabilities of Malaysian service firms and encouraging them to expand overseas. Finally, this study will suggest a guideline for future research.

CHAPTER 6

DISCUSSION AND CONCLUSION: RESEARCH FINDINGS, CONTRIBUTIONS, IMPLEMENTATIONS AND LIMITATIONS

6.0 Introduction

As stated in previous chapters, this study is one of the first attempts to explore the internationalization process in the context of Malaysia while the target population of the study includes service firms that have a presence in international markets. From these firms those that are publicly listed on the Kuala Lumpur exchange market or Bursa Malaysia were selected as the research sample. A mail survey was sent to a population of 303 internationalized service firms and 87 responses were received as the sample size showing a return rate of 28.7%, which is acceptable. These firms belong to all service industries and include both small and large firms.

In this section, the theoretical logic behind the findings of the study is discussed based on a research model consisted of nine independent variables and four dependent variables. To explain the process of internationalization, four new models are developed concerning the effects of independent variables on each internationalization strategy. The role of inseparability as the moderating variable is explained. Such models can be used as a basis for future studies as well.

The limitations of the study are also discussed to clarify the conditions under which the sample was chosen, and the data was collected and analysed. Because of these constraints, the research design had to be modified and adjusted to the context of the study. In addition, contributions of the study to the theory and research is described while determining how to implement the results of the study and help the Malaysian service firms to improve their capabilities, finance their foreign operations and broaden the scope of their international expansion. Finally, some suggestions are made for future research and some relevant topics are introduced.

6.1 Brief Description of the Problem

After the independence of Malaysia in 1957, the country experienced a rapid development path, which changed it from a raw material producer to an emerging market with a multi-sector economy by moving towards a new industrialized country through the application of the new economic policy (see Ahmad, 2008; Chee, 1973; CIA, 2010; Felker, 2003; Hainsworth, 1979; Jomo, 1991). Since the 1970s, Malaysian manufacturing and agricultural MNCs, such as Petronas and Sime Darby, acquired new technology and knowledge to start their presence in foreign markets (Ahmad, 2008; Ahmad and Kitchen, 2008). However, only after absorbing foreign investment and facilitating the transfer of technology from western MNCs to the country at the time of Prime Minister Mahathir (1981-2003), Malaysian firms got the ability to compete with their rivals in global markets (Clairmont, 1994; Edwards *et al.*, 2002; Felker, 2003).

The process of the internationalization of the Malaysian service firms and their outward FDI activities mainly took place since the 1990s (see Ahmad and Kitchen, 2008; Ariff and Lopez, 2007). This investment flow was mainly in the form of south-south investment in which firms from Malaysia, as a developing country, made investment in the less developed countries, especially in Southeast Asia and the African continent (Aykut and Ratha, 2004; Dwinger, 2010; Jomo, 2002). According to Dwinger (2010), Malaysia is the third largest foreign investor in Africa after South Africa and China. The major investor firms operate in transportation, communications, financial services, construction and public utility industries (Ariff and Lopez, 2007).

Malaysian service firms usually suffer from the liability of smallness, as more than 99% of total companies registered in Malaysia are considered as SMEs, and the liability of newness, as most Malaysian services are new ventures with low business experience and the lack of market knowledge (Ahmed *et al.*, 2002; NSDC, 2010). This increases their investment risk and hinders them from resource commitment in foreign

markets (see Ahmed *et al.*, 2002; Cuervo-Cazurra, 2007; Pananond, 2007). However, more than 72% of the outward FDI of the country has been made by service and construction firms in recent decades (Bank Negara, 2010).

The lack of resources and experience has forced most Malaysian service firms to concentrate their foreign operations on the regional markets and take advantage from the available ethnic networks, cultural similarity and geographical proximity (Ahmad and Kitchen, 2008; Reiner *et al.*, 2008). According to Ahmad and Kitchen (2008), Malaysian service firms benefit from their ability in efficiency and cost reduction. Therefore, they can compete with their rivals and expand into emerging markets and less developed countries by offering low cost services.

In sum, there are four major problems concerning the international expansion of Malaysian services: first, the lack of resources and market knowledge has limited the number of service firms that ventured abroad; second, the internationalization of most Malaysian services is limited to the regional markets and only a few firms have a global presence; third, Malaysian services are dependent on the social networks for their foreign expansion, which postpones their market entry; and four, the competitive advantage of most Malaysian service firms originates from their low cost services while they need to increase the service quality and enhance their capabilities. Ahmad (2008) suggested that the Malaysian government plays a vital role in supporting firms and enabling them to invest in foreign markets.

6.2 Discussion on the Research Findings

The first research question referred to the pattern of the international expansion of Malaysian service firms. The findings show that these firms usually go abroad after finding a local partner or gaining a project in foreign markets. More than 90% of the sample firms ventured abroad since the 1990s and almost half of them were considered as new ventures with low experience. While in most industries Malaysian service firms

were late movers, in high-tech industries they were early movers into the emerging Asian markets. The major target markets of Malaysian service firms were Asia-Pacific countries including four regions of Southeast Asia, East Asia, South Asia and Oceania. Around 36% of the respondent firms selected Singapore as their first target market due to its geographic proximity, high market potential and available advanced technology. Other major target markets include Hong Kong and the emerging markets of China, Thailand, Indonesia and Vietnam. In fact, more than 70% of the respondent firms focused on regional operation while less than 30% had an active global presence.

More than 49% of the respondent firms used the joint venture investment as their first foreign market entry mode while less than 42% established a wholly owned subsidiary at the time of entry. In general, 56.3% of the respondent firms adopted a low control entry mode whereas 43.7% favoured a high control mode. While engineering and construction firms as well as retailers preferred low control modes and partnership, ICT services and diversified firms had a higher tendency towards full ownership and high control modes. In addition, although 54% of the respondent firms are small firms with less than 500 employees, there was no meaningful difference between small and large firms in terms of their choice of entry mode.

After conducting specific tests to examine the validity and reliability of the research instrument, the data was analysed based on the logistic regression method to answer research questions 2 about the relationship between the independent variables or internal factors and the internationalization strategies or the four dependent variables as well as research question 3 regarding the moderating effect of the inseparability of services on the effects of the independent variables on the choice of entry mode. The results of hypothesis testing were explained in Chapter 5. However, it is necessary to discuss the research findings based on the literature in order to find the support from the previous research or explore the reasons for contradictions occurred.

Table 6.1 indicates a summary of the relationships between each independent variable and each dependent variable by considering all dimensions of the IVs. The table reveals that the major effects of the internal factors relate to the choice of entry mode while the least effects are observed regarding the entry timing strategy including the order of entry and the time of entry into foreign markets.

Table 6.1: Relationship between Internal Factors and Internationalization Strategies

Variable and Dimensions	Market Selection	Order of Entry	Time of Entry	Entry Mode Choice
Tangible assets	-	-	Negative	-
Firm size	-	-	-	-
Financial strength	-	-	-	Positive
Profitability	-	-	-	-
Intangible assets	-	-	-	Positive
Organizational culture	-	-	-	Positive
Firm reputation	-	-	-	Positive
Firm capabilities	Negative	-	-	Positive
Market knowledge	Negative	Positive	-	Positive
Business experience	-	-	Negative	Positive
Tacit knowhow	-	-	-	Positive
Proprietary Technology	-	-	-	Positive
Networks relations	Negative	-	-	-
Home business networks	-	-	-	-
Host business networks	-	-	Positive	Negative
Social networks	Negative	-	-	Positive
Government links	-	-	-	-
Business strategy	Positive	-	-	Positive
Global strategy	Positive	-	-	Negative
Need for control	Negative	-	-	Positive
Motives of Entry	-	-	-	Positive
Following clients	-	Positive	-	Positive
Market seeking	-	Negative	-	Negative
Resource strategy	Negative	-	-	Positive
Resource exploitation	Negative	-	-	Positive
Resource seeking	-	Negative	-	Negative
Competitive strategy	-	-	-	Positive
Cost reduction	Positive	-	-	Negative
Product differentiation	-	-	-	Positive
Focus strategy	-	-	-	-
Innovation orientation	-	-	-	Positive
Service orientation	-	-	-	Negative
Degree of intangibility	-	-	Negative	-

6.2.1 The Effects of Internal Factors on Market Selection

Although researchers explained some models for the choice of target markets, their focus was mainly on the environmental factors, such as the host country characteristics including proximity, market potential, competition intensity, available resources, similar culture and country risk (see Hitt *et al.*, 2006; Koch 2001a, 2001b; Sakarya *et al.*, 2007). However, Koch (2001a) considered firm resources, networking and the strategic orientation of firms among the factors that influence the choice of foreign markets.

The results of hypothesis testing show that firm capabilities have a significant negative relationship with market selection that originates from the negative effect of market knowledge. This means that Malaysian service firms that collect required market knowledge and information may restrict their operations to the regional markets instead of expanding into global markets. This is in contradiction to the literature, which argues that when firms accumulate enough knowledge about the conditions of foreign markets, they will be able to venture into global markets and enjoy global synergy (Axelsson and Johanson, 1992; Blomstermo *et al.*, 2004; Eriksson and Chetty, 2003; Hadley and Wilson, 2003). As stated in Chapter 5, such a contradiction may have three reasons: first, as most attractive emerging markets, such as China and India, are located in the Asia-Pacific region, Malaysian service firms do not perceive a strong motive to move beyond their region; second, as Malaysian service firms suffer from the lack of resources, they have less tendency for a global expansion; third, Malaysian service firms with a low market knowledge can hire experienced managers and expatriate who can help them access such knowledge (Nakos and Brouthers, 2002; Trevino and Grosse, 2002; Whitelock and Jobber, 2004).

Another significant relationship is observed between the network relations of Malaysian service firms and their market selection strategy. This negative relationship

is because of the negative effect of social networks on market selection so that those Malaysian service firms that rely on strong social networks, such as family firms and ethnic relationships, are more likely to concentrate their operations in the regional markets, where they deal with their relatives and ethnic networks (Thirawat *et al.*, 2007). Many of the businesses owned by the Chinese take advantage of their Guanxi relationships with the Chinese executives in their neighbouring countries that enable them to share knowledge and experience and access the capabilities that are required for expansion into foreign markets (Menzies and Orr, 2010; Pananond, 2007; Sim, 2006). Furthermore, firms may use family relationship to acquire resources and enhance their capabilities (Sim, 2006).

A major social network that was ignored by the literature is the relationship based on the religious beliefs. One of the respondents of the survey explained that the relationship with their partners in Saudi Arabia as Muslim brothers is more important than the ethnic relationship. This is the reason for the investment of the Malaysian services in the Middle East and North Africa, especially in the construction industry as well as the oil and gas services. In Asia-Pacific, the investment of Malaysian services in Indonesia and Brunei with the Muslim majority is also based on the religious linkage.

The business strategy influences the market selection strategy of the Malaysian service firms in a positive direction. This is because service firms with a global strategy are more likely to venture into global markets. In contrast, firms with a multinational strategy prefer to operate in the regional markets. The support for this relationship comes from the literature, which suggests that firms with a multinational strategy try to customize their products or services to the preferences of local customers. Therefore, they prefer to focus on few regional markets while firms with a global strategy offer their standardized services to numerous global markets with similar customer demands (Evans *et al.*, 2008; Florin and Ogbuehi, 2004; Kolk and Margineantu, 2009).

As expanding into global markets requires a higher level of resource commitment, firms from developing countries, such as Malaysia, usually concentrate their operations in a small number of regional markets because they suffer from a lack of resources (Aykut and Goldstein, 2008; Bradley and Gannon, 2000). According to Chidlow *et al.* (2009), such firms may benefit from geographic proximity, low transportation costs and high quality infrastructure. In addition, SMEs prefer a regional expansion due to the lack of knowledge and resources (Jansson and Sandberg, 2008). Researchers relate the business strategy of firms to the conditions of the industry in which they operate. In other words, in the industries that are highly globalized, such as ICT services, firms tend to enter global markets. In contrast, some industries require valuable technology, skilled labour force and available suppliers. Firms that operate in such industries concentrate their activities in a few regional markets (Fahy, 2002; Hit *et al.*, 2006).

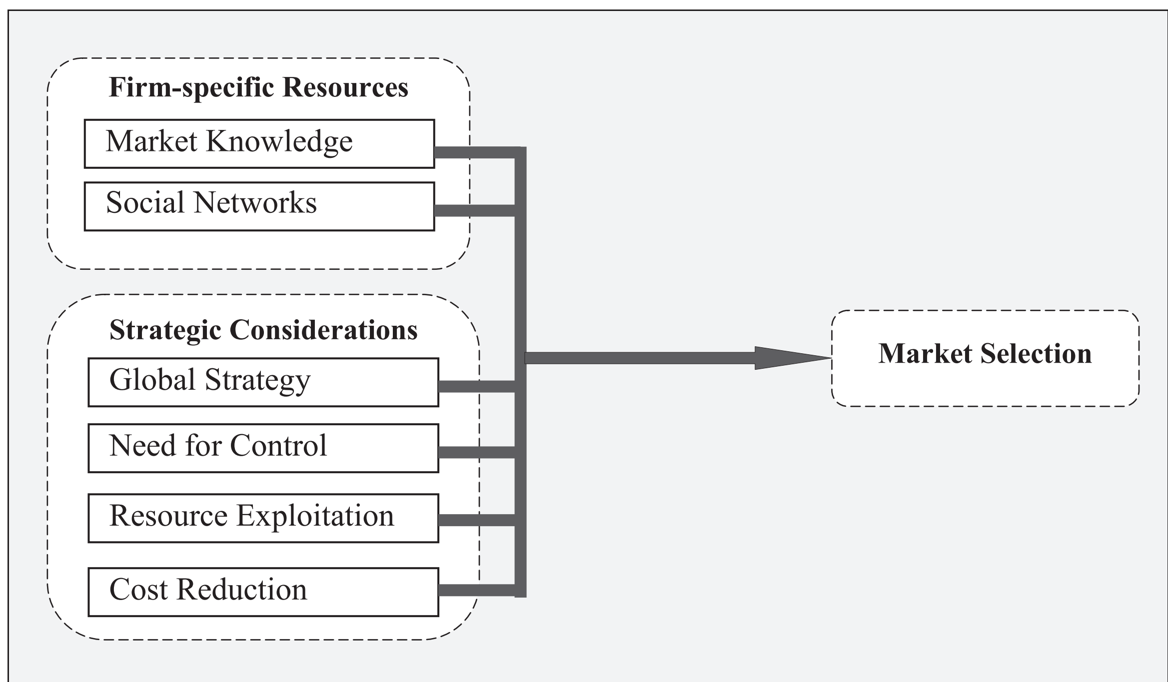
In addition, the study found a significant negative relationship between the need of Malaysian service firms for control and their market selection strategy so that those firms that need to exercise higher control over their foreign operations prefer to expand into the regional markets instead of global markets. According to Reiner *et al.* (2008), as controlling foreign affiliates in global markets is difficult, firms may restrict their geographic expansion and avoid going global.

The results of hypothesis testing show that the resource strategy of the Malaysian service firms can negatively influence their choice of target markets. This relationship originates from the negative effect of the resource exploitation factor. This means that if a service firm has valuable resources as its competitive advantage and ventures abroad to exploit such resources, it prefers to concentrate its operations in the regional markets. This helps the firm to exercise higher control over its resources and capabilities (see Dunning *et al.*, 2007; Ekeledo and Sivakumar, 1998; Kim and Hwang, 1992; Malhotra *et al.*, 2003; Reiner *et al.*, 2008).

Although the study did not find a strong relationship between competitive strategy and market selection, the results show that cost reduction strategy has a positive effect on market selection. This means that firms that offer low cost services in foreign markets and venture abroad to compete with local firms based on their cost advantage will enter global markets. This is consistent with previous research, which proposed that by expanding into global markets, firms can use global synergy, access advanced technology and raw materials, achieve economies of scale and reduce production costs (see Griffin and Pustay, 2002; Kim and Hwang, 1992; Ling and Chan, 2008; Luo and Zhao, 2004; Porter, 1985). Operating in global markets enables such firms to gain more profits and experience a better performance in the long run (Kim and Hwang, 1992; Porter, 1985).

Figure 6.1 shows a framework to explain the effects of internal factors including firm-specific resources and strategic considerations on the market selection strategy of Malaysian service firms. However, environmental factors may have their independent influence on this strategic choice.

Figure 6.1: A Framework for the Market Selection of Malaysian Service Firms



6.2.2 The Effects of Internal Factors on the Order of Entry

The order of market entry is a strategic issue that was widely used in the literature as the importance of the first mover advantage for firms at the time of market entry. However, such an advantage mainly refers to the Western MNCs as the pioneers of the international business activities, especially those that have a monopolistic advantage and plentiful resources (see Hymer, 1960, 1976; Sivakumar, 2002). Firms that are first movers can obtain more resources, minimize costs, and achieve economies of scale, customer loyalty and better performance (see Brandts and Giritligil, 2008; Hill, 2008; Keegan and Green, 2008; Tuppura *et al.*, 2008). However, according to Brandts and Giritligil (2008), market entry is a dynamic process so that firms that are more efficient eventually replace those with less efficiency. Therefore, Malaysian service firms that mostly compete based on lower costs and competitive prices can enter foreign markets as late movers and replace the former market players.

The results of hypotheses testing show that few significant relationships between the internal factors and the order of entry. The first effect is the positive relationship between market knowledge gained by Malaysian service firms and their order of entry. This means that firms with required knowledge and information regarding the market conditions in host countries are more likely to take advantage for being early movers. The literature supports such a finding and suggests that firms from developing countries obtain market knowledge through their network relations and can identify opportunities in emerging markets in order to enter such markets before their competitors (Axelsson and Johanson, 1992; Blomstermo *et al.*, 2004; Pananond, 2007). The access to market knowledge can help these firms to reduce the risks of investment.

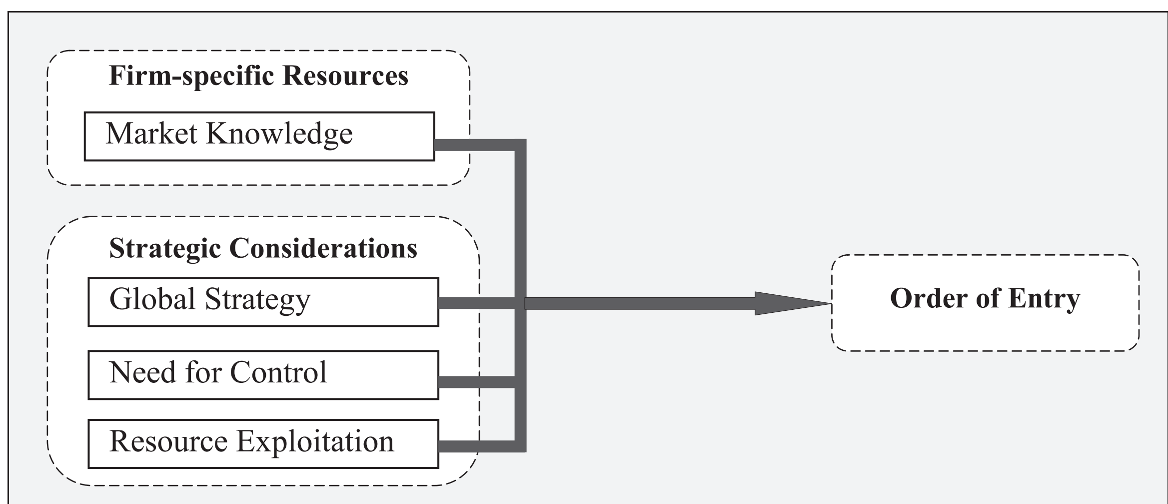
This study also found that the clients following strategy has a positive relationship with the order of entry so that firms that follow their clients in foreign markets and provide services to their existing customers overseas are able to benefit from an early

mover advantage. In contrast, the market seeking strategy has a negative effect on the order of entry. Therefore, firms that enter foreign markets to find new customers are mainly late movers. Such a finding is consistent with Ekeledo and Sivakumar (2004) who suggested that firms with a market seeking strategy face greater investment risk and higher competition intensity in international markets. This may prevent them from foreign expansion. Therefore, firms that follow their clients are usually early entrants to foreign markets while market seekers are late entrants (Erramilli and Rao, 1990).

There is also a significant negative relationship between the resource seeking strategy and the order of entry. This means that Malaysian service firms that enter foreign markets to obtain resources and complementary assets are usually late movers and cannot benefit from an early mover advantage. This is because going abroad and doing business overseas requires financial resources, knowledge and technology while such resource seeker firms suffer from the lack of resources that hinders them from an early expansion. However, these firms can enter foreign markets as a late mover, enjoy the global synergy and gain economies of scale (Barnat, 2005; Kim and Hwang, 1992).

Figure 6.2 illustrates a framework to explain the effect of internal factors on the order of foreign market entry made by the Malaysian services based on the results of hypothesis testing.

Figure 6.2: A Framework for the Order of Entry of Malaysian Service Firms



6.2.3 The Effects of Internal Factors on the Time of Entry

Regarding the timing of foreign market entry, Biggadike (1979) divided firms into two groups – experienced firms, which expanded after 8 years operation in their home country, and new ventures, which expanded overseas within the first 8 years of their domestic operation. The results of this study show that in some industries, such as transportation, communications and ICT services, firms were mostly new ventures at the time of entry while in other industries, such as construction, engineering, finance and trading, most firms expanded overseas after gaining experience in the domestic market. However, the literature has not given attention to the factors that differentiate firms in terms of the time of their market entry. Researchers have mainly focused on environmental factors, such as market potential, environmental instability, competition intensity and the institutional setting of the host country, as the determinants of entry timing (see Lévesque and Shepherd, 2002; Papyrina, 2007). In contrast, recent studies relate entry timing to organizational factors, i.e. firm-specific resources and strategic consideration (Lee, 2009; Tuppura *et al.*, 2008).

The findings of hypotheses testing indicate that the there is a significant negative relationship between the tangible assets of the Malaysian service firms and the time of their entry into foreign markets. If a firm possesses valuable tangible assets or financial resources, it will favour a late expansion. Such a surprising result originates from two marginally significant and negative effects of firm size and profitability. This means that larger firms with higher profitability tend to expand later while new ventures that suffer from the liability of smallness and the liability of newness, lack resources and experience lower profitability are more likely to go abroad in an early time frame. This is inconsistent with the previous research that suggested that to bear the costs of foreign operation, firms need tangible assets and financial resources (see Bobillo *et al.*, 2007; Cort *et al.*, 2007; Quer *et al.*, 2007; Pablo, 2009).

Another contradictory result is the significant negative relationship between business experience and the time of entry. This means that Malaysian service firms with experience in doing business in foreign markets are less likely to expand earlier while those firms with the lack of experience usually expand earlier. This is in contrast with the previous studies, which linked the entry timing to the experiential knowledge and business experience so that experienced firms perceive lower risk of investment and can venture abroad faster. Only if firms enter the target markets that have a high cultural difference, they will postpone their market entry (see Mitra and Golder, 2002; Tuppura *et al.*, 2008).

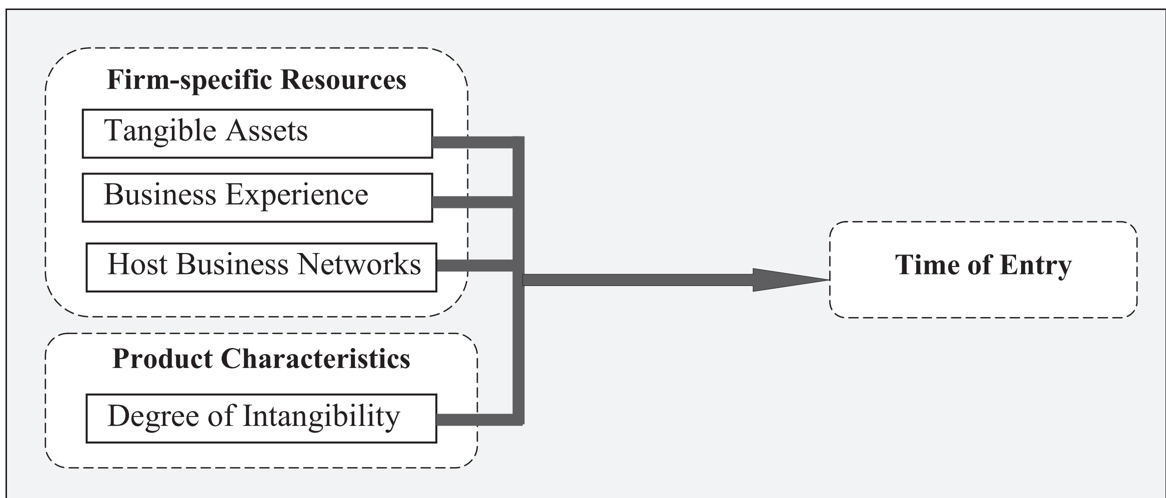
The reason for these two contradictory results is found in the significant positive relationship between business networks at the host countries and the time of entry. This means that firms that benefit from the network relations with business firms in foreign markets are able to expand faster and earlier. Although Johanson and Wiedersheim-Paul (1975) in the internationalization theory suggested that firms internationalize their operations in a gradual process by acquiring experiential market knowledge over time and starting with exporting, the networks theory argues that business networks can be a means for gaining market knowledge (Papyrina, 2007). In other words, business networks can shorten the process of internationalization and help firms to benefit from the experience of their partners and overcome their liability of newness. Networking can provide capital, resources and market knowledge for firms with a low business experience. Therefore, such firms can venture abroad in the early stages of their growth (Axelsson and Johanson, 1992; Freeman and Sandwell, 2008; Kiss and Danis, 2008; Johanson and Mattsson, 1988; Sasi and Arenius, 2008; Sydow *et al.*, 2010).

Another finding of this study is the negative effect of the degree of intangibility on the time of market entry so that highly intangible service firms are not able to experience an early expansion. In other words, firms with high intangibility of services

need to market services that are not easily observable and it is difficult to evaluate the quality of such services. This needs higher costs and efforts for marketing, access to more information about customer preferences and market demand. Therefore, firms with highly intangible services need higher resource commitment that may hinder them from an early expansion. However, this effect has been ignored by the literature.

Figure 6.3 indicates a model based on the empirical results of the study to explain the relationship between the internal factors and the time of entry mad by the Malaysian service firms.

Figure 6.3: A Framework for the Time of Entry of Malaysian Service Firms



6.2.4 The Effects of Internal Factors on Entry Mode Choice

The literature of Internationalization has primarily concentrated on the choice of entry mode and its determinants. According to Kwon and Konopa (1993), the entry mode choice is the form of resource commitment and the ownership of foreign affiliates that a firm adopts when it decides to enter a foreign market. To minimize the risk of operation and investment, firms favour a mode that can decrease their risks and give them higher return. Selecting an appropriate entry mode influences the performance of firms and helps them survive in competitive markets (see Chung and Enderwick, 2001; Ekeledo and Sivakumar, 2004; Root, 1994).

Based on the degree of control that is exercised by firms, researchers have divided the modes of entry into two categories – high control modes including sole ownership and direct exporting, and low control modes, which include joint venture, contractual modes and indirect exporting (see Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004; Taylor *et al.*, 2000). This study also investigates the factors that cause firms to favour a high control mode or adopt a low control mode. Such factors may relate to internal or organizational factors and external or environmental factors. However, the focus of this study is on internal factors that are considered as the source of competitive advantage based on the resource-based view (see Barney 1986; Ekeledo and Sivakumar, 2004; Fahy, 2002; Wernerfelt, 1984).

The results of hypotheses testing show that unlike other internationalization strategies, most internal factors have a significant effect on the choice of entry mode. However, while previous research insisted on the importance of tangible assets and firm size on the entry mode choice (see Fahy, 2002; Sharma and Erramilli, 2004), this study did not find such a relationship. The contradiction between the result of this research and the literature concerning the role of firm size is not a surprising issue because some previous research faced conflicting findings (see Morschett, 2006; Quer *et al.*, 2007; Taylor *et al.*, 2000). According to Quer *et al.* (2007), firms may grow in size through using contractual modes and business networks. As Agarwal and Ramaswami (1992) pointed out, the entry mode choice may be influenced by other factors such as business experience and market potential rather than firm size. Therefore, small firms may invest directly in foreign countries, such as China, with high market potential.

The only strong impact of tangible assets was observed in the positive relationship between the financial strength of Malaysian service firms and their entry mode strategy. This means that service firms that access internal funds, financial resources and government incentives are more likely to adopt a high control entry mode. These firms

with financial strength can bear the risk of investment and commit more resources in foreign markets while those firms that suffer from the lack of financial resources should join partnerships (Chatterjee and Singh, 1999; Cort *et al.*, 2007; Quer *et al.*, 2007; Trevino and Grosse, 2002).

The relationship between the intangible assets of the respondent firms and their entry mode choice is positive and significant. This means that firms with valuable intangible assets are more likely to adopt a high control entry mode. Cloninger (2004) argued that intangible assets can increase the revenue of firms, which, in turn, helps them to make higher resource commitment. According to Fahy (2002), firms should protect their intangible assets through exercising higher control and establishing wholly owned subsidiaries. Thus, intangible assets have a stronger effect on the choice of entry mode compared to tangible assets. Such a strong influence originates from the positive effects of organizational culture and reputation on the entry mode choice.

As hypothesis testing indicates, Malaysian service firms with an innovative and supportive organizational culture have a greater tendency towards adopting high control entry modes. Such an adhocracy culture gives a firm a competitive advantage in foreign markets (Barney, 1986; Gregory *et al.*, 2009). The resource-based view suggests that innovative culture helps firms to compete in foreign markets. Firms with an innovative culture avoid partnerships in order to protect their cultural advantage (Coyne, 1986; Ekeledo and Sivakumar, 2004; Wernerfelt, 1989). In contrast, bureaucratic firms are not able to support creative employees and develop new products (Wallach, 1983). Therefore, they rely on the knowledge and technology of local partners. However, because employees resist against the corporate culture of business partners, these firms may fail in their partnership (see Badrtalei and Bates, 2007).

The survey respondent firms with a high reputation in foreign markets explained a high tendency towards high control modes. Previous research supports this relationship.

According to the eclectic paradigm, firm reputation is a source of ownership advantage. Firms with a strong brand name develop differentiated products and services in global markets. To protect their brand value and bear high advertising costs, firms need to use equity modes, especially wholly owned subsidiaries (Ahmad and Kitchen, 2008; Galan and Gonzalez-Benito, 2001; Park and Sternquist, 2008; Tsang, 2005). In addition, the resource-based view believes that firm reputation is a source of competitive advantage that increases profitability. Therefore, firms need to protect their reputation by adopting a high control entry mode (see Barney, 1991; Blomstermo *et al.*, 2006; Ekeledo and Sivakumar, 2004; Grant, 1991; Hall, 1992).

The results of hypothesis testing show a strong positive effect of firm capabilities on the entry mode choice. This means that the Malaysian service firms with valuable capabilities usually select high control entry modes. This is supported by previous research that emphasized the role of firm capabilities in the choice of entry mode (see Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Fahy, 2002; Hill *et al.*, 1990). Fahy (2002) suggested that the firm capabilities have a stronger influence on the entry mode choice compared to tangible assets and intangible assets. The important point is that all four dimensions of the firm capabilities factor have a significant positive effect on the choice of entry mode.

The access of Malaysian service firms to required market knowledge for foreign expansion has a positive relationship with the choice of entry mode so that firms with higher market knowledge will favour high control modes. As the internationalization theory suggests, firms need to acquire knowledge about market conditions in order to reduce the risk of investment. If the firm can gain necessary market knowledge during the gradual process of internationalization, it will be able to make higher resource commitment and establish wholly owned subsidiaries (Anderson and Gatignon, 1986; Johnson and Vahlne, 1977; Johnson and Wiedersheim-Paul, 1975; Pinho, 2007).

The relationship between business experience and the choice of entry mode is also positive and significant. In other words, Malaysian service firms with a high business experience in foreign markets are more likely to choose a high control mode. Based on the internationalization theory, business experience in foreign markets helps a firm to collect experiential knowledge (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990). The eclectic paradigm views multinational business experience as an ownership advantage that enables a firm to exploit foreign market opportunities and to use equity modes (see Agarwal and Ramaswami, 1992; Choo and Mazzarol, 2001; Dunning, 1977, 1980). The transaction cost theory argues that firms that lack business experience face more uncertainty and higher transaction costs. Therefore, they prefer low control modes or partnership. In contrast, business experience helps a firm to evaluate investment risk and select high control modes (see Anderson and Gatignon, 1986; Baek, 2003; Hadley and Wilson, 2003; Pinho, 2007; Williamson, 1985).

The resource-based view insists on the role of international business experience, as a source of competitive advantage, in determining the entry mode choice (Camisón and Villar, 2009; Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Fahy, 2002; Pehrsson, 2008; Trevino and Grosse, 2002). According to Meschi and Metais (2006), by operating in foreign markets, firms accumulate experiential knowledge, which increases their performance. Therefore, firms with high experience favour high control modes (see Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Kim and Hwang, 1992; Morschett, 2006; Randøy and Dibrell, 2002). The networks theory believes that firms can gain business experience through network relationships in the market (see Axelsson and Johanson, 1992; Blomstermo *et al.*, 2004; Eriksson and Chetty, 2003; Hadley and Wilson, 2003). In addition, the contingency theory supports the impact of business experience on the entry mode choice while considering the difference between service firms regarding this effect (see Ekeledo and Sivakumar, 1998; Okoroafo, 1997).

The relationship between tacit knowhow and the entry mode choice is positive and significant so that Malaysia service firms with a highly tacit service technology adopt a high control entry mode. The internalization theory considers tacit knowhow as a source of competitive advantage, which causes firms to face higher transaction costs in foreign markets. Therefore, firms with tacit knowhow favour high control modes to protect their expertise (Buckley and Casson, 1976; Claver and Quer, 2005; Rugman, 1981). The eclectic paradigm considers tacit knowhow as an ownership advantage that enables firms to conduct FDI operations overseas (see Dunning, 1988; Dunning *et al.*, 2007; Park and Sternquist, 2008; Talay and Cavusgil, 2009).

The transaction theory suggests that firms with a valuable tacit knowhow may perceive higher transaction costs and less investment costs. Consequently, such a firm stays away from partnership with other firms and prefers high control modes (Anderson and Gatignon, 1986; Chen and Hu, 2002; Kim and Hwang, 1992; Sanchez-Peinado *et al.*, 2007). In addition, the resource-based view considers tacit knowhow as a source of competitive advantage. Therefore, firms with a precious tacit expertise are more likely to internalize their business activities in foreign markets by adopting a high control entry mode (Claver and Quer, 2005; Ekeledo and Sivakumar, 2004; Fahy, 2002).

Proprietary technology also has a significant positive influence on the choice of entry mode made by the Malaysian service firms. This means that firms with a valuable proprietary technology are expected to select high control entry modes. Technological capability helps firms to develop high quality or differentiated products and decrease production costs (Kaya and Erden, 2008). According to Pananond (2007), firms from developing countries accumulate technological knowledge through an incremental learning process. After gaining a valuable proprietary technology, firms have to protect it from the opportunistic behaviour of their local partners. This increases the transaction cost for firms in foreign markets. Based on the transaction cost theory, the best way to

protect such a valuable technology is to internalize operations using a high control entry mode, especially in foreign countries in which the intellectual property laws are not effective (see Anderson and Gatignon, 1986; Chen and Hu, 2002; Douglas and Craig, 1995; Erramilli and Rao, 1993; Gatignon and Anderson, 1988).

The resource-based view considers proprietary technology as a major source of competitive advantage, which improves the position of firms in the market. To protect such a valuable firm-specific asset, firms need to exercise higher control by establishing wholly owned subsidiaries (Ekeledo and Sivakumar, 2004; Hill, 2008; Hill *et al.*, 1990). In addition, the contingency theory suggests that high technological content gives firms bargaining power and they have no need to share their business with local partners. Consequently, such firms choose full ownership (Ekeledo and Sivakumar, 1998).

This study only found two significant effects from the network relations on the choice of entry mode. The first effect relates to the negative relationship between business networks in host countries and the entry mode strategy, which was emphasized by the networks theory (Axelsson and Johanson, 1992; Blankenburg, 1995; Håkansson and Johanson, 1993; Johanson and Mattsson, 1988; Moen *et al.*, 2004). This means that firms with effective business networks adopt low control modes to find suitable local partners, access their complementary assets, gain long-term experiences and market knowledge from the network members, especially to overcome their liability of newness and the liability of smallness (Rutashobya and Jaensson, 2004; Tuppura *et al.*, 2008). Through partnership with the local firms and networking, firms not only access the network experiential knowledge but also experience a better performance in foreign markets (Ahmad and Kitchen, 2008; Blomstermo *et al.*, 2004).

The second influence of networking relates to the significant positive effect of social networks on the choice of entry mode so that the Malaysian service firms with stronger social networks adopt a high control mode in foreign markets. As most firms

from developing countries are considered as new ventures and small firms, they suffer from the lack of resources, knowledge and experience. Therefore, such firms need to use social networks and benefit from the experience and resources of other firms (Kiss and Danis, 2008; Sasi and Arenius, 2008). Social networks are informal relationships, which provide information from the internal and personal sources (Hutchinson *et al.*, 2006). Firms from developing countries join social networks based on ethnic relationships, such as Guanxi relationships among the Chinese executives, to gain market knowledge and competitive advantage. Therefore, these firms can commit more resources and adopt high control modes (see Pananond, 2007; Thirawat *et al.*, 2007).

The results of hypotheses testing show a significant positive relationship between the business strategies of the Malaysian service firms and their entry mode choice. This is consistent with the literature that suggested that the choice of entry mode is affected by the business strategy of firms (Bradley and Gannon, 2000; Lopez and Fan, 2009; Morschett, 2006). This relationship originates from the effects of both dimensions of business strategy on the entry mode choice in opposite directions.

The relationship between the global strategy of the Malaysian service firms and their entry mode choice is negative and significant. This means that the service firms with a global strategy adopt a low control entry mode while those firms with a multinational strategy prefer a high control entry mode. This is inconsistent with some previous studies, which argued that globally oriented firms exercise high control modes while firms with a multinational strategy adopt low control modes (Domke-Damonte, 2000; Ekeledo and Sivakumar, 2004; Fahy, 2002; Hill *et al.*, 1990). In addition, the internationalization theory believes that firms start their market entry by spreading into regional markets, initially by exporting and after acquiring experience and capabilities they become international firms (see Jansson and Sandberg, 2008). The transaction cost theory suggests that firms prefer to internalize their foreign operations to integrate their

affiliates and exploit synergy (see Kim and Hwang, 1992; Malhotra *et al.*, 2003). The resource-based view also insists that firms that follow a global strategy should be highly internalized (see Ekeledo and Sivakumar, 2004; Fahy, 2002; Hill *et al.*, 1990).

However, some researchers found conflicting results, which support the findings of this study. They suggested that the global oriented firms use low control modes to commit resources into various markets and minimize the costs and risks in each market (Bradley and Gannon, 2000; Lopez and Fan, 2009). According to Zhang *et al.* (2007), firms that enter new emerging markets with a global strategy initially adopt a joint venture mode and later switch to wholly owned subsidiaries. As controlling foreign subsidiaries in global markets is difficult, using a high control mode can limit the scope of foreign expansion (Reiner *et al.*, 2008). In addition, Slater *et al.* (2007) argued that firms that enter regional markets with similar markets and less cultural distance prefer to use FDI modes because they perceive a low investment risk.

Another effect of business strategy refers to the positive relationship between the need for control and the entry mode choice. This means that Malaysian service firms with higher need to exercise control over their foreign affiliates may prefer using high control modes. In contrast, service firms with the higher desire for autonomy prefer low control modes and allow their subsidiaries to participate in decision making. Exercising higher control forces firms to commit more resources. This increases investment risks and decreases efficiency (Anderson and Gatignon, 1986; Davidson, 1982; Morschett, 2006). However, using sole ownership helps firms to coordinate their foreign affiliates (Domke-Damonte, 2000; Morschett, 2006).

The relationship between the motives of entry of the Malaysian service firms and their choice of entry mode is significant and positive. This relationship originates from the effects of both dimensions of the motives of entry on the entry mode choice, however, in opposite directions. The client following strategy has a positive effect on

the entry mode choice so that Malaysian service firms, which follow their clients in foreign markets, are more likely to use a high control entry mode. As the literature suggests, firms that follow their clients will face lower risks and competitive pressure because domestic customers are available in the target market. Therefore, they adopt high control modes to protect their competitive advantage and retain their customers (Banerji and Sambharya, 1996; Ekeledo and Sivakumar, 1998; Kim *et al.*, 2002; Sanchez-Peinado *et al.*, 2007; Terpstra and Yu, 1988). They may also establish network relationships with their customers (Bouchard, 1992; Ling and Chan, 2008).

The relationship between the market seeking strategy and the entry mode choice is significant and negative. In other words, the Malaysian service firms who look for new customers in foreign markets select a low control entry mode. A major support for this finding comes from the eclectic paradigm that suggests that new ventures adopt the market seeking strategy using contractual modes to extend their market, gain market knowledge and overcome their liability of newness (see Dunning, 1993a; Erramilli and Rao, 1990; Sanchez-Peinado *et al.*, 2007). In addition, firms that enter foreign countries to access new markets face a greater risk and higher competition intensity. Hence, they use low control modes, especially joint venture (Ekeledo and Sivakumar, 1998, 2004).

The study found a significant positive relationship between the resource strategy of the Malaysian service firms and their entry mode choice. This relationship originates from the impact of both dimensions on the entry choice in opposite directions so that firms with the resource exploitation strategy prefer to adopt a high control mode while those who seek resources in foreign markets usually adopt a low control mode. This is because according to Sanchez-Peinado *et al.* (2007), each resource strategy requires a different level of control. The literature suggests that when a firm ventures abroad to exploit its valuable resources and capabilities, such as reputation, managerial skills and proprietary technology, they need to protect them from the opportunistic behaviour of

local partners. Therefore, they should adopt a high control entry mode, especially by establishing a wholly owned subsidiary (see Ahammad and Glaister, 2008; Ekeledo and Sivakumar, 2004; Kim and Hwang, 1992; Sanchez-Peinado *et al.*, 2007).

According to the transaction cost theory, firms that transfer their resources to foreign markets need to protect them through internalizing the flow of knowledge and resources or exerting full control over their operations and marketing activities (see Lu, 2002; Osland *et al.*, 2001). Such a control may result in increasing the performance of firms and minimizing uncertainty in new markets (Chen *et al.*, 2006; Kirca, 2005). The eclectic paradigm emphasizes the role of control in protecting the ownership advantages of firms, especially the knowledge and capabilities, which resides in the human capital (see Dunning *et al.*, 2007; Jaussaud and Schaaper, 2006; Karhunen *et al.*, 2008). The resource-based view argues that to exploit valuable resources, firms should adopt a high control mode (Baek, 2003; Ekeledo and Sivakumar, 2004; Malhotra *et al.*, 2003).

In contrast, the Malaysian service firms that need to acquire resources and new capabilities in foreign markets prefer to use a low control entry mode. The literature supports this finding and suggests that participating in collaborative entry modes, such as joint venture or strategic alliances, helps such firms to access their required resources (Ekeledo and Sivakumar, 2004; Lu, 2002; Madhok, 1997; Sanchez-Peinado *et al.*, 2007; Terpstra and Sarathy, 1994). According to Taylor *et al.* (2000), the need of firms for supplementary resources makes them dependent on local suppliers and partners. Therefore, firms that seek complementary resources from a local firm have to adopt a low control entry mode (see Ekeledo and Sivakumar, 2004; Cheng, 2006; Lu, 2002; Taylor *et al.*, 2000).

The relationship between the competitive strategy of the Malaysian service firms and their choice of entry mode is significant and positive. The literature supports the role of competitive strategy in determining the entry mode choice (see Morschett, 2006;

Porter, 1985). This relationship originates from the effects of four dimensions so that firms with the product differentiation and innovation orientation strategies have a greater tendency to adopt a high control entry mode while those with the cost reduction and service orientation strategies prefer to select a low control mode.

The positive effect of product differentiation on the entry mode strategy means that the Malaysian service firms, which offer differentiated and high quality services, are more likely to adopt a high control mode. According to the transaction theory, firms with differentiated products or services face the opportunistic behaviour of local firms. Therefore, they should protect their technology and expertise by exercising high control over their resources through full ownership (Agarwal and Ramaswami, 1992; Anderson and Gatignon, 1986; Choo and Mazzarol, 2001; Czinkota *et al.*, 2009; Erramilli and Rao, 1993; Nakos and Brouthers, 2002; Pantelidis and Kyrkilis, 2005). In addition, the eclectic paradigm argues that firms need to choose high control entry modes to protect the competitive strategy as a source of ownership advantage (Brouthers *et al.*, 1996; Nakos and Brouthers, 2002; Osborne, 1996; Pinho, 2007).

In contrast, the cost reduction strategy has a negative effect on the entry mode choice so that the Malaysian service firms, which offer low-cost services, favour a low control entry mode. Previous studies pointed out that firms that seek efficiency and try to produce cheaper products or services need to acquire modern technologies, low cost raw materials and the complementary resources of local partners (Griffin and Pustay, 2002; Ling and Chan, 2008; Luo and Zhao, 2004; Malhotra *et al.*, 2003; Morschett, 2006; Porter, 1985). To access low cost resources and cheap labour force, firms expand their operations into developing countries and emerging markets (Chen *et al.*, 2006; Chidlow *et al.*, 2009; Enderwick, 2009; Reiner *et al.*, 2008; Sim, 2006). According to the transaction cost theory, firms externalize their activities using low control modes and outsourcing contracts in a competitive market in order to reduce transaction costs

and offer low cost products (Anderson and Gatignon, 1986; Singh and Kogut, 1989). The resource-based view suggests that by outsourcing, firms can decrease their service delivery costs, achieve the economies of scale and the market knowledge of local partners (Heshmati, 2003; Morschett, 2006).

The study did not find any significant relationship between the focus strategy of the Malaysian service firms and their choice of entry mode. As the literature suggests, firms that offer special services to a specific segment in the market are able to adopt both high control and low control modes (Ekeledo and Sivakumar, 2004; Luo and Zhao, 2004). Such firms concentrate their operations on a specific market segment and can exploit a niche market within an industry (Luo and Zhao, 2004; Porter, 1980). Luo and Zhao (2004) suggested that firms with a focus strategy need a higher level of resource commitment than firms with the cost reduction strategy and a lower level compared to those with the product differentiation strategy. Therefore, such firms may adopt any type of entry mode depending on other conditions.

The Malaysian service firms that are innovation oriented and offer inventive services show a greater tendency towards selecting a high control entry mode. This is consistent with the literature, which considers innovation as an intellectual property that enables firms to offer differentiated products, achieve a higher profitability, respond to local customer needs, increase customer loyalty and gain a competitive advantage in foreign markets (see Hargroves and Smith, 2005; Pantelidis and Kyrkilis, 2005; Porter, 1990; Simpson *et al.*, 2006). According to the eclectic paradigm, to protect such an intellectual property and competitive advantage from the opportunistic behaviour of their competitors, innovative firms have to use FDI modes (Gollin, 2008; Pinho, 2007; Pantelidis and Kyrkilis, 2005; Trevino and Grosse, 2002).

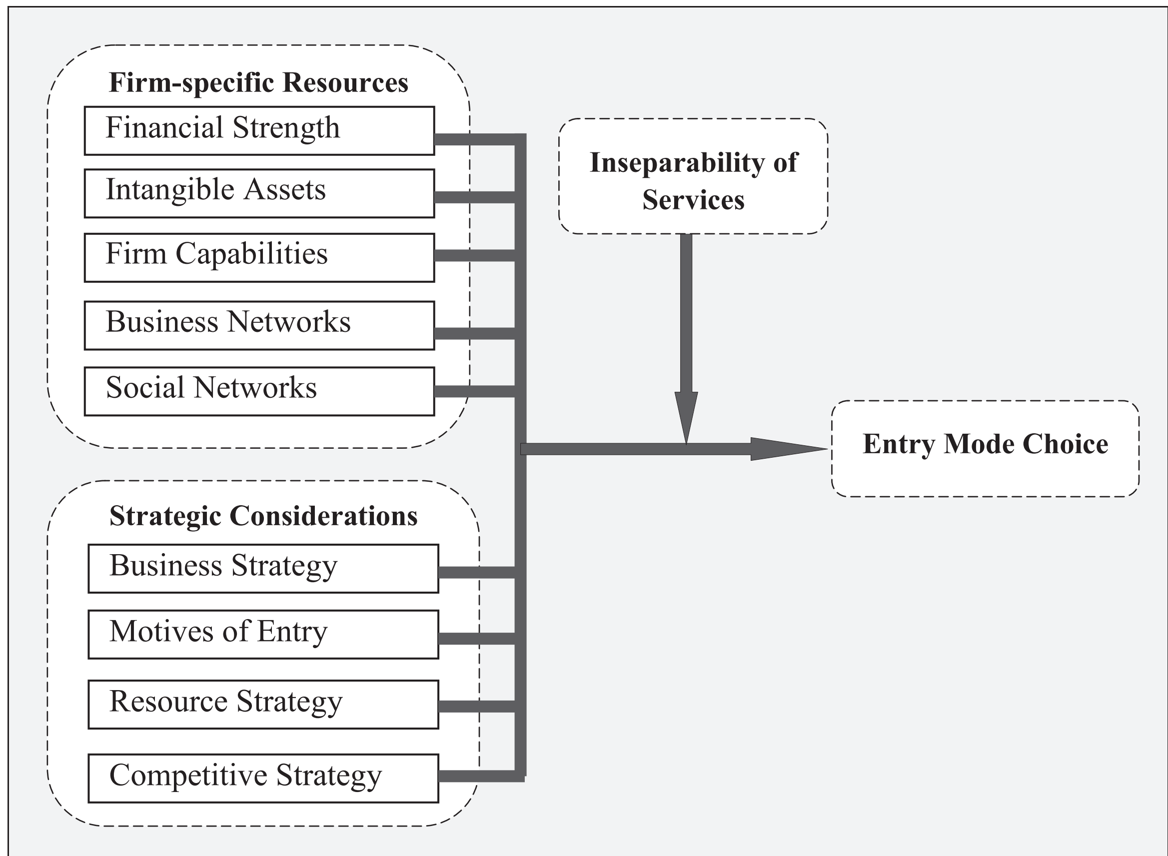
The Malaysian service firms that are service oriented and offer before or after sales services as their competitive advantage prefer to adopt low control entry modes.

Recently, manufacturing firms are giving more attention to their supporting activities such as before-sales services, after-sales services, product delivery and customer service (Chung and Enderwick, 2001; Javalgi and Martin, 2007; Morschett, 2006). In addition, service firms in industries such as telecommunication, retailing, finance and food chains provide supportive services for their customers in foreign markets. Sometimes, a firm cannot offer supportive customer services by its affiliates. Therefore, it can adopt a low control mode or outsource such services to local partners. In contrast, if a firm offers additional services as its competitive advantage, it will adopt a high control mode, such as a wholly owned subsidiary (Chung and Enderwick, 2001; Morschett, 2006).

The role of inseparability in moderating the effect of internal factors on the choice of entry mode was examined in this research and the results show that firms that offer inseparable services have higher tendency to adopt a high control if they use a global strategy while separable services with a global strategy prefer a low control mode. In addition, although soft service firms with inseparable services usually adopt high control modes to protect their service quality and brand name, those inseparable service firms that rely on business networks at their home country or social networks favour low control modes. This is because they can gain market knowledge and find qualified and trustworthy partners using their networks. Such moderating effects were ignored by the literature, while the findings of previous research on the moderating effect of inseparability on the role of firm size, business experience, reputation and proprietary technology were not supported by the results of data analysis.

Figure 6.4 illustrates a framework based on the empirical results of the study to explain the effect of internal factors on the entry mode choice of Malaysian service firms. This model also considers the limited moderating effects of the inseparability of services on the relationship between the internal factors and the entry mode choice as explained in Chapter 5.

Figure 6.4: A Framework for the Entry Mode Choice of Malaysian Service Firms



6.3 Contribution of the Study

The present study has three different contributions to knowledge – theoretical, methodological and empirical. This is because the literature of international business has many gaps and shortcomings. To fill the gaps and explore new facts in relation to the process of internationalization in the context of Malaysian service industries, this study follows an adapted framework and hypotheses based on previous research. In this section, all contributions of the study are explained and discussed.

6.3.1 Theoretical Contribution

As stated in chapter 1, the present research does not provide a comprehensive model for internationalization, which includes all factors that determine the strategic decisions of firms for their foreign expansion. In contrast, it combines some previous models that are based on a parsimony method and only embrace major determinants of the internationalization strategies. However, the study tried to consider a wide range of

independent factors affecting such strategies (see Whetten, 1989). This helps the study to offer a deeper insight into the process of international expansion while focusing on a set of variables that are more important for firms and can be manipulated and controlled by the firms and the government.

Although most previous research was based on a specific viewpoint or a limited number of theories, this study for the first time considered nine major theories that have been developed since the 1960s. Researchers classified the earlier theories into three paradigms – the market imperfection paradigm, the behavioural paradigm and the market failure paradigm, while another two theories, i.e. the resource-based view and the contingency approach were currently developed (see Cumberland, 2006; Ekeledo and Sivakumar, 2004; Sharma and Erramilli, 2004; Zhao and Decker, 2004).

However, some theories are not able to explain the internationalization process of firms in the context of this study because of different settings, time requirement, industry factors and the development level of the firms' home country. In addition, some theories can partially contribute to the process of describing and predicting the strategic decision behaviour of business firms in international markets. For example, the internationalization theory explains the gradual market entry of firms after gaining experience while the networks theory focuses on the role of networks in shortening the time of entry and providing knowledge for new ventures (see Cumberland, 2006).

The present study applied the logic of the transaction cost theory, which suggests that firms make their strategic choices based on trade-offs between the costs and benefits of direct investment in foreign markets (see Anderson and Gatignon, 1986). In addition, the eclectic paradigm and the resource-based view were applied as a basis for the proposed model of the study, in which the internal factors, including firm-specific resources, strategic considerations and product characteristic, were used as the source of the ownership advantage or competitive advantage of firms and the determinants of

their internationalization strategies (see Dunning, 1977, 1980; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Fahy, 2002; Morschett, 2006).

The study's framework is more comprehensive than previous research regarding the internationalization of firms from developing countries that primarily focused on technological capability and network relations as the sources of competitive advantage (Ahmad, 2008; Ahmad and Kitchen, 2008; Pananond, 2007; Thirawat *et al.*, 2007). The internal or organizational factors were classified into nine independent variables that include 26 dimensions, which, in turn, mostly were considered as independent variables in previous studies.

A contribution of this study is to include networks relations in the firm-specific resources. The network relations were divided into business networks at the home and host countries, social networks and government links (see Ahmad and Kitchen, 2008; Johannessen and Olsen, 2009; Kiss and Danis, 2008; Thirawat *et al.*, 2007). In addition, as the literature did not clearly distinguish and categorize the strategic considerations of firms, this study classified them into four categories based on the scope of foreign business, the motives for market entry, the need for acquiring or protecting valuable resources and the strategies for competing with the potential rivals in foreign markets. Moreover, this is the first time that all the strategic considerations with all their dimensions were considered and their influences were empirically investigated.

The most important theoretical contribution of this study is its comprehensive approach towards the strategies of internationalization while most previous research only focused on one of these strategies as their dependent variables, especially the choice of entry mode (see Agarwal and Ramaswami, 1992; Blomstermo *et al.*, 2006; Chen and Mujtaba, 2007; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993). Some studies considered two strategies at the same time, especially market selection and the entry mode choice (see Koch, 2001a, 2001b; Moen *et al.*, 2004). Although some

qualitative studies tried to investigate the internationalization strategies in a wider perspective (see Ahmad, 2008; Andersson *et al.*, 2006; Bianchi, 2009; Pananond, 2007), this is the first quantitative study that considered all four dependent variables related to the internationalization strategies, i.e. the market selection, the order of entry, the time of entry and the choice of entry mode.

6.3.2 Methodological Contribution

Compared to previous research, this study made some contributions in relation to the research methodology. Actually, most studies concerning the internationalization strategies of firms from developing countries used a qualitative method and conducted in-depth interviews with the executive managers of the selected sample companies (see Ahmad, 2008; Ahmad and Kitchen, 2008; Pananond, 2007). This is because the internationalization of firms from such countries is a new phenomenon, and, therefore, the number of firms that have ventured abroad is limited. This results in a sample that is too small for a quantitative study (Ahmad, 2008; Pananond, 2007; Yin, 2009). However, in recent years, the number of Malaysian service firms that have entered foreign markets has significantly increased and at the end of 2010, this study identified 303 public-listed service firms to be included in the initial sample of the study.

Moreover, most Malaysian firms avoid personal interviews because they are not willing to reveal their business secrets. Therefore, this study applied a quantitative method and sent mail questionnaires to the top executive managers of the sample of Malaysian service firms. This method has been commonly used in the literature of the internationalization of firms from developed countries (see Agarwal and Ramaswami, 1992; Blomstermo *et al.*, 2006; Brouthers, 2002; Brouthers and Nakos, 2004; Chen and Mujtaba, 2007; Chung and Enderwick, 2001; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1990, 1993; Evans, 2002; Kwon and Konopa, 1993; Nakos and Brouthers, 2002; Tsai and Cheng, 2002, 2004).

6.3.3 Empirical Contribution

The first empirical contribution of this study is that it concerns the strategies of firms from a developing country whereas the literature of internationalization mostly focuses on the strategies of firms from developed countries including the US, Western Europe and Japan (see Agarwal and Ramaswami, 1992; Blomstermo *et al.*, 2006; Brouthers and Brouthers, 2001, 2003; Brouthers and Nakos, 2004; Chang and Rosenzweig, 1998; Chen and Mujtaba, 2007; Dunning, 1980; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1990, 1993; Hennart, 1991; Kwon and Konopa, 1993; Morschett, 2006; Quer *et al.*, 2007; Taylor *et al.*, 2000).

In addition, this study selected Malaysia as its context to conduct an empirical investigation, as a developing nation with a newly industrialized economy and a high economic growth while most previous research concerning firms from developing countries studied the internationalization process of firms from emerging Eastern Asian markets, such as South Korea, Taiwan and China (see Cheng, 2006; Erramilli *et al.*, 1999; Kim *et al.*, 2002; Lin, 2009; Tsai and Cheng, 2002, 2004; Young *et al.*, 1996). At the same time or after the beginning of this study, other researchers started other studies in relation to the internationalization of Malaysian firms (see Ahmad, 2008; Ariff and Lopez, 2007; Dwinger, 2010; Hanid *et al.*, 2008; Juan, 2008; Karimi and Yusop, 2009; Lim, 2010; Ramayah *et al.*, 2009; Tham, 2007; Yusof and Shah, 2008).

Previous research mainly explained the internationalization strategies of large multinational firms (Brouthers and Nakos, 2004; Choo and Mazzarol, 1998, 2001; Decker and Zhao, 2004; Pinho, 2007). However, in recent decades researchers have given more attention to the international expansion of SMEs (see Chen *et al.*, 2009; Choo and Mazzarol, 2001; Majocchi *et al.*, 2005; Nakos and Brouthers, 2002). This study used a comprehensive approach to investigate the strategies of both large and small Malaysian services and made comparisons between these two groups.

The literature has focused on the internationalization strategies of manufacturing firms based on the models that mainly originated from the industrial organizations (IO) theories (see Andersson and Svensson, 1994; Chung and Enderwick, 2001; Driscoll and Paliwoda, 1997; Kwon and Konopa, 1993; Tsai and Cheng, 2002, 2004). However, this study aims to explore the internationalization strategies of service firms based on the models proposed mainly by the resource-based view and the contingency approach (see Domke-Damonte, 2000; Ekeledo and Sivakumar, 1998, 2004; Erramilli and D'Souza, 1993; Erramilli and Rao, 1993; Quer *et al.*, 2007).

Although most previous research focused on firms from one or two industries as their sample of study (see Ekeledo, 2000; Kogut and Singh, 1988), the present study is a cross-sectional research, in which the strategies of firms from all different service industries, such as finance, retailing, construction, transportation and communications, are studied in order to achieve a deeper knowledge about the international strategies of Malaysian service firms. A major issue that has recently attracted researchers and was also examined by this study is the difference between separable and inseparable services in terms of their entry mode choice (see Ekeledo and Sivakumar, 1998, 2004; Erramilli and Rao, 1993).

6.4 Implications of the Study

One of the major strengths of a research is to be useful in different settings and be applicable by managers, academicians and so on. The present study was an attempt to explore the process of internationalization in the context of Malaysia as a fast growing developing country and a newly industrialized country (NIC). In addition, this study focused on services with a rapid growth and a high share in Malaysia's national economy. Therefore, to improve the capabilities of Malaysian service firms to have a successful presence in global markets, it is important to use the findings of this study. In general, the implications of the research findings can be in three aspects, as follows.

6.4.1 Theoretical Implication

As stated earlier, the present study made a critical investigation about the theories that explain the process of internationalization and the strategies of firms to succeed in foreign markets. These theories, as discussed in Chapter 2, were developed in different time periods and different settings. Therefore, some of them are not applicable in the context of Malaysian services. Therefore, this study focused on the suggestions of the resource-based view, the networks theory and the eclectic paradigm to propose a new framework for describing the role of internal factors in determining different strategic choices for expanding overseas including the choice of target market, the order of market entry, the time of market entry, and the choice of entry mode.

The resource-based models are able to provide a better explanation for the choice of entry mode in a market with perfect competition (see Ekeledo and Sivakumar, 2004; Madhok, 1997). In addition, considering the difference between service firms in terms of their inseparability can provide an opportunity to understand the logic behind the different entry strategies of Malaysian services (see Ekeledo and Sivakumar, 1998). However, the research findings show that a resource-based model cannot adequately explain the entry timing and market selection strategies, as it does not consider the role of environmental factors. Therefore, the OLI model of the eclectic paradigm is more helpful due to its focus on the location advantage (see Dunning, 1977, 1980).

In some industries, the monopolistic advantage theory of Hymer (1960) is more applicable, as firms have a monopolistic power or operate in an oligopolistic market, which enables them to access more resources and gain a stronger bargaining power. The networks theory also helps the study to justify the entry timing strategy of service firms. In addition, the internationalization theory explains why Malaysian services focus on the regional markets, where they face low psychic distance because of similar culture, language, religion and business environment (see Johansson and Vahlne, 1977).

The theoretical contributions of this study, especially its reliance on a wide range of theories, the investigation of the moderating effects of service inseparability and the examination of the effects of all internal factors provides an opportunity to establish useful frameworks for future research. The results of this study also support the assumptions of the contingency theory, which suggests that firms do not necessarily follow a logical process in their decision making to choose an optimal option while they have to make their choices under internal and external pressures and find appropriate solutions for their foreign operations (see Kumar and Subramaniam, 1997).

6.4.2 Research Implication

As an academic research, the results of this study should be applicable for other researchers in different settings. The wide approach of this study towards the factors that determine the internationalization strategies of firms can be used by future studies to offer accurate explanations while previous research followed a narrow approach and focused on a limited number of factors that are not able to adequately describe the strategic decisions of firms (see Ahmad, 2008; Pananond, 2007; Thirawat *et al.*, 2007). This makes the study more effective and informative. In addition, the present research extended the results of qualitative studies such as Ahmad (2008) and Pananond (2007) to a quantitative study. Therefore, based on the findings of such studies and combined with the suggestions of the established theories, a model was proposed and examined by a quantitative method. This approach helped the study to examine the assumptions of previous theories.

Although the scope of the study was limited to the firms involved in service industries, it can be used as a basis for studying the strategies of manufacturing and agricultural firms as well. This is especially important as the development of Malaysian industries is not limited to services. Moreover, as the largest world agriculture-based MNCs belong to Malaysia, it is necessary to conduct detailed studies to evaluate the

strategies of such firms. Another implication of this study for research purposes is that it has made it possible to study the strategies of large MNCs and SMEs at the same time. As the number of Malaysian SMEs that venture abroad is increasing, researchers should give more attention to the international strategies of SMEs and new ventures.

6.4.3 Managerial Implication

Previous research assumed that managers make their decisions based on clear and logical methods (see Aharoni, 1966; Beach and Mitchell, 1978). According to Kumar and Subramanian (1997), managers select an appropriate strategy after evaluating time, resources and the quality of available information, selecting a decision-making strategy, and data collection and analysis. The resource-based theory suggests that managers adopt a strategy that the resources of their firms can support (Ekeledo and Sivakumar, 2004). However, the results of this study reveal the fact that the strategic choices made by managers regarding their foreign operations follow a pattern that has resulted from the effects of various internal and environmental factors.

The managers of Malaysian service firms can use the results of this study to identify the factors that they should consider in their strategic choices. They can also assess the pattern of the choices made by other firms and adjust their strategies with them if required. They also need to identify their network relationships and use such networks in order to compensate the lack of resources and knowledge, and to find suitable partners in foreign markets. Business networks, social networks and the link with the government can support firms for resource commitment. However, the results show that the high reliance on networks may cause a delay in foreign expansion.

The strategic considerations should be clearly defined when managers need to make decisions for entering foreign markets. Managers should decide on a business strategy between a regional or global scope of expansion and adjust their strategies to such a scope. In addition, they should consider their resource strategies while making

their choices. Furthermore, the competitive strategies of firms have to be clearly established and managers should make choices that match such strategies. For example, a firm that competes based on low cost services has to enter global markets and seek cheaper resources to achieve its goals.

As Ahmad (2008) pointed out, the role of government in the internationalization of firms is essential. The Malaysian government encouraged the inward FDI flows into the country to facilitate the transfer knowledge and technology from the Western MNCs to the domestic firms (Ahmad, 2008; Karimi and Yusop, 2009). This helped Malaysian firms to enhance their capabilities and enter foreign markets as investors. The main competitive advantage of such firms is their ability to offer low cost products and services (Ahmad, 2008; Ismail and Yussof, 2003). However, according to Ismail and Yussof (2003), the emergence of Asian emerging markets, such as China, India and Vietnam, with a cheaper labour force and raw materials has decreased the competitive advantage of Malaysian firms. Therefore, the government should take immediate action to enhance the technological capabilities of firms and help them to compete by offering high quality products and services.

To increase the ability of Malaysian service firms to produce high quality services, government agencies should not only focus on offering investment incentives and tax reduction, but also they have to facilitate the process of acquiring knowledge and technology, training human resources and promoting Malaysian brands overseas. This strategy can result in the leverage of the country image of Malaysia as a provider of high quality services. The government can also encourage the financial institutions to play a more effective role in financing the foreign operations of Malaysian firms. In addition, the government agencies have to promote a supportive and innovative culture in service firms so that by decreasing bureaucracy, managers can take greater risks and make a higher resource commitment.

6.5 Limitations of the Study

The present study has faced various limitations. The main obstacle for doing such a study was the lack of information and a detailed directory about the firms that ventured abroad whereas in developed countries researchers use exhaustive directories to select their sample and access their information. In addition, although the number of Malaysian service firms that internationalize their operations is increasing, it is not yet enough to have a large sample for the study. Therefore, the small sample size caused some problems regarding data analysis and also decreased the degree of generalizability of the research findings.

Another problem that the research dealt with was the low return rate of the mail survey. As Ekeledo (2000) stated, even in the United States the return rate of surveys concerning internationalization and entry mode is less than 25%. However, this study achieved a return rate of 28.7%, which is acceptable as the first quantitative attempt in this context. In addition, previous research such as Ekeledo and Sivakumar (2004), and Erramilli and Rao (1990, 1993) faced a problem in generalizing their findings because of the convenience sampling method. Similarly, this study encounters such a limitation, however, as the sample of study was selected based on the list of public-listed firms on the exchange market of Malaysia and most Malaysian services that ventured abroad are among these firms, the generalization issue is not crucial.

From the point of view of time and cost, the study encountered some limitations. At the beginning, according to the predicted time schedule, the study was planned to be conducted during three years along with an intensive coursework for two years. This caused a serious time constraint. In addition, the cost of doing the research caused other limitations, as the study was not funded by the university or any research bodies. However, the efforts and guidance of my great supervisors helped to overcome such constraints and problems.

6.6 Suggestions for Future Research

As the Malaysian economy is rapidly growing and the country experiences a fast development path, an increasing number of Malaysian firms expand their activities into international markets to gain experience and achieve returns. Consequently, the study of the internationalization strategies of Malaysian firms may attract researchers and PhD scholars. Therefore, the present study can provide a guideline for future studies in order to increase their success and their contribution to the knowledge.

The future extension of this study should modify the research framework by considering environmental factors as well, especially for investigating the process of market selection and entry timing. The scope of the future research can move towards other industries including the manufacturing sector and firms that engage in agriculture and primary industries. In addition, the focus on specific topics, such as the strategies of SMEs for internationalization can result in more satisfactory results. Some industries, such as the tourism industry and ICT services, need more attention and further study. As this study was one of the first attempts to explore the process of internationalization based on a new combined model, it is necessary to examine each part of the model separately in future studies and in more specific settings as the number of multinational firms in Malaysia is increasing.

The role of strategic issues on firms' decision-making should be investigated in further research. There is also a need to examine the influence of industry factors on the strategic choices of firms in foreign markets. As Ekeledo and Sivakumar (2004) stated, the resources and capabilities of firms originate from their home country and its characteristics, such as the level of development, market potential and national culture. However, as this study was conducted in a unique country, Malaysia, it was not possible to examine the effects of home country factors. Therefore, future research should take such factors into account, especially the role of country image.

6.7 Conclusion

After restating the research problem, this chapter provided a discussion on the results of the study by offering four models in which the effects of internal factors on the choice of target market, the order of entry, the time of entry and the choice of entry mode were separately illustrated. In addition, the contributions of the study in terms of theory, methodology and empirical approach were described. The implementation of the research findings was also explained in three aspects: first, the theoretical implication by proposing a model based on a combination of the suggestions of previous theories; second, the research implication by applying the findings of the study in future research and continuing the methods and investigations of the study with some modifications to achieve more contributions; and third, the managerial implication by explaining how managers of Malaysian firms and the government agencies can apply the results of the study in their strategic decisions and their efforts to promote Malaysian services and the country image in foreign markets.

The limitations of the study explained the pressures and constraints under which such a study was conducted. The problems with the sampling method, data collection issues and the generalizability of findings as well as the limited time and budget caused serious difficulties in the process of research. Finally, a brief guideline for future studies was provided to help other researchers conduct useful and successful research in various fields and different settings in relation to the internationalization strategies of Malaysian firms, as this study was one of the first quantitative attempts in this regard.

INSTRUMENTATION

RESEARCH QUESTIONNAIRE

UNIVERSITY OF MALAYA
Faculty of Business and Accountancy

SURVEY QUESTIONNAIRE

Organisation : ___________________________
Name of the Respondent : ___________________________
Position : ___________________________

OPENING

My name is Mohammadreza Asgari, a fourth year PhD student from the University of Malaya. I am now entering the empirical phase of my research, which requires a mail survey from chairpersons or managing directors in selected Malaysian firms. The title of the study is 'Internationalisation of Malaysian Service Firms' under the supervision of Prof. Dr. Fazilah Abdul Samad and Dr. Syed Zamberi Ahmad. Notable Malaysian-based service firms have been selected as samples for the study on the international expansion of corporations, and your company is potentially one of the selected companies with international experience.

Until now, very little empirical research has been done in examining the investment activities made by Malaysian corporations abroad. The main concern of this research is to provide information that Malaysian executive managers involved in the foreign activities of service firms could use in developing internationalisation strategies. As more and more Malaysian service providers engage in foreign business operations, it is important to identify factors that underlie successful foreign market entry in today's international business environment. The overarching objective of this research is to investigate the process and pattern of the internationalisation of service firms in the context of Malaysia as a developing country.

This research aims to find out how firms carry out their international expansion and how the internationalisation helps firms achieve their goals. The study also aims to introduce new empirical evidence to the current international business literature about Malaysian service firms; to determine the effect of factors that motivate Malaysian service firms to expand their business activities internationally and enable them to achieve sustainable competitive advantage; and to investigate the differences between Malaysian service firms in various service industries in terms of their internationalisation strategies.

This research will be valuable to your company as it can enable to review the process of international expansion of your firm, to identify the motives and strengths that facilitate internationalization, to bring to your mind the importance of strategic decision making process in the international expansion activities, and to evaluate the effects of international activities in its current and future performance. Given your significant expertise and experience relating to the area of study, I would like to request your kind assistance and cooperation in providing and extending information on the international expansion of your firm. I would like to assure you that any information obtained from this questionnaire will be treated as confidential, and for the purpose of this research only. Please answer the questions carefully, evaluate the items exactly, and return the completed questionnaire to me via mail as soon as possible.

Best Regards

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START

1. Regarding the activities and background of your company, please answer the following questions:

a. When did your firm start its operation in Malaysia? Specify the year: ____________

b. What is your firm's primary service industry in Malaysia? _______________

c. In what service industries is your firm operating now? (Please mark with √)

Industry	Malaysia	Foreign Markets	Industry	Malaysia	Foreign Markets
Construction & property			Banking & finance		
Engineering & public utility			Accounting & auditing		
Oil and gas services			Insurance & reinsurance		
Transportation & logistics			Legal & consultancy		
Computer software			Retailing & wholesale		
Information technology			Hotel & hospitality		
Communication & media			Leisure & tourism		
Telecommunications			Restaurant & fast food		
Advertising & employment			Education & research		
Customer service			Public services		
Healthcare & medical			Other services		

If other services, please specify____

2. Regarding the internationalisation pattern and process of your company, please answer the following questions:

a. When did your firm start its international business? Specify the year: ________

b. How the internationalisation pattern and process of your company took place? Please explain in brief ____

____

____

____

c. Did your company follow and imitate the internationalisation process of other companies?

Yes ☐ No ☐ if yes, which company? Why did your firm follow its strategy?

____

____

____

3. With regard to the international expansion strategy and entry mode choice of your company, please answer the following questions:

a. Which country did your firm enter first? _______________________

b. Why did you choose that country as your first foreign market?

____

____

c. At present, in how many countries is your firm operating? and, where?

____

____

____

____

d. What are the main criteria that you use to select target markets internationally? (Rate each item by a circle)

Items	Least important						Very important
Geographic closeness	1	2	3	4	5	6	7
Large market size and potential	1	2	3	4	5	6	7
High economic growth	1	2	3	4	5	6	7
Strong currency and high exchange rate	1	2	3	4	5	6	7
Attacking our competitor's business	1	2	3	4	5	6	7
Available resources and raw materials	1	2	3	4	5	6	7
Available low-cost labor force	1	2	3	4	5	6	7
Available skilled labor force	1	2	3	4	5	6	7
Available advanced technological capability	1	2	3	4	5	6	7
Available qualified foreign partners	1	2	3	4	5	6	7
Similar cultural values and customs	1	2	3	4	5	6	7
Similar language with shareholders	1	2	3	4	5	6	7
Similar religion with shareholders	1	2	3	4	5	6	7
Similar business environment	1	2	3	4	5	6	7
Political stability of the host country	1	2	3	4	5	6	7
Effective laws to protect intellectual properties	1	2	3	4	5	6	7
Receiving host government support	1	2	3	4	5	6	7
Trade relationship with Malaysia	1	2	3	4	5	6	7
Diplomatic relationship with Malaysia	1	2	3	4	5	6	7
Colonial link with Malaysia	1	2	3	4	5	6	7

e. How do you rate your company compared to other competitors in target markets?

First mover ☐ Early mover ☐ Late mover ☐

f. What types of entry mode strategy did your firm use in its primary international expansion? (Please mark with √)

Exporting through export agencies in the host country	
Exporting through its own export subsidiary in the host country	
Licensing the business to local companies in the host country	
Franchising the business to local companies in the host country	
Management contract with local companies in the host country	
Turnkey projects for local companies or government in the host country	
Joint venture with local or foreign companies in the host country	
Wholly owned subsidiaries in the host country	

g. Why does your firm use this strategy in developing its international activities?

____

____

____

h. Has your firm ever switched to another mode of operation after its entry into any of foreign markets? Yes ☐ No ☐ If yes, please explain

____

____

i. Has your firm added another mode of operation to the initial one? Yes ☐ No ☐
If yes, please explain________________________________

____

____

4. Regarding to the size and performance of your firm, please answer the following question:

a. How do you evaluate your firm at the time of its entry into foreign markets, based on the following items? (Rate each item by a circle)

Items	Very small						Very large
The size of our firm compared to other Malaysian companies in the industry	1	2	3	4	5	6	7
The size of our foreign subsidiary in the foreign market compared to our parent firm's size	1	2	3	4	5	6	7

b. Could you please indicate the status of your company in the last three financial years based on the following items? (Amounts in million Malaysian Ringgits)

Items	< 5	5-99	100-499	500-999	1,000-4,999	5,000-9,999	> 10,000
Annual sales or revenue							
Foreign sales							
Profit before taxation							
Total assets							
Total liabilities or debts							
Total equity							

c. Could you please indicate the status of your company based on the following items?

Items	Total offices worldwide	Within Malaysia	Foreign countries
Number of fulltime employees			
Number of branches and outlets			

5. To what degree do you agree or disagree with the following statements about your firm? (Rate each item by a circle)

no	Items	Strongly disagree						Strongly agree
a	Our firm has sufficient internal funds for its foreign projects and operations	1	2	3	4	5	6	7
	Our firm receives financial support from Malaysian banks and financial institutions	1	2	3	4	5	6	7
	Our firm receives financial support from Malaysian government to operate overseas	1	2	3	4	5	6	7
	Our firm receives tax reduction from host country governments to operate overseas	1	2	3	4	5	6	7
b	Our firm has a high profitability in Malaysian market	1	2	3	4	5	6	7
	Our firm has achieved its expected profit target	1	2	3	4	5	6	7
c	Our firm encourages open discussion	1	2	3	4	5	6	7
	Our firm deemphasizes position distinction	1	2	3	4	5	6	7
	Our firm encourages experiments and endures mistakes	1	2	3	4	5	6	7
	Our firm is able to learn from its past mistakes	1	2	3	4	5	6	7
	Our firm favors promotion from within	1	2	3	4	5	6	7
	Our firm focuses on innovation and productivity	1	2	3	4	5	6	7
	Our firm encourages teamwork	1	2	3	4	5	6	7
	Our firm recognizes team efforts not individuals	1	2	3	4	5	6	7
	Our firm has established a strong trust between its foreign subsidiaries and headquarter managers	1	2	3	4	5	6	7
d	It is important to protect our firm's positive reputation in the target market	1	2	3	4	5	6	7

6. At the time of the entry into foreign markets, how do you rate each of the following statements regarding your firm? (Rate each item by a circle)

no	Items	Strongly disagree						Strongly agree
a	Public familiarity with our firm's brand and visual identity is high in the host countries	1	2	3	4	5	6	7
b	Our firm has reputation for superior service quality	1	2	3	4	5	6	7
	Our firm has reputation for superior service delivery	1	2	3	4	5	6	7
	Our firm has reputation for superior management	1	2	3	4	5	6	7
	Our firm has reputation for superior customer service	1	2	3	4	5	6	7
	Our firm has reputation for reliability and promise	1	2	3	4	5	6	7
	Our firm has reputation for its previous projects	1	2	3	4	5	6	7
	Our firm has reputation for technical competence	1	2	3	4	5	6	7
	Our firm has reputation as an innovative firm	1	2	3	4	5	6	7
	Our firm has reputation as a Malaysian company	1	2	3	4	5	6	7
c	Our firm is familiar with cultural values, language and work ethics in host countries	1	2	3	4	5	6	7
	Our firm has experience in doing business in new emerging markets	1	2	3	4	5	6	7
	Our firm has experience in cooperation with other firms in international markets	1	2	3	4	5	6	7
	Our firm has experience in developing and adapting services to customer needs in international markets	1	2	3	4	5	6	7
	Our firm is able to recognize business opportunities in foreign markets	1	2	3	4	5	6	7
	Our firm is able to handle foreign expansion in terms of technological, managerial and financial capabilities	1	2	3	4	5	6	7
d	Our firm has knowledge about the geographic region	1	2	3	4	5	6	7
	Our firm has knowledge about the industry sector	1	2	3	4	5	6	7
	Our firm has knowledge about host market conditions	1	2	3	4	5	6	7
	Our firm has knowledge about host market players	1	2	3	4	5	6	7
	Our firm has knowledge about local culture	1	2	3	4	5	6	7
	Our firm has knowledge about local institutions	1	2	3	4	5	6	7
	Our firm has knowledge about government policies	1	2	3	4	5	6	7
e	Our firm's service delivery process is highly complicated	1	2	3	4	5	6	7
	Our firm's service delivery process is highly formalized	1	2	3	4	5	6	7
	The technical content of our firm's service delivery process is crucial	1	2	3	4	5	6	7
	The proprietary content of our firm's service delivery process is crucial	1	2	3	4	5	6	7
f	Writing a useful manual describing our firm's service delivery process is difficult	1	2	3	4	5	6	7
	Documenting critical parts of our firm's service delivery process is difficult	1	2	3	4	5	6	7
	Learning how to deliver our firm's service by talking with skilled employees is difficult	1	2	3	4	5	6	7
	Learning how to deliver our firm's service by studying blueprints is difficult	1	2	3	4	5	6	7
	Educating and training new customer contact personnel is difficult	1	2	3	4	5	6	7
	Transferring our firm's service delivery knowhow is difficult	1	2	3	4	5	6	7
	Assessing proper price for our firm's marketing knowhow is difficult	1	2	3	4	5	6	7

7. Regarding your firm's technological capabilities, to what degree do you agree or disagree with the following statements? (Rate each item by a circle)

Items	Strongly disagree						Strongly agree
Our firm has unique patents	1	2	3	4	5	6	7
Our firm has valuable trade mark	1	2	3	4	5	6	7
Our firm has valuable trade secret	1	2	3	4	5	6	7
Our firm has recognized brand name in host countries	1	2	3	4	5	6	7
Our firm has good logistics and distribution technology	1	2	3	4	5	6	7
Our firm develops new services frequently	1	2	3	4	5	6	7
Our firm has high service quality compared to its rivals	1	2	3	4	5	6	7
Our firm offers innovative services compared to its rivals	1	2	3	4	5	6	7
Our firm has higher R&D activities compared to its rivals	1	2	3	4	5	6	7
Our firm has valuable technological knowledge	1	2	3	4	5	6	7
Our firm can adapt service technology to market needs	1	2	3	4	5	6	7
Our firm can respond to local customer needs	1	2	3	4	5	6	7

8. To what degree do you agree or disagree with the following statements about your firm's networks at the time of foreign expansion? (Rate each item by a circle)

no	Items	Strongly disagree						Strongly agree
a	Our firm had established relationships with domestic service firms in the industry	1	2	3	4	5	6	7
	Our firm had established relationships with domestic banks and financial institutions	1	2	3	4	5	6	7
	Our firm had established relationships with trade unions in domestic market	1	2	3	4	5	6	7
	Our firm had collaboration activities with foreign companies in the home market	1	2	3	4	5	6	7
b	Our firm had established relationships with a local business partner in the foreign market	1	2	3	4	5	6	7
	Our firm had previously worked for a client in the foreign market	1	2	3	4	5	6	7
	One of the our business partners had established relationships with clients in the foreign market	1	2	3	4	5	6	7
	Our firm got a project from the international organizations in the foreign market	1	2	3	4	5	6	7
c	Our firm's managers had family relationship with a business partner in the foreign market	1	2	3	4	5	6	7
	Our firm's managers had ethnic relationship with a business partner in the foreign market	1	2	3	4	5	6	7
	One of the firm's staff had prior relationships in the foreign market	1	2	3	4	5	6	7
d	Our firm had employed government officers in its management team or the board of directors	1	2	3	4	5	6	7
	Our firm had established relationships with the government agencies in Malaysia	1	2	3	4	5	6	7
	Our firm had established relationships with dominant political parties in Malaysia	1	2	3	4	5	6	7
e	Our firm had prior interactions with the local government in the foreign market	1	2	3	4	5	6	7
	Our firm got a project from the government in the foreign market	1	2	3	4	5	6	7
	Our firm previously had participated in social development projects in the foreign market	1	2	3	4	5	6	7

9. To what degree would you agree with these 'push-factors' being a reason for your company to go international? (Rate each item by a circle)

Items	Strongly disagree						Strongly agree
Small and limited domestic market	1	2	3	4	5	6	7
Low economic growth in domestic market	1	2	3	4	5	6	7
Low population growth in Malaysia	1	2	3	4	5	6	7
High operating costs in domestic market	1	2	3	4	5	6	7
Lack of resources and technology in Malaysia	1	2	3	4	5	6	7
Hostile competitive environment in domestic market	1	2	3	4	5	6	7
Lack of qualified partners in Malaysia	1	2	3	4	5	6	7
Influence form the founder	1	2	3	4	5	6	7
Pressure and incentives from Malaysian government	1	2	3	4	5	6	7
Restrictive regulatory environment in Malaysia	1	2	3	4	5	6	7
Instability of Malaysian economy	1	2	3	4	5	6	7
Political instability in Malaysia	1	2	3	4	5	6	7

10. To what degree would you agree with these 'pull-factors' being a reason for your company to initially go international? (Rate each item by a circle)

Items	Strongly disagree						Strongly agree
Achieving international growth	1	2	3	4	5	6	7
Increasing sales and profits	1	2	3	4	5	6	7
Being pioneer in a new market	1	2	3	4	5	6	7
Developing new capabilities in service technology	1	2	3	4	5	6	7
Entering markets with larger size and high potential	1	2	3	4	5	6	7
Getting access to niche opportunities in foreign markets	1	2	3	4	5	6	7
Getting experience in foreign markets	1	2	3	4	5	6	7
Acquiring resources	1	2	3	4	5	6	7
Improving managerial skills and marketing knowledge	1	2	3	4	5	6	7
Improving service quality	1	2	3	4	5	6	7
Obtaining international reputation	1	2	3	4	5	6	7
Gaining competitive advantage	1	2	3	4	5	6	7
Competing straight-on with our global competitors	1	2	3	4	5	6	7
Using host government support and incentives	1	2	3	4	5	6	7

11. To what degree do you agree or disagree with the following statements about your firm's strategy at the time of entry into foreign markets? (Rate each item by a circle)

no	Items	Strongly disagree						Strongly agree
a	Our firm prefers to compete in global markets that are closely interconnected	1	2	3	4	5	6	7
	Our firm offers standard services to domestic and foreign markets	1	2	3	4	5	6	7
	Our firm diversifies its operations to various regions across the world	1	2	3	4	5	6	7
	Our firm has delegates competition to its foreign subsidiaries because markets are too different	1	2	3	4	5	6	7
b	Our firm desires to achieve economies of scale by operating in a few foreign markets	1	2	3	4	5	6	7
	Our firm has concentrates its activities in the Asia-Pacific region	1	2	3	4	5	6	7
	Our firm customizes its services to customer needs in order to respond to national differences	1	2	3	4	5	6	7
	Our firm customizes its services to the requirements of each foreign project	1	2	3	4	5	6	7

12. Regarding your firm's strategy at the time of entry, to what degree do you agree or disagree with the following statements? (Rate each item by a circle)

no	Items	Strongly disagree						Strongly agree
a	Our firm's primary customers are Malaysian clients in foreign markets	1	2	3	4	5	6	7
	Our firm's primary customer is a foreign subsidiary of a Malaysian client firm	1	2	3	4	5	6	7
	Our firm has followed its competitors or responded to them in foreign markets	1	2	3	4	5	6	7
	Our firm has escaped from the pressure of competition in Malaysia by expanding overseas	1	2	3	4	5	6	7
b	Our firm's primary customers are local clients in foreign markets	1	2	3	4	5	6	7
	Our firm has entered foreign markets after getting a project	1	2	3	4	5	6	7
	Our firm has entered foreign markets to exploit market potential and seek new clients	1	2	3	4	5	6	7
	Our firm has entered foreign markets to establish its brand name internationally	1	2	3	4	5	6	7
c	Our firm desires to exploit its valuable resources and capabilities in foreign markets	1	2	3	4	5	6	7
	Our firm is able to exploit its service technology in foreign markets without need to collaborate with others	1	2	3	4	5	6	7
	Our firm perceives the high risk of misusing its expertise or service technology by business partners	1	2	3	4	5	6	7
	Our firm is not sure to maintain quality standard of its services in a collaborative operation	1	2	3	4	5	6	7
	The cost of making or enforcing a business contract in the foreign market is high	1	2	3	4	5	6	7
d	Our firm desires to acquire new capabilities and complementary assets in foreign markets	1	2	3	4	5	6	7
	Our firm needs to collaborate with others in order to exploit its service technology in foreign markets	1	2	3	4	5	6	7
	Our firm needs to use host country resources in order to offer services customized to foreign customer needs	1	2	3	4	5	6	7
	Our firm expands internationally to acquire knowledge and managerial skills	1	2	3	4	5	6	7
	Our firm expands internationally to acquire advanced technology and innovative capacity	1	2	3	4	5	6	7
e	Our firm desires to control and coordinate the activities of its foreign subsidiaries because they are independent	1	2	3	4	5	6	7
	Our firm needs to monitor operations of its franchisees or partners to maintain service quality and standards	1	2	3	4	5	6	7
	Our firm has regular monitoring visits to each one of its foreign subsidiaries	1	2	3	4	5	6	7
	Our firm concentrates its decision making in its headquarter office	1	2	3	4	5	6	7
f	Our firm views each of its foreign subsidiaries as a unique unit	1	2	3	4	5	6	7
	Our firm gives autonomy to each of its foreign subsidiaries over decisions related to marketing their services	1	2	3	4	5	6	7
	Because of geographical distance, monitoring foreign subsidiaries is difficult and costly	1	2	3	4	5	6	7
	Our firm shares its managerial skills, marketing knowhow and R&D activities with its foreign subsidiaries	1	2	3	4	5	6	7

13. In regards to your firm's strategy for competition, to what degree do you agree or disagree with the following statements? (Rate each item by a circle)

no	Items	Strongly disagree						Strongly agree
a	Our firm offers low cost services compared to its competitors	1	2	3	4	5	6	7
	Our firm emphasizes on finding ways to reduce the costs of service delivery	1	2	3	4	5	6	7
	Our firm expands internationally to access to low cost raw materials	1	2	3	4	5	6	7
	Our firm expands to host countries with cheaper labour force	1	2	3	4	5	6	7
	Our firm expands to markets with lower costs of transportation and communications	1	2	3	4	5	6	7
	Our firm seeks for local government incentives for investment such as tax reduction	1	2	3	4	5	6	7
b	Our firm offers services with superior quality compared to its competitors	1	2	3	4	5	6	7
	Our firm emphasizes on using new technology to increase the quality of service delivery	1	2	3	4	5	6	7
	Our firm introduces new services and offerings frequently to the market	1	2	3	4	5	6	7
	Our firm spends a high budget for R&D activities in order to improve its service quality	1	2	3	4	5	6	7
	Our firm emphasizes on building a strong corporate identity or brand image	1	2	3	4	5	6	7
	Our firm spends a high budget for advertising in order to make customers aware of its quality services	1	2	3	4	5	6	7
c	Our firm offers services to a specific group of customers in the market (based on age, sex, or etc)	1	2	3	4	5	6	7
	Our firm offers unique services compared to its competitors in the market	1	2	3	4	5	6	7
	Our firm offers high quality services for people with a high level of income	1	2	3	4	5	6	7
	Our firm offers special services for a specific segment of market	1	2	3	4	5	6	7
	Our firm offers information and IT solutions for other businesses	1	2	3	4	5	6	7
d	Our firm introduces new services and offerings frequently to the market	1	2	3	4	5	6	7
	Our firm spends a high budget for R&D activities in order to improve its service innovation	1	2	3	4	5	6	7
	Our firm emphasizes on making continuous changes in its service delivery process	1	2	3	4	5	6	7
	Our firm encourages its employees to offer new solutions and find the ways for creative designs	1	2	3	4	5	6	7
e	Our firm offers services that require before or after sales services	1	2	3	4	5	6	7
	Our firm offers better after sales services compared to its competitors	1	2	3	4	5	6	7
	Our firm offers on-time delivery services for its customers in foreign markets	1	2	3	4	5	6	7
	Our firm offers installation services for its customers in foreign markets	1	2	3	4	5	6	7
	Our firm emphasizes on using new technology to increase the quality of service delivery	1	2	3	4	5	6	7

14. To what degree do you agree or disagree with the following statements about the type of services your firm offers in foreign markets? (Rate each item by a circle)

no	Items	Strongly disagree						Strongly agree
a	Our firm's services requires professional knowhow, specialized skills or design	1	2	3	4	5	6	7
	Our firm's services requires mechanical skills related to installation, repairing or maintenance	1	2	3	4	5	6	7
	Our firm offers services related to information technology, finance solutions and data processing	1	2	3	4	5	6	7
	It is difficult for our customers to evaluate service quality because our firm's service is highly intangible	1	2	3	4	5	6	7
	Our firm offers services based on relationships the firm establishes both with clients and business partners	1	2	3	4	5	6	7
b	Our firm's services include tasks based on reports, audits, manuals or documents	1	2	3	4	5	6	7
	Our firm offers services in the form of tangible means such as videos, software, films, cassettes, tickets or money	1	2	3	4	5	6	7
	Our firm offers educational or professional services that are offered in the form of books, booklets and slides	1	2	3	4	5	6	7
	It is possible for our customers to evaluate service quality because our firm's service is lowly intangible	1	2	3	4	5	6	7
c	Our firm offers services that needs physical presence of employees and clients during service delivery process	1	2	3	4	5	6	7
	It is important to have face-to-face interaction with the clients to understand their needs and preferences	1	2	3	4	5	6	7
	Our firm's services cannot be stored or consumed in another time after delivery	1	2	3	4	5	6	7
	Our firm customizes or adapts its services to customer needs and tastes during service delivery process	1	2	3	4	5	6	7
	Our firm's services cannot be exported and is not possible to decouple its delivery and consumption	1	2	3	4	5	6	7

15. How do you evaluate the impact of your firm's foreign operation and investment on its business success based on the following statements? (Rate each item by a circle)

Items	Very low						Very high
Increasing our firm's profits and sales volume	1	2	3	4	5	6	7
Improving our firm's growth rate	1	2	3	4	5	6	7
Increasing our firm's size and assets	1	2	3	4	5	6	7
Improving our firm's knowledge and capabilities	1	2	3	4	5	6	7
Increasing our firm's market share	1	2	3	4	5	6	7
Improving our firm's competitive position in the market	1	2	3	4	5	6	7
Improving our firm's service quality	1	2	3	4	5	6	7
Improving our firm's brand recognition and value	1	2	3	4	5	6	7
Increasing brand loyalty of foreign customers	1	2	3	4	5	6	7
Improving image of Malaysia as a progressive country	1	2	3	4	5	6	7

16. In your opinion, how could your firm be more successful in terms of international business? Please explain in brief____

____

____

Thank you for your kind cooperation

APPENDICES

Appendix 1: The Most Valuable Global Brands

Rank	Brand Name	Country of Origin	Brand Value (US$ million)				
			2009	Change%	2010	Change%	2011
1	Coca-Cola	United States	68,734	2	70,452	2	71,861
2	IBM	United States	60,211	7	64,727	8	69,905
3	Microsoft	United States	56,647	7	60,895	-3	59,087
4	Google	United States	31,980	36	43,557	27	55,317
5	General Motors	United States	47,777	-10	42,808	0	42,808
6	McDonald's	United States	32,275	4	33,578	6	35,593
7	Intel	United States	30,636	4	32,015	10	35,217
8	Apple	United States	15,443	37	21,143	58	33,492
9	Disney	United States	28,447	1	28,731	1	29,018
10	Hewlett-Packard	United States	24,096	12	26,867	6	28,479
11	Toyota	Japan	31,330	-16	26,192	6	27,764
12	Mercedes-Benz	Germany	23,867	6	25,179	9	27,445
13	Cisco	United States	22,030	5	23,219	9	25,309
14	Nokia	Finland	34,864	-15	29,495	-15	25,071
15	BMW	Germany	21,671	3	22,322	10	24,554
16	Gillette	United States	22,841	2	23,298	3	23,997
17	Samsung	South Korea	17,518	11	19,491	20	23,430
18	Louis Vuitton	France	21,120	4	21,860	6	23,172
19	Honda	Japan	17,803	4	18,506	5	19,431
20	Oracle	United States	13,699	9	14,881	16	17,262
21	H&M	Sweden	15,375	5	16,136	2	16,459
22	Pepsi	United States	13,706	3	14,061	4	14,590
23	American Express	United States	14,971	-7	13,944	5	14,572
24	SAP	Germany	12,106	5	12,756	14	14,542
25	Nike	United States	13,179	4	13,706	6	14,528
26	Amazon.com	United States	7,858	23	9,665	32	12,758
27	UPS	United States	11,594	2	11,826	6	12,536
28	JP Morgan	United States	9,550	29	12,314	1	12,437
29	Budweiser	United States	11,833	4	12,252	0	12,252
30	Nescafe	Switzerland	13,317	-4	12,753	-5	12,115

Source: Businessweek (2009, 2010, 2011)

Appendix 2: The Most Valuable Malaysian Brands

Rank	Brand Name	Industry	Brand Value (US$ million)				
			2007	Change	2008	Change	2009
1	Public Bank	Finance	6,880	-1%	6,812	-3%	6,593
2	Maybank	Finance	9,630	-3%	9,347	-42%	5,374
3	CIMB	Finance	3,420	83%	6,257	-16%	5,245
--	Maxis*	Telecom	5,300	--	*	*	*
4	Celcom	Telecom	4,060	-4%	3,899	2%	3,993
5	Parkson	Retailing	125	--	4,196	-11%	3,740
6	Genting	Hotel, leisure	4,600	-3%	4,469	-22%	3,464
7	DiGi	Telecom	2,230	35%	3,007	4%	3,129
8	Astro	Communication	3,300	2%	3,375	-10%	3,023
9	Sime Darby	Diversified	1,520	8%	1,638	83%	2,992
10	Petronas	Energy	920	328%	3,014	-12%	2,649
11	Perodua	Manufacturing	2,450	14%	2,798	-5%	2,644
12	Hong Leong	Finance	3,100	-5%	2,946	-12%	2,591
13	Giant	Retailing	2,060	8%	2,227	1%	2,244
14	AmBank	Finance	651	8%	705	8%	761
15	YTL	Diversified	731	7%	781	-5%	740
16	MAS	Transportation	1,720	6%	1,829	-61%	708
17	RHB Bank	Finance	653	-7%	607	14%	691
18	TV3	Communication	1,100	-6%	1,036	-43%	587
19	Air Asia	Transportation	333	14%	378	9%	411
20	The Star	Communication	318	22%	387	-4%	371
21	JobStreet.com	Recruitment	--	--	391	-20%	313
22	Dutch Lady	Manufacturing	300	2%	306	-10%	276
23	Padini	Manufacturing	212	-4%	204	20%	244
24	Sin Chew	Communication	--	--	190	13%	216
25	Affin Bank	Finance	228	4%	237	-16%	199
26	Alliance Bank	Finance	--	--	--	--	195
27	Kurnia	Finance	291	-32%	197	-29%	139
28	Premier	Manufacturing	--	--	--	--	111
29	Sunway City	Hotel, leisure	89	14%	101	7%	108
30	Bonia	Manufacturing	75	--	--	--	97

Adapted from: MMVB (2007, 2008, 2009) * Maxis was not a public company in 2008-9

Appendix 3: Result of the Cronbach's Alpha Test of the Measurement Items

No.	Variables, Dimensions and Items	Factor Loading	Item-Total Correlation	Cronbach's Alpha	F-test Sig.
IV1	Tangible assets (TNGST)	-	-	-	
IV1F1	Firm size (SIZE)	-	-	0.943	0.000
x3	Annual sales or revenue	0.885	0.855	-	-
x4	Total assets	0.924	0.924	-	-
x5	Total equity	0.787	0.872	-	-
IV1F2	Financial strength (FINST)	-	-	0.902	0.000
x1	Comparative firm size	0.683	0.682	-	-
x2	Subsidiary size	0.665	0.673	-	-
x9	Internal funds	0.860	0.691	-	-
x10	Financial institutions	0.817	0.724	-	-
x13	Profitability in Malaysia	0.864	0.849	-	-
x14	Achieved expected profit	0.807	0.813	-	-
IV1F3	Profitability (PROFT)	-	-	0.855	0.000
x15	Return on assets (ROA)	0.922	0.782	-	-
x16	Return on sales (ROS)	0.866	0.782	-	-
IV2	Intangible assets (INTNST)	-	-	-	-
IV2F1	Organizational culture (ORGCUL)	-	-	0.891	0.000
x17	Open discussion	0.766	0.720	-	-
x18	Position distinction	0.747	0.690	-	-
x19	Experiments and mistakes	0.800	0.744	-	-
x20	Learn from past mistakes	0.720	0.622	-	-
x21	Promotion from within	0.752	0.692	-	-
x22	Innovation and productivity	0.723	0.606	-	-
x23	Teamwork culture	0.752	0.696	-	-
x24	Recognizing team efforts	0.762	0.712	-	-
IV2F2	Firm reputation (REPUT)	-	-	0.964	0.000
x28	Superior service quality	0.910	0.926	-	-
x29	Superior service delivery	0.930	0.942	-	-
x30	Superior management	0.888	0.895	-	-
x31	Superior customer service	0.854	0.845	-	-
x32	Reliability and promise	0.882	0.836	-	-
x34	Technical competence	0.884	0.855	-	-
x35	Innovative firm image	0.788	0.787	-	-
x36	Malaysian firm image	0.864	0.804	-	-
IV3	Firm capability (CAPBL)	-	-	-	-
IV3F1	Market knowledge (MRKTNO)	-	-	0.788	0.000
x37	Familiarity with culture	0.613	0.651	-	-
x43	Geographic knowledge	0.726	0.651	-	-
IV3F2	Business experience (BUSNXP)	-	-	0.959	0.000
x38	Emerging markets business	0.855	0.827	-	-
x40	Adaptation of services	0.839	0.819	-	-
x41	Recognizing opportunities	0.823	0.809	-	-
x42	Handling foreign expansion	0.799	0.813	-	-
x45	Market conditions	0.829	0.856	-	-

Appendix 3 *Continued……*

No.	Variables, Dimensions and Items	Factor Loading	Item-Total Correlation	Cronbach's Alpha	F-test Sig.
x46	Market players	0.879	0.893	-	-
x48	Local institutions	0.858	0.871	-	-
x49	Government policies	0.896	0.891	-	-
IV3F3	Tacit knowhow (TACTNO)	-	-	0.941	0.000
x54	Complexity of service	0.694	0.682	-	-
x56	Technical content of service	0.678	0.654	-	-
x57	Proprietary content of service	0.597	0.656	-	-
x58	Difficulty in writing manual	0.886	0.884	-	-
x59	Difficulty in documentation	0.857	0.792	-	-
x60	Difficulty to learn by talking	0.870	0.840	-	-
x61	Difficulty to study blueprints	0.831	0.846	-	-
x62	Difficulty to train personnel	0.721	0.711	-	-
x63	Difficulty to transfer knowhow	0.853	0.783	-	-
x64	Difficulty to price knowhow	0.820	0.752	-	-
IV3F4	Proprietary Technology (PROPTEC)	-	-	0.878	0.000
x70	Frequency of new services	0.762	0.786	-	-
x71	High service quality	0.666	0.655	-	-
x72	Offering innovative services	0.760	0.783	-	-
x73	High R&D activities	0.768	0.727	-	-
IV4	Network relationships (NTWRK)	-	-	-	-
IV4F1	Home business networks (BUSNET1)	-	-	0.856	0.007
x77	Relationship with domestic firms	0.827	0.785	-	-
x78	Relationship with domestic banks	0.930	0.736	-	-
x80	Relationship with foreign firms	0.660	0.681	-	-
IV4F2	Host business networks (BUSNET2)	-	-	0.746	0.000
x81	Relationship with local partners	0.765	0.615	-	-
x82	Working for local clients	0.739	0.514	-	-
x83	Local partners networks	0.837	0.607	-	-
IV4F3	Social networks (SOCLNET)	-	-	0.733	0.000
x86	Ethnic relationship	0.846	0.582	-	-
x87	Staff Prior relationships	0.871	0.582	-	-
IV4F4	Government link (GOVLINK)	-	-	0.633	0.000
x88	Government officers in board	0.820	0.521	-	-
x89	Link with government agencies	0.630	0.426	-	-
x90	Political parties relationship	0.836	0.550	-	-
IV5	Business strategy (BUSN)	-	-	-	-
IV5F1	Global strategy (GLOBSTR)	-	-	0.968	0.000
x94	Competing in global markets	0.930	0.924	-	-
x95	Offering standard services	0.857	0.820	-	-
x96	Diversifying operations	0.932	0.925	-	-
x97	Delegating competition	0.872	0.851	-	-
x98	Regional economies of scale (-)	0.921	0.904	-	-
x99	Concentrating on Asia-Pacific (-)	0.928	0.926	-	-
x100	Customizing services (-)	0.898	0.864	-	-

Appendix 3 *Continued……*

No.	Variables, Dimensions and Items	Factor Loading	Item-Total Correlation	Cronbach's Alpha	F-test Sig.
IV5F1	Need for control (NEEDCONT)	-	-	0.888	0.001
x102	Coordinating subsidiaries	0.731	0.677	-	-
x103	Monitoring local partners	0.796	0.726	-	-
x104	Regular monitoring visits	0.729	0.624	-	-
x105	Decision making in headquarter	0.786	0.688		
x106	Subsidiary as a unique unit	0.788	0.704	-	-
x107	Giving autonomy to affiliates	0.841	0.777	-	-
x109	Internal knowledge sharing	0.702	0.620	-	-
IV6	Motives of Entry (MOTIV)	-	-	-	-
IV6F1	Following clients (FOLCLNT)	-	-	0.827	0.000
x110	Malaysian primary clients	0.787	0.641	-	-
x111	Malaysian firms clients	0.787	0.632	-	-
x112	Following competitors	0.835	0.804	-	-
x113	Escaping from competition	0.803	0.665	-	-
IV6F2	Market seeking (MRKTSK)	-	-	0.813	0.033
x114	Local primary clients	0.851	0.728	-	-
x116	Exploiting market potential	0.860	0.721	-	-
x117	Establishing brand name	0.864	0.734	-	-
IV7	Resourcing strategy (RSOR)	-	-	-	-
IV7F1	Resource exploitation (RSORXP)	-	-	0.872	0.000
x118	Exploiting valuable resources	0.658	0.616	-	-
x120	Risk of misusing expertise	0.899	0.867	-	-
x121	Risk of maintain quality	0.881	0.823	-	-
x122	Cost of enforcing a contract	0.767	0.700	-	-
IV7F2	Resource seeking (RSORSK)	-	-	0.814	0.061
x123	Acquiring complementary assets	0.659	0.545		
x126	Acquiring managerial skills	0.900	0.752		
x127	Acquiring new technology	0.844	0.719	-	-
IV8	Competitive strategy (COMP)	-	-	-	-
IV8F1	Cost reduction (COSTSTR)	-	-	0.885	0.000
x130	Low cost raw materials	0.747	0.768	-	-
x131	Markets with cheaper labour	0.758	0.835	-	-
x132	Cheaper transportation	0.778	0.744	-	-
IV8F2	Product differentiation (PRODDIF)	-	-	0.791	0.000
x134	Services with superior quality	0.757	0.654	-	-
x135	Using new technology	0.670	0.654	-	-
IV8F3	Focus strategy (FOCUS)	-	-	0.699	0.000
x138	Offering services to a group	0.708	0.483	-	-
x139	Offering unique services	0.792	0.539	-	-
x141	Offering services for a segment	0.805	0.537		
IV8F4	Innovation orientation (INVORNT)	-	-	0.864	0.000
x137	High budget for advertising	0.670	0.677	-	-
x143	Frequency of new services	0.843	0.747	-	-
x144	High budget for R&D	0.857	0.760	-	-

Appendix 3 *Continued……*

No.	Variables, Dimensions and Items	Factor Loading	Item-Total Correlation	Cronbach's Alpha	F-test Sig.
x145	Changes in service delivery	0.696	0.729	-	-
x146	Encouraging new solutions	0.659	0.599	-	-
IV8F5	Service orientation (SRVORNT)	-	-	0.873	0.000
x147	Offering after sales services	0.909	0.776	-	-
x148	Offering better services	0.917	0.776	-	-
IV9	Service intangibility (INTNG)	-	-	0.732	0.000
x152	Requiring mechanical skills	0.826	0.581	-	-
x157	Delivery by tangible means	0.859	0.581	-	-
MV	Service inseparability (INSPR)	-	-	0.891	0.041
x160	Physical presence of clients	0.876	0.798	-	-
x161	Face-to-face interaction	0.873	0.766	-	-
x162	Inability to store services	0.864	0.764	-	-
x164	Inability to export or decouple	0.855	0.742	-	-

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