Service intangibility, cultural factors, and entry mode selection in service firms: a conceptual framework and research propositions

Abstract
A considerable amount of research has focused on entry mode selection in international business and marketing academia, yet existing research has not explored the relationship among service intangibility, cultural factors, and entry mode selection. Accordingly, this study highlights how service intangibility needs to be seen from the perspectives of both service providers and service recipients and how cultural factors (cultural distance and host country culture) moderate the relationship between service intangibility and entry mode selection for international service firms. After a literature review, seven propositions are proposed and the authors question whether the foreign market entry mode selection differs significantly with the degree of service intangibility; whether the greater the cultural distance is, the greater the difference is in level of involvement during market entry between service firms embodied in different degrees of service intangibility; and whether the level of each host country’s culture characteristic that service firms face in the host market with the extent of service intangibility exhibits interactive effects on entry mode selection. The authors further discuss other possible sources that may affect the relationship between service intangibility and entry mode selection for future empirical testing, and some practical suggestions and academic directions are also provided.

Keywords: service intangibility; entry mode selection; host country culture; cultural distance

Introduction
Service firms in an age of globalization. According to World Bank statistics in 2004, the global service industry occupied 63% of global GDP and 1,249 service firms ranked among the Forbes list of the best 2,000 firms. These reports reflect the phenomenon that service firms have the most development potential in the future trend of globalization
The significant expansion of entering foreign markets for service firms during the last decade has actually received growing attention among researchers, corporate managers, and policy makers (Li and Guisinger, 1992). However, Boddewyn et al. (1986) suggest that, although theories of entry strategies (e.g., FDI) and the multinational enterprise can be applied to multinational service firms, this must be done with extreme caution due to the distinctive characteristics of international services. Therefore, it is necessary for us to consider the service characteristics of service firms when discussing their entry strategies in a foreign market.

**Entry mode selection of service firms.** Globalization means service firms have great opportunities to conduct their business in foreign markets. Therefore, the primary consideration and the most critical issue in an international market entry strategy is the selection of an appropriate entry mode (Terpstra and Sarathy, 1994). Entry mode selection is interpreted to mean a suitable way for enterprises to enter foreign markets so as to operate their international businesses by exploiting their advantages (Root, 1994). As to the entry strategy of service firms, Erramilli (1990) is one of the first to discuss the entry mode choice in service industries and points out that the foreign market entry behaviour in the service sector is characterized by considerable diversity, especially in comparison with the manufacturing sector. To understand the reason for this, the author suggests that researchers examine the unique characteristics of services: intangibility, perishability, heterogeneity, and inseparability (Zeithaml et al., 1985). Of particular importance is intangibility, because among the characteristics which differentiate services from products, it is recognized by a large number of specialists as the most important one (Rushton and Carson, 1989; Rust et al., 1996; Bebko, 2000) and all services can be evaluated according to their degree of intangibility (Shostack, 1977; Zeithaml and Bitner, 2000). It is our belief that intangibility is one of the important factors that is responsible for distinguishing entry behaviour in the service and manufacturing sectors. Therefore, in this study we discuss the feature of intangibility in service firms and how it affects the entry mode selection of service firms.

**Cultural factors.** Cultural distance (differences between national cultures) and the home country culture of a firm (i.e., uncertainty avoidance) have frequently claimed to influence the entry mode selection (Kogut and Singh, 1988). However, Hennart and Lariomo (1998) conclude that ‘culture distance between the home base of the investor

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1This digest is from 2005 *Business Weekly* (volume 911, p.50-52), a special issue discussing the future development trends of the service industry by Martin Wolf.
and the target market exerts a powerful influence on ownership of subsidiaries, but cultural characteristics of the home base (i.e., power distance and uncertainty avoidance) do not. Cultural distance is a widely used construct in international business, and entry mode is one of its applied concerns (Shenkar, 2001). Scholars (Brouthers and Brouthers, 2001; Tihany et al., 2005) point out that it is apparent to see that the conflict between a firm’s culture and the inconsistency toward a firm’s cognition all result from discrepancies in national cultures, which also result in a highly uncertain environment for investors when considering the mode of entry.

Synthesizing the above discussions, we assume that cultural distance is an important factor needed to be considered which influences the entry mode selection of service firms, but cultural characteristics of the home base do not conclude the same result. These issues inspire us to look at a service firm’s entry mode selection from the viewpoint of the host country’s characteristics (Kwon and Konopa, 1992) and the impact of the host country’s culture on entry mode selection (Root, 1994; Douglas and Craig, 1995). Some research studies treat the host country’s culture as a moderating effect (Ekeledo and Sivakumar, 2004) and they also suggest that researchers can view culture as a quasi-moderator variable altering the form if not the strength of the relationship between environmental and strategic variables (Shenkar, 2001). This focus allows us to see the main effects of service firms’ specific characteristics on entry mode selection as well as the moderating effects of two types of culture (cultural distance versus host country’s culture characteristics) on entry mode selection, which may help us to understand whether cultural distance or a host country’s culture strongly moderate the entry mode selection of service firms.

Figure 1 shows our conceptual framework that explains the relationship among service intangibility, cultural factors, and entry mode selection.
Literature Review and Propositions

The literature review contains several portions and seven main propositions for discussing the moderating effect of two types of culture (cultural distance versus host country culture) on the entry mode selection of service firms.

The Effect of Service Characteristics on Entry Mode Selection

Service intangibility. Compared to the physical product, customers encounter and perceive an extreme degree of risk and uncertainty when purchasing a service product due to service intangibility, which is one of the fundamental characteristics of services (Wolak et al., 1998). This is the major threat to service quality and customer acceptance sequentially (Parasuraman, et al., 1988). In the past three decades, extant research has devoted much effort in understanding the tangibility and intangibility in service industries. Although achievement still in its infancy (Santos, 2002), some remarkable findings have identified numerous consequences of intangibility. For example, research has looked into the impacts on the difficulties of evaluating a service before, during, and after a purchase (Bateson, 1979; Rushton and Carson, 1989; McDougall and Snetsinger, 1990), selecting between alternatives (Breivik, et al., 1998), as well as the perceived risk (Kurtz and Clow, 1998). The intangibility of services apparently increases customers risk (Flipo, 1988), anxiety (Rushton and Carson, 1989), and uncertain perception in various stages of the decision-making process (Trivedi and Morgan, 2003). This may consequently result in a negative attitude toward the services (Rushton and Carson, 1989).

Service firms need to consider how their providing services embodied on a different level of service intangibility will be received or perceived by customers, which will influence how service firms would like to operate their business in the host country through an appropriate entry strategy. Considerations for foreign entry mode, such as an inexpensive and ample labor force, an extensive internal market, cheap land and raw materials (Hu, 1996), and some degree of preferential treatment (e.g., service intangibility and cultural differences) for investments in the host country, entail different entry strategies by international service firms.

Continuum of service intangibility. Shostack (1977) is the earliest to discuss this content and creates a single dimension to describe the continuum of in/tangibility. The difference between physical goods and service product is the degree of tangible elements included in the respective objects. McDougall and Snetsinger (1990) develop a relevant instrument for measuring service intangibility. This instrument provides an elementary
measurement for service in/tangibility, as well as the customers’ basic impression toward services. In response to the necessity of gaining mental tangibility, Santos (2002) suggests to classify service characteristics on a continuum from “tangible dominant” to “intangible dominant” along the continuum of in/tangibility and to provide “tangible evidence”. As indicated in Figure 2, services can be on any point in the continuum either at the left end that is characterized with high intangible components (and low tangible components) or vise versa at the right. In this study we use the term “the degree of service intangibility” to describe the service characteristics of a firm.

Figure 2  Continuum of service tangibility and intangibility

**Entry mode selection.** Due to complexity and variety in the international business environment, each firm has its own circumstances to consider with regard to entering a foreign market to its best advantage. In other words, each mode of entry is taken into account by firms in light of their own resources and capabilities in the changeable environment and fluctuating conditions of the host country. Firms have to stress the differences in the international environment when instituting globally competitive strategies so as to exhibit their overall power to obtain competitive advantages. “Mode of entry,” or “entry strategy,” is interpreted to mean an appropriate way for enterprises to enter foreign markets to operate their international businesses by exploiting their advantages (Root, 1994). Terpstra and Sarathy (1994) state that one of the most critical issues in an international market entry strategy is the selection of an appropriate entry mode. Consequently, service firms also need to consider which modes and styles of operation they are going to adopt before they conduct any foreign market investment. Herein, the importance of entry mode selection is obvious. This research assumes a simplified involvement of licensing/franchising and exporting for “low involvement entry mode selection” and management contract, joint venture, or sole ownership for “high involvement entry mode selection” (Ekeledo and Sivakumar, 1998).

**Entry mode selection and service characteristics.** Though entry mode selection is important for service firms in considering their foreign market entry, most entry mode
selection-related studies on service firms tend to explore the effects of strategic consideration such as customer orientation and market targeting (Grönroos, 1999), economic environment such as economic development (Weinstein, 1977), task factors such as the ability to develop differentiated products/services (Agarwal and Ramaswami, 1992), and tangible resources like capital intensity (Erramilli and Rao, 1993) on entry mode selection.

Some recent studies have started to concentrate on the roles of service characteristics in service industries. Erramilli (1990) discusses that the “inseparability of service” is the factor that is responsible for distinguishing entry behaviour in the service and manufacturing sectors. The author assumes “services for which production and consumption of a service can be decoupled can be termed hard services, and those for which production and consumption occur simultaneously can be described as soft service”. As a result, hard services (embodied in some tangible form) can be exported, and soft services (should be in close physical proximity, enabling production and consumption to take place simultaneously) are limited to contractual entry, licensing or franchising, and foreign direct investment. Ekeledo and Sivakumar (1998, 2004) also discuss foreign market entry mode choices by dividing service firms into two service characteristics of “soft service” and “hard service” to explore the differences. This classification scheme, developed by Sampson and Snape (1985), Patterson and Cicic (1995), and Clark et al. (1996) for internationally-traded services, can be compressed into the hard services/soft services classification scheme (Erramilli, 1990) in which products are divided into three categories - that is, manufactured goods (e.g., toys, automobiles, and shoes), hard services (computer software, advertising, and equipment leasing) and soft services (restaurants, hotels, and health care) and each has its own preferred entry options for firms.

We agree with this kind of classification due to its clearness to distinguish services by their some unique characteristics (e.g., hard services have the characteristics of storability, homogeneity, and separability versus soft services which have the characteristics of perishability, inseparability, and heterogeneity). However, one service characteristic can be noted obviously among these two types of service - that is “intangibility”. It means no matter how a soft or hard service can be distinguished by some unique characteristics, it still embodies an intangible service characteristic varying in different degrees, where the degree of service intangibility is the key point embraced in any service type (i.e., high service intangibility or low service intangibility). Some scholars have argued that
intangibility and service are not to be defined exactly, but one should instead evaluate services according to the degree of intangibility (Zeithaml and Bitner, 2000), and they propose that services vary in terms of degree of perceived intangibility by service recipients (Miller and Foust, 2003). This reminds us to examine service intangibility in a concrete way instead of viewing it as an abstract concept.

Due to services embodying intangibility to some extent, service firms operating their businesses in a foreign country will consider how their services can be received by the service recipients in that market. According to the study whereby service processes can be compressed into two categories of service digitization by Lovelock and Wirtz (2004), we assume that four service processes can also be compressed into the two categories of service intangibility, as shown in Figure 3. The high service intangibility category includes services directed at people’s minds (mental stimulus processing) and those directed at intangible assets (information processing). The low service intangibility category includes services directed at people’s bodies (people processing) and those directed at physical possessions (possession processing). In fact, different types of services are affected by the process involved in creating and delivering services (Ekeledo and Sivakumar, 2004). This consideration interfaces the degree of service intangibility with service recipients so as to consider a proper strategy into a foreign market.

Services belonging to people processing and possession processing are low intangible services, because customers need to come on the scene personally to receive the service in terms of the services directed at people’s bodies and directed at physical possessions, such as lodging and refueling services that require physical proximity between the service provider and customers (Eramilli and Rao, 1990). Producers of this kind of service are an integral part of their product and require greater control over the production process (Palmer and Cole, 1995). Thus, a high involvement entry mode selection (management contract, joint venture, or sole ownership) should be appropriate.

Services belonging to mental stimulus processing and information processing are high intangible services, because customers receive the services through a more virtual form - for example, the service providers would like to use the Internet or television media to provide data or remote-education services to customers. This kind of service belongs to high intangible services that provide services directed at people’s minds and those directed at intangible assets, which require a lower control to deliver services. Thus, low involvement entry mode selection (licensing/franchising and exporting) may be appropriate. With the degree of service intangibility, we assume a proposition for service
intangibility between entry mode selections. Other scenarios may involve additional differences (e.g., more intangible services will choose low involvement entry modes than less intangible services do as described in the following propositions).

<table>
<thead>
<tr>
<th>Degree of Service Intangibility</th>
<th>High Intangibility</th>
<th>Low Intangibility</th>
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<tbody>
<tr>
<td>People</td>
<td>Mental stimulus processing (advertising, education, entertainment, psychotherapy)</td>
<td>People processing (lodging, restaurants, passenger transportation)</td>
</tr>
<tr>
<td>People processing</td>
<td>Information processing (data processing, insurance, software programming)</td>
<td>Possession processing (retail distribution, freight transportation, refueling)</td>
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Figure 3  The degree of service intangibility (modified from Lovelock and Wirtz, 2004; Ekeledo and Sivakumar, 2004)

Proposition 1. Considering the way that a service is received by service recipients in the host country, the foreign market entry mode selection of service firms differs significantly with the degree of service intangibility.

Moderating Role of Cultural Factors

Cultural factors are variables over which the firm has little or no control. They include (1) cultural distance and (2) host country culture. In addition to moderating the impact of service characteristics on entry mode selection, cultural factors also have a direct influence on entry mode selection, as some remarkable research have shown evidence of this (e.g., Kogut and Singn, 1988; Hennart and Larimo, 1998; Brouthers and Brouthers, 2001; Shenkar, 2001; Tihanti et al., 2005). Our concern here is how cultural factors moderate the service characteristics on entry mode selection by altering the number of possible entry mode alternatives available to a service in an entry situation. Different cultural factors lead to significant differences in entry mode selection with the degree of service intangibility. These differences are the main focus in this study.

The effect of cultural factors on entry mode selection. Culture has a multitude of definitions in the literature. Pizam and Mansfeld (1999) state that culture is an umbrella terminology that encompasses a wide range of elements, including shared beliefs,
traditions, values, and expectations of a particular group or people. Hence, each culture has its own specific values and norms that guide their members and their behaviors. Cultures also affect the way people perceive a particular problem and the ways in which they deal with it (Min, 2001). The literature in the service management field shows the diversified variable and the metaphor for a specific cultural issue (Jaworski, 1988). In early years, some cross-cultural comparisons found divergent entry mode patterns between firms from different countries of origins (Stopford and Haberich, 1978; Wilson, 1980). Some articles even focus on the separate effects of cultures on entry mode selection with theoretical and empirical efforts. Johanson and Vahine (1977), for instance, link psychic distance with entry mode selection, while Puxty (1979) works to clarify the relationships between cultural distance and entry mode selection.

Some articles have studied the entry mode selection with factors concerning organizational fit, such as the match between administration and cultural practices (Jemison and Sitkin, 1986) and cultural conflicts (Sales and Mirvis, 1984). Therefore, due to the importance of cultural factors for international firms entering foreign markets, until now the issue of the impact of cultural factors on entry mode selection has been continually discussed by scholars (e.g., Kogut and Singh, 1988; Shane, 1994; Brouthers and Brouthers, 2001; Hennart and Larimo, 1998; Shenkar, 2001), Tihanyi et al. (2005) use meta-analysis to clarify the relationship between cultural distance and entry mode selection from previous related studies.

**Cultural distance.** Kogut and Singh (1988) work to clarify the relationship among firm-level, industry-level, and culture-related variables and they use econometrician methods to explore the choice of entry mode. They employ two cultural variables. The first is cultural distance indices quantified by Hofstede’s (1980) dimensions. The second one is uncertainty avoidance (the culture of the investing firm), which originates from one of Hofstede’s efforts as well. The statistical results confirm the explanation of cultural factors on entry mode selection. However, although Hennart and Larimo (1998) also find that cultural distance between the home base of the investor and the target country exerts a powerful influence on the ownership of subsidiaries, cultural characteristics of the home base do not. These two studies imply that the cultural distance is a more convincible variable to influence the entry mode selection of firms.

Brouthers and Brouthers (2001) show that past studies concerning the relationship between national cultural distance and entry mode selection indicate greatly diversified results. Cultural differences present an inverse relationship with the degree of control in
the host markets (Know and Konopa, 1992). This means firms prefer investing in a foreign market through FDI when franchising/licensing if the culture in the host markets, such as religion and language, is similar to that of the home country (Davidson and McFetridge, 1985). Tihanti et al. (2005) use meta-analysis to find that there is no statistical evidence of significant relationships between cultural distance and entry mode choice and conclude that cultural distance is not directly related to entry mode choice. This implies that researchers may consider cultural distance not only as an independent variable, but also as a quasi-moderator variable (Shenkar, 2001). Regardless of the divergent argument, these articles reveal cultural distance as a considerable determinant on entry mode selection.

Cultural distance implies that the greater the cultural distance is from the country of the investing firm to the home country, the more likely the choice is to set up a joint venture over sole ownership (Kogut and Singh, 1988). While some scholars reveal that a higher cultural distance leads to a higher tendency toward wholly-owned modes (Hill, et al., 1990), others reveal that a higher cultural distance leads to a preference for joint ventures (Makino and Neupert, 2000). Ekeledo and Sivskumar (1998) propose that the greater the cultural distance is between a firm’s home country and the host country, the more likely soft-service firms are to adopt franchising, a management contract, or a joint venture, and hard-service firms are more likely to adopt exporting. As we discussed previously, service firms have the characteristic of service intangibility in nature, but differ in the degree. We want to clarify the interaction effect of service characteristics and cultural distance on entry mode selection, whereas the moderator variable (cultural distance) specifies when certain effects hold (Baron and Kenny, 1986).

When the cultural distance is great, service firms that like to provide the service with high service intangibility directed at people’s minds or directed at intangible assets (e.g., providing digital service forms) are most likely to adopt low involvement entry modes (e.g., exporting). For example, international services export their products through the Internet including accounting services, design and engineering services, data entry and data processing services, and remote education (Czinkota and Ronkainen, 2004). On the other hand, when service firms like to provide services with low intangible services that are directed at people's bodies and directed at physical possessions, they are most likely to adopt high involvement entry modes to operate business, because this kind of service requires frequent and close interaction between supplier and consumer (Dahringer, 1991). Moreover, service firms rely on people for the simultaneous production and delivery of
the service product, which results in greater difficulty over managing foreign operations (Brouthers and Brouthers, 2003). Consequently, when perceiving high levels of behavioral uncertainty due to cultural distance, service firms tend to prefer high involvement entry modes (e.g., joint venture) to operate a business (Brouthers and Brouthers, 2003).

Proposition 2. The greater the cultural distance is between a firm’s home country and the host country, the greater the difference is in the level of involvement during market entry between service firms providing high intangible services and service firms providing low intangible services. Service firms providing high intangible services are more likely to adopt low involvement entry mode selection while service firms providing low intangible services are more likely to adopt high involvement entry mode selection.

The effect of host country culture on entry mode selection. As mentioned above, Kogut and Singh (1988) provide a typical norm to study the cultural issues in the entry mode selection-related fields. However, four facts need noting. First, Hofstede’s (1980) cultural mix consists of four elements and even more elements in his continuing research studies (Hofstede and Bond, 1988). Kogut and Singh (1988) solely employ one element (i.e., uncertainty avoidance), which produces problems of variable omission. Second, they employ existing secondary data as the source of an empirical test. Since cultural factors are very deeply seated in organizational activities and members, it might be relatively hard and problematic to quantify cultural conditions accurately with secondary data. Third, to examine the industry-specific effect, the database Kogut and Singh (1988) use involves a great variety of industries, such as advertising, services, and manufacturers. Since so many studies argue on the divergence of entry mode selection between manufacturing and service sectors, it seems reasonable to separate observations from the two parties. What this study is concerned with is the case of services. Fourth, the most important one is that they do not consider the effect of culture from the angle of the host country’s environment which may be the reason why service firms make a certain decision on their entry mode selection, such as considering hiring employees from the host market whose working attitude may be influenced by their culture. Therefore, this study employs Hofstede’s cultural dimensions (i.e., individualism/collectivism, uncertainty avoidance, power distance, masculinity/femininity, and long-term orientation)
with the degree of service tangibility to explore their effects on the entry mode selection of international service firms.

**Individualism/collectivism and foreign entry mode.** The first of Hofstede’s cultural elements that this paper examines is the degree of individualism/collectivism (IND/COL) in the host markets. IND refers to a loose social framework wherein members are concerned primarily with themselves and their immediate families/relatives. Oppositely, a collectivist society indicates “a social preference for a tightly knit social framework in which individuals expect their relatives, clans, or other groups to look after them with unquestioning loyalty” (Fam and Merrilees, 1998). In terms of IND/COL, Punnett and Ricks (1992) mention that the working attitudes and characteristics are heterogeneous under different cultural conditions of IND/COL. Under a high IND (low COL) culture, work is more likely to be designed for an individual, and people accept responsibility for their own work and expect to be evaluated on the basis of personal performance, rather than that of teamwork. By contrast, work is designed by groups under a high COL (low IND) culture, with all members sharing responsibility and authority. People perform for the benefit of the whole group, and they remain an accepted part in the group.

The different level on IND/COL in the host country leads to a distinctive necessity for entry mode selection. Ekeledo and Sivakumar (1998) point out that entry mode selection differs significantly between soft and hard services. Soft services (e.g., health care services) require high physical proximity between the provider and clients (or their possession). Hence, soft services need entry modes that are effective in keeping closer contact with the clients or that are familiar with local customers (Sampson and Snape, 1985). From the practical perspective, a provider of soft services plays an *integral* role in the service mix/content and requires greater control over the service process, especially during encounters with the clients (Palmer and Cole, 1995). This makes them tend to select entry modes with a higher involvement to ensure controllability and governance toward the service employees. The above inferences also mean the providers of soft services rely more on aggressive enthusiastic and responsible service manpower (i.e., high IND) in the host markets than do the hard service firms. By contrast, hard-service providers (e.g., computer software services) may adopt low-involved entry modes such as exporting (Ekeledo and Sivakumar, 1998).

Based on the above studies, this study infers that, under a high IND (low COL) culture, international service firms providing low tangible services (whose services require physical proximity to the consumer, i.e., soft service) tend to employ highly-involved
entry modes such as a management contract, a joint venture, or a sole ownership in order to get closer to the foreign market. On the other hand, those that provide high tangible content (i.e., hard service) prefer to select low-involved modes when licensing/franchising or exporting. As for service firms under a high COL (low IND) culture, the above inferences are inferred as reverse directions. Based on the previous inference, the third proposition of this study can be built as the following.

**Proposition 3.** For service firms, the level of individualism and collectivism they face in the host market and the extent of service intangibility exhibit interactive effects on their entry mode selection.

**Uncertainty avoidance and foreign entry mode.** Uncertainty avoidance (UA) is the only one of Hofstede’s cultural factors that Kogut and Singh (1988) employ. UA relates to an individual’s anxiety for uncertainty and ambiguity (Fam and Merrilees, 1997). High UA indicates that members of a culture feel uncomfortable with, and intolerant of, uncertainty and ambiguity (Fam and Merrilees, 1997). People in a high UA culture are used to asking for works performed and implemented under a well-planned, controllable, and comprehensible manner. By contrast, people in a culture with low UA get accustomed to works that are flexible, ambiguous, unfamiliar, and challenging. Again, employees are open to variance and are willing to try new ways to work (Punnett and Ricks, 1992).

UA plays a significant role in entry mode selection. Under a high UA culture, the work contents and procedures need the design to be simple and clear in order to decrease the sense of uncertainty/risk of the providers and clients. Related efforts include standardized disciplines, detailed SOP, and delicate planning. Shostack (1977) notes that high-tangible services make the customers feel easy to assess them and are less risky for the service contents, thus helping the service firms to not deliberately control and get highly involved in the services. Therefore, it may be reasonable to infer that international service firms, under a high UA culture, tend to select lowly-involved entry modes such as licensing/franchising or exporting, whereas those in a low UA culture prefer to choose highly-involved modes, such as a management contract, joint venture, or sole ownership.

Except for considering the working content, Davidson (1982) and Ekeledo and Sivakumar (1998) indicate that firms in high-tech industries favor selecting entry modes that involve intensive control over the ownership in foreign markets (e.g., sole
ownership). The primary reason is that, for high-tech industries, high-technology intensity and R&D expenditure make firms suffer from uncertainty, and the tacit knowledge and chaotic environment force the firms to meet an intangible condition (Nonaka and Takeuchi, 1995). To ease the sense of uncertainty and intangibility, international service firms tend to select a highly-involved entry mode in the host markets in order to raise their controllability. Here, we assume that, under a high UA culture, international service firms with low tangibility tend to choose more highly-involved modes. In the low UA conditions, however, international service firms tend to select lower involved entry modes. Accordingly, the fourth proposition of this study can be built as the following.

**Proposition 4. For service firms, the level of uncertainty avoidance they face in the host market and the extent of service intangibility exhibit interactive effects on their entry mode selection.**

**Power distance and foreign entry mode.** Power distance (PD) is defined as the extent to which the members of a society accept inequality of power across the hierarchy/level within institutions and organizations (Erramilli, 1996; Makino and Neupert, 2000). In a high PD culture, people are likely to accept an uneven distribution of power without much consideration for justification. In a low PD society, by contrast, people request more justification and defense for power inequalities (Fam and Merrilees, 1997). Thus, employees in high PD cultures are more likely to feel nervous and worried about expressing their own opinions to their superiors, while those from low PD ones are more used to regarding their superiors as being equivalent (Murphy, 1999). Therefore, people in high PD cultures are more obedient to and are easily controlled by their supervisors than those in low PD cultures.

It is reasonable to link PD and entry mode selection with the perspective of obedience and control. Ekeledo and Sivakumar (1998) mention that international service firms prefer to adopt a joint venture or sole ownership when they expect to hold control of the foreign markets. Since high centralization and standardization are basic requirements for these international service firms, they look for accompanying partners with good discipline and high consistency as with their parent firms. Here, it is rational to infer that international service firms, with high and low intangibilities, favor a highly-involved entry mode when they conduct their services in high PD cultures. Thus, we set up the
fifth proposition regarding entry mode selection and PD as the following.

Proposition 5. For service firms, the level of power distance they face in the host market and the extent of service intangibility exhibit interactive effects on their entry mode selection.

Masculinity/femininity and foreign entry mode. The masculinity/femininity (MAS/FEM) dimension refers to the distribution of personal traits based on the stereotyping of gender heterogeneity. High masculinity stands for a preference for competition, aggressiveness, and reality. A society with high femininity represents that people are apt to place harmony above competition and are willing to help and to care for others (Fam and Merrilees, 1997). Punnett and Ricks (1992) point out that, under a high MAS/low FEM culture, employees get used to being carefully separated from their families and social life. People in such conditions take precedence over family and social matters. They feel accustomed to long work hours, tight schedules, fame from success, and they seek challenging tasks and perform them well. However, under a culture of high FEM/low MAS, employees like to arrange flexible working hours to suit their own demands and those of their families. They often schedule working time within the context of the welfare of their families.

Dahringer (1991) argues that most soft/intangible services require frequent encounters, constant interaction and communication, and closer contacts between the providers and clients, which signify that service providers need to spend longer time on the services to keep the relationship with the clients and to ensure the service quality and their satisfaction. Entrepreneurship is another feature in high MAS cultures. Toncar et al. (1999) state that people in such cultures tend to support international franchising and exports, because the franchisees and the exporting partners in host countries present higher entrepreneurship. Thus, international service firms operating in high MAS/low FEM countries favor selecting low involved entry modes when the services are highly tangible. Conversely, international service firms with low service tangibility should expend more time and efforts to get involved in the service process and encounters. Thus, they favor selecting highly involved entry modes when entering foreign markets.

In a high FEM (low MAS) society, people prefer spending more time and efforts on their own and families to provide services, and this leads to being short of time and encounters with clients, especially when the services are intangible and thus need more
experienced and trained workers. To raise the efforts and commitment to customers, international service firms providing low tangible services tend to conduct lowly-involved entry modes like licensing/franchising or exporting in order to escape the possible lack of qualified labor, while high tangibility helps service firms to hire sufficient and qualified labor. Thus, international service firms whose services are highly tangible are used to employing highly-involved entry modes such as a management contract, joint venture, or sole ownership. Following the above inference, we build the sixth proposition.

**Proposition 6. For service firms, the level of masculinity/femininity they face in the host market and the extent of service intangibility exhibit interactive effects on their entry mode selection.**

**Long-term orientation and foreign entry mode.** Bond (1988) states that “western thinking is concerned with truth (knowing what is certain), while Eastern thinking is concerned with virtue (knowing how to live).” Based on this, Bond and his colleagues work to detect the value complexity to explain the economic achievement in Asian cultures, particularly the Chinese. Thus, long-term orientation concentrates on Eastern values and identifies a core set of Asian values that are essential to compare with those Western-developed instruments (Hofstede and Bond, 1988; David et al., 1993).

The impacts of long-term orientation have been deeply seated in working and service styles, especially in eastern Asian cultures. Relative to those tangible services, customers of low tangible services perceive the service content as harder to evaluate, more expensive in price/cost, and a higher involvement. It makes them more loyal to the brand equity, depend on word-of-mouth and interpersonal networking, and they demand more personal encounters (Shostack, 1977; Tarn, 2005). These features force international service firms to commit more manpower and exertions, build robust interpersonal relationships, and employ teamwork to raise tangibility, which fit in with the condition in cultures of high long-term orientation tendency. Thus, international service firms in such cultures pay less effort in host countries than those in low ones, including the involvement on entry modes. The above understanding logically infers that international service firms providing low tangible services, under high long-term orientation tendency, tend to employ lower involved entry modes. Conversely, their counterparts in low long-term orientation tendency cultures are apt to employ higher
involved entry modes to ensure that service providers in the host countries perform well. This study concerns the interactive effects of long-term orientation tendency and intangibility which we build as the seventh proposition.

**Proposition 7.** For service firms, the level of long-term orientation tendency they face in the host market and the extent of service intangibility exhibit interactive effects on their entry mode selection.

### Table 1 Summary of the propositions from p3-p7

<table>
<thead>
<tr>
<th>Service Tangibility</th>
<th>Cultural Elements</th>
<th>Service of High Intangibility</th>
<th>Service of Low Intangibility</th>
<th>Propositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry Mode</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Individualism</td>
<td></td>
<td>licensing/franchising or exporting</td>
<td>management contract, joint venture, or sole ownership</td>
<td>P3</td>
</tr>
<tr>
<td>High Collectivism</td>
<td></td>
<td>management contract, joint venture, or sole ownership</td>
<td>licensing/franchising or exporting</td>
<td></td>
</tr>
<tr>
<td>High Uncertainty Avoidance</td>
<td></td>
<td>licensing/franchising or exporting</td>
<td>management contract, joint venture, or sole ownership</td>
<td>P4</td>
</tr>
<tr>
<td>Low Uncertainty Avoidance</td>
<td></td>
<td>management contract, joint venture, or sole ownership</td>
<td>licensing/franchising or exporting</td>
<td></td>
</tr>
<tr>
<td>High Power Distance</td>
<td></td>
<td>management contract, joint venture, or sole ownership</td>
<td></td>
<td>P5</td>
</tr>
<tr>
<td>Low Power Distance</td>
<td></td>
<td>licensing/franchising or exporting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Tendency of Masculinity</td>
<td></td>
<td>licensing/franchising or exporting</td>
<td>management contract, joint venture, or sole ownership</td>
<td>P6</td>
</tr>
<tr>
<td>High Tendency of Femininity</td>
<td></td>
<td>management contract, joint venture, or sole ownership</td>
<td>licensing/franchising or exporting</td>
<td></td>
</tr>
<tr>
<td>High Long Term Orientation</td>
<td></td>
<td>management contract, joint venture, or sole ownership</td>
<td>licensing/franchising or exporting</td>
<td>P7</td>
</tr>
<tr>
<td>Low Long Term Orientation</td>
<td></td>
<td>licensing/franchising or exporting</td>
<td>management contract, joint venture, or sole ownership</td>
<td></td>
</tr>
</tbody>
</table>

**Discussions**

Regarding the entry mode selection issue in service industries, some recent studies have started to concentrate on the roles of cultural factors in service industries. Erramilli (1990) reveals that service firms, by frequency, tend to select licensing/franchising as their entry mode of choice, followed by subsidiary or branch office openings and joint
ventures. The primary purpose for them to select a joint venture is to pacify the pressure emanating from unfamiliar local laws, and the selection of licensing/franchising is due to the need to ease risk from the host market conditions (Hackett, 1976). The above studies reveal one critical cultural factor - risk avoidance - which has been investigated in the literature. Cultural differences again have been treated as a crucial factor for determining the foreign market entry mode in recent service-related literature (Anderson and Gatignon, 1986; Goodnow, 1985; Root, 1987). Compared to manufacturing industries, cultures are much more influential in service sectors. Services need more adaptation and localization, and they are more highly culture-driven than tangible goods. As service industries go global, service firms need a more detailed comparative examination and cross-cultural considerations to clarify the differences across the countries/markets (David et al., 1993; Triandis et al., 1986).

In academia, many studies have worked to provide a good norm to the cross-cultural effort, with the most famous likely being Hofstede (1980, 1988). These articles successfully and continually measure cultural conditions in a great amount of cultures with four typical factors (i.e., individualism/collectivism, uncertainty avoidance, power distance, and masculinity/femininity). This study also attempts to discuss cultural impacts on entry mode selection from an Eastern perspective (Matthews, 2000). Hence, a long-term orientation is employed to measure and assess the cultural factors together with Hofstede’s. In our study we not only consider the service characteristics of service firms, but also employ cultural factors (the host country culture and cultural distance constructs) to explore their impact on entry mode selection in international service firms. The host country culture is discussed using Hofstede’s (1980, 1988) five cultural dimensions, and the cultural distance construct is an index compiled by Kought and Singh (1988) from Hofstede’s five cultural dimensions in which long-term orientation is suggested to be added when East-Asian countries are involved (Shenkar, 2001). In summary, the goal of this study is to combine these two considerations: service characteristics and culture factors. We expect to clarify that the preferred entry modes chosen by international service firms are, in fact, selected on the basis of their different service characteristics in combination with the different cultural distances and host country cultures in order to explain how and why international service firms select their entry modes.

In this study we try to use the five cultural dimensions (individualism and collectivism, uncertainty avoidance, power distance, masculinity and femininity, and long-term orientation provided by Hofstede in 1980 and 1988) with the degree of service
intangibility to explore the choice of entry mode (management contract, joint venture, and sole ownership as high-involvement entry modes, while licensing/franchising and exporting as low-involvement entry modes) for international service firms. The international business or marketing academy has studied entry mode selection for decades. Relatively few articles, however, pay attention to the cases of service firms. Most, if not all, of the studies in the literature indicate the distinctions between services and tangible goods, including intangibility, perishability, inseparability, and heterogeneity. These characteristics of services produce managerial problems for service providers (Sasser et al., 1978, Tsaur et al., 2002; Tarn, 2005) and make the decision process of service firms much more complicated than their manufacturing counterparts, including entry mode selection.

Among these characteristics, intangibility might be the most critical feature of services (Bateson, 1979; Zeithaml et al. 1985; Tarn, 2005). It not only makes it harder for the services firms to provide substantial content to clients, but even the consumers feel more uncertainty and risk when making purchasing decisions. Thus, intangibility is recognized as the most cited feature and the most operated element in service studies (Orsini and Karagozoglu, 1988). This study proposes to involve intangibility as a factor that impacts the entry mode selection of service firms and to clarify its interaction with cultural factors.

The literature shows that there is significant relationship between a firm’s country of origin and the mode of entry and industry type. As we know, there are industrial preferences for particular entry modes (e.g., Kogut and Singh, 1988). Tihanti et al. (2005) suggest some moderator variables that should be considered, such as MNE origin (U.S.-based versus MNEs from other countries), investment country type (developed or developing countries), and sample time frame (international business activities in the 1980s (early) versus the 1990s (late)). Therefore, in a future empirical test, we need to add some possible control variables to clarify the real relationship between service intangibility and entry mode selection.

Many studies involve individual service industries, such as banking, equipment leasing, and advertising (e.g., Agarwal and Ramaswaswami 1992; Nigh, et al., 1986; Sabi 1988; Terspstra and Yu 1988), yet few investigate the broad categories of service industries. Cross-industry studies in the service sector are needed, because they may suggest ways that marketing concepts and strategies can be extended across service industries (Lovelock and Wirtz 2004). There are many manufacturing examples of Taiwanese firms
that have transformed their business into the service field using their brand power to serve customers (e.g., Nissan of Taiwan and D-Link Corporation). In the near future, most manufacturing firms will follow IBM or HPQ and focus on providing services instead of manufacturing. However, when these manufacturing firms want to transform into service firms, questions arise as to what are their advantages and how do they present their competitive power to customers? The answer to both is “service” and service characteristics are needed to be noticed by firms so as to understand what kind of service they can offer to customers and what unique service needs to be designed to differentiate from others.

**Practical Suggestions and Limitations**

The following suggestions are provided for international service firms when investing in foreign markets.

In contrast to the firms of a host country, cultural characteristics should be taken into account by international service firms, especially the cultural differences between the West and the East. The Confucian dimension should be a greater concern as more and more service firms try to operate businesses in mainland China. For example, relationships with others in a firm are often influenced by the desire for harmony between colleagues and greatly affect the overall operational performance of a firm.

On the side of execution, managerial executives from the parent company should have a deeper understanding of the culture of the host country as it would certainly help the foreign subsidiary company perform better. The more plentiful the experiences and knowledge are of foreign operations obtained by the parent company, the less risk and uncertainty that the company would face.

As to the performance of firms, except for the consideration of cultural variables, it is important that managers understand the strategic implications of foreign market entry mode choice for different categories of services - namely, the degree of service intangibility for international service firms themselves. In our survey the cultural factors, service tangibility, and entry mode choice are related in influencing the performance of firms.

This study suffers from several limitations, such as excluding the discussion of non-profit and transportation service industries at this time. In future empirical tests, sample collecting should be expanded to approach a more accurate external validity and generalization.
References


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**Business Studies** 23: 675-696.


