The Effects of Strategic Management for Foreign Direct Investment on a Firm’s Performance: An Examination of Australian Service Organisations in China

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# Contents

CONTENTS .......................................................................................................................... I  

LIST OF TABLES .................................................................................................................. V  

LIST OF ABBREVIATIONS ................................................................................................ IX  

ACKNOWLEDGEMENT ....................................................................................................... X  

ABSTRACT ........................................................................................................................ XI  

INTRODUCTION TO THE PROGRAM OF STUDY ............................................................... 1  

CHAPTER 1: STUDY 1 ........................................................................................................... 3  

1.1 INTRODUCTION ............................................................................................................. 3  

1.1.1 PURPOSE .................................................................................................................. 3  

1.1.2 RESEARCH QUESTIONS ......................................................................................... 4  

1.1.3 RESEARCH OBJECTIVES ...................................................................................... 5  

1.2 LITERATURE REVIEW ............................................................................................... 6  

1.2.1 PORTER’S (1985) STRATEGIC CONCEPTUAL FRAMEWORK ......................... 6  

1.2.2 DEFINITION OF TERMS ......................................................................................... 7  

1.2.3 AN OVERVIEW OF STRATEGY RESEARCH IN THE SERVICE INDUSTRY ...... 10  

1.3 CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT ....................... 17  

1.3.1 CONCEPTUAL FRAMEWORK .............................................................................. 17  

1.3.2 HYPOTHESIS DEVELOPMENT .......................................................................... 18  

1.4 METHODOLOGY .......................................................................................................... 20  

1.4.1 SAMPLE SELECTION ............................................................................................. 20  

1.4.2 DATA COLLECTION ............................................................................................... 21  

1.4.3 MEASUREMENTS .................................................................................................. 22  

1.5 CONCEPTUAL MODEL TESTING IN SEM .................................................................. 27  

1.5.1 CONSTRUCT TESTING ......................................................................................... 27  

1.5.2 RELATIONSHIP TESTS OF CONSTRUCTS .......................................................... 33
1.5.3 Full Model of Marketing Strategy and Performance of the Firm .......................................................... 35
1.5.4 Study 1 Hypothesis Test ......................................................................................................................... 38
1.6 Summary of Study 1 ................................................................................................................................. 40
1.6.1 Significance of Study 1 ......................................................................................................................... 40
1.6.2 Marketing and Entrepreneurship in the Firm ..................................................................................... 41

Chapter 2: Study 2 Case Study ....................................................................................................................... 43

2.1 Introduction ............................................................................................................................................. 43
2.1.1 Research Question ................................................................................................................................. 43
2.1.2 Research Objectives .............................................................................................................................. 44
2.1.3 Introduction to the XYZ Company ........................................................................................................ 45
2.2 Results ..................................................................................................................................................... 48
2.2.1 The Effect of Informal Information on the Entrepreneurial Capability to Identify Opportunities in a New Market ......................................................................................................................... 48
2.2.2 The Effect of Informal Information on the Entrepreneurial Capability to Assess Risks .................. 51
2.2.3 The Effect of Informal Information on Entrepreneurs’ Learning About the New Market .................. 54
2.3 Discussion of the XYZ Case Study .......................................................................................................... 57

Chapter 3: Study 3 ........................................................................................................................................ 58

3.1 Introduction ............................................................................................................................................. 58
3.2 Literature Review .................................................................................................................................. 60
3.2.1 Perceived Entrepreneurship of the Firm ......................................................................................... 60
3.2.2 Information ......................................................................................................................................... 61
3.2.3 Entrepreneurial Capabilities ............................................................................................................. 63
3.3 Conceptual Model and Hypothesis Development .................................................................................. 71
3.3.1 Conceptual Framework and Research Model ........................................ 71
3.3.2 Hypotheses ......................................................................................... 73
3.4 Research Method .................................................................................. 77
  3.4.1 Justification of the Research Methodology .................................. 77
  3.4.2 Sample ......................................................................................... 77
  3.4.3 Measurements ............................................................................. 81
  3.4.4 Questionnaire Development ..................................................... 84
3.5 Conceptual Model Testing in SEM ....................................................... 86
  3.5.1 Analysis Procedure ................................................................... 86
  3.5.2 Construct Testing ........................................................................ 87
  3.5.3 Constructs’ Relationship Testing ............................................. 94
  3.5.4 Full Measurement Model Testing ............................................. 98
  3.5.5 Hypothesis Testing Using Structural Equation Modelling ....... 100

CHAPTER 4: SUMMARY AND CONCLUSION ................................................. 106

  4.1 Summary ......................................................................................... 106
  4.2 Limitations and Future Research ................................................. 107
  4.3 Conclusions .................................................................................... 109
    4.3.1 Service Differentiation vs. Low Cost Strategy ......................... 109
    4.3.2 The ASO Marketers’ Use of Informal Information as a Positive
        Effect on Their Entrepreneurial Capability of Identifying
        Opportunity .......................................................................................... 109
    4.3.3 The ASO Marketers’ Use of Informal Information as a Positive
        Effect on Their Entrepreneurial Capability of Risk Assessment 110
    4.3.4 The ASO Marketers’ Use of Informal Information as a Positive
        Effect on Their Entrepreneurial Capability of Learning About the
        New Market ......................................................................................... 111
List of Tables

Table 1: Reliability and Validity Assessment of Differentiation Strategy Construct...113
Table 2: Model Fit Measure – Differentiation Strategy Construct .................................114
Table 3: Reliability and Validity Assessment for Low-Cost Strategy Construct .................114
Table 4: Model Fit Measure – Low Cost Strategy Construct ...........................................115
Table 5: Reliability and Validity Assessment of Performance .......................................115
Table 6: Model Fit Measure – Performance Construct .................................................115
Table 7: Summary of Regression Weights (Differentiation → Performance) ..................38
Table 8: Summary of Regression Weights (Low Cost → Performance) ...........................39
Table 9: Regression Weights in One-Factor Congeneric Measure Model of Differentiation (Low Price → Differentiation) ...............................................................40
Table 10: Summary of Hypothesis Test Results .............................................................116
Table 11: Background Information ..................................................................................80
Table 12: Reliability and Validity Assessment of Opportunity Construct ........................116
Table 13: Model Fit Measure – Opportunity Construct ...................................................117
Table 14: Reliability and Validity Assessment of Risk Assessment Construct ...................117
Table 15: Model Fit Measure – Risk Assessment Construct ............................................118
Table 16: Reliability and Validity Assessment of Learning About the New Market Construct .................................................................................................................119
Table 17: Model Fit Measure – Learning About the New Market Construct ......................119
Table 18: Reliability and Validity Assessment for Perceived Entrepreneurship Construct ..........................................................................................................................120
Table 19: Model Fit Measure – Entrepreneurship Construct ...........................................120
Table 20: Summary of Results .........................................................................................120
Table 21: Informal Information Items and Associated Entrepreneurial Capabilities ...122
Table 22: Related ANOVA Result – Differentiation and Performance ............................113
Table 23: Regression Parameters – Differentiation and Performance .......................... 124
Table 24: Related ANOVA Result – Low Cost and Performance ......................................... 126
Table 25: Standardised Regression Weights for Full Model ........................................ 126
Table 26: Related ANOVA Result – Opportunity and Entrepreneurship ......................... 127
Table 27: Regression Parameters – Opportunity Related with Entrepreneurship .......... 128
Table 28: Related ANOVA Result – Risk Assessment and Entrepreneurship .................. 129
Table 29: Regression Parameters – Risk Assessment Related with Entrepreneurship .... 130
Table 30: Related ANOVA Result – Learning About the New Market and Entrepreneurship .......................................................... 131
Table 31: Regression Parameters – Learning About the New Market Related with Entrepreneurship .................................................................................................................. 131
Table 32: Summary of Regression Weights in Full Model and Single Relationship Test (Opportunity–Entrepreneurship) .............................................................................. 132
Table 33: Summary of Regression Weights in Full Model and Single Relationship Test (Risk Assessment–Entrepreneurship) ....................................................................... 132
Table 34: Summary of Regression Weights in Full Model and Single Relationship Test (Learning About the New Market–Entrepreneurship) ........................................... 132
Table 35: Summary of Regression Weights in Full Model and Single Relationship Test (Informal Information Items–Opportunity) ......................................................... 133
Table 36: Summary of Regression Weights in Full Model and Single Relationship Test (Informal Information Items–Risk Assessment) ..................................................... 134
Table 37: Summary of Regression Weights in Full Model and Single Relationship Test (Informal Information Items–Learning About the New Market) ............................ 135
Table 38: Measurement for Opportunity ........................................................................... 136
Table 39: Measurement of the Informal Information Acquisition for Risk Assessment ................................................................................................................................. 137
Table 40: Measurement of Informal Information Acquisition for Learning About the New Market ............................................................... 138
Table 41: Measurement of Entrepreneurship ......................................................... 138
Table 42: Cutoff Criteria for Several Fit Indexes .................................................... 139
Table 43: Nonresponse Bias .................................................................................. 156
Table 44: Analytical Methods ................................................................................ 160
Table 45: Construct Reliability ............................................................................... 161
List of Figures

Figure 1: Conceptual Framework of Study 1 .................................................................18
Figure 2: Congeneric Measure Model of Differentiation Strategy with Standardised
Estimates .........................................................................................................................29
Figure 3: Congeneric Measure Model of Low Cost with Standardised Estimates ..........30
Figure 4: Proposed Congeneric Model for Performance ..................................................32
Figure 5: SME of Differentiation Strategy and Performance of the Firm .....................34
Figure 7: Full Model of Marketing Strategy and Performance .....................................36
Figure 8: Three Stages of XYZ’s Business Development in China .................................47
Figure 9: Conceptual Framework of Study 3 ...............................................................72
Figure 10: Entrepreneurial Capabilities of Identifying Opportunity and Perceived
Entrepreneurship of the Firm ..........................................................................................73
Figure 11: Entrepreneurial Capabilities of Risk Assessment and Perceived
Entrepreneurship of the Firm ..........................................................................................75
Figure 12: Entrepreneurial Capabilities of Learning About the New Market and
Perceived Firm Entrepreneurship ..................................................................................76
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASD</td>
<td>Australian Suppliers Directory</td>
</tr>
<tr>
<td>ASO</td>
<td>Australian service organisation</td>
</tr>
<tr>
<td>AVE</td>
<td>average variance extracted</td>
</tr>
<tr>
<td>CACC</td>
<td>China-Australia Chamber of Commerce</td>
</tr>
<tr>
<td>CFA</td>
<td>confirmatory factor analysis</td>
</tr>
<tr>
<td>CR</td>
<td>composite reliability</td>
</tr>
<tr>
<td>CTGCD</td>
<td>China Telecom Group Company Database</td>
</tr>
<tr>
<td>IPO</td>
<td>initial public offer</td>
</tr>
<tr>
<td>IT</td>
<td>information technology</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>research and development</td>
</tr>
<tr>
<td>SEM</td>
<td>structural equation modelling</td>
</tr>
<tr>
<td>SME</td>
<td>small-to-medium-sized enterprise</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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Abstract

The objective of this proposed program of study is to identify the most important attributes and activities of Australian service organisation (ASO) marketers that are associated with successful entrance into China. In the present thesis, ASOs are considered to be organisations that provide service solutions to meet clients’ service needs, such as accounting, legal, mining and HR services. Study 1 was based on the literature on entrepreneur strategies applied to marketing of international services in the competitive new Chinese market. The finding of Study 1 supported a positive relationship between the use of a “differentiation” strategy and an ASO’s successful performance in the Chinese market. The data analysis in Study 1 also indicated that there are factors beyond applying a differentiation strategy that are important for an ASOs’ success in China. A further qualitative study involving interviews found that the way marketing entrepreneurs obtain information is critical to a firm’s success. A review of the literature also suggested that a firm’s entrepreneurial capability is a good indicator for the success of ASOs entering a new market. Therefore, a case study (Study 2) was conducted to better understand the nature of entrepreneurial capability and how information is collected. The findings of the case study showed that the use of informal information by ASO marketers has an effect on a firm’s entrepreneurial capability to identify opportunities, conduct risk assessment and learn about the new market. To test the generalisation of the finding of Study 2, a third study (Study 3), using a new sample of respondents, was conducted to quantitatively test the relationship between ASO marketers’ reported use of informal information and their firms’ perceived entrepreneurial capabilities. This final study revealed that ASO marketers’ use of informal information had a positive effect on their entrepreneurial capabilities and tended to mediate the respondents’ perceived entrepreneurship of the firm.
Australian service organisations are responsible for an increasing portion of Australian exports and are growing in importance in the Australian economy. Trade and investment in ASOs are especially important to the resource orientation in Western Australia. The present study tests the relationship of two key components of successful ASOs that market to Chinese firms in China. Study 1 tests the influences of two generic strategies, following Porter’s (1985) typology, on ASOs’ performance. The generic strategies are the differentiation of products and/or services and low cost. Most research in strategic marketing has been conducted in the manufacturing sector. Due to the significant differences between the manufacturing and services sectors, Campbell-Hunt (2000) indicates that there is a lack of evidence to support a positive relationship between a firm’s use of one of the two generic strategies (differentiation or low cost strategy) and their successful performance in the service industry. Study 1 uses a survey-based quantitative method to examine the relationship between the sample ASO firms’ reported use of the two generic strategy types and their perception performance in the Chinese market.

Study 1 draws its theoretical base from Porter’s (1985) typology of generic strategies. The cornerstone of Porter’s theory is the concept that a firm should provide total commitment to implementing only one of the two generic strategies: differentiation or low cost. It is argued that firm commitment may be diluted if more than one generic strategy is used. That means differentiation and low cost are competing strategies. Study 1 found differentiation to be a much more important strategy than low cost in successful performance of an ASO in the Chinese market. In contrast, a low cost strategy was only weakly linked to successful performance. However, Mintzberg (1988) fundamentally questions the validation of low cost as an independent generic strategy. Mintzberg (1988) proposes that a low cost strategy is essentially a differentiation strategy in which
the basis of differentiation is low price. The finding in Study 1 rejects Mintzberg’s (1988) proposition that a low cost strategy is the same as differentiation by price. Study 1 provides a novel contribution by applying Porter’s typology of generic strategies in the context of the services industry of the Chinese market. The findings in Study 1 also indicate that there are other factors affecting ASOs’ success in entering the Chinese market.

To identify other factors that may affect an ASO’s success in China, eight ASO marketers (from the Study 1 sample) were interviewed over the phone. The phone interviews revealed that in addition to the firm’s following Porter’s (1985) typology of generic strategies, the ASO marketers’ perceptions of the firm’s entrepreneurial capability may have a key effect on the perceived entrepreneurship of the firm in China. Another factor detected as important during the phone interviews was the ASO marketers’ use of informal information. Research on the use of informal information by entrepreneurs is limited but could provide a theoretical rationale for entrepreneurs’ use of informal information and how it could have a positive effect on ASO marketers’ perceived entrepreneurial capability in entering the new market. McGrath and MacMillan (2000) suggest that integrating entrepreneurship and strategy can provide a better prediction of the potential success of a firm in a new market. Ireland, Hitt, Camp and Sexton (2001) compare the measurements of strategy and entrepreneurship. Performance of the firm is the most commonly used dependent variable to measure the influences of strategy. The study of entrepreneurship focuses on whether the actions and capabilities of an entrepreneur lead to the creation of a new venture. Therefore, perceived entrepreneurship of the firm is the dependent variable used in the present thesis to measure the influence of ASO marketers’ perceived entrepreneurial capabilities.
A case study (Study 2) was carried out to gain a better understanding of how informal information may have a positive effect on ASO marketers’ perceptions of their firms’ entrepreneurial capabilities. The findings of Study 2 identify 12 areas of informal information that are positively associated with successful entrepreneurial capabilities in identifying opportunity in a new market, conducting risk assessment and learning about the new market. Study 2 serves as the foundation for the development of a final set of hypotheses tested in Study 3. Information appears to be a key resource for creation of a new venture (Cooper et al., 1995). There has been little research on whether marketers actively search for informal information, defined in this thesis as information gathered without reliance on existing personal or institutional connections. It refers to valuable information often obtained in informal interactions with others. The literature tends to look at the acquisition of information as a top-down corporate process (Thomas & McDaniel, 1990); however, this study tests a multilevel approach to seeking sources and support, which has not been proposed or tested previously in the literature.

Study 3 is a quantitative study that statistically tests the relationship between ASO marketers’ reported use of informal information and their perceived entrepreneurial capabilities. These entrepreneurial capabilities, in turn, mediate perceived entrepreneurship of the firm. A review of the literature indicates a lack of empirical study of the relationship between informal information and the marketer’s perceived entrepreneurial capabilities of identifying opportunity, conducting risk assessment and learning about the new market. Therefore, the 12 aspects of informal information identified in Study 2 were used to measure the perceived entrepreneurial capabilities of the firm for testing a conceptual framework. The results of Study 3 highlighted a
significant direct relationship between the ASO marketers’ use of informal information and their perceptions of the entrepreneurial capabilities of the firm in entering the Chinese market.
Introduction to the Program of Study

This program of study comprises three inter-related studies. The purpose of Study 1 was to test the relationship between marketers’ use of Porter’s (1985) typology of generic strategies and the firm’s performance in a sample of Australian service organisations (ASOs). Generic strategies are the foundation of the study of marketing strategy, and much has been written about the marketing strategy-performance relationship in the context of manufacturing industries. However, few studies have looked at ASOs’ experiences entering emerging markets such as the Chinese market. Study 1 was developed to investigate how ASOs organise marketing strategy in China. The hypothesis was based on the strategic literature applied to international services marketing in China. Study 1 reports the results of the empirical analysis of the relationship between generic strategies and firm performance in a sample of 120 ASOs in China. Study 1 also reports the findings of the follow-up data collection. The finding indicates that ASO marketers’ use of informal information may have a positive effect on their perceived entrepreneurial capabilities, which may be positively associated with their perceived entrepreneurship in entering the new Chinese market.

Follow-up data were collected from only eight respondents in the Study 1 sample. Therefore, these findings cannot support the development of a conceptual framework for ASO marketers’ perceived entrepreneurship in entering the new Chinese market. Thus, the purpose of Study 2 was to use a case-based qualitative study to gain insight into the relationships between ASO marketers’ use of informal information and their perceived entrepreneurial capabilities of identifying opportunities, assessing risks and learning about the new market (i.e. in the new Chinese market). Study 2 also identified 12 items that can be used to measure the use of informal information in the final
quantitative study (Study 3). Based on the finding of the case-based Study 2 and the literature on entrepreneurship, a conceptual framework is proposed in Study 3. Study 3 tested the effect of ASO marketers’ use of informal information on their perceived entrepreneurial capabilities of identifying opportunities, assessing risks and learning about the new market in the new Chinese market.
Chapter 1: Study 1

1.1 Introduction

1.1.1 Purpose

The purpose of the Study 1 is to examine the relationship between Australian service organisation (ASO) marketers’ use of Porter’s (1985) typology of generic strategies and their firms’ performance in the context of operating in the new Chinese market. The concept of the generic strategies is considered the cornerstone of the strategy research. Many of the current understandings of strategy are based on Porter’s typology of generic strategies. Porter’s (1985) framework of low cost versus differentiation generic strategy has received considerable support in the literature on strategy. Mintzberg (1988) criticises Porter’s typology of generic strategies for its simplicity and proposed an alternative framework with more generic strategies. However, Parnell (2006) reports a declining interest in the usefulness of generic strategy typologies in the strategy literature. It indicates that Mintzberg’s approach of further refinement of the generic strategy typology does not achieve the significant theory development in the field of strategy. The relationship between the strategy used by a firm and the performance of the firm is a key research concern in the field of strategy studies. Study 1 uses Porter’s (1985) typology of generic strategies as a foundation integrates Mintzberg’s (1988) proposition and proposes a new conceptual framework to test the strategy–performance relationship in the context of ASOs entering the new Chinese market.
1.1.2 Research Questions

Porter’s (1985) typology of generic strategies is the core concept in the development of a strategic study. Study 1 seeks to demonstrate how Porter’s (1985) typology of generic strategies is a useful framework to provide valuable insight into the marketing strategy–performance relationship, especially in the context of services. Study 1 investigates the link between ASOs’ use of Porter’s (1985) typology of generic strategies and the performance of the firm in the competitive Chinese market. Study 1 also tests Mintzberg’s (1988) proposition that a low cost strategy is simply a part of differentiation strategy: differentiation by price. Mintzberg (1988) argues customers can only see price and not cost, and his proposition follows the logic that a company can achieve a sustainable competitive advantage if it can offer customers products or services that are better in quality and cheaper.

Study 1 poses the following two key research questions:

1. Under Porter’s (1985) low cost versus differentiation generic strategy framework, do these two competing generic strategies equally contribute to a firm’s performance in the new Chinese market? More specifically, does the use of a differentiation strategy or a low cost strategy have a significant positive effect on an ASO’s performance in entering the new Chinese market?

2. Under Mintzberg’s proposition, the focus is on whether price can be the basis of differentiation strategies. It leads to the research question: does the use of a “differentiated by price” strategy have a significant positive effect on ASOs’ performance in entering the new Chinese market?
1.1.3 Research Objectives

The overall objective of Study 1 is to examine how ASOs export, develop and implement a marketing strategy to achieve superior performance in China. Other objectives are:

- To evaluate the perceived effects of a combination of different strategies on ASOs’ perception of their firm performance in China.
- To examine the extent to which a generic marketing strategy may affect ASOs’ perception of their firm performance in China.
- To examine the effects of differentiation by price on ASOs’ perception of their firm performance in China.
1.2 Literature Review

This section reviews the strategy literature, focusing on the possible impact of different business strategies on ASOs’ performance in the competitive new Chinese market.

1.2.1 Porter’s (1985) Strategic Conceptual Framework
Among the existing strategic marketing frameworks, Porter’s (1985) strategic conceptual framework is the most influential in the strategy literature (Prahalad & Hamel, 1994). In the early 1980s, economics began to influence the strategic management field. The idea of “competitive advantage” had long been explored in the strategy literature (Dess & Davis 1984; Galbraith & Schendel 1983), but Porter (1985) successfully repackaged the concept in his book, *Competitive Strategy*, and proposed the two generic marketing strategies of differentiation and low cost. Please refer to section 1.2.2 for definitions of these two major marketing strategies.

In the context of marketing, Porter’s (1985) framework could be exemplified by a firm identifying a specific need in the market, focusing on needs and positioning its products or services as a distinctive offering compared to its competitors’ products or services. Porter (1985) developed a testable typology of two generic strategies, differentiation and low cost strategies. Low cost and differentiation are competing strategies that play a significant role in enhancing competitive advantage in the market. In this regard, Porter (1996) argued that a firm can outperform rivals only if it can establish a desired difference from its competitors that allows it to preserve or create comparable value at a lower cost. The literature suggests that a service firm can achieve success by adopting either a differentiation or a low cost strategy. Some researchers (e.g. O'Farrell, Hitchens & Moffat, 1993; White, 1986) have advanced theories suggesting that a mix of both could be the best solution for superior performance. However, scholars have
consistently questioned whether the interplay of differentiation and low cost strategies would really deliver good performance for firms. The major pitfall of Porter’s theory is neglect of the value of the resource, where the resource is viewed as an inherent intermediate in the chain of causality (Wernerfelt, 1984). Yu (2003) argues that neglect of a resource, such as information, threatens the capability side of firms and was the major weak side of Porter’s work. Due to global competitiveness and volatile market conditions, it is important to develop a framework that captures the complex factors that affect a firm’s performance when entering a new market. However, limited attention has been given to how service firms develop a strategy in response to market dynamics and competition in emerging markets (Christian, 1999).

1.2.2 Definition of Terms

A differentiation strategy refers to the capability of a firm to provide unique and superior value to clients in terms of service design and marketing strategy (Porter, 1985). It can also be said to be the design of products or services that will be accepted by clients as unique and preferable to competitors’ offerings. A low cost strategy focuses on being a producer of low-cost goods or provider of low-cost services. In other words, a firm strives for the lowest average costs in the market in order to offer customers products or services at a lower price than its competitors (Porter, 1985).

1.2.2.1 Differentiation Strategy

In marketing, differentiation is the process of distinguishing between brands. In order for a firm to generate a successful differentiation proposition in the marketplace, the market must perceive the unique aspects of its brand compared to its competitors’ brands, and these aspects must be valued by customers (Parnell, 2006). Successful
differentiation is the capacity of a firm to provide a service design and marketing approach that buyers perceive to have a unique and superior value to clients (Porter, 1985). For example, instead of competing with Xerox in its dominant market – large corporations – Canon was able to compete effectively by offering high-speed, high-volume copiers for lease to small companies and individual users. Canon used a differentiation strategy of shifting from large corporations to small companies and individual users to beat its major competitor, Xerox, in the 1980s.

Most studies of differentiation strategy have been based on manufacturing firms that have to sell a physical commodity for a profit. Until recently, studies have not examined differences in strategic phenomena between the manufacturing and services industries (O’Farrell et al., 1993). This raises the question of whether manufacturing-based theories are appropriate for service firms. Kotha and Vadlamani (1995) urge strategy researchers to test whether generic strategies are appropriate for the service industry. O’Farrell et al. (1993) test the appropriateness of the two generic strategies in service industries. Their findings support the theory that a service firm can establish its competitive position by adopting a differentiation strategy. Services are activities and have physically intangible attributes compared to goods. This means a differentiation strategy for services can only be measured by perceptual aspects of brand identification, reputation and personal customer–client relationships. The opinion of the buyer can stem from past advertising, word-of-mouth recommendations, previous good service or first-mover advantage. Building on these findings, Lindahl and Beyer (1999) propose a modified version of Porter’s (1985) framework. Their findings suggest that service firms can achieve better firm performance via their creativity, their ability to advance research and development (R&D) and their capability to offer quick service delivery.
Raddats (2011) suggests that a service firm can achieve service differentiation by offering customer-oriented training and technical support, which in turn results in superior performance to the firm’s competitors. On the other hand, there is a lack of empirical evidence to support the theory that low cost strategy played a significant role in the trade in services industries. This raises the question: is a low cost strategy sufficient for a service firm entering new markets?

1.2.2.2 Differentiation by Price (Mintzberg, 1988)

Mintzberg (1988) argues that a low cost strategy does not provide a competitive advantage until a firm achieves a below-average market price, so it is actually part of a differentiation strategy – differentiated by price. Mintzberg (1988) criticises the simplicity of Porter’s (1985) low-cost and differentiation-focused framework and proposed an alternative framework with six generic strategies. To test whether this framework was more appropriate for the increased complexity of the market environment, Kotha and Vadlamani (1995) conducted a comprehensive study of both frameworks by developing structural equation models based on data from the manufacturing sector. Kotha and Vadlamani (1995) found evidence that Mintzberg’s (1988) typology outperformed Porter’s (1985) typology.

1.2.2.3 Low Cost Strategy

Mathur and Kenyon (2001) define a low cost strategy as having lower equivalent costs than competing substitutes that may be due to cost savings. A low cost strategy focuses on being a low-cost producer or service provider. In other words, products or services
are competitive in price in the context of manufacturing. Since the 1980s, Chinese light industry manufacturers have been keen on using a low cost strategy to export cheap products to the US and European markets. They have worked hard to cut costs, especially unit costs where they could achieve economies of scale. They have kept the lowest profit margins to offer substantially lower prices than their competitors and have thus taken the lead in volume and market share in the US and European markets.

Porter (1985) insists low-cost and differentiation strategies can’t co-exist, as he asserted that ‘pursuit of low cost through experience may involve tradeoffs with other valuable barriers, such as product differentiation… (cost leadership) a fundamentally different approach to creating and sustaining competitive advantage’ (p. 37). Hill (1988) argued that there are many situations in which low cost and differentiation strategies coexist. For example, as it is not unusual for steel manufacturers to have similar costs, a unique low-cost position is not sustainable for them. This leads to the question: Is a low cost strategy still valid in the context of the service industry? This question is discussed further in Chapter 4.

1.2.3 An Overview of Strategy Research in the Service Industry

Strategic marketing has long been associated with goods industries across the globe. However, it is important to note that the service industry is rapidly growing and becoming a major revenue generator for many economies (Mavondo, 2000). Scholars portray services as being different from physical products (Edvardsson, Gustafsson & Roos 2005). Although the world initially recognised manufacturing as the key element that determined customer satisfaction, modern society has fully embraced the element of
ideal service (Atuahene-Gima, 1996). The global marketplace is associated with different industries that provide goods and services to potential clients. One critical aspect that impacts both services and product industries is the strategy they adopt in operating in the market. According to Zeithaml (2000), both goods and services industries have to contend with high customer expectations. It follows that firms have to provide services and products that meet those expectations. In the current market environment, service delivery to clients tends to embrace both product differentiation and a low cost strategy in a bid to satisfy customers’ needs while maximising the revenue received. Although management experts continually disagree over whether both strategies can be implemented at the same time, it is clear that most service industries have practiced product differentiation through product diversity. Stone and McCall (2004) find that service firms customise and design their services to meet the expectations of different clients in the market.

1.2.3.1 Lack of Strategy Research on Services

A significant amount of the published strategy research has concentrated on the market entry strategy and its relationship with firm performance in the new market. Until the 1990s, some exploratory research was conducted to explain the possible causes of service firms entering foreign markets. Resource commitment has been identified as a major measurement of a service firm’s involvement in a foreign market. Erramilli and Rao (1990) argue that experiential market knowledge determines the resource commitment of service firms in a foreign market. Lovelock and Yip (1996) consider that a service firm’s specific characteristics determine the formalisation of its strategy. Erramilli and Rao (1993) recognise that research in global services has lacked a well-
established theory to guide its development and introduce the theory of transaction-cost analysis to aid understanding of a service firm’s choice of entry mode.

Whitla (2003) notes that before the 1990s, few studies examined the strategy of a service firm and linked it with offshore subunit performance. Most works have tended to focus more on the motivations of service firms to engage in international trade (Knight, 1999; Quinn & Alexander, 2002) or barriers to overcome in the process of trade services internationally (Grönroos, 1999; Vandermerwe & Chadwick, 1989). Andersen (1997) considers that the decision process of international market selection involves predicting and foreseeing the potential benefits that can improve a firm’s competitive position. Few empirical studies have been conducted to test the relationship between a marketer’s use of strategy and a firm’s performance in international trade of the service industry.

Rajshekhar and Charles (2007) critique the current strategy literature in the context of services in international trade as static and arbitrary, due to the lack of theory development. Many of those studies have focused on (1) what factors motivate some professional services firms to go offshore, (2) what strategies are associated with a firm’s motivation, and (3) what major impediments must be overcome to encourage additional professional services firms to enter foreign markets (Knight, 1999; O’Farrell, Wood & Zheng 1998; Samiee, 1999; Winstead & Patterson, 1998). Some key factors to explain success in the service industry include firm-specific factors, such as category of service (Lovelock, 1980) and product classification (Ekeledo & Sivakumar, 1998), and external environmental factors, such as cultural adaptation (Li & Tsang, 2001) and
government regulation (Erramilli & Rao, 1990). However, there is little empirical research that explains which strategies help to achieve superior performance for service firms in offshore markets.

1.2.3.2 Different Strategy Approach for Services

Many strategy researchers have described the different nature of the service and manufacturing industries in the early 1990s (S. Brown et al., 1994; Lovelock & Yip, 1996; Skaggs & Youndt, 2004). Many strategy studies on the service industry have investigated whether a different strategy approach for the service industry is required due to its significant difference from the manufacturing industry. The argument can be traced back to the 1970s goods and services debate (S. Brown et al., 1994), which addressed the uniqueness of the service industry and also highlighted the lack of concepts and theoretical frameworks that encompassed it (Lovelock & Yip, 1996). Lovelock (1980) argues that the unique characteristics of the service industry (e.g. Intangibility, inseparability, heterogeneity, perishability) require the development of a new organisational model to further understand it. D. Thomas (1978) argues that traditional strategies are inappropriate for services, because most of the empirical studies of strategic management researchers have focused on manufacturing firms. Lovelock (1983) shares the same view and suggests that research in the service sector has significantly lagged behind that in the manufacturing sector.
As compared to the manufacturing industry, there is a lack of empirical study in marketing research in the context of the service industry (Bjorkman & Kock, 1997; McLaughlin & Fitzsimmons, 1996). This leads to the question of whether the service industry, like manufacturing, uses Porter’s (1985) general strategy approach to appeal to clients. Stone and McCall (2004) make a similar query about whether the service industry implements a low cost or differentiation strategy to appeal to clients. Clearly, there is a need for an empirical study on the relationship between a service marketer’s use of a particular strategy and a firm’s operational performance in a new market.

1.2.3.3 International Trade in the Service Industry

The strategic research on services in international trade focuses on how a service firm generates and maintains the sources of competitive advantage during the process of international trade (Erramilli & Rao, 1990). A major manufacturing firm locates operations in another country. Its key service suppliers, such as law firms, accountants and market-research firms, will follow the manufacturing firm to establish operations in the same country to maintain existing customer relationships. Technology development, especially in IT and computer science, has enabled the service industry to go international with key clients in manufacturing industries. For example, outsourcing is the practice of seeking resources or subcontracting outside of an organisational structure for all or part of a function in information technology (IT) services. Many large US companies outsource their IT management or data storage to India because it is cheaper to contract a third party to do their tasks than it would be to build and maintain their own in-house IT management team or data storage space.
The service industry has limited its operation to locally produced solutions. Segal-Horn (1993) considers service industries to be “local” industries because of their characteristics such as low barrier to entry, diseconomies of scale and close local control. Lovelock and Yip (1996) point out that the characteristics of services reduce the degree to which they can be standardised and still meet the needs of a broad cross-section of customers around the world. For example, a customer’s experience in a local coffee shop could be very personal and depend on individual preferences. Therefore, there are substantial evaluation problems with services because people make their own judgements when they experience a service.

The well-documented problems encountered by Starbucks in Australia suggest that there is validity in Lovelock and Yip’s (1996) argument about service standardisation. It also suggests that applying a differentiation strategy to the services industry may be far more complicated than its application to the manufacturing industry in the context of international trade. Patterson, Scott and Uncles (2010) reported that Starbucks, which began as a small coffee shop in the US in 1971, has become the number-one specialty coffee retailer in 40 years, with over 10,000 coffee shops in more than 30 countries. Starbucks’ differentiation strategy in branding was very successful in the US, which gave it a great confidence to enter other markets, including Japan in 1996 and China in 1998. Despite continued success in the world coffee retail market, Starbucks failed in Australia in 2008, when management announced the decision to close 61 of its 84 stores, causing a loss of A$143 million. Starbucks’ differentiation strategy did not work in Australia. More specifically, its branding differentiation in the US market did not work in Australia. Starbucks may have been a victim of its own previous successful differentiation strategy. The cornerstone of Starbucks’ differentiation strategies is that it provides a high-quality coffee mix with high-quality beverages and snacks and a unique
experience in the convenience of a large number of locations, which factors separate it from its competition in the US. The latest differentiation strategies used by Starbucks, such as drive-through windows in suburban stores and pre-packaged vacuum-sealed coffee bean bags, can be detrimental to its market brand, however. The Starbucks buyer’s experience now is similar to that of entering a supermarket.

Starbucks is well-known for preparing orders to meet customers’ wishes, no matter how detailed they are. For example, espresso must be served within twenty-three seconds of brewing. Australia has a mature coffee retail market, which also provides high-quality coffee and highly customised services through local coffee shops. That means the foundation of Starbucks’s differentiation strategy in the US was not accurate when the company entered the Australian coffee retail market. Many Australian customers seem unable to understand why they have to pay more for Starbucks coffee that is no different to the fare of their local coffee shops. Starbucks’s case highlights the complexity of the globalisation of services. Intangibility issues associated with services raise a critical question: Does the uniqueness of services compared to manufacturing require a new strategic framework?
1.3 Conceptual Framework and Hypothesis Development

1.3.1 Conceptual Framework

Although the literature review (section 1.2) supports the positive relationship between the firm’s use of generic strategies and the manufacturing firm’s successful performance, there is a lack of empirical research examining this relationship in the context of service industries. Study 1 proposes a conceptual framework to test the relationship between the two generic marketing strategies (differentiation vs. low cost) and ASOs’ performance in the new Chinese market (refer to Figure 1). Based on Porter’s (1985) strategy-performance framework, this conceptual framework consists of two independent constructs, differentiation strategy and low cost strategy, which are two competing generic strategies that could have a positive relationship with ASOs’ successful performance. Study 1 also tests Mintzberg’s (1988) proposition by examining the relationship between the “differentiation by price” strategy and ASOs’ performance. The dependent variable is ASO’s performance, which is measured by both financial and non-financial items. Section 1.4.3 will discuss the details of the independent variables that measure the constructs. The curved line between ‘differentiation by price’ and ‘differentiation strategy’ represents that under Mintzberg’s proposition, the focus is on whether price can be the basis of differentiation strategies.
1.3.2 Hypothesis Development

In Study 1 three hypotheses were developed to test the fit of the conceptual framework, as discussed in section 1.3.1. Low cost and differentiation are considered major sources of competitive advantage (Porter, 1985). Services have some unique characteristics, such as intangibility, inseparability, heterogeneity and perishability (Zeithaml, Barry & Parasuraman 1988). These characteristics need to be considered in the appropriate strategy for services.

1.3.2.1 Differentiation vs. Low Cost

The first two hypotheses test the relationship between two different strategy types (differentiation vs. low cost) and service firms’ performance. Differentiation and low cost are two competing strategies. Hypothesis 1 and 2 are proposed to address the following research question: Does the use of a differentiation strategy or a low cost strategy have a significant positive effect on ASOs’ successful performance in entering the Chinese market? The objective of the Study 1 is to achieve insight into the key drivers of success among Australian services exporters operating in China. Study 1 tested the relationship between the different strategy types (differentiation versus low cost).
cost) and service firms’ performances. Firms can achieve outstanding performance in the long-run in a specific market by generating and maintaining an attractive position to other brands.

Low cost and differentiation are considered major sources of competitive advantage. Services have some unique characteristics, such as intangibility, inseparability, heterogeneity and perishability (Zeithaml, Berry and Parasuraman 1988) which need to be considered for strategic decision making. For a service firm, the application of the strategy of differentiation has found some empirical support (O'Farrell, Hitchens and L.A.R.Moffat 1993). Porter (1996) argued that a company can outperform rivals only if it can establish a difference that it can preserve, or create comparable value at a lower cost. In order to test this proposition, the first study tested the relationship between the two strategy types (differentiation versus low cost) and service firms’ performance.

Based on this discussion, hypothesis 1 and hypothesis 2 were formulated as follows:

**Hypothesis 1:** Australian service organisation marketers’ use of a differentiation strategy is positively associated with their firms’ performance in China.

**Hypothesis 2:** Australian service organisation marketers’ use of a low cost strategy is positively associated with their firms’ performance in China.

1.3.2.2 Differentiation by Price

The third hypothesis tests the relationship between the service firms’ use of differentiation by price strategy and service firms’ performance. Mintzberg (1988) argues that a low cost strategy does not provide competitive advantage until a firm achieves a below-average market price. Therefore, a low cost strategy may be part of a differentiation strategy – differentiation by low price – which may have a positive effect on a firm’s performance in entering the Chinese market. Under the assumption,
differentiation strategy is the dominant dimension for services marketing in an international context. Study 1 also investigated what elements would be important for the differentiation strategy. A Differentiation strategy is about deliberately forming a different and unique mix of values. Mintzberg (1988) argued that low cost strategy does not provide a competitive advantage position until the firm achieves below average market price. Therefore, the low cost strategy is actually a part of the differentiation strategy – differentiation by price. Such arguments lead to the proposition that differentiation could be the dominant success factor in the context of services.

**Hypothesis 3:** Australian service organisation marketers’ use of a strategy of differentiation by low price is positively associated with their firms’ performance in China.

### 1.4 Methodology

#### 1.4.1 Sample Selection

The population of this study consists of ASO marketers who have business operations in China, including joint ventures and wholly-owned branches established by the ASOs. Based on the Australian and New Zealand Standard Classification of Occupations (2012), the ASO marketers included in this sample will include individuals who started up their business operations in China and individuals who were primarily responsible for business marketing and management in China.

In order to obtain samples, this study uses three databases. A total of 607 ASOs was obtained from the sample frame consisting of the China-Australia Chamber of Commerce (CACC) Directory, the Australian Suppliers Directory (ASD) and the China...
Telecom Group Company Database (CTGCD). The CACC Directory provides bilingual listings for 350-plus member companies of the CACC in Beijing, Shanghai and South China. The CACC Directory provides contact details for key commercial offices of the companies in China. Hutchings and Murray (2002) used this sample frame to study Australian expatriates’ experiences in China. The major deficiency of the CACC Directory is that a firm needs to be a registered CACC member before its profile can be published in the CACC directory. The membership fees and other acceptance criteria may affect the willingness of ASOs to join the CACC. Two groups of ASOs may not be covered by the directory: non-CACC member ASOs in China or Australia that actively operate in China. The first group can be covered by the CTGCD, which is the most comprehensive database in China that records up-to-date company contact details. The second group can be covered by the ASD, which is a qualified directory of Australian companies that are exporters or have the potential to become exporters. It was established and is maintained by the Australian Trade Commission (Austrade), which is an Australian government agency. Over 600 firms were sampled for the survey.

1.4.2 Data Collection

A Chinese professional marketing research company that provides professional research services carried out the data collection. Huaxia Education and Research Company (HXER) in Shenyang was selected from three shortlisted companies based on its capabilities, experience, on-site facilities and relationship with the local industry. It is a commercial arm of the Liaoning University Business School, which has a long history of collaboration on marketing research with many Chinese and Western universities. The author of this thesis supervised the process of data collection.
Study 1 selects key respondents that would be likely to be involved directly in the firm’s entrepreneurial marketing process and therefore are qualified to act in the role of ASO marketer, which is the key research subject for Study 1. Therefore, the key respondents include senior executives or owners of small or medium-sized ASOs who were directly involved in the process of establishing the firms’ business operations in China. The list of mailing addresses was cross-checked against the corresponding databases, and the participants from both China and Australia were asked to confirm their details through contact with key respondents. HXER sent an information package to the key respondents in the sample contact database. The information package includes a questionnaire with a cover letter explaining the objectives of ASOs in the study. Each key respondent had one week to independently complete the questionnaire and return it to HXER. As some key respondents were not able to return the completed questionnaires and some of the completed questionnaires were missing data, a follow-up phone call was made to make arrangements for the key respondents to complete and return the questionnaires. This approach attempted to minimise a low response rate and missing data. A total of 650 surveys were sent to the sample firms based in China. Of the 130 completed responses, nine were deleted due to the missing data. The sample of 121 responses that will be used for the quantitative analysis revealed a response rate of 20%. The response rate for Study 1 is higher than that of Chung’s (2003) research study in the same field, which recorded a 16% response rate.

The data analysis for Study 1 can be found in Appendix 5.

1.4.3 Measurements

Congeneric measures are the most commonly used approach for specifying structural equation models (Anderson & Gerbing 1982). Congeneric analysis tests scales for reliability and the validity of measures. Reliability means the findings would be
repeatable. Validity refers to whether the measure adequately measures the theoretical concept in the proposed model.
**Items to Measure the Construct of Differentiation**

The model proposes a positive relationship between the ASO’s use of a differentiation strategy and successful performance of the firm. Study 1 uses 12 items to measure the construct of differentiation. It includes three items from Robinson and Pearce’s (1988) scale to measure the relationship between differentiation strategy and performance, the five items from Mintzberg’s (1988) strategies for differentiation scale, three items from Kotha and Vadlamani’s (1995) scale to measure differentiation by low price strategy and one item from Porter (1991).

Robinson and Pearce (1988) define “innovation” as a new alternative or alternatives, with new means of solving problems that are perceived as new by the customer. “Efficient service processes” refers to technical innovations in services process technology. “Brand identification” is defined as activities focused on marketing, brand recognition, and strong networking through efforts like new services development and new services techniques. O’Farrell et al.’s (1993) finding supports that innovation, efficient service processes and brand identification can be used to generate differentiation for service industries. Mintzberg (1988) defines “marketing image” as a marketing activity focus on creating positive brand images for good quality and reliability of services. “Reputation” refers to memory from past advertising, word-of-mouth recommendation and previous good service. “Customer relationship” defines the relationship with customers based on reputation and trust built upon by offering new services. “Design differentiation” means offering something that is truly different from the dominant design. “Superior quality and reliability” means providing better-quality service than one’s competitor. Porter (1991) defines “sale services” as pre-sale services, such as engaging the customer for product design. After-sale services include
installation, inspection and maintenance to meet the customer’s requirements. Porter (1991) suggests “sale services” is a critical marketing function for customer acquisition.

**Items of Differentiation by Price**

There are three items that measure the “differentiated by price” strategy in the construct of differentiation. Kotha and Vadlamani (1995) defines “low prices” as competitive, below-average market prices. In terms of how to achieve below-average market price, Kotha and Vadlamani (1995) define “economies of scale” as an emphasis on expanded services internationally. For instance, banks or insurance firms may benefit from extensive foreign acquisitions. “Control over channels of distribution” achieves below-average market prices by maintaining tight human resource costs and ensuring smooth service operation in the local market.

**Items to Measure the Construct of Low Cost**

Study 1 adopts four items from Amit’s (1986) scale to measure the relationship between low cost strategy and performance. Amit (1986) defines “short-term low cost” as a firm’s focus on profit maximisation from a decrease in short-term average cost. “Long-term low cost” is a firm’s focus on profit maximisation from a decrease in long-term average cost. Amit (1986) defines “large scale of services” as gaining low cost advantage through large scale of services. For example, in order to keep the average cost lower than that of competitors, some large retailers and engineering firms focus on expanding data centres to achieve a large scale of online services. “Low cost per service” means gaining a low cost advantage through lower cost per service. For example, low-cost carriers in the global aviation industry provide almost the same service level at a lower cost than traditional network carriers.
1.4.3.3 Items to Measure the Dependent Construct of Performance of the Firm

Study 1 uses four items to measure the performance of the firm. Zahay and Griffin (2010) define “market growth” as a growth-oriented firm’s being able to retain existing customers by keeping them satisfied and loyal, attracting new customers and accomplishing the desired level of growth in market share. “Revenue growth” refers to achieving a desired level of growth in revenue through customer retention. In order to measure the financial measures of performance, Study 1 adopts the measures “return on investment” and “profit margin” from Pimenta da Gama’s (2011) scale to measure financial performance.
1.5 Conceptual Model Testing in SEM

In order to gain a better assessment of construct validity than one-step analysis of full SEM model, Study 1 follows Anderson and Gerbing’s (1988) suggestion to take a two-step approach to structural equation modelling for theory testing. Prior to simultaneously testing all of the submodels in the full SEM model in Study 1, two steps were taken: First, a one-factor congeneric analysis was conducted to test the validity of items in each construct. Second, a single relationship test was conducted between each construct and the dependent variable, firm performance in SEM.

1.5.1 Construct Testing

Construct testing involves the following components: Study 1 uses Cronbach’s \( \alpha \) to demonstrate scale item inter-reliability. According to Fornell and Larcker (1981), the recommended cutoff point for Cronbach’s \( \alpha \) value is 0.70. A Cronbach’s \( \alpha \) value larger than 0.7 indicates an acceptable level of inter-item reliability for the constructs. To test whether the measures used for the constructs represent the phenomenon that they are intended to represent, MacKenzie et al. (2011) suggest that latent constructs be assessed with average variance extracted (AVE) and composite reliability (CR) for construct validity. Study 1 uses the computing formulas given by Fornell and Larcker (1981) to calculate the AVE and CR values. Fornell and Larcker (1981) suggest that it is desirable for a construct to exhibit an AVE greater than 0.5 and a CR greater than 0.6. Study 1 uses the factor loadings to assess the model’s convergent and discriminant validity. Fornell and Larcker (1981) suggest factor loadings larger than 0.5 indicate that the path coefficients from the latent constructs to the corresponding indicators are statistically significant. Study 1 uses the ratio of chi-square to degrees of freedom to assess the fit of the proposed model to the data. Schreiber, Nora, Stage, Barlow and King (2006) suggest
that a ratio of chi-square to degrees of freedom smaller than 3 indicates an acceptable fit of the model to the data.

1.5.1.1 Differentiation Strategy

In the first step of the analysis, Study 1 conducts a one-factor congeneric analysis to test the validity of items in the construct to measure differentiation strategy. As indicated in figure 2, the conceptual construct of differentiation consists of 12 items. Table 1 provides a summary of the reliability and validity assessment of the constructs of “differentiation strategy” in the congeneric measure model. The Cronbach’s $\alpha$ value of 0.70 indicates the items loaded well for the construct and achieved good inter-item reliability (Fornell & Larcker 1981). The average variance extracted (AVE) and composite reliability (CR) values of 0.51 and 0.67, respectively, indicate the construct has good reliability and adequate convergent validity (Fornell & Larcker 1981). The factor loadings for most of the items are lower than 0.5, except for the factors of control of local distribution channels and economies of scale. These items have been empirically identified and tested in previous research. Therefore, no items are excluded at this stage of the analysis.
Figure 2: Congeneric Measure Model of Differentiation Strategy with Standardised Estimates
The model-fit indices are as follows: chi-square = 135.46, degrees of freedom = 54, probability level = 0.01, RMR = 0.04, GFI = 0.84, CFI = 0.55 and RMSEA = 0.11. Although GFI = 0.84 and CFI = 0.55 are below the recommended value of 0.95, the ratio of $\chi^2$ to degrees of freedom yielded a result of 2.51; a result smaller than 3 indicates an acceptable fit of the model to the data (Schreiber et al., 2006). This result finds that the hypothesized path model provides a good fit of the model to the data.

1.5.1.2 Low Cost

Study 1 conducts a one-factor congeneric analysis to test the validity of items in the construct to measure low cost strategy.

Figure 3: Congeneric Measure Model of Low Cost with Standardised Estimates

The Cronbach’s $\alpha$ value of 0.45 for low cost is less than 0.7 (Fornell & Larcker, 1981) indicates the items do not achieve good inter-item reliability. The AVE and CR values of 0.47 and 0.42, respectively, indicate a lack of construct reliability and adequate convergent validity. The low Cronbach’s $\alpha$ value is due to the low factor loading of
large scale of services at 0.13. The factor of large scale of services was tested and confirmed as an item to measure the low cost strategy in previous empirical studies (Shah et al. 2000; Robinson & Pearce 1988). This may be due to adopting physical-goods-based measures for a service context. Scales with AVE and composite reliabilities less than 0.5 were retained because they had been validated in prior research (Amit, 1986), and they were close to the 0.5 cutoff for this exploratory study. Therefore, the large scale of services factor is not excluded from the construct test.

The model-fit index indicates the proposed model has a good fit to the data, as the GFI (0.99) and CFI (0.99) are both above the recommended value of 0.95 (Schreiber et al., 2006). The ratio of $\chi^2$ to degrees of freedom was 0.51, and a result smaller than 3 indicates an acceptable fit of the model to the data. Therefore, the model is accepted based on the model fit.
1.5.1.3 Performance

As indicated in figure 4, Study 1 conducts a one-factor congeneric analysis to test the validity of the items to measure performance.

Figure 4: Proposed Congeneric Model for Performance

As indicated in Table 5, the Cronbach’s α value is 0.79, indicating that the items were loaded well in the constructs and achieved good reliability. The AVE and CR values of 0.49 and 0.79, respectively, indicate good construct reliability and adequate convergent validity (Fornell & Larcker 1981). The model-fit indices were as follows: chi-square = 19.72, degrees of freedom = 2, probability level $P = 0.01$, RMSEA = 0.27, GFI = 0.95 and CFI = 0.96. The model-fit indexes indicate the proposed model is a good fit to the data (GFI = 0.95, CFI = 0.96), and both met the recommended value of 0.95 (Schreiber et al., 2006). Therefore, the model is accepted based on the model fit.
1.5.2 Relationship Tests of Constructs

Study 1 follows Anderson and Gerbing’s (1988) suggestion to take a two-step approach using structural equation modelling for theory testing. After completing the first step of structural equation modelling for theory testing, Study 1 reports on the analyses of the individual relationships between two constructs (differentiation vs. low cost) and the dependent variable of firm performance in SEM.

1.5.2.1 Differentiation and Performance of the Firm

In order to test Hypothesis 1 and Hypothesis 3, Study 1 uses SEM to test a hypothetical model of the relationship between differentiation and performance of the firm (Figure 5). The model-fit indices for the SME of differentiation and performance were a chi-square of 220.91 with df = 103 p = .01, RMSEA = .10, RMR = .03, GFI = .81 and CFI = .70. The ratio of $\chi^2$ to degrees of freedom yielded a result of 2.14. The ratio of chi-square to degrees of freedom smaller than 3 indicates an acceptable fit of the proposed model to the data (Schreiber, et al., 2006). The goodness of fit indices showed that the single relationship between differentiation and performance of the firm fit the data well.
1.5.2.2 Low Cost and Performance of the Firm

In order to test Hypothesis 2, Study 1 uses SEM to test the relationship between low cost and performance of the firm (Figure 6). The model-fit indices for the SME of low cost and performance were as follows: chi-square = 53.13 with df = 19, p = .01, RMSEA = .09, RMR = .03, GFI = .88 and CFI = .90. The ratio of χ² to degrees of freedom was 2.79, which is smaller than 3, indicating an acceptable fit of the proposed model to the data. The goodness of fit indices showed that the single relationship between low cost and performance of the firm fit the data.
1.5.3 Full Model of Marketing Strategy and Performance of the Firm

Under a two-step approach for structural equation modelling for theory testing, as recommended by Anderson and Gerbing (1988), a one-factor congeneric analysis was used to test the validity of items in each construct. The SEM was used to test for a single relationship between each construct and the dependent variable of performance of the firm. Both a one-factor congeneric analysis and a single relationship test have accepted goodness of fit. In order to further test the hypothesised relationships between the two competing generic strategies (differentiation vs. low cost) and the dependent variable of performance of the firm, the two congeneric models were then tested in a full measurement model (Figure 7).

The model-fit indices for the full measurement model were as follows: chi-square = 287.47 with df = 103, p = .01, RMSEA = .10, RMR = .03, GFI = .81 and CFI = .70. The ratio of $\chi^2$ to degrees of freedom was 1.72. A ratio smaller than 3 indicates an
acceptable fit of the proposed model to the data (Schreiber et al., 2006). The goodness of fit indices showed that the full measurement model achieves a good fit to the data.

The full model of marketing strategy and performance tests the relationship between the two generic marketing strategies (differentiation vs. low cost) and ASOs’ reported performance in the new Chinese market. The direct effects of the differentiation strategy (standardized coefficient = 0.67) on ASOs’ performance is much greater than the effect of a low cost strategy (standardized coefficient = 0.09). This finding is contrary to Porter’s (1985) view that differentiation and low cost are two strategies that offer an equally successful path to higher firm performance. Large scale of services was tested and confirmed to measure the low cost strategy in previous empirical studies in the
manufacturing industry (Shah et al., 2000; Robinson & Pearce, 1988). The low factor loading of large scale of services (0.13) in one-factor congeneric analysis and in the full model test (0.1) reflects the problems with the items for physical-goods-based measures used to fit the services context.
1.5.4 Study 1 Hypothesis Test

Hypothesis 1: Australian service organisation marketers’ use of a differentiation strategy is positively associated with their performance in China.

Hypothesis 1 conceptualises that there would be a significant positive relationship between ASOs with a differentiation strategy and their firm’s performance in the new Chinese market. The regression weights for a single relationship test between differentiation strategy and performance were achieved through the structural equation model, \( t(103) = 4.15, p = 0.01 \). The test results support Hypothesis 1. The analysis finds that differentiation strategy is positively related to ASOs’ reported firm performance.

In the full model, including all of the variables, differentiation consistently proved to have a significant positive relationship with performance. The full model test also supported Hypothesis 1. The results suggest that differentiation has a key effect on ASOs’ reported firm performance in China, \( t(167) = 3.77, p = 0.01 \).

Table 7: Summary of Regression Weights (Differentiation \( \rightarrow \) Performance)

<table>
<thead>
<tr>
<th>Regression Weights in Full Model</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance ( \leftarrow ) Differentiation</td>
<td>1.08</td>
<td>.28</td>
<td>3.77</td>
<td>0.01</td>
</tr>
</tbody>
</table>

| Regression Weights in Single Relationship Test |
|-----------------------------------|----------|------|------|----|
| Performance \( \leftarrow \) Differentiation | 1.02      | 0.24 | 4.15 | 0.01|
Hypothesis 2: Australian service organisation marketers’ use of a low cost strategy is positively associated with their performance in China.

Hypothesis 2 tested the effect of low cost strategy on performance. Hypothesis 2 was rejected based on output from the regression analysis that revealed an insignificant effect of low cost in firm performance. The regression weights for a single relationship test between low cost strategy and performance were $t(19) = 1.29, p = 0.20$. A full model test also fails to support Hypothesis 2, $t(167) = 1.44, p = 0.15$. The results indicate that ASOs’ use of low cost strategy is not positively related to firm performance.

Table 8: Summary of Regression Weights (Low Cost → Performance)

<table>
<thead>
<tr>
<th>Regression Weights in Full Model</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance ← Low Cost</td>
<td>.26</td>
<td>.18</td>
<td>1.44</td>
<td>.15</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regression Weights in Single Relationship Test</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance ← Low Cost</td>
<td>.24</td>
<td>.18</td>
<td>1.29</td>
<td>.19</td>
</tr>
</tbody>
</table>

Hypothesis 3: Australian service organisation marketers’ use of a strategy of differentiation by low price is positively associated with their firms’ performance in China.

The relationship between the ASO’s use of differentiation by low price and the firm’s performance was found to be insignificant at a $p$ value of 0.5 by the critical ratio $-0.21$ for the single relationship test and $-0.22$ in the full model test. Consequently, Hypothesis 3 is rejected because differentiation by low price had an insignificant, negative impact on the performance of the firm.
Table 9: Summary of Regression Weights (Low Price → Performance)

<table>
<thead>
<tr>
<th>Regression Weights in Full Model</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
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<td>0.37</td>
<td>-0.22</td>
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<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
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<td>0.38</td>
<td>-0.21</td>
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1.6 Summary of Study 1

1.6.1 Significance of Study 1

1.6.1.1 Academic Significance of Study 1

The theory development in the field of strategic study is rooted in the differences between the views of the two generic strategies expressed by Porter (1985) and Mintzberg (1988). Study 1 attempts to clarify the usefulness of the generic strategy framework by contrasting Porter’s and Mintzberg’s typologies of generic strategies in the context of ASOs entering a new Chinese market. In Porter’s (1985) general strategy framework, low cost and differentiation are two competing strategies that may be theoretically associated with the firm’s superior performance. Kim and Mauborgne (1997) support Porter’s (1985) view and suggest that the performance difference between successful and less successful firms is associated with their respective approaches to strategy. Mintzberg (1988) questions the significance of low cost as a separate generic strategy. Dickson and Ginter (1987), Datta (1996) and Speed (1989) support Mintzberg’s (1988) proposition that a low cost strategy is a differentiation strategy.

1.6.1.2 Managerial Significance of Study 1

Many strategy publications have empirically tested the strategy-performance conceptual framework in the manufacturing industry (Bartlett & Ghoshal, 1991; Dickson & Ginter,
1987). However, few studies have tested the link between a firm’s marketing strategy and performance in entering a new market in the context of the service industry (Christian, 1999). The service sector is considered to be the fastest-growing sector in Australia with respect to exports to China. As China has clearly indicated the liberalisation of the service sector as a future priority of its economic reform, more opportunities will arise for ASOs to enter the new Chinese market (Mattoo, 2003). The vast Chinese market, the reaffirmation of market-driven policies by the Chinese government and China’s admission to the World Trade Organization (WTO) in 2001 have strengthened the appeal of China’s market power in international trade in services. Many ASOs have invested in the Chinese market. McCline and Bhat (2012) argue that progress in the theory of services marketing has lagged well behind the liberalisation of policies and business development. Marketing researchers and practitioners have been criticised for their lack of experience in the context of services (Ball, Lindsay & Rose, 2008; S. Brown, Fisk & Bitner, 1994; Knight, 1999). There may be a fundamental difference in the theoretical frameworks of the manufacturing and services industries, as Dahringer (1991) suggested.

### 1.6.2 Marketing and Entrepreneurship in the Firm

In order to address the above concerns of strategic research, the literature published in recent years tends to reorientate strategy research in the field of entrepreneurship (Hitt, 2002; Hitt, Boyd & Li 2004; McGrath & MacMillan, 2000). The success attributed to ASOs in China is not solely reliant on the marketing strategy adopted in the corporate environment. This is exhibited in Table 48 (Appendix 1), where the standardised regression weights for the full model account for less than 60% of the variation of a
given data set. This indicates that other factors beyond using a differentiation strategy are important for ASOs’ success in China.

Hitt et al. (2004) review the publications in leading North American journals in the field of strategy over the last 25 years. Their findings confirm that more and more strategy scholars are shifting their interest to the field of entrepreneurship. This is supported by Shane and Venkataraman (2001), who discuss the relationship between strategy and entrepreneurship. Gilmore and Carson (1999) explain why strategy scholars are being attracted to entrepreneurship, arguing that in strategy theory, a manager’s job becomes a matter of deploying and utilising resources according to a sophisticated plan to produce a final product or service. There is no need for a manager to actively work on discovering and acting on opportunities. The success and survival of firms depend on entrepreneurial discovery on a continual basis.

In order to find out what other factors may have an effect on ASOs’ success in China, follow-up phone calls were made to eight ASO marketers participating in the first sample who indicated their willingness to provide further information at the end of the survey. All eight ASO marketers noted the importance of information, especially informal information, as a positive effect on their entrepreneurial capabilities of identifying opportunities in a new market, assessing the associated risks and learning about the new market information. They also believed that there might be a link between their entrepreneurial capabilities and the perceived entrepreneurship of their firms in entering the new Chinese market. Study 2 uses a case study to characterise the relationship between marketers’ entrepreneurial capabilities and the perceived entrepreneurship of the firm. Study 2 also explores how information is collected by the marketer for entering a new Chinese market.
Chapter 2: Study 2 Case Study

2.1 Introduction

Based on the discussion of findings in Study 1, a case study is developed in study 2 to better understand the nature of entrepreneurial capability and how information is collected. A review of the literature also suggests that a firm’s entrepreneurial capability in marketing is a good indicator for the success of an ASO entering a new market. Therefore, a case study, Study 2, was conducted as a response to Karami’s (2012) call to reorientate strategy research in the field of entrepreneurship. McGrath and MacMillan (2000) suggest that strategists must adopt an entrepreneurial mindset in order to identify an opportunity and then act to exploit the opportunity under uncertain market conditions. Hitt, Ireland and Ireland (2001) suggest that entrepreneurial capability appears to be a promising research approach to understand the key constructs that matter to perceived entrepreneurship. Key respondents for Study 2 include CEOs who started up their business operations in China and two company directors who were primarily responsible for business marketing and management in China. In this study they are referred to as “ASO marketers.”

2.1.1 Research Question

Information appears to be a significant resource for ASO marketers to develop their entrepreneurial capabilities (Hitt el al., 2001). Despite the importance of information search practices, limited research has examined whether ASO marketers show a tendency to use informal information to shape their entrepreneurial capabilities when formal information may be either not available or too expensive to access.
Study 2 posits two key research questions:

1. What are the entrepreneurial capabilities perceived by ASO marketers in the case study to be important for entrepreneurship in entering the new market in China?

2. What are the informal information items used by ASO marketers in the case study that are perceived to have an important effect on their entrepreneurial capabilities?

2.1.2 Research Objectives

Hitt et al. (2001) conducted a survey of marketing entrepreneurship frameworks and found that the success of the operation must simultaneously possess the following three entrepreneurial capabilities: 1) identifying opportunities, 2) assessing risks, and 3) developing knowledge through learning about the new market. Luke, Kearins and Verreynne (2011) shared the same view, emphasising that marketers should develop entrepreneurial capabilities that are important factors in determining their perceived entrepreneurship. Therefore, the first research objective for Study 2 is to identify what entrepreneurial capabilities are deemed important by marketers in this case-based qualitative study.

Prior studies have focused on an entrepreneur’s personality type and entrepreneurial activities, or what entrepreneurs do (Stokes, 2000). The lack of studies on entrepreneurial capabilities was specified as an impediment to entrepreneurial marketing (Kor, Mahoney and Michael, 2007). Shane and Venkataraman (2000) suggested that entrepreneurship research should focus not only on individual entrepreneurs’ characteristics but also why, when and how entrepreneurs discover
opportunities, as well as their follow-up actions. Their definition of entrepreneurship highlights the importance of information. As a matter of fact, much of the process of new venture or value creation involves seeking and interpreting information (Cooper, Folta & Woo 1995). “Information” plays a critical role in developing marketers’ entrepreneurial capabilities (Datta, 1996). Thus, the second research objective of Study 2 is to identify what types and sources of information used by the marketer have an important effect on the firm’s entrepreneurial capabilities.

The research methodology and data collection process for Study 2 are discussed in Appendix 5.

2.1.3 Introduction to the XYZ Company

XYZ is a Perth-based environmental engineering consulting firm that has been engaged in consultancy for the mining industry since the 1980s. As required by the firm that participated in the case study, anonymity will be ensured by calling it XYZ.

2.1.3.1 Areas of Expertise

XYZ has been providing environmental engineering consulting services to the minerals and mining services industries in Australia and the Asia-Pacific region, including the Philippines, China and Indonesia, since the 1980s. The company is an ISO 9000 (Quality), AS4801 (Occupational Health and Safety) and AS14000 (Environmental) certified company that offers professional consultants and professional solutions in occupational health and safety, security, environmental management and auditing.

2.1.3.2 Three Stages of XYZ’s Development in China
The three stages of XYZ’s development in China are illustrated in Figure 8. In Stage 1 (1997–2001), XYZ initiated their early stage of business activity in China by direct export. In Stage 2 (2001–2004), a representative office was established in Beijing. In Stage 3 (after 2004), XYZ set up a wholly-owned company in China. XYZ did not choose a joint venture or other contractual mode because it was concerned that local partners might access and transfer XYZ’s technology. XYZ tried to avoid situations in which it could be exploited or manipulated by a local partner. XYZ considers their technology and know-how to be their core competence and naturally views any loss of core competence as a serious matter. In the following section, the impact of informal information on the firm’s entrepreneurship in different stages of development is discussed.
Figure 8: Three Stages of XYZ’s Business Development in China
2.2 Results

The theoretical development to this point suggests that information affects the marketers’ entrepreneurial capabilities, which in turn mediates the success of their perceived entrepreneurship in entering a new market (Cooper & Artz, 1995). Gathering and interpreting information for decision-making is a fundamental activity for ASO marketers entering the new Chinese market. Formal information is collected and documented in an organised fashion; it is traceable and follows an ordered structure (Lord & Maher, 1990), like a market report prepared by a lawyer or accountant. Informal information has no particular order, structure or traceability, such as a conversation over coffee or a casual chat on a social networking website.

2.2.1 The Effect of Informal Information on the Entrepreneurial Capability to Identify Opportunities in a New Market

The entrepreneurial capability of identifying opportunities in a new market emerges as an important construct for ASO marketers’ perceived entrepreneurship in entering the Chinese market in the follow-up interviews in Study 1. It is an ongoing process for ASO marketers to identify opportunities, as they have to continue discovering new knowledge and new markets. Many ASOs commence operations in China with a one-off project with an existing client. XYZ Company emphasised the importance of their capability of identifying opportunities as a key element associated with their success in the new Chinese market. It is a continual formation process. XYZ first did business in China in 1997 when it engaged in a contract with a large Australian mining company to offer their services in environmental engineering for a complex mining project in North China.
In order to comprehend the implications of informal information on the ASO marketers’ capability of identifying opportunities, qualitative data were collected and analysed in this section. The literature indicates that few studies have been able to trace entrepreneurs back to the periods preceding their overseas operations (Chandra & Styles, 2012). This study provides significant insight into the entrepreneurial opportunity identification process of ASOs by examining important elements such as informal information.

Informal information and its applications in XYZ’s marketing entrepreneurial practices emerged as critical elements after all of the interview materials were reviewed and analysed. The ASO marketers referred to informal information as any publicly accessible information that is not necessarily attached to individuals or an aggregation of individuals with social ties or bonds. The ASO marketers emphasised the importance of informal information, especially in the initial stage of XYZ’s business development in China.

2.2.1.1 Evidence 1: Effects of Informal Discussion on Executive Recruitment

“Informal discussion” refers to unofficial, unscheduled, impromptu discussion with others. As a form of informal information, informal discussion played a critical role in XYZ’s process of identifying, judging and confirming the appointment of the director in charge of its operations in China. XYZ engaged a professional recruitment company to process applications for this key appointment. The formal recruitment procedure failed to identify a candidate to satisfy XYZ’s management and technical requirements. After the failure of the formal recruitment activities, the CEO said he went to a party and engaged in an informal discussion with a Chinese woman. She was talking about her uncle, Mr Xu Gang, who was an experienced manager in a large Chinese state-owned
mining company. The CEO asked the woman to put him in contact with Mr Xu. The CEO invited Mr Xu for an interview and later appointed him as the director of the XYZ China Company in 2004. The CEO remarked, “People don’t pay attention to the critical message hidden in the informal information until they desperately need it. The company was desperately looking for a competent manager to run our operation in the early stage of our business in China.” Informal information can be a useful source of information when formal information is not available to the ASO marketers. The CEO noted:

Our decision was not based on quantitative information, as those quantitative data are either not available or could be wrong…. It is just marvellous to test the waters in a market where I believe we will have a future. I used all kinds of information, particularly informal information, to help us judge the opportunity.

2.2.1.2 Evidence 2: Effects of Diverse Information Sources on Exploiting Opportunities

“Diverse sources of informal information” refers to useful marketing information among the large amount of public access information, such as local news, weblogs and government publications. For example, ASO marketers in XYZ analysed the informal information in a TV program and figured out the critical timeline for new mining safety legislation, which was not available through any formal channels before it was announced in late 2000. Mining safety is one of the key services that XYZ offered to the Chinese mining industry. The ASO marketers noticed that China Central Television had intensively interviewed a number of senior government officers after a series of mining accidents that were a result of a long-overlooked legacy of the mining industry. XYZ predicted that the Chinese government would tighten up regulations on mining safety, consequently boosting the demands for mining safety consultants. Therefore, XYZ decided to increase investments in China and established an office in early 2001. Its efforts were rewarded later in 2001, when the Chinese government required the mining industry, especially coal mines, to improve worker safety by ordering them to invest more in enhancing safety systems and safety training. As many Chinese mining
companies were required to be held accountable for their safety management systems, they turned to XYZ for solutions. Most of XYZ’s competitors were unaware of the changes in legislation and were unprepared for this business opportunity in China. XYZ, on the other hand, directly benefited from this government decision. One of the ASO marketers indicated:

I need to use a variety of sources to obtain the information to develop our strategy and understand our business environment. Sometimes, a passenger sitting next to me on an airplane could provide insights that keep me up to date with changes in the Chinese economy.

2.2.2 The Effect of Informal Information on the Entrepreneurial Capability to Assess Risks

2.2.2.1 Evidence 3: Sources of Informal Information – Advisors

“No professional information” refers to useful information provided by an informal advisor. Informal advisors are individuals who have adequate practical business experiences in China, but no formal tertiary qualification. The ASO marketers considered some non-professional individuals who can provide useful informal information. These individuals do not work in either environmental engineering or a professional service industry such as an accounting or law firm. Therefore, they do not have any direct conflict of interest with XYZ. “Personal information” refers to useful information provided to ASO marketers by personal friends as a result of the confidence generated in the personal relationships between the ASO marketers and their personal contacts. “Trusted sources” refers to people with good personal reputations doing business in China. For example, one of the advisors was a Chinese woman who is a housewife but has many years of experience doing business in China and Australia. She pointed out that it is important not to overly rely on professional sources like lawyers and accountants to do the due diligence, because they may not be familiar with China.
2.2.2.2 Evidence 4: Informal Information Leads to Action

“Calculated risk-taking” refers to a quick response to environmental changes made outside the formal risk management process and is based on informal information.

“Informal decision-making” refers to informal actions in areas where the traditional corporate decision-making process lacks flexibility. Informal decision-making under uncertain conditions and performing risk management are two unavoidable tasks of the ASO marketers in XYZ. They have found that their past experiences – whether technical or non-technical – provide limited insight for the firm to understand the risk associated with establishing a new venture in China. For example, they have found that there are many differences between Chinese central government policy and local Chinese government policy in terms of foreign investment in mining technology imports. The possibility of future regulatory intervention could potentially threaten the firm’s operation in China. Foreign investors are often confused by the complexity of the Chinese legal system, as there are many legal regulations and arbitrations in the fragmented Chinese legal framework. XYZ found that local protectionism often devastates the business environment. A firm needs to look beyond the existing laws and acts when assessing risk in reality. The ASO marketers shared a similar view that the firm is actually risk averse, unlike the stereotype of marketing entrepreneurs that engage in risky business. This is because if a manufacturer gets into trouble, creditors can demand that physical assets of the manufacturing firm be sold to repay loans. But nearly all consultant firms are private partnerships whose only real assets are the partners themselves. Not only can they not be sold for payment, but they can get up and walk to a new firm and take their clients with them. The ASO marketers are concerned about the
high risks associated with the capital investment if they give away the control of the local management.

2.2.2.3 Evidence 5: Effects of Informal Discussion on Clients’ Background Checks

“Informal information for risk assessment” can be defined as the ASO marketer’s use of informal information to guide informal or intuitive actions that are taken to mitigate risks. Informal information could exist in different formats, such as technology blogs, newsletters or tweets. Marketing entrepreneurs need to drill down through lots of data to obtain critical information that provides them enough information to select trustworthy and credible business partners.

Doing business with the right people in China is the most effective way to protect the company’s intellectual property. It is important to check a Chinese client’s background before engaging in a formal contractual relationship. The CEO of XYZ indicates:

I can see the value of background screening of a potential partner. Even if I could use someone that I know in my network to do the background screening for me, how would you verify the credibility of the source of information? It can be laborious and cost a lot. I use the informal information from the Chinese mining technology blog to assess the partners’ credibility. It is more cost and time effective than the use of the network.

XYZ often uses informal information for risk management, and the result is a better relationship with local business partners that eventually aids the firm’s success in China. For example, XYZ used online informal information to check a Chinese client’s background after the Chinese company proposed to establish a joint venture with XYZ. The proposal seemed flawless, and the Chinese counterpart promised that they could help XYZ secure Chinese regulatory approval and market services in China. XYZ hired
a Western law firm to check the background of the Chinese counterpart and received a positive report on the firm. The CEO said he had a gut feeling that something was not quite right. He googled the name of the Chinese counterpart, and a few articles in a mining industry blog concerned the CEO. The Chinese counterpart had engaged in disputes with two American companies. The American companies alleged their intellectual property had been violated by the firm, but they did not choose to file a lawsuit against the Chinese counterpart because Chinese courts are not good venues for pursuing intellectual property theft. For example, NIKE won a big victory in an IP case against a Chinese manufacturer that had been making large amounts of fake NIKE products, but the damage award was only US$75,000. XYZ walked away from the deal and prevented potential intellectual property infringement.

2.2.3 The Effect of Informal Information on Entrepreneurs’ Learning About the New Market

Learning about the new market has long been recognised as a key building block for a firm’s internal innovation, diversification decisions, multinational expansion and internationalisation (Luo & Peng, 1999). Luo and Peng (1999) pointed out that most empirical studies have tested a linear correlation between organisations’ learning about the new market and performance, and researchers have paid little attention to the impact of the environment on this relationship. XYZ is an engineering consulting company. It is vital to its operations for XYZ to learn new knowledge. XYZ expanded into China and found an unfamiliar business model, inconsistent regulations and fragile business relationships. These challenges would necessitate the company’s putting greater effort into learning how to operate in China.

2.2.3.1 Evidence 6: Informal Information for Learning About the New Market
“Informal information for learning about the new market” refers to self-directed learning about the new market by using social skills in a non-working environment. For example, XYZ used informal information to train JXZH staff to learn how to do business in Australia. JXZH is a state-owned company controlled by the Jiangxi Nuclear Bureau. JXZH has engaged in a service agreement with XYZ to train its staff with skills for doing business in Australia. JXZH has a team of 20 expatriate engineers to run its operations in Australia. The expatriate team consists of experts in field exploration who have limited working experiences in Australia. In order to help the JXZH expatriate staff to improve their professional English and business communication skills, XYZ uses informal information to provide training. Such informal information includes television programs, social networking, and participation in informal discussions in public.

2.2.3.2 Evidence 7: Social Interactions for Learning About the New Market

“Social interaction” is a process of learning about the new market based on face-to-face interactions in an informal environment. XYZ’s ASO marketers use social interactions to obtain knowledge and develop innovation. Learning about the new market through social interaction happens through processes that are not structured or organised by an educational institution. Social interaction allows personal life experiences or informal conversation to become a means for learning about the new market. Accidental leaning proved to be a source of competitive advantage in this study.

2.2.3.3 Evidence 8: Learning About the New Market from People Who Have No Direct Business Interests

“No direct business interest” refers to learning about the new market with an individual who has no direct business interest with the firm. The term “no direct
“Business interest” is emphasised under the belief that learning about the new market from someone who has direct business interests with the firm may lead to a conflict situation. For example, a JXZH engineer reported that he learned from life experiences in Australia that quoted prices in an Australian shop are normally fixed and not subject to negotiation. In China, price negotiation continues even after the formal contract sign-off. This JXZH engineer indicated that he applied what he had learned through informal information in day-to-day operation. Due to cultural differences, negotiations in the global arena are often fraught with difficulty. He found that learning about the new market from informal information has helped him and the company to avoid conflicts with local customers and suppliers.

2.2.3.4 Evidence 9: Learning About the New Market Through Storytelling

“Storytelling” is a process of learning about the new market by observing and listening to other people’s stories in an impromptu manner. The XYZ Company’s ASO marketers use their personal stories to help the XYZ staff to understand the Chinese traditional business culture. This form of learning about the new market is not held in institutional contexts, such as a meeting room or professional training organisation. Often it is held in a local restaurant. For example, the term “face value” reflects the notion of reputation in Chinese business philosophy. Through storytelling, XYZ ASO marketers now are able to communicate with Chinese businesspeople in line with the Chinese perspective and understand the Chinese value system, its culture and the social aspect of society.
2.3 Discussion of the XYZ Case Study

This case study of XYZ Company’s operations in China found that the ASO marketers’ use of informal information can have a positive effect in their entrepreneurial capabilities of 1) identifying opportunities, 2) assessing the risks associated with the opportunities, and 3) learning about the proposed business. Study 2 emphasised the importance of providing ASO marketers with a combination of different types of information. Lord and Maher (1990) argue that limited capacity models of information processing are valid in situations when marketers are engaged in a new venture formation act. In these models, the capacity of the ASO marketer’s mind for formulating and solving complex problems is viewed as limited. These views are supported by J. Thomas and McDaniel (1990). No formal modelling and experimental research has examined the effects of the marketers’ use of informal information in their entrepreneurial capabilities.
Chapter 3: Study 3

3.1 Introduction

The overall research design in this thesis employed a multiple-method approach. Study 2 used a qualitative case-based method to guide the development of a conceptual framework for Study 3. Study 3 adopted a quantitative approach to examine the conceptual framework derived from the literature review and the findings of Study 2. In this study the entrepreneurial capabilities of identifying opportunities, risk assessment, and learning about the new market are independent constructs. The ASO marketer’s perceived entrepreneurship of the firm in entering the new Chinese market is the dependent construct. This study aims to examine the relationship between ASO marketers’ use of informal information and their entrepreneurial capabilities, which in turn may positively mediate their perceived entrepreneurship of the firm in entering the new Chinese market.

Managerial implications of Study 3

The managerial implications of Study 3 focus on the positive relationship between ASO marketers’ use of informal information, and their entrepreneurial capabilities. Every year millions of entrepreneurs form companies, but less than half of them survive in the first year of their operation (The Economist 2009). Why do so many entrepreneurs’ businesses end in devastation? What kinds of strategy should an entrepreneur put in place that can help to defeat the chaos and achieve success? Study 3 provided the empirical analysis of how entrepreneurs develop mechanisms by utilizing informal information to identify opportunity, assess risk and develop learning.

There are challenges for the existing marketing textbook type of recommendation to address entrepreneurship. Marketing thought and practice has been criticized as
focusing on mundane issues, silo views and slow response to market changes (Morris, Minet et al. 2002). The emphasis on entrepreneurial marketing is on adapting marketing to forms that are appropriate to entrepreneurship (Stokes 2000). The world economy is way too complex to be controlled by large companies or institutions. The flourishing of the entrepreneurial form of companies around the world has fundamentally changed the business environment. Large companies are often becoming bureaucratic as the company grows in size. They are weighed down by complex management layers and processes, especially when they need to respond to a new idea or innovation (O'Farrell & Hitchens, 1988). Large companies still dominating in handling major complex projects invest heavily in Research & Development. But large companies’ future would be gloomier if they fail to make changes with agility. On the other hand, entrepreneurs around the world are far more alert in the pace of technology and market changes. Study 3 identified that ASO marketers have developed the ability of successfully use informal information to make many decisions. This ability would enable ASO marketers to keep changing their products and services to fit the changing international business environment.

Theoretical contributions of Study 3

The Literature indicates that information plays a pivotal role for a firm to achieve superior performance. Information obtained from inter-firm relationships, networking, and interaction with customers could help firms develop a superior market position (Zahay and Griffin 2010). The current literature has little mention about informal information. The perspective of the relationship between informal information and entrepreneurship argues that entrepreneurs have developed an ability of utilize informal information to make some of their decisions. Such ability would enable entrepreneurs
to keep changing their firms’ products and services to fit the changing international business environment.

Based on the findings of Study 1 and Study 2, the final study has identified informal information as the critical component when entrepreneurs develop successful international marketing strategies and avoid marketing mistakes. Study 3 contributes to the entrepreneurial marketing body of knowledge by conducting a quantitative analysis of a multilevel approach model for entrepreneurial information acquisition and use. The model examines relationships between entrepreneurs seeking informal sources and assistance for information and opportunity, risk assessment and learning instrumental to ASOs’ performance.

3.2 Literature Review

3.2.1 Perceived Entrepreneurship of the Firm

Motive theory, trait theory and cognitive theory are three major theories studied in entrepreneurship research (Cross & Travaglione, 2003). Motive and trait theories study the fundamental motivations and traits of entrepreneurs as the key dimensions in new venture development. The theories suggest that there is a positive relationship between the perceived entrepreneurship of the firm and the entrepreneur’s distinct qualities, such as risk-taking ability, alertness and conscientiousness (Busenitz, 1996). Mitchell et al. (2002) reject the motive and trait theories based on empirical tests that link personality traits to new venture activity. Mitchell et al. (2002) further argue that not all entrepreneurs possess the characteristics and the motivations as suggested by the motive and trait theories when they engage in entrepreneurial activity.
Cognitive theory focuses on the mental process through which an individual acquires and analyses information to influence his or her entrepreneurial activity (Ko, 2012). It includes the pattern recognition approach, which emphasises that specific persons develop capabilities through which they can determine links between seemingly unrelated events and that the patterns they see become the foundation for identifying new opportunities (Baron, 2006). Risk-taking propensity is also a cognitive theory based on an entrepreneur’s capability of assessing risk (Carland et al., 1995). Though most of the entrepreneurship literature is dominated by the three theories, none of the theories are concerned with the positive effect of information on marketers’ entrepreneurial capabilities.

3.2.2 Information

Information is an important resource for marketers to formulate and solve complex problems when they are engaged in new venture formation (Lord & Maher, 1990; J. Thomas & McDaniel, 1990). Some studies have suggested that entrepreneurial information may be a salient driver of entrepreneurial marketing (Varis & Littunen, 2010). No studies have articulated the theoretical framework of entrepreneurial information or empirically substantiated the effects of information on entrepreneurial capabilities as the constructs of perceived entrepreneurship. Therefore, Souchon et al. (2004) and Simsek et al. (2009) criticise the lack of a clear conceptual framework to examine the relationship between marketers’ use of information and entrepreneurial capabilities.

Information processing by entrepreneurs was investigated as early as 1845 in Adam Smith’s significant work, *An Inquiry into the Nature and Causes of the Wealth of*
The processes of information search have been shown to be associated with problem solving and decision-making (Carland et al., 1995), opportunity recognition (Ko, 2012; Styles & Seymour, 2006), the entrepreneur’s alertness (Busenitz, 1996), and capability to assess risks (Das & Teng, 1997; Delmar, 1994). Studies indicating that entrepreneurs process information differently have made unique contributions to entrepreneurship research (Mitchell et al., 2002). Entrepreneurial marketing is characterised by information gathering, rather than the systematic market intelligence gathering advocated in traditional marketing texts (Neergaard & Ulhøi, 2007). Sharma and Chrisman (1999) suggest that entrepreneurial marketers need to use appropriate information to identify entrepreneurial opportunities that rivals have not observed or have underexploited. In term of the effectiveness of informal information, Michael, et al (2002) have highlighted the importance of multiple sources of knowledge/information in international market entry. Mitchell et al. (2002) suggested that entrepreneurs use simplified mental models to piece together previously unconnected information that helps them to identify and invent new products or services and to assemble the necessary resources to start and grow a business.

Some studies have identified networks as key sources of information for entrepreneurs to carry out marketing in a new offshore market (Gilmore & Carson, 1999; O’Donnell, 2004). This study argues that it is not the physical nature of the network but informal information that is important for entrepreneurial marketing. Network use components of nodes and connections that depend on existing relationships between the entrepreneur and stakeholders (O’Donnell, Gilmore, Cummins & Carson 2001). Unlike network, informal information does not rely on existing personal or institutional connections for information gathering but rather refers to valuable, publicly accessible information, often in a casual, informal format. There have been criticisms of the limitations of the
network as a main source of information and calls to broaden research to other information sources. Simon and Galunic (2004) suggested that the network approach to information gathering in entrepreneurial marketing may not be sufficient. For example, if a marketer predominantly uses networks for gathering information on offshore markets, then the theory cannot explain the internationalisation of small-to-medium-sized enterprises (SMEs). SMEs often lack network resources and international market connections (Sharon & Jim, 2006).

In summary, little research has been done to understand how informal information and its processes are actively used by marketers. The focus of Study 3 is on empirically supporting ASO marketers’ use of informal information as a significant effect on their entrepreneurial capabilities. This effect was observed in Study 2. In addition to the existing network theory, it offers a totally new vision of how informal information is used to conduct analysis in a marketing context.

3.2.3 Entrepreneurial Capabilities

The ASO marketers in the case-based Study 2 considered there to be three important entrepreneurial capabilities that are positively associated with the perceived entrepreneurship of the firm in entering a new Chinese market. Morris, Minet and La Forge (2002) conducted a comprehensive review of the existing entrepreneurship literature and identified seven entrepreneurial capabilities that can have positive relationships with perceived firm entrepreneurship. They include identifying opportunities, assessing the risks associated with opportunities, learning about the new market, proactiveness, resource leveraging, customer intensity and value creation. The entrepreneurial capabilities of identifying opportunities, risk assessment and learning
about the new market receive qualitative-based support in Study 2. A few publications support the three entrepreneurial capabilities 1) entrepreneurial opportunity identification (Kirzner, 1979; Shane & Venkataraman, 2000), 2) risk assessment (Creswell & Miller, 2000; Norton & Moore, 2006), and 3) learning about the new market (Franco, Rio & Haase, 2009). The three independent constructs in Study 3 are supported by both the case-based qualitative study (Study 2) and a review of the literature.

A central element in determining whether or not a firm should pursue services international, should be its entrepreneurial capabilities (Alvarez & Barney, 2000). Prior studies have focused on an entrepreneur’s personality type and entrepreneurial activities (Stokes, 2000). The lack of research on entrepreneurial capabilities was noted as an impediment to entrepreneurial marketing (Kor, Mahoney and Michael, 2007). Hitt el al., (2001) has provided a framework of 'entrepreneurial capabilities', as an indicator to understand the key constructs that matter to perceived entrepreneurship. This study focus on the entrepreneurial capabilities of identifying opportunities, risk assessment, and learning about the new market. ASO marketers must hold or have access to heterogeneous and idiosyncratic resources to build and maintain a competitive advantage through which entrepreneurial opportunities can be exploited, risk can be assessed, and learning about the new market can be initiated.

3.2.3.1 Opportunity

This study examines entrepreneurial information processing in order to understand how ASO marketers identify opportunities. It focuses on an informal information processing view that integrates the “opportunity discovery” and “opportunity enactment”
perspectives. The discovery of opportunity is deemed a fundamental step before a more tangible entrepreneurial process can unfold (Kirzner, 1979). “Opportunity discovery” refers the nature of opportunity is waiting to be noticed, as Kirzner (1979) suggested. In contrast to the opportunity discovery view, Schumpeter’s (1947) “opportunity enactment” views marketers as innovators. New information is critical for marketers to create an opportunity by their actions and their interactions with others. The opportunity enactment view emphasises the effects of new information on key constructs of entrepreneurial marketing. Shane (2003) reviewed Kirzner’s and Schumpeter’s views of opportunity and found that their work on the importance of information helped improve marketplace efficiencies. Von Hayek (1937) suggested that opportunities are objective, but that perception of opportunity is subjective. It reflects that marketers use diverse sources of information to discover and create opportunity in a new market. For instance, the success of Xiaomi is due to their systematic collection of new information about mobile phones on the Internet. Xiaomi Tech, a new start-up high-tech company in China, released a high-end smartphone at less than half the price of a typical smartphone in December 2011. They have since successfully sold 800,000 smartphones (Shih, Lin & Luarn, 2014). They used new information to forecast the trend of smartphone development and make a judgement on the opportunity. However, studies in entrepreneurship do not address the issue of how human information processing influences the discovery of the reaction to entrepreneurial opportunities.

In the past 30 years, the people-centric approach has dominated entrepreneurship research (Mitchell et al., 2002). The literature review indicates the existing theories focused on the nature of entrepreneurs and asserts that entrepreneurs must be different to non-entrepreneurs. This study argues that it is the information that entrepreneurs
possess that makes the difference among people, not people’s preference for risk. The difference between entrepreneurs and non-entrepreneurs cause by different information acquisition model, not by personality-traits.

3.2.3.2 Risk Assessment

The central concept of entrepreneurial behaviour is risk assessment (Busenitz, 1999). The findings of Study 2 indicate that in addition to acquiring information about opportunities, successful entrepreneurs used informal information systems with source knowledge that would help the firm gauge and reduce risk. A crucial difference between formal and informal risk assessment is ownership. In general, entrepreneurs are often company owners or stockholders. There is a major body of literature on the risk assessment construct in the entrepreneurship field, which focuses on individual entrepreneurs’ complexities of behaviour with commercial endeavours. The constructs of entrepreneurial behaviour suggested by Hills and LaForge (1992), entrepreneurial characteristics advocated by Gürol and Atsan (2006), and risk-taking propensity identified by Carland et al. (1995) are similar.

Kahneman and Tversky (1979) proposed prospect theory, which predicts the relationships between risk aversion and risk-seeking behaviours with probable outcomes (gain or loss). Based on this theory, multiple streams of research have converged on risky behaviour attributed to entrepreneurs. The propensity to take risks has become one of the key components of entrepreneurship (Miller, 1983). The construct of risk assessment is conceptually reflected in marketers’ perception of threat or opportunity with the attendant prospect of loss or gain. Palich and Bagby (1995) challenge Prospect Theory and argue that the propensity to take risks and personality traits do not explain
why some entrepreneurs take advantage of opportunities and others are unable to react. This is supported by Norton and Moore (2006), who propose and tested an information-based theory that entrepreneurs engage in systematic searches that build on prior knowledge in ways that facilitate assessing risks. This helps in understanding these relationships between knowledge and entrepreneurial behaviour. The distinguishing feature of information-based theory is that marketers’ decision-making is subjective and affected by their personal information about opportunities and associated risks. Prospect Theory attributes marketers’ behaviour to a high level of risk tolerance. However, this study argues that the ASO marketers’ decision is based on information, rather than the propensity to take a risk.

Miller’s (1983) paradigm considers only the possible gain from risk-taking and fails to mention the possibility of experiencing losses from an opportunity. Becherer, Haynes and Helm (2008) review studies of entrepreneurial marketing and find that “calculated risk-taking” is a key attribution associated with firm success. Calculated risk-taking is not only the willingness to take a chance on an opportunity. It also includes the ability to properly assess and manage the risk inherent in pursuing opportunities. Calculated risk-taking would require formal risk assessment, which is a top-down procedure planned and implemented by upper management. Many firms hire external market consultants such as accounting firms or law firms to carry out a formal risk assessment. Kallenberg (2009) criticised the limitations of formal risk assessment, arguing that the formalised process of risk quantification has often been inaccessible to entrepreneurs who lack the necessary technical knowledge, experience, money and time necessary to engage external consultants.
3.2.3.3 Learning About the New Market

Levinthal and March (1993) indicate the importance of the concept of learning about the new market as a construct of perceived entrepreneurship of the firm. However, Franco et al. (2009) complains that in spite of its importance, there is a lack of empirical study of the process of learning about the new market from the entrepreneurs’ point of view. Kropp, Lindsay and Shoham (2006) use a multidimensional scale to examine the relationships between international organisational learning about the new market and entrepreneurs’ perceived entrepreneurship of their firms. Deakins and Freel (1998) and Hopp (2012) both argue that the underlying structure and the critical elements of entrepreneurial learning remain largely unclear. They suggest that entrepreneurial learning is an important area of inquiry and call for the development of a useful framework to understand it. The literature review finds that much of the entrepreneurial learning primarily consists of “past experiences in the continuous development of entrepreneurial knowledge” (Politis, 2005), “dynamic decision circles” (Rae & Carswell, 2001) and “personal networks” (Taylor & Thorpe, 2004). The role of experience in entrepreneurial learning has been criticised because it is difficult to establish a direct relationship between the effects of entrepreneurs’ experiences and the success of perceived entrepreneurship of the firm (Politis, 2005).

Study 2 provided quantitative-based evidence to support that entrepreneurs use informal information for learning about the new market. With the advent of artificial intelligence technology, information is often widely accessible and distributed across levels and boundaries. This has made informally learning about the new market possible. Previous studies have supported the link between perceived entrepreneurship of the firm and learning about the new market by examining the influence of knowledge acquisition on behavioural patterns of firms (Markus & Birgit, 2007). Current research emphasises that
entrepreneurs’ subjective experience determines their judgments on business opportunities, but no research has investigated the underlying effects of informal information on learning about the new market.

### 3.2.4 Factors influencing service delivery at international markets

Australian firms are increasingly looking beyond their traditional domestic markets and seeking to enter high growth export markets to enhance their competitiveness. Some have gone as far as saying that export market development is becoming more a matter of survival than a matter of choice for many Australian firms (Cooke, 1991; Julian, 1995). For some time in Australia there has been a concerted effort by many industries and governments to improve the export focus and performance of firms (Cooke, 1991; Department of Foreign Affairs and Trade, 1994; Julian, 1995).

Although the critical role of information in generating organizational advantage has been increasingly recognized in the both entrepreneurship and strategic study, there is little research examining the effect of informal information on its export performance (Voerman & Zwart, 1999). The few studies that did investigate the performance effect of information, reported a significant positive effect of information on export success (Souchon & Diamantopoulos, 1996). In addition, the lack of study of the effect of informal information on export marketing was specified as an important impediment to export development (Voerman & Zwart, 1999).

The service industry, as compared to the manufacturing industry, has not received the reception it deserves in terms of marketing research (Porter, 2008). This implies that the service industry has used normal approaches to appeal to their clients while manufacturing has traditionally implemented either the low cost or product differentiation strategy to appeal to their clients (Marilyn & McCall, 2004). The
domestic service industry has transformed rapidly and with the tough competition in the market, it has adopted strategies to help it cope in international markets. The competition has ensured that firms adopt different strategies in a bid to survive and operate successfully in international markets. For example, competition has forced hotels to adopt product differentiation to ensure that they meet the expectation of customers in different markets (Jönsson el al., 2009). Similarly, certain service firms in the market have used a low cost strategy in order to offer their services in the markets more sensitive to price changes (Guiltinan, 1987.)
3.3 Conceptual Model and Hypothesis Development

There are calls for more empirical studies to test the theory within the entrepreneurship research field (Mitchell et al. 2002, Low and MacMillan 1988). Study 3 therefore represents an attempt to empirically examine the ASO marketers’ use of informal information and tested for its effects on entrepreneurial capabilities in the context of ASOs entering China.

3.3.1 Conceptual Framework and Research Model

Study 3 develops the conceptual framework (Figure 9) to propose the effect of ASO marketers’ use of informal information with their perceived entrepreneurial capabilities of identifying opportunities to enter a new market, assessing the associated risks and learning about the new market. These three entrepreneurial capabilities are validated independent constructs identified by the findings of Study 2 and supported by the entrepreneurship literature. The dependent construct for Study 3 is ASO marketers’ perceived entrepreneurship of the firm in entering a new market.
Figure 9: Conceptual Framework of Study 3
3.3.2 Hypotheses

3.3.2.1 Entrepreneurial Capabilities of Identifying Opportunity and Perceived Entrepreneurship of the Firm

The first hypothesis tests the relationship between ASO marketers’ reported use of informal information and their entrepreneurial capabilities of identifying opportunities. The second hypothesis tests the relationship between ASO marketers’ entrepreneurial capabilities of identifying opportunity and perceived entrepreneurship of the firm (Figure 10). Section 3.4.3.1 discusses items to measure the entrepreneurial capability of identifying opportunity in detail.

Figure 10: Entrepreneurial Capabilities of Identifying Opportunity and Perceived Entrepreneurship of the Firm
Hypothesis 1a: Australian service organisation marketers’ use of informal information has a positive effect on their capability of identifying opportunities in China.

Hypothesis 1b: Australian Service Organisation marketers’ capability of identifying opportunities in China is positively associated with their perceived entrepreneurship of the firm in entering the new Chinese market.

3.3.2.2 Entrepreneurial Capabilities of Risk Assessment and Perceived Entrepreneurship of the Firm

Hypothesis 2a tests the relationship between ASO marketers’ use of informal information and their perceptive entrepreneurial capability of assessing risk. Hypothesis 2b tests ASO marketers’ entrepreneurial capability of assessing risks as an influencing factor in perceived entrepreneurship of the firm (Figure 11). Section 3.4.3.2 discusses the items to measure the entrepreneurial capability of assessing risk in detail.
Hypothesis 2a: Australian service organisation marketers’ use of informal information has a positive effect on their capability of risk assessment.

Hypothesis 2b: Australian service organisation marketers’ capability of risk assessment is positively associated with their perceived entrepreneurship of the firm in entering the new Chinese market.

3.3.2.3 Entrepreneurial Capabilities of Learning about the New Market and Perceived Entrepreneurship of the Firm

Hypothesis 3a tests the relationship between ASO marketers’ use of informal information and their entrepreneurial capability of learning about the new market.

Hypothesis 3b tests ASO marketers’ entrepreneurial capabilities of learning about the new market as an influencing factor in perceived entrepreneurship of the firm (Figure 12). Section 3.4.3.3 discusses the items to measure the entrepreneurial capability of learning about the new market in detail.
Hypothesis 3a: Australian service organisation marketers’ use of informal information has a positive effect on their capability of learning about the new market.

Hypothesis 3b: Australian service organisation marketers’ capability of learning about the new market is positively associated with their perceived entrepreneurship of the firm in entering the new Chinese market.
3.4 Research Method

The literature review addressed the constructs of entrepreneurial marketing, specifically opportunity, risk assessment and learning about the new market as determinants of such constructs. Based on the conceptualisation of entrepreneurial marketing, a number of hypotheses are proposed for testing. The research methodology for testing these hypotheses is presented in this section.

3.4.1 Justification of the Research Methodology

Study 3 uses a survey of a sample of respondents to empirically test the model of informal information. The survey is based on the literature, feedback from the Study 1 sample and the finding of the qualitative case of Study 2. A combination of qualitative and quantitative research is generally recommended (Creswell & Miller, 2000). The qualitative case in Study 2 provided insights to the conceptual development of entrepreneurial marketing. In Study 3, quantitative research was conducted to test the connection between the observations in Study 2 and the hypothesised quantitative relationships proposed in Study 3.

3.4.2 Sample

The population of this study includes Australian service organisation (ASO) marketers who have a business operation in China. According the Australian and New Zealand Standard Classification of Occupations (2012), the ASO marketers in this sample include individuals who directly develop their firms’ business operations in China. Both formal and informal lists of ASOs were included as the sampling frame. Because of the complexity and variety in the Chinese business environment, ASOs have different modes of market entry. For example, some ASOs only have the informal operations in
China. They have opened an office and appointed local business representatives, but they have low or no capital investment in the form of a permanent venture. There is no requirement in China to register informal operations. Therefore, both ASOs’ formal and informal business operations set up in China represent a vital component of the economy.

Comprehensiveness and accuracy are the two important goals of a good sampling frame. This study follows Huber and Power’s (1985) guidelines for improving the accuracy of retrospective reports to cover the target population accurately. This study used multiple databases and business directories to identify a pool of potential ASOs, including the China-Australia Chamber of Commerce (CACC) Directory, the Australian Suppliers Directory (ASD) and the China Telecom Group Company Database (CTGCD). The CTGCD was chosen because it is believed to be the most comprehensive list of Australian companies in China (Sharon & Jie 2007). In order to capture the ASOs who are actively doing business in China but have not registered their contact details on the CTGCD, the sampling framework also included the ASD, which was established by Austrade to promote Australian goods and services to overseas buyers. Hutchings and Murray (2002) used the CACC Directory to recruit Australian expatriates in China for their study on information gathering due to its accurate and up-to-date contact information. This is because companies must pay an annual fee to become a member for their contact details to be included in the directory.

All three databases provide company names, addresses and contact persons’ information, such as email, fax and telephone number. Details of the ASOs’ key respondents were
cross-examined to prevent the same companies from being listed in more than one database. An ASO contact list with 600 companies was derived from the three databases.

3.4.2.1 Data Collection

Following the data collection for Study 1, Huaxia Education and Research Company (HXER) was selected to complete the data collection for Study 3 in China. The same procedure of data collection was followed as in Study 1. HXER sent an information package to the key respondents in the sample contact database. The information package included a questionnaire with a cover letter explaining the objectives of the study. Each respondent had one week to independently complete the questionnaire and return it to HXER. If respondents were not able to return the completed questionnaire or data were missing in the completion of the questionnaire, a follow-up phone call was made to target the key respondents to be able to complete and return the questionnaire. This approach was conducted to minimise the chances of a low response rate or missing data.

3.4.2.2 Profile of Respondents

Over 600 key respondents in ASOs were identified and approached in China, and 122 usable questionnaires were received from the targeted key respondents who agreed to participate in this research project. This is a response rate of 20%. It took five weeks to complete the process of the data collection. A frequency analysis was conducted to show the demographic background of the respondents.
Most of the ASOs in this study employ less than 100 employees; 51.6% had between 21 and 100 employees, and 18.9% had less than 20. This finding is similar to the data profile in Patterson’s (2004) study, which found that 45% of service firms in Australia have fewer than 100 employees. This finding reflects that the majority of firms are small-to-medium-sized ASOs actively involved in offshore market operations. This finding contradicts some of the literature that reports that international expansion is predominately conducted by large professional services firms (Laird et al., 2003; Scheuer 2003). A majority (69.7%) of respondents are marketing managers, while 28.7% believe they are undertaking the roles of both marketing manager and owner. Almost 70% of the ASOs in this sample have been operating in China for more than five years.

Table 11: Background Information

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 20</td>
<td>18.9</td>
</tr>
<tr>
<td>21-100</td>
<td>51.6</td>
</tr>
<tr>
<td>101-200</td>
<td>29</td>
</tr>
<tr>
<td>200+</td>
<td>0.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Informant’s Position</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>1.6</td>
</tr>
<tr>
<td>Marketing manager</td>
<td>69.7</td>
</tr>
<tr>
<td>Both</td>
<td>28.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years of operation in China</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 years</td>
<td>31.1</td>
</tr>
<tr>
<td>5-10 years</td>
<td>68.9</td>
</tr>
</tbody>
</table>
3.4.3 Measurements
Construct measurement is a key consideration for Study 3 to provide good internal validity of the nature of the sampling measures. The validity involves generalizing from this study context to the ASO population. The study follows the recommendation of Crook, Shook, Madden and Morris (2010) that proper construct measurement involves the identification and use of valid measures derived from the phenomena under investigation.

3.4.3.1 Items to Measure the Construct of Opportunity
The measurement of the construct of opportunity includes nine items. These items consist of two new items developed for informal information (informal discussions and a diversity of information) and a further seven items modified from Hansen et al.’s (2011) multidimensional scale to measure opportunity.

Hansen et al. (2011) defines “intuitive judgment” as preconscious recognition of opportunities that occurs exclusively at the individual level. “Taking action” is the explanation of an idea through an interactive conversation and/or actions. “New market orientation” is regarding business culture and incentives to focus on new markets. “New clients” regard a business culture and incentives to focus on the needs of new markets. “Second view for feasibility” is an entrepreneurial marketer’s perception of the probability of obtaining benefits. “Timing” refers to “speed-to-market” and can also mean maturation or time required to allow market-relevant information to lead to entering new markets. “Daily operational activity” refers to an entrepreneurial marketer’s ability to identify opportunities through day-to-day operational activities. Based on the findings of Study 2, “informal discussion” refers to unofficial, unscheduled, impromptu discussions of opportunities with others. “Diversity of
“information sources” refers to useful marketing information among the large amount of public access information, such as local news sources, weblogs and government publications.

3.4.3.2 Items to Measure the Construct of Risk Assessment

The measurement of the construct of risk assessment includes eight items. These items consist of six items based on the findings of Study 2 for informal information, and two items are taken from Morris et al.’s (2002) scale to measure the construct of risk assessment.

Morris et al. (2002) define “formal risk management” as entrepreneurial marketers’ perception of risk and declared intention for action. “Daily control” is defined as an entrepreneurial marketer’s ability to control risk through day-to-day operational activities. Study 2 defines “informal information for risk assessment” as the ASO marketer’s use of informal information to guide informal or intuitive actions that are taken to mitigate risks. “Nonprofessional information for risk management” refers to useful information provided by non-professional individuals for assessing risk in the Chinese market. “Personal information” refers to useful information provided to ASO marketers by personal contacts. “Trusted sources of information” refers to people with good personal reputations who are doing business in China. “Calculated risk-taking” refers to a quick response to environmental changes made outside the formal risk management process. “Informal decision-making” refers to informal actions in areas where the traditional corporate decision-making process lacks flexibility.
3.4.3.3 Items to Measure the Construct of Learning About the New Market

The measurement of entrepreneurial capability of learning about the new market includes seven items. These items consist of four items based on the findings of Study 2 for informal information, and three items are adapted from Kropp et al.’s (2006) multidimensional scale that examined international organisational learning through marketers’ experience.

Kropp et al. (2006) define “learning from errors” as an emergent, sense-making process in which people develop the ability to understand an environment through personal direct experience. “New business form” refers to a capability of creating, acquiring and transferring knowledge to understand the needs of new customers when entering a new market. “Formal training” is defined as individual learning that is facilitated and encouraged with an added emphasis on sharing such learning across different organisational units. Study 2 defines “informal information for learning about the new market” as ASO marketers’ use of informal information to obtain knowledge about the new market. “Social interactions” refers to an informal learning process based on face-to-face interactions in an informal environment. “No direct business interest” refers to learning about the new market from someone who does not have direct business interest in one’s firm. “Storytelling” refers to a process of learning by observing and listening to other people’s stories in an impromptu manner.
3.4.3.4 Items to Measure the Dependent Construct of Perceived Entrepreneurship of the Firm

Three items used to measure perceived entrepreneurship of the firm. “Entrepreneurial actions” refers to an individual’s mental process through which he or she acquires and analyses information to influence entrepreneurial activity (Ko, 2012). “New entry” is defined as marketers’ perceived firm culture and aspiration to enter into new markets (Mitchell et al., 2002.) “Senior manager/owner characteristics” refers to the entrepreneur’s distinct personal qualities in relation to the perceived entrepreneurship of the firm (Busenitz, 1996).

3.4.4 Questionnaire Development

The hypotheses listed in Section 3.3.2 will be tested using data from a survey. The structured questionnaire is used widely in marketing research. Appropriate questionnaire design is essential to ensure that respondents can provide accurate responses. Slavec and Drnovsek (2006) reviewed the types of measures used and the scale development procedures of the measures reported in top-tier entrepreneurship journals in 2009 and 2010. This study follows the steps suggested by Slavec and Drnovsek (2006) of outlining the domain of the construct and verifying what is to be measured, assessing the adequacy of the proposed items and preparing a draft of the questionnaire, conducting a pre-test and review of the questionnaire and finalising the questionnaire based on feedback and comments of pre-test respondents.

3.4.4.1 Questionnaire Design

A questionnaire comprising 35 questions was developed based on the conceptual framework and literature review (see Appendix 4). The format of the questionnaire follows the guidelines suggested by Slavec and Drnovsek (2006). At the beginning of 84
the questionnaire instructions are provided with an example to explain what should be answered and how to correctly answer the questionnaire. There are three sections for the informant to read and answer. The first section concerns the respondent’s background.

### 3.4.4.2 Pre-test and Critical Review of Questionnaire

Before the commencement of the pre-test, a preliminary evaluation of the proposed questionnaire was conducted by three academic researchers in the entrepreneurship field. The purpose of the preliminary evaluation was to obtain expert judges of questionnaire validity, as well as to ensure that the format and appearance would not appear difficult or lengthy. Ten industrial marketing experts (marketing managers or company directors responsible for marketing) from Australian service firms were recruited to participate in the questionnaire pre-test. Industry experts conducted a critical review of the questionnaire, then provided feedback on the questionnaire as well as the measurement of constructs. Based on the feedback from academic researchers and industry experts, the questionnaire was then further refined before being sent to the respondents.