Entry Mode Choice of Travel Service Firm: The Case of Olympia in China

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Abstract

This study aims to analyze the entry mode choice of service firms, focusing on the tourism industry. More specifically, this research reviews the international entry mode literatures, identifies the factors that may influence the entry mode choice of tourism firm to China market and provides suggestions for managers to make better decision of entry modes in future.

This research is based on qualitative single case study approach to have an understanding of Finnish travel service firms' strategic decision of entry mode. The collection of data is conducted in two phases in this study. The first phase utilize documentation as second hand data. The second phase of empirical data collection mainly conducted by semi-structure interview with Mr. Matti Julin, president of Olympia, who has rich experience and knowledge of entry mode decision at the beginning of firm's international activities.

The study does not fully support the previous entry mode studies. In the conclusions, the results shows that the three factors, including firm size, market attractiveness of host country, service's sensitivity, have the most significant influence on the degree of control.

Key words

Internationalization, Entry mode, Service, travel firm, China market

List of Abbreviations

AIC - Administration for Industry and Commerce

CNTA - China National Tourism Administration

FYP - Five-Year Plan

FDI - Foreign Direct Investment

ICT - Information Communication Technology

INVs - International New Ventures

JV - Joint Venture

MNCs - Multinational Corporations

NGOs - Non-government Organizations

NTA - National Tourism Administration

PATA - Pacific Asia Travel Association

SMEs - Small and Medium-Sized Enterprises

TC - Transaction cost

UNWTO - World Tourism Organization

WTTC - World Travel & Tourism Council

WOS - Wholly Owned Subsidiary

WTCF - World Tourism Cities Federation

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1 Introduction

This chapter aims to introduce the research topic. Firstly, it introduces the background of the study and the subject for this research-entry mode choice of service firms. Then, the research problem and the objectives of this research are presented. Furthermore, limitations are described to show the applicability of the research findings. In the end of this chapter, the thesis structure is presented.

1.1 Background

The business environment in this world has changed dramatically due to the development of globalization of economy and new technology in the last decades. The changes of the cultural, political and economic environments together with the advancement of transportation and communication technology have reduced the trade barriers and enlarged international business opportunities. (Griffin and Pustay, 2007). Globalization allows the exchange of people, products, capital and also the knowledge around the worldwide. The internationalization is the most important expansion strategy for company. Furthermore, the entry mode decision is the most important part of firm's strategy, affecting the business performance in the foreign market (Brouthers et al., 2007).

In recent decades, the globalization has increased the opportunity for the success of service sector, resulting a rapid growth of the service industry in both developed and emerging countries. Javalgi and Martin (2007) points out that service industry has become a driving force in world economy. Among all the service industries, the tourism industry has played a big role and experienced fast growth in the last decades. According to World Tourism Organization (UNWTO, 2014), tourism industry is one of the largest and fastest-growing sectors, experiencing continued expansion and diversification over the past six decades. UNWTO forecasts that the overall number

of the international tourist arrivals is expected to increase by 3.3% every year to reach 1.8 billion by 2030 (UNWTO, 2014). Furthermore, the number of international tourist arrivals from emerging markets increase as twice the rate as that in developed markets (UNWTO, 2014). Since China joined the World Trade Organization (WTO) in 2001, the service industry has been gradually opened for the foreign firms, including tourism sectors. China eliminated the restrictions and decreased the capital requirement for foreign investment in travel agencies in 2009 (George and Hugh, 2010). According to the rules issued in 2009, foreign tourism companies can establish wholly foreign-owned agencies in China or joint venture local Chinese partners. (George and Hugh, 2010) For example, the China Guide is an American owned travel agency based in Beijing of China, and it is one of China's first wholly foreign owned travel agencies. (China Guide, 2015). China is now the world's largest tourism source market (UNWTO, 2014). The education-related travel service is considered to be the largest part of service exporting to China, followed by other personal travel services and business travel services (EU SME Centre, 2013).

Although the increasing importance of service industries has attracted attention of the researchers, the international business literatures mostly focus on the study of internationalization patterns of manufacturing firms (Grönroos, 1999) , such as the transaction cost (Erramilli and Rao, 1993), eclectic paradigm (Brouthers et al., 1996) and the resource-based view (Brouthers and Hennart, 2007). But, there are not many studies to examine the service firm's internationalization. In terms to service sector, researches have focused mainly on the internationalization strategies of service (Gronroos, 1999), enablers and barriers of service's internationalization (Winstead and Patterson, 1998), and selection of entry modes (Erramili and Rao, 1993). Moreover, the characteristics of service are distinctive from the manufacturing products, such as intangibility, inseparability, perishability and heterogeneity (Zeithaml et al. 1985). Since the distinctive characteristics of service, the entry mode choice of manufacturing firms is less applicable for service sector. Erramilli (1990) divided services into hard services and soft services based on the inseparability. Since

the hard service can be produced in one location and the then transfer it in a tangible format to other location, the market entry mode of hard service is same as those of manufactured goods. To the contrary, the soft service has limited choice of market entry mode since the services are delivered and consumed simultaneously. The internationalization process for the soft service industry usually requires a higher degree of market commitment, such as foreign direct investment (FDI). (Erramilli, 1990) However, the deep research is needed to have a comprehensive understanding of the entry mode of service industry (Javalgi and Martin, 2007).

To sum up, this research aims to analyze the service company's strategic decisions for international expansion within the tourism industry in a specific market. More specifically, this research reviews the international entry mode literatures, identifies the factors that influence the entry mode choice of tourism firm into China market and provides suggestions for managers to make better decision of entry modes in future.

1.2 Research objectives and Research question

The main research objective of this research is to analyze the entry mode choice of service firms in early stage, focusing on the tourism industry. In details, this research aims to make an investigation about entry modes decision, influencing factors, and the entry mode of the case service firms by using a conceptual framework of main internationalization theories, including the transaction cost (Erramilli and Rao, 1993), eclectic paradigm (Brouthers et al., 1996) and the resource-based view (Brouthers and Hennart, 2007). As mentioned above, the existing international literature about the service in specific industry is scarce, the research findings of this case study contributing to the existing international literature of service sector. Furthermore, the characteristics and the uniqueness of China market are investigated since it is the world's largest tourism source market (UNWTO, 2014). The findings of this contextual approach can contribute to further research in similar cases and context to find the best way for company entering international market. To sum up, this research

aims to explain the entry mode decision of tourism firms by integrating the theories of internationalization and service.

Based on the discussion above, this research aims to analyze the entry modes of Finnish Tourism Company in specific market context. More specifically, this research reviews the international entry mode literatures, identifies the factors influencing the market entry mode decision of tourism firm to China market and provides suggestions for managers to make better decision of entry modes in future. The main research question and two sub-questions are as following:

- How do tourism firm make the entry modes decision entering foreign market?

The following sub-questions are formulated together with the main research question to give a consolidated answer to research problem. The first sub-question aims to find out factors that affect the choice of entry modes. The second sub-question aims to link the market entry decision and key factors.

- What are the key influencing factors that affects firm's decision of entry modes?

- How do travel service companies select the entry mode based on the key factors?

1.3 Limitations

Since this case study is about the entry mode choice of the service SMEs in Finland, the findings are not straightforward to apply the findings to the Multinational Corporations (MNCs) or the companies from other countries. Furthermore, the research is focus on the internationalization of service, the manufacturing firms are exclude from this research findings. Moreover, the generalization of the research finding has been constrained because of the limited number of the case companies. Finally, since the uniqueness of the Chinese market environment, the research findings are context specific based. To sum up, the research findings are not generable and applicable for all size firms and different business context, whereas the findings

can be used and developed for further research in similar contexts and case company.

1.4 Structure of the study

This case study has six chapters. The first part of the research is introduction section. It presents the research topic, the research problem and the objectives of this research. Furthermore, limitations are described to show the applicability of the research findings. The theoretical part is followed in chapter two, and it describes the main international entry mode literatures and the specific industry context of this study. In specific, the main streams of international market entry model literatures are introduced and analyzed, including transaction cost (Erramilli and Rao, 1993), eclectic paradigm (Brouthers et al., 1996), institutional theory (Brouthers, 2002) and the resource-based view (Brouthers and Hennart, 2007). The characteristic of service industry and the theoretical framework of this study is also presented and discussed. The methodology part is presented in chapter three. It introduces the research methods used in this study. After this chapter, the empirical chapter discuss the internationalization of case firm in the China market. Furthermore, the business environment of China market is also analyzed since this study focus on internationalization process of SMEs to emerging market. Then, the finding chapter is followed in chapter five. It gives the answer to the research questions of the study. Finally, the last chapter describes the research conclusions of this study and potential topics for further studies based on this research.

2   Literature Review

This chapter aims to present the existing international literature to increase the better understanding of the research question. In this respect, the chapter firstly introduces the internationalization concept and the existing main market entry model theories. Then, the service characteristics and internationalization of service are discussed. Finally, it introduces a conceptual framework that will used to investigate the

empirical part of this study.

2.1 Internationalization

The term of Internationalization has been widely used today. According to Marleen (2010), the internationalization can be considered as outward process of firm's business operation beyond national market. Generally, firms enter into foreign markets because of the stagnant home markets, following firm's clients going international, and searching for local resource in order to reduce costs thereby strengthen the competitive advantages (Root ,1998).

One of main schools of international business research that has gained most attention is the behavioral theory. The main point of the behavioral theory is that the internationalization process of the companies to the foreign markets follows a gradual and incremental learning process of the international activities (Johanson and Valhne , 2009).This well know process of the behavioral theory is the Uppsala model also called internationalization process model. The Uppsala model states that the business learning can influence the strategic decision of the market selection and the entry mode choices. Therefore, firms start the internationalization process by exporting goods or services to the geographically or culturally close markets to gain the market knowledge and then enter into the geographically or culturally distant market with more market commitment (Johansson and Valhne, 2009).

However, the fast changing of business environment and the advancement of the technology have affected the traditional international process. Therefore, the internationalization process does not always follow the incremental process. According to Johanson and Mattsson (1993), the network approach can be regard as a complementary theoretical framework to the Uppsala model. The network approach lies on the position of a firm embedded in network of personal and organizational relationships rather than firm specific advantage as a key factor for internationalization (Johanson and Mattsson, 1993). The another stream of

internationalization literature is the born global or international new ventures (INVs) that firms start internationalize at the inception stage (e.g. Madsen and Servais,1997). To conclude, it is hard to explain the internationalization only by a particular stream of internationalization theory since it is a broad and dynamic concept. Thus, it is better to use comparative approaches of major theories to study the internationalization of firms (Johanson and Vahlne, 2009).

According to Hill (2008), firm's managers have to make three strategic decisions of internationalization, including market selection, time to entering, and the entry mode to enter those selected markets. The strategic decision of entry mode is very crucial for internationalization of firm. Firms can achieve competitive position at the foreign markets by appropriate entry modes choices (Ekeledo and Sivakumar, 2004). Thus, the main theories of entry model are discussed in the next section.

2.2 Determinants of Entry Mode Selection

As mentioned above, the entry mode choice is the most important part of the internationalization process of firms (Root, 1998). The appropriate entry mode can help firm to achieve better performance in foreign markets (Ekeledo and Sivakumar, 2004).

Sharma and Erramilli (2004) states that entry mode is the structural agreement allowing firms to carry out operations, such as marketing, distribution and production, by itself or with partnership in foreign country. The entry mode choice of firm is determined by the potential costs and benefits of many factors, such as international experience, transaction cost and business environment (Erramilli and Rao, 1993). The analysis of different variables is discussed in the following study.

The entry mode choice of international firms has been discussed in many theories. The main theories encompass the transaction cost theory (Erramilli and Rao, 1993), the institutional theory (Brouthers, 2002), the eclectic paradigm (Brouthers et

al.1996 ;) and the resource-based view theory (Brouthers and Hennart, 2007; Sharma and Erramilli, 2004).

2.2.1 Transaction Cost Theory

The Transaction cost (TC) theory is one of the main theoretical perspectives in explaining the different modes used by firms expanding abroad (Williamson, 1985; Anderson and Gatignon, 1986; Hennart, 1991; Erramilli and Rao, 1993). It suggests that firms adopt a certain organizational structure by choosing best alternative structures, non-equity modes or equity modes, which minimize costs of entering and operating in a foreign market (Williamson, 1985). The transaction cost (TC) theory suggests that the entry modes choice is developed from low control non-equity entry modes to high control equity modes. Therefore, the selection of entry mode is the result of weighing of controlling resource commitment, risk and benefits. (Thomas, 2013)

There are three factors described in the transaction cost theory affecting entry mode decision, including asset specificity, uncertainties and frequency, resulting in two main costs for the firms: transaction costs and control costs (Williamson, 1985). According to Williamson (1985), firms are better to vertically integrate production into own operation when the transaction costs from the external market are high. The frequency of interaction is one of important indicators of transaction costs (Williamson, 1985). In order to reduce the transaction costs, firms can adopt hierarchy to integrate foreign operations into its value chain to decrease the frequency of interaction, but it may also result in significant bureaucratic costs due to the internal control of operation (Hennart, 1991).

The specific asset is main factor explained in transaction cost studies (Brouthers and Hennart, 2007). Williamson (1985) states that specific assets are rare and non-inimitable investments for business operation. There are some common measures of asset specificity, such as R&D, human asset, and physical asset (Erramilli and Rao,

1993). Firms are likely to choose high control modes to avoid opportunism behavior from partner when posing high asset specificity (Gatignon and Anderson, 1988).

The second variables of transaction cost theory are behavioral uncertainty and environmental uncertainty. Williamson (1985) states that behavioral uncertainty may results in opportunistic behaviors, such as cheating, distortion, non-responsibility, and other dishonest behavior. Thus, firms can take internal control structures to minimize negative effects of opportunistic behavior (Williamson, 1985; Gatignon and Anderson, 1988). The internal control can be achieved by hierarchy allowing firms to control the foreign operation (Williamson, 1985). According to Chang and Rosenzweig (2001), firms developed the controlling structure for foreign operation with the increasing international experience, and thus influencing the entry mode choice. Several studies conclude that firm prefer equity modes of entry if they haave high internal control mechanisms developed by international experience (Hennart, 1991). In contrast, firms may shift the control of operation to foreign organization if firms lack ability of internal control. (Gatignon and Anderson, 1988; Williamson, 1985).Thus, firms prefer non-equity modes of entry if lacking international control experience (Gatignon and Anderson, 1988). The external uncertainty is another aspect of uncertainty variable associated with host country environment, such as country risk. There are more possibility of external risks by committing more resources in operation. Therefore, firms prefer non-equity or low-commitment entry modes in high external uncertainty (Erramilli and Rao, 1993). Therefore, firms can retain flexibility of operation by using non-equity or low-commitment entry modes in uncertain market (Brouthers and Hennart, 2007).

Finally, frequency affects firm's the boundary decision of choosing contracts or equity mode. The firms select equity mode only if the volume of transaction is large enough to cover the fixed cost in integrating transaction within firm. (Williamson, 1985) In this study, sensitivity of service is considered to affect the transaction cost by changing transaction frequency. Luostarinen (1970) states that the sensitivity of

product and service to business fluctuation affects the firm's internationalization since the product is likely sensitive to the ups and downs of national economy and to seasonal fluctuations of the industry. Firms are likely to adopt marketing operations during depression if the sales volume positively correlate with the ups and downs of national economy. If firms are sensitive to business cycle and seasonal fluctuations, they are likely to choose temporary exporting. (Luostarinen 1970, p.93)

Although a great number of transaction cost theories, there are some weakness in application of transaction cost to entry mode decisions. First, Anderson and Gatignon, (1986) states that transaction cost theory neglects government regulations, production costs and non-transaction benefits. Moreover, the transaction cost theory fails to address the firm's operating context (Madhok, 1997). It also fails to explain the decision between production and marketing activities, which is explained in resource-based theory (Erramilli and Rao, 1993). To sum up, there are limited implications of transaction cost theory to entry mode decision since transaction costs are ambiguous and hard to measure (Gatignon and Anderson 1988; Brouthers and Hennart, 2007).

2.2.2 Eclectic Paradigm

The Dunning's eclectic paradigm also called OLI is the most influential framework in international entry mode studies and has been developed by author himself in series following researches (Dunning, 1988, 2000). The Dunning's eclectic paradigm provides a holistic framework to identify the firm's strategic factors and motivations of foreign direct investment (FDI) and the international activities. According to Dunning (1998), there are three factors determining foreign expansion by internationalizing firms, including ownership (O) advantages, location (L) advantages, and internalization (I) advantages. The eclectic paradigm combines several international theories into one approach, such as resource-based view, institutional theory, and transaction cost theory (Brouthers and Hennart, 2007).

The ownership advantages refer to the ownership of the nature and/or nationality of firm, such as firm's ownership specific advantages (Dunning, 2000). According to Buckley and Hashai (2009), the ownership advantages relate to firm's ownership of distinctive assets, such as knowledge, and the management capabilities, R&D capability. Moreover, the variables of ownership advantages can be transferred between different units of the firm. In conclusion, the firms prefer to do foreign production if they possess ownership competitive advantages comparing to other firms (Dunning, 2000).

There are two main tactics used this study in order to measure the effects of ownership advantages on the entry mode selection, including international experience, and organizational culture. Erramilli (1991) states that the international experience relates to the degree of firm involved in international operation. According to Chang and Rosenzweig (2001), firms develop the controlling structure of operation with the development of the international experience, which influence the decision of entry mode selection. Several studies conclude that firms are more likely to choose equity modes of entry if it has high internal control mechanisms developed by international experience (Hennart, 1991). In contrast, firms may shift the control of operation to foreign organization if firms lack ability of internal control. (Gatignon and Anderson, 1988; Williamson, 1985). Thus, firms prefer non-equity modes of entry if lacking international control experience (Gatignon and Anderson, 1988).

Since the characteristics of organizational culture are considered to be valuable, rare, and imitable, it is likely to create firm's competitive advantage. Firms with valuable culture are probably choose sole ownership foreign entry mode. (Ekeledo and Sivakumar, 2004) Future business plan determines firm's choice of foreign operation. Therefore, if the firm's mission is to satisfy foreign customer's needs with its services or products, it is likely to operate abroad. The firm's objective is based on the mission. The firms are likely to invest abroad when the objective is to gain higher profit and foreign market has more opportunities than home market. The firm's strategy

determines the way to achieve the total objectives of the firm. If firm apply aggressive strategy, it is likely to invest in target markets. (Luostarinen, 1970)

The second factor of eclectic paradigm is location (L) advantages. The location (L) advantages are very broad concepts, including natural resources, market size, the education system, governance structures, and other political activities (Rugman,2010). Buckley and Hashai (2009) states that the location advantages are manifested by the comparative cost of country specific resources for the firm, such as natural resources, and labor, or by the cost of trading, such as, transportation costs and tariffs. Dunning (2000) also states that the firms possess more the immobile and valuable endowments, they are more likely to choose FDI to exploit their ownership specific advantages.

The market size is considered to be the influencing factors on foreign entry modes in this study. The market size positively relates with the degree of control whereas the inverse relationship between the competition and institutional support and the degree of control mode (Musso and Francioni, 2009). Ekeledo and Sivakumar (1998) states that the home market with larger size is more likely to advance the firm's international operation due to more resources, technology, and marketing expertise. The small domestic market is likely to be a disadvantage for firm's to internationalization, but service firms can engage in joint ventures to overcome the disadvantages and successfully operate in international markets.

The internalization (I) advantage means that firms prefer to exploit competencies internally, rather than by partnership arrangement to reducing the transaction costs between the inter-firms, such as licensing, and joint venture (JV) (Buckley and Hashai ,2009). Dunning (1988) states that the internalization of ownership advantages occurs when the market is failure for transacting goods or services. Thus, the greater perceived costs of market failure result in high possibility for MNEs to internalize ownership advantages. Thus, firms prefer to engage in foreign production internally if the benefits of internalization overcome the cost from foreign markets (Dunning, 2000).

To sum up, Dunning (2000) analyses the strategic decision of entry mode choice among contractual resource transfers, exports, and FDI. The licensing is less cost-intensive market entry mode than others. If firms are embedded with ownership advantages, licensing is more likely to be utilized. If internalization advantages are identified, the company can invest more capital abroad by exporting. The FDI is the most capital intensive market entry mode for firms and is together with locational advantages. (Dunning, 1988) Firms possess more OLI advantages, the more likely for them to choose the high resource commitment entry mode (Zhao and Decker, 2004).

However, the other factors should also be integrated into the eclectic paradigm model in order to make better market entry decisions, such as competitive advantages, dynamic external environments, and market failure (Dunning, 2000). Furthermore, the three factors of Dunning's eclectic paradigm are over determined and very broad. For example, the firm's ownership advantage also includes natural factor endowments, cultural factors, and institutional environment, which are used to be regarded as country factors (Rugman, 2010).

2.2.3 Institutional Theory

The institutional theory focuses on firm's the market entry decision and operation within surrounding institutional environment (Brouthers, 2002). The institutional theory mostly concentrates on the institutional environment of host country and its difference with home country's environment (Brouthers and Hennart, 2007). Some scholars have incorporated the institutional perspective to the transaction cost theory (TCT) and resource-based view (RBV) as a complementary perspective (Brouthers, 2002).

Since the environments of emerging markets are quite different, the institutional theory has been shown to be an important explanation for western companies entering the emerging markets and Eastern European markets (Thomas, 2013). Therefore, the institutional differences in each market would affect the business performance of firm.

The regulations and rules embedded in institutional environment affect the firm's choice of entry mode. Cui and Jiang (2010) argue that the firm's interaction between different institutions and attempt to obtain regulatory legitimacy affects the strategic decision of entry mode. Firm choose the appropriate entry mode corresponding to the isomorphic pressures from both firm's home environment and host environment (Brouthers and Hennart, 2007).

The regulatory factor or political risk in host country is one of the institutional factors affecting firm's entry mode choice (Diego et al., 2011). Brouthers (2002) examined the different regulatory factors of the institutional environment in explaining mode choice. Political risk means that the firm's business activity is likely to be affected by the expropriation of investment, or some other changes in the political environment (Simon, 1984). Research findings support that the higher political risk, the more likely for firms to select low-resource commitment or non-equity entry modes (Gatignon and Anderson, 1988). Within the instable political environment, firms are reluctant to commit more resources (Diego et al., 2011). As also discussed in Transaction cost (TC) theory, firms prefer non-equity or low commit modes to retain flexibility under the condition of high political risk. It allows firms to change the way of conducting business and structure if institutional environment changed and avoid substantial losses even to withdraw investment at host country. The local partner can provide knowledge about the entering country for firms and also share risk in high political risk markets. (Diego et al., 2011) The structure of the legal environment also has an impact on the choice of entry mode (Thomas, 2013). According to Brouthers (2002), firms prefer to choose Wholly Owned subsidiary (WOS) in few legal restrictions of market while firms prefer to choose Joint Ventures (JVs) mode in many restrictions markets (Brouthers K. D., 2002).

The factor of institutional influences is the national cultural distance (Brouthers and Hennart, 2007). Cultures distance reflects the differences within home and host country in normative belief system (Yiu and Makino, 2002). Hennart and Larimo

(1998) find that the cultural distance plays an important role in explaining the decision of entry mode. Some of studies states that firms prefer to adopt low resource commitment of entry mode in greater cultural distance (Diego et al., 2011). The greater cultural distance generates additional costs for the collection and communication processes of information (Hennart and Larimo, 1998).Thus, the firms prefer the non-equity or low resource commitment entry mode since greater cultural distance increases difficulty of integration process and internalization cost. Therefore, firms need to take account of specific context knowledge into entry mode decision (Diego et al., 2011).In addition, firms prefer entry modes of cooperating with local partner to facilitate adaptation product or service and sharing risks (Madhok, 1997), and also to acquire local management skills and even to delegate culturally sensitive tasks (Hennart and Larimo, 1998).

However, cultural distance can encourage high ownership entry modes due to investment risk (Brouthers and Brouthers, 2001). The greater cultural distance also generates costs of transferring know-how to partner, so the high ownership entry modes are likely to be chosen, such as Wholly Owned subsidiary (WOS) (Diego et al., 2011). Furthermore, if firm has little knowledge about the host country's culture and controlling power of local management, firm prefers to choose high control entry mode to effectively control the operation of subsidiaries (Chen and Hu, 2002). Therefore, firms prefer to select high controlling entry mode when cultural distance is high (Diego et al., 2011).

Moreover, there is a relationship between market attractiveness and choice of entry mode. Market attractiveness is associated with the market size and the national economic performance (Kwon and Konopa, 1993). Firms are likely to choose no equity entry mode when the attractiveness of market is low in host country (Brouthers et al, 1996). The host country with good economic performance is more likely to attract foreign investments (Ekeledo and Sivakumar, 1998).The economic performance, especially in economic depression, may result in the different entry

mode choice between hard and soft service firms. Overall, the economic performance may be positively correlating with the number of service industries in the market. (Ekeledo and Sivakumar, 1998)

Overall, this study considers political risk, cultural distance and market attractiveness as three main factors of entry modes selection. These factors will be discussed in the following conceptual framework of this case study.

2.2.4 Resource-based View

The resource-based view (RBV) is a commonly used theory in entry mode research (Ekeledo and Sivakumar, 2004). It explains how firms to gain competitive advantages based on the firm's valuable resources. Barney (1991) states the resource-based advantages are acquired by possessing valuable, rare ad imitable resource and capabilities. The resource-based view (RBV) regards firm as the collection of tangible and intangible resources (Barney, 1991). Some studies focus on the effects of transferring of tacit knowledge on entry modes choice (Kogut and Zander, 1993). Other studies suggest that firms choose the foreign entry modes based on past experience (Chang and Rosenzweig, 2001).

The resource-based analysis links the firms' resource endowments and entry mode decision by exploiting the existing assets and creating new resources (Meyer, 2006). Grant (1991) divides resources into five categories, including physical resources, human resources, financial resources, technological resources and reputation.

Experience is another factor that has been studied in explaining the foreign market entry decision. As mentioned in internationalization theory, firms incrementally move from non-equity or low resource commitment entry modes to high resource commitment modes. It suggests that the international experience is significant part of firm's resource (Brouther and Hennart, 2007). Erramilli (1991) examined the international experience from both length and scope dimension affects the foreign

entry mode decision. It shows the U-shape relationship between the resource commitments of mode choice with experience increasing. Specifically, if firms have little or high international experience, they are likely to selecting full controlling entry mode, whereas choosing low controlling entry mode with intermediate experience.

The resource-based view (RBV) focuses on the potential benefits generated by transferring and exploiting firm's existing resources in internationalization (Meyer et al, 2009). The knowledge is the key resource for firm. Firms prefer to transfer knowledge internally since it needs direct interactions between people (Kogut and Zander, 1993). In addition, foreign market entry augments firm's resource disposal by exploring existing knowledge and accessing to complementary knowledge (Meyer et al, 2009). The firms are likely to choose collaborative entry modes to access to complementary resources, such as joint venture (JV) (Meyer et al., 2009). Thus, firms are more likely to cooperate with local partner to access important knowledge (Madhok, 1997).

The firm size is examined in this study to explain the entry mode decision. The different entry mode choices need different amounts of resources. The general hypothesis is that larger firm has large amount of resource than small firm, so it prefers to exploit direct investment techniques entering into foreign markets. (Luostarinen 1970, 73) Therefore, small firms may not undertake the initial cost of international expansion whereas large firms have the resources and ability to internationalize into foreign market.

The entry mode decision based on the resource-based view (RBV) may has few limitations. For example, it is difficult for firm to identify the idiosyncratic resources in entering a foreign market. The combination of resource-based view (RBV) with other theories and analysis of other resource advantages may advance the study of RBV in entry mode decision (Brouthers and Hennart, 2007).

To sum up, four main theories have been discussed to explain firm's foreign entry

mode choice, including transaction cost theory, the institutional theory, the eclectic paradigm and the resource-based view. Based on the above discussions, we assume that important factors from these theories needed to be considered which affects firm's choice of entry mode. Moreover, the study also needs to analyze these factors from the viewpoint of the service industry, which will be discussed in the next section.

2.3 Internationalization of Service Firms

This section of the study is aim to present the characteristics of services comparing to manufacturing products. In addition, this section also identifies and presents the early internationalization process for service firms and especially for tourism industry.

2.3.1 Characteristics of services

The definition of service has been presented and discussed in many literatures. Grönroos (1998) states that service with an intangible nature is an activity or series of activities between the customer and service provider to solve customer problem and Moreover, service firms can only offer processes to buyers since it is not physical products. The outcomes of processes determine the perceived value for customers (Grönroos, 1998).Since the service industry has become the driving force in today's world economy, the internationalization process of service is becoming more important to be researched (Javalgi and Martin, 2007). With the respect to the internationalization of service firms, it should be identified that the characteristics of service are different with that of the manufacturing products (Zeithaml et al., 1985).

Zeithaml et al. (1985) identified distinct characteristics of service different from manufactured goods. As such, characteristics of services are classified as being intangible, which means it cannot be touched or seen; inseparability means that service is simultaneously delivered and consumed, and the consumers also affect the performance and quality of the service; Perishability refers that services cannot be stored; and heterogeneity means that the output of service has a high variability in

performance. In addition, Cowell (1986) stated another characteristic of service named ownership that the customer merely buys the right to use the service.

According to these characteristics, Erramilli (1990) also divided the services into two main categories: hard services and soft services. The hard services are similar with the manufacturing products that the production and consumption can be separated, while the production of soft services must be with the consumption simultaneously (Erramilli, 1990). Since the hard service can be produced in one location and the then transferred in a tangible format to other location, the market entry modes of hard service are same as those of manufactured goods. To the contrary, the soft service has limited choice of market entry mode since the services are delivered and consumed simultaneously (Erramilli, 1990). The tourism can be considered as the soft service that is location-bound. This clear classification of the characteristics and traits of services is considered as the basis for this analysis.

2.3.2 Internationalization of Tourism

According to World Tourism Organization (UNWTO, 2014), tourism industry has experienced continued expansion and diversification over the past six decades, which is one of the world largest and fast growing industry. The overall number of the world's international tourist arrivals is likely to increase by 3.3% every year to reach 1.8 billion by 2030 based on the UNWTO's long term forecast (UNWTO, 2014). World Tourism Organization (UNWTO) defines the "tourism is a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes".

Internationalization of service firms within the tourism industry is complex because it not only includes the outward internationalization process also focus on the inward perspective (Marleen, 2010). Firms not only sell to foreign market but also buy from foreign market in internationalization process. The outward internationalization process has attracted many attentions in international business research, but the study

of the inward internationalization was neglected. The inward process of internationalization associates with consumption of service at firm's the home market, so it means that customers come to firm's the home market to consume. (Bjorkman and Kock , 1997). For example, the tourists go to different tourism firms' countries.

According to Bjorkman and Kock (1997), the internationalization process of tourism firms is different from outward exporting firms, and tourism firms attract consumers by agents, word of mouth and the internet. Therefore, the tourism firms extend accessibility of service by themselves or intermediaries (Marleen, 2010). The tourism firms need to manager their international business operation since the services are used to be sold in advance to the foreign markets. The tourists usually assess the quality of tourism based on the past performance of tourism firm, and tourists are co-producer of the travel service due to inseparability characteristic. (Buhalis, 2000). The activities of tourists coming to consume services at the firm's the home market can be regarded as an inward international process. Thus, the tourism business is dependent on the location, which may has a great influence on the internationalization process. Since the travel service is simultaneously produced and consumed by customer at firm's home market, the service itself cannot be stored as stock. Therefore, the availability of service capacity is a crucial requirement of the tourism internationalization. (Bjorkman and Kock ,1997)

The organizational dimension of tourism extends beyond the private sector to public sectors. The following Figure 1 displays the multiple levels of the tourism environment, including tourism firm, tourism industry environment and macro-environment. Hall and Coles (2008) states that the tourism industry's environment includes customers, competitors, suppliers and other stakeholders, including non-government organizations (NGOs) and governmental organization. A number of macro-environmental factors have an impact on the tourism firms and the immediate business environment, such as regulation and rules, national economy, new technologies, and social and culture trends. These factors have a significant influence

on the tourism firms' business performance by impacting on the market's future threats and opportunities. (Hall and Coles, 2008)
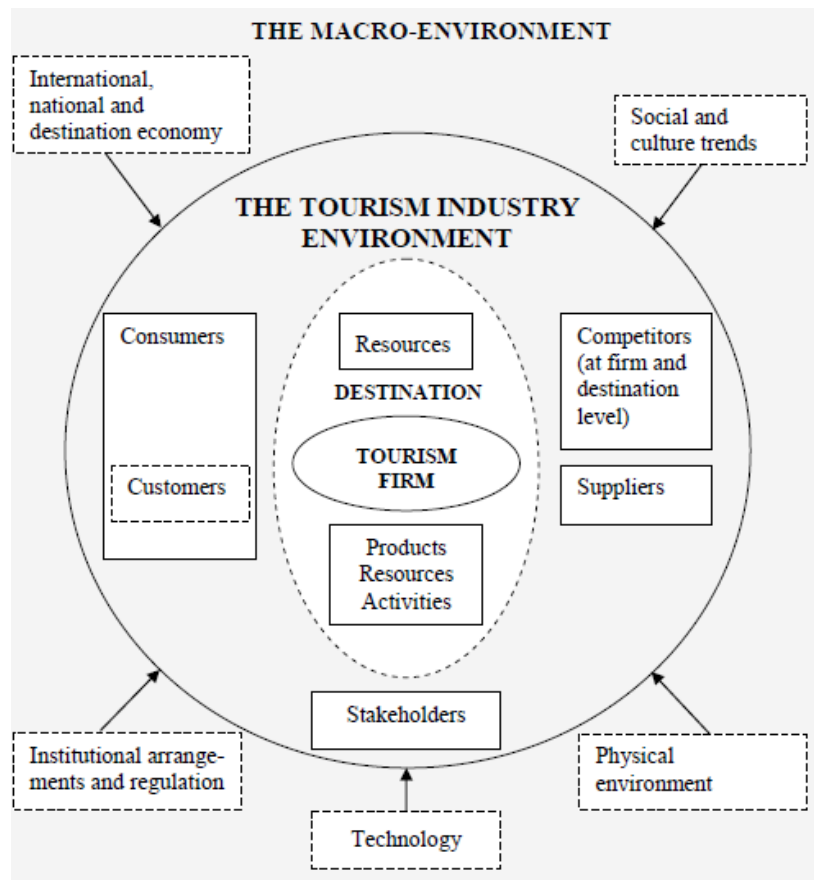
Figure 1 Business Environment of Tourism Industry (Hall and Coles, 2008)

Due to globalization, tourism industry has experienced rapid development. The SMEs in tourism sector not only have acquired many benefits but also met many challenges due to globalization. (Marleen, 2010) The customers can evaluate every activity of the tourism firm, such as hotel, foods, and the overall value of the tourism activities to meet the customer's demands is accessed afterwards (Komppula, 2005). Moreover, the tourism demand is incrementally developed by the changes of demography, economy, and technology (Marleen, 2010). Since the globalization advances the technological innovation, the tourism environment has increased more uncertainty and dynamic. The wide use of Internet has changed the world economy and promoted the e-business development across the world, so the tourism firms are now rapidly

increase the involvement of e-business (Matlay, 2004).

In conclusion, the internationalization process of tourism industry has both outward and inward process. Moreover, since the travel service is simultaneously produced and consumed by customer at firm's home market, the service itself cannot be stored as stock in advance. The macro-environmental factors and also technology have impacts on the internationalization of tourism firms.

2.3.3 Entry modes of Service Firms

Since the service industry has become the important sector in today's world economy, the internationalization process of service is becoming more important to be researched (Javalgi and Martin, 2007). Because the distinctive characteristics of service, the internationalization processes theories of manufacturing firms have been less applicable for service sector. In addition, the researches of the Internationalization of service firms have been industry specific, such as hotel industry (Gannon and Johnson, 1997). Other researches states that the existing internationalization theories are applicable for the service sector, or adapted theories to the service firms (Erramilli, 1990). To conclude, the existing internationalization literatures provide a theoretical background and basis for study of service sector, whereas also need to develop new theories combining various theories to explain the internationalization patterns of service firms (Javalgi and Martin, 2007).

The market entry mode is considered to be an institutional arrangement that allows firm's products and service entering into foreign markets by exploiting their advantages (Erramilli and Rao, 1990). The selection of the most appropriate entry mode is one of the most critical issues in firm's strategic decisions. As discussed in the entry mode theories before, the market entry decisions are affected by various factors.

The degree of control affects market entry mode choice of firm (Javalgi and

Martin ,2007). It is determined by the degree of transferring key capabilities to partners, such as know-how, and brand. Specifically, the degree of control affects the level of risk and returns of each entry mode, the degree of interaction between buyers and service providers, and the firm's operation performance (Javalgi and Martin, 2007).Based on the degree of control, there are two types of entry modes named high control mode and low control mode. The high control entry mode requires high resources commitment and is associated with more risk and uncertainty, whereas low control mode requires low resource commitments to reduce the risk and uncertainty for service firms. (Blomstermo et al., 2006) As mentioned in institutional theory, firms prefer to adopt low resource commitment of entry mode in greater cultural distance (Diego et al., 2011). The greater cultural distance generates additional costs for the collection and communication processes of information. Thus, the firms prefer the non-equity or low resource commitment entry mode since greater cultural distance increases difficulty of integration process and internalization cost (Hennart and Larimo, 1998).

Erramilli (1991) examined the effects of international experience from both length and scope dimension on the foreign entry mode choice. It shows the U-shape relationship between international experience and the resource commitment of entry mode choice. Specifically, firms with little or high international experience are likely to select full controlling entry mode, whereas firms with intermediate experience choose market-based mode. Moreover, the characteristics of service also affect the choice of entry modes (Erramilli, 1990). As mentioned above, since the hard service can be produced in one location and the then transfer it in a tangible format to other location, the market entry mode of hard service is same as those of manufactured goods. To the contrary, the soft service has limited choice of market entry mode since the services are delivered and consumed simultaneously. The travel service in this study can be considered as the soft service. The internationalization process for the soft service industry usually requires a higher degree of market commitment, such as licensing, and foreign direct investment (FDI). (Erramilli, 1990.)

According to Vandermerwe and Chadwick (1989), there are two types of foreign entry modes for service firms identified, including licensing and/or joint ventures (JVs), and foreign direct investment (FDI). Licensing and joint ventures (JVs) need less resource commitment comparing with FDI and presents at the foreign market by third party partners, such as licensee, and franchisee. Control is achieved by the degree of transferring key capabilities to partners, such as know-how, and brand. The entry modes of foreign direct investment (FDI) include establishing branches or subsidiaries in foreign market, mergers, and acquisitions of local firms. The people-embodied service firms are characterized by a high degree of consumer interaction prefer to choose foreign direct investment (FDI) mode, because firms need to control the quality of service that are simultaneously produced and consumed by customer. (Vandermerwe and Chadwick, 1989)

Erramilli and Rao (1990) states that the internationalization of service firms is due to following existing clients to abroad or seek for new markets. Acceding to Grönroos (1999), there are three general market entry modes for service firms entering foreign markets. The first one is the client following mode that service firms enter into a foreign market to serve the client firms from home country. Another mode is market seeking mode that serves foreign customers at foreign markets. The client following firms are considered to be more knowledgeable than market seeking firms when going abroad, so market seeking firms are associated with higher levels of uncertainty and risk.(Erramilli and Rao, 1990) Finally, The electronic marketing mode refers to extend accessibility of service by advanced technology. Based on these three general market entry modes, there are five main strategies for internationalizing services abroad, including direct export, systems export, direct entry, and indirect entry and electronic marketing. It is essential for service firms to choose the appropriate foreign market entry mode. (Grönroos, 1999) The direct export means that the service is produced at home country and then shipping abroad. The systems export refers that the service are complement by each other from many firms. It is because a service firm supporting the products exporting firms or other service firms. The direct entry

strategy allows service firms to establish total or partial ownership of its own organization in the foreign market, such as wholly owned subsidiaries (WOS). In order to reduce the potential risk and uncertainty of entering into foreign market, the service firms are likely to take indirect entry strategy cooperating with a local firm without ownership, such as Licensing, franchising. With low resource commitment, service firms can get access to the knowledge about the entering market and the management know-how of operation. Electronic marketing is the last market entry strategy. It means that the service firms extends service's accessibility by advanced technology, such as Internet, cable TV. The service firms are not bound to specific location and can communicate with customers by apply electronic marketing. It is hard to manage the whole service operations by itself. The service firms have to rely on at least delivery services and the power of controlling such partners is limited. (Grönroos, 1999) The following Table 1 presents an overview of this framework.

Table 1 Internationalization Modes for Services

Modes	Key Characteristic
Direct Export	Produce domestically and then shipping abroad
Indirect Export	Joint export of complementary service
Direct Entry	Total or partial ownership of organization in the foreign market
Indirect Entry	Cooperating with a local firm without ownership
Electronic Marketing	Extending accessibility by using advanced technology

Source: Grönroos (1999)

Ekeledo and Sivakumar (1998) suggested another classification of foreign entry modes according to the level of investment risk and resource commitment. Based on this classification, the entry modes include exporting, licensing and franchising, management contract, joint venture, and whole ownership, ranging from low resource

commitment mode to high controlling mode.

To sum up, many researches have discussed the relationship between the degree of control and the choice of entry mode. Firms can enter foreign market by different choice entry modes with different degree of control. (Ekeledo and Sivakumar, 1998). The controlling can be defined as the authority over strategic decision and business operation in the target market (Anderson and Gatignon, 1986). Control is can be achieved by the degree of transferring key capabilities to partners and resource commitment (Vandermerwe and Chadwick, 1989). The level of control has an important influence on the choice of entry mode since it determines risk and return (Thomas, 2013). Therefore, the level of control determines the selection of entry mode to foreign markets.This section presents the classifications of service entry modes by Vandermerwe and Chadwick (1989), Grönroos (1999), and Ekeledo and Sivakumar (1998).

2.4 Theoretical framework

Regarding to the selection of entry mode, the previous sections discussed main streams of entry mode theory, including transaction cost (TC) theory, Dunning's eclectic paradigm, institutional theory, and resource-based view (RBV). Furthermore, the internationalization theory of service is focus on the inward side .Bjorkman and Kock (1997) states that The inward process of internationalization associates with consumption of service at firm's the home market, so it means that customers come to firm's the home market to consume. Erramilli (1990) also considered the travel services as soft services that are bound to a certain location. The following presents the theoretical framework starting from factors affecting entry mode decision and their impact on the degree of control, which are based on the previous theoretical reviews.

The Figure 3 is this study's conceptual framework integrated from the Ekeledo and Sivakumar (2004) model combined by Grönroos (1999) market entry strategy.

Roberts (1999) introduced a concept of domestically located export that service provided to customers in the domestic market can be considered as a case of exporting. The framework is further developed based on the previous theoretical reviews. The framework describes the choice of suitable entry modes and four groups of influencing factors, including firm's resources, home country's factors, host country's factors (Ekeledo and Sivakumar, 2004), and service's factors. The international entry modes choice of the case firms will be discussed and examined according to these dimensions. The detailed factors under each dimension have been discussed in the previous theoretical reviews. The block of entry mode composes five modes choices, including direct export, indirect export, direct entry, indirect entry, and electronic marketing. This study is not to find out the optimal foreign market entry modes under all conditions. It aims to relate the main streams of international market entry theory to the tourism industry from the case analysis, and discusses the relationship between influencing factors and the degree of control in selecting entry mode.
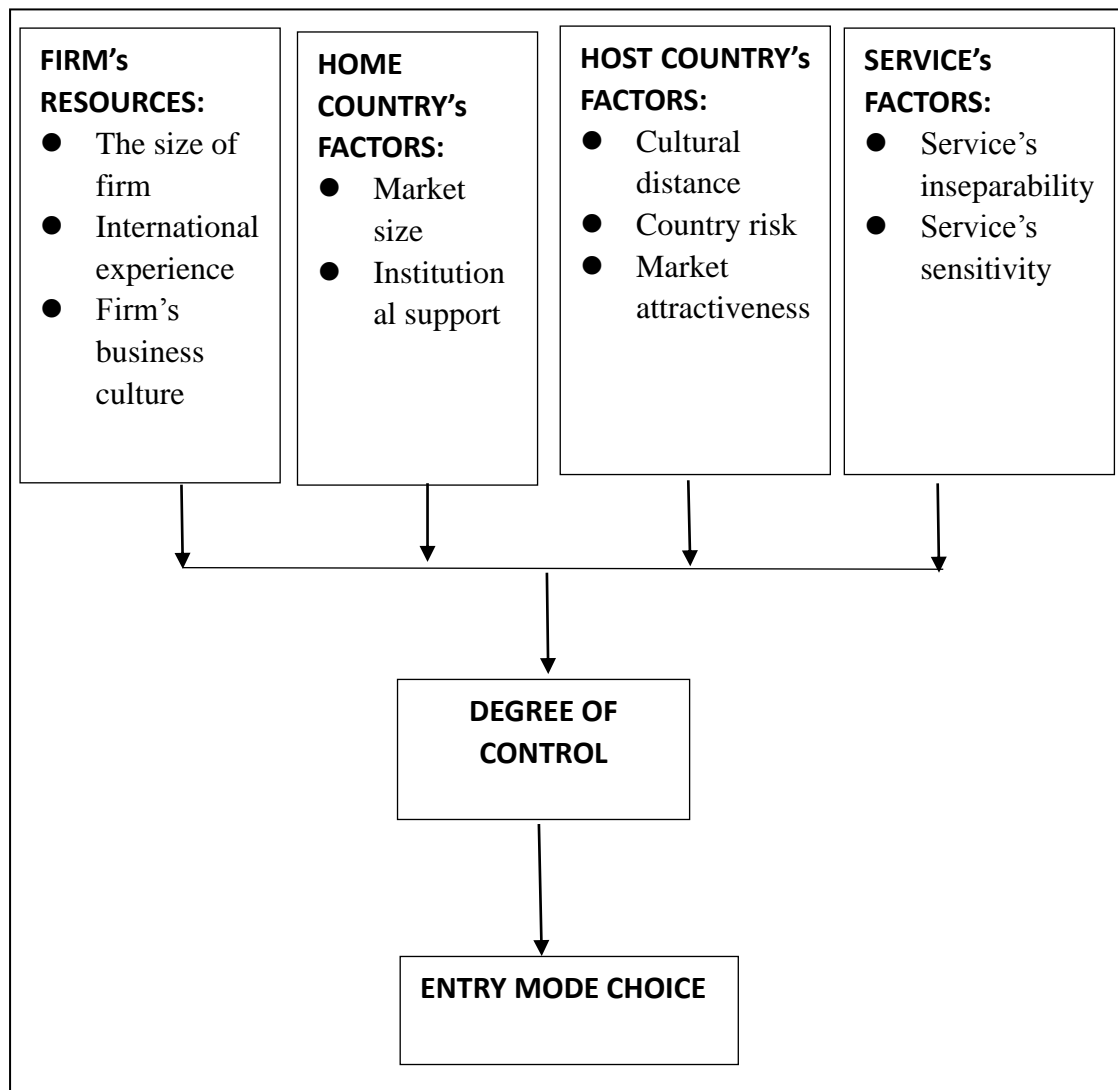
FIRM's RESOURCES: • The size of firm • International experience • Firm's business culture	HOME COUNTRY's FACTORS: • Market size • Institutional support	HOST COUNTRY's FACTORS: • Cultural distance • Country risk • Market attractiveness	SERVICE's FACTORS: • Service's inseparability • Service's sensitivity

DEGREE OF CONTROL

ENTRY MODE CHOICE

Figure 2: Model of key factors influencing firm's entry mode selection

FIRM's RESOURCES:

As mentioned in resource based views (RBVs), there is a relationship between firm size and the choice of entry mode (Brouthers et al., 1996). The general hypothesis is that larger firm has large amount of resource than small firm, so it prefers to exploit direct investment techniques entering into foreign markets. (Luostarinen 1970, 73) There are two main tactics used in eclectic paradigm to measure the effects of ownership advantages on the entry mode decision. Erramilli (1991) states that the international experience means the degree of firm involved in international operation. Chang and Rosenzweig (2001) states that firms developed the controlling structure for foreign operation with the increasing international experience, and thus influencing

the choice of entry mode.

HOME COUNTRY's FACTORS:

The home country's factors also affects firm's entry mode choice. As stated in the eclectic paradigm, the market size positively relate with the degree of control whereas the inverse relationship between the competition and institutional support and the degree of control mode (Musso and Francioni, 2009). Ekeledo and Sivakumar (1998) states that the larger home market size is more likely to advance the firm's international operation due to more resources, technology, and marketing expertise. The small domestic market is likely to be a disadvantage for firm's to internationalization, but service firms can engage in joint ventures to overcome the disadvantages and successfully operate in international markets. Moreover, firms may follow the foreign investment behavior of domestic competitors when the competition is oligopolistic. (Ekeledo and Sivakumar, 1998)

HOST COUNTRY FACTORS:

As mentioned in institutional theory, the cultural distance has an important impacts on explaining the choice of entry mode (Hennart and Larimo,1998).Firms prefer the non-equity or low resource commitment entry mode since greater cultural distance increases difficulty of integration process and internalization cost. Therefore, there is an inverse relationship between cultural distance and the degree of control in entry modes (Diego et al.,2011) Furthermore, if firm has little knowledge about the host country's culture and controlling power of local management ,firm prefers to choose high control entry mode to effectively control the operation of subsidiaries (Chen and Hu, 2002). Therefore, there is also a possible of a positive relationship between cultural distance and the degree of control in entry modes (Diego et al., 2011). The internationalization patterns of soft service firms are more likely affected by the cultural factors due to the simultaneous production and consumption by customers (Ekeledo and Sivakumar 1998, 283). Moreover, the country risk also determines the choice of entry mode. The country risk has many different types, such as political risk,

and transfer risk. The soft service is more likely than hard service affected by political instability due to the need of physical proximity between firms and consumers (Ekeledo and Sivakumar 1998).

Market attractiveness stated in the institutional theory is associated with the market size and the national economic performance (Kwon and Konopa, 1993). Firms are likely to adopt no equity entry mode when the attractiveness of host country market is low (Brouthers et al, 1996). The host country with good economic performance is more likely to attract foreign investments (Ekeledo and Sivakumar, 1998). The economic performance, especially in economic depression, may results in the different entry mode choice between hard and soft service firms. Overall, the economic performance may be positively correlating with the number of service industries in the market. (Ekeledo and Sivakumar, 1998)

SERVICE'S FACTORS:

The transaction cost theory presents that the sensitivity of service to business fluctuation affects the firm's internationalization. It means that if firms are sensitive to business cycle and seasonal fluctuations, they are likely to choose temporary exporting (Luostarinen 1970, 93). Erramilli (1990) divided the services into two main categories: hard services and soft services. The tourism can be considered as the soft service that is location-bound. Moreover, the tourists usually assess the quality of tourism based on the past performance of tourism firm, and tourists are co-producer of the travel service due to inseparability characteristic. (Buhalis, 2000). Therefore, this may encourage firm to control the business operation in foreign market.

3 Methodology

This chapter aims to present methodological approach used in this research. The chapter also describes the data collection and analysis methods. In the end of the chapter, it discusses the validity and reliability and the limitations of this study.

3.1 Research Method

This research is based on qualitative single case study approach to have an understanding of Finnish travel service firms' strategic decision of entry mode. The qualitative research is a very broad term and has many definitions. According to Merriam (2009:13), "Qualitative researchers are interested in understanding how people interpret their experiences, how they construct their worlds, and what meaning they attribute to their experiences". Therefore, qualitative approaches are associated with interpretation and understanding, whereas quantitative approaches are consider to be explanation and statistical analysis (Merriam, 2009). Qualitative research initiates a research with the broader subject then to narrow it down towards research problem, so it is a useful approach for this research since detailed conditions of the tourism firm's internationalization are not known yet.

The case study is the commonly and widely used method for qualitative analysis. Yin (2003:13) defined that "case study as an empirical inquiry that investigates a phenomenon within its context, especially when the boundaries between phenomenon and context are not clearly evident". The author also stated that case studies are mainly used for answering how and why questions, so it is a suitable for examining new subjects whereas the existing theories are limited. The case study typically utilizes several data sources, including documentation, interviews, and observations. These sources are complementary and no single one is better than all the others. (Yin, 2003) According to (Yin, 2003), there are some criticisms about the limited contribution of the case study to research generalizations. Since the case study heavily rely on empirical evidence, it is likely to result in an idiosyncratic or complex theory (Eisenhardt 1989). However, the aim of case studies is to generate analytic generalizations rather than statistical generalizations to theoretic propositions (Yin, 2003). The well-established research design result in high quality theory building, such as detailed justification, minimizing bias through interview and also detailed presentation of research findings.

This research decided to use a single case approach as the research strategy to have a deep understanding of Finnish travel service firms' strategic decision of entry mode to China. The single case study is more appropriate than multiple case study under certain conditions of qualitative researches. For example, the particular case determines validity of research findings. Moreover, the single case considered to be unique and rare is also relevant, so the importance and the benefits of the single case study prevails over its weakness. The single case study design has deeper context based insights of the phenomena through constituting the optimum form of case study (Siggelkow, 2007). This case study solely focus on China market and representative Finnish tourism firm to more easily compare the international business literatures and empirical research findings. The firm's founders or managers has experience of the early internationalization to China considered to be the analysis units of this study. The semi-structure interview with firm's key person enable researcher to have a deep understanding regarding the entry mode decision for tourism firm.

In addition, this study applies abductive method to support the case study since it is effective for discovering new findings based on the existing literatures and the empirical observations (Dubois and Gadde, 2002). It means the interpretation of case would be strengthen if the observations of the case are consistent with the theory. The abductive method possess characteristics from both deductive and inductive method. This case study begins with the theoretical research of existing entry mode theory and service firms before collecting data and then adjusts the theoretical frameworks after empirical research. Thus, the abductive case study is a continuous progress not linear process to find result. It is likely to enhance understanding and flexibility of case study.

3.2 Data Collection

The appropriate data collection is important for the reliability and validity of the study. According to Yin (2003), it is important for the case study to include multiple source

of evidence. The multiple sources of evidence are known as triangulation. Creswell (2002:280) defines the triangulation as the "process of corroborating evidence from different individuals, types of data, or methods of data collection in descriptions and themes in qualitative research". The research findings are considered to be more reliable and accurate if the case study is based on various data sources. Therefore, the collection data is conducted in two phases in this study.

The first phase in this study utilizes documentation as second hand data. The documentation can provide broad coverage of information about past events in detail (Yin, 2003). It can also considered to be the complementary data collection method for the interviews. The documentations for this study includes articles, reports, and other information on the website.

The second phase of empirical data collection mainly is conducted by interviewing Mr. Matti Julin, founder of Olympia who has rich experience and knowledge of entry mode decision at the beginning of firm's international activities. Bryman (2006) states that the information is generated during the interview by interviewer's interpretation. He also states that the interview in qualitative more focus on interviewee's own view point rather than the researcher's concerns in quantitative approach.

Moreover, the interview is based on semi-structure with open-ended questions to have a deep insight of the strategic entry mode decision for tourism firm since the semi-structure interview reflects the own experiences, opinions, and attitudes of the firm's founders. It is the most common interview method conducted in qualitative research (Merriam, 2009). The semi-structure interview previously prepared the questions as interview guide and then asked following systematic and consequential sequence during the interview. However, researcher can also ask the non-prepared questions in the interview guide. The semi-structure interview questions are based on the conceptual framework mentioned before. The interview should covers main topics, including knowledge about the tourism industry and the uniqueness of China market, own experience in decision making, and perception towards internationalization

modes. The Appendix 1 shows detail semi-structure questions, and some other issues may arise during the interview. The strict pre-planned questions of structure interview would prevent important information raised from the interviews. Therefore, the semi-structure interview is considered to be the most appropriate method for this case study. Moreover, the semi-structure interview also embraces the probe questions to ensure the accurate record of data and transmission of true meaning. Patton (1990) states that the probe question is one of the interview tools to have a deep insight of the interviewee's answers. He also mentions that probe encourages interviewee to freely express at beginning and then to confirm previous statements to ensure the consistency.

3.3 Data Analysis

The data analysis aims to reveal the relationships and factors affecting the tourism firm's decision of entry mode. The interpretation is based on these themes that formulated from the literature review. Moreover, the new themes formulated from the empirical data are also valuable for this case study.

The thematic content analysis is used to analyze the empirical data from the interviews. The themes are embedded in the interview guideline consider to be the important codes when processing the transcripts. The processes of coding often result in identification of key concepts within the study. Miles and Huberman (1994) define coding as a process enabling to identify valuable data and interpret it to draw conclusion. The coding is used to identify key factors involved in the tourism firm's entry mode decision. There is no specific technique for secondary data that only considered to be supporting materials.

The empirical data analysis is a continuous process between the theoretical literature and the empirical observation and secondary data. Eisenhardt (1989) suggests an approach of within-case analysis that initiates an in-depth study of data within each case, which discards the irrelevant data to draw a conclusion. By analyzing the

patterns of the data, the researchers can identify the extent to which the strategic decision of entry mode follow in consistent with the internationalization literatures. The pattern matching is used to explain the expected findings by predicting pattern based on the literature reviews. Yin (2003) also states that the case study formulates the hypothetical pattern of independent factors according to mutually exclusive theory and then find out which pattern is consistent with the observation.

3.4 Reliability and of Validity

Yin (2003:40) states that, "research design is supposed to represent a logical set of statements, you can judge the quality of any given design according to certain logical tests". He also suggests that the study can be assessed by some essential criteria, including construct validity, internal validity, external validity and reliability. Moreover, the key informants of the case study should have the opportunity to review the interview transcripts and the study report (Yin, 2003). In this study, the interview transcripts are send to the interviewee before the data analysis.

Yin (2003) defines the construct validity as construction of correct measures for studying. He also states that three specific tactics increase the construct validity of research, including using multiple sources of data, establishing a chain of evidence and interviewee's review of the study report. To achieve construct validity, the multiple sources of data are used in this study. The details of data collection procedures and also interview guide are discussed in the previous data collection sector. By establishing a chain of evidence, researchers can follow the derivation of any evidence, ranging from the research question to the study conclusion (Yin, 2003). The various aspects of this case study, such as research questions, methodology, and empirical data, are connected to establish a chain of evidence.

The internal validity means to show the relationships between conditions and results in case study (Yin, 2003). Yin (2003) also states that the internal validity can be acquired by using strategies, such as pattern matching in the analysis of data.

Therefore, the pattern matching method is used in this study to achieve internal validity.

The external validity refers the generalization of the research's findings (Yin, 2003). Since this study is based on single case research, it presents some difficulty to generalize the findings. However, Ying (2003) argues that the researcher depend on analytic generalization of findings to particular theories. Therefore, this study's findings are generalized back to the conceptual framework and theories described before.

Yin (2003) describes the reliability as the operation of the study can make the same results and findings if the later researches follow the same procedures or conduct the same research all over again. The reliability aims to minimize biases and errors in the study so that the careful and detailed documentation of the procedures is needed in the research. Yin (2003) suggests that study can use two main tactics to increase the reliability, including case study protocol and database. The case study protocol of this study contains various segments, including the overview of the case study, the description of the data collection, interview questions and study report. Therefore, this study contains all these replicable parts to achieve reliability. Moreover, the case study database allows the researcher to organize the evidence for the duration of investigation (Yin, 2003). The interview in this study is conducted in relaxing environment, so it is easy to take records of interviewee's emotional expressions and body language. This in turn strengthens the reliability of the data collection. The reliability of research is further increased by recording every qualitative interview. The recording enables researcher to listen the interviews many times afterwards and thus being able to decrease the risk of losing important empirical data and increase understanding of the important data. Moreover, the good interview guideline also increases the reliability of the research (Yin, 2003).Thus, the empirical data will be conducted in these aspects to achieve the reliability.

3.5 Limitations of the study

Several potential research limitations are embedded in this case study that may affects scope and quality of the research. As discussed above, many efforts have been done in this study to minimize the effects of limitations, such as multiple sources of data, a chain of evidence, and review of study report.

There is a possibility that not all empirical data are collected and analyzed due to the limited time and understanding about the entire topic. This study makes sure no new information would added from the interview, but there is a possibility that the additional opinions and behaviors are not identified. The researcher own interpretation of the empirical data may also causes the missing of the information.

It is also possible that not all the collected data are accurate since the interviewees are likely to give the information satisfying the interviewer. This study use probe questions in the interview to come back to questions already answered before. It ensures that the interviewee's answers reflect thorough understanding of research questions rather than sudden impulses. Furthermore, this study selects key informant with relevant knowledge of early internationalization of tourism firms and allows them to freely express their own experience and opinions. However, this study acknowledges this limitation presented.

4 Chinese Tourism Industry

In this chapter, it aims to introduce the Chinese business environment in tourist industry. Firstly, it introduces the Chinese tourism market size and the factors resulting in the fast development of Chinese tourism industry. Then, the regulations and the main players of foreign operations in Chinese tourism market are presented. In the end, the challenges of foreign firm's internationalization to China are described.

4.1 Chinese tourism market

Since joining the World Trade Organization (WTO) in 2001, China has gradually opened the industry for the foreign firms, including tourism sectors. Chinese government eliminated the restrictions and decreased the capital requirement of foreign travel agencies in 2009 (George and Hugh, 2010). Based on the rules issued in 2009, foreign tourism companies can establish wholly foreign-owned agencies in China or joint venture local Chinese partners. (George and Hugh, 2010) For example, the China Guide is an American owned travel agency based in Beijing of China, and it is one of China's first wholly foreign owned travel agencies. (China Guide, 2015). In 2014, China is also the largest tourism source market in the world (UNWTO, 2014). The education-related travel service is considered to be the largest part of service exporting to China, followed by other personal travel services and business travel services. (EU SME Centre, 2013)

The Chinese domestic tourism has continuously increased over 10% in the recent decade and now contributes over 4% of the country's GDP enhancing the employment, consumption and economic development (Travel China Guide, 2014c). The population of China's domestic tourism is going to reach 3.3 billion by 2015. This population is expected to increase by 16% annually, and the revenue of domestic tourism would reach to CNY 3.9 trillion by 2020 with the annual 10% growth of total domestic tourist expenditure (EU SME Centre, 2014).

The inbound tourists to China reached 128 million in 2014, decreasing slightly compared with the last year. But, the foreign currency revenues still increased by 6.2% over that of 2013, reaching USD 48 billion. The decreasing number of inbound tourists was due to many reasons, such as air pollution, food safety, and corruption. The major reason is the increasing negative attitudes of China's national image. There were 11.83 million Asian tourists coming to China, which is the largest source place of foreign tourists. Specifically, South Korea sent the most tourists in Asian countries

to China, accounting to 3.08 million. The second largest source of tourists is from Europe Union, accounting for 21.3% of the total; Followed by American market, making up 11.86% of the total. According to traveling purpose, most visitors came to China for sightseeing and leisure, accounting for 33.86% of total. The second largest group came to China for business, accounting for 20.53 %. (Travel China Guide, 2014a)

The number of China's outbound tourists reached over 100 million for the first time in 2014, increasing by 11% over 2013.About the destinations, most China tourists choose Asian countries. It can be explained by the close cultural distance between China and neighboring Asian countries, the convenient of transportation due to short physical distance, and travel spending is lower. Among Asian regions, Hong Kong and Macau are most popular for Chinese tourists. The Europe is the second largest destination for Chinese visitors. Africa surpassed America receiving the third most Chinese tourists. The last destination was Oceania, receiving about 1 million Chinese. Many countries adopted new regulations to attract Chinese tourists, such as simplifying visa process, increasing flights to China, employing Chinese speaking staffs. (Travel China Guide, 2014b) The Chinese tourists spent 155 billion dollars overseas in 2014, more than travelers from any other countries (Dexter, 2014). The total number of Chinese outbound tourists is going to rise by 15% annually in the next few years and reach to 200 million by 2020, and the expenditure of outbound tourist is to reach CNY 793 billion (USD 129 billion) by 2017 (EU SME Centre, 2014).The figure 2 researched by World Tourism Cities Federation (WTCF) showing the increasing number of Chinese outbound tourism in 20 years (WTCF, 2014).
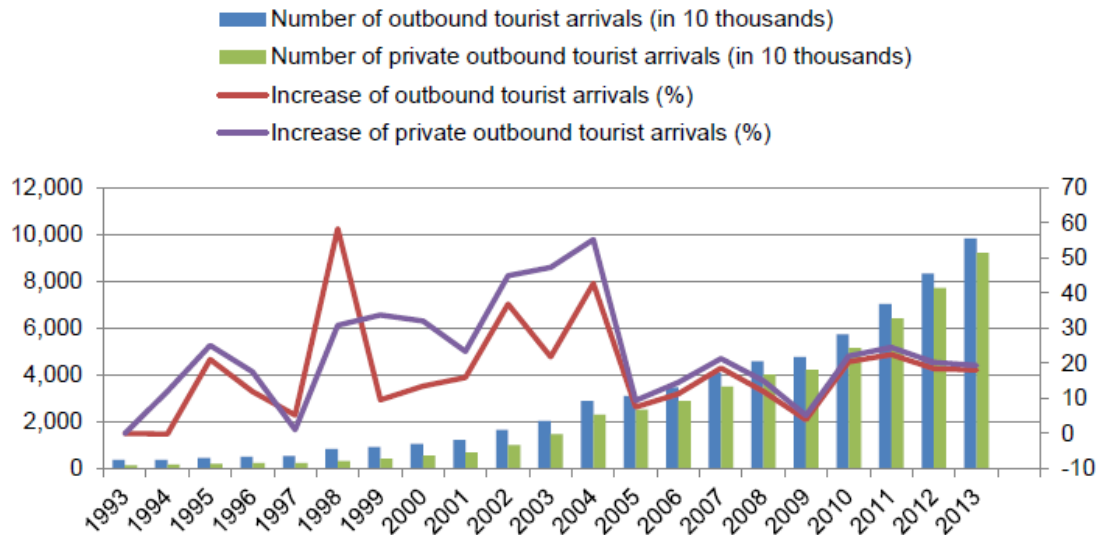
Figure 3: The number of Chinese outbound tourism in 20 years (WTCF, 2014)

Due to the massive development of e-commerce in China, online services have expanded rapidly in the last decade. The revenue of China's online travel was CNY 2,850 billion (USD 463 billion) in 2013, accounting for 7.7% of all revenue in the tourism industry. The tourists are shifting from offline service to online travel service, and the penetration rate of online travel market is increasing every year. Thus, the tourism firms invest more resource on the online travel service to improve the services quality and value for customers. (WTCF, 2014)

The fast development of Chinese tourism industry can be explained by various factors. Firstly, China has rich tourism resources with the incredible diversity of landscapes and cultures stretches across the country, so it attracts many tourists from different places. Furthermore, the China's economy has grown quickly since 1990s.The stronger economy affords the further improvement in infrastructure for tourism development and fosters more Chinese tourists for both domestic and outbound. The Chinese government also made positive government policies to advance tourism industry. Tourism was considered to be a growth point of the national economy since 1990s. Because of joining the World Trade Organization (WTO) in 2001, the removal of some barrier for cross-border travelers has provided opportunities for the tourism

development. (Alan et al, 2003) Other researches also states that the internationalization of the education system offering foreign languages programs and the new technology, especially the Internet, have also encouraged Chinese tourists to go abroad (EU SME Centre, 2014).

4.2 Foreign operations in Chinese tourism market

The Chinese government eliminated the restrictions and decreased the capital requirement for foreign investment in travel agencies in 2009 (George and Hugh, 2010). Foreign firms are allowed to establish wholly foreign-owned travel agencies or cooperate with Chinese partners to establish travel agencies according to the regulations about travel agencies issued in 2009 by the State Council (George and Hugh, 2010). The minimum registered capital required for travel agencies is CNY 300,000 (USD 48,700), comparing to CNY 4 million (USD 650,000) required in the former rules. Foreign travel agencies are only allowed to engage in domestic as well as inbound tourism business, but they are not allowed to do outbound tourism business for Chinese tourists (George and Hugh, 2010). Foreign firms establishing a Joint Venture (JV) travel agency to offer outbound travel services is also not possible. Even though the China National Tourism Administration (NTA) issued the tentative measures of supervising pilot operation of outbound tourism by Joint Venture travel agencies in 2010, few foreign travel agencies are allowed to engage in outbound tourism business due to the short application time for tentative measures. (CMS, 2010) China has also established important relationship with the United Nations World Tourism Organization (UNWTO), Pacific Asia Travel Association (PATA), World Travel & Tourism Council (WTTC) and other international tourism organizations (Steven, 2011).

Since the removal of restrictions, foreign travel agencies now can present in China by directly registering with the local Administration for Industry and Commerce (AIC) and record with the local China National Tourism Administration (CNTA). The

foreign travel agencies' branch are not allowed to engage in business out of scope as head office. Moreover, foreign travel agencies can also establish service networks. The service network can solicit tourists and also contracts with tourists in the name of the travel agency. Furthermore, the foreign travel agencies are able to establish representative office in China. But the business scope of representative office is not clear, the market research and other non-profit activities should be within the permitted scope. (Benedict et al, 2009)

With the fast development of China tourism industry, there are now 32 foreign travel agencies establishing branches in China market (Steven, 2011). Since the restriction of foreign firm establishing outbound travel service for Chinese tourists issued by the CNTA, there are only three firms granted the outbound license in 2011. These three joint-ventures tourism firms are among 14 applicants as following :(EU SME Centre, 2014)

JTB New Century International Travel

JTB New Century International Travel (www.ncit.com.cn) founded in 2000 is the first foreign joint venture travel company in China, a partnership between the Japanese giant JTB International and China's CITIC Travel. It was granted outbound tourism license in 2011.

CITS American Express

CITS American Express (http://www.citsamericanexpress.com) was founded in 2002 as a merger between China International Travel Service (CITS) and American Express. Established in 1954, CITS is a market leader in China travel industry. American Express is also the global market leader in business travel, management travel and entertainment expenses (T&E). The CITS American Express Business Travel established three JV branches in 2002 to service corporate and business customer in Beijing, Shanghai and Guangzhou.

TUI

TUI China (www.tui.cn) was founded in 2003 as a joint venture between TUI AG - the globe's leading tourism group -and China Travel Service (CTS). The firm's headquartered is located in the nation's capital, Beijing. TUI China is the first Joint Venture in the China travel market with foreign majority share, and the only European firm to be issued the China Outbound Travel License. TUI China business scope covers Inbound, Outbound, M.I.C.E. (Meetings, Incentives, Conferences and Events), and Expat travel services.

Other foreign firms are also present in China tourism market, such as International hotel chains. The International hotel chains entered into China market at the end of the 1980s, accounting for 10% market share. Overall, majority of foreign firms engaged in China domestic and inbound tourism market are of relatively small size. (EU SME Centre, 2014)

4.3 Challenges of Internationalization to China

The long distance between western markets and China results in challenges for foreign firms doing business in China, so the better understanding of the business environment is essential to successfully operate in China. The Chinese speaking skill is a great advantage in doing business even though many Chinese can speak English now. Moreover, the skill of business negotiations is also crucial to business success. It is particularly risk to underestimate the complexity of business practices in China.

Due to the open door policy, China has developed a legal framework to attract foreign investment (Chong, 2001). After joining the World Trade Organization (WTO) in 2001, China has gradually opened the service industries for the foreign businesses, including tourism sectors. Nevertheless, there are still major concerns in legislation and inherent uncertainties of the business environment. For example, the CNTA issued tentative measures allowing foreign travel agencies for pilot operation of

outbound tourism business in 2010, but the outbound tourism market is still the most controlled by the government, even for Chinese travel agencies (EU SME Centre, 2014). Moreover, the detailed written contract is needed for foreign firm to decrease the misunderstandings because of the relatively underdeveloped legal system. It should also be followed by the Chinese rules and in the Chinese language (Chong, 2001).

Fan et al. (2007) found that the firm's CEO with political background is more likely to accept officials involved in firm's decision-making. The political connections is more likely to present in the countries with high level of corruption. Li et al. (2008) discussed the firm's performance associated with the political connection in China. The authors find that firms with party membership can easily obtain loans from state-owned banks and confidently operate under China legal system. Since China is the largest transition economy, it is important for firms to seek political support since government controls most fundamental resources, such as land and taxation (Li et al., 2008).Therefore, foreign firms should seek local China government support to enter and operate in China market.

Li et al., (2008) states that the economic growth of China is mainly led by state-owned corporations, state-owned corporations have not only wider political connections but also stronger financial support than other firms. This phenomenon is especially evident in China that accessing to financial markets is key resource for the firm's development. Chinese firms mainly take bank loan from the commercial banks. According to the findings of Farrell and Lund (2006), the Chinese state owned commercial banks play an important role in financial market, but they prefer to fund the state enterprises over private firms. Therefore, the foreign-owned-firms need to overcome the problem of financing in China market. Chong et al., (2001) states that the financing of foreign-investment projects in China are partially provided by foreign investors and by loan from overseas banks with guarantees from Chinese parties.

As we mentioned in institutional theory before, Cultural distance reflects the

differences between home and host country in normative belief system (Yiu and Makino, 2002).The most important part of Chinese business culture is guanxi. The personal network, named guanxi, should be conducted appropriately in China to achieve the efficiency and effectiveness of business operation. The term guanxi refers to dynamic relationships between individuals to make unlimited demands on the others. (Verner and Snejina, 2003) Guanxi encompasses the interpersonal linkages with the exchanges of favors, and this relationship is different from friendship due to the obligations to the potential requests of help. This reciprocal obligation is socially binding and no time specification. (Luo, 2000) Since the poor institutional system, personal networking is essential for firms doing business in China. It helps firms to access to reliable information and other resources to reduce uncertainty. China is also a relationship based and pre-modern society, and Guanxi is a significant dynamic throughout the Chinese history. Since the role of China government is comparatively high in market, establishing guanxi relationships with different bureaucracies are important for foreign firms operating in China. (Verner and Snejina, 2003) According to Verner and Snejina (2003), personal networking minimize the inherent uncertainties within the inter-organizational relationships and then result in multiple dependence between each other. The authors also states that the distinctive characteristic of the China market system is based on network transactions resulting from long-standing personal connections. Guanxi has even become more important for foreign business after China joining the WTO in 2001 since the increasing competition between local and central government (Verner and Snejina, 2003). Therefore, the social networking with the key individuals as well as authorities is often considered to be important for firms to achieve business success in China.

In order to achieve success, foreign firms must be familiar with guanxi by incorporating it in business strategies, especially dealing with official authorities in China. The well-established guanxi network can be considered as an adaptation of China cultural norms. It is critical for foreign firms to be familiar with the characteristics of broad networking with mutual obligations and benefits when

engaging in guanxi building and maintenance. (Verner and Snejina, 2003) The foreign firms should make the commitment to ensure the common interests with the Chinese partners. Then, the Chinese partners may respond to exchange resources since the reciprocity of guanxi. Building the sincerity is the most relevant issue in business operation at China market since the effectiveness guanxi is based on firm's ability to build true friendship with partners. It can be achieved by knowing each other's views and needs, and helping for other's difficulties. Moreover, the foreign firms should have an overview about the networks to figure out whether should be engaged in or not. Since it is ambiguous to distinguish between legal and illegal guanxi, foreign firms may face the potential problem of corruptions. China government has paid great attention to corruption related to guanxi in recent years. (Su and Littlefield, 2001)

Since the guanxi playing an important role in firm's performance, it should be established and developed when foreign firms entering into the host country. Because guanxi refers to relationship, foreign firms can directly connect guanxi relationship with Chinese frims and their networks. If the foreign firms do not know the Chinese individuals, the intermediary is preferable to build trust business relationships. The intermediary can quickly introduce and establish trust between two parties. Moreover, the investments of guanxi are likely to be pay back only if it has been sustained and developed for long time. Since many expatriates stay shortly in China, they are not be able to engage in long-term project, which is a good opportunity to establish personal relationships. (Verner and Snejina, 2003)

5 Findings

In this chapter, it aims to introduce and interpret the collected data from the single case study. Firstly, the introduction of the case firm and the interviewee are presented. Then, the information with the interviewee is presented. In the end, it analyzes the each influencing factor based on the previous framework.

5.1 Introduction of Case Study: OLYMPIA

OLYMPIA Air Travel Ltd. is a Finnish travel agent based at Helsinki and owned by Mr. Matti Julin's family, who is the Olympia's president. The firm named OLYMPIA because it was established in 1952 when the Olympic Games opened at Helsinki. OLYMPIA now is the Finnish market leader in long-haul group travel that the destinations across around all the world. The firm's annual turnover is over 20 million dollar. The travel packages of OLYMPIA usually include two group, including traveling within several countries, and traveling in one country, and both of them address the local culture and specialties. OLYMPIA regards the service's quality and customer's satisfaction as the firm's business principle, so it serves all customers with the best service. The company mainly chooses the deluxe or first class hotels in city's downtown with beautiful views for customers. The travel group usually includes 15 to 25 people and a Finnish speaking tour leader. The tour leaders can communicate and help tourist solve problem more easily.

5.2 Interview with Matti Julin, President of Olympia

Mr. Matti Julin, the president of OLYMPIA Air Travel Ltd., has rich experience and knowledge of entry mode decision at the beginning of firm's international activities. At the beginning of the interview, Mr. Matti Julin introduced that his father established this company in 1952. The scope of business only includes outbound travel group around all over the world, and the China group stated since 1974. But the China tour was not very popular at that time, there were not many travel group going to China. The number of tourists going to China started to grow very quickly since 1982, but then decreased at 1989 due to Tiananmen Square protests. Then, this number quickly recovered in 1900. China has became the one of the important destinations for Olympia right now, and it takes account of 15% of total volume.

Then, Mr. Matti Julin was questioned about the effects of firm size on the degree of

control. He rated the firm size as the important factor on the degree of control and entry mode choice. Mr. Matti Julin explained that Olympia has 20 employee in the Helsinki office and 45 tour leaders right now. Mr. Matti Julin's family work as owners and also employees of Olympia. Olympia only keeps the booking and other key services at Helsinki office, other services are provided by the local partner. The size of firm is medium comparing to other firms in Finland, so Olympia choose the licensing as entry mode for entering China market. Mr. Matti Julin further explained that the firm needs large enough of volume to set up branch in China. Since the China market only accounts of 15% of total firm's volume, Olympia considered this mode before but local partner is very efficient of local business operation so there is no need for Olympia to set up branch.

In terms of international business experience, Mr. Matti Julin states that Olympia has many years of international business experience before entering into China market. Before entering into China market, Olympia had travel group tour to Hong Kong and other Asian countries. Moreover, Olympia actually sent some travel groups to China before culture revolution in 1960s, and it restarted the business at 1974. China market actually was the second last market that Olympia had entered, the last market was Antarctica. He explained that international business experience is important resource but not affected firm's entry mode decision.

When asked the questions about the organizational culture, Mr. Matti Julin explained that Olympia aims to provide the travel group tour with high standard service and various cultural oriental destinations. However, he also states that it is important to have this clear culture in the company but it has limited influence on the degree of control. To achieve the company goal, Olympia uses electronic survey to customers about every parts of the travelling experience.

In terms of host country's factors, Mr. Matti Julin explained that China is a very important market, and Olympia was the first Finnish company entering into China. He thought that the market attractiveness of host country is important factor on

internationalization decision. However, it has limited effects on the entry mode decision since Olympia still choose the same entry mode as other destinations.

As Mr. Matti Julin said, there is only a marginal cultural difference between Finland and China because two country has long history in corporation since cold war. The only problem is that the bureaucracy embedded in Chinese culture negatively affects the Olympia's business efficiency. However, Olympia can easily communicate and work with Chinese partner since the travel business is less complicated than other industry. Therefore, culture distance is not very important factor affecting the degree of control.

When asked about the country risk, Mr. Matti Julin explained that the political risk had little effect on entry mode decision since it may happen all over world. Even though there was Tiananmen Square protests at 1989, the Chinese partner handled the Finnish travel groups very well and China is at peace for a fairly long time. The most potential risks are changes of exchange rates and operation risks. The Chinese currency has been becoming stronger than years before. Since the fluctuation of exchange rate, the cost of traveling to China has become more expensive. It affected the sales and revenue of Olympia. Mr. Matti Julin explained that operation risk is due to the long way trip in China, and some unexpected thing may happened affecting the travelling. For example, tourists may not arrived the planed destinations or hotels. To sum up, Mr. Matti Julin thought that the country risk factor has little effects on the entry modes decision.

In terms of home country's factors, Mr. Matti Julin stated that since Olympia only focus on the outbound travel group business, both home country's market size and competition have no effects on the entry mode decision. The decision of entering into China market actually was suggested and supported by the China embassy in 1950s. Olympia had some interior decoration business for China embassy office, and the officer suggested the traveling idea. Therefore, Mr. Matti Julin's father and his family started internationalization to China market. Olympia did not received much support

from Finnish side. In conclusion, the home country's factors have less effects on the entry mode decision.

When asked the questions about the service's sensitivity, Mr. Matti Julin answered that the sales are affected by both economic and seasonal fluctuations, especially the economic factor. He regarded the economic fluctuation as factor may affects the entry mode selection. Regarding of service's inseparability, Mr. Matti Julin explained that physical contact with customer is important to ensure the service quality. Olympia established office at Helsinki center to conveniently serve the customer and also arrange Finnish tour leader with travel group to solve the customer's problem. Besides, the Chinese local partner is efficient and experienced, and they feedback thoughts and problem to Olympia in time. Therefore, there is no need to set up branch in China. Mr. Matti Julin regarded the service's inseparability is not important on the entry mode decision.

In the final section of entry mode choice, Mr. Matti Julin answered that Olympia choose licensing as entry mode for entering China market. The most advantage of this entry mode is that Olympia can easily develop and quickly expand the local business with low cost due to the experienced local firm. Moreover, the indirect entry mode has less risk than the direct entry mode.

The Appendix 1 shows detail semi-structure questions during the interview. The following Table 2 is the summary of the each factors from the interview. The score from 1 to 5 indicates the extent to which the factors affects the degree of control and also choice of entry mode.

Table 2 Summary of the influencing factors

Factors	1=not important	2=less important	3=Normal	4=important	5=very important
FIRM's RESOURCES:					
The size of firm					√
International experience			√		
Business culture			√		
HOME COUNTRY's FACTORS:					
Market size	√				
Institutional support			√		
HOST COUNTRY's FACTORS:					
Cultural distance		√			
Country risk			√		
Market attractiveness				√	
SERVICE's FACTORS:					
Service's inseparability		√			
Service's sensitivity				√	

6 Discussion and Conclusion

This chapter aims to answer the main research question of this study, including the two sub-questions, followed by the limitations of this study. In the end of this chapter, it will gives out the suggestions for further research.

6.1 Discussion

The resource-based theory states that the firm with big size is more likely to choose the high degree of control mode. The empirical data is also consistent with this view. Since Olympia is small company with limited resource, it chooses indirect entry mode to enter into China market. While Olympia has been present at China for many years and become the Finnish market leader in outbound business, it has not plan to change the low degree control of mode to high degree control of mode due to the limited

resource.

The research finding shows that there is no significant relation between international experience and the degree of control. The international business experience imposes less influence on control of mode. In the case of Olympia, it has many years of international business experience, even experience of operation at Hong Kong, but the firm chose the entry mode with less control. Since the cooperative mode of entry is the cost effective way, it has been the optimal choice for Olympia in every each foreign market even it has high level of international experience.

Olympia aims to provide the travel group tour with high standard service and various cultural oriental destinations. Rather than using high degree of control mode, Olympia use electronic survey to customers about every parts of the travelling experience to achieve the company goal. Therefore, firm has clear organizational culture has no great effects on the degree of controlling in entry mode.

The previous studies assume that the firms prefer the non-equity or low resource commitment entry mode since greater cultural distance increases difficulty of integration process and internalization cost. However, the empirical data shows that the cultural distance has no significant influence on the choice of entry mode, which is contrasts with the business literatures. Olympia chooses the license agreement as the only entry mode that is not depend on the degree of cultural distance between Finnish market and foreign market.

The relation between cultural difference and the degree of control is also not strong as shown in the interview. Cultural distance has become less relevant and that the markets have become progressively more homogeneous due to new communication technology. The globalization and new technology change the way of doing business to become more standard and easier that before.

The influence of political risk has no serious effect on the firm's entry mode choice.

Mr. Matti Julin said the Tiananmen Square protests at 1989 did not seriously affects firm's business since the experienced local partner well handle the Finnish tourist to leave China. The most potential risks are changes of exchange rates and operation risks. The Chinese currency has been becoming stronger than years before. Since the fluctuation of exchange rate, the cost of traveling to China has become more expensive. It affected the sales and revenue of Olympia. The operation risk is due to the long way trip in China, and some unexpected thing may happened affecting the travelling. However, all these factors have less influence on the entry mode decision.

Market attractiveness has some influence on the choice of entry mode. Mr. Matti Julin said that Olympia would not change the current entry mode to high degree of control, such as wholly owned subsidiary, since the volume to China market is not enough for branching and the current partnership entry mode is enough and efficient to operate business at China market. This finding is consistent with the previous studies that the market attractiveness of host country has positively influence with degree of control.

In the category of the home country's influencing factors, the result shows no strong connection between the market size, competition and the choice of entry mode. It may be explained by the fact that the case company has no domestic and inbound tourism business and only focuses on the outbound tourism business, so home country's market size is not an important factor in firm's strategic decision.

The result reveals that the institutional support is not important factor for firm's entry mode decision. Olympia received the suggestions and some other help from Chinese embassy at Helsinki in 1970s, but it had less support from the Finnish governmental office to internationalization. The entry mode choice was based on firm's inner strategic decision.

The characteristics of service's sensitivity has some influence on the choice of entry mode. Since the Olympia's sales are affected by exchange rate fluctuations and seasonal fluctuations, the licensing mode is the most cost efficient way to enter into

China market. Therefore, the more service is sensitivity, the more likely firms choose less degree of control. It may be due to the fact the cost of high degree control of mode overtakes the influence of service's sensitivity .Moreover, inseparability means that firm's service need physic contact with the customers, but Olympia emphasizes the importance of physical office at Helsinki to serve the customer and applying the service assessment format to ensure the quality of service at China market. Mr. Matti Julin states that this factors is not considered into the entry mode decision. Therefore, the inseparability of service is also not taken account into Olympia's entry mode decision.

The client-following strategy has been identified in the case firm. Olympia followed the existing customers in Finland to the China market. It is in line with Grönroos (1999) statement that the client following mode means service firms entering into a foreign market in order to serve the client firms from home country. Therefore, the firm's decision of international entry mode is affected by following existing customers.

Based on the previous evaluation of factors, Olympia chooses licensing as entry mode for entering China market. The most advantage of this entry mode is that Olympia can easily develop and quickly expand the local business with low cost due to the experienced local firm. Moreover, the indirect entry mode has less risk than the direct entry mode. The potential risk for this mode is that the service quality is not easy to control, but the tourists' assessment format has been used by Olympia to assess and control the every part of service by the local partner.

6.2 Conclusions

In order to find out the answer of the main research question, 'How do tourism firm make the entry modes decision entering foreign market?', this study try to find out main factors determine firm's choice of entry modes based on four main theories, including transaction cost theory, the institutional theory, the eclectic paradigm and

the resource-based view. Based on these theories, this study established a framework to show the relationship between the choice of suitable entry modes and three groups of influencing factors, including firm's resources, home country's factors, host country's factors, and service's factors.

However, the empirical data does not fully supports the previous entry mode studies. The study results shows that the three factors, including firm size, market attractiveness of host country, service's sensitivity, have the most significant influence on the degree of control. Both firm size and market attractiveness of host country factors have positive relationship with degree of control. Olympia has limited recourse to indirectly enter into foreign market so it chooses the partnership entry mode combined with the customer's satisfaction assessment to control the business operation in China. Moreover, the study findings suggest that the business operation costs is an important factor affecting firm's choice of the entry mode. There is an inverse relationship between service's sensitivity with the degree of control. If sales are affected by exchange rate fluctuations and seasonal fluctuations, firm is more likely to choose less degree of control. Other factors suggest no strong relationship with the degree of control mode choice. Olympia is not intend to choose high control mode at foreign market, such as WOS, instead of partnership entry mode even if it has many years of international experience worldwide. This result is not confirm or even contrast with the previous studies.

The client-following strategy has been identified in the case firm. Olympia followed the existing customers in Finland to the China market. It is in line with Grönroos (1999) statement that the client following mode means service firms entering into a foreign market in order to serve the client firms from home country. As mentioned above, there are five entry modes strategies for service firm. The indirect entry mode is preferable choice for service firms entering to new markets. Olympia chooses licensing as entry mode for entering China market. The most advantage of this entry mode is that Olympia can easily develop and quickly expand the local business with

low cost due to the experienced local firm. Therefore, service firms are able to learn the market knowledge from partner and reduce the business operation risk and uncertainty by indirect entry mode.

Since the objective of this study is not generalization of the research finding, the research findings are associated with the specific context. However, this study can contributes to the further study in similar contexts and case company.

6.3 Limitations and Implication for Future Study

There are some limitations of this study for future research. Since this case study is about the internationalization patterns of the travel service SME in Finland, the first limitation is that the findings are not straightforward applying to the Multinational Corporations (MNCs) or the companies from other countries. Due to the growing important role of tourism industry in the world economy, Future studies can take the research findings in other countries.

This case study does not take into account other factors that may affects the choice of entry mode, such as networking, and role of entrepreneurs. Future studies can includes other factors to overcome this limitation.

Furthermore, the research focuses on the internationalization of service, the manufacturing firms are exclude from this research findings. Moreover, the generalization of the research finding has been constrained because of the limited number of the case companies. Since the uniqueness of the Chinese market environment, the research findings are context specific based. The research findings cannot be generalized for other markets. Therefore, the multiple case study can be applied by future studies for generalization of research findings.

This study only focuses on the internationalization of travel firm in early stage, so the future research can include following stages of internationalization of service firm.

The relationship between internationalization process and performance is also a direction for future study.

To sum up, the research findings are not generable and applicable for all size firms and different business context, whereas the findings can be regard as a basis for further research in similar contexts and case company.

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Appendices

Appendix 1: Interview Guidelines

Introduction

- My name is Jian from Aalto University Business School.

- Research Statement

My thesis aims to find out the entry mode choice of tourism firm to China market.

- Confidentiality

This interview will be exclusively used for my case study and nothing will be used out of this purpose. Given this, do you permit me to record this interview?

Personal

- Can you briefly introduce yourself?

- What is your position and responsibility in the company?

The Company

-When the company was established?

-When did your company start to internationalize?

-When did you enter the Chinese market?

-What do you think of the success of the internationalization so far?

Firm-Specific Resources:

Firm size

-What is the size of the company? (E.g. employee, revenue)

- How do you rate the importance of firm size on the choice of entry mode, from 1-5?

International business experience

- Did you have relevant international business experiences before entering China market?

-Did you have any knowledge or experience regarding the China Market?

-Did this experience affect decisions of internationalization? (E.g. entry mode, market selection)

-How do you rate the experience on the choice of entry mode, from 1-5?

Organizational culture

-What is the organizational culture of your company?

-Do you think the organizational culture affect the entry mode decision, from 1-5?

Host Country's Factors:

Market attractiveness

-Why did you decide to enter into the China market?

-How important is it, in your opinions, to be present at China market?

-Do you think the Market attractiveness affects the choice of entry mode, from 1-5?

Cultural distance

-Did you know the business culture before entering into China?

-What are the main differences and/or similarities between China and Finland market, especially in national culture or business culture aspects?

-Did you have local staff working for your company?

-How do you rate the cultural difference affect the choice of entry mode, from 1-5?

Country risk

-What kind of risks identified when entering into China, such as political risk, ownership and control risk, operation risk, and transfer risk.?

-How did you overcome these barriers?

- To what extent these factors affecting your choice of entry mode, from 1-5?

Home Country's Factors:

Market size

-How do you think about market size of Finnish tourism industry and its opportunities or limitation for internationalization?

-How do you rate the home market size affects the choice of entry mode, from 1-5?

Competition

-Are there many companies in this market competing with you?

-Did you think the competition at home country affects choice of entry mode, from 1-5?

Institutional support

- Did you have any support or suggestion from Finnish government to enter into China?

-if yes, what kind of support or suggestion?

-How do you rate the importance of government support affects the choice of entry mode, from 1-5?

SERVICE's FACTORS:

Product's sensitivity

-Does the sales affected by the ups and downs of national economy and the seasonal fluctuations of the industry?

-Did it affect decisions of the choice of entry mode, from 1-5?

Service's inseparability

-How important do you think the physical contact with customer?

-Did affect decisions of the choice of entry mode, from 1-5?

Entry mode

-what do you choose regarding the entry modes of China markets? And why? (E.g. licensing, franchising)

-How important do you think the partner is for the international expansion?