Influence of Entry Modes and Relationship Modes on Business Services Internationalisation

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This paper focus on service firms trying to develop markets at international level. Such strategies are more and more often adopted, even by small sized firms in b-to-b activities. Entry modes on foreign markets are of paramount importance as they also define the modes of relationship established with foreign clients. The recent development of information and communication technologies has also an impact on growth opportunities in foreign markets. These technologies allow clients to be serviced without any local outlet. But they also play a role for firms which have developed an international network, ensuring swifter communications and better quality control operations.

Cette communication s'intéresse aux firmes de service qui tentent de développer leurs marchés à l'international. Ce type de stratégie est de plus en plus fréquent même s'agissant de petites firmes du secteur des services aux entreprises. Le mode d'entrée sur les marchés étrangers est extrêmement important dans la mesure où il définit également le mode de relation qui sera établi avec les clients étrangers. Le développement récent des technologies de l'information et de la communication a des conséquences directes sur les possibilités de croissance sur les marchés étrangers. Ces technologies permettent d'assurer des prestations en se passant d'une antenne locale mais elles jouent aussi un rôle pour les firmes disposant d'un réseau international car elles permettent de mieux communiquer avec son réseau et un meilleur contrôle à distance de la qualité des prestations.

1. Introduction

One of the main acquisitions of the last decade of the twentieth century will have been the acknowledgement of the importance of service activities in international trade. The General Agreement on Trade and Services (GATS), the North American Free Trade Agreement (NAFTA), the constitution, in Europe, of a wide united market and the deregulation of public and private services have brought to light the existence of an international trade in services and set up rules for this trade.

Indeed, foreign markets are often preferred by service firms as they can offer better growth perspectives than domestic markets where new market shares are increasingly difficult to conquer: firms willing to expand and develop are actually compelled to diversify if they stay in their home country. They can maintain the specialisation which makes their strength by spreading their development onto foreign markets, selling the same service abroad.

On international markets, service firms have *a priori* the choice between two main alternatives: they can either adapt their service or standardise it. Adapting a service is a natural way to cope with the differences between a local context and the domestic market; a correctly adapted service will be more easily assimilated and accepted by foreign clients. On the opposite, standardisation often compels the firm to redefine its core service concept even on its home market; but a standardised service will significantly facilitate further international development with a better remote control of the homogeneity and quality of the services delivered. Consequently, internationalisation makes firms come to terms with options, which are obviously strategic as they directly affect the firm's offer. Of course, these options may also depend on the type of service activity and on other strategic variables such as the type of organisation chosen to develop abroad or the experience acquired on foreign markets.

Modes of entry have been identified as a critical determinant of international expansion. This topic has received less attention in the service than in the manufacturing sector, but Aileen Kennedy (2005) has sorted out the strategic issues of entry mode: range of choices, service firm characteristics, firm characteristics, market characteristics. Kennedy analyses also the theoretical frameworks and their implications for entry modes studies: transaction cost analysis, resource based theory and Dunning's eclectic framework (1992) based on ownership, Iocation and internalisation. Kennedy concludes that these theories are "specifically applicable to multinational corporations involved in direct investment and thus appear to have limited relevance to firms involved in the various kinds of cooperatives agreements that have evolved in the new e-business and network economy".

Our objectives in this research are to get some information and a better understanding of the internationalisation strategies of business service firms, networking practices, entry modes and use of information and communication technologies (ICT). The wide interest which does exist in the internationalisation of services is nowadays amplified by the new deal created by the development of these ICT. These recent technologies greatly increase the potential of trade for service firms. Thanks to them, in some domains even the very smallest service firm can reach far-distant markets, virtually prospect them and deliver services with low investments and no travelling costs. These technologies also enable easier control procedures with far established partners and swifter exchanges of information which are necessary to implement such strategies.

We propose to investigate first what conceptual framework can be used to deal with the specific problems arising from internationalisation strategies for service firms. After, we will present the question of entry modes and relationship modes in international service markets, then our own framework of analysis of business service internationalisation and our method of investigation. Our approach is exploratory and we will give our first results concerning the influence of entry modes and relationship modes on business services international development.

2. International strategies and services

When a firm develops at international level, several strategies are open to it, according to its objectives, but also according to the particularities of its offer. Bartlett and Ghoshal's (2002) strategic matrix provides a fundamental analytical framework, synthesising two forces which all multinational firms must take into account to define their strategy: global integration and local adaptation. The positioning in this matrix can be seen as the result of a sequential development process, schematised by Doz, Santos and Williamson (2001) by which the firm reaches the multinational stage (3rd level) once its competitive advantage has been secured at home (1st level) and it has then developed internationally according to the product life cycle (2nd level). This model was formulated from the analysis of large manufacturing firms and it can be generalised to very large service firms; nevertheless it does not fit the possibilities available to most service firms, whether it be because of their size, or because of the specificity of the service delivery.

The forces which push toward global integration depend on such factors as scale economies and the capacity to profit from global competitive advantage. In this perspective, the world is seen as one single, unique market, approached in a homogeneous way; for services, it means that the offer must be standardised. On the opposite, the tendency to adapt the service offer to different local markets can be explained by cultural factors, but also by the impact of the regulations in the foreign country in question; both factors are often crucial to service activities. These two tendencies combine into four types of strategies within which a certain number of large companies can be situated: global, trans-national, multi-domestic and international.

Arguments in favour of the global integration tendency are founded by the existence of scale economies resulting from a certain homogenisation of client requirements, management of logistics and computer services. This tendency depends on the existence of a more or less latent universal demand and on the specific markets made up of mobile international consumers.

The tendency to adapt locally is often brought about by the existence of specific regulations and norms for the proposed service in the targeted countries. The labour rules, just as much as different cultural interpretations, sometimes dictate specific modes of delivery and more or less extensive adaptations of the initial service concept. The original service offer can thereby become restraint and be reshaped in order to enable it to cross borders easier. However, it seems difficult to maintain this tendency for a long period without considering lowering costs.

Lovelock and Yip (1996) consider that the global strategy represents "the development horizon for international service firms". The elements of the service offering must be appraised according to their impact on the firm's globalisation. But it must be noted that this global strategy merely concerns some ten or so very large firms. Most international firms adopt other strategies, in particular the international strategy, which, although it appears to be the least comprehensive, however rallies the largest number.

Other strategic analyses can apply to services in the international context. According to a tradition which is well anchored from the very beginnings of research work on service management (Shostack, 1987), strategies in service activities are often based on the service concept itself. Välinkangas and Lethinen (1994) identified three main strategic axes: standardisation, specialisation and customisation. Standardisation can be considered as similar to the global strategy: it resides in the quest for scale economies, aiming the service at the widest ranging market possible, if needs be, via the use of franchise agreements if the rate of development of the network is improved thereby. Specialisation differs from the previous strategy, because it doesn't propose the search for scale economies as a priority concern: the firm seeks to take advantage of one single and unique service, totally differentiated from those of competitors. Therefore, the costs preoccupations rank behind the quest for high quality. The last strategy is akin to adaptation. The service is customised to fit closely the consumer's needs.

3. Entry modes and relationship modes

Other limits in the application of the globalisation model reside in the way most services develop internationally. The original international objectives are not without influence on the way the firm is organised in order to service its foreign clients. The need for contact with the client does not create the same constraints in every service activities (Erramilli; Rao, 1990). "Business" service providers in particular often "move" to meet their clients, whereas for "personal" services it is essentially the client who "moves". The impact of information technologies will also vary depending on the type of services, since the possibilities of alternatives to movement (of either staff or clients) will not have the same importance. Lastly the forms of businesses abroad are more flexible, for many business services do not require heavy structures.

Entry modes research has put forward the question of control a firm can exercise over its international businesses, the degree of vertical integration of its transactions: integration meaning ownership of international subsidiaries (Buckley; Casson, 1998) or direct sales through customer export channels. Non-integrated modes are represented by exporting through intermediaries, contractual licensee or franchisee, or partner in joint venture. Some researchers have also tried to find a hierarchy between entry modes, distinguishing equity based modes (joint venture and subsidiary) and non-equity based modes (export and contractual agreements (Pan; Tse, 2000). Technology has a deep impact on entry mode choice and level of integration. Technology intensive firms which may separate back office operations and delivery have a very different location profile than labour intensive firms which cannot and are therefore location bound (Erramilli; Rao, 1993; Erramilli, 1991). Order of entry and mode of entry affect also international performance: early entrants having higher market share and profitability (Pan; Li; Tse, 1999).

These characteristics were retained by the protagonists when negotiating the GATS and later by the World Trade Organisation. Four types of international service exchanges or internationalisation were identified:

1. "Pure" cross-border transactions (called mode 1) with no move on behalf of either the provider or the client. This first type of transaction is mainly carried out by distance computer or "on-line" services which are delivered via telecommunications. Information and data bank consulting belong to this

category, but also computer software, insurance (sold by vending machines in airports or by phone from country to country), banks (direct banking for private users and inter-bank transactions for firms), maintenance (for computers software, or equipment aboard ships or planes). Erramilli (1990) called these activities hard services.

2. International transactions with movement of the client to the location of the provider in order to receive the service (called mode 2). Three services are particularly concerned by this aspect: tourism, health care and training, where clients have to come to consume the service in the country where it is provided.

3. Internationalisation by establishing in the clients' country (called mode 3). All kind of services are, *a priori*, concerned by this sort of international development (which can range from full subsidiaries to joint ventures, agencies, or simple partnership agreements), because setting up businesses in the market-country soon becomes necessary for very internationally oriented firms. In this category we find services to consumers (fast-food, hair-dressing, beauty parlours), mixed services (hotels, car and machinery rentals), and business services (consulting, legal aid, audits, advertising, engineering).

4. International transactions with movement of the service provider to the client's country to deliver the service (called mode 4). In this case, the service provider travels to the country where the client is located in order to carry out his service. Consulting services, legal advice and engineering are the most concerned but we also come across training services carried out abroad. Transportation may also belong to this group.

The WTO framework is larger than the entry mode analysis which deals only with mode 1 (direct export) and mode 3 (outlet establishment). A second element of complexity comes from the use of information and communication technology. This technology has introduced unprecedented organisational possibilities by enabling the uncoupling of different stages in the service delivery process and the spatial dissociation of back and front offices. These technical developments transform the problem of the international development of services. Up to now research work has mainly revolved around the development of networks abroad and on the means to be implemented to enable a service delivery organisation to perform in different environments. Presence on the foreign market assembles a whole assortment of practices situated half-way between "pure" export and local implantation and which do not all undergo the same degree of financial implication. This financial aspect in fact covers an essential difficulty in services: the reproducibility at a constant level of quality of a service in an establishment other than the company's headquarters. This difficulty already exists on a national level but is amplified on the international scene because of differences in culture and difficulties in communication. To explain the aptitude to internationalise, Mayère (1990) advances the "nature" of services from the point of view of the functions they carry out for their clients and the conditions of their delivery.

Vandermerwe and Chadwick (1989) establish an explicit relationship between internationalisation modes and ICT, by proposing a classification of the modes and the internationalisation strategies originated from two criteria: the degree of interaction between the producer and the service consumer, on the one hand, and, on the other hand, the degree of tangibility of services which opposes "pure" services (with low tangibility) and services associated to a product or delivered through a product and lastly to services fully incorporated in a product.

The contemporary development of the telecommunication technology modifies this panorama by enabling new organisational models (off-shore back-office, better control and tracking of distant front-offices operations) and/or creating a new mode of internationalisation for certain services which can now be exported without any kind of temporal or permanent presence in the foreign country.

4. Our framework

Our analysis starts from the observation that the analyses proposed up to now essentially give the limelight to large, not to say <u>very</u> large firms. Our surveys have shown that internationalisation strategies are omnipresent when smaller firms are considered; it is not surprising as the three other strategies (global, trans-national and even multi-domestic) are very demanding in terms of financial and organisational means. Our intention is, therefore, to concentrate on international strategies since they concern the greatest number of firms and because this context has barely been researched.

It would also appear that internationalisation strategies for business services are far from homogeneous and that they present a multiple and varied panorama for analysis. The major strategic parameters (objectives pursued, definition of the service, standard or adapted, international involvement level and network set up) vary deeply from one firm to another. What’s more, within one same entity we can observe what can be considered to be contradictory factors working simultaneously. It appears to us that two principal axes stand out as needing clarification in this domain: the level of international involvement and the degree of structuring of the international network.

Firms with low international involvement, either because they are start-ups in the field, or because they have not wanted, or not managed, to bestow more importance to it, are in a completely different context to those which are highly involved, in particular concerning the pressure accumulated by the costs brought about by international development.

One indication of the degree of international involvement can be found in the proportion of turnover obtained abroad. The exports share provides a first assessment but ideally, it would be better to add the turnover achieved within each of the different subsidiaries or joint-ventures making up the international delivery network. The second criterion is also very determinative: the setting up of an international network is, with no doubt, the major difficulty encountered by firms in their international development. In services however, this is an essential aspect, because it is difficult to consider long-term development without any network on the different markets where the service is provided.

It is clear that the different types of outlets available to firms to materialise their network are not all accessible in the same manner. A hierarchy exists among the various modes of entry (Pan; Tse, 2000) between equity-based modes (subsidiary or joint venture) and non equity-based modes (contractual agreements or direct export).

Subsidiaries or joint ventures call for financial investments; the setting up of a system of franchisees or licensees implies upstream understanding of the concept design and mastering of distance quality monitoring. A network composed of agents is easier to develop, but often this sort of network is confined to the role of prospecting and sales representation, the actual execution remaining in the hands of the mother company. If the agent is to carry out the service delivery, the problem of his training and his supervision arises once again. Lastly, all sorts of more or less formal agreements and partnerships exist, offering the possibility of support in foreign countries without going to great expenditure in investments. These “flexible” formulae present the advantages and the disadvantages of their – more often than not – informal character. Services are different on this point from manufacturing where the distinction between production and distribution networks is clear.

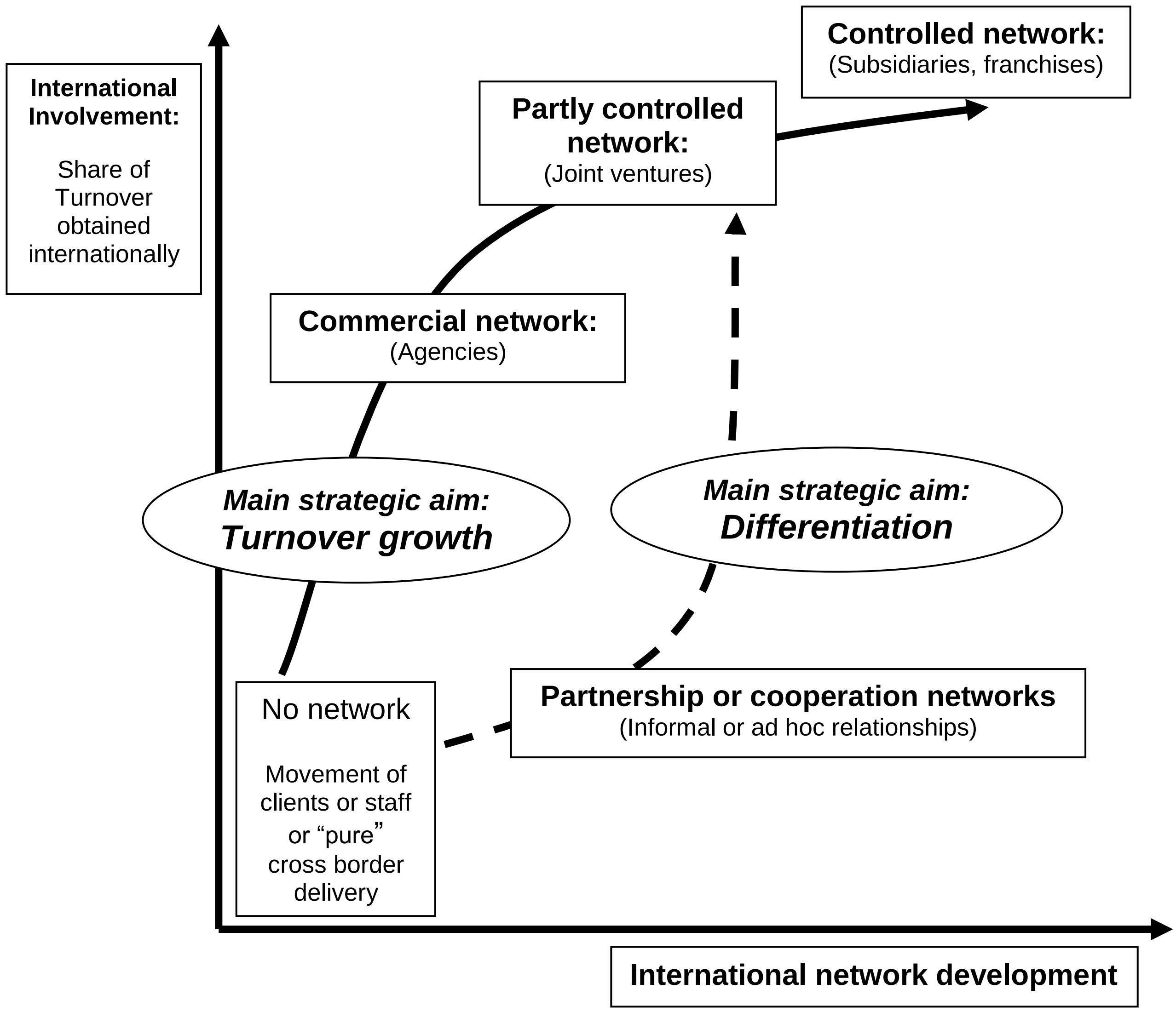

Fig. 1: Networks and international development strategies of business service firms

Figure 1 suggests that to start off with, two main strategic axes are possible on the way to the international development of business-services. These two axes should rapidly converge: the further the firm advances in international development, the less straightforward it becomes to separate the objectives of the firm’s reputation and the firm’s turnover. Starting out with a minimal organisation (no network, either through "pure" cross-border transactions, or through the movement of the service provider or clients), more or less related to a simple exportation of goods, sooner or later firms have to choose between a line of conduct organised around turnover growth and another aiming at differentiation. At first, the consequences in terms of the structuring of the service offering and the network set up will differ.

The quest for turnover drives firms to set up purely commercial networks at first, the service always being delivered by the movement of either staff or clients; then, with the development of their international involvement, firms become more aware of the delivery costs engendered by this sort of set up and steadily implements more economical solutions on their most important markets. This strategy thereby leads to the setting up of service delivery by local agents, by joint ventures, subsidiaries or franchise companies on certain markets. The attempt to increase turn over may be coupled to a certain degree of diversification of the offer and relative flexibility in the network management.

In the second approach, internationalisation is primarily a search for reputation and acknowledgement; it may depend over a considerable period upon a less institutionalised network and a more adaptive offer. Fundamentally, however, we are considering a differentiation strategy, which as such, must also be founded on highly developed specialisation and comparatively strict control of the service delivered by the network. If this differentiation objective dominates, these informal networks will have to give way to far more structured and controlled organisations.

Firms change from their initial mode of entry in reaction to market, competitor and their own organisation (Pedersen; Welch, 2002). Information and communication technology has also give way to hybrid modes of entry and relationship. Our analysis clearly hypothesizes that the most elaborate types of networks (subsidiaries) form the logical finality of the phase of internationalisation, whatever the starting point and the approach chosen.

5. Method

Our information comes from 3 surveys conducted with the partnership of the Chamber of Commerce of Lyon, Marseilles and Toulouse. Our investigations have enabled us to draw up a data base of 274 business-to-business service firms involved in international activities[i]. A rapid overview of the characteristics of this sample shows that the answers mostly come (84 percent) from French regional firms having their headquarters located inside the investigated region, 82 percent of these being compact firms (with only one establishment in France). 74 percent of the sample are independent firms, in a great majority small, or very small companies (57 percent count less than 10 employees). Seven large firms (with over 500 employees) have also answered our questionnaire. Answering firms belong mainly to four sectors. Technical consulting and computer services provide 41 percent of the responses, logistics and transportation services come next (26 percent), followed by management consulting (21 percent). Lastly a certain number (12 percent) of operational services (cleaning, janitorial, translation, secretarial services, opinion polls, factoring …) are also to be found.

To carry a measure of entry mode influence on performance, we have to build an indicator of international dynamism and explain it as a dependent variable. The indicator of dynamism which is used here proposes an exploratory means of approach to the evolution of the firm's international involvement. The evolution of exportations can be accepted as a measure of international vitality only when the company has no network aboard. As soon as a network is in place and delivers services to clients, the measure of international involvement, and consequently of its dynamic performance, becomes practically impossible: beyond the actual export turnover, sales made by the subsidiaries, but also the sales made by partners (joint-ventures, agents, franchises and other) should also be taken into account, but probably not completely, since these partner firms may already have an activity in their country, independent of the activity which could be credited to the network. Each firm sets up its own assessment and control policies and no figures can be systematically requested from these nebulous organisations. On the other hand, it is possible to ask the manager how he assesses the development of this global figure. This is what we have done. Answers were quoted on a 7 points scale ranging from 1 (severe decrease) to 7 (very rapid growth). The quality of the responses is improved, without a doubt, if we associate this question to other questions pertaining to sales turnover and grasped far easier by the manager. We must make a remark here: this indicator presents no significant difference according to the four sectors covered by this research (logistics, engineering, management consulting and operational services). Now, either these four sectors experience parallel development internationally, or, and this seems more probable, the managers have more or less keyed their estimation upon that of their field of activity.

6. International development strategies: networks and/or ICT

The empirical authentication of the development schema proposed in figure 2 comes up against two obstacles: first, the measure of international implication using the rate of exportation remains very unsatisfactory, and secondly the behaviour patterns of firms are extremely profuse and hard to measure.

6.1. International involvement, export share and networks

International involvement should be measured taking into account the figures realised by the local branches when these exist. But this type of accountancy is rendered hazardous due to the diversity of the networks set up internationally. For lack of a better solution, the exports share (in turnover) has been used. Low share of exports associated to subsidiary network can hide a far more important international implication. To tell the truth, the degree of internationalisation of one particular firm compared to another can be very hard to measure as soon as their organisations abroad differ (Huault, 1998). The criterion of the network of firms taken alone does not enable us to estimate the quality of international involvement either.

Table 1 illustrates this difficulty. We can observe that a majority of the firms surveyed are well situated according to the two strategies described, but that a certain number occupy atypical positions such as those who continue to have no network, in spite of a strong export involvement.

The cross-examination of these two criteria does not enable us to isolate clearly differentiated types of companies, apart from the two extremes (strong commitment with delivery via a network of subsidiaries; low commitment with no network). This shows the doubt which reigns in the approaches followed by firms on either one or the other of the axes.

Exports share in turnover	No network	Simple commercial network	Delivery networks: Agencies or other partners	Delivery networks: Subsidiaries, franchises or joint ventures
Over 35%	13 (21.7%)	13 (21.7%)	11 (18.3%)	23 (38.3%)
10 to 35%	21 (34.4%)	16 (26.2%)	10 (16.4%)	14 (30.0%)
Less than 10%	23 (42.6%)	16 (29.6%)	8 (14.8%)	7 (13.0%)

Table 1: Number of firms according to international involvement and type of network
Number of firms (row percentage).
The field covers here only 175 firms, due to numerous (99) missing answers on the export rate.

The exports share nevertheless reveals that a certain kind of logic is probably at work: the most important shares are to bee seen in firms where the average labour productivity is the highest (F=6.70; p>F=0.0016), this may be as a result of scale economies. The rates of growth of exportations are also connected, but less clearly, to the degree of international implication (F=2.61; p>F=0.0768). Globally this confirms that during the internationalisation phase, scale or scope economies appear as and when international involvement grow.

International involvement is not unrelated to the mode of service delivery employed: the presence of a network coincides with the highest rates (39 versus 26 percent, F=8.28; p>F=0.0045), in particular when considering a network of subsidiaries (43 versus 27 percent, F=8.02; p>F=0.0051).

6.2. Networks and relationships with clients

Offering services internationally obliges firms to control distance in order to deliver their services to their clients and to develop or maintain relationships with them. The organisational modes of this client relation are to be found as follows in our sample: 71 percent move their personnel to meet their client, 37 percent depend on foreign clients coming to obtain the service in France, 48 percent have branches abroad which carry out the service delivery and 12 percent carry out “pure” cross-border transactions. The choice of a delivery network, if not obligatory (RESER, 1995), really seems to be an efficient mode once international transactions are established on a long term footing: 60 percent of the most experienced firms (with 10 years or more of practice on international markets) have developed at least one local branch to ensure their service delivery.

Apart from “pure” cross-border transactions, these modes of relationships are not restricted one to another, and two modes (sometimes three) coexist within the one and same firm in 49 percent of the sample. The most often, when one unique mode of relationship is used, it concerns the movement of home based service personnel to foreign clients (55 percent) or the delivery by a local establishment (35 percent). Very few firms (9 cases in our sample) limit their international service delivery to foreign clients which come especially in France to be serviced. Likewise, only 12 firms entrust non-equity foreign partners with the totality of their service deliveries abroad.

These relationship modes are backed-up in 85 percent of the cases by the use of means of communication, whether they are traditional or not. Phone and/or fax are used by 72 percent of the respondents, traditional mail by 57 percent. New means of telecommunications (Internet, EDI and Data Banks) are used by 60 percent of the respondents, which clearly shows the high-speed break through of these technologies and their adaptation to the needs of this type of firm. The weight of new technologies in telecommunications can well be assessed by the high proportions of firms in our sample who have an electronic address (79 percent) or developed their own, personal Internet site (47 percent). The relatively few firms of our sample opting for "pure" cross-border transactions thoroughly use these new relationship modes: 68 percent take advantage of new telecommunication modes, 65 percent use traditional telecommunication systems.

Relationship mode	Technical consulting		Management consulting		Logistics		Operational services	
	number	percent	number	percent	number	percent	number	percent
"Pure" cross border	12	10.7	5	9.1	11	15.9	3	10.3
The staff moves	86	76.8	41	74.5	41	59.4	19	65.5
The client moves	45	40.2	21	38.2	19	27.5	12	41.4
Delivery by local outlet	50	44.6	22	40.0	45	65.2	11	37.9
Together	112	100.0	55	100.0	69	100.0	29	100.0

NB: Due to the possibility of multiple answers, the column totals exceeds 100 %.

Table 2: relationship modes with foreign clients according to service sector
Field of 265 firms (9 missing answers).

From a sector-related point of view, relationships with foreign clients differ from logistical activities to the two consulting sectors and operational services: "pure" cross-border service delivery and services ensured by local branches are more frequent when considering logistical services. On the contrary, the moving of the client is far more atypical in this sector which includes many activities pertaining to the organisation of chains of transportation using IT know-how and a network.

	No network		Purely commercial network		Delivery network		Together	
	number	percent	number	percent	number	percent	number	percent
No network	81	29.6					81	100.0
with a network			65	33.7	128	66.3	193	100.0
Together							274	100.0
Network components:								
Subsidiaries			5	7.7	63	49.2	68	35.2
Joint ventures			11	16.9	17	13.3	28	14.5
Franchises			2	3.1	3	2.3	5	2.6
Agents under contract			22	33.8	51	39.8	73	37.8
Other partners			35	53.8	63	49.2	98	50.8
Together			65	100.0	128	100.0	193	100.0

NB: Due to the possibility of multiple answers, the column totals exceeds 100 %.

Table 3: Networks types and kind of partnership

The most frequently mentioned forms of network are partnership networks (51 percent of the surveyed firms with international network) and networks of commercial agents under contract (38 percent). We also find 35 percent of subsidiaries networks. Networks made up of joint ventures appear to be few and franchise networks even fewer; both types are difficult to implement in the field of business-services. The subsidiary form - the most costly to develop - is more specifically dedicated to the service delivery, when other forms may play simply the role of commercial agencies.

In a general manner, firms do not multiply the types of partners in the networks they develop. Most (63 percent) stick to one sort of outlet, the others run two sorts, rarely three (only 15 cases). This network simplicity is even more apparent if we only take into consideration the purely commercial systems, which do not carry out any service delivery: 85 percent only display outlets of the same type and none of more than two types. Composite service delivery networks almost always associate a relatively flexible form (agent, partner) to a more organised (franchise, subsidiary or joint venture).

Other particularities can be observed according to the type of country within which the services are delivered: Western Europe, a proximity market for French firms, is the least subject to networks settlements, whether it is for delivering the service or not. The other developed countries present a similar profile but a larger number of companies operate on these markets via a service delivery network. Having a network seems to be more necessary in developing countries and the subsidiary form seems to be privileged there more than the joint-venture, which may be harder to control.

Having or not a network and the type of it seem to play a very discriminating role for many variables. As a rule, due to the fact that subsidiary networks remain out of the reach of small or medium sized firms, companies with subsidiary network present a very specific profile. Among the firms with this type of network, we only list 36 percent of small independent firms which represented in our sample 78 percent of the partnership networks, 68 percent of the commercial networks and 86 percent of the internationalisation with no network. Size indicators (manpower, turnover, capital, number of establishments) are all very marked by this characteristic. Analyses seemingly show, nevertheless, a logical path which leads firms from international positioning to the gateway to multi-domestic or global strategies.

A long lasting international experience, like the maturity of the company is significantly related with a service delivery carried out through a subsidiary network. Taking into consideration the diversity of the market countries the network appears to be an efficient solution: firms which have developed a partnership network, and to a greater extent those relying on subsidiaries, are the most present on non-European markets. International dynamism is significantly higher (F=7.30; p>F=0.0001) when a network has been set up, whatever its form and this is worth for exports growth, as well as for the global international turnover growth which includes the turnover of subsidiaries and foreign branches.

6.3. Influence of entry modes on international dynamism

The classification tree presented in figure 2 has been established using the C&RT Method[ii] as it was developed by Breiman & al. (1984). The purpose is to explain the variations of our previously defined dynamism indicator (named “Dyn”) according to the characteristics of the network, the extent of the use of ICT and the type of firm (SMF or not).

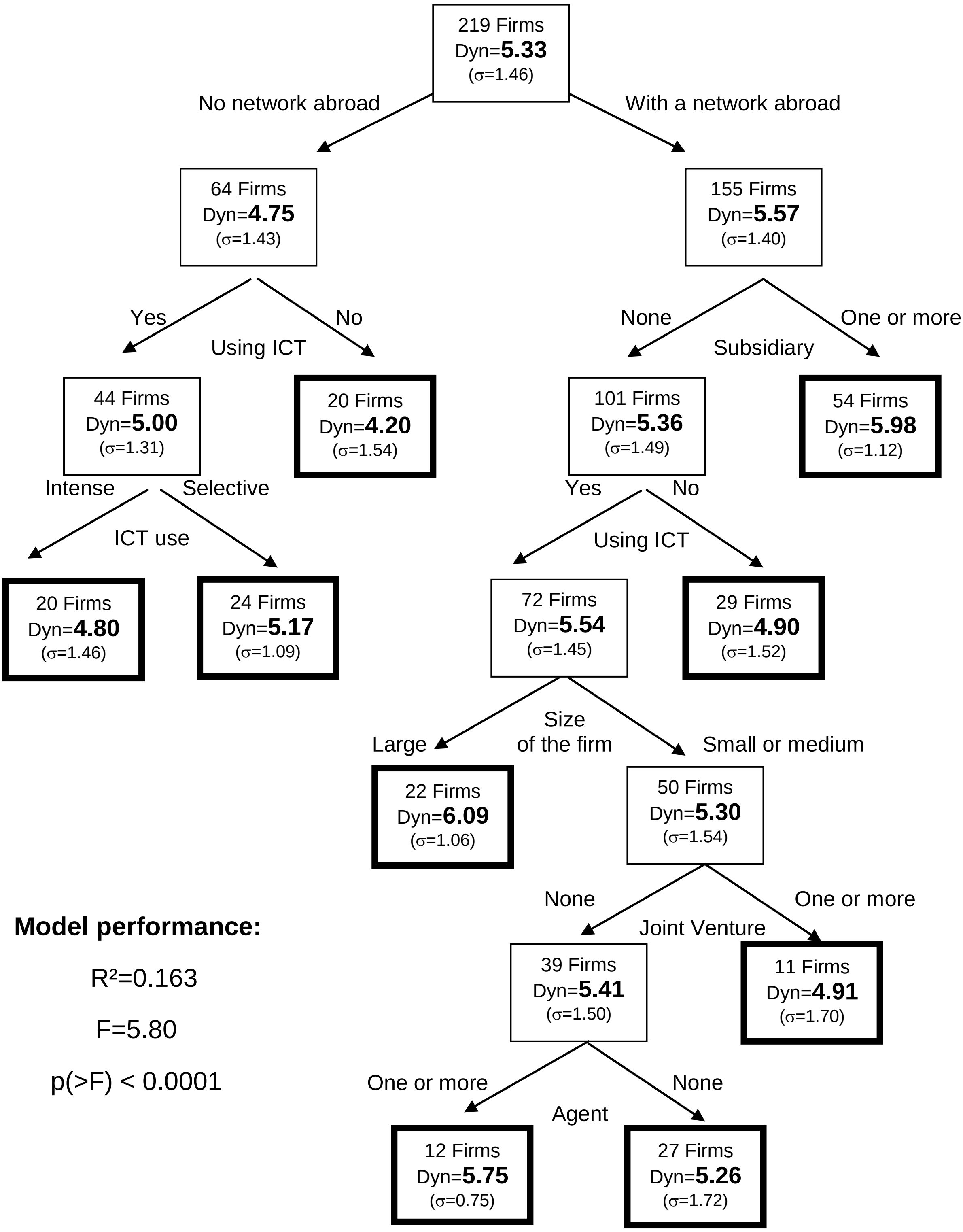

Fig. 2: Global international dynamism according to Network, ITC and firm's size

At each step, the program selects the division of the sample which produces the two most homogeneous sub-samples from the point of view of the variable considered ("Dyn"). The step by step dichotomous analysis enabled us to identify groups of service firms experiencing significantly different international dynamism. The reliability of the “diagnosis” decreases as we move down the classification tree, which, *a priori,* can be more or less developed according to size range of the selected groups. Taking the size of our sample into account we programmed our software not to divide groups of less than 30 firms and not to keep groups of less than 10.

The explicative variables entered into the program were: the fact that the unit was, or was not, a small or medium sized independent firm; that it had at least one agency (of any kind) on hand abroad; the structure of the network (subsidiaries, agents or other partnerships) and lastly an indicator of the use of ICT by the firm: none, just a simple Internet site, selective use (limited to prospecting or to service delivery), extensive use (associating prospecting and service delivery). At each stage, the program ran comparisons between the different possible combinations and in the case of the variables presenting more than two modes (ordinal variables are more suitable in this case) retains the most efficient dichotomy.

Many results can be drawn from this analysis. The first step opposes firms with no network of any kind abroad to the others. At this stage, the purpose of the agencies developed abroad (purely commercial or for service delivery) does not seem to significantly influence dynamism. The lack of a network considerably hinders development potential, but it would seem that firms can partially compensate this absence by using ICT: those doing so appear to be less handicapped but do not reach high levels of dynamism. It would also appear that the simple fact of their having developed a personalised Internet site is not really sufficient to make a company stand out from one which does not use ICT at all. Paradoxically, it seems that a selective use of ICT would prove to be more efficient than the systematic use of them. We can legitimately suppose here that ICT are still in a fairly experimental phase and that this will tend to be inverted in the future.

Firms which have invested abroad through subsidiaries are amongst the most dynamic, even when taking into account independent small firms. This well and truly confirms that this sort of network is the most finalised and the most adapted to international service development. The size of firms is certainly also a factor of international dynamism, since the most dynamic category is made up of elements from large groups which do not possess subsidiaries in their own name, but who make liberal use of ICT. On the other end of the scale, two groups show signs of counter-performances which approach them to firms with no branches whatever: that is those absolutely never using ICT (not even a simple Internet site) and small firms which have developed their network using joint ventures. This last result is worth being verified on larger samples, since it merely concerns 11 small firms in our sample, but it would seem to confirm that this mode of partnership, frequently recommended for small businesses because it reduces investment, is inappropriate for service firms, creating more problems than it settles.

For the small firm which cannot envisage the creation of a subsidiary, the door to dynamism is still ajar. The network of agencies is a means of development often appreciated by this sort of firm, including industrial firms, due to its flexibility and low initial cost. It is associated with perceptibly higher dynamism than informal partnerships which constitute its main alternative.

CONCLUSION

The analysis that we have carried out underlines the following findings:

- Export share indicator in business service does not give a clear and general tendency regarding the influence of entry mode.
- Scale economies do exist with the pursuit of international expansion.
- Presence of network, particularly a network of subsidiaries facilitates international involvement.
- Technical and management consulting prefer face to face relationship either through movement of service provider or through local outlet.
- It seems there is a distance effect regarding the type of entry modes: closest countries of Western Europe are the least subject to network settlement; on the contrary, having a network seems to be necessary to reach markets of developing countries outside Europe.
- The analysis of entry mode influence on international dynamism shows that:
    - Whether the network performs commercial or delivery tasks does not seem to exert a significant influence on international dynamism.
    - Firms with subsidiaries are amongst the most dynamic.
    - Firms not using ICT and firms with a joint venture network are the less dynamic.
    - Using ICT may provide some dynamism to firms without any network.
    - Using ICT boosts clearly the dynamism of network backed firms

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[ii] It is available with the Answer Tree software commercialised by SPSS