



Department of Management

**Emerging Market Penetration – the Use of an
Institutional Oriented Network Approach by
Travel Service Firms**

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**A thesis presented in fulfillment of the requirements for the
degree of Doctor of Philosophy**

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Signed:

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ABSTRACT

This study strives to explore the phenomenon of emerging market penetration by travel service firms, and examine how these firms' strategies may vary in different institutional circumstances. Driven by structural and demographic changes in both affluent and new world economic powers, the development of world tourism is expected to continue in the coming decades. In particular, emerging economies have shown a substantial proliferation of tourist-generating ability. On a global scale, it is noticeable that travel service firms have been highly active in exploring markets in emerging economies. The world's fastest developing travel service market, China provides an excellent context to study how firms cope in a rapidly changing institutional environment. The literature review shows that the importance of this subject is not properly justified. Against this background, addressing the emerging market penetration issue for travel service firms is deemed to be theoretically significant and of actual value to businesses. This study is the first to explore the use of social networks as emerging markets penetration strategies by travel service firms. After thoroughly evaluating the prevalence and effectiveness of various international business theories in explaining the use of networks in emerging economies, the synthesis of institutional theory and resource based view was considered to be the sound theoretical choice.

The empirical work is carried out by adopting a theoretical sampling approach, with interview and case study used as the main research methods. This approach is suitable in capturing a holistic picture of the phenomenon, as well as comprehensively illuminating the institutional environment of the target market and the use of social networks as market penetration mechanisms. The author examines the impacts of political, legal, social-cultural as well as industrial institutions on travel service firms'

emerging market strategies, and presents two key findings. First of all, the results of research suggest that social networks, including both business to government (B2G) and business to business (B2B) relationships are (when used as travel service firms' emerging market penetration strategies) strongly institutional oriented. Secondly, it is discovered that the travel service firms attempting to penetrate into emerging economies are of a heterogeneous nature. Therefore, the exploitation of the institutional oriented network approach is not confined to a single form. Cross-sector, large scale tour operators, ethnic SME tour operators and regional tour operators receiving preferential treatment from the Chinese government, each type has its own manifestation of the institutional oriented networks. Based on the key findings, this study introduces a dynamic emerging market penetration framework incorporating the most influential institutional forces. The study fills a gap in the current international tourism research, and enhances understanding towards travel and tourism markets in emerging economies. It is hoped that this study will also serve as a stimulus for further discussion on other emerging tourism markets. The framework developed from this research will provide strategic implications for travel service companies aimed at emerging markets, and be applicable in other service sectors with similar characteristics.

GLOSSARY

ABTA	Association of British Travel Agents
ADS	Approved Destinations Status
B2B	Business-to-Business
B2C	Business-to-Consumer
B2G	Business-to-Government
BBS	Bulletin Board System, a computer system running software that allows users to upload and download software and data, read news and bulletins, as well as exchange messages with other users, either through electronic mail or in public message boards.
BITOA	British In-coming Tour Operators' Association
CEO	Chief Executive Officer
CEPA	Closer Economic Partnership Arrangement, an economic and trade agreement between the Central Government of the People's Republic of China and its Special

Administrative Regions (Hong Kong and Macau)

Chengbao	A form of management contract in China
CITS	China International Travel Service Limited
CITTC	China International Trust and Investment Group
CNDRC	China's National Development and Reform Commission
CNTA	China National Tourism Administration
COO	Chief Operating Officer
CRS	Computerised Reservation Systems
CTS	China Travel Service
CYTS	China Youth Travel Service
DIY	Do It Yourself
EU	European Union
FDI	Foreign Direct Investment

GATT	General Agreement on Tariffs and Trade, replaced by the World Trade Organization in 1995
GDP	Gross Domestic Product
GDS	Global Distribution Systems
Guakao	Being affiliated to an organisation/enterprise with a license to operate, typically found in China's travel service market
ICT	Information and Communication Technologies
JV	Joint Venture
LCC	Low Cost Carriers
LDC	Less Developed Countries
M&A	Mergers and Acquisitions
MICE	Meetings, Incentives, Conventions and Exhibitions
NTO	National Tourism Organisation
OECD	Organisation for Economic Co-operation and

Development

OICQ	Tencent QQ, generally referred as QQ, the most popular free, instant messaging, computer program in Mainland China
PPRD (Pan-PRD)	Pan-Pearl River Delta Regional Cooperation Framework Agreement between nine provinces/regions in the Pearl River Delta in Southern China and the Hong Kong and Macao Special Administrative Region
PRC	The People's Republic of China
RMB	Ren Min Bi, official currency of the People's Republic of China
SAR	Special Administrative Region
SCP paradigm	Structure, Conduct and Performance paradigm
Skype	A software application including features such as video conferencing, instant messaging and file transfer
SME	Small and Medium Enterprises
SOE	State Owned Enterprises

UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNWTO	United Nations World Tourism Organization
VFR	Visiting Family and Friends
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

CHAPTER ONE

INTRODUCTION

Recognising the opportunities for the travel and tourism sector in new economic powers, it is not surprising to find widespread participation in the emerging markets by travel service firms. The purpose of this introductory chapter is to define the scope of the research and set out the scene for the rest of the thesis to follow. It consists of three parts: the context and rationale for the research, the knowledge gap and research focus, as well as the thesis structure and chapter overviews. This research is expected to contribute to the current studies on travel and tourism business' emerging market strategies, which is believed to be theoretically noteworthy and of empirical value to industrial practitioners.

Chapter objectives

- œ Establish the context and importance of the research

- œ Highlight a gap in the field of study, and define the research question and objectives

- œ Provide an outline of the thesis structure and an overview of the contents of each chapter

Background and rationale

As a social activity and an economic sector, the development of tourism is inevitably conditioned by economic, political social and technological changes. It is not news that for years corporations have been rushing to emerging economies, hoping to gain the advantage of moderate labour costs and growing domestic markets. Economic prosperity in some of the biggest emerging economies (i.e. China, India, Brazil, Russia, and some Eastern European countries) has created a large number of international business travellers, and a new wave of increasingly well-off middle class. With thriving demand for business tourism, a population eager to experience overseas holidays, growing disposable income and falling barriers to outbound travel in those countries, the potential of emerging economies has just begun to be realised.

While assuming an increasingly prominent position in the world economy, emerging markets have also shown impact on international tourism flow. Mintel, the global consumer and media market research agency, predicts that the total number of overseas trips taken by tourists from the world's top 15 travelling nations will almost double by 2020 from 433 million to 837 million. The greatest expected growth between 2010 and 2015 is expected to be from China (9.9%) (cited in Henley Centre Headlight Vision and Amadeus, 2007). The common features of these countries include fast growing GDP, a large population base with a rapidly expanding middle class, and high speed growth in outbound traffic. Emerging economies are also big contributors to the growth of global migration.

According to the UN, the proportion of people choosing to leave their country of birth is growing. There are currently more than 180 million international migrants and this is expected to reach 250 million by 2050. Many migrants remain strongly connected to their country of origin with many reasons to travel back and forth

(Henley Centre Headlight Vision and Amadeus, 2007). Migration between countries of origin and countries of residence implies not only growth of the visiting family and friends (VFR) market, but also leisure and business tourism opportunities for both sides.

Intrigued by the perceived abundant business opportunities, travel service providers, especially tour operators with international ambitions, have been keen to tap into emerging market economies. Many tourism scholars predicted that the increasing transparency of information conveyed by the internet would diminish tour operators' traditional risk brokerage function. Their position within the tourism value chain was expected to decline significantly. Yet, at the global scale, it is observed that tour operators have remained influential over international tourism flow and been highly active in the exploration of emerging markets.

Knowledge gap and research focus

Knowledge gap

It is foreseeable that the embedded differences in market conditions in emerging economies will create immense difficulties for foreign firms' market penetration. The emerging markets are a heterogeneous group of economies and societies, each with unique social, political and economic contexts. Considerable variation exists in their progress in economic and institutional development (Akbar and Samii, 2005; Hoskinsson *et al.*, 2000; Wright, *et al.* 2005). The inherent perplexity and dynamism demands a case study approach which is particularly suitable in dealing with such issues (Cho, Kim, and Rhee, 1998; Hoskinsson *et al.*, 2000). While international business studies have seen a definite upsurge of strategy research on emerging economies, academic inquiry on travel and tourism firms' emerging market strategy

seems to be rare or altogether missing. This is certainly in contrast to the mounting interest in emerging economies by the travel and tourism industry, and fails to reflect the important role that the travel and tourism industry plays in the prosperity of emerging economies. Hence, addressing the emerging market penetration issue for travel service firms is deemed to be theoretically significant and bearing real value to businesses.

Research aim and objectives

This research is a timely response to the gap, and is devoted to shedding light on the strategic issues facing travel service firms when expanding their operation into emerging economies. Furthermore, the aim of the thesis is to propose an emerging market penetration framework incorporating institutional development, industry specific factors, and organisational resources. The study has chosen China's emerging travel and tourism market as the research setting. Given the exponential growth of its outbound market, China is evolving as a prominent source market shaping the future of the world's travel and tourism industry.

The World Tourism Organization predicted that China would generate 100 million arrivals worldwide by 2020, making it the fourth largest market in the world (UNWTO, 2008). On top of the attention received by China's outbound market, the country also has a sizable domestic and inbound market, making it more attractive to potential investors (Xu, Zhang and Wu, 2010). In 2020, an estimated 40% of the population in China is expected to become middle class (household income of between US\$18,137 and US\$36,275 per annum) under current economic growth conditions (Keynote Report, 2006; Future Foundation, 2006; Henley Centre Headlight Vision and Amadeus, 2007; World Travel and Tourism Council, 2006). It should be also noted that the package tour is still the most preferred travel pattern,

particularly for those who travel internationally, both to and from China, if less so for domestic tourism (Sequí-Llinás and Capellà-gervera, 2006).

It is believed that the participation of international operators in China's travel and tourism service market will have a positive effect for the various parties involved. China's national tourism organisation (NTO) - China National Tourism Administration (CNTA), admit that competition from outside the country is likely to encourage healthy competition and lead to Chinese operators integrating with the international travel and tourism market, as well as accelerate the process of China's opening up. The involvement of international travel service firms will help to improve service standards, benefit consumers and eventually enhance the overall quality of the industry (Zhang, 2007). Travel industry practitioners also express positive remarks on international travel service firms' involvement in China's travel and tourism market, arguing they are providing Chinese consumers with more choice, more information and pressure to provide better standards of service (ChinaContact, 2006).

Beyond the market potential and perceived benefits, "China is also unusual because its transition continues to be planned by the state and preserves an active involvement of governmental institutions in business affairs" (Child and Tse, 2001:5). Such a complicated scenario certainly challenges present international business theories' capability in handling emerging economies. Thus, China appears to be a natural choice for the research setting and shall act as a reasonable start for subsequent studies on other emerging economies. The research aim and respective research objectives are identified as follows:

Research aim

To investigate the impacts of political, legal, social-cultural and industrial institutions on travel service firms' emerging market penetration strategies.

Research objectives

1. To explore China's macro institutional environment, and discuss how formal and informal institutional forces facilitate or impede tourism growth
2. To explain the relationship between the influential institutional forces and the economic organisation of the current travel service market
3. To identify and illustrate the representative market penetration approaches adopted by foreign travel service firms, and the conditions under which those approaches are adopted
4. To propose a dynamic market penetration framework which incorporates institutional development, industry specific factors, and organisational resources

Thesis structure and chapter overview

Thus far, the chapter has orientated readers with the motivation for this research, the gaps in knowledge, the main research question and objectives. On this basis, the rest of this thesis will focus on the route of inquiry and the main argument. Table 1.1 indicates the organisation of the thesis.

Table 1.1 Thesis structure

Chapter One	Introduction
Chapter Two	Literature review (1)
Chapter Three	Literature review (2)
Chapter Four	Methodology
Chapter Five	Travel and tourism in China – the institutional environment and economic organisation of the market
Chapter Six	Market institution and penetration networks
Chapter Seven	Discussion and synthesis of research findings
Chapter Eight	Conclusion

Source: the author

Chapter Two critically analyses the key issues regarding international tourism, tour operators and the evolution of the modern travel service industry. It begins with a retrospective overview of the historical context of tourism, followed by the evolution of modern tour operators and the travel service industry, as well as the scale, scope and magnitude of today's global travel service business. While different types of tour operators are introduced, the international aspect of tourism is the focus of this study. By explaining the nature and characteristics of tour operators' offering, as well as tracing the tourism value chain, the author aims to illustrate the role of tour operators and how they interact with other players in the travel and tourism market. Moreover, attention is devoted to assessing how changing technological as well as socioeconomic factors have altered the process of value creation and delivery, thereby transforming the landscape of the industry.

In order to comprehend tour operators' motivation for venturing into emerging economies, an examination of major tour operation markets in the world is presented. Parallel development of both leisure and business tourism sectors are discussed correspondingly. The chapter finishes by commenting on the major economic, social-cultural, technological as well as political mega-trends that have been and will continue to impact on the tour operation market. Most important of all, the emerging key source markets which will shape the future of the travel service industry are identified at the end of the chapter.

Chapter Three elaborates the choice of theories for analysing emerging market penetration for travel service firms. The last two decades have seen a proliferation of research on emerging market strategies, with major theoretical explanations including institutional theory, resource based theory and transaction cost economics being deployed. In the context of this thesis, the researcher highlights each respective theory's strength in handling the complexities of emerging economies strategies, particularly their ability to explain the phenomena of a booming travel

and tourism market. This reviewing process helps to identify the most pertinent literature and noteworthy paradigms. While recognising the value of different schools, it is found that a synergy of the institutional approach and the resource based approach is the most apt theoretical underpinning for probing networks as a means of market penetration in China. Hence, an institutional oriented network approach will act as the conceptual device of this study.

Chapter Four exclusively deals with the methodological issues of the designated research. The research question and objectives call for a research philosophical position and methods of enquiry which are capable of providing meaningful insights into the complex, dynamic, interrelated nature of emerging economies, and travel service firms' strategies in these economies. It argues that qualitative methodologies are most appropriate for the chosen research foci. At the outset of the chapter, a thorough discussion of the most influential philosophical paradigms in social sciences is provided based on their relevance to the research topic. Incorporating the requirement of research question and objectives, empirical context and pragmatic concerns, the selected methodological approach is properly justified. On this basis, an explicit illumination of the research design and empirical strategy employed is provided. The data collection and analysis methods follows the structure applied by Morrison (1995), which is skilfully developed from the rigorous qualitative data analysing approach described by Miles and Huberman (1994).

Chapter Five presents the findings derived from desk research. The data sources range from a great variety of existing organisational documents, government policies, internet postings, trade press, newspapers, magazines, classified documents and grey literature. The diversity of data garnered helps to depict a realistic profile of China's emerging travel service market, and additionally allows for a thorough comprehension of the research question. At the outset, the researcher distinguishes and examines the economic and social cultural forces which have influenced the

behaviour of firms and will shape the structure of the market over the next decades. For the purpose of analysis, those influential forces are divided into formal and informal institutions. Based on the understanding on macro institutional environment, the researcher dissects the market's economic organisation from the aspects of competition, consolidation and industry restructuring. Via this process, the opportunities and uncertainties facing foreign travel service firms are highlighted. The findings and analysis from this chapter ideally pave the way for the next chapter, where institutional oriented networks deployed by travel service firms for emerging market penetration are elaborated upon.

Research is progressed in Chapter Six by providing the findings derived from the synthesis of field work, which was initiated in May, 2006, mainly undertaken during the period of February to June 2008, and completed by follow up interviews and additional documentary data gathered at the beginning of 2009. The geographical location of fieldwork spans eight cities in two countries. In the order of visited time, these include are Edinburgh, Shengzhen, Guangzhou, Zhengzhou, Nanjing, Shanghai, Beijing and London. The interviews were conducted with industry insiders such as company CEOs, heads of departments, tour managers, government officials as well as academics, via face to face sessions, telephone and on Skype. Three participant observation sessions of business networking were also arranged in Guangzhou and Shenzhen.

The selected industry insiders all had rich, firsthand experience of the market, and have been involved in the industry for a substantial period of time. Many of them were decision makers within their respective organisations, therefore bear sufficient stature to supply data in the pertinent areas. Moreover, the interviewees provided a proportion of information on their personal career development paths, which happened to mirror the growth track of the travel service industry in China.

The collected data on the intricate institutional setting nexus and manifestation regarding travel service firms' market penetration to emerging economies were organised and analysed by means of the comparative method by Miles and Huberman (1994). During this process, a number of theoretical categories became the guiding criteria in the analysis of cases. The field work data were subsequently woven together with relevant organisational documents, trade press, classified documents, blog postings, and so on, with the purpose of building up the chain of evidence.

Chapter Five addresses the structural instability, technological adaptability and demographical variety of China's current travel and tourism market. Following on from this, Chapter Six identifies and explicates three representative manifestations of the institutional oriented network approach to emerging market penetration by travel service firms. In Chapter Seven, the researcher aims to discuss and synthesize the main findings of Chapter Five and Chapter Six, contribute to the understanding of the impact of transaction costs and institutions on service firms' emerging market penetration strategies as well as the dynamic nature of institutional development in emerging economies. Finally, an emerging market penetration framework incorporating institutional developments, industry specific factors, and organisational resources is proposed.

Having communicated a comprehensive understanding of the travel service firms' emerging market penetration phenomenon, Chapter Eight concludes this study by restating the research aim and objectives, explaining the significance and limitations of the designated research and providing implication for future research directions.

CHAPTER TWO

LITERATURE REVIEW (1)

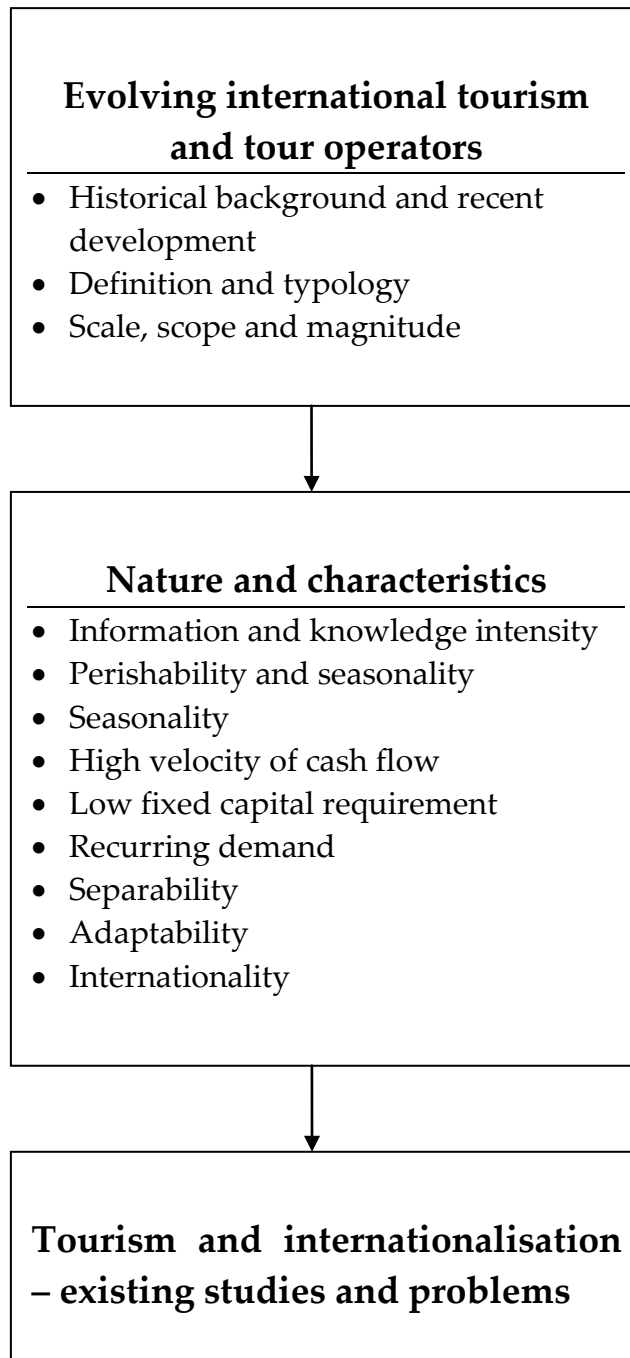
The central aim of the literature review is to critically review the previous studies on the subject being researched. In this particular thesis, the theorisation of international business is the starting point of conceptualisation. The generic international business theories need to be informed by the specificities of tourism (in particular the travel service sector) and emerging economies. Thus, it is important to understand the nature of travel service and emerging economies.

This chapter systematically analyses the key issues regarding international tourism and the evolution of the travel service industry. It begins with an overview of the historical context of travel and tourism activities, followed by the evolving modern tour operation industry as well as the scale, scope and magnitude of today's global travel service business. On this basis, the explanation about the nature and characteristics of tour operators' offerings intends to point toward appropriate international market penetration strategies. Furthermore, the author discusses the existing literature on tourism internationalisation studies and problematic areas.

Chapter objectives

- ☞ To review the development of international tourism and the evolution of the travel service sector, the nature and characteristics of modern travel service business and implications for emerging market penetration
- ☞ To discuss the existing literature on tourism internationalisation studies and problematic areas

Chapter structure



Evolving international tourism and tour operators

Historical background and recent development

“Travelling for one thousand Li equals reading ten thousand volumes of books.”

Old Chinese Maxim

Throughout human history, people have been travelling for a variety of purposes, from migration to self-discovery, from exploration to trade. Historically, the majority of such movements from one destination to another could be attributed to economic or political necessity, religious obligations or even family ties. Foreign holidays were considered only as the privilege of some wealthy elite. Be that as it may, travel for leisure has always been the pursuit of many human beings.

It is claimed that the organisation of the so called “Grand Tours” during the seventeenth, eighteenth, and much of the nineteenth centuries, bear many similarities to the modern sense of tour operation. Then, the youth of British aristocracy were sent abroad in order to broaden their education, by visiting major historical and cultural capitals in Europe such as Paris, Vienna and Florence. Guides were employed to accompany the travelling students and to act as their mentors and personal tutors. Initially intended to serve cultural and educational purposes, these tour later transformed to leisure travel (Beech and Chadwick, 2006; Gee, *et al.* 1997). Nonetheless, the fact that “Grand Tours” were not accessible to the general public and often lasted up to three or four years, is obviously not a widespread attribute of tour packages of modern days.

Although the starting point of modern tour operation varied from country to country, it was not until the early 1960’s that the large scale international tour

operation industry in Western Europe began to take shape. For a large number of European middle and lower classes, the dream of overseas holidays was eventually realised as a consequence of economic improvement, the change of legislation and industry regulation and the rapid breakthrough of air travel technology (Aguiló, Alegre and Sard, 2003). Since then, the outbound tour operators based in major industrialised European nations began to buy airline and hotel capacity in bulk, and supply travel products/services to tourists purposefully and routinely (Holloway, Humphreys and Davidson, 2009; Leiper, 2004). Comparable tourist flows were also observed in North America, where residents of cities such as New York and Chicago travelled in considerable numbers to “Sun-lust” destinations in Florida, and more recently to the Caribbean and Mexico (Beech and Chadwick, 2006). Unlike Europe and North America, extensive international tourism movement in the Asia-Pacific region happened much later. In Japan, although overseas tourism became liberal in 1964, the growth of the tour operation industry had been hampered by short annual leave and the low proportion of trips taken abroad (Imanishi, 2007; Vellas and Bécherel, 1995). It only began to emerge on a truly industrial scale after the relative economic opulence first in Japan and later in other affluent economies in this region. Nevertheless, the potential of international tourism in the Asia-Pacific region cannot be overlooked.

From the mid 1960s to the end of the 1980s, the unprecedented number of Sun-seeking Northern European tourists from the UK, Germany and Scandinavia travelling to the Mediterranean countries accelerated the industrialisation of the European tour operating sector. The expert packaging of “Sun-lust” tours was extended to many other types of destinations such as short-breaks to major cities, which were also being efficiently packaged and sold to the market (Holloway, Humphreys and Davidson, 2009). The dominant operators converged increasingly on routinised operation, and eventually shaped the boundaries of an emergent industry (Lanfant, 1980). Meanwhile, the business travel sector also began to benefit

from economic growth and globalisation, including a burgeoning market of international business travellers, a great range of conference and incentive travel possibilities and regulatory harmonisation (Future Foundation, 2006). As a result, today's tour operators offer a great variety of prices, types of trip and activities.

From the 1990s, the travel service industry has witnessed the major impact of the Internet on information ascertainment and booking patterns. Business to Business (B2B) and Business to Consumers (B2C) application has largely changed the way tourism products are produced, assembled and delivered. The Internet created the conditions for the emergence of new eMediaries, based on three ePlatforms, namely the Internet, interactive digital television and mobile devices. eMediaries sell direct on the Internet by allowing users to directly access their reservation systems; web-based travel agents; Internet portals and vortals, and auction sites (Buhalis and Licatab, 2002; Eggar, and Buhalis; 2008). A number of leading travel and booking companies now operate via the Internet, integrating flight, hotel, and car rental bookings. Consumers increasingly take advantage of online booking and "DIY" holidays (Future Foundation, 2006; Keynote Report, 2006). From a distribution point of view, the virtue of the Internet as a channel lies in: 24/7 access, world coverage, expediency for consumers, and many more. For small and medium tour operators, perhaps the biggest advantage of the Internet is cost related. The Internet has provided them with a more leveled playing field where they can compete with their bigger rivals head to head. Moreover, Arnold and Quelch (1998) argue that the power of new electronic media, notably the Internet, is not restricted to developed economies. Eggar and Buhalis (2008) observe the high growth rates in the Internet usage in populous regions such as Asia, and asserts that the merging tourism and the Internet developments will lead to a subject area marked by exceptional dynamism. Indeed, given the limits of conventional distribution channels in emerging economies, the value of eMediaries may be even higher.

Along with the explosive growth of Information and Communication Technologies (ICT) and direct and online marketing, academics and practitioners alike seemed to agree that travel intermediaries (particularly high street travel agencies) would eventually disappear, as tourism service producers could gradually bypass all intermediaries and instead reach directly to final the buyers. For tour operators, the advance of ICT has mixed effects. As producers of package tours and other related services, ICT denotes an opportunity for them to cut down the distribution costs being spent on high street retailers. Major mass operators have embraced the benefits of disintermediation by offering products/services online, in spite of the fact that many of the high street travel agencies are already an integrated part of tour operation groups. Equally, tour operators themselves are bypassed by airlines, hotels and other principals in the market. Keynote Report (2006:42) suggests that “the effects of changes in booking patterns brought about by the increased use of the Internet by travellers are being felt more by the high-street travel agents than by tour operators. The larger dual operators have, in fact, been largely successful in riding the storm. This suggests that tour operators in general and dual operators in particular, have been better able than the retailers to take advantage of the new booking behaviour patterns by setting up their own websites”.

Despite the relatively secure position of dual tour operators in the market, product customisation norms such as “modular packages”, “dynamic packaging technology” persuade further transformation of the industry. Using low-cost online options available, tour operators can put together “modular packages” with consolidated fares, budget airlines plus discounted branded accommodation at short notice (Middleton and Clarke, 2009). “Dynamic packaging technology”, on the other hand, allow travel agents to power their websites, so as to compete with the tour operators by offering their own tailor-made packages, particularly in niche markets where they have particular expertise. As such, it is not surprising that while the number of high street agencies tends to decline, online travel agencies have proven to be rather

successful. The market has seen not only the elimination of distribution channel levels, but also the displacement of traditional sellers by new types of intermediaries (ABTA, 2005; Kotler *et al.*, 2006).

On the other hand, the relationship between the online and offline sectors is not non-reconcilable. While competition remains, both sides also complement each other on many levels, thus creating opportunities for co-operation (Future foundation, 2006; Keynote Report, 2006). Furthermore, as pointed out by Williams and Shaw (2011:32-33), "In tourism there are also mobile consumers who lack local knowledge and face uncertainty when holidaying abroad. For some tourists, this challenge, and heightened risk, is attractive but many tourists value such risks negatively, creating market opportunities for firms—such as tour companies—delivering tourism products with (perceived) reduced risks. This also resonates with traditional typologies, such as Cohen's (1972), which distinguish between the desire for the novel as opposed to the familiar." Williams and Shaw (2011) believe that in this situation multinational enterprises (MNE) benefit from having a known and trusted brand and standardised offerings. Indeed, small and medium operators with niche market knowledge and expertise often gain from this situation too. In this sense, one could argue that tour operators will always exist, so long as our desire for the familiar lasts.

Definition and typology

Although seemingly straightforward, defining a tour operator is far from an easy task. This is because the role, activities and forms of tour operators have dramatically changed over the last few decades. Page (2003: 233) suggests that "one useful approach to this problem is to identify what tour operators do as a means of establishing their characteristics and form. In simple terms, tour operators will organise, package (i.e. assemble) different elements of the tourism experience and

offer them for sale to the public, through the medium of a brochure, leaflet, advertisement or the use of ICT". However, the difficulty of defining a tour operator is not completely resolved. The complication with the role of a tour operator is reflected in the lack of uniformity on its terminology in the literature. Terms such as "tour operator", "tour wholesaler", "travel organiser", "travel intermediary", "principals", and even "manufacturers" are used interchangeably by various authors. Some researchers take the view that tour operators are essentially wholesalers, who purchase services and break bulk, while others believe tour operators are not the equivalent of wholesalers. Whether tour operators should be classified as a principal or an intermediary has been a subject of much debate among tourism scholars.

One definition devised by Vellas and Bécherel (1995:168) regarding tour operators as "commercial tourism firms that specialize in the *manufacture* of travel packages". This view is confirmed by several other authors. For example, Tribe (1999: 243) also describes tour operators who "act as manufacturers of inclusive tours, assembling accommodation, transport and other services for sale to the public, either direct or via travel agents". Medlik (2003: 163-164) in *Dictionary of Travel, Tourism and Hospitality*, proposes a definition of a tour operator: "A person or organisation buying individual travel services (such as transportation and accommodation) from their providers (such as carriers and hotels) and combining them into a package of travel; the tour is sold with a mark-up to the public directly, or through intermediaries. Although sometimes described as a wholesaler (tour wholesaler in USA), a tour operator is, in fact, a manufacturer of travel products, whose activities may be compared to those of others principally assembling product components, such as motor car manufacturers or, indeed, book publishers." Tribe (2011) also describes tour operators as manufacturers of inclusive tours, assembling accommodation, transport and other services for sale to the public directly or via travel agents. Horner and Swarbrooke (2005: 210) view a tour operator "as a

producer who takes raw materials, like hotel beds and airline seats, and processes them into a 'manufactured' product which it then sells".

Holloway, Humphreys and Davidson (2009) point out that wholesalers are not normally known to change the product they buy before distributing it, and it is for this reason that some argue for operators to be classed as principals in their own right, rather than simply intermediaries. Their argument is based on the premise that by packaging a series of individual tourism products into a single whole new product, the inclusive tour, the operator is actually changing the nature of those products. In theory, tour operators could be regarded in a light assembly business, putting together tour packages that are both convenient to purchase and competitively priced.

"For many years, tour operators have formed the core of what we understand as the travel industry, to a large extent, they can be said to have moulded the industry into the form familiar to us today" (Holloway, Humphreys and Davidson, 2009: 539). By engaging in almost every link of the tourism distribution chain, tour operators' activities actually range from tour planning, preparation, to marketing, reservation, and even the actual conduct of tours. Larger operators often directly or indirectly control certain elements of production in tourism, such as airlines and hotels. Therefore, in the context of this thesis, it is decided that "travel service provider" will act as an umbrella term referring to the tour operators providing the aforementioned services and aiming for a market share in emerging economies.

On a related point, this section also provides a definition of a travel agent/agency. Medlik (2003: 167) depicts a travel agent as "A person or organisation selling travel services (such as transportation, accommodation and inclusive tours) on behalf of principals (such as carriers, hotels and tour operators) for a commission. Normally, most travel agents also provide ancillary services, such as obtaining passports and

visas, traveller's cheques (traveler's checks), currencies and travel insurance. The principal functions of the travel agent are those of a retailer – to provide access for a principal to the market and to provide a location for the customer to buy travel services." Jafari (2000: 431) defines a travel agency as "a business selling inclusive tours, holidays, transportation tickets and other related products such as accommodation, car rentals, attraction tickets and insurance to the public. The supplier (or principles as they are often known) of the products sold may include tour wholesalers or tour operators, and transportation, car rental and hotel companies". Travel agencies also approach their principals on their customers' behalf to make purchases, but they do not carry "stock" of travel products, which implies low set up cost of a business and less brand loyalty towards a particular product or company (travel agencies owned by tour operators or other principals are, of course, exceptions).

Thus far, tour operators and travel agencies have been discussed separately, without much reference to each other's development. However, the breaking down of the travel organising sector into tour operators and travel agents is very much a consequence of industrialisation of the sector over the last half century. For many smaller and specialised operators, tour operation and retailing functions often remain within the same organisation. As previously elaborated, along with the progress of ICT and intense competition, the traditional division of economic functions between these sub-sectors is quickly self-adjusting.

Notwithstanding the stereotypical image of tourism as mass produced beach holidays, the tour operation market has never been homogeneous. The following section attempts to segment a spectrum of tour operators under meaningful criteria. This listing of tour operator types, however, is by no means exhaustive. Table 2.4 showcases the variety of tour operators.

Table 2.1 A spectrum of tour operators

Criterion	Type		
Geographical coverage	Domestic operators	Inbound operators	Outbound operators
Size and ownership	Large scale, cross sector operators	SME operators	
Demographical/ psychographic composite	i.e. Saga Holidays STA Travel	i.e. adventure holidays green holidays healthy holidays cruise	
Purpose of travel	Business/corporate travel organizer, conference/ exhibition/ incentive travel organiser	Leisure tour operators	

Source: the author

By geographical coverage

Tour operators could be categorised into three groups by the geographical location of their customers:

- Domestic operators
- Inbound/incoming/receptive operator and ground handlers
- Outbound/outgoing/overseas operators

The rise of international tour operators is a recent phenomenon. Thomas Cook, which is believed to be the first modern tour operating company by many of today's scholars, and is now a mega cross-sector tour operating firm, initiated their business from the UK domestic market. The size of the domestic tourism market affects the scale of domestic tour operators, but a sizeable domestic tourism market does not automatically spawn a flourishing domestic tour operation sector. As domestic tourism involves less cultural and linguistic barriers and requires fewer specific travel documents, domestic tourists tend to be less reliant on tour operators and travel agencies. Nevertheless, in some sub-sectors of domestic markets, organised travel and package tour are still very much relevant travel patterns. Whether to use a tour operator when planning a domestic tour is mostly related to age, income, social value and other attitudinal factors.

Needless to say, incoming/inbound tour operators are in charge of bringing foreign tourists to home countries (where the incoming tour operators are based). Some incoming operators set up foreign affiliates in charge of sales and marketing, while many others are only based in receiving countries, constrained by their available organisational resources. Because inbound tour operators are located in visitor destinations, they normally provide tour escorts, ground transportation, sightseeing services, guiding and many other tourist related services at destinations. The pattern

of typical tourist **flows** means tour operators from tourists generating countries (outbound operators) are closer to potential customers and thus more familiar with their market profiles. The reality is that incoming operators are often positioned much less advantageously for capturing their desired clientele, therefore getting whatever their foreign counterparts (also known as upstream operators) assign them with. Although most incoming operators carry out ground handling activities, some incoming tour operators are merely ground handlers for their upstream operators. As most of the outbound operators are located in countries with strong outbound markets, it is fair to say that the emergence of a modern tour operating industry is effectively built on the success of outbound operators. As a consequence, the outbound sectors in major tourist generating countries are much better developed compared to their incoming sector. For example, in the UK, the majority of outbound operators belong to the Association of British Travel Agents (ABTA). On the other hand, British In-coming Tour Operators' Association (BITOA), the guild for incoming operators, is of smaller scale and influence than the ABTA. Naturally, in countries such as Spain and Greece, which are predominantly tourist receiving rather than generating countries, incoming travel sector is as important as the outgoing sector (Holloway, Humphreys and Davidson, 2009; Holloway and Taylor, 2006).

In practice, the boundaries between these three types of tour operator (inbound, outbound, and domestic) may be blurred in certain circumstances. In the event of multinational operators, their activities often cover all three categories: inbound, outbound and domestic. For example, Thomson Holidays, one of the leading tour operators in Britain, also has interests in marketing UK country cottages (Cooper et al., 2005). The boundaries between domestic and international operators as well as between incoming and outgoing operators are more of an issue in some developing countries, where relatively strict control over overseas travel is imposed.

Some operators specialise by geographic destinations and/or source markets (Holloway, Humphreys and Davidson, 2009; Horner and Swarbrooke, 2005). The choice of a destination/source market could be a result of close market speculation or simply a personal preference of the owner/manager. In either case, the chosen destinations and/or tourists generating countries/regions have to be a reasonably profitable and a viable market sector/niche. For smaller operators, focusing on certain market sectors allows them to allocate their limited resources to the area where maximum profits could be generated. However, there is a risk in using such strategies, since international tourism demand is highly sensitive to contingent factors, particularly those related to destinations.

By size and ownership

Within travel and tourism there is not only a wide variety of economic activities taking place, but the supply of travel and tourism products comes from a range of different types of enterprise. It is inevitable that an industry with such a diverse range of products will support forms of ownership from small sole proprietorships to multinational corporations and state-owned semi-commercial organisations.

Bull (1998: 53)

Tour operations are conducted by firms of all sizes. From large scale, cross sector operators which move literally millions of tourists around per annum, to small ones who may only handle a few hundred customers a year. Horner and Swarbrooke (2005) assert that there are large differences in the market objectives among operators of different sizes. Large operators are business entities with strong requirements for profitability and market orientation. Many of the small operators are more of a lifestyle business which mainly relate to the owner/manager's individual interests. While this proposition remains debatable, it is evident that size

and ownership may have implications on the differences between tour operators' competition strategies.

Owing to the low entry barriers, the vast majority of tour operators are small to medium size (SME). Morrison (1998) defines SME travel agents as those which are independently owned, managed in a personalised manner by the owner-manager and not contracted out to an agent, represent the primary source of income for the owner-manager, and employ less than 50 employees. As previously noted, tour operations and travel agency activities are often inseparable for the small and specialised travel organisers. SME tour operators are often independent firms specialising in the assembly of tour packages, marketing and distribution. To compete with larger competitors in the market, and survive in fierce price wars, they also form marketing consortia or alliances.

Large tour operators are usually a part of vertically/diagonally integrated firms with global links. Tour operations can be the core business for tour operators or an ancillary activity for other types of tourism organisations (Horner and Swarbrooke, 2005). Tour operators are also diversification objects for conglomerate businesses with diverse interests (which could be airlines or destination marketing agencies, even businesses with a main interest outside the travel and tourism market). Many large operators have their own networks of travel agencies. Airlines, hotels and larger visitor attractions may also find it profitable to develop and market their own packages both directly to the consumer and indirectly through travel intermediaries. For them, diversification into the tour operations sector serves to spread risks and broaden the firm's profit earning potential (Endo, 2006; Karamustafa, 1999; Middleton and Clarke, 2001).

Large operators normally benefit from sharing of knowledge, expertise, reputation, staff and tangible assets. Their ability to secure considerable discounts from the

suppliers normally cannot be matched by SME operators. On the other hand, smaller operators are said to be more responsive and strategically flexible. They often see greater cash flow optimisation and higher reward on their fixed investment than those vertically integrated groups (Gountas, 2005). Arguably, smaller operators are also more capable of product customisation based on customers' special requests compared to their large competitors. Single independent travel agents or a small local chain with sound knowledge of the local market can perform better than the branch of a multiple. To this effect, large multiples with a uniform approach may suffer diseconomies of scale (Sinclair and Stabler, 1997).

By demographical or psychographic composite

Tour companies specialised by demographic and/or psychographic composition **are** common in the more experienced economies, where some tour companies spot the commercial viability of particular market niches and decide to become specialist in that area. For instance, Saga Holidays, a specialist tour operator which chose to serve the over 50s age group, has had continuing success over the years. STA Travel is known for their expertise in the market segment for students and those aged 25 years and under.

The changing social-cultural trends and consumer tastes have played an indispensable role in the popularity of alternative types of tours. Alongside the traditional sun and sand holidays and standard city breaks, many more special-interest holidays are made available to the market, such as villa holidays, lakes and mountains holidays, winter sports, adventure holidays, green holidays, healthy holidays and cruise, each aiming to appeal to a particular psychographic group (Keynote Report, 2010; Future Foundation, 2006).

By purpose of travel

All travellers can be roughly divided into two groups according to purpose of travel: leisure and business. In most developed countries, business and leisure tourism are generally served by different tour operators/travel agencies (though there are exceptions to this norm. i.e. Japan). Until now, the discussion on the typology of tour operators has been largely centred on leisure operators. However, since ancient times, mankind has been travelling for purposes related to work and trade. Indeed, business travel may be considered as one of the oldest forms of tourism. Business travel today represents a highly lucrative market segment. Generally speaking, the activities (sometimes overlapping) of two types of commercial organisations are most pertinent to business travel:

- Business/corporate travel organiser
- Conference/ exhibition/ incentive travel organiser

For many years, business travel has been organised by business travel agencies and the travel departments of corporations, their functions are mainly concerned with reservation and ticketing. However, the changing business climate means business/corporate travel organisers have to add more value to their services in order to survive in fierce competition. The business travel sector has witnessed the largest business travel agents quickly responding to those changes, targeting the needs of corporate travellers and their employers, providing additional services such as travel record keeping, accounting services and development of corporate travel policy and consultancy (Davidson, 2001; Keynote Report, 2006). Nonetheless, more and more business travellers choose to take advantage of the Internet and budget airlines.

Although advances in ICT partially offset some needs for business travel, many commercial transactions still require on-site visits and face-to-face meetings.

Swarbrooke and Horner (2002:10) argue that business and leisure tourism are not that distinct from each other on the demand side and summarise five ways in which business and leisure tourism overlap: “1. Business travellers usually become leisure travellers once the working day is over. 2. Conferences often include programmes of leisure activities in between conference sessions for delegates. 3. Incentive travel involves offering leisure travel as a reward for good performance at work. 4. Many business travellers are accompanied by their partners and/or children. These accompanying persons are of all intents and purposes. 5. Business travellers are leisure travellers for all or most of the duration of their trip”.

The scale, scope and magnitude of the tour operation business

Accounting for over one-third of total global service trade (UNCTAD, 2008), tourism’s economic contribution to both affluent and emerging markets has been well acknowledged to date. Yet, as a major component of the tourism market, the scale, scope and magnitude of the tour operating sector has long been overlooked. Statistics have shown that the tour operators and travel agents sector is one of the biggest sub-sectors of the tourism and hospitality markets. In terms of transactional activities, the tour operating sector is also the most active sector of tourism after airlines and hotel chains (Endo, 2006). In the UK, the turnover of travel agents and overseas tour operators (outbound operators) in 2009 was £24.16 billion, a 1.7% increase on 2008 and 26.8% higher than in 2005. The turnover of the travel agents and outbound tour operators equated to 45.1% of total expenditure on outbound and domestic tourism. For outbound tourism alone, the turnover of the travel agents and tour operators was as high as 76.2% (Keynote report, 2010). According to the European Travel Agents and Tour operators Association (ECTAA), in 2009, 77549 businesses were involved in tour operations and travel agency activities in the EU with an estimated turnover of €179.851 billion. The largest concentration of these activities existed in Germany, Italy, France and the UK.

Modern tour operators are gradually diversifying the sphere of their operations. Many of them are part of integrated supply networks, with numerous subsidiaries and brand names, their business portfolio may include travel agencies, charter airlines, cruise lines and hotel chains, to travel insurance and many other financial services for travellers. Buhalis (2001: 301) points out that “in tourism the position of the distribution sector is much stronger than that of other trade intermediaries. Travel distribution specialists have far greater power to influence and direct demand than their counterparts in other industries do”. Bhatia (2006) holds a similar view on this issue and writes that, in tourism, intermediaries such as tour operators and travel agents play a dominant role and enjoy superior marketing strength, in the sense that travel intermediaries determine to a large extent which services will be sold and to whom. Although recent years have seen many tour operators divesting themselves of properties, and signing contracts with suppliers, tour operators are still of great influence in the distribution chain (Holloway, Humphreys and Davidson, 2009).

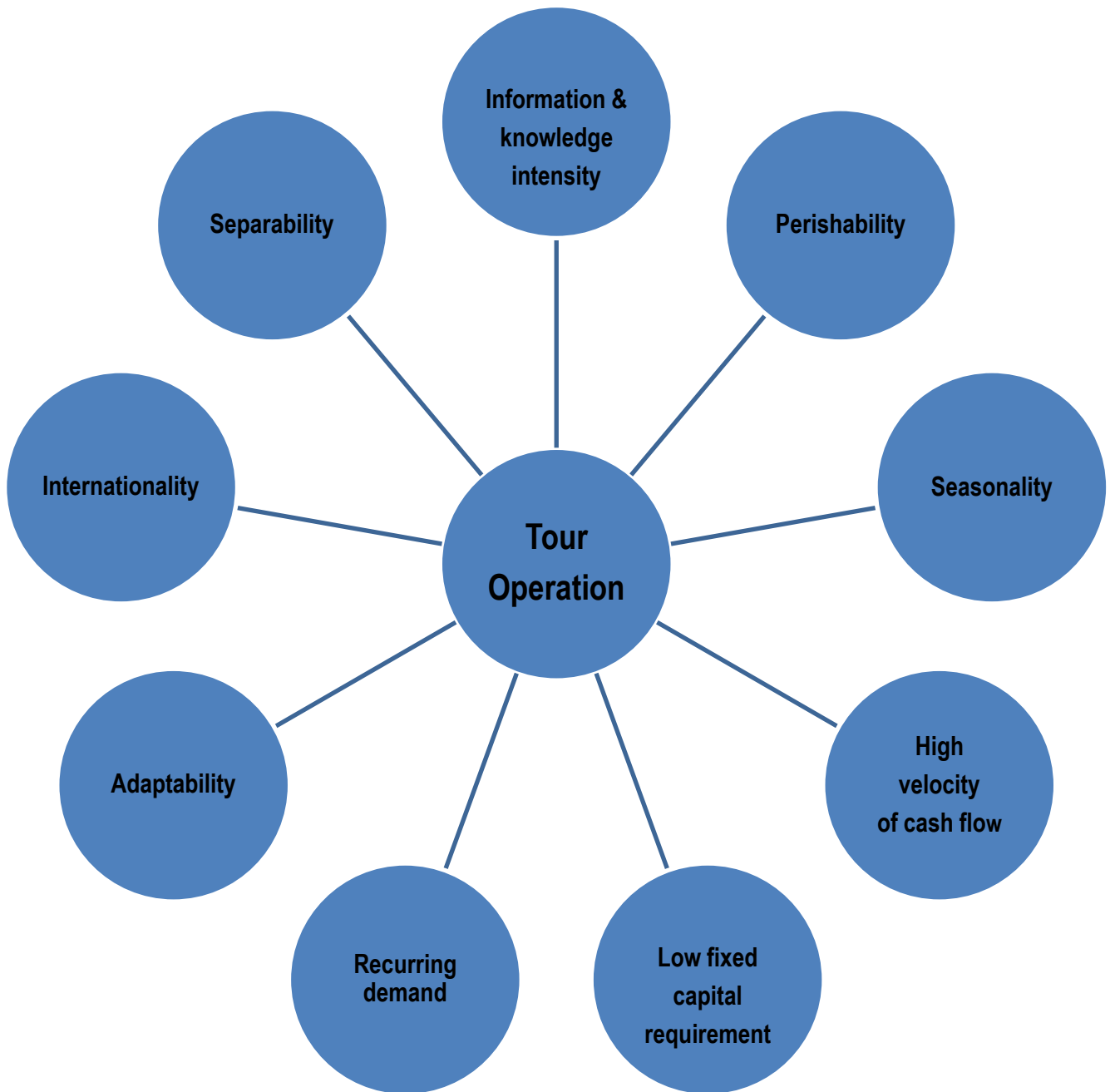
For years, much of the demand for international airline seats and accommodation in developing countries has been channelled through tour operators and travel agents in industrial nations. In the process of linking supply and source demand, tour operators have assumed a central position in the tourism market. The ability of large tour operators to direct a constant flow of tourists to destinations has transformed them into powerful suppliers and intermediaries. In occupying such a position, tour operators have effectively “democratised” international tourism by alleviating market inefficiency in such forms as imperfect information and transaction costs, through passing on economies of scale associated with the bulk purchasing of air seats, hotel rooms and so on to consumers in the form of lower prices and greater convenience (Buckley, 1987; Endo, 2006; Sinclair, 1998). It goes without saying that tour operators have made a great contribution in facilitating international tourism. The associated economic, ecological and ethical consequences of their conduct are

profound in both generating countries and host destinations (Gale, 2006; Middleton and Clarke, 2009; Tepelus, 2005).

Nature and characteristics

As the nature of tour operators' offering and their characteristics collectively form the foundation on which their competition strategies are built upon, one cannot properly address the competition issues of tour operations without a comprehension of their principal attributes. It is also worth noting that these features are not confined to tour operators but are frequently seen in other service sectors. On the nature of tour operators' offering, Smith (1994) exclusively reviews different authors' works on the nature of tourism products and synergizes their views. Central to Smith's conception is that the tourism product is of an "experience commodity" nature. He defines tourism as "the aggregate of all business that directly provides goods or services to facilitate business, pleasure, and leisure activities away from the home environment" (Smith, 1994: 183). According to Smith, the first important feature of this definition is that tourism is considered to be basically a retail service industry. Figure 2.2 summarizes the common characteristics of tour operators.

Figure 2.1 Characteristics of tour operators



Source: the author

Information and knowledge intensity

From its early days, the risk brokerage nature of being an intermediary determined that the manipulation of information has been essential to tour operation. The value of information to any business cannot be overstated, but "in few other areas of activity are the generation, gathering, processing, application and communication of information as important for day-to-day operations as they are for the travel and tourism industry" (Poon, 1994:154). In tourism, information is what glues the different players together.

As Dunning (1989:32) reveals, "most service industries supply disembodied knowledge or knowledge embodied in people or information-related equipment, knowledge of where to acquire these inputs and an ability to reduce associated search and negotiation costs, particularly in information-intensive service industries". However, the dissemination of Information and Communication Technology (ICT), especially the Internet has endowed suppliers with abundant opportunities to display their products/services and greatly reduced the costs engendered from information search for consumers. As a result, tour operators' traditional risk brokerage role is quickly diminishing. Rather than merely presenting prospective customers with readymade inclusive tours, nowadays a growing number of operators are concerned with more efficient uses of information and knowledge, exploiting information/knowledge advantage to logically combine interrelated travel services. The rise of data base marketing and diagonal integration in the industry signifies such trends.

Market knowledge is considered the key area of superior knowledge required for firms' internationalisation, and this is particularly true with tour operators (Williams and Shaw, 2011). Elg, Ghauri and Tarnovskaya (2008) find that for market entry to emerging economies, networks play a critical role in information and knowledge

acquisition. They suggest that that networking activities and matching provide essential support in generating market knowledge and information exchange, which further bridge the retailer's business ideas and emerging market conditions. As suggested by Sinclair and Stabler (1997), the wide variations in the types and extent of foreign participation by tourism firms not only provide but also acquire local knowledge. A network approach offers advantages in fulfilling such requirements on local resources.

Perishability and seasonality

As the major components of a typical tour package, airline seats and hotel beds principally cannot be stored, tour operator share similar features with airlines and the accommodation sector in that all three possess perishable commodities and may be influenced by seasonality (differing by market segment). Careful forecasting and planning are vital to the smooth operation and sometimes the survival of the tour operation business. Usually tour operators' contracts with other principals last for one year or more and the risk inherent in a long-term contract to a tour operator (e.g. uncertainty of future demand for the package tour) is reduced by negotiating various conditions favourable to the tour operator. Even so, tour operators are highly susceptible to adverse political, economic or meteorological events. For example, the disruption caused by the volcanic ash cloud in April and May 2010 cost Thomas Cook £81.9 million (Keynote report, 2010). The perishability of tourism products and the often erratic tourist demand make the task of balancing tourism supply and demand far more significant than any other sector, which is probably why tourism became one of the first industries to widely apply IT and conduct electronic commerce from the 1960s in the form of computer (ised) reservation systems (CRSs) and then global distribution Systems (GDSs) (Liu, 2000).

Low fixed capital requirement

Although the size of fixed capital investment varies significantly between large and small tour operators, by and large, tour operation requires little fixed capital to start. Large operators are much more capital intensive, the massive fixed costs associated with charter airlines and/or other properties need to be justified from economies of scale. Provided fixed investment is low, as is the case of smaller and more specialised tour operators, the return on fixed investment can be relatively high. The industry's fairly low entry barriers actually make penetration into foreign markets much less costly compared to those of other sectors, thus making SME tour operators the major players of international market penetration, alongside the mega integrated travel organising companies.

High velocity of cash flow

The flow of cash is crucial to tour operators. They must make advance deposits for ground services to secure them. To offset these advance payments to suppliers, cash flow is generated when customers' deposits and final payments are received prior to the tour departure date. Tour operators usually do not pay the outstanding balances for ground services (less the advance deposits) until after the tour. The cash flow (excess of customer deposits and final payments over advance deposits to suppliers) is used to pay the tour operators' operating expenses. Due to their limited capital resources, tour operators often draw on consumers' pre-payment and the assets of hoteliers and carriers to finance their operations.

Problems arise when the cash flow from one tour has to be used to finance the preparation of another. In view of the time lags involved, if demand slows, tour operators with few liquid assets to protect them against cash deficits may become insolvent or bankrupt. For this reason, some countries force tour companies to be licensed by a government agency. Several countries require tour operators to have a

proven track record of several years of operation and to post bonds to protect their tour patrons in the event of bankruptcy (Mill and Morrison, 2002).

Recurring demand

In most affluent economies, overseas holidays are genuinely considered as one of the basic human needs rather than luxury indulgence (Holloway, Humphreys and Davidson, 2009). Hence, the repetitive purchase of tour packages at regular intervals by the general public can be regarded as a phenomenon associated with the values of modern society. The well educated bourgeoisie in emerging economies are quickly catching up with this trend. Therefore, travel service providers need to devise enduring, sustainable market penetration strategies rather than merely concentrate on short term gains. Moreover, as noted by Poon (1994), travel is not purchased alone. Services such as travellers' cheques, credit card, insurance, investment services and personal banking are jointly demanded by consumers. The recurring demand for a range of travel related services has imparted powerful impetus for networking and entering into partnerships with telecommunications, banking, finance, training and education sectors, and consequently created integrated supply networks in the travel and tourism market (Moutinho, 2000). Conversely, it means the growing importance of extended rivalry from other industry sector must be taken into account (Litteljohn and Roper, 2006).

Separability

Depending on whether the production and consumption of services can be separated, two broad categories were imposed for analytical purposes by Erramilli and Rao (1990), namely separable (hard) services and non-separable (soft) services. Erramilli and Rao (1990), and several other authors (Boddewyn *et al*, 1986; Erramilli, 1990; Sampson and Snape, 1985; Ekeledo and Sivakumar, 1998, 2004) argue that

separable service sectors bear some resemblance to manufacturing industries on the matter of foreign market entry.

Tour operations broadly fall into the category of separable services. On this point, tour operations differ from many other players in the tourism and hospitality market (i.e. hotels, restaurants) in that they are not required to have physical sites to be present for actual consumption. The whole “production” process for tour operators basically involves little physical goods. It also means that tour operators’ need for large scale foreign direct investment (FDI) is limited (Endo, 2006). For this reason FDI in the travel agency sector seems to receive little attention from academics (Xu, Zhang and Wu, 2010). The relative “separable” character of tour operation leads to a different set of motives for tapping into emerging markets. Dunning (1989) argues that while logistical costs and physical presence for consumption are apparently not as important in services as in goods industries, being close to potential customers so as to respond to their demand and adapt services to their particular tastes play a more significant role in determining the mode of market entry.

Adaptability

Dunning (1989) suggests that differences in business practices, tastes and social habits may lead to differences in demand for professional, personal and social services. Services, relative to goods, often have to be more “adaptable” to different market conditions. This is particularly evident for the tour operations sector. Buhalis (2003) reckons that the rare existence of the global integrated tour operators/travel agencies could be attributed to the differences in consumer needs and consumption patterns. For example, Northern European operators have to a certain extent standardised packages towards Sun-lust resorts. In contrast, Southern European tour operators predominantly concentrate on short breaks sightseeing-shopping-shows in European capitals, as most of their clients are residents or neighbours to sunny

destinations. Imanishi (2007: 533) studies the internationalisation path of major Japanese tour operators and denotes that the internationalisation of tour operators is “the opposite of manufacturing multinationals which attempt to standardise their goods globally”. Therefore, how to adapt or innovate products/services under different market conditions is believed to be crucial for the success of tour operators in overseas markets.

Internationality

“In some ways, leisure has always been a global industry by its very nature.”

Horner and Swarbrooke (2005: 316)

Tourism is often subdivided on the basis of whether or not an international boundary is crossed during the course of a trip. If that is the case then the type of tourism is defined as international tourism, while those that remain within travellers’ countries of residence are considered as domestic tourism. Be it inbound or outbound, tour operators committed to international tourism have to deal with their counterparts and/or tourism related organisations in other countries in a mixture of manners. There are wide variations in the types and extent of their foreign involvement. However, such cross border linkages are not necessarily an indication of international expansion; perhaps a more appropriate description should be “inward/outward activity”, according to Bjorkman and Kock (1997).

Within the realm of tourism, Shaw and Williams (2004) recognise that it is difficult to generalise the “international activities” of transnational tourism companies as it is for micro firms, and propose a functional typology which distinguishes trade-based, production-based and market-based “international activities” of tourism firms. A trade-based firm is merely sending tourists abroad. All services at the destination are

offered by foreign intermediaries. Shaw and Williams (2004) advise that this scenario is most likely the case for specialist, niche tour operators. Production-based firms have parts of the production process in foreign countries. Examples of this type of international activity are hotel chains and vertically integrated tourism corporations, which have set up or acquired companies that offer destination-based services. Market-based international activities involve horizontal expansion to enter new markets with the same product. Shaw and Williams (2004) provide an example of this, Kuoni's market entry into Austria, Germany, Greece, Spain and the UK in the early to mid 1970s through the set-up of subsidiaries and the acquisition of other companies. In their latest review article about internationalisation and innovation in tourism, Williams and Shaw (2011: 28) further add: "Tourism is distinctive in that a significant market segment (international tourism), by definition, is mobile beyond the immediate locality. Firms developing their global reach and brand building may therefore have to undertake direct foreign investments, requiring associated innovations, if they are targeting the provision of tourism services to non-nationals—whether from their own or other countries— in a foreign destination".

In the context of this study, only tour operators who are actively engaged in market penetration are included in the analysis. Thus the activity of some tour operators, e.g. those involved in pure "ground handling", will not feature in the discussion. However, this does not signify that the focus of this study will solely be given to large MNEs. Hjalager (2007) argues that while market-based international expansion is mostly concentrated on large tourism MNEs, there is growing recognition of the internationalisation of small tourism firms, often at an early stage. Indeed, the so called "born-international" or "born-global" (Knight and Cavusgil, 1996; Oviatt and McDougall, 2005) phenomenon is particularly relevant to tour operators.

Tourism and internationalisation

Among all the factors that influence tourism development at the macro level, globalisation and emerging economies deserve specific attention. The first aspect of globalisation is the result of successive trade negotiations conducted since the Second World War, beginning with the General Agreement on Tariffs and Trade (GATT) in 1948 and subsequently reaffirmed and broadened under the auspices of the World Trade Organisation. The second aspect of globalisation, referring to the increasing “interconnectedness” of human life across the globe, is arguably a process that began with the development of print and long distance sea travel, but in today’s world is driven by the rise of affordable air travel and new information and communication technologies, such as the Internet. Tourism is regarded both as a major agent and a beneficiary of this process (Future Foundation, 2006; UNWTO, 2008).

Existing studies on internationalisation of tourism firms

Accounting for over one-third of total global service trade, tourism agglomerates many related activities (Xu, Zhang and Wu, 2010). Logically, the internationalisation practice of such a composite sector varies across its constitutive sub-sectors (Williams and Shaw, 2011). Unsurprisingly, there has been more empirical research on the international hotel sector than other sub sectors (Contractor and Kundu, 1995; Dunning and McQueen, 1981; Go and Pine, 1995; Jacob and Groizard, 2007; Whitla, Walters and Davies, 2000). Among them, perhaps the most influential work is the research of Dunning and McQueen (1982).

Drawing on the eclectic theory of the firm (also known as the OLI - Ownership, Location, and Internalisation paradigm), Dunning and McQueen (1981) believe that the location-specific advantages of the international hotel sector are similar to other economic sectors, including the size and growth rate of the market, the necessary

infrastructure for tourism provided by the state, the availability of staff and specialist services that cannot be imported, the regulatory institutions governing tourism investment and general foreign direct investment and finally the general political, social and economic stability of the country and attitude of the local population to foreign tourists. They contend that the main difference between the international hotel industry and other primary or secondary sectors lies in the internalisation advantages, as the ownership advantages (including reduction of transaction costs, quality assurance and knowledge transfer) can be achieved without internalising the transaction costs. Instead, they are secured via contractual agreements (management agreements, franchising etc.) with the hotel owners, as “... what is good for the local hotel will generally be good for the parent company” (Dunning and McQueen, 1981: 206). Thirty years on, this contention has seen few challenges among tourism academics. However, Mosedale (2007: 108-109) draws our attention to other fields of tourism value creation system, and argues that for sectors such as airlines, tour operators or fully integrated tourism corporations, the “contract based internalisation” may not be sufficient to internalise all the benefits to be had by integrating the links in the value chain.

Xu, Zhang and Wu (2010), in their recent analysis on China’s policies on foreign-invested travel agencies upon its entry to the World Trade Organization, demonstrates how government policies can significantly alter the composition of the so-called OLI “advantages” and even make some of them less advantageous. As is the case in many emerging economies, regulatory stringencies are still very much in existence in China’s travel service market. The result of Xu, Zhang and Wu’s (2010) interviews show that due to China’s restrictive policies on foreign-invested travel agencies, partial ownership might be an appropriate choice for foreign investors who propose to focus solely on travel services. In contrast, full ownership would be an appropriate choice for those seek to provide both travel services and services related to other tourism sectors.

In China, although market size and preferential policies are the recognised motivational factors for foreign investors, those locational factors are not equally distributed to all business sectors. For the travel service sector, locational advantages become more noteworthy when handling the tourism business of Chinese customers who initially set off from their home country. Xu, Zhang and Wu (2010) believe that Beijing, Shanghai, Guangzhou, and some provincial capitals offer more locational advantages as they receive the majority of inbound tourists and are located in geographical areas active in urban and rural tourism. Moreover, these cities are expected to remain the points of departure for outbound tourism.

The internalisation advantage is mostly related to the need to reduce transaction costs in vertical value creation chains. While many cross-sector tourism enterprises have supply networks across the globe, Xu, Zhang and Wu (2010) clearly acknowledge the decline of “equity internalisation” in recent years. “With this internalisation advantage, foreign travel group can choose to invest directly in the market rather than making a non-equity investment by appointing a local agent to receive its inbound tours. Nonetheless, in this modern world, the indisputable progress of regionalisation and internationalisation has been cutting into the advantages enjoyed by MNCs to a certain extent. In the era of e-commerce, a burgeoning wave of online travel agents has squeezed into the travel service market” (Xu, Zhang and Wu, 2010: 373).

Xu, Zhang and Wu’s (2010) work is the first published academic effort addressing tour operators’ market entry strategies to China. The authors examine the said issue from the lens of the OLI paradigm and Hall’s tourism policy framework (which asserts that policy is “a consequence of the political environment, values and ideologies, the distribution of power, institutional frameworks, and of decision-making processes” (Hall, 1995: 5)). The analysis based on the OLI paradigm provides a good insight into the phenomenon. The realisation of ownership advantages are

constrained by the policy framework in the host country, which, may be regarded as negative locational factors rather than advantages. The examination of locational factors emphasizes the influence of policy framework and political institutions on the market, which helps us to understand how tourism firms interact with the changing external environment. Nonetheless, adopting the OLI paradigm will inescapably have the inherent limitations of the transaction cost theory (which will be illustrated in more details in the following chapter), as the internalisation theory is a further development of the transaction cost theory itself. In addition, the authors concentrate exclusively on cross-sector, large scale multinational enterprises. However, as previously explained, the characteristics of the tour operation business decide that SME operators are not only the majority in the market, but also capable of international market penetration. Therefore, they should not be left out of the map when studying emerging market penetration.

Problems with existing studies

As a whole, the tourism discipline covers a broad range of subject areas. The published studies on the travel service sector have mainly centred on examinations of country specific market structures of the most developed European tour operating industry and the resulting role of the transnational tourism corporations in developing countries (see for example Klemm and Martín-Quirós, 1996; Lumsdon and Swift, 1999; Tapper, 2001; Timothy and Ioannides, 2002; Papatheodorou, 2003).

As pointed by Williams and Shaw (2011), there is strong and growing evidence of the internationalisation of tourism. Yet the review of tourism literature displays a relatively limited amount of conceptual work, or theoretically-informed empirical work on the internationalisation of tourism firms. Moreover, “internationality” is one of the main characteristics of the tour operation business. The internationalisation process is not exclusive to large, cross sector corporations.

However, given the proportion of SME firms in the tourism market, it is surprising to find that the internationalisation of SME tourism firms has received little attention to date.

As Tribe and Xiao (2011: 22) noted, tourism is often perceived as “atheoretical and that any theorising is readily claimed by parent disciplines”. While this perception may have undervalued the work done by tourism scholars on theorisation, it must be acknowledged that in order to offer sound analysis of the market penetration by travel service firms, a thorough examination of international business theories is needed. On this matter, Williams and Shaw (2011:29) offer a valuable suggestion: “This (the determination of the types of critical information, and the conditions for effective knowledge transfer that are essential for tourism firms’ internationalisation) can be approached in terms of the interplay between structural/institutional determinants and individual agency. The former takes us particularly to regulation (changes in minimum requirements, export assistance etc) and market shifts, while the latter takes us towards individuals and the positioning of individuals in networks, which determine the accumulation of knowledge, often in a highly erratic manner”.

Summary

This chapter has reviewed the evolution of the modern tourism industry and demonstrated why tour operators/travel service providers will continue to influence world tourism development. Regardless of the movement toward “DIY”, at present, the organisation of travel to long haul destinations still requires the heavy involvement of tour operators and travel agencies (Henley Centre Headlight Vision and Amadeus, 2007). For an emerging economy such as China, travel service providers are expected to have a high impact in the foreseeable future.

One cannot properly address the market penetration issues of travel service firms without a comprehension of their principal attributes. The author has carefully identified and illustrated the key characteristics and development of the travel service sector. Among them, information and knowledge intensity, low fixed capital requirement, separateness, adaptability, and internationality are particularly relevant to emerging market penetration. The low fixed capital requirement, separateness, adaptability, and internationality characteristics imply that not only large multinational enterprises, but smaller travel service providers stand a chance in emerging markets. “Born international” travel service firms may be more capable of exploiting emerging business opportunities in rapidly changing environments. Finally, the review of the literature on tourism and internationalisation indicates a need to thoroughly review international business theories, in order to find out the most suitable theoretical approach for studying emerging market penetration.

CHAPTER THREE

LITERATURE REVIEW (2)

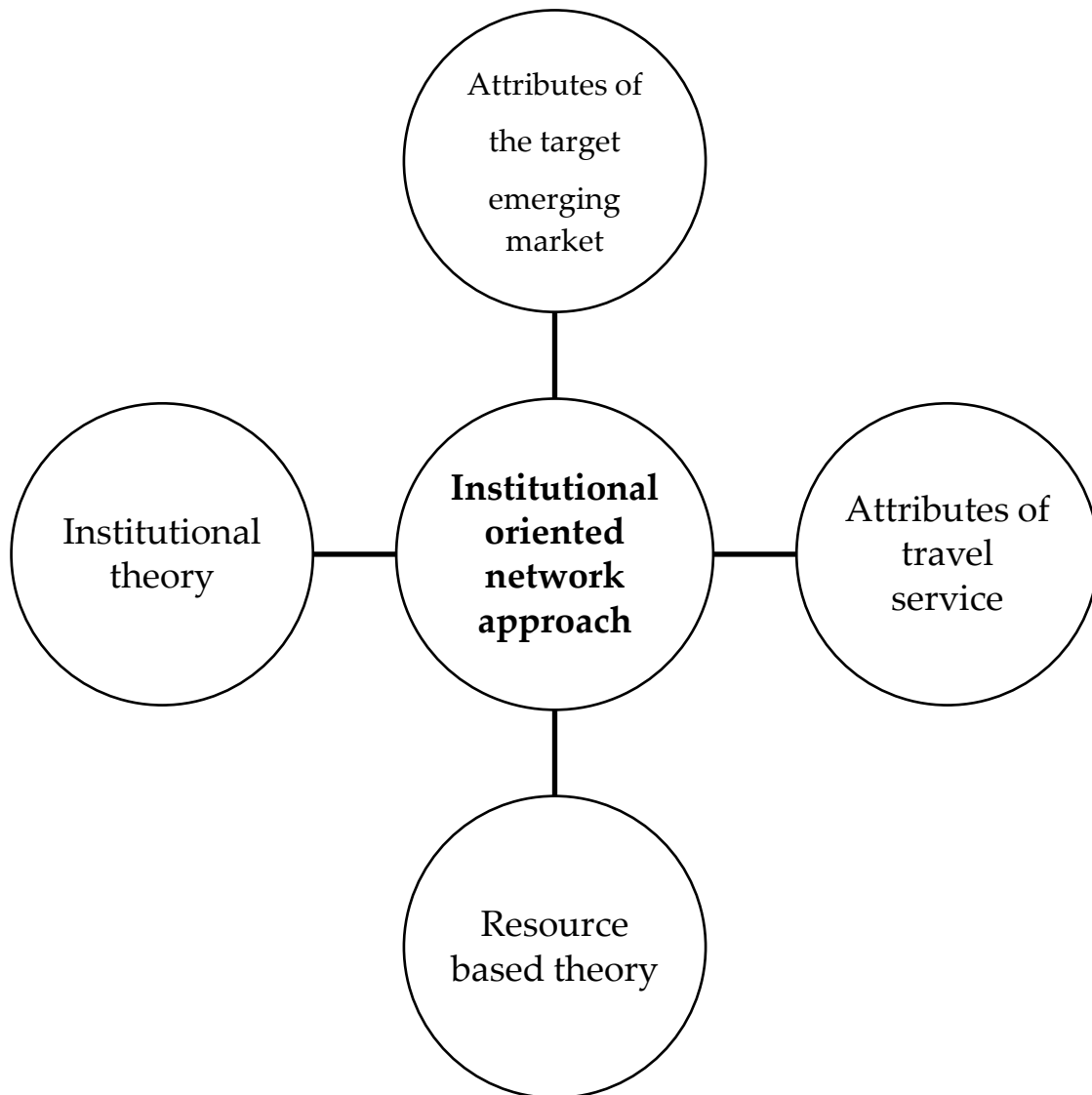
This chapter elaborates the choices of theories for analysing emerging market penetration for travel service firms. The last two decades have seen a proliferation of research on emerging market strategies, with major theoretical explanations including institutional theory, resource based theory and transaction cost economies being deployed. In the context of this thesis, the researcher critically highlights each theory's strength in handling the complexities of emerging economies' strategies, and their ability to explain the travel and tourism market. This review process helps to identify the most pertinent literature and noteworthy paradigms. While recognising the value of different schools, it is found that a synergy of the institutional approach and resource based approach is most apt for probing networks as a means of market penetration in China. Hence, an institutional oriented network approach will act as the conceptual device of this study.

Chapter objectives

- œ Examine the most relevant theoretical stances underpinning emerging market penetration strategies

- œ Discuss the effectiveness of different approaches and offer a suitable theoretical framework with regard to the context of this thesis

Chapter structure



Emerging economies – key traits and implications

According to UNWTO (2008), at one end of the continuum, globalisation is allied to the privatisation and deregulation movement, no aspiring market leader can succeed without operating or establishing networks in major developed and emerging markets. At the other end of the continuum, populations are responding to the globalisation of economies, markets, systems and cultures by looking to their own identities, that is, localisation. Williams and Shaw (2011) point out that how to address the tension between the logic of internationalisation in a globalised economy, and the persistence of national and regional differences in consumption and conditions of production, is a challenge facing all firms when fitting internationalisation into their overall strategic plans, regardless of their size, life-cycle, sub-sector or nationality.

To travel service providers based outside emerging market economies, as the traditional markets become increasingly saturated, it is logical to suggest that emerging market developments may be the only realistic prospect of large-scale future expansion. Both “push” and “pull” factors motivate many firms to engage in the development of emerging tourism markets. It is foreseeable that the differences in market conditions and consumption patterns embedded in emerging economies will present newcomers with considerable challenges before they are able to attain the demand. Bearing that in mind, it is crucial to review existing literature’s analysis on the key traits of emerging market economies, especially the complexities travel service providers may face and how these can be managed.

The term “emerging market” implies a positive outlook for the economic performance of a country converging on the average of the industrialised nations. Arnold and Quelch (1998) adopt three decisive elements to define an emerging economy: the absolute level of economic development (usually indicated by the

average Gross Domestic Product (GDP) per capita); the relative pace of economic development; the system of market governance, in particular the extent and stability of a free-market system. The first aspect, level of GDP per capita, overlaps with other categorisations of economies such as “developing countries”, “less developed countries” (LDCs). The second criterion, intuitively closer to the pace of change implied by “emerging”, defines emerging economies as those enjoying growth rates attractive to investors. The third criterion, according to Arnold and Quelch (1998), is far less easy to judge but critical to prospective investors in emerging economies.

Arnold and Quelch’s (1998) conceptualisation of emerging market economies is supported by Hoskinsson *et al.* (2000) and Wright *et al.* (2005). Hoskinsson *et al.* (2000: 249) define emerging economies as “low-income, rapid-growth countries using economic liberalisation as their primary engine of growth”. They also believe that emerging economies comprise both developing countries and post-communist transition countries. Wright *et al.* (2005) define an emerging economy as a country which satisfies two criteria: a rapid pace of development and government policies that favour economic liberalisation. Hoskinsson *et al.* (2000) view immense structural uncertainties of industries, as well as a volatile business environment as unavoidable byproducts of economic liberalisation and market transition/transformation. This view is backed up Luo (2004), who contends that emerging economies should not only be characterised by market opportunity, but also environmental uncertainty and regulatory stringency. The concomitant risks of running a business in emerging economies are no less obvious than the opportunities they offer.

At first, Luo’s (2004) observation about regulatory stringency in emerging economies and Wright *et al.*’s (2005) government policies that favour economic liberalisation may seem to be contradictory. However, a closer look at China’s reality suggests otherwise. On the one hand, regulatory stringency is reflected in government intervention relating to the imposition of tariffs and other restraints on the flow of

free trade (which brings about major transaction costs). Regulatory stringency is often closely associated with the dominant market position of State Owned Enterprises (SOEs), which by abusing their political influence can directly hinder fair competition and consumer welfare (Luo, 2004). On the other hand, government policies that favour economic liberalisation have played a significant role in building the market governance system, or at least enhancing the extent and stability of a free-market system proposed by Arnold and Quelch's (1998). In a similar vein, De Clercq, Danis and Dakhli (2010) as well as Oetzel and Banerjee (2008) considers inconsistent government regulations as commonly found regulatory burdens in emerging economies. Emerging economies are also marked by their dynamic path of structural changes in the macroeconomic environment. Given such dynamism, long-term strategic considerations are indispensable when conceptualising development in emerging economies (Arnold and Quelch, 1998; Hoskisson *et al.*, 2000).

Peng and Heath (1996) argue that the internal growth of firms in economies going through rapid structural transition is limited by institutional constraints. As a result, a network-based growth strategy is expected to be more viable in emerging economies. Many authors see participation in social networks as a way of coping with regulatory burdens in emerging economies (De Clercq, Danis and Dakhli, 2010; Li, Poppo, and Zhou, 2008; Sheng, Zhou and Li, 2011). Some even suggest that in dynamically changing environments, the absence of effective state institutions, such as reliable rule of laws, and inconsistent government regulations make personal networks endemic for doing business in those markets (Hutchings, 2005; Michailova and Worm, 2003; Peng, 2004).

Limited information and insufficient knowledge about market competition and how to exploit business opportunities also promote the use of social networks in emerging economies (De Clercq, Danis and Dakhli, 2010; Manolova, Eunni and Gyoshev, 2008; Peng, 2004). This point is particularly relevant to travel service

providers, with their information-intensive characteristic and many of them being SMEs, the empirical evidence strongly supports the positive effects of social networks on market performance. For example, Knight and Cavusgil (1996) note that by successfully utilising network strategies, born-global SMEs can access and exploit global business opportunities that were previously capitalised almost exclusively by large, established companies. In the Chinese context, Zhou, Wu and Luo (2007) revealed that it is more rational for SMEs to exploit guanxi-related social networks and to extend them across borders for economic actions. Even for large enterprises, it is argued that their market positions in emerging economies are very much dependant on how they are to able to successfully perform matching and networking activities (Elg, Ghauri and Tarnovskaya, 2008). As explained in the previous chapter, it can be argued that certain characteristics of the travel service sector, including information and knowledge intensity, adaptability, and internationality, also give rise to the propensity of a network approach to emerging market penetration.

The literature on emerging market economies and travel service firms' internationalisation suggest that when confronted with challenging market environments, networking activities are deemed to indispensable in alleviating unfavourable conditions. Those firms that are able to develop networks generating useful market knowledge/information and adapt their offerings according to the emerging market environment are expected to have better performance. In the next section, the author will discuss three leading theoretical perspectives that have been proposed to explain enterprise strategies in emerging economies, including institutional theory, transaction cost economies, and the resource based view of the firm. These three perspectives are discussed from the following aspects: the origin and latest development of the theory; their explanatory power in the context of tourism and emerging economies studies, and finally, the limitation of each theoretical perspective.

Institutional theory

Origin and theoretical development

According to Scott (1987), the history of institutionalism can be traced back to Marxist and Weberian studies of political economies. While the rise of new institutionalism has been found throughout the social sciences since the 1970s, institutional theory's ascendance in emerging market studies is a rather recent phenomenon (Wan and Hoskisson, 2003). Over the years, the perspectives employed to study institutional forces have both economic (Clague, 1997; Coase, 1998; North, 1990) as well as sociological orientation (DiMaggio and Powell, 1983; Scott, 1987; 1995). North (1990) defined institutions as the formal and informal rules of the game in a society, which include the broad state and legal regime and the way it is enforced, and widely held social norms and attitudes that constrain and enable behaviour. Likewise, Scott (1995) typified institutions into regulative (can be equal to formal institutions), normative and cultural/cognitive (can be equal to informal institutions) pillars. Also with an economic orientation, Rao (2003: 89) described the institutional environment as "the set of fundamental political, social and legal ground rules that establishes the basis of production, exchange and distribution". As institutional theory emerged from different fields of social science, the approaches taken to analyse institutions remain diverse. In this section, the economic and sociological approaches to institutionalism are discussed.

North (1994: 360) depicts institutions as "humanly devised constraints that structure human interaction". Within an institutional framework, it is assumed that people are motivated by the logics of instrumentalism and appropriateness in ways that are constrained by rules, procedures, cognitive paradigms, principles and beliefs (Campbell, 2006). The economic approach towards institutionalism links transaction cost with institutions in the understanding of firm behaviours. North (1994) relates

strong institutions to transaction costs, by means of enforcing contracts, protecting property rights, imposing the rule of law, and avoiding corruption. Rao (2003) shares this notion and identifies property rights and liability rules as society's most important institutions, whose efficiency helps to reduce transaction costs. In a word, the role of institutions is to reduce the transaction costs caused by the uncertainty of the environment and of behaviour, i.e. bounded rationality and opportunism (North, 1990; 2003). The provision of economic institutions to reduce transaction costs is deemed to be the responsibility of governments (North, 1994). Informal institutions can make up for some weaknesses of formal institutional structure (North, 1990).

Williamson (1998: 75) argues that "there are two background conditions for institutions, the embeddedness and the attributes of human actors. The embeddedness is antecedent to the policy and refers to societal features (norms, customs, mores, and religion) which differ among groups and nation states and operate as societal supports, or the lack thereof, for credible contracting". As for the attributes of human actors, Williamson (1998: 77) is in agreement with Simon (1985: 303), who contends that "nothing is more fundamental in setting our research agenda and informing our research methods than our view of the nature of the human beings whose behaviour we are studying."

The sociological approach to institutionalism also argues that economies activities cannot be explained by reference to atomistic individual motives alone, but have to be understood as embedded in the wider structure of social, economic and political rules (Granovetter, 1985, 1993; Zukin and DiMaggio, 1990). Furthermore, this approach emphasizes that economic actions and institutions are constructed through the activation of social networks, which do not necessarily follow rational behaviours (Granovetter and Swedberg, 1992).

Institutional theory proposes that the strength or weakness of institutions affects the range of responses available to firms. As institutions determine business opportunities in a society and differences in institutions are the main causes for differences in economic and social outcomes, it is natural to focus on the role of the political, social and economic systems in shaping organisational behaviour (North, 1990; Hira and Hira, 2000; Scott, 1995). Based on this premise, Björkman, Fey and Park (2007) stress that organisational identities are under pressure to adapt and be consistent with their institutional environment. However, this does not mean that firms have to take a passive position when forming strategies. Oliver (1991) suggests that institutions can also facilitate strategy, allowing enterprises with adaptive ability to play a more active role in an environment and move beyond institutional constraints. Jackson and Deeg (2008: 541) argue that “by stressing the social embeddedness of firms or other economic actors (Granovetter, 1985), institutions are seen not only as constraints but also as resources for solving key problems of economic coordination through non-economic, value rational sets of commitments”.

Application in tourism studies

From the perspective of tourism public policy, Hall and Jenkins (1995) first offer a comprehensive overview of institutions and institutional organisations in tourism, which was later refined by Hall (1997). Hall and Jenkins (1995: 19) argue that “the institutional arrangements for tourism influence the process which the policy agenda for tourism is shaped, the way in which tourism problems are defined and alternatives are considered and how choices are made and decisions and actions taken”. In tourism studies, Mosedale (2007) first looks at institutions at the firm level. Departing from social-economic approaches to the firm, Mosedale (2007) analyzes the relationship between tourism corporations and place via the concept of embeddedness within networks of social relations using examples from Mallorca,

Spain. Mosedale's work demonstrates the importance of institutions within a network of social relations.

On a related point, Hall's (1994) model of the tourism policy making process should be considered in this thesis. Hall's model conceptualizes tourism policy as a circular and dynamic process, which involves demands, decisions, outputs and outcomes. This process happens in a policy arena, which consists of interest groups, significant individuals, institutional leadership and institutions. The policy arena exists in the greater policy environment, which includes power arrangements, values and institutional arrangements. As argued by Tse (2009:96): "Hall's model of tourism policy-making process shifts the attention from inputs-outputs to the more macro-environment of power arrangements and values, as well as the policy arena comprising of interest groups, significant individuals, and institutions." Perhaps for this reason, Hall's tourism policy-making model has been deemed to be particularly useful in the analysis of China's policies on its outbound market and foreign-invested travel agencies, as seen in the work of Tse (2009) as well as Xu, Zhang and Wu (2010).

Tse's (2009) work mainly expounds the demand side of China's outbound market from a psychological and sociological approach. However, to provide a comprehensive understanding of China's outbound tourism, Tse (2009) utilises Hall's (1994) model of tourism policy making process to analyse and compare the economic and political environment, interest groups and institutions in the development of outbound tourism in Japan, Taiwan, Korea and China. Built on Hall's (1994) policy making process model and the OLI paradigm, Xu, Zhang and Wu (2010) attempt to integrate an assessment of the policy-making process and FDI in tourism in a developing country context. They believe that "China purposefully promulgated travel service-related policies in an exercise of governmental power

aimed at exerting an influence on the nature and pattern of FDI in the travel service industry" (Xu, Zhang and Wu, 2010: 360). The exertion of such political institutions is said to have major influences on foreign investors' market entry mode and operating strategies.

It can be seen that previous studies of the institutional approach to tourism studies noticeably centre on the role of state institutions. Hall's tourism policy-making process model to a certain extent makes up for the lack of attention to non-state institutions such as interest groups from the policy making perspective. However, the application of the institutional approach to tourism studies, especially from the angle of the internalisation of tourism firms, remains largely uncharted territory.

Explanatory power in emerging economies studies

Regarding the applicability of institutional theory in emerging economies, theorists including Shenkar and von Gilnow (1994) argue that this perspective is the most suitable paradigm for explaining enterprise behaviour in emerging economies. This view receives support from Hoskisson *et al.* (2000), who also acknowledge the potential importance of this paradigm for explaining firms' behaviour in emerging economies but observed relatively few empirical studies conducted under this approach. Wright *et al.* (2005) suggest that more attention is needed for considering the speed and nature of institutional change upon firms' strategies, as well as examining the interaction between institutional theory and other theories.

Hutchings (2005) contends that institutional changes in major emerging economies are reflected in the following areas: rapid moves toward utilisation of capitalist market operating procedures; development of Western style legal, accounting, management and HRM practices; as well as the emergence of formal business groups. Yet, recent studies show that weak formal institutions continue to be the

main feature of emerging economies (De Clercq, Danis and Dakhli, 2010; Oetzel and Banerjee, 2008). While North (1994) asserts that the provision of economic institutions to reduce transaction costs is the responsibility of governments, most studies carried out in an emerging economies context find that informal institutions including culture, customs and etiquette, often play an important role in forming strategies in the wake of incompetent formal institutions (Arnold and Quelch, 1998; Hoskinsson *et al.* 2000; Luo, 2004; Wright *et al.* 2005).

As previously discussed, institutions may also be seen as resources that influence the strategic development of firms. Under this notion, the exploitation of informal institutions, such as social networks in emerging economies in business activities is not just a reactive move but a strategic response to the unpredictability of government action and control (Xin and Pearce, 1996; Wan, 2005). The strengths or weakness of institutions create opportunities for firms to manage different types of firm-specific capabilities, such as “competitive market-based resources or nonmarket-based resources that strengthen the internal or political capacity for control” (Jackson and Deeg, 2008:543).

The studies on China add more evidences to this argument. In the context of China, high levels of inconsistency, arbitrariness, and corruption on the part of officials are found to be major governmental institutional obstacles (Child and Moellering, 2003; Peng, 2004). Peng (2004) drew together the economic and sociological views of institutions typified by North and Scott (1995), highlighting the ever-increasing importance of both formal and informal institutions to the study of strategy in emerging markets such as China. The literature showed that extensive networking with both business partners and government officials (“known as “guanxi” in China) are more pervasive in Asian countries such as China, and South Korea. Aside from institutional voids, cultural heritage is also said to be responsible for the propensity

of network strategies (Peng and Luo, 2000; Peng and Zhou, 2005; Sheng, Zhou and Li, 2011; Xin and Pearce, 1996).

Criticism

With authors increasingly arguing for the importance of institutions in shaping business practice, it can be seen that institutional theory offers a powerful explanation for emerging markets. However, this perspective is not problem-free. Although emerging economies are known for their dynamism, institutions tend to defy changes. For instance, Child and Tse (2001: 15) find that the interests and influence of social and political organisations significantly contribute to China's "stickiness" in institutional change. In fact, it is believed that resistance to change, in the form of "taken-for-grantedness", is a fundamental attribute of institutionalisation (Jepperson, 1991; Seo and Creed, 2002). This attribute of institutions is closely linked to the criticism of the use of network strategies in emerging economies.

While a networks strategy appears to be imperative for doing business in emerging economies such as China, the problems of it should not be overlooked. Guthrie (1998) points out the detrimental effect of "guanxi" when used as a (often corrupt) means of gaining advantage, rather than simply being seen as a business relationship. It will hinder China's transition to a rational legal system. Hoskisson *et al.* (2000) believe that the downside of networks is that the parties involved may collude to resist change unless there is strong competitive pressure and enforcement of the legal infrastructure. However, they believe that the analysis of these barriers to resource development may yield important insights concerning the interaction between institutional and resource-based view factors. Boisot and Child (1996) argue that China is limited by its path dependency. To the extent that implicit personal relationship rather than formal relational contracting act as a guiding principle, they assert that China is in a status of network capitalism rather than a

coordinated market economy. However, Luk et al., (2008) suspect that judging from the experience of Hong Kong, the stickiness of tradition and path dependence is not unbreakable in China. Institutional changes can be and have been brought about by external forces.

Transaction cost perspective

Origin and theoretical development

Notwithstanding its status in today's business studies, the value and significance of Coase's (1937) contribution on the nature of the firm was not seriously appreciated until the concept "transaction cost" was reintroduced in modern organisational theories by his followers. One of the most influential explanations perhaps lies in Oliver E. Williamson's transaction cost economics (1975; 1985; 1998). Williamson's development of the transaction cost approach rests on the Simonian bounded rationality and opportunism (Simon, 1982). He cites Simon and points out that the rationality of human actions is bounded by the amount of information, cognitive limitations and available time to make decisions. Williamson contends the key dimensions of transaction as asset specificity, uncertainty, and frequency.

According to Williamson (1985), there are three types of asset specificity: site, physical and human. Site specificity refers to a situation where investments are made near one another to minimise transport costs. Physical asset specificity is concerned with the actual investment in specialised assets so that a specific contract can be fulfilled. Human asset specificity occurs when "learning by doing" results. Knowledge gained in the execution of a contract is pertinent only to that particular contract. Each of the three dimensions presents a particular problem for the management of firms. Uncertainty creates planning problems whilst infrequent transactions requiring idiosyncratic investments are liable to leave the company in

possession of sub-optimal productive assets. These three dimensions co-determine that where transactions are recurrent, entail idiosyncratic investment, and are executed under greater uncertainty, transaction-specific governance structure is more developed.

Transaction cost theory studies the firm-environment interface through a contractual or exchange-based approach (Williamson, 1975; 1996). This approach basically presumes that internal market/hierarchy possesses advantages over the external market. Firms tend to grow by internalising the market until the benefits of contracting inside is outweighed by the costs (Foss, 1993). The focus of this approach is the reduction of transaction cost conditions that are responsible for market failure.

Application in tourism studies

Buckley (1987) first applies transaction cost approach in the field of travel and tourism studies. He considers that tracing the transactions chain and the packaging of transactions makes the analysis of tourism supply more straightforward and gives a unity to its conceptualisation. Within the vertically linked and information intensive tourism market, immense uncertainties occur from the possibility the buyer cannot use or understand the information he or she is purchasing. Organising insurance for buyer uncertainty is difficult and costly. Hence, the necessity of tour operators to enter long-term contracts for accommodation and transport, often lead to internalisation of this relationship. Buckley (1987: 191) claims that that “When buyer and seller are part of same firm, mutual insurance can be arranged and a satisfactory price can be fixed. Discriminatory pricing of information can also be exercised in an internal market. Where resale is possible, discrimination cannot be practiced in external markets. In addition, internalisation avoids difficulties arising from bilateral concentration of market power”.

Sinclair and Stabler (1997) express a similar view to the use of transaction costs in the economic analysis of tour operators. They believe that transaction costs are likely to be substantial in spheres where a firm assembles a product from many sources, a feature of tour operators marketing package holidays. Such imperfections provide an incentive for integration between tourism firms so as to internalise the costs which would incur under separate units of operation. In addition, Sinclair and Stabler (1997) reveal that although vertical integration can take the form of common ownership of firms supplying different components of tourism, this process has followed different patterns in different countries.

While those contentions remain true, it is worth pointing out that economies of scale generalised from horizontal integration (often through mergers and acquisitions) are largely in existence in the tour operation sector. In fact, as a means of achieving decreasing unit costs and increasing market power, horizontal integration is the most common expansion strategy in the tour operating sector (Sinclair and Stabler, 1997; Tremblay, 1998; Mechem, 2004). Arguably, at an international level, vertical integration does not seem to be the main thrust of the strategies of transnational corporations in the tour-operating market (Bull, 1998). The adoption of a transaction cost approach in the analysis of supply side integration seems to be approved by most tourism scholars, but this acceptance is not unconditional. Indeed, the explanatory power of transaction cost to the growth of tourism firms is seriously questioned by Tremblay (1998), who argues that the reliance on transaction cost theory is not able to handle the complexity of today's market environment. An evolutionary network approach represents the future of the travel and tourism market growth.

Explanatory power in emerging economies

Transaction cost theory, along with internalisation theory was extensively applied to explain and examine firms' internationalisation strategies (Agarwal and Ramaswami 1992; Anderson and Gatignon 1986; Erramilli and Rao 1993; Gatignon and Anderson, 1988; Kogut and Singh, 1988). The theoretical reasoning of transaction cost theory decides that it is primarily efficiency oriented, and prescribes cross-border activities according to the economic rationale that firms will minimise all costs associated with the entire value-added/transaction chain. This perspective's most famous diagnosis on international business strategies is on market entry mode choices, a subject that has been extensively examined in the literature (i.e. Anderson and Gatignon, 1986; Kogut and Singh, 1988; Hennart, 2003; Zhao, Luo and Suh, 2004; Williamson, 1996). Under the notion of transaction cost theory, the entry mode choice is viewed as a critical decision of governance. Firms are expected to choose a governance form with minimal costs, while offering the highest risk-adjusted return on investment.

According to Gatignon and Anderson (1988), transaction cost theory normally assumes that market-contracting or low-control modes represent the default choice for situations characterised by low asset specificity (applicable to many service sectors). Erramilli and Rao (1993) point out that this assumption is evidently limited for service industries, where the benefits of integration are beyond mere transaction cost reduction, and the costs of integration are not always high. Moreover, the theory's ability to explain more complex forms of entry modes appears to be at best moderate. It is not able to differentiate well between the different degrees of partnership.

As the review of literature suggests that social network is the most important form of economic transaction enforcer in emerging economies, the question needing to be answered here is whether transaction cost theory is appropriate for explaining social

network's use in emerging economies. One school of scholars, e.g. Bjorkman and Kock (1995), Luo (2007), McDonald and Vertova (2002), Oviatt and McDougall (2005), Standifird and Marshall (2000), Wang and Ellis (2002), make a general statement that in developing countries, high transaction costs are caused by the institutional environment, and are reduced by adding a social network element to the business network. Other researchers, including Ahlstrom and Bruton (2004), Douma and Schreuder (2008), Guthrie (1998), point out that social networks or personal ties, such as "guanxi" in China, intrinsically generate high transaction costs. Perhaps to best explain the use of social networks in emerging economies, it is necessary to move beyond the transaction cost approach. Some researchers, for example Chen, Peng, and Saporito (2002); Michailova and Hutchings (2004); Hutchings (2005), argue that it is insider status which determines relationships of this kind (i.e. "guanxi").

Criticism

Despite its wide application in developed market economies, transaction cost theory has several major limitations. To start with, as pointed out by Zhao, Luo and Suh (2004), the theory's proposition on high risks and high uncertainties (typically found in emerging economies) is prone to the counter argument in its own tradition. The theory posits that both external and internal uncertainties surrounding a transaction will influence entry mode choice. External uncertainty often results from the volatility of environmental conditions in a host country. Volatile environments compel firms to choose a flexible entry mode rather than an ownership-based entry mode. Internal uncertainty also manifests itself in a firm's deficient experience or knowledge of foreign markets. Therefore, entry modes with a high degree of integration or control are more desirable when external and internal uncertainties are high (Williamson, 1991). If this proposition remains correct, for an entrant who has already formed a partnership arrangement (with a low degree of control), lock-in would eliminate the flexibility needed to avoid the volatile environment. The

more experienced and knowledgeable a firm is in international business, the less need there is for this firm to choose high control (Anderson and Gatignon, 1986). In addition, Agarwal and Ramaswami (1992), who researched smaller and less multinational firms in high potential countries suggested such firms will or should be more concerned with global strategic position than with the transaction costs associated with a given entry mode.

The transaction cost theory traditionally ignored governance costs, perhaps with the exception of the work performed (Rugman and Verbeke, 1992). In the conventional transaction cost economics theory, the firm, or the internal market is equal to a hierarchical type of governance. However, as Whalley (1999) suggests, this preconception is intuitively inadequate in today's business setting, where the traditional hierarchical organisation has been increasingly replaced by the decentralised organisation types - collaborating-network. Whilst common ownership may reduce some of the risk facing firms, it does not remove all of the risks when expanding overseas. Wholly owned subsidiaries may expose the expanding company to risks and uncertainty that its initial market assessment did not identify. This is particularly evident when it comes to radical internationalisation, a case relevant to travel service firms. Although Williamson (1991) recognises inter-firm networks as hybrid organisational forms within transaction cost economics framework, as Huggins (2010) noted, the role of these networks as resources beyond contractual arrangements remains less understood. In addition, the transaction cost theory has been criticized for its failure in providing a rationale for long-run strategic decisions in the complex real world (Erramilli and Rao, 1993; Tremblay 1998).

Resource based theory

Origins and latest development

Having originated from the seminal work of Penrose (1959), resource based theory claims the nature of a firm is a pool of resources. The heterogeneous resources give each firm unique character and are the essence of competitive advantage. That is, a firm ought to combine resources in such a way that they provide a particular firm with an advantage over competing firms (Barney, 1991; Nelson and Winter, 1982). Wernerfelt (1984) suggests that evaluating firms in terms of their resources could lead to insights which differ from the traditional industrial organisation perspective. The resource based theory accepts the view that the firm is a combiner of input and seeker of efficiency in production and distribution. It goes further than only emphasising external forces and the management of costs. Instead, the resource based theory advocates that firm specific factors play a critical role in its strategy and performance (Corner, 1991; Ekeledo, 2000; Mahoney and Pandian, 1992; Porter 1980; Zou and Cavusgil 1996).

The most valuable contribution of the theory is believed to be the handling of the issue of the firm's competitive advantage. Under the notion of the resource based paradigm, competitive advantage comes from firm-specific resources; the different endowment of resources among firms is the ultimate determinant of the strategic choices firms make (Wernerfelt, 1984, 1989; Corner, 1991; Barney, 1991; Grant, 1991; Foss, 1993). The phrase "firm specific resource" is often used interchangeably with similar terms in strategic management and international economics literature, including firm specific advantage (Dunning, 1989), resources and capabilities (Amit and Schoemaker, 1993; Grant, 1991), intellectual assets and non-intellectual assets (Hall, 1989), and tangible and intangible resources (Hall 1992); organisational capability (Madhok, 1997).

The theory's proposition on competitive advantage is also shared by several related perspectives, including competences (Hamel and Prahalad, 1994), dynamic capabilities (Helfat and Peteraf, 2003; Helfat, et al., 2007; Teece, Pisano and Shuen, 1997), and the knowledge-based view (Grant, 1996b; Nonaka and Takeuchi, 1995). The dynamic capabilities literature (Teece, Pisano and Shuen, 1997) and evolutionary theory (Nelson and Winter, 1982) help to bridge the two approaches in the development of resource based theory: the study on the link between firm performance and resources possession (Barney, 1991), and the more recent examination on how firms accumulate, combine and leverage resources (Morrow et al., 2007; Sirmon, Hitt and Ireland, 2007). When considering the role of network external resources, resource dependency theory (Davis and Cobb, 2009) is also relevant. Resource dependency theory stresses the importance of social context, and argues that power (not just rationality or efficiency) plays a key role in understanding the internal and external actions of organisations.

Application in tourism studies

The resource based view has been applied to a wide range of phenomena, including information systems (Wade and Hulland, 2004) and organisational networks (Lavie, 2006). In the field of tourism studies, Tremblay (1998) believes that it is possible to connect the views of Richardson (1972, 1990) with Penrose (1959), and construct an alternative theory on the boundaries of tourism firms and industries which differs from the industrial organisation perspective. Richardson, (1972, 1990) stresses the importance of planned co-ordination between firms. Complementary activities must be co-ordinated. However, such activities do not have to be similar in terms of the knowledge, experiences and skills (i.e. capabilities) which underpin them. Relationships between firms allow the co-ordination of closely complementary but dissimilar activities, which will evolve into a co-ordination mechanism alternative to hierarchy (directed co-ordination) and market (spontaneous co-ordination).

Tremblay (1998) proposes a coordination of capability approach of tourism firms and industry, emphasizing the coordination of changing technological and marketing competencies through network relationships. He considers this approach as particularly suitable for the analysis of the economic organisation of tourism. While Tremblay's (1998) contribution to the synthesis of different theories of firms and identification of industry networks in tourism should be acknowledged, it is also noted that the cooperative industry networks that allow firms to stabilize their competitive environment are perhaps more prominent in mature capitalist economic systems (Richardson, 1972).

In a conceptual paper on internationalisation and innovation, Williams and Shaw (2011) discuss one variant of resource-based theory, the knowledge based view in relation to the internationalisation and innovation of tourism firms. According to the knowledge based view, the internationalisation of tourism firms requires superior knowledge of the host country (e.g. health and safety laws relating to travel or catering). This kind of knowledge often includes encultured and embedded knowledge such as the language capital (Dustmann, 1999) and knowledge of local leisure and other practices. Market knowledge, as pointed out by Prashantham (2008), is often considered a key area of superior knowledge needed for the internationalisation of tourism firms, as in the case of tour operators. The market knowledge of the firm will critically influence its international market selection, entry mode choice and pace of internationalisation. In this regard, Williams and Shaw (2011) refer to the work of Johanson and Mattsson (1988) and maintain that successful internationalisation of tourism firms requires both openness to external sources of knowledge and effective networking.

Drawing on two main perspectives: resource-based theory and ethnic SMEs literature, Williams and Shaw (2011) also look at the internationalisation of entrepreneurial "resources" and tourism SMEs. Although the "born global"

literature shows that many small firms expand rapidly via internationalisation, Williams and Shaw (2011) believe that the challenge of acquiring the specific knowledge necessary for internationalisation can mitigate against SMEs, as smaller firms' resources are more limited than MNEs. However, smaller firms can and do overcome this barrier (Hitt, et al., 2001; Zahra, 2005).

The notion of knowledge as a critical resource provides an insight into the role of international migrant entrepreneurs and how they can overcome the barrier of limited resources (Rae, 2004). Bentley (1998) terms the knowledge accumulated in this case as "uncommon knowledge" that is mostly tacit. Some of the "uncommon knowledge" can only be transferred via co-presences, implying migration or mobility. Williams (2007a) argues that knowledge of this kind is acquired through the prior experience of entrepreneurs, which also provide them with networks, influence their orientation and make them more cosmopolitan or open to new ideas. This view is shared by Loane, Bell and McNaughton (2007). Interestingly, Williams and Shaw (2011) focus on one particular form of uncommon knowledge - language capital (Dustmann, 1999). It is noted that foreign language proficiency among staff may influence the key facets of the internationalisation of smaller firms, including choice of country to enter, and selection of agents or distributors. "Language capital allows access to a wider range of contacts and deeper understanding of markets. The latter requires a knowledge of culture and institutions, that is encultured or embedded knowledge (Blackler, 2002) which may be language encoded; migrants—whether born abroad or having worked abroad—have the language skills to unlock such knowledge sources (Williams, 2007b)" (Williams and Shaw, 2011: 37).

In addition to the resource theory perspective, Williams and Shaw (2011) also employ the ethnic SME literature to explain the internationalisation and innovation of tourism SMEs. According to Waldinger, Aldrich and Ward's (1990) "interactive approach", ethnic enterprises are situated at the confluence of complex interactions

between opportunity structure (including market conditions, access to ownership and mediating government policy) and group characteristics such as ethnic networks and collaboration. Moreover, Williams and Shaw (2011) raise an important question in relation to ethnic SME firms, that is, whether they can “break out” from the starting point: a specific ethnic/migrant market segment. Previous research (Ram and Jones, 1998; Peters, 2002; Pécoud, 2003) has shown that ethnic SME firms can move into other market segments and broaden their clientele. However, whether the timing and agent of such break outs is through second generation migrant owners, as Williams and Shaw (2011) and other authors seemingly suggest, remain debatable.

Explanatory power in emerging economies

Penrose (1959) highlights the dynamic interplay between firm-specific resources and market opportunities, where growth is achieved through an intertwined process of resource acquisition and opportunity exploitation. In foreign markets, it is argued that resources accumulated by firms drive the exploitation of opportunities (Johanson and Vahlne, 1977; Peng, 2001; Zahra, Sapienza and Davidsson, 2006). In this process, the external resources embedded in a firm’s network may be referred to as network resources that affect business outcomes (Gulati, 1999; Gulati and Singh, 1998; Lavie, 2006). Generally speaking, the resource-based view of the firm proposes high involvement of the firm in terms of foreign market penetration. It postulates that the higher the exploitation of tangible and intangible resources in the international market, the higher the performance that can be expected (Barney, 1991; Kogut and Zander, 1993).

In emerging market studies, Luo (2004) cites Rosenzweig and Singh (1991), who argue that the term “resources” in this theory should be extended beyond physical resources and production inputs such as natural resources, raw materials, land use, local capital and workforce to include infrastructure resources (e.g., transportation

conditions), marketing resources (e.g., distribution networks and consumer base), and information resources (e.g., internet use, openness of public information and transparency of government information). Luo's findings (2004) shows that market-seeking MNEs depend not only on a host country's physical and infrastructure resources for local production, but also on its marketing and information resources for local operation, adaptation and expansion. Guillén (2000) argues that diversified business groups may have advantages in emerging economies. Arguably, these groups could develop specialised abilities in managing information friction in emerging economies, and gain resources through diversification. Accordingly, business groups in emerging economies have significant opportunities to gain specific country-related advantages. Although these specialised skills are a rare recourse, the advantage they offer may not be insurmountable for either foreign or local competitors. Peng and Luo (2000) find that personal ties with managers at other firms are likely to be more important in small service enterprises. Their findings also show that firms in emerging economies may have greater resource dependence on government officials than on other firms.

As the resource based view promises a rich theory for strategy studies, recent years has seen substantial interest in its major tenets, including its application in international business strategies (Fahy, 2002; Newbert, 2007; Pitelis, 2004; Tolstoy and Agndal, 2010). However, in reviewing studies into market entry to emerging economies, it is found that empirical research using a resource-based view framework to analysing strategy differences in the social context of emerging economies is not as widespread despite the conceptual importance of this approach.

Criticism

As previously expounded, resource based theory explicitly aims to address why firms in the same industry might differ in performance and what are their internal

sources of competitive advantage. However, this approach does not answer why firms exist, or why their boundaries are as they are. To answer those questions, one needs to make references to incentives, asset ownership and opportunism. As such, with a few exceptions (i.e. Conner, 1991; Kogut and Zander, 1992), most authors who exploit this perspective perceive it as a complementary approach to the transaction cost/contractual perspective of the firm, rather than being a distinctive theory on its own (Barney, 1999, 2002; Mahoney, 2001; Mahoney and Pandian, 1992; Peteraf and Barney, 2003; Priem and Butler, 2001a).

Despite its alleged explanatory power, the resource-based view (RBV) of the firm has been subjected to criticism as well. Most recently, Kraaijenbrink, Spender and Groen (2010) comprehensively review and assess the principal critiques of the resource based theory in the literature. While some of the critiques can be dismissed, others call for further development of the theory. Within the scope of this chapter, it is neither possible nor necessary to review all the critiques related to the resource based view. Therefore, the following part will focus on the most pertinent ones with respect to the theme of this study.

As Kraaijenbrink, Spender and Groen (2010) summarised, the main critiques on resource based theory arise from the indeterminate nature of its central concepts – resource, and the narrow conceptualization of a firm’s competitive advantage. For example, concerning the generalisation ability of the theory, Connor (2002) argues that the resource based perspective applies only to large firms with significant market power. Kraaijenbrink, Spender and Groen believe (2010:353) Connor’s argument is “diluted whenever non tangible resources are admitted- small firms may have unique competitive advantage generating capabilities”. Kraaijenbrink, Spender and Groen, (2010:353) further argue that the resource based view even applies to newly founded firms, so long as the individual resources and capabilities of the entrepreneurs that constituted the firm are included. A counterargument to

Connor's critique can also be found in the tourism literature. Williams and Shaw (2011), for example, demonstrates that the resource based perspective can provide a compelling explanation to the internationalisation of both tourism MNEs and SMEs. The notion of knowledge as a critical resource plays a key role in this explanation.

Although the resource based theory could be applied to firms of all sizes, one key limitation of the theory, as indicated by Barney (2002), is its obvious applicability in a relatively stable industry, where "rules of the game" are more or less fixed. "In unpredictable environments, in which new technologies and/or new markets emerge and the value of resources can drastically change, we need to go beyond the resource based view to explain a firm's sustaining competitive advantage" (Kraaijenbrink, Spender and Groen, 2010:353).

The "all inclusive" description of resource also causes much controversy. Barney (2002) argues that resources include all assets, capabilities, organisational processes, firm attributes, information and knowledge that are controlled by a firm, and used to conceive and implement strategies that improve its efficiency and effectiveness. While Barney (2002) suggests that all inclusiveness is part of the theory's strength, Priem and Butler (2001a), criticize the range of these resources, believing them to be overly inclusive, and that this inclusiveness will drive the theory toward tautology. Kraaijenbrink, Spender and Groen (2010: 365) add to the discussion on what should be counted as resource by stating "the idiosyncratic nature of resource value is further shaped by the specific institutional context of a particular firm". They believe that the resource base theory core message can withstand most criticism.

Theoretical synthesis and conceptual framework

Theoretical synthesis

The previous sections have discussed three major theoretical stances pertinent to international business studies. Their explanatory power in tourism as well as emerging markets has been critically evaluated. Based upon the theoretical findings of the last chapter and preceding sections, the author will synthesize the appropriate theories to investigate the network approach to emerging market penetration by travel service firms. Following that, a conceptual framework will be presented in order to gain a holistic understanding of the said phenomenon and to guide the empirical research.

The use of networks as a market penetration mechanism

The magnitude of networks in achieving international growth has long been recognised (Johanson and Mattsson, 1988; 1992; Hadley and Wilson 2003). However, the exploitation of social networks as an international market penetration device is somewhat limited. Zhou, Wu and Luo (2007) summarise existing work on the use of social networks in this area and identify these as being vital to the identification of new opportunities, to gain access to foreign markets, and to develop specific competitive advantages through the accumulation of international knowledge and/or the development of formal business linkages across borders. A network-based market penetration strategy has proven to be particularly viable in emerging economies (Chidlow, Salciuviene and Young, 2009; Elg, Ghauri and Tarnovskaya, 2008; Ghauri, Lutz and Tesfom, 2003; Meschi and Riccio; 2008). In China, for example, networks often appear in the form of “guanxi”, and serve as a metaphor for doing business and understanding economic transactions (Luo, 2000; Sheng, Zhou and Li, 2011).

Social networks serve as the initial basis from which formal business network linkages can be developed. In the sphere of tourism, Morrison, Lynch and Johns (2004) have revealed that multiple ranges of network types exist. Benefits arising from networks are often qualitative, somewhat elusive of quantitative measurement, and their evaluation is dependent on the respective perspective of those involved in active participation and/or support. Morrison (1995) analyses small firm strategic alliances in the UK hotel industry and point out the utilisation of network concepts allows the analysis of complex structures. She argues that the network concept provides a means of researching how firms are integrated into the economy and society, through social relationships, economic exchange, and linkage development and maintenance. Hence, the investigation moves from a single firm to the interaction between those within a network, and to populations of firms with a similar interest.

Thomas and Thomas (2005) study small tourism firms and how these might be involved in the urban political process. However, their study does not address the importance of embeddedness within the political system and the role of networks for small firm owners. Mosedale (2007) systematically reviews socio-economic approaches to the firm, and uses these to form theoretical foundations for analysing the relationship between tourism corporations and place. Mosedale (2007) stresses the concept of embeddedness within networks of social relations using examples from Mallorca, Spain, and specially examines the regulatory networks. Despite the contribution of previous research in deploying the network concept in tourism studies, the use of networks by tourism firms in achieving international growth has not received much attention.

Institutional oriented networks and emerging market penetration

In the earlier part of this chapter, the author elaborated upon the explanatory power of the institutional perspective in the emerging economies context. Indeed, since emerging economies are typically known for high institutional burdens, it is believed that social networks are “more instrumental” in these contexts (De Clercq, Danis and Dakhli, 2010; Ács and Stough, 2008; Francis, Mukherji, and Mukherji, 2009). As far back as 1973, Granovetter established the socio-economic approach to firm, where it was argued that economic activities are embedded in social networks of trust, mutuality and cooperation or the lack thereof. In a socio-institutionally embedded system, economic actions and institutions are constructed through the activation of social networks, which operate within the current and historical cultural, social and political conditions (Granovetter, 1993; Granovetter and Swedberg, 1992). Although different approaches have been used to examine how networks influence economic activities, the institutional approach has gained a dominant position in the emerging economies context. As De Clercq, Danis and Dakhli (2010: 87) state: “Network relationships do not take place in a vacuum but rather operate within the parameters of a broader institutional context”. Since economic institutions set a framework within which businesses develop their strategies, it is inevitable that institutional forces determine how network relationships are operated (Meyer, Estrin and Bhaumik, 2005). That is, the effectiveness of networking activities depends on the favorability of the institutional environment (Meyer and Peng, 2005). Networking activities in emerging economies, therefore, are intrinsically institutional oriented.

From an institutional perspective, how firms restructure themselves in response to institutional factors emphasizes the need to examine interaction between institutional theory and other theoretical approaches (Hoskisson *et al.*, 2000). Referring to the preceding discussion on the most influential theoretical approaches

in emerging economies, two important findings can be reported. The first is that the transaction cost approach is not suitable for explaining network relationships. Although it is argued that adding social networks can reduce transaction cost in emerging economies, the expense of developing social networks, such as “guanxi” itself, is not cost free. As for inter-firm networks, although they are recognised within the transaction cost theory framework, their role beyond contractual arrangements can only be properly understood if we move beyond the transaction cost approach, that is, towards the concept of network resource.

Aside from networks and embeddedness, the socio-economic notions of the firm also give rise to the learning and resource-based firm (Taylor and Asheim, 2001). Institutions may be seen as resources. This perspective draws closely on the resource-based view of the firm, and links the resource based view with institutional theory (Wright et al, 2005). Oliver (1997) analyses the issue of a firm’s sustainable advantage in terms of resource-based and institutional factors and suggests that firms are able to create or develop institutional capital to enhance optimal use of resources. Firms have to manage the social context of their resources and capabilities in order to generate rents. Moreover, service firms, no matter the difference among sectors, generally tend to rely more on specific and individual knowledge rather than on general and hardware knowledge (Bjorkman and Kock, 1997). In the same vein, entering emerging economies also calls for very specific and individual knowledge. Oliver (1997) contends that firms can influence their institutional environments by developing strategic responses instead of adapting passively. “By stressing the social embeddedness of firms or other economic actors (Granovetter, 1985), institutions are seen not only as constraints but also as resources for solving key problems of economic coordination through non-economic, value rational sets of commitments” (Jackson and Deeg, 2008: 541).

To reiterate, the purpose of this section is to integrate the theoretical arguments related to the network approach to emerging market penetration. The synthesis of institutional perspective and resource perspective provides a complete theoretical foundation for travel service firms' market penetration strategies. The empirical work will address the role of the political, social and economic system which surrounds travel service firms and shapes their behavior (Wright et al. 2005) and more importantly, how travel service firms actively develop network strategies as a response to the institutional environment.

Conceptual framework

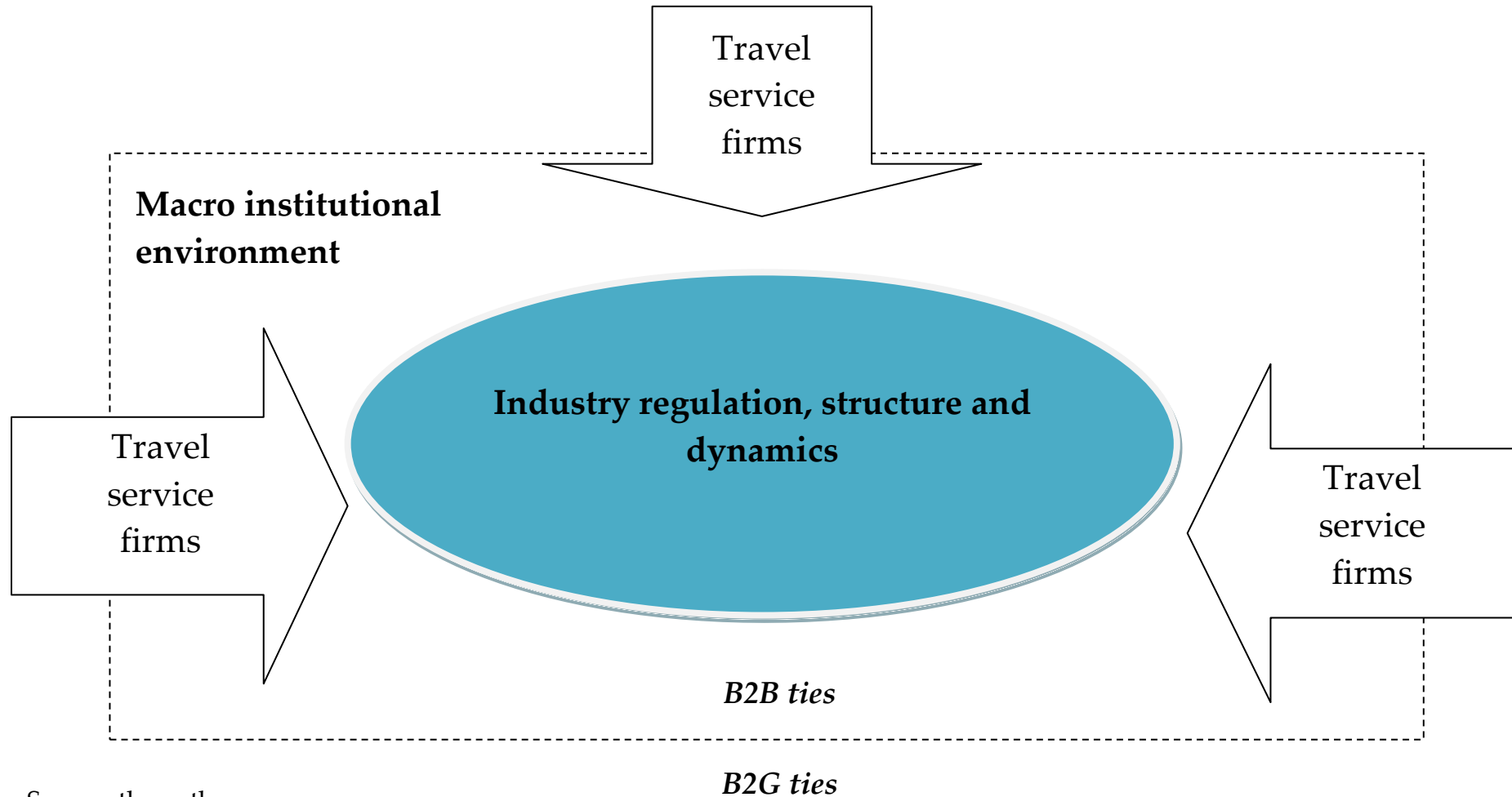
Drawing upon the institutional approach as well as the resource based view, the theoretical discussion shows that an institutional oriented network approach is most appropriate for explaining how travel service firms achieve competition positions in emerging markets. In light of this understanding, this section aims to provide a conceptual framework which connects theoretical analysis with the empirical enquiry. First it is necessary to review the research objectives:

1. To explore China's macro institutional environment, and discuss how formal and informal institutional forces facilitate or impede tourism growth
2. To explain the relationship between the influential institutional forces and the economic organisation of the current travel service market
3. To identify and illustrate the representative market penetration approaches adopted by foreign travel service firms, and the conditions under which those approaches are adopted

4. To propose a dynamic market penetration framework which incorporates institutional development, industry specific factors, and organisational resources

With these objectives in mind, an initial conceptual framework (See Diagram 3.1) uses the Chinese travel service market as an analytical setting, depicts an integrated and holistic approach to the use of networks as a penetration mechanism in an emerging economy context. Travel service firms could enter the market by engaging in Business to Government (B2G) and Business to Business (B2B) networks. Those networks, directly and indirectly, are being influenced by (and also influencing) the market institutions, both socially and economically. In others words, while adjusting themselves to the emerging market environment, they also contribute to the dynamism and structural changes of the market. The industry policy and regulations play a key role in the formation of the network strategies by travel service firms. This conceptual framework helps to identify key factors influencing travel service firms' penetration into China's travel service market and will provide a map for empirical research later on.

Diagram 3.1 Conceptual framework



Source: the author

B2G ties = Business to Government ties; B2B ties = Business to Business ties

Having established the conceptual framework the next step is to construct a consistent set of factors that explain network strategies in emerging economies. In this research project, the focus is on the types of network relationships and institutional spheres that give rise to such relationships. Child and Tse (2001) suggest that three institutional spheres affect the operations of businesses (local and international) in the context of China: government (and relationships with government), industry structure and regulations, and business-relevant intermediate institutions.

Previous authors also identify “guanxi” as a dominant form of social network in Mainland China (Xin and Pearce, 1996; Peng and Luo, 2000; Michailova and Hutchings, 2004; Peng and Zhou, 2005; Hutchings, 2005; Nicholas and Maitland, 2006). It is argued that the prevalence of such an informal relationship is an outcome of both ineffective formal institutions and remaining cultural heritage, maintained by implicit rules of reciprocity and social obligations (Luk, et al., 2008: 590).

According to Hoskisson *et al.* (2000), many competitive advantages in emerging economies are based on network relationships and close business to government (B2G) ties, with firms becoming effective monopolies in their home markets. In their specific environment, local competitors may be able to develop and manage relationship-based businesses that combat the lack of institutional infrastructure. Therefore, early relationships with local governments give firms tangible benefits, such as access to licenses (often limited in number). Naturally,

as the institutional context changes, it is necessary for firms to adjust their orientation and structure.

Peng and Zhou's (2005) extend Peng's (2004) initial work on network strategies and institutional transitions in emerging economies in Asia and argue that the various scale and scope of institutional transitions shape the content of different networks. They focus on business-to-government (B2G) ties and business-to-business (B2B) relationships and delineate how different transitions of political and legal institutions affect the evolution of B2G and B2B networks. The present research draws on Peng and Zhou's (2005) Business to Government (B2G) and Business to Business (B2B) as the analytical units. It is proposed that these two forms of relationship constitute the content of market penetration network in the emerging travel service in China. "Guanxi" is believed to be one important style of B2G and B2B relationship. The author intends to use the theoretical lens of "institutional resource" to comprehend how such network mechanisms function.

To this end, it is also worth mentioning Sheng, Zhou and Li's (2011) work. They distinguish the different roles of business ties and political ties in China. "Business ties are a firm's informal social connections with business organisations, such as buyers, suppliers, competitors, and other market collaborators. Political ties are a firm's informal social connections with government officials in various levels of administration, including central and local governments, and officials in regulation agencies, such as tax or stock market administrative bureaus". They believe that both forms of ties rely on

informal social networks rather than formal contracts in obtaining resources and facilitating cooperation. However, they provide very different resources and cooperation time horizons.

Earlier insights classify networks as strong ties and weak ties (Granovetter, 1973; 1985). Weak ties are sporadic efforts to explore information and acquire resources from other networks. In contrast, strong ties are characterised by frequent and stronger social interactions, where information is considered to be more trustworthy. In an emerging economies context, it is argued that institutional forces significantly impact the strength of Business to Government and Business to Business relationships (Peng, 2004; Peng and Zhou; 2005; Sheng, Zhou and Li, 2011). Peng and Zhou (2005) suggest that B2G and B2B relationships in emerging economies are governed by different dimensions of institutional forces.

While Granovetter (1973) aligns work-related relationships with his concept of weak ties, based on relatively infrequent contact (as opposed to strong ties based on frequent contact often amongst friends), Huggins (2010) proposes a network capital – social capital approach. Under this notion, network is not distinguished by the amount of time network actors spend with each other. Instead, it is primarily concerned with the reasoning of interaction between network actors. It is important to acknowledge Huggins' efforts in attempting to clearly differentiate firm-level resource (network capital) and the relationship resources of individuals (social capital). However, as the author indicates, the two types of relationships are not necessarily distinct and may overlap. The

rationality for entering and participating in a network may involve both economic and social reasoning. As a result, the outcomes of such networking activities contain both calculative and social elements.

It is important to note that the formation and implementation of network strategies in emerging economies is not a static process. As Peng and Zhou (2005) suggest, as institutional transitions unfold, strong-tie-based networks, may be transformed into weak-tie-based networks. In other words, the importance of B2G networks may descend in accordance with the ascendancy of the B2G network. This process is driven by the impact of institutional transitions. If this judgement is right, one can reasonably expect the emergence of industry networks involving the coordination of technological and marketing competencies as proposed by Tremblay (1998). However, institutional theory also predicts that different firms operating in the same institutional context are likely to behave similarly (DiMaggio and Powell, 1983). Luk et al, (2008) argue that institutional forces induce firms to choose strategies that are effective to themselves. The institutional context results in convergence of firm behaviours. In any case, it must be reminded, as discussed earlier in this chapter, that resistance to change is a fundamental attribute of institutions.

The aim of this research is not to conduct a longitudinal study, but rather to examine how different travel service firms invest in and manage networks that meet their market penetration requirement. If the capability to manage networks is heterogeneously distributed across firms and difficult to imitate, as suggested by Barney (1991) and Ireland et al. (2002), then a firm's network management

capability has the potential to create a firm-level competitive advantage. The main task of the empirical research is to understand how network strategies may vary under different institutional circumstances, beginning with a “thick” description of institutions and holistic analysis of institutions and network strategies within each specific case.

Summary

As a challenging yet interesting area of study, the literature on emerging economies has seen the influences of a number of international business theories. This chapter has reviewed three of the most influential theoretical perspectives – institutional theory, resource based theory and transactions cost theory. The theories are examined with respect to their suitability for understanding travel service firms' market penetration strategies towards emerging economies. That is, whether they can effectively explain the most prominent vehicle for business activities in emerging economies – network, handle its complexity and dynamics as well as accommodate the characters of the travel service business. While the value of different theoretical approaches is recognised, it is found that institutional theory is most competent as a conceptual device. Moreover, a link is established between the institutional theory and the resource based approach. On this basis, a conceptual framework incorporating the two perspectives is constructed. The implications for empirical research design are accordingly provided.

CHAPTER FOUR

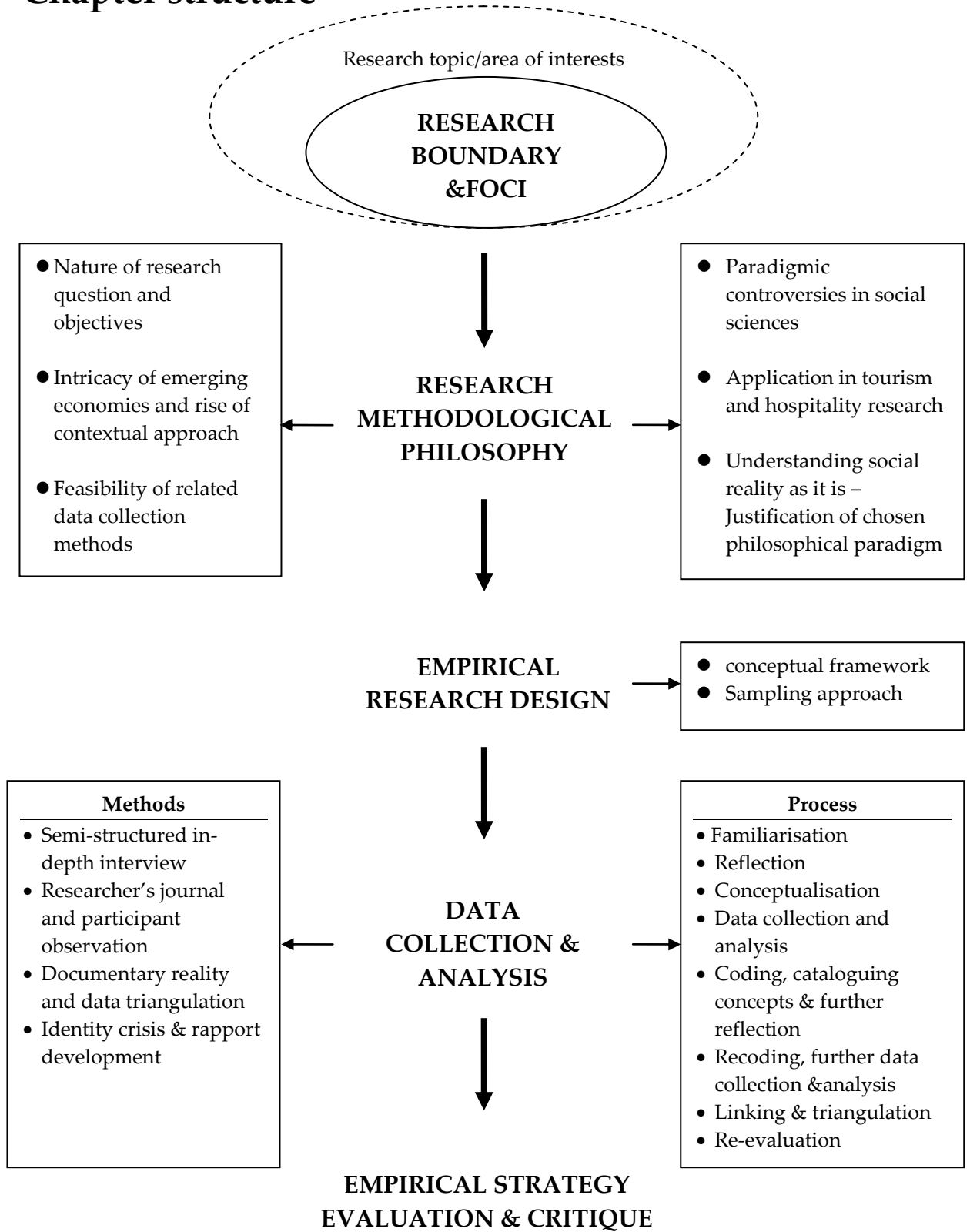
METHODOLOGY

This chapter deals exclusively with methodological issues of the designated research. The research question and objectives call for a research philosophical position and methods of enquiry which are capable of providing meaningful insights into the complex, dynamic, interrelated nature of emerging economies, their operating organisation's strategies in emerging economies, and the processes by which those strategies are produced and reproduced. It argues that qualitative methodologies are most appropriate for the chosen research foci. At the outset of the chapter, a thorough discussion of the most influential philosophical paradigms in social sciences is provided based on their relevance to the research topic. Incorporating the requirement of research question and objectives, empirical context and pragmatic concerns, the selected methodological approach is properly justified. On this basis, an explicit illumination of the research design and empirical strategy employed is offered. The data collection and analysis methods follow the structure applied by Morrison (1995), which is skillfully developed from the rigorous qualitative data analysis approach developed by Miles and Huberman (1994). This chapter is therefore divided into five main sections: research methodological philosophy, empirical research design, applied data collection and analysis strategies and empirical strategy evaluation and critique. Accordingly, there are three interrelated chapter objectives:

Chapter objectives

- œ Communicate how the research methodological position is determined
- œ Justify the structure of the research design, describe applied methods, data collection and analysis procedures
- œ Evaluate the research process and suggest possible ways for improvement

Chapter structure



Determining research foci and boundaries

“Ideally speaking...research is planned, designed and fairly neatly carried out...But as any experienced researcher will tell you if pressed to think about the matter, research really is a rather messy affair. This does not mean that the results are dubious or useless; rather, it means the research rarely proceeds completely as planned.”

- Strauss and Corbin (1998:32)

Looking back at the bumpy road that she has travelled as a doctoral researcher, the author of this thesis admits that there have been many “detours” on the way to the final PhD “destination”. From the start, determining research foci and boundaries proved to be quite a struggle one which had not been anticipated. It started from March 2006, with the familiarization of appropriate literature in various academic and industrial establishments, regarding the research topic that the researcher was initially attracted to. The literature drew on sources from a number of disciplines, including tourism, economics, marketing, management studies and sociology. This phase, consisting of browsing through a wide range of literature, could be described as an “exploring” phase in the whole PhD journey. Although finding the research interest was the ultimate goal, the relatively plentiful time then allowed the researcher to visit a great deal of potentially valuable and explicable areas where her curiosity led her, thus directly causing the seemingly uncontrollable enlargement with the research domain, and bore the seed of trouble in deciding the research boundaries in the later phase of the study.

When reflecting on the difficulty of defining research boundaries, there is a tendency to pursue too many things in one study (like a child with too many toys to choose from). This obscurity with research foci and boundaries was further exacerbated by the frustration associated with the gap between research reality and the researcher's ambition. Fortunately, with the help of experienced academic supervisors, the researcher was able to refocus and identify manageable units to focus upon, exploring fewer areas but more thoroughly. Decisions were made to undertake desk research primarily on issues contemplating emerging economies, internationalisation, and market entry. The research question was finalised as being "What are the impacts of institutions on travel service firms' emerging market penetration strategies?" with Mainland China as the research setting. Four research objectives were formulated:

1. To explore China's macro institutional environment, and discuss how formal and informal institutional forces facilitate or impede tourism growth
2. To explain the relationship between the influential institutional forces and the economic organisation of the current travel service market
3. To identify and illustrate the representative market penetration approaches adopted by foreign travel service firms, and the conditions under which those approaches are adopted
4. To propose a dynamic market penetration framework which incorporates institutional development, industry specific factors, and organisational resources

As the research question and objectives emerged, key issues were decided, and a more focused, in-depth literature study was implemented, this period began roughly from October, 2006. At this stage, the prevalence, relevance, as well as effectiveness of a variety of theories for service firmstargeting emerging economies penetration, were carefully compared and examined. The conceptual framework started to take shape. Greater attention was given to the literature on research methodology design. Before arriving at this point, the researcher had wandered about in deciding research foci and boundaries, and taken several “detours”. However, these “detours” should not be considered as a complete waste of time. Indeed, in this process, the researcher opened her eyes to various possible options for research plans, prevented the study from being too narrowly focused, and accumulated an in-depth knowledge in the area. It is believed that sufficient time was given to allow the research foci to mature and eventually come to light. Before going into the details of empirical research design, the researcher’s position in methodological philosophy has to be explained in order to portray an integrated research methodology.

Research methodological philosophies

A research paradigm refers to a set of beliefs that consist of three interrelated elements: ontology, epistemology, and methodology. Ontology reflects researchers’ basic beliefs about the world. Ontology claims are concerns about what exists (Denzin and Lincoln, 2000). In social sciences, ontology is concerned with the nature of social entities, and whether social phenomena should be considered as objective, external facts that are beyond a researcher’s influence, or alternatively as social constructions built on the perceptions and actions of

human actors (Burrell and Morgan, 1992). Epistemology deals with how our knowledge is acquired, and examines the relationship between the researcher and what is being studied. An epistemological position provides guidelines about how the researchers should conduct his or her endeavours. The choice of methodological approaches and production of research findings are inevitably influenced by the ontological and epistemological positions adopted by the researcher. In other words, paradigms serve as guidance for research action (Easterby-Smith, Thorpe and Lowe, 2001; Hussey and Hussey, 1997). Hence, prior to the dissection of empirical research design, it is important to explain the ontological, epistemological and institutional foundations that this research is built upon. This section offers a thorough evaluation of various influential paradigms in social sciences and how they can be related to the theme of this research.

Traditionally, positivism and phenomenology represent the two major genres in the philosophical pursuit of social inquiry. Along with the enormous changes in modern society, recent years have seen an influx of alternative philosophical paradigms, adding new dimensions to the ongoing debate on philosophical stances in social sciences. In the scope of this section, a spectrum of research paradigms germane to the designated study are embraced, ranging from positivism, phenomenology and hermeneutics, to post-positivism and post-modernism.

Positivism

Positivist ontology claims that the social world exists objectively. It assumes that there is one reality, one truth about that reality, and one science capable of delivering the truth about that reality in the social world. Positivists believe that social phenomena can and should be examined based on the same principles, procedures and ethos as the natural sciences. Burrell and Morgan (1992) point out that positivist epistemology is essentially based upon the traditional approaches which dominate the natural sciences. With positivist epistemology, the growth of knowledge is essentially a cumulative process in which new insights are added to the existing stock of knowledge and false hypotheses eliminated. Thus, they aim to apply scientific research methods to study social phenomena in order to establish explanatory laws in an objective, unbiased and “value-free” manner. Quantitative survey methods are often deployed in positivist research. Hypothetic-deductive testing of theories is the essence of positivist research (Bryman, 2004c; Easterby-Smith, Thorpe and Lowe, 2001; Gill and Johnson, 1997). The data gathered under a positivist methodology is likely to be large amounts of quantitative data about relatively few subjects. Quantitative data is normally perceived to be more objective, the collection process is less time-consuming and analytical techniques are more advanced.

One major criticism of the positivist approach is that it does not offer the means to study human beings and their behaviour in an in-depth manner. The data yielded through the positivist approach is useful but often provides a superficial view of the phenomenon it investigates (Crossan, 2003). Positivists believe that the phenomenon they study is unaffected by their research activities and will

still be present after the study has been completed. These commonly found natural science assumptions are less convincing in social sciences which are concerned with the activities and behaviour of people (Hussey and Hussey, 1997). Most importantly, the central tenet of the positivist methodology is to measure. Knowledge of anything beyond that, a positivist would claim, is impossible.

Phenomenology

A phenomenological perspective contends that multiple realities exist that are socially and experientially based, rather than objectively determined (Jennings, 2001; Silverman, 2004). At the epistemological level, the key distinction between positivists alike and phenomenological researchers lies in their different recognition of human behaviour. While the former assume that society can be studied just as how we study physical objects, the latter holds the firm belief that human behaviour, unlike that of physical objects, cannot be understood without reference to the meanings and purposes attached by human actors to their activities (Lincoln and Guba, 2000).

In the phenomenological tradition, the researcher and the subject are inextricably linked, and research is subjective, fluid and informing. Researchers who take the phenomenological paradigm tend to produce earthy, rich, holistic and informing studies (Miles and Huberman, 1994). This perspective is known for its use of qualitative methods in order to explain and understand human experience (Lincoln and Guba, 2000; Jennings, 2001).

A qualitative research strategy emphasises understanding of the meaning of social reality as opposed to quantification/frequency in the collection and analysis of data (Bryman, 2004c; Marschan-Piekkari and Welch, 2004). Shah and Corley (2006) believe the primary benefits of qualitative methods are that they “allow the researcher to discover new variables and relationships, reveal and understand complex processes, and illustrate the influence of the social context”. However, researchers traditionally rejected the positivist assumption that qualitative studies are simply a first step towards the testing of explanatory hypotheses (Silverman 1985; Bryman, 2004c). Morrison (1995), for example, maintains that phenomenological based research is particularly concerned with the detailed elucidation of context, and the sensitivity of process at a micro-analytical level, acknowledging the main strengths of the approach as being: “The ability to look at change processes over time, assisting the understanding of actors’ meanings, with the important reflexive facility to adjust to new issues and ideas as they emerge. As such, this philosophy has the potential to contribute substantially to the evolution of new knowledge and theories” (Morrison, 1995: 145).

Post-positivism/critical realism

The post-positivist paradigm is said to emerge as a response to the main criticisms of positivism at the end of the Second World War, and attempt to reconcile the main criticisms made of positivism. However, post-positivism is not a slight adjustment to or revision of the positivist position. Post-positivism is a wholesale rejection of the central tenets of positivism. The main tenets of post-

positivism (and where it differs from positivism) are that the knower and known cannot be separated and the absence of a shared, single reality.

One of the most common forms of post-positivism is critical realism, the critical realist is critical of a human being's ability to know reality with certainty. Where the positivist believed that the goal of science was to uncover the truth, the post-positivist critical realist believes that the goal of science is to hold steadfastly to the goal of getting it right about reality, even though we can never achieve that goal. Post-positivists believe that human knowledge is not based on unchallengeable, rock-solid foundations; it is conjectural. But they think we do have real grounds, or warrants, for asserting these beliefs or conjectures, although these warrants can be modified or withdrawn in the light of further investigation. It is possible to translate from each other's experiences or understand each other.

In the post-positivist paradigm, objectivity is not the characteristic of an individual. It is what multiple individuals are trying to achieve when they criticize each other's work. The post-positivist emphasises the importance of multiple measures and observations, each of which may possess different types of error, and the need to use triangulation across these multiple sources to try to get a better bid on what is happening in reality. Post-positivists also believe that all observations are theory-laden and that researchers are inherently biased by their cultural experiences, world views, and so on. We never achieve objectivity perfectly, but we can approach it. The way to achieve objectivity is to triangulate across multiple fallible perspectives, capturing as much of reality as possible (Denzin and Lincoln, 2000).

Post-modernism

Post-modernist trends began to evolve at the end of the Second World War. It involves a radical reappraisal of modern assumptions about culture, identity, history, and language. It challenges modernists and rationalists' assertions on rationality. However, up until now, there has been no clear-cut, authoritative definition of the term. Dickens and Fontana (1994) believe that the diverse origins and interdisciplinary applications are the cause.

Post-modernists regard positivist science's attack on qualitative research as an attempt to legislate one version of truth over another (Denzin and Lincoln, 2000). Lyotard (1984) contends that all modern forms of knowledge legitimate themselves by making explicit appeals to some sort of universal standard. The rise of post-modernism is regarded as incredulity toward grand narratives (cited in Dickens and Fontana, 1994). On post-modernism's application in the field of international business studies, Westwood (2004: 60) challenges the positivist paradigm's notion of "scientific" and "value-free" research, claiming that "science itself was at the service of the expansionist project, providing representations that apprehended, appropriated, and incorporated, making the other accessible to the West's knowledge/power systems and governmentality regimes". Therefore, positivist research is not an innocent, detached, neutral activity. The contemporary geopolitics of institutionalized knowledge systems decide that international business studies are essentially "a Euro-American project directed at the rest of the world for the purposes of apprehension, prediction and control". Westwood (2004: 65) calls for social researchers to step

outside the self-referentiality of Western discourse circuits and see science as “any systemic attempt to produce knowledge”.

Denzin and Lincoln (2000: 9-10) argue that “positivist methods are nothing but one way of telling stories about society or the social world. These methods may be no better or no worse than any other methods; they just tell different kinds of stories. Post-modernism specifically devotes itself to cultural sensibility, repudiates a tendency to ‘essentialise’ one culture and consequently ‘exoticise, delegitimise, marginalize’ the other”. Table 4.1 summarise the ontological, epistemological nature of explanation for a spectrum of established and emerging philosophical paradigms.

Table 4.1 A spectrum of social science paradigms

	ONTOLOGY	EPISTEMOLOGY	NATURE OF EXPLANATION
Positivism	Social world exists extremely and objectively, there is one reality, one truth about that reality	Social phenomena can and should be examined based on the same principles, procedures and ethos as the natural sciences	Something is explained when shown to be invariably related to something else, as suggested by theory and tested by experiments; strong statistical relationships are acceptable as an approximation to invariance.
Phenomenology	Multiple realities exist that are socially and experientially based, rather than objectively determined	The concern is with social experience: with common or collective objectification	Something is explained if it shown to have properties unique to its essential qualities and particular situation. It may also display recurrent aspects, making it part of a specific cultural pattern.
Hermeneutics	There is never any truth independent of interpretation	Interpretation of phenomena as signs, understanding takes place if a sign can be integrated into the semiotic horizon of interpreter	In the hermeneutic circle, the interpreter moves from an understanding of single elements to an understanding of the whole. in interpreting texts, the elements are the individual

			words which, alongside their general meaning, have a specific meaning within the text
Post-positivism/ Critical Realism	Objectivity is not the characteristic of an individual, but what multiple individuals are trying to achieve when they criticize each other's work	What is real is not given, the world has structure (there are levels of reality) and emergent structures	Something is explained if it is allocated a place at the end of a causal sequence, there may be multiple causes
Post-modernism/ Critical Theory	There is a "virtual" reality, shaped over time by various social, political, ethnic and economic factors	No agreed epistemological position	

Source: Postgraduate methodology class, University of Strathclyde (2006)

Understanding social reality as it is – the nature of social sciences and paradigmatic confluences

By its very nature, tourism and hospitality research is inter-disciplinary or trans-disciplinary. It has crosscut the humanities and the social and physical sciences, and benefitted from the methodologies of a wide range of disciplines. Essentially, the substantive domain of management is dependent upon the social sciences, in that its concern is primarily with the macro and micro behaviour and activities of human beings (Gill and Johnson, 1997).

By far, it is clear that the social science field has spread out between many disciplines and paradigms. As Lundan (2000) fairly concludes, the concept of competition between different disciplines and paradigms is innately constrained by the criteria by which the “winner” can be determined. Positivists, for example, believe that objective evidence alone should discriminate between rival theories. The goal of positivism is scientific explanation (Lundan, 2000). Flick (1998) summarises the use of a quantitative approach in social sciences as isolating causes and effects, operationalising theoretical relations, measuring and quantifying phenomena, as well as allowing the generalisation of findings. On the plus side, “positivist” research can generate findings that can confidently be trusted to be generally applicable, but at the same time, the rigorous empirical testing of such an approach is highly restrictive. Only the most observable and quantifiable issues and phenomena can be readily categorised and generalised. Positivist research therefore usually examines narrowly specified snapshot data, which inevitably limits the usefulness of its findings (Harris, 2000). More importantly,

“Rapid social change and the resulting diversification of life worlds are increasingly confronting social researchers with new social contexts and perspectives...traditional deductive methodologies... are failing... thus research is increasingly forced to make use of inductive strategies instead of starting from theories and testing them ... knowledge and practice are studied as local knowledge and practice”

- Flick (1998: 12)

Fundamentally, the social world cannot be understood in terms of causal relationships that do not take account of situations that human actions are based upon, actors' interpretation of events, their social meanings, intentions, and motives. This is based on the view that human actions have an internal logic of their own and that subjective dimensions must be understood in order to make actions intelligible. As a result, the researcher's understanding of the social world becomes a precondition of the research, achievement of which is assisted by directly experiencing that reality. Consequently, deductive forms of analysis, in which an external frame of reference is imposed upon the behaviour of the phenomena, are considered inappropriate where the phenomena in question have subjective capabilities. The key elements and features of the phenomenological philosophy endear themselves to the aims, nature and characteristics of social science research (Morrison, 1995).

Despite the tension between different paradigms, it is apparent that boundaries between the paradigms are indeed shifting in the world of social sciences. There has been a growing consensus among academics that it is helpful to consider them as being on a continuum rather than mutually exclusive (Hussey and

Huessy, 1997; Easterby-Smith, Thorpe and Lowe, 2001). Hussey and Hussey (1997) contend that as one moves along the continuum of research paradigms, the features and assumptions of one approach are gradually relaxed and replaced by those of the other. Easterby-Smith, Thorpe and Lowe (2001) also observe that many researchers, especially in the management field, adopt a pragmatic view by deliberately combining methods drawn from different traditions.

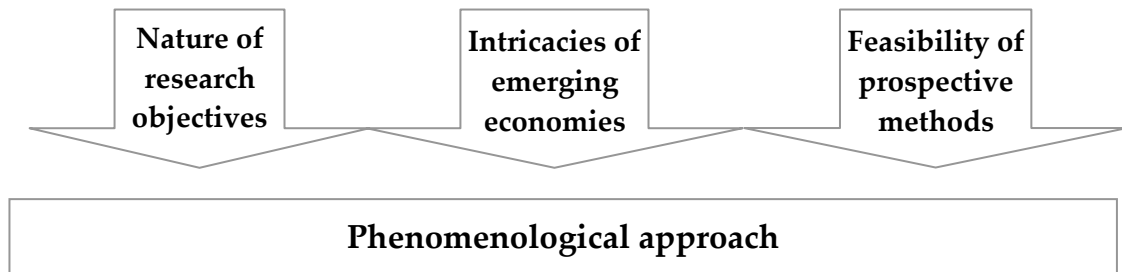
Some positivists and post-positivists alike occasionally argue that paradigms are, in some ways, commensurable. They can be retrofitted to each other in ways that make the simultaneous practice of both possible. However, researchers such as Denzin and Lincoln (2000) argue the confluences between different paradigms are more likely to be happening at the methods level. Lincoln and Guba (2000: 167) believe that it is possible to combine qualitative and quantitative approaches responsibly within an evaluation. They admit that "though qualitative techniques are typically most appropriate to support the phenomenological approach. There are times when the issues and concerns voiced by audiences require information that is best generated by more quantitative methods...In such cases, the responsive conventional evaluator will not shrink from the appropriate application" (Lincoln and Guba, 2000: 169). Qualitative practitioners, according to Denzin and Lincoln (2000), are sensitive to the value of the multi-method approach. This view is confirmed by Lundan (2000), who argues that the combination of methods has the potential to provide complementary knowledge. However, this does not imply that the researcher vacillates between different paradigms and they will be equally represented in

the research. As a matter of fact, the need for internal consistency means that the synthesis is likely to be achieved by elevating one set of principles.

Justification of the chosen approach

The purpose of this section is not to indulge in the heated philosophical debate in the realm of social sciences, but to demonstrate where the chosen paradigmatic approach departs from. The above analysis has effectively laid down the theoretical cornerstone for phenomenological paradigm. Patton (1990) believe that the design of qualitative data should consider the following factors: the area of enquiry and research objectives - what the researcher wants and needs to find out, what will be useful, what will have credibility and what can be done within these available resources. Figure 4.1 shows that in determining the methodological position for this study, it is necessary to address three aspects. One, the requirements of the research objectives; two, the empirical research context and methods adopted by previous research with a similar focus; and three, the feasibility of the prospective methods.

Figure 4.1 Determinants for the chosen philosophical paradigm



Source: the author

Nature of research question and objectives

The design of the research question and objectives clearly affects the ontological and epistemological assumptions that underpin the research, as well as the available methods (Marschan-Piekkari and Welch, 2004). Likewise, the decision on research methods depends mainly on the research questions you are seeking to answer (Saunders, Lewis and Thornhill, 2000). Easterby-Smith, Thorpe and Lowe (2001) even argue that it is impossible to attain true value-freedom because the research design should be based on the aims of the study and the research questions. Therefore, to foster a convincing research methodology, it is necessary at this point to return to the research question and objectives.

The designated research question and objectives are both exploratory and explanatory. They aspire to discover new variables and relationships, understanding and revealing insights on strategy formation in the complex institutional setting of emerging economies. It is the researcher's intention to cultivate meaningful, fresh theoretical advance, not test existing theoretical stances and measure their performances. The research context sets its root firmly in the emerging economies and puts emphasis on the influence of context. On this premise, it is believed that the imposition of unnatural "scientific" strictures or a considerable level of abstraction may virtually weaken the meaning and the findings. Marshall and Rossman (2006) describe qualitative methodologies as having three major purposes for research: to explore, explain or describe the phenomenon of interest. A phenomenological approach, known for its potential

in developing holistic, in-depth investigations, is believed to be ideal for such research objectives.

Intricacy of emerging economies and rise of contextual approach

Previous research on internalisation and entry to emerging economies were reviewed. The literature has documented a wide range of disparate methodologies employed. In the past, international business theories were replete with "low context" perspectives which minimise the impact of national distinctiveness. Emerging economies provide a new contextual/analytical setting in which to understand the relative strengths and weaknesses of existing theoretical perspectives. However, the challenge to the wholesale adoption of developed economy-based theoretical and methodological approaches in emerging economies is seriously magnified by the complexity and heterogeneity of emerging economies (Wright *et al.*, 2005). Child and Tse (2001), for example, demonstrate that institutional changes in China are not deterministic in nature, but involve interplay between forces operating at different system levels. This view is also supported by experience in Eastern Europe. Westwood (2004) accuses the reductionist or severely de-contextualising methods for incorporating simplifying representational strategies that violate the inherent complexity of the social systems. With the importance of context gradually being recognised, recent years have seen mounting academic interest in institutional forces in emerging economies (Child and Tse, 2001; Hoskinsson *et al.*, 2000; Hutchings, 2005; Peng, 2003; Wright *et al.*, 2005). Perspectives derived to examine these institutional forces have both an economic orientation and a sociological orientation.

In the field of international business studies, Wright (1996: 74) points out that “The North American predilection for the deductive approach to theory building, hypothesis testing, and statistical analysis is itself rooted in North American culture, which assumes that the nature of organisations is an objective one, amenable to impartial exploration and discovery”. Such recognition, according to Westwood (2004), has had little impact on research approaches in the field and barely any reflexivity acknowledging that insight exists. The social reality of emerging economies leads to the recognition and adoption of exploratory methodology involving interviews with key personnel, original case studies, and archival material for examining strategies in emerging economies (Hoskisson *et al.*, 2000; London and Hart, 2004). Qualitative methods tend to collect a great deal of “rich” information and are more likely to ensure a “holistic” view required by the research objectives and the empirical research setting.

For example, early contributions on a firms’ internationalisation processes, such as the Uppsala model (Johanson and Vahlne 1977), typically drew upon a range of techniques, including qualitative methods, in order to generate theory and new insights. Vernon (1994) went so far as to comment that questionnaires are often inadequate instruments for the complex issues that are the subject of international business (cited in Marschan-Piekkari and Welch, 2004). Qualitative research goes beyond the measurement of “what”, and seeks to understand the meaning and beliefs underlying action (the “why” and “how”) (Buckley and Chapman, 1996). As Wright (1996: 70) explains, “qualitative research provides answers to ‘messy’ problems and complex issues that are typical for

international management research. Qualitative methods can take advantage of rich data and in this way allow the researcher to obtain more meaningful results about 'soft' inter-relationships between core factors".

Moreover, qualitative research allows for deeper cross-cultural understanding and is less likely to suffer from cultural bias and ethnocentric assumptions on the part of the researcher than survey instruments (Wright, 1996). Boyacidiller and Adler (1991) argue that qualitative research takes an "emic" perspective and examines other organisations and societies on their own terms. Some researchers, for example, Harari and Beaty (1990), even argue that qualitative research may be preferable in developing countries, where particular emphasis is placed upon the development of social, face-to-face relations.

The conception of this research absorbs the postmodernist paradigm's proposal to avoid grand theories, a view echoed by Strauss and Corbin (1998) and Neuman (1997). It is noticed that from previous literature on emerging economies studies, an attempt to provide general, all-encompassing representations are challenged, if not altogether impossible. On the other hand, the move towards more locally situated and contextually contingent explanations seem to be more plausible and pragmatic.

Feasibility of related data collection methods

One could argue that quantitative methods are most appropriate for theory testing, it is however not the intention of this study to follow this routine. Instead, the researcher is determined to develop insights, identify

major structural and behavioural variables. The exploratory/explanatory nature of this study calls for in depth data which questionnaire based survey is not able to deliver sufficiently.

During the fieldwork preparation stage, it was learnt from industry insiders that a significant proportion of the research population, which are tour operators who have penetrated into Mainland China tourism market, are “hidden” due to strategic or regulatory concerns. The semi-official statistics displays that only 22 joint ventures and sole ownership tour operators have entered the market since entry barriers were eased. Checks with industry insiders revealed that this number did not even remotely reflect the reality. Indeed, it is fair to say that deciding the actual sampling frame was not an easy task due to the “hidden population” under many disguises, be it consultancy firm or international exchange organisation. Puts simply, a sufficient, approachable population for carrying out large scale questionnaire based surveys does not exist.

The inherent weakness of questionnaire based survey also deters it from entering the range of available data collection techniques. Questionnaires often cannot escape their destiny of negligence, which perhaps is even more so for this type of study, as the potential targets of the questionnaire were executives with busy schedules who probably receive a large number of enquires on a daily basis. The preliminary study discovered many market players are competing on the margin of regulatory restrains. It is highly unlikely that the key informants/decision makers would be willing to discuss some of the most sensitive aspects of their strategy formation in a questionnaire based survey

format. Face to face interviews, (sometimes even telephone interview, as informants are not willing to reveal their identities), often encourage greater involvement and participation from participants; therefore yielding better results and insights. On top of that, the researcher, in this case, also the interviewer, is able to stimulate further discussion and find out issues which are critical but not covered in the desk research.

In response to the issues identified above, the phenomenological approach is reserved as the most preferable paradigm for this study. It is believed that such a choice will allow the researcher to reveal the complexities of the nature of emerging economies and their relationship with tour operation firms' market penetration strategy formulation process. The associated methods with this approach will enable the research to get close to the social reality of the investigated issues. Ultimately, it is the pursuit of the researcher to interweave multiple perspectives when formulating empirical strategies, bring in a post-modern sensitivity to the data analysis process, and create intellectual confluence on the methodology.

Empirical research design - conceptual framework, sampling approach and case selection

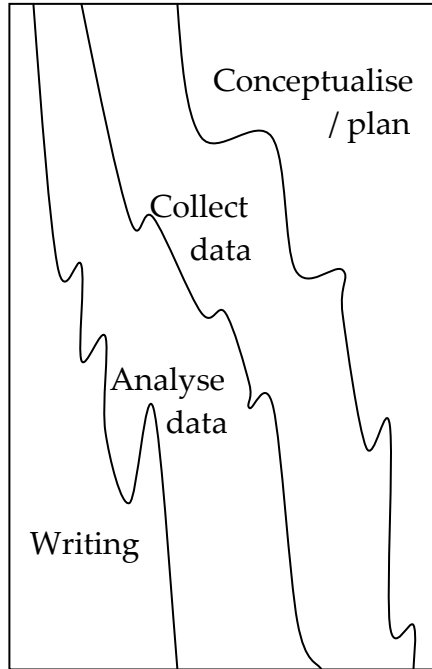
A researcher who never goes near the water, who collects quantitative data from a distance without anecdote to support them, will always have difficulty explaining interesting relationships...

- Mintzberg (1979: 113)

The research design is the route map that takes the researcher from posing the initial research question to identifying, collecting and then analysing the necessary data so that the research question can be answered (Easterby-Smith, Thorpe and Lowe, 2001; Yin 1994). This section explains the formation of research design by answering two questions: how were research question and objectives formulated, and how were the relevant theoretical/conceptual framework and corresponding sampling approach devised? Rather than approaching the research act as a fixed set of methods and procedures controlled by the researcher, qualitative research supports an “enacted, negotiated, adaptive and serendipitous process”, which usually entails a more flexible approach to overall research design and conduct (Marschan-Piekkari and Welch, 2004:11). Qualitative research involves a more fluid relationship between the various elements of the research; an approach which can be called recursive. In this approach, research propositions evolve as the research progresses; data analysis and collection take place concurrently; and writing is also often an evolutionary, ongoing, process, rather than a separate process

which happens at the end of the project (Veal, 1997). Diagram 4.2 demonstrates the recursive approach to research design and conduct.

Diagram 4.1 Recursive approach



Source: adapted from Veal (1997)

The construction of a coherent conceptual framework is an indispensable step towards the establishment of causal relationships in a research, thus essential for ensuring internal validity. Through reviewing historical materials and records, comparing various theoretical stances and communicating with industry insiders, it is speculated that an institutional oriented approach to market penetration is of particular relevance to this study (see Chapter Three). Such an approach allows formultilateral influences when contemplating emerging market strategies. The institutional development of the market, evidently, is one of the most important factors determining a commercial organisation's market penetration strategies. The absence of effective state institutions as well as dynamic market contingencies and other institutional constraints make social networks endemic for doing business in emerging economies (Hutchings, 2005; Michailova and Worm, 2003). Not only does the network approach identify the exchange relationships evident among different actors in the market, it also acknowledges that these are dynamic and can be strategic in nature.

The contextual and holistic nature of the framework points itself clearly in the direction of a qualitative sampling approach. Sampling for qualitative studies is fundamentally different from those of quantitative ones. In quantitative research such as surveys, epidemiological studies, or case control studies, samples ought to be statistically representative, so that the findings can be generalised to the population from which the sample is taken (Liamputtong and Ezzy, 2005).

Sampling for qualitative studies is also known as non-probability sampling. Rather than focusing on the distribution of the phenomenon being studied, non-

probability sampling aims to identify information-rich cases that a full and sophisticated understanding of all aspects of the phenomenon can be explored. Non-probability sampling reflects the phenomenological philosophy, in that it recognises that the world is socially constructed, and an in-depth understanding of social phenomena is required (Easterby-Smith, Thorpe and Lowe, 2001; Saunders, Lewis and Thornhill, 2000). Despite the common belief that the findings from non-probability sampling methods cannot be generalised, Tellis (1997) argues that as those information rich cases are not necessarily drawn from a large universe of cases, it is incorrect to assume they are "small samples". The findings from studies conducted in this tradition bear the value of "analytic generalisation", where previously developed theory is used as a template against which to compare the empirical results of the case study.

As with other methods of data collection, it is important to decide the target population that is to be used for the investigation, thus define the sampling frame. A sample frame, according to Liamputtong and Ezzy (2005), is a list or account of all the possible people or things that might be sampled for the project. For this research project, the target population is all the overseas tour operators aiming to penetrate the Chinese tourism market, in particular the outbound market. The researcher began with a stratified purposive sampling approach, which at first was believed to be suitable for developing representation of different market sectors in the booming Chinese outbound market. As the research foci emerged and the researcher got closer to the market reality, it became clear that defining the exact sampling frame for this study would be a challenge in itself. Since a significant proportion of the population was not

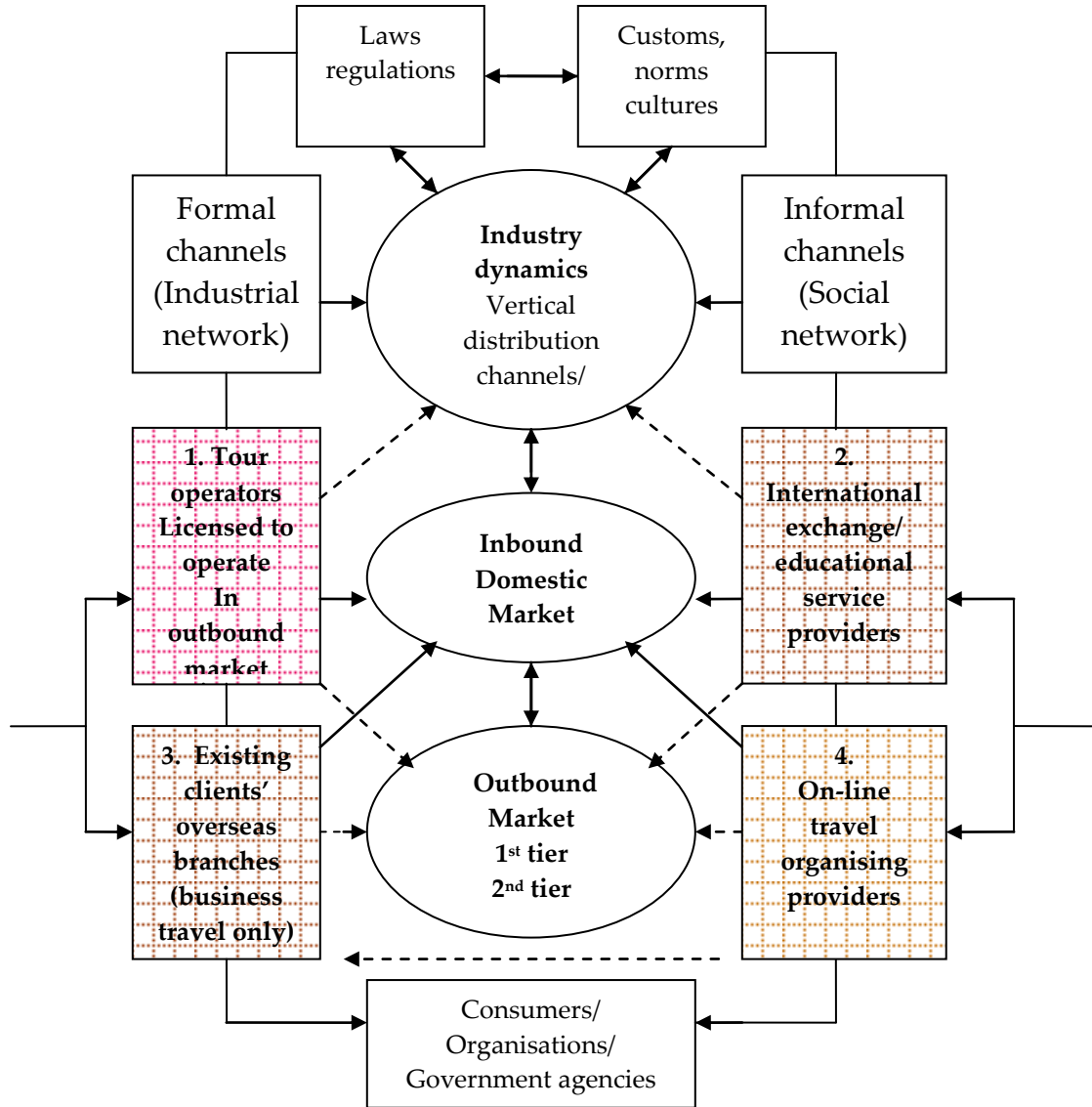
identifiable or hidden for regulatory concerns. There is not an official or even a semi-official list of organisations which can be sampled. For theoretical and practical concerns, a hybrid of theoretical sampling and snowball sampling was adopted to meet the requirements of the research objectives.

Initiated by Eisenhardt (1989), using theoretical sampling chosen cases to generate/extend theories has gained much support from the business research community. Theoretical sampling means selecting groups or categories to study on the basis of their relevance to research questions, theoretical position, and most importantly the explanation or account which researchers intend to develop. Theoretical sampling is concerned with constructing theoretically meaningful samples. Since the chosen cases have to meet certain criterion for theory generation or test purposes, theoretical sampling shares much resemblance with criterion sampling (Thompson, 2001). According to Liamputtong and Ezzy, (2005:44), "In criterion sampling it is important to select the criteria carefully, so as to define cases that will provide detailed and rich data relevant to the particular research problem". Clearly, cases have to be chosen in such a way as to most effectively develop/extend theory, but exactly how many cases are sufficient to generate empirically grounded, convincing theory? There is no standardised answer to this question.

In line with the criteria for deciding the right methodological approach for this study, the case selection process critically considered the requirements of the research objectives, the empirical research context, and pragmatic issues. Based on the result of desk research and preliminary interviews with industry insiders,

the initial conceptual framework had identified four categories of travel service providers attempting to enter the Chinese market (See patterned rectangles in Diagram 4.2). However, as the fieldwork progressed, three types of companies were found to be most typical in the current market climate. As a result, three cases were put together. The selected cases are believed to have a reasonable level of explanatory power in understanding the impact of different kinds of institutional forces on firm performance. In other words, these cases were chosen in accordance with Eisenhardt's (1989) case selection principles, which are how well they fit in the conceptual categories and the extent of explanatory power. In addition to conceptual considerations, pragmatic considerations influenced the case selection process as well. Here, the issue of "accessibility" became apparent. The online travel service sector as a category gradually disappeared due to lack of access to data. The chosen cases reflected the need to obtain a sufficient amount of data with limited resources and time frame. However, this is not to say that these cases were chosen based on convenience reasons only. It is believed that the properties of the selected cases comport with the rest of the population for this study, as recommended by Seawright and Gerring (2008).

Diagram 4.2 Initial conceptual framework



Seawright and Gerring (2008) point out several challenges in a case selection process. First is the problem of representativeness if the ambition of the case study is to reflect on a broader population of cases. Secondly, they argue that “chosen cases must also achieve variation on relevant dimensions, a requirement that is often unrecognised” (Seawright and Gerring, 2008:294). While the issue of “representativeness” may be a matter under debate when it comes to case studies, the requirement on the variation on relevant dimensions resonates with Eisenhardt and Graebner’s (2007: 27) demand for cases that “richly describe the existence of a phenomenon”. For this study, the semi-official statistics showed that only 22 joint ventures and sole ownership tour operators had entered the market since entry barriers were eased in 2003. However, checks with industry insiders suggested that this figure did not even remotely reflect the reality. As explained earlier on, during the preliminary fieldwork, it was learnt from industry insiders that a significant proportion of the research population, which were tour operators attempting to penetrate into the Mainland China tourism market, were “hidden” due to strategic or regulatory concerns. Therefore, to richly describe the phenomenon of travel service firms’ penetration into emerging markets, the researcher could not overlook the existence of travel service provider which were not on the published statistics but were actively participating in the development of this market.

To summarise, the researcher purposefully selected three cases from a population of travel service firms in order to build an emerging market penetration framework that is applicable across different types of travel service firms. This approach was first suggested by Eisenhardt (1989). The chosen

organisations to be studied fit into three categories: cross-sector, large scale tour operators, ethnic SME tour operators and regional tour operators receiving preferential treatment from the government. Although each of these categories appears to have its own target market sector, they all aim at the same emerging market, thus facing very similar institutional settings. In addition, all of them participate in institutional oriented networks which they use to assist their market penetration to China. The three organisations chosen for cases studies provide the necessary contrast in terms of variation on relevant dimensions, and yet offer enough material to be compared on the ground of market penetration strategies and performances. More importantly, these cases are supposed to correspond with existing market penetration patterns in emerging economies, and subsequently allow the conceptual framework to be extended to analyse the effects of network approach to market penetration under changing institution composition.

In this study, networks are treated as both a mechanism as well as a catalyst for emerging market penetration. The study is concerned with the functionality of such networks and the soil they are embedded in. There are reasonable grounds to believe that a snowball sampling approach is the most appropriate approach for this task. According to Liamputtong and Ezzy (2005), snowball sampling is the most commonly deployed sampling technique when studying networks and is particularly powerful when studying informal sectors. It is useful when the people being studied are well networked and difficult to approach directly, or when the focus of the study is social networks. As previously mentioned, exploratory research conducted during the preliminary data collection stage

correlated with documentary data and confirmed that the travel service firms' emerging market penetration was a multifarious and complex phenomenon. Though the official ban on foreign involvement in this sector was lifted years ago, critical restrictions on the investment in the respective sector are still in existence. There is no register of tour operators who have entered the market, from which a sampling frame could be drawn. The preliminary interviews with industry insiders revealed that the semi-official list of firms rarely reflects the reality of market competition. Thompson (2001) reviews several authors' research results and concludes that such a situation commonly occurs in most informal sectors. The snowball technique has the advantage of securing recommendations from persons known to the prospective interviewees, consequently help to secure cooperation for interviews. Moreover, in a geographically dispersed, culturally networked market such as China, the snowball sampling approach renders the most realistic approach to reach the desired informants. The field study later confirmed the benefits of this approach. The data will eventually be arranged in a chronological manner to construct a cognitive map which incorporates different elements and variables, and leads to theory or theory extension.

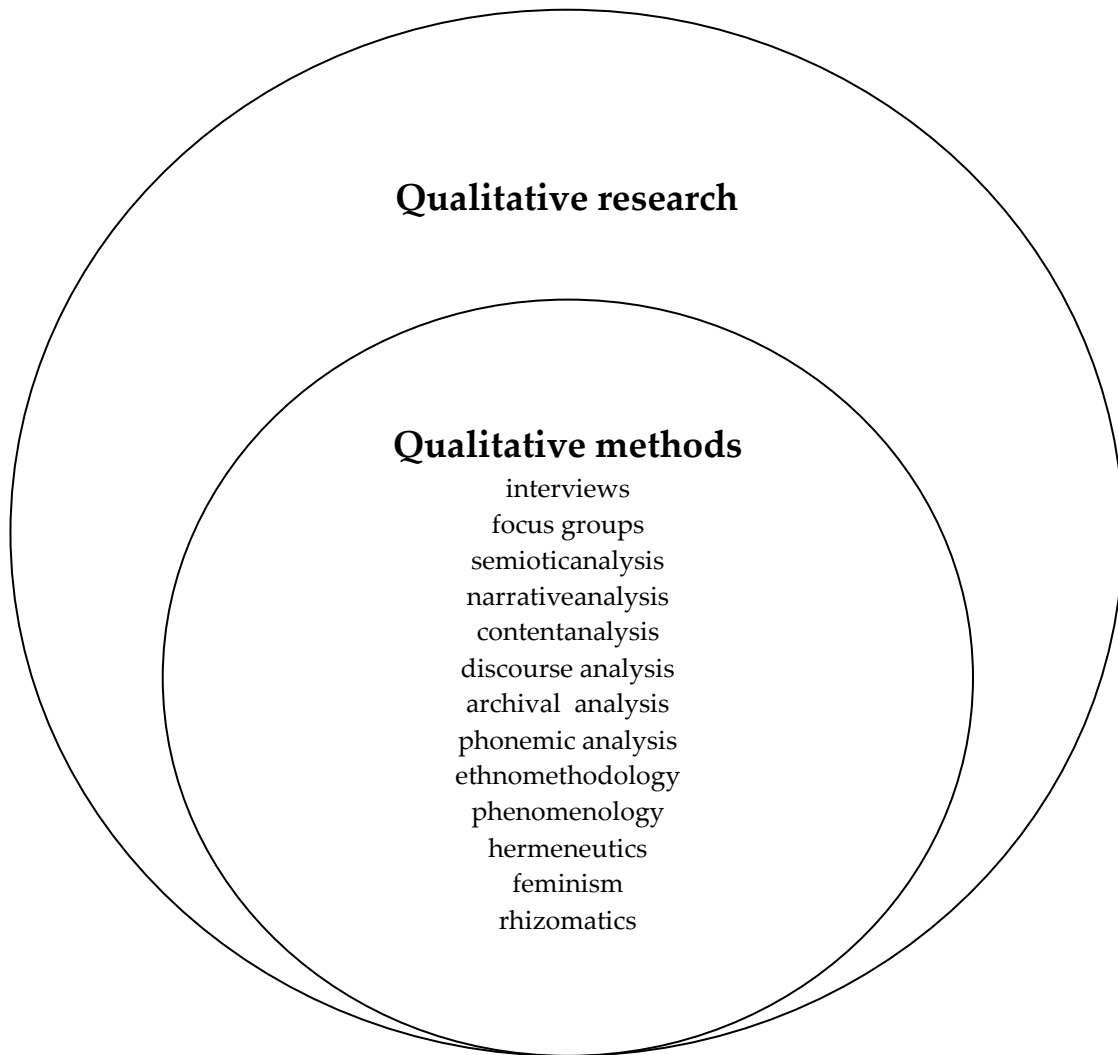
Data collection and analysis

Marschan-Piekkari and Welch (2004) clarify that qualitative methods and qualitative research are not the same item, although those terms are often used interchangeably. In regard to qualitative methods, the term "qualitative" is used to describe research methods and techniques which use and give rise to,

qualitative rather than quantitative information. In general, the qualitative approach tends to collect a great deal of “rich” information about relatively few people rather than more limited information about a large number of people (Veal, 1997). Using qualitative methods, the information likely to be gained from each subject is expected to vary considerably, and in complex ways.

Despite such great variation, qualitative research, as Denzin and Lincoln (1994, 2000) explained, is however not a homogenous concept. Qualitative research is a field of inquiry in its own right. Qualitative research does not share a set of methods or practices that are entirely distinct. It crosses disciplines, fields, and subject matter. A complex, interconnected family of terms, concepts, and assumptions surround the term qualitative research. Qualitative researchers use narrative, content, discourse, archival and phonemic analysis, but also statistics, tables, graphs, and numbers. All of these research practices can provide important insights and. As elucidated previously, the argument arising in the social sciences is not about methods.

Figure 4.2 Qualitative research and qualitative methods



Source: adapted from Denzin and Lincoln (2000:6)

The data collection for this research project is to build up case data through interviews, observation and documentation studies. These methods were employed over the course of the data collection to varying degrees. This strategy ensured that data were gathered from different sources and angles (for example, interviews with internal company informants, external informants, policy makers and related officials and independent consultants). Hence wider strands could be drawn together for a thorough debate. The following sections illuminate how plausible and accessible empirical data collection methods and procedures were devised to obtain the desired data, and thus augment the quality of the inquiry.

Data collection methods

Semi structured in-depth interviews

1) Justification for the chosen method

The interview has been perceived as one of the key research tools for qualitative research and is commonly used in management research. This method of data collection is seen as most proper in achieving the desired depth and richness of data by most researchers. For example, Silverman (1993) argues that the richness of data and nuances of meaning involved can only be captured by “interpretative” in-depth interview or participant observation approaches, after stimulation by a researcher. Ghauri (2004) deems that the understanding and interpretation of questions by respondents and of answers and findings by

researchers are very difficult to compare and often lead to misleading conclusions. In depth interviews provide excellent opportunities for respondents and researchers to check their understanding and keep on asking questions until they obtain sufficient answers and interpretations. This approach is said to allow the use of probes, encourage the respondent to give an answer, and to clarify or amplify an answer. Harris (2000) believes that in-depth interviews show superiority when the researcher's goal is to understand the behaviour of decision-makers in different cultures, while non-contact methods such as questionnaire based survey are normally considered to be less capable in handling such issues. For this study, in-depth interviews with key decision makers and industry experts on emerging market penetration strategies are conducted to generate insights on the somewhat highly strategic yet sensitive research questions.

2) Developing interview guiding prompts and adjusting research foci

May (1993) suggests that semi-structured interviews allow people to answer more on their own terms, while still providing a greater structure for comparability over the focused interview, which is ideally suited to the aims of this research. To keep the focus of the interview on track, interview guiding prompts were designed for target audiences (see Appendix 1). The scripts had a mandarin version for those interviewees who were not quite fluent in English. The first draft of the interview guiding prompts and a cover letter were reviewed by an experienced qualitative researcher. Based on the feedback, the language was adjusted to be as clear and "everyday" as possible, avoiding management and academic jargon. The intention of such adjustment was to

foster a free flowing and relaxing conversation about complex and sensitive issues.

The interview guiding prompts adopted a two-stage approach. In the first section of the guiding script, general developments regarding institutional development of the market were discussed, whilst in the second part the emphasis shifted to more specific issues designed for particular segments. The merits of the two-stage questioning are twofold. First of all, the equivalence of the questions in the first section allows the researcher to compare interview results among different participants. Secondly, the “general to specific” approach is expected to give informants enough time to “warm up”, and to get familiar with the researcher’s way of questioning. By doing so, the researcher aims to maximise the information obtained from interviews.

Although the two initial interview guiding prompts were highly structured, the researcher soon discovered that during interviews it was rarely possible to keep the interaction process “on track”, or maintain the desired “logic flow”. The interviewees often “deviated” from the original questions, deliberately or subconsciously. Some of the interviewees felt more comfortable talking about their own industry experiences, others liked to tell narratives related or unrelated to the interview questions. It was much easier to keep a conversation focused in a work environment as opposed to those which happened in more informal surroundings. On the other hand, most interviewees in an informal setting were much more critical and willing to reveal “insights” which they would not speak about other than outside the office. A highly structured

approach often did not go with the venue and atmosphere where interviews were conducted, i.e. restaurants, cafes, members' clubs.

On both the topics and duration, the interviewer had to give interviewees as much freedom as possible in order to obtain "usable content". Clearly, using standardised research categories and questions in interviews is highly problematic. Instead, a much more flexible approach was embraced after the first three interviews. Interview guiding questions were adjusted after each interview, redeveloping categories and adding new themes and research foci without losing the essence of the data collection. In short, this study utilised semi-structured interviews, but incorporated certain techniques more common to focused interviews, using specified interview guiding prompt questions, but with a flexible structure.

3) Active interview, identity crisis and rapport development

The choice of a semi-structured interview format means that the survey interview's "minimal interfere" approach with passive involvement is abandoned. The researcher was not satisfied with merely acting as a recording machine, but actively engaged in the conversation, pushing the enquiry but attempting to avoid "leading" the conversation. Holstein and Gubrium (1997) term this approach as "active interview", which acknowledges and capitalises on both interviewers' and respondents' contribution to the production of the interview data. The interviewer consciously and conscientiously attends to the interview process, gives particular attention to the role of the interviewer vis-à-vis the interviewees.

The active interview approach has gained much resonance among qualitative researchers. Atkinson and Coffey (1995) write that qualitative research should try to describe the subjective view in depth and detail, try to represent the person's view fairly and portray it as consistent with his or her meanings. Miller and Glassner (1997) argue that it is only in the context of non-positivistic interviews, which recognise and build on their interactive components (rather than trying to control and reduce them), that "intersubjective depth" can be achieved. Hence, the interactive nature of active interviews may actually contribute to the achievement of knowledge. In practice, it is important to develop trust and rapport in active interviews, so as to create a climate that facilitates mutual disclosure and enhances the quantity and quality of the data accumulated.

The double check with experienced qualitative researchers at the pre-fieldwork stage altered the researcher's initial way of approaching informants, which was considered to be slightly too formal, and might deter her from getting important data from informants. A less formal approach adopted in the later stages of the investigation reduced the participants' awareness of the "interview situation", therefore positively enhanced the depth and openness of the discussion.

Despite the fact that the researcher did clearly introduce herself and the use the data gathered at the beginning of each interview, some interviewees cast suspicions on the researcher's identity and the use of the information she obtained. For example, at the end of one interview regarding the local market environment and competition, the informant asked the researcher: "you are not

sent by ambitious foreign tour operator to do market research, are you?" The manager seemed to have confusion, if not being suspicious of the researcher's identity and possible use of the data. It is reasonable to suggest that during the data collection stage, the researcher suffered from an "identity crisis" to a certain extent. In the after session reflection, the researcher reviewed how she presented herself and the questions she raised during interview, decided that such "identify crisis" could possibly be explained by the nature of the interview questions, which may seem to be highly market and strategy oriented and ahead of the time in some places, though this inference was not confirmed with the informants.

Spradley (1979: 78) describes the establishment of rapport as "the development of a mutual trust that allows for a free flow of information" and proposed a four stage model which summarises this rapport development process in an interview situation. The initial stage is known as apprehension. To overcome apprehension and achieve understanding, interviewer encourages the interviewees to talk about themselves and develop a dialogue. The interviewer should deliberately keeps the conversation away from evaluative topics and try to get the informants to make descriptive statements, i.e. asking informants what their jobs entails, what they do at what time. This research successfully used this technique. The first question raised by the interviewer was always about the interviewee's self-experience with the industry sector or the research area. Not only because asking interviewees to talk about themselves is a "natural" way to start a conversation; more importantly, to this particular research, it was discovered, after the first few interviews, that the interviewees'

personal experience with the industry often mirror the emergence of the Chinese outbound industry. For a country with a relatively recent history of outbound tourism, it is not surprising that many of the interviewed executives' career paths reflect the development of the industry. Hence, capturing the meaning of interviewees' experience is largely consistent with the overall aim of this investigation.

In Spradley's model, the second stage of rapport development is when each party in the interview is beginning to discover what each other is like, how the interview will proceed and for what reason. In this stage the questions switched focus from the respondents themselves to the first section of the interview questions (see Appendix 1). It was reasoned that these questions regarding the macro market institutions, in dealing with a "non-threatening" subject that was familiar to the respondents, could be honestly addressed.

Based on Spradley's model, the penultimate stage of this process is co-operation, where each party involved in the interview gets to know what to expect from one another. At this stage the researcher considered it was appropriate to introduce more specific and challenging questions and probed the interviews further for more in-depth judgment and analysis. The "final" stage is when both parties: interviewer and interviewees reach the highest level of rapport. However, this fourth stage is not necessarily the end of the story. The flow of communication can go further. In the case of this investigation, the follow up interview is a proof for the further development of this process. It happened to a few interviewees from different organisations.

Basically, the researcher followed a “general-specific-general” approach when conducting active interviews. The questions became progressively more challenging, gradually probing interviewees to express personal opinions and uncover hidden issues. As suggested by Thompson (2001), throughout the process of active interviews, the research assumed a non-argumentative, supportive attitude. It is imperative that the interviewer make respondents feel that their participation and answers are valued, and that their co-operation is fundamental to the conduct of the research. This is achieved by showing commitment to disclosure by expressing an abiding interest in both the information being presented and the feelings of the interviewee.

It is also worth discussing the relationship between the researcher and informants during their interaction, as well as between the researcher and the phenomenon being investigated. Given the researcher’s passive involvement with the sector, her cultural background and the different stands taken by the researcher herself and the interviewees, prior to the field work, the researcher was certain that she would be able to answer the research question from both an “outsider” and “insider” perspective in a socio-cultural context. However, the field experience put her knowledge and understanding towards the mentality, institution and business culture in oriental settings under question. There appeared to be a distance between the researcher’s self perception and the interviewees’ perception of her identity, even though the researcher had paid particular attention to respect culture sensitivity, and made efforts in adapting to/ coordinating with the business cultural where needed. For example, it was

found that informal contacts over food for developing relationships were directly linked to the level of engagement in the discussion.

The researcher's personal/professional background also influences on their activeness and willingness to cooperate during interview sessions. It was found that informants with an academic background and/or with more media exposure were more willing to cooperate, reveal more insights and analyse the causes rather than give narratives. Others were relatively less active and might be more conscious of preserving their anonymity. In most cases, whether or not extensive and open discussion took place depended on the "chemistry" between the interviewer and participants.

Telephone interviews and online interviews

Saunders, Lewis and Thornhill (2000:267) claim that "qualitative interviewing by telephone is only likely to be appropriate in particular circumstances". It is acknowledged that the adoption of telephone interviews may lead to reduced reliability where participants are less willing to engage in an exploratory discussion and devote their time to taking part. Due to the clash of the interviewees' schedules and the fairly limited time the researcher had to allocate to each city, telephone interviews were suggested by the prospective interviewees. The two telephone interviews conducted for this study are believed to have provided reliable results in their own right. Unfortunately, it was discovered that quality of sound track recorded from a speaker phone is far less satisfactory than those of face to face interactions. The transcription of those

interviews had to rely on written notes; there exists a possibility of having missed some nuances of these two interviews.

In addition to face to face and telephone interviews, the researcher also conducted interviews online. The Internet served as an extension of the researcher's and participant's bodies. It is also, as pointed out by Markham (2004), a research instrument of choice. Markham (2004) argues that the distance-collapsing capacity of the Internet and the elasticity of time on the Internet are often taken for granted in our everyday interactions. Logistically, the distance-collapsing capacity of the Internet allows researchers to disregard location and distance to communicate instantaneously and inexpensively with participants. Not only does such a communication platform offers maximum flexibility on timing and space for engaging an in-depth discussion, but it also provides a comfortable medium for the informants who might feel less free in a face to face session. For its many advantages, one has no reason but to embrace the Internet and exploit its potential. This is particularly evident in the tour operating market where the vast majority of information exchange and business transactions are being conducted online. It is not surprising, therefore, to find some informants who preferred to have interviews online, especially those who were more ICT affluent and had his/her own websites or blogs.

Research journal – a researcher's journey

"A researcher's journal, also known as a researcher's diary, is often a key component of a social scholar's methodology. It can act as a way of maintaining and reporting an audit trail of methodological and analytical decisions, and

allows others to assess the significance of the research” (Liamputtong and Ezzy, 2005: 39). In this case, a researcher’s journal is conducive to self-reflection of the researcher’s role as “research instrument” and assessment of an on-going and evolving research process. As there is no unified approach to research methodology design, each researcher may choose to create his/her journal in different ways. For this study, the researcher’s journal is an informal, loose record of the researcher’s journey rather than a routinely compiled document. The journal has loyally recorded the path of research development, extensive notes during and after in-depth interviews, contemporaneous observation and serendipitous findings. Most often, it acted as scratch pad for random thoughts, confusion and ideas on the research.

One of the important uses of a researcher’s journal is to record contemporaneous observations. In the social sciences, Markham (2004) defines observation as a means of understanding the way social realities get constructed and reproduced through discursive behaviours. Whilst acknowledging contemporaneous observations’ ability to address the immediacy of the situation, Lynch (1999) places emphasis on the researcher’s journal potential to encourage reflection and create distance between the researcher and the events being studied. For this study, participant observations supported data collection in two areas. One was concerning the consumption pattern of Chinese outbound travellers. The other was in regard to social networking between industry practitioners under the popular Chinese business culture.

The diary of observation on social networking between industry practitioners under the popular Chinese business culture built upon the work in three major cities with the most prosperous outbound travel sector. It should be pointed out that the researcher was not observing the social networking anonymously. Indeed, the researcher was invited by executives she interviewed during previous sessions to business gatherings and networking. She was always introduced to the other participants of those clearly purposive gatherings, proving observation as a natural choice and good practice for capturing the social reality in emerging economies. The researcher also had the chance to shadow a general manager of a tour operating firm for days. As part of interview data, the legitimacy of this approach was approved by Ghauri and Fang (2001).

When reflecting on the process of participant observation and addressing the researcher's "research instrument" role in qualitative research, Lynch (1999) focuses upon personal politics of identity brought into the event under study, and issues associated with a covert approach. As for both of the above mentioned observational situations, the social actors were aware of the researcher's participation. Once again, it was found that they had much more interest about the researcher herself than the research she was conducting. One of the major issues the researcher had to deal with the observation situation was rapport. However, it was rarely realistic to develop a rapport in such a short interacting period. Such rapport had to be achieved through the snowballing approach adopted, using references whenever possible. It was also interesting to note that many participants to those gathering were not from the traditionally

defined travel and tourism sector, but with diverse backgrounds which have some degree of cooperation with the travel service sector, i.e. financial services, consular services, educational, entertainment industry.

The fact that the research locale was of a geographical and cultural diversity also affects the actual “distance” of such observation. In one of the major outbound markets, the Pearl River Delta region, the researcher, a non-Cantonese speaker had to adapt herself into an environment where Cantonese was the main language for communication. Though such disadvantage was taken into consideration, and she had gained help on such matters from local friends before went on to conduct field work, it was certain that her language ability to communicate in Cantonese may have deterred her from benefiting more from observations.

Data triangulation

Ghauri (2004) refers to triangulation as the collection of data through different methods or kinds of data on the same phenomenon. It is considered as one of the defining features of a case study. In the same vein, Liamputtong and Ezzy (2005:40) define triangulation as the use of a combination of methods, researchers, data sources, and theories in a research project. Accordingly, they identify four types of triangulation:

- Data source triangulation involves the use of multiple information sources.
- Method triangulation involves the use of multiple research methodologies.

- Researcher triangulation involves the inclusion of a variety of researchers in the research process.
- Theory triangulation involves drawing on multiple theoretical perspectives to provide new insights.

Triangulation used to be seen as a strategy that would enable researchers to ensure validation. It is hoped that by combining multiple observation, theories, methods, and data sources, researchers are able to rise above the intrinsic bias that comes from single methods, single-observer, and single-theory studies (Liamputtong and Ezzy, 2005). This conception assumes methodological acts should be evaluated by a single set of standards (Ghauri, 2004).

Given such an assumption, it is not surprising that some qualitative researchers tend to express a less favourable, if not negative attitude towards triangulation. Qualitative researchers have cautioned against seeing triangulation as a way of discovering “objective truth” by comparing one method against another and deciding which one represents the truth (Mason, 1996: 149). Silverman (1993) suggests that one need not evaluate interview responses or written documents as true or false reports on reality. Instead, such responses can be treated as displays of perspectives and moral forms.

Indeed, a significant number of researchers today, believe that the ultimate purpose of triangulation is to augment research practice, by employing a variety of techniques and resources to create a version of reality, rather than an

“objective truth”. For example, Atkinson and Coffey (2004) argue that when undertaking qualitative research, it is inappropriate and unhelpful to treat observational and oral data (such as may be derived from interviews or recorded interactions) as the primary data, and any documentary materials as secondary. The latter are often drawn on to cross-check the oral account, or to provide some kind of descriptive and historical context. They urge that documentary materials should be regarded as data in their own right.

According to Atkinson and Coffey (2004: 57), documentary materials often “enshrine a distinctively documentary version of social reality”. Ghauri (2004) emphasises the integrative power of triangulation, the ability to study an object with many dimensions and then to draw the various elements together in a cohesive interpretation, and to produce a more complete, holistic and contextual portrait of the object under study.

Documentary studies often contribute to the preparation of “sharp and to-the-point” interview questions. Rich documentary materials have a lot to offer in both the pre-interview and post-interview situation (Ghauri, 2004: 114). Yet, as an important link of data triangulation, documentary studies are often being undervalued. The pervasive existence of documentary records, written and otherwise, in contemporary social setting should not be overlooked. Atkinson and Coffey (2004) argue that many research questions and research settings cannot be investigated adequately without reference to the production and use of documentary materials. Moreover, such enquiry is not only confined to the inspection of documents themselves (important though a close scrutiny must

be). It must also incorporate a clear understanding of how documents are produced, circulated, read and used for a wide variety of purposes.

For this particular research, data source triangulation is the chosen approach. Other than in-depth interviews and participant observations, documentary studies play a key role in the integrative research approach. Documentary materials produced by governmental/regulatory bodies, independent consultancy companies and tour operation organisations proved to be excellent sources of data. Documentary records that embody organisation encounters and interactions are also among the many data sources.

1) Corporate documents

Organisational documents are among the methods that organisations employ to publicise themselves, to compete with others in the same marketplace or to justify themselves to clients, shareholders, boards of governors or employees (Atkinson and Coffey, 2004). Tour operators produce a large amount of documents of all kinds. These might involve advertisements, annual reports, prospectuses/tour brochures, financial accounts and the like. Some of these documents are produced for internal uses. Many others are made for public consumption with self-presentation/promotion purposes, which often appear on advertising media: TV, News paper, Internet, Magazine, Radio, so on and so forth.

For this research project, organisational materials were typically gained from three channels: company websites, travel fairs and interview participants.

Although the Internet is often being recognised as the most easily accessible and economic form of media exposure, the selected travel companies have shown varying levels of exploitation of online appearance (including their own websites). The following information can normally be found on their company websites: company information, annual reports, supporting web links, services/products information, and destination information.

In addition to the above, some companies also display information on travel documents requirements (typically information regarding tourist visas; translation services etc.). There did not appear to be a positive correlation between company size and website uses. However, companies with their main market targeting leisure travellers, employed online interactive communication tools to a larger scale. For example, online forums, MSN messenger, OICQ online communication were all made available to potential clients. For this investigation, the company website provides general information on the objects being studied, from which the companies' development path and vision on future development sometimes can possibly be traced and scrutinised.

The researcher also personally and via colleagues obtained company documentary materials from a number of travel fairs, including the World Travel Market in London. Unfortunately, the materials gathered from this source cannot be considered as exceptional either in quantity or quality. For example, tour brochures and prospectuses contain useful but nonetheless superficial information on the companies being studied. Some interviewees voluntarily offered the researcher company documentaries which could be

obtained from other channels. This type of corporate and related documents provided by company executives were of particular value, which often strongly supported the contents of the interviews (i.e. on strategic movements/decisions), thus added weight to the validity of in-depth interview contents.

It is, of course, highly unlikely that the corporate literature would cast them in anything other than a favourable light. For all intents and purpose such materials are promotional in nature (Whalley, 1999). However, this does not mean that one should totally disregard their value. To the contrary, the often opaque nature of this type of data place the researcher under an obligation to “dispel the clouds to see the Sun”, so as to provide a more precise assessment of the real state of the business. In this process, the researcher’s involvement with the tour operation industry helped her in analysing published and unpublished organisational materials, and deriving useful insights about company operational and strategic movements from a bank of information. Collectively, such information allowed profiles of all the companies under study being scrutinised and compiled.

2) Governmental/regulatory bodies’ datum

Governmental/regulatory bodies, particularly those at a national level, often produce a large amount of information, which generally contains the following categories: facts and figures, laws and regulations, statistics and policy research. The China National Tourism Administration (CNTA) is the highest governmental regulatory body on tourism affairs. CNTA generates data on regulation on tour operator’s operational activities, policy on foreign tour

operators' market entry, research into the outbound tourism sector and overseas capital's involvements in the tour operating sector. The ministry of commerce formulates and executes policy, as well as provides guidance in the area of foreign investment and cooperation. Those two government agencies proved to be the most viable sources for obtaining relevant information on policy development, contextual information relating to the historical and current development of the industry.

Relative to other documentary data sources, those official or semi-official data are normally regarded as the more reliable and objective in the sense that they are not produced to serve the interests of particular commercial sectors or organisations. Data from those sources tend to be large in quantity but lack in-depth account. For this research, their uses were largely confined to draw a big picture of the legal frame, the past to current market competition and macro investment environment. The exception to this is the monitor of policy movements. In line with its mission, those regulatory bodies often conduct comprehensive policy research.

One of the often used functions of these government/regulatory bodies' websites is to post policy updates, hence endow with firsthand knowledge on the latest policy release and hints of changes regarding future policy making direction. In addition, as with most developing countries, China's basic tourism policy is to vigorously develop inbound tourism and restrict the flow of outbound traffic. This situation is reflected in official sources of data, which have an obvious inclination towards inbound tourism rather than outbound

tourism. Aside from policy restrictions, the data on outbound tourism is far from satisfactory.

3) Independent organisation publications

Documents produced by independent organisations represent another component which could add to documentary realities. These typically involve publication by global, regional, and national tourism organisations/guilds (i.e. WTO publications, WTTC Economic Research, UN Reports, China association of travel services), international market research reports by consultancy companies (i.e. Henley Centre Headlight Vision, Mintel, China Contact), industry magazines, online databases, public lectures and grey literature in some cases. Since the sources of this type of documents are various, it is always easy to discern their reliability and neutrality. However, compared to governmental and corporate information, this type of documents is more often updated.

ICT's role in conducting research

In the contemporary world, the Internet has changed people's lives in an unprecedented manner. As social researchers, our way of studying society, of course, cannot be isolated from such a remarkable development. In the realm of social sciences, the impact of the Internet is mainly reflected in two areas: 1) Electronic and digital resources are among the most common ways in which documentary realities are produced and consumed. Organisations, for example, produce websites, promotional videos and similar artefacts (Atkinson and Coffey, 2004). 2) As a communication medium, a global network of connection, and a scene of social construction, the Internet offers new tools for conducting

research, new venues for social research, and new means for understanding the way social realities get constructed and reproduced through discursive behaviours (Markham, 2004).

The use of information and communication technologies by social researchers has transformed from a passive involvement because of distance between the research and potential informants, to an active tool enabling social researchers to conduct research which in the past could not happen easily because of geographical distance. Our era entails ICT becoming an important research tool which many researchers cannot afford to bypass. Markham (2004: 104) systematically considers different social researchers' views on the use of ICT in social research, and arrives at the following comment: "Not only is it useful to consider the way that time can be utilised as a malleable construct in a qualitative way, but also it is necessary to consider that as modes of interaction continue to merge, the technologies for communication increasingly saturate our everyday. If we take seriously the collapse of time-space distinctions in the 'knowledge age', these become not simply pragmatic but ontological considerations".

For this study, the researcher has deployed the information gathered from Internet posting, including tourism e-business websites, BBS and blogs. While the reliability of online information had to be carefully scrutinised, it was discovered that the Internet appeared a most widely acceptable platform for the information intensive travel service industry. The online messenger (Skype) was used to conduct follow up interviews with respective respondents. After the main

fieldwork stage, the reflection on data indicated additional interviews were required. However, finding the time and the financial resources for another round of interviews proved to be unrealistic. The convenience and cost-effectiveness of online communication channels is undoubted. More interestingly, it provided a more open venue for discussion on many issues.

Data handling and analysis

Silverman (2000) stresses the importance of the researcher defining the analytical position adopted in their thesis. A 'realistic approach' to the process of data analysis was utilised in this case. Although qualitative methods yield rich, full, earthy, holistic data, qualitative researchers confront the problematic issue of data analysis. Bryman (2004c) asserts that how qualitative data analysis should be carried out has not been developed. Saunders, Lewis and Thornhill (2000: 382) point out that "there is not a standardised approach to the analysis of qualitative data". The analysts often faced with a bank of data have very few guidelines for protection against self-delusion. As a result, Ghauri (2004) argues that it depends on the researcher's own style of rigorous thinking, along with sufficient presentation of evidence and careful consideration of alternative interpretations.

According to Yin (1994), qualitative data can be either analysed using a theoretical or descriptive framework, or explored without a predetermined theoretical or descriptive framework. The research objectives and structure imply that the first approach is the chosen way to analyse data gathered from various sources. With a predetermined conceptual framework, the researcher

follows the continuous, iterative data collection and analysis process adopted by Morrison (1995), which involves the three major tasks: 1. to bring order, structure and meaning to a mass of relatively non-standard information; 2. to interpret, seek out themes, patterns, and categories, and to identify linkages between arrangements, activities and outcomes; 3. to develop explicit, systematic methods for drawing conclusions. In this process, a more clearly structured, rational conceptual framework has been developed. Various themes emerged and helped with the comparison of cases.

As explained in the earlier part of the chapter, qualitative research does not possess a unique pack of research methods. Different data analysis approaches have left their traces in this research project. It can easily be seen where they overlap and influence one another. However, essentially, the data analysis follows the phenomenological nature of explanation. All these measures were taken with the intention to produce chains of evidence that reveal the complex processes of emerging market penetration, and illustrate the influences of the social context. The strength of phenomenological based research is also reflected in its “ability to look at change processes over time, assisting the understanding of actor’s meanings, with the important reflexive facility to adjust to new issues and ideas as they emerge. As such, it has the potential to contribute substantially to the evolution of new knowledge and theories (Morrison, 1995).

A total of 33 interviews, in two countries, eight cities, were conducted. In addition, the author drew upon observational experience of the industry and familiarity with published and unpublished sources. The data was approached

in a manner consistent with the recommendations of Miles and Huberman (1994). Data analysis and collection are closely interconnected during the life cycle of the research, which is believed to be the most suitable policy for case studies. "This allows theory to develop alongside the growing volume of data, allowing the research problem to be formulated or even reformulated at the same line. This often leads to new questions and new data collection, and there is no definite phase of data analysis" (Ghauri, 2004: 117). Therefore, the following steps of research conduct are of a more illustrative nature rather than clear cut stages.

1) Familiarisation with literature

The main achievements during this stage are threefold. First of all, there was the familiarisation with the literature, including pertinent academic literature, industry publications, organisational documents and literature from all other sources. This stage marks the exploration of literature. To this end, the process contributed to the broadening of knowledge in the related field. The review of literature has been a reflexive iterative process, with understanding of the research topic gradually improving and new development in the area constantly being analysed and added.

Secondly, familiarisation with the operation pattern and industry network made it easier to get access to potential informants and form a valid research question and objectives. Back to the beginning of 2006, before the literature review, the researcher became involved in the product development project of a travel service company based in Edinburgh. The company specialised in receiving

Chinese tourists and wished to penetrate into the outbound market of Mainland China. This position offered a platform for approaching relevant players/competitors in the outbound market. The researcher steadily accumulated contacts, expanded her links with the industry and personal networks. Such experience prepared her for the empirical work to be conducted. Action was also taken to design constructive, interview questions/ research foci which later gained her much approval from the industry practitioners. However, the slightly heavy involvement with this appointment to a certain extent consumed the time allocated to literature study, thus it also had an unfavourable impact on the whole research process.

Thirdly, direct contact with consumers helped to enhance understanding about consumer behaviour and product design, thus assisting the design of interview questions. When the researcher started handling tour organisations and guiding, receiving business/leisure travellers, it did not cross her mind that such an experience would bring many benefits to the research itself. It was later discovered that such a people-processing profession did contribute to understanding the tourists' mentality. The records of observations at this stage were consequently fed into the interview question design. Without such close contact with the end users (tourists), it is impossible to imagine that the researcher would be able to design constructive, interview questions/ research foci which later gained her much approval from the industry practitioners.

2) Reflection, preliminary data collection and analysis

The literature collected at this point was reflected upon by identifying key issues which appeared to dominate the data. These key issues helped to build a solid theoretical foundation for the research and preparation of the conceptual framework. At this stage, the range of alternative research propositions and solutions still required consideration. Preliminary interviews were therefore conducted during this time. The preliminary interviews revealed the critical issues needed and could be addressed with the scale of this research. Consequently, the decision was made on research foci.

3) Conceptualisation

At this stage, the focused literature study was largely completed. The analysis of relevant literature and the preliminary data collection resulted in the identification of a set of core-concepts, which emerged allowing their articulation into a set of explanatory variables. Based on the data analysis to date, key concepts were incorporated to a conceptual framework, which was consequently built into an interview guiding prompt script during the main stage of data collection. The coding of raw data into manageable units allows the researcher to constantly and iteratively adjust this framework as new themes and concepts appeared.

4) Data collection and analysis

Undoubtedly, one cannot gather the real data on firms' performance in emerging economies such as China without actually "being near the water". Hence the stage of fieldwork staged in Mainland China, commenced from the

end of February 2008, and finished at the beginning May 2008. This stage of research activities ensured the first hand and up-to-date knowledge on the institutional development of the market was gathered. Based on two of the most salient features of the Chinese outbound market, strong regionality and varying levels of market development, the interviews were deliberately arranged to spread over five cities, including a first tier market (see Chapter Five). from South to North: Guangzhou and Shengzhen (Pearl River Delta region, South China), Shanghai and Nanjing (Yangtzi River Delta Region, East China) and Beijing (Beijing Tianjin Region, North China) and a second tier market in Central China: Zhengzhou (Central China).

At the end of this stage, a total of 28 interviews were conducted, the majority of them were face to face in-depth interviews. Depending on their relevance and willingness, most of the participants were reached through the snowballing technique. The participants fell into three major categories: industry practitioners, policy makers and industry consultants. Industry practitioners were further divided into two subcategories: those who aim at market penetration to the Mainland China market and those Chinese tour operators who collaborate/cooperate with them. All informants who agreed to have face to face interviews also agreed to have the contents of the interviews recorded. A digital recording facility and handwritten notes are a double insurance for the full details of the interviews to be recorded. At this stage, rough data analysis occurred simultaneously as the interview guiding prompt was refined after each interviews, so as to reflect the latest market development and respondents' comprehension.

5) Coding, cataloguing concepts, reflection

Methodologically, transcription marks the first step of the formal data analysis process. One of the most salient features of a phenomenological approach to data analysis is the detailed elucidation of context. Respectively, data cannot be isolated from its context. Individual words, alongside their general meaning, have specific meanings within the text. Based on this principle, in-depth recorded interviews were not transcribed verbatim, by so doing the nuance and meaning of the data was largely conserved within their context. Coding and categorisation helped researchers to interpret the data and to relate the information to researcher questions and conceptual frameworks (Ghauri, 2004). This stage of open codes commenced with pre-specified concepts and themes identified from the conceptual framework. This process defined the core concepts, and then deepened into sub-codes. The purpose was to create a workable framework of codes, sensitive to the patterns of data which assisted in linking related data (see Table 4.2).

Table 4.2 Start list of codes

RESEARCH OBJECTIVES	PHENOMENON	CODE
1	Economic organisation	EO
1.1	Development path	EO/DP
1.2	Industry structure	EO/IS
1.3	Competition issue	EO/CI
1.4	Market prospect	EO/MP
2	Institutional forces	IF
2.1	Regulatory contingency	IF/RC
2.2	Market environment	IF/ME
2.2.1	Geographical disparity	IF/ME/GD
2.3	Consumption pattern	IF/CP
2.4	Organisational culture	IF/OC
3	Penetration networks	PN
3.1 (master code)	Social networks	PN/SN
3.2 (master code)	Industrial networks	PN/IN
3.3 (master code)	Market penetration	PN/MP

Source: the author

6) Recoding, further data collection and analysis

After a round of data collection and reflection, adjustments on empirical strategies were made to emphasise theory developing potential and use snowballing sampling to reach a hidden yet significant part of the population and achieve potential theoretical saturation. This indicated a reflexivity and sensitivity in adapting to codes-in-use, rather than generic code-for-many-uses generated by a pre-fabricated start list. Thus, categories kept altering, enlarging. The approach to coding developed as field experience continued. Furthermore, some codes did not work, others died, and some appeared to strengthen and dominate (Morrison, 1995). The first stage codes were transformed to second stage, when key analytical sets and properties pertaining to each concept were identified, as demonstrated in Table 4.3.

Table 4.3 Identified analytical sets and properties

ANALYTICAL SETS	DESCRIPTION
Institutional forces	
<u>Formal institutions</u>	
Laws/regulations	Legal institutions
Policy	Political institutions
<u>Informal institutions</u>	
Guanxi	Interpersonal business relationship
Consumption customs/norms	Product/service design
NETWORK STRATEGIES	
B2G	Business to government relationships
B2B	Business to business relationships

Source: the author

7) Re-evaluating and Linking

With a predetermined research focus, the researcher as the primary “research instrument” travelled through the mass of data, and moved from literature and evidence collected in practice, from understanding of single elements to understanding of the whole, and highlighting the meaning and significance in their broader context. The key analytical units are linked together to provide a more holistic picture. Further analysis of the data generated a range of theories. These were then linked back to the research propositions developed from the literature review. The key findings are organised and presented accordingly.

The iterative process adopted by the researcher enabled interview, observation and documentary data to be interacted and understood in a “historically evolving” manner in the course of data collection and analysis; ensured the “freshness” of the analytical model proposed to be incorporated into the next round of analysis; and resulted in a more sophisticated stock of understanding and knowledge. A sufficiently systematic pattern was thus achieved. Cases were written by forming clusters with similar dimensions, and further figured to allow comparison to be made. The central task of this stage is to constantly move the understanding from the part and back to the whole, so as to achieve the harmony of all the details with the whole (Noorderhaven, 2004).

Empirical strategy evaluation

Evaluation criterion under the chosen paradigm

As empirical research action is bounded to the paradigmatic position of the researcher, the evaluation criteria for social research are ineluctably tied to paradigmatic assumptions (Marschan-Piekkari and Welch, 2004). Derived from experimental and quantitative research methodologies, the term “rigour” is often employed by quantitative researchers when evaluating research. For them, the “rigour” of a piece of research is mainly reflected in two areas: validity and reliability. “Validity concerns the following questions: does the instrument or measurement strategy actually measure what the evaluator purports to measure? Does it yield data that accurately represent ‘reality’? Reliability refers to the consistency or dependability of the instrument or measurement strategy”(Liamputtong and Ezzy, 2005: 33). In other words, researchers have to demonstrate that the operation procedures of the study can be repeated with the same results; establish the domain to which the research findings can be generalised. The problems of applying these criteria to qualitative research are obvious. As a matter of fact, in the qualitative camp, many members of the critical theory, constructivist, post-structural, and postmodern schools of thought reject positivist and post-positivist criteria when evaluating their own work. They see these criteria as irrelevant to the work and contend that such criteria reproduce only a certain kind of science, a science that silences too many voices (Denzin and Lincoln, 2000).

Despite such firm rejection, not all qualitative researchers accept the view that concepts such as “rigour”, “validity” should be completely abandoned. While being sceptical of positivists’ assertion on “objectivity” or “accuracy”, they believe those terms still indicate issues that need to be addressed by qualitative researchers, but not within a simplistic positivist framing (Liamputtong and Ezzy, 2005; Patton 2002; Silverman 2001). Lincoln and Guba (2000: 167) cite a few authors’ views on this matter: Bradley and Schaefer (1998) do not agree that the criteria for judging either “reality” or validity are absolutist, but rather are derived from community consensus regarding what is “real”, what is useful, and what has meaning (especially meaning for action and further steps). Silverman (1993) argues that the value of a qualitative approach lies in its “authenticity” while Riessman (1993) emphasises the “trustworthiness” of research. For Liamputtong and Ezzy (2005), rigorous qualitative research attempts to provide information that is related to events that happen in the world. Yin (1991) writes that external validity is about establishing the domain to which the research findings can be generalised, but internal validity concentrates on the establishment of casual relationships, where certain conditions are demonstrated to lead onto others, rather than spurious relationships.

Departing from the phenomenological paradigm, this study integrates several authors’ contention on qualitative research assessment, and evaluates the researcher’s research design and empirical strategy mainly on the grounds of internal validity, construct and interpretative validity. The researcher hopes to demonstrate: 1. How the conceptual framework was formulated, and how the

theoretical decision was made; 2. How the real, useful, data and interpretation was achieved, and provided meanings for further steps; 3. How the provided information related to events that happened in the world, and the limitations with the chosen methodological approach.

Internal validity

Liamputtong and Ezzy (2005) believe that a study has theoretical and conceptual rigour if the theory and concepts are appropriately chosen, so that the research strategy is consistent with the research goals. On top of that, Marschan-Piekkari and Welch (2004) contend that the prescriptions of research may need to be adapted as a result of external conditions, a point which was not considered by many prominent authors in the qualitative research field (i.e. Miles and Huberman, 1994; Yin, 1994).

The theorisation of this study fully considered institutional environments in emerging economies, effectively linking macro-environmental factors, industry-level relationships and firm decision-making, combining all these elements, a holistic conceptual map was developed in a constructive and beneficial manner. The review of existing theoretical paradigms and empirical studies revealed an institutional oriented network approach is a natural choice of a market penetration mechanism for four operating firms aiming to enter turbulent yet dynamic emerging economies.

Construct validity and interpretative validity

When judging the quality of qualitative studies, the main task is not to demonstrate the operations of the study, data collection and analysis can be repeated with the same results, but to show the establishment of correct operational procedures for empirical research (Yin, 1994). Good research, according to Kinnear and Taylor (1991), will make sure that the data gathered is consistent with the study objectives, by accurate and economical procedures.

The design of operational procedures for this study reflects the requirements of research objectives. When planning for fieldwork, the researcher mixed the need for theory building with pragmatism. The criteria for choosing what cases to study and what potential informants to approach were determined by both theoretical terms and pragmatic considerations, i.e. the level of access that could be obtained. The data collection process emphasises three aspects: 1. Focus on the trajectory/ path of firms' penetration in emerging markets; 2. Attempts to adhere to the proposed interview guiding questions (but with unstructured discussion) to enhance comparability 3. Broaden the diversity of information at hand by supplementing different sources of data.

Atkinson and Coffey (1995) believe that qualitative research should try to describe the subjective view with depth and detail, try to represent the person's view fairly and portray it as consistent with his or her meanings. The idea is to present an "authentic" understanding of people's experience. This means not just understanding the point of view of the individuals and groups being

studied; in addition, data has to be interpreted against the background of the context in which they are produced.

Summary

In conclusion, with the mission of effectively communicating how the research methodological position is arrived at, Chapter Four attaches great weight to the philosophical root of social sciences. The researcher has introduced an array of pertinent philosophical paradigms in the social sciences and their possible connection with the designated research, explained why research of the static positivist type is not capable of accommodating features related to the constantly changing emerging economies, organisations and their strategies in such complex settings. Instead, a phenomenological approach with a post modern sensibility towards contextual factors in emerging economies is a natural choice for revealing the insights as well as addressing the dynamism of the research question.

CHAPTER FIVE

TRAVEL AND TOURISM IN CHINA - INSTITUTIONAL ENVIRONMENT AND ECONOMIC ORGANISATION OF THE MARKET

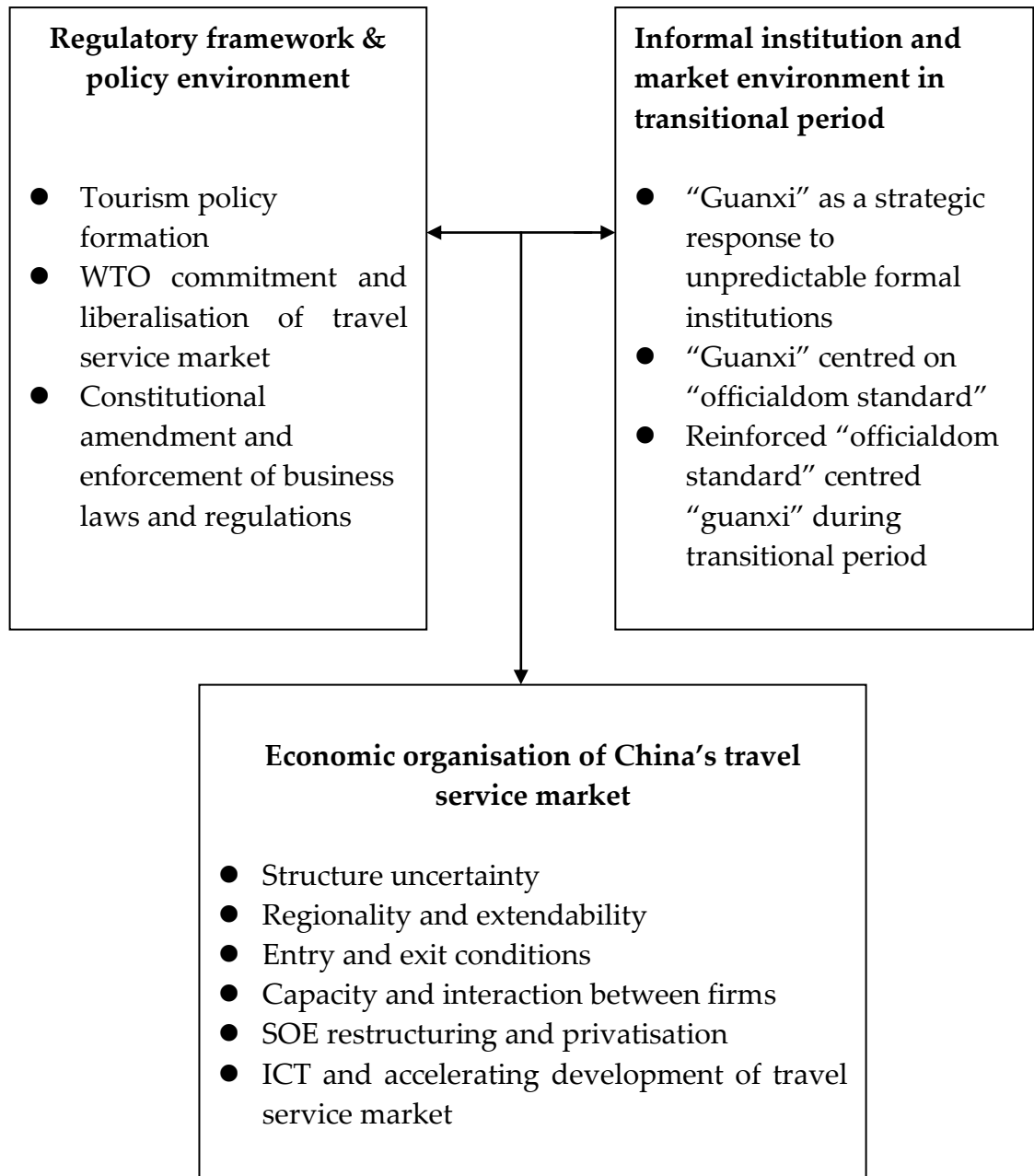
This chapter presents the findings derived from desk research. The data sources range from a great variety of existing organisational documents, government policies, internet postings, trade press, newspapers, magazines, classified documents and grey literature. The diversity of data garnered helps to depict a realistic profile of China's emerging travel service market, and furthermore allows for a thorough comprehension of the research question throughout this PhD journey. At the outset, the researcher distinguishes and examines the economic and social cultural forces which have been and will most likely continue to influence the behaviour of firms and respectively the shape of the market over the next decades. For the purpose of analysis, those influential forces are divided into two categories: formal and informal institutions. Based on the understanding on macro institutional environment, the researcher dissects the market's economic organisation from the aspects of competition, consolidation and industry restructuring. In this process, the opportunities and uncertainties facing foreign travel service firms are highlighted. Moreover, the findings and analysis from this chapter ideally pave the way for the next

chapter, where institutional oriented networks deployed by travel service firms for emerging market penetration are elaborated.

Chapter objectives

- œ Explore China's macro institutional environment
- œ Discuss how formal and informal institutional forces facilitate or impede tourism growth
- œ Explain the relationship between the influential institutional forces and the economic organisation of the current travel service market

Chapter structure



Introduction

From the perspective of investors, the temptation of emerging economies typically lies in “high growth rates, less established brand preferences, more fragmented industry structures, and less intense competition relative to mature markets” (Akbar and Samii, 2005: 391). Hence, emerging markets are not only appealing to well established international competitors, but also represent attractive opportunities for newly established players. Meanwhile, the concomitant uncertainties of running a business in emerging economies are no less obvious than the apparent opportunities. Economic liberalisation and market transition/transformation are accompanied by regulatory stringency, immense structural changes to industries, as well as a volatile business environment (Hoskisson *et al.*, 2000; Luo, 2004). The proposition of a coherent market penetration framework cannot be divorced from the socio-economic and cultural reality of emerging market economies. In this chapter, the researcher investigates how prevailing formal and informal institutional forces affect the market environment in China, with regard to the travel service sector. The significance of analysing the economic organisation of the industry lies in the need to understand the conduct and potential complementarities of existing firms, and to identify key market trends and opportunities for foreign travel service providers aiming to penetrate into this market.

Policy environment and regulatory framework

Overview

“(China) has to be understood in its own terms as a political economy, rather than just a large marketplace.”

- Child and Tse (2001: 14)

The transition of China from a closed, planned economy to a market economy involves interplay between a field of forces operating at different system levels (Child and Tse, 2001; Guo, 2002; OECD, 2005). At the macro level, though the process is not entirely deterministic in nature, the major changes of formal institutions have significantly shaped the country’s economic trajectory. The emergence of the country’s tourism market cannot be isolated from its overall regulatory framework and policy environment. In fact, the tourism sector has been the pioneer of China’s opening up and economic reform, thus benefiting greatly from the changes of formal institutions. As Zhang, Chong and Ap (1999: 482-483) point out:

“Given the nature of China’s economic development under communist rule with strong central government control, it is not surprising to learn that the government played a key and decisive role in shaping the development of tourism through the adoption of a series of policies... the roles played by government and the accompanying policies were quite distinct and pivotal in shaping the nature and direction of tourism...”

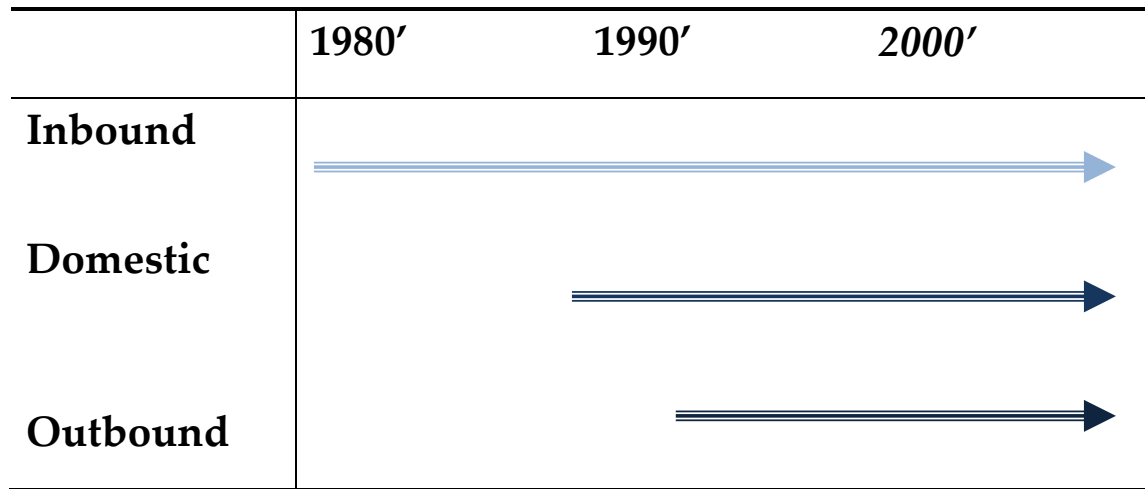
While there is no question that the central and local governments are wholeheartedly committed to tourism development, as well as to the continuity of fundamental principles towards further opening up of the travel service market, the transformation of formal institutions has not been so prompt. Indeed, on the grounds of protecting national, particularly State Owned Enterprises (SOEs), policy makers from government agencies appear to be rather careful and restrictive, even for a sector constituting a relatively small component of the national economy (according to China’s national statistics bureau, the total revenue of China's tourism industry reached USD 67.3 billion in 2002, accounting for 5.44% of the country’s GDP).

Tourism policy formation

In China, the central government’s tourism policy post-1979 was to selectively develop tourism. Reflected in the travel service industry, its evolution can be roughly divided into three stages: inbound, domestic and outbound (Qian, 2003). Figure 5.1 demonstrates the “timeline” for different stages of this policy development. The transition from one stage to another is marked by the changing focus of central government policy. During the first stage (1979-1986), tourism policy had a clearly defined political and economic orientation. For a

relatively long historical period after PRC was founded, the authority's interest in tourism was solely political driven. The year 1978 was the changing point when tourism became an active policy sector allied to other sectors of the national economy. Tourism was a way of wooing overseas Chinese, with whom persisting diplomatic interest existed. More importantly, tourism was a means to quickly obtain foreign exchange, link the country with the international business community, as well as promote investment into its infrastructure in support of further inward Foreign Direct Investment (FDI).

Figure 5.1 Tourism policy evolution “timeline” in China



Source: the author

Against this background, the early players to the market typically acted as inbound operators. They were set up to cater for the needs of foreign travellers and Chinese visitors “returning” from Hong Kong, Macau and Taiwan as tourists, or to visit relatives. The headquarters and branches of these early inbound operators were set up in Beijing and other open port cities, areas and hometowns of overseas Chinese (CNTA, 2008). Those open port cities later proved to be in a rather advantageous position in the subsequent growth of the outbound market.

Meanwhile, the operation of those early market players retained traces from the time of a planned economy, meaning they were both politically and market driven. For example, in its early mission statement, the China Youth Travel Service (CYTS) aimed at “developing contacts between Chinese and foreign youth, strengthening the ties between Chinese youth at home and those overseas and in Taiwan, Hong Kong and Macao, and promoting mutual understanding and friendship” (Uysal, Wei and Reid, 1986: 119). In this sense, the more commercially oriented travel service firms appeared when the domestic market started to develop.

By the end of the 1980s, the potential of domestic tourism was recognised by both central and regional governments, hence the strategic adjustment of tourism policy from exclusively attracting inbound tourists to the simultaneous development of both international and domestic tourism. The improving living standards and rising disposable income levels have released an increasing proportion of the population from the pursuit of the most basic human needs,

and promoted the growth of leisure and tourism (Zhang, 1997). In alignment with such development, the central government has been gradually devolving the power of framing tourism policy and regulation, allowing local authorities to exploit the economic benefits of tourism. Thus, with the aid of local authorities, a wide variety of tourism destinations **has** been rejuvenated and developed.

From the mid 1990s, a series of new legislation on working days and public holidays were implemented with the aim of promoting domestic travel. By the end of this era, the so called three “golden week” public holidays were introduced to further encourage demand for domestic tourism. Those measures proved to tremendously boost long distance travel, in both the domestic and the outbound markets (Verhelst, 2003). During this period, more administrative and regulative barriers specific to the travel service sector, were eliminated to give the sector greater freedom for large scale growth. For example, CNTA issued a new categorisation standard for tour operators and travel agencies in 1996. This simplified system replaced the three class operators system (where only those who held a first class license were permitted to have outbound and inbound business) with a two category system: international and domestic operators. International license holders can organise both international and domestic tours, while domestic license holders are not allowed to conduct international business.

As the economic foundation for continuous growth of the tourism market was gradually being consolidated, the associated policy evolution process also

entered a new stage. While further stimulating measures towards domestic tourism were being taken, the regulating barrier on outbound travel has been cautiously reduced as well; e.g. less control over foreign exchange and simplification of the passport application process. However, tour operators are still required to balance their outbound operation with their inbound operation. Indeed, the ability of generating inbound revenue is a prerequisite for granting outbound operation licenses (CNTA, 2008).

The lifting of overseas travel restrictions since the mid 1980s, has undoubtedly contributed to the surge of demand for outbound tourism. However, the advent of the large scale outbound tour operation industry in China is more of a recent phenomenon (1997- present). This is because, firstly, compared to many other emerging economies, the Chinese authorities have taken a step-by-step policy approach towards the elimination of overseas travel restrictions, starting with the abolition of travel restrictions within national boundaries. Before outbound travel became popular among the public, in the domestic market, travel agencies regularly organised residents from inland provinces to visit Special Economic Zones, such as Shengzhen (next to Hong Kong), Zhuhai (next to Macau). Almost twenty years on, in a speech given at the *Third International Forum on Chinese Outbound Tourism* (2007), Mr. Zhang Jianzhong, director general of CNTA's policy and regulation department, stated the following:

“Since 2005, there has been a major adjustment on our policy regarding outbound tourism: from measured development to regulated development. This policy adjustment is confirmed in China’s “Eleventh Five-Year Plan for National Economic and Social

Development". In this plan, the nation's principle tourism policy is outlined as to ensure an all round development of domestic tourism, vigorously develop inbound tourism and regularize the development of outbound tourism. [This procedure] indicates that [the approach] to develop outbound tourism in a regulated manner has received approval from the central government, thus becomes a national policy."

For the outbound industry, such a "gradual" approach has both curtailed the free flow of tourist traffic, and, at the same time, entailed the growth of the travel service industry by enforcing their involvement in outbound tourism through legislation and regulation. For example, the Approved Destinations Status (ADS) system is a designation by the PRC government to strictly control which countries Chinese leisure tourists can visit. While bringing convenience to prospective visitors, the curtailing effect of ADS on outbound travel is undeniable. Chinese tour operators are not allowed to organise or promote tour groups to non ADS destinations. Any proactive promotion of non-ADS is strictly prohibited by CNTA (WTTC, 2006; Yu and Smith, 2005). Among those countries which have acquired ADS, some have attached conditions such as self-funded, leisure travellers ought to be handled by outbound tour operators, and obliged to travel only in the form of organised, group tours. Various reports (CNTA, 2008; WTTC, 2006; Yang, 2007) show that as the tendency to travel in small groups or independently is developing among consumers, the highly restrained ADS visa framework at times discourages consumers from going abroad for holidays. Instead, domestic trips, particularly to Western China are gaining popularity.

Despite granting destinations official approval to receive leisure visitors from PRC by setting up procedures for obtaining the status of ADS, the licenses of outbound operators in China and inbound operators at destinations are kept under close scrutiny by CNTA and destination NTOs. The licenses are often issued to operators that have already been working with Chinese partners, and/or those which specialise in the Asian market such as Taiwan and Hong Kong (Verhelst, 2003; Yu and Smith, 2005). Not only is it difficult for latecomers to achieve a share of this outbound market, it is scarcely possible for approved foreign travel service providers to have a significant role in the current system.

The very existence of the ADS indicates the continued domination of Chinese authorities to “distort the flow volumes from a strictly demand and supply relationship” (Guo, 2003: 53). Indeed, restrictive policies on outbound tourism are common and widespread among newly emerging economies, implying attempts to regulate the outflow of tourism revenue and spending on foreign exchange, i.e. US dollars. However, the restrictive policies imposed do not always produce the results that initially intended to. After years of implementation, it is becoming increasingly evident that the ADS is more of a liability than an asset to the further growth of the country’s outbound industry. In its 2006 report on the Impact of Travel and Tourism on Jobs and the Economy in China, China Hong Kong Special Administrative Region (SAR) and Macau SAR, the WTTC calls for “the elimination of ADS in order to ensure the balanced, sustainable development of the tourism market” (WTTC, 2006: 7).

WTO commitment and liberalisation of the travel service market

Though started relatively late, the liberalisation of some of the previously stringently regulated sectors is well under way in China. The restrictions on access to the travel service market were relaxed before the country's ascension to the World Trade Organization (WTO) in 2001. Prior to joining the WTO, eight foreign travel service companies were permitted to establish themselves in the Mainland China market (Davost Tourism Consultancy, 2006). In regard to the tour operation/travel agency sector, China's initial WTO commitments are detailed in Table 5.1.

Table 5.1 China's WTO commitment in the travel agency sector

Category	Clause
Limitations on market access	Foreign services suppliers who meet the following conditions are permitted to provide services in the form of joint venture travel agencies and tour operators in the holiday resorts designated by the Chinese government and in the cities of Beijing, Shanghai, Guangzhou and Xi'an upon accession.
Business scope	<p>1) Travel and hotel accommodation services for foreign travellers which can be made directly with transportation and hotel operators in China covering such operations;</p> <p>2) Travel services and hotel accommodation services for domestic travellers which can be made directly with transportation and hotel operators in China covering such operations;</p> <p>3) Conducting tours within China for both domestic and foreign travellers;</p> <p>4) Travellers' cheque cashing services within China.</p> <p>Within six years after accession, there will be no restriction on the establishment of branches of the joint venture travel agency/tour operator and the requirement on registered capital of a foreign-invested travel agency/tour operator will be the same as that of a Chinese travel agency/tour operator.</p>
Limitations on national treatment	No joint ventures or wholly-owned travel agencies and tour operators are permitted to engage in the activities of Chinese travelling abroad and to Hong Kong SAR, Macao SAR and Chinese Taipei.

Source: China's WTO commitment (2001)

In 1998, the China Nation Tourism Administration (CNTA) and the Ministry of Commerce jointly issued *the Interim Measures on the Establishment of Foreign Holding and Sole Foreign Ownership Travel Agencies*, officially acknowledging the commercial existence of foreign travel service providers. Added to previous measures, the *Supplementary Regulations on Interim Provisions on the Establishment of Foreign-Controlled and Wholly Foreign-Funded Travel Agencies* was delivered by CNTA in 2005. From July 2007, as part of WTO commitments, the CNTA cancelled the limit on foreign travel agencies setting up branches, allowing branches of foreign travel service agencies to be established in all Chinese cities, and promised to give national treatment to foreign travel agencies, such as that of Chinese travel service providers. On 18th March, 2009, the CNTA enacted the revised *Regulations on the Administration of Tourism Agencies* based on the 2001 edition. In Chapter Three of the new regulation, the status of foreign invested travel agency are further explained and confirmed as follows:

“This chapter shall be applicable to foreign invested travel agency. Where no provisions are made in this Chapter, the relevant provisions in other chapters shall apply. The term foreign invested travel agency refers to joint ventures, cooperative and wholly foreign-funded travel agencies”.

The following are the most relevant articles:

Article 22: the establishment of foreign invested travel agency: investors shall apply to the relevant authorities and provide related documents. The examination of an

application shall be completed within 30 days from the date of the application received (20 days for domestic firms).

Article 23: with the exception of Hong Kong Special Administrative Region (SAR) and Macau SAR, for which the state council has arranged closer economic partnership with the Mainland, foreign invested travel agencies shall not engage in the operation of overseas travel (including travel to Hong Kong SAR, Macau SAR and Taiwan) by Chinese citizens born in the Mainland.

Article 25: Travel agencies with outbound travel license shall not organise Chinese citizens to non ADS destinations.

As part of the country's institutional transition, since the late 1990s, the central government has gradually phased out tight controls on the travel service sector, instigating more liberal and market oriented measures on both national and foreign travel service providers. Nonetheless, it is obvious that China's policy approach towards the outbound market, as characterised by WTTC (2006: 58), as "a mix of continued containment and slow opening up with the purpose of controlling the mobility of Chinese citizens, protecting the national tourism sector, and limiting the outflow of foreign currency". The president of WTTC pointed out that the Chinese government's relatively prudent approach to the opening up of Chinese market has limited the benefits that travel and tourism can deliver economically and socially. On the other hand, China's late entry onto the world tourism stage has helped to protect its resources from excessive exploitation and unsustainable development. Table 6.2 demonstrates the major

changes on tourism policy and regulations at the central government level between 1979 and 2009. While acknowledging the role of central government in directing industry development through policy tools, it must be pointed out that, for “a fragmented internal market with fiefdoms controlled by local officials” (Branstetter and Feenstra, 2002: 336), the principle and practice towards tourism development at a local level is often of great importance to foreign investors.

Compared to the central government’s “consistent restrained opening up” attitude, local governments’ position regarding foreign involvement in the travel service industry is much more positive. In his comparison study on China and India’s performance in attracting FDI, Henley (2004) concisely summarises local Chinese governments’ reasoning for promoting foreign involvement as follows: First, provincial and municipal governments are under considerable competitive pressure from the central government and their peers to produce statistics demonstrating their ability to consistently attract inward foreign investment. Secondly, central government has increasingly devolved spending responsibilities to local governments, while reducing their share of central government revenues. Foreign invested enterprises are an important source of local tax revenue. Beyond that, local authorities expect foreign invested enterprises to make ad hoc contributions to local infrastructure and social development. More importantly, not only do local authorities in China have real incentives to encourage foreign involvement across selected sectors, they also have the power to do so. To a certain extent, the central government has

delegated power to authorities of provincial, municipal and Special Economic Zones to enact laws according to concrete local conditions and actual needs.

Given many local authorities' motives to promote tourism, recent years have witnessed them campaigning hard to attract foreign interest. Some have formally communicated their support for the development of the travel service sector. The most active participants in this trend are the major destinations for international visitors and those coastal regions which were the first to experiment with new policy instruments before they were adopted more widely. For example, after WTO ascension, authorities of Yunnan province and Shenzhen Special Economic Zone openly expressed their will to help to establish joint venture travel service companies. Many touristic cities and provinces are actively seeking cooperative foreign travel service providers, with some in the negotiation stage (Davost Tourism Constancy, 2006). In line with increased freedom of entry, internally, emphasis has been put on accelerating restructuring and deepening reform of State Owned Enterprises (SOEs). In light of changes in both the domestic and international environment, the country has been reinventing its legal framework accordingly.

Table 5.2 Major tourism policy/regulatory changes in China (1979-2009)

1979	Facilitating	Inbound	High priority given by the government to develop inbound tourism, tourist entry procedures were simplified and a big publicity campaign was launched.
1983	Facilitating	Outbound	Personal travel to visit relatives in Hong Kong was permitted to residents of Guangdong Province.
1984	Facilitating	Outbound	Personal travel to visit relatives was permitted to all Chinese citizens, but only to Hong Kong and Macao.
1990	Facilitating constraining	Outbound	Singapore, Malaysia, and Thailand are granted ADS. A private passport is difficult to get, and the process takes at least 6 months.
1994	Facilitating	Domestic/Outbound	Five day working week was gradually implemented throughout the country.
1995	Facilitating	Domestic Outbound Inbound	CNTA issued "Provisional Regulations on Quality Service Guarantee Funds of Travel Agencies", initiated the travel agency "service quality deposit fee" system.
1995	Facilitating	Outbound	The private passport application process gets streamlined and the waiting time reduced to one month.
1996	Facilitating	Outbound	The State council issued a special regulation to improve the administration of cross-border tourism.
1997	Facilitating Constraining	Outbound	First tourism law is passed to regulate outbound leisure travel.

1998	Constraining	Outbound	CNTA and the Ministry of Commerce jointly issued <i>the Interim Measures on the Establishment of Foreign Holding and Sole Foreign Ownership Travel Agencies</i> .
2000	Facilitating	Outbound	Passport processing times is reduced to 15 days, the number of documents for passport application is reduced as well.
2001	Facilitating	Domestic Inbound	Ascension to World Trade Organisation (WTO), the restrictions on access to the travel service market were set to be relaxed.
2002	Constraining	Domestic Inbound	The new regulation requires foreign-invested travel agencies to have at least ¥4 million (\$483,092) in registered capital and does not permit foreign-invested travel agencies to open branches.
2003	Facilitating	Domestic Inbound	Interim measures on the establishment of foreign holding and sole foreign ownership travel agencies.
2005	Constraining	Domestic Inbound	Added to previous measures, the <i>Supplementary Regulations on Interim Provisions on the Establishment of Foreign-Controlled and Wholly Foreign-Funded Travel Agencies</i> was delivered by CNTA.
2007	Facilitating	Inbound,/Domestic	All geographic, registered capital and branch restrictions on foreign travel service provider were lifted.
2008	Facilitating	Outbound	Hong Kong and Macau travel service operators were permitted to operate in the outbound market.
2009	Facilitating	Inbound,/Domestic	CNTA enacted the revised <i>Regulations on the Administration of Tourism Agencies</i> based on 2001 edition.

Source: CNTA

Constitutional amendment and enforcement of business laws and regulations

The Chinese often describe the nation's development path since 1949 as "to feel the rocks on the riverbed as one crosses the river", meaning to figure things out as one goes along (Lin, 2008). In accordance with this principle, the country has taken a pragmatic approach in the construction of the legal infrastructure and amendment of constitutional framework, in order to fit its ongoing domestic reform and deepening integration with the international business community. The last 30 years have witnessed the intertwining of legal reform with economic reform, an experiment which aims to optimise the experience accumulated over several centuries in other mature legal systems within a national context, but not a close emulation to either common law or civil law traditions (Laprès and Zhang, 2008).

Since 1979, there has been continuous legal reform on regulations governing the status and operations of foreign firms, commercial laws, and laws to protect intellectual property. Although the law in China remains largely a tool of state administration and is subject to variations in local interpretation, Child and Tse (2001) suggest that three positive developments can be observed. First, an increasing number of Chinese citizens are using the legal system to resolve disputes. Secondly, there has been a significant increase in foreign law firms in China. Thirdly, China's entry to the WTO implies that laws of international business begin to apply. The 2005 OECD report on China shows that significant legislative improvement has been made in three important areas: bankruptcy law, company law and the implementation of the constitutional amendment on

property rights (OECD, 2005). With careful investigation, Laprès and Zhang (2008) also arrive at the same conclusion. The achievements of China's legal system are no less impressive than its economic accomplishments, despite its work in progress status. Departing from an almost blank page, in the process of building a legal system compatible with the international business community, China adopted, amended or repealed some 3,150 laws and regulations based on the WTO's substantive agreements.

Beyond the content of the law, though, there is a more substantial problem of adherence or enforcement of laws. At present, it can be very difficult to obtain judgments in courts and even more difficult to obtain enforcement of the judgment (OECD, 2005). It is generally agreed that enforcing contracts for private business in emerging economies is often hampered by judicial inexperience and corruption (Ellickson, 1994; Henley, 2004; Meyer, Estrin and Bhaumik, 2005). In China, the enforcement of laws and regulations is challenged by a range of factors: the judicial system's submission to political influence, especially that of local government officials, vulnerability to corruption and weak expertise exacerbate the lack of legal remedies, the inadequacy of the available sanctions and the randomness of their enforceability (Schlevogt, 2000; Laprès and Zhang, 2008).

As explained by Child and Tse (2001), under the previous system of central planning, the formal institutional framework did not allow private entrepreneurial activities to take place, (thus), the new legislations are often subject to differing interpretations, applications, and significant administrative

discretion. The Chinese experience supports this view. As aforementioned, with the country's economic reform taken "to feel the rocks (on the riverbed) as one crosses the river" approach. It is inevitable that new legislation is often passed in haste. Frequently, new laws or regulations have to be re-interpreted by the legislators when its defects or discordance with market reality are discovered by the public. Consequently, the executors of laws are left with enormous power to act with discretion. This view is confirmed by Laprès and Zhang (2008:2):

"In many of the initial reforms, the laws served as little more than the form of expression of the new rules..... The omnipresent requirement of administrative approvals and licenses as conditions of access to activities and the plethora of State organs exercising overlapping and sometimes conflicting jurisdictions multiply the opportunities for the abuse of administrative powers. Legal certainty is sapped when any of the local government units acts outside the bounds of national laws and regulations, but frequently local regulations have innovated in the interstices of national rules."

In addition to judicial inexperience, regional protectionism is another major obstacle to the creation of an efficient market environment. Expansion across provincial borders is made difficult by the lack of objectivity of local judiciaries. Such difficulties are felt by both foreign enterprises and Chinese entrepreneurs (OECD, 2005; Luo 2007). Many commentators, both in and out of the country, believe that the fundamental problem lies in its political system, particularly at the local level (Dreyer, 2009; Hu, 2008; and Yin, 2007). For example, in a study about performance in attracting FDI, Henley (2006) finds that local Chinese bureaucrats have both administrative and legislative power. In dealing with

foreign investors, their conduct is officially subject to negotiation within the 'spirit of applicable law and the Constitution' and many of the regulations are intentionally vague. This lack of transparency often gives rise to corruption. However the fierce competition for FDI at municipality level seems to keep the worst excesses under control.

As with many other emerging economies, for the last few decades, China has been through unprecedented changes with regard to its constitutional framework. Though the country's political peculiarities place the nature of those changes under much debate, it is generally accepted that changes in this area reflected the development of formal legal institutions within the country (Nicholas and Maitland, 2006), and the government's intent to create and maintain a necessary business-friendly policy environment. Nevertheless, it is also evident that the authorities have been struggling to keep up with events and the fast pace of development. The advance of formal institutions often lags behind the development of the market. While improvement in many areas is certainly visible, the system as a whole is far from a successful story.

Informal institution and market environment in a transitional period

The existing discrepancy between developed and emerging economies can certainly be attributed to the interaction of a mixture of historical, social-cultural, regional, and geographical factors. Among the social-cultural factors, particularly, ideology and social environment are most embedded in mankind

and particularly enduring relative to the transformation of formal institutions. More often than not, such forces prove to be vital in shaping the market environment (Wang, Bao and Shu, 2006). In emerging economies, given the frequent incompetence of formal institutions, it is the belief of many researchers that informal institutions (including culture, customs and etiquette) play a more decisive role in forming strategies (Arnold and Quelch, 1998; Hoskinsson *et al.*, 2000; Luo, 2004; Wright *et al.*, 2005). Child and Moellering (2003: 72) find that “high levels of inconsistency, arbitrariness, and corruption on the part of officials” prevent firms from having confidence in China’s governmental institutions. However, to thoroughly appreciate the influence of informal institutional forces over emerging market penetration strategies of travel service firms, it is less than sufficient to merely examine their influences over contract enforcement. In this section, the researcher explores the relationship between informal institutions and the business environment by adopting an approach introduced by Westwood (2004), and attempts to describe and analyse the most influential socio-cultural forces as an emerging process. As the most profound informal institutional force in the Sinic society, the historical development of “guanxi”, its bond with state power in the planned economy as well as market transitional period will be exclusively addressed accordingly.

“Guanxi” as a strategic response to unpredictable formal institutions

As a strategic response to the unpredictability of government action and control, the heavy reliance on informal institutions such as social networks is typically found in emerging economies (Hoskinsson *et al.*, 2000; Luo, 2004, 2007; Xin and

Pearce, 1996; Zhou and Poppo, 2010; Wright *et al.*, 2005). However, it is perhaps only in China, where a social network, also known as “guanxi”, is not only an informal institutional force influencing business conduct, but for thousands of years, has been explicitly associated with the authorities in power, and acted as the centrepiece of social life. So much so that, even with recent radical social reforms, it has been inherited and recognised as a defining cultural characteristic of the Sinic society.

More than Daoism and Buddhism, it was Confucianism, with its emphasis on values instilled through socialisation and self-cultivation, which has had a profound impact on the Sinitic culture (Schlevogt, 2000). Confucianism, made by the Han Dynasty to be the very cornerstone of their ruling over the nation, constituted the cultural as well as political base which enabled “guanxi” to thrive for the following two thousand years (Sun, 1996). Unsurprisingly, “guanxi” is also frequently associated with the “officialdom standard”, an archaic feudalistic conception.

Under this “officialdom standard” system, the officials hold the most power to dispose of social resources, and impose values derived from their ranking in the political system. Though it may not be intentional, the reverence to Confucianism indirectly provides a theoretical foundation for the “officialdom standard” to breed. To a certain extent, such reverence has greatly contributed to the stability of the social system and helped to internalise this “officialdom standard” centred “guanxi” culture among ordinary people. Officialdom is certainly not distinct to any one society, but only in Chinese history has it been

so deeply implanted among both the governing class and ordinary people (Wang, Bao and Shu, 2006; Zhu, 2005).

According to Wang (2004), the real impact of the “officialdom standard” on the business environment was first seen in the Ming and Qing periods, in the fashion of collusion between the government and big business. During this historical period, a commodity economy started to germinate. Although many early entrepreneurs initiated it with their own capital, some made their fortune through doing business with imperial families and government officials. Consequently, their business interests were closely linked to those of the state, if not totally dependent on it. Because they served exclusively the interest of those parties, they were granted official protection, and were able to achieve monopoly and preferential treatment, such as, tax exemption. Eventually, this pattern of doing business led to collusion with state power and/or government officials.

Reinforced “officialdom standard” centred “guanxi”

The “officialdom standard” and association between state power and business enterprises was further reinforced during the period of the planned economy. The government, as not only the regulator and owner, but also the operator, exercised direct control and undertook economic activities (Wang, Bao and Shu, 2006). Since the opening up and domestic reform initiated in 1978, the nation has experienced major SOE restructuring and reform of formal institutions. China's National Development and Reform Commission (CNDRC) claim that the Chinese authorities have openly clarified their intention to adjust their role

in the market economy and withdraw from operation and part of ownership in non-strategic sectors. Despite such political statement and efforts, as in many other transitional economies, the strategic as well as operational movements of many firms still remain strongly connected to the authorities. Where protection and support is provided, it is dispensed through state apparatus, typically through favourable treatment in the allocation of state resources such as land or access to credit (Henley, 2004).

Despite the fact that developing “guanxi” centred on “officialdom standard” is often a passive move for many businesses, and the bond with officials will aggravate their dependency on state power, Wang (2004) argues that this type of “guanxi” is indispensable for survival under the current institutional environment of China. Zhu (2005) maintains a similar view that it is not easy to challenge the established institutions and cast off the influence of “officialdom standard” centred “guanxi” nexus. The expansion of the travel service industry also mirrors the path-dependent trait of this market. Many of the current players entered the market with some sort of background or connection with government agents, hoping to secure a share of the booming market. However, desk research shows an overwhelming focus on formal institutions in existing documentaries, while informal institutions appear to be relatively understudied.

Economic organisation of China's travel service market

To examine the economic organisation of China's travel service market, the researcher has chosen the Structure, Conduct and Performance (SCP) paradigm to support the analytical framework. The SCP paradigm has played a major role within empirically oriented studies of firms and is believed to be appropriate in the dissection of complex markets such as the travel service sector (Sinclair and Stabler, 1997). Within this paradigm, the following aspects of the market: entry and exit conditions, capacity and interaction between firm, degree of concentration and structural uncertainty are critically analysed. Subsequently, the researcher systematically probes how evolving institutional forces help to form both the common as well as the peculiar features of this emerging market, thus identifying implications for foreign travel service providers.

Structure

Structural uncertainty

According to the longitudinal study conducted by Davost Tourism Consultancy (2006) on the travel service distribution system in China, the traditional distribution system had a pyramid-like structure. The headquarters were responsible for wholesales, and regional branches were in charge of ground handling and distribution. The formation of such a structure could be traced to the institutional conditions when government controlled travel service providers dominated the market. Then, travel service firms belonged to

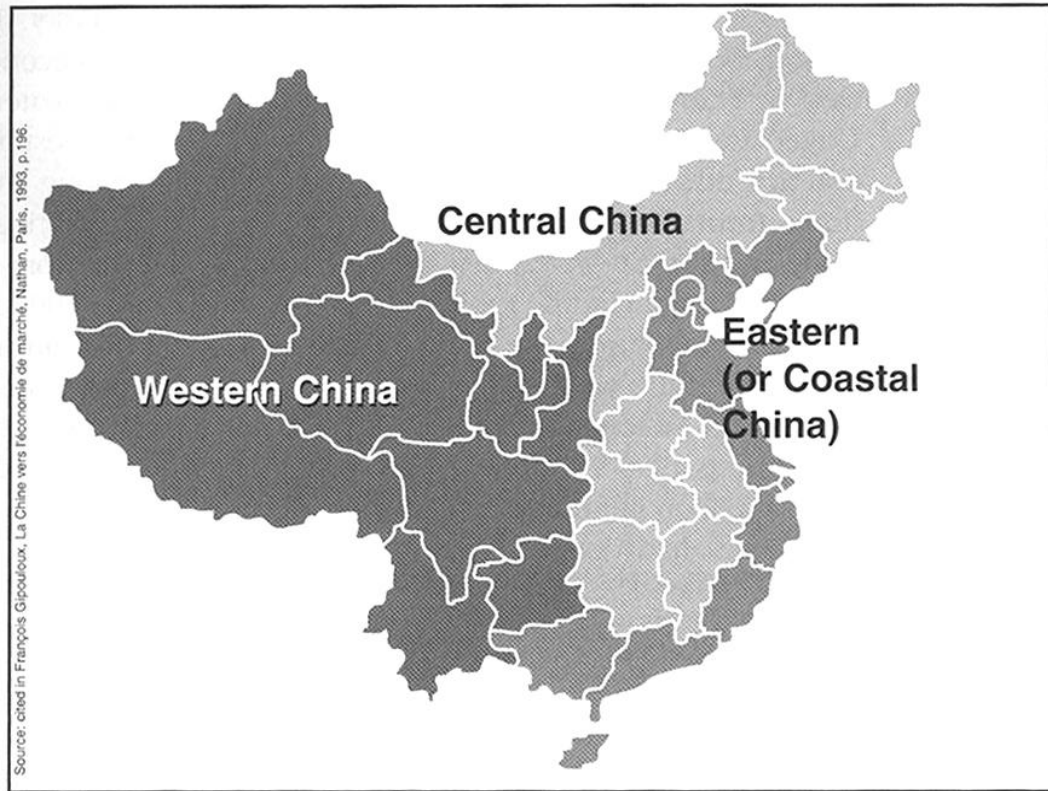
different government agencies, the relationships between regional branches and headquarters were not much different from regional and central governments. To a large extent, their cooperation was realised through state controlled oligopoly, administrative rather than economic ties. Today there is a wide range of firms with different ownership and governance structures in the travel service market. Nonetheless, it is both the belief of academia and industry practitioners that government regulations still play an important role in driving market orientation in this sector (Lai and You, 2006; Wang, 2004; Yi, 2006). Despite an ever increasing market size and promising prospects, the problems with the current structure of the Chinese travel service market are indisputable. Many of the travel service providers conduct diverse business activities. With a low level of specialisation, most are unclear about their positioning and target markets.

Regionality and extendability

The strong regionality of China's travel service market is due to a mix of factors. Despite historical reasons, its current shape very much corresponds with the overall strategic policy variation directed by the central government. While successfully attracting over 80 per cent of FDI to the coastal provinces, the more favourable policy towards coastal provinces and open port cities also leads to the widely differing levels of economic development between East, Central and West China. The policy to address regional inequality was reiterated in the tenth five year plan (2001–2005). The central government is determined to redistribute resources from the east to develop the west via heavy investment in human capital and physical infrastructure (Henley, 2004). Figure 5.2 demonstrates the

regional disparity between East, Central and West China.

Figure 5.2 The “Three Chinas”



The “Three Chinas”. It is sometimes helpful for foreign business people to think of China as comprising three major regions, each with distinct social economic characteristics, going from the most populous, most developed and most outward-oriented provinces on the East coast to least populated, least developed and least outward-oriented provinces in Western China.

Source: Laprès and Zhang (2008)

In accordance with their relatively more advanced economic development level, at present, the Pearl River Delta (with Guangzhou as its centre), the Yangzi River Delta (with Shanghai as its centre) as well as Beijing and Tianjin area (with Beijing as its centre) are the three economic centres with the most prosperous travel service sectors (also known as the first tier market). In metropolitan areas such as Guangzhou, with relatively higher disposable incomes, residents have been showing a strong desire for outbound travel. Therefore it is possible for the travel service sector in these cities to achieve economies of scale, better control of cost and subsequently more competitive prices. Though statistics on the exact size of those three markets are not available, it is believed by many practitioners, that the East China market is now the biggest in size, for both leisure and business travel service markets. It is also widely acknowledged that the Beijing and Shanghai markets are more appealing in terms of business travel, given the number of international organisations and business travellers these two cities host. As regards leisure tourism, all three markets have great potential. In 2008, the majority of the top ten travel service providers certified by CNTA were either based in Beijing or Shanghai (CNTA, 2008).

As the first tier market becomes saturated, the focus of growth is gradually migrating to the inland. From 2000, the market has seen more rigorous expansion of travel service firms from the first to second tier markets and even integration of different regional markets. For instance, CTS Guangdong has signed agreements with four other tour operators out of Guangdong province, and acquired equity in those operators. In 2003, CTS Guangdong acquired several travel agencies outside the province and signed agreements with CTS

Shanghai to establish neutral brand travel agencies which will distribute travel services from all participating tour operators (Deng, Wang and Hu, 2003). Some industry insiders argue that the expansion of the distribution network from first to second tier cities signifies the elevation of travel service market structures.

As a country with vast geographic coverage, culturally diversified and strong regionality from north to south, and east to west, it is understandable that the condition of the market varies significantly from one region to another. As explained earlier in this section, although nationwide commercial travel service enterprises with branches covering most of the touristic cities are already in existence, many commentators argue that there is little integration between regional markets (Deng, Wang and Hu, 2003; Lai and You, 2006; Wang, 2004). A common travel and tourism market has yet to be developed. The potential for large scale growth and upgrade of industry structure is believed to be great.

It can be summarised that the emerging travel service market in China is in fact dispersed, widespread, and chaotic. It is made of many relatively separate regional markets. Influential integrated travel service groups have been emerging and consolidating their positions in the market. There are many who have entered or are preparing to enter this market. However, none of them has achieved an absolute dominant position. Many Chinese scholars deem the current travel service market to be in a competitive situation with many structural uncertainties. While the path of growth is unprecedented, a more meaningful, feasible segmentation of the market and respective scope of business activities has yet to take shape (Lai and You, 2006).

Conduct

Entry and exit conditions

According to CNTA, there were three official government travel service providers in PR China before the economic reform and opening up inaugurated in 1979. The term “official” deployed by the national tourism office CNTA suggests that the nature of those organisations was closer to service units of government agencies rather than profit-seeking business entities, which is suggested by Williams and Baláž (2000) as a common characteristic among transitional economies. This system has been altered fundamentally by major shifts in enterprise ownership and growing exposure to market forces since 1979. However, compared to the hotel sector, which has been open to foreign investment for more than two decades and now consists of a group of diversified competitors, the travel service sector has been relatively less open to competition from outside the country (Endo, 2006).

Until the end of 1980, the travel business was essentially a monopoly in which demand far exceeded supply. This was the case for domestic players, though 1996 regulations on the travel agency sector did not limit privately owned firms from entering this sector. Non-state or public organisations had to go through highly complicated application procedures and harsh examination to obtain operation licenses. The actual difficulty of obtaining licenses partially explains the domination of state owned enterprises and the infancy of private enterprises in this sector (Yi, 2006).

SOE restructuring and privatisation

As with the rest of the economy, the travel service sector has also undergone large scale reform. SOEs at the national and provincial levels were under the rigid control of the government and unable to compete with smaller firms in the market (Qian, 2003). Since 1998, the authorities have pursued a policy of relinquishing small SOEs and restructuring large SOEs, separating ownership of state assets and governance, and retaining a certain level of ownership while investing in managerial competence in independent entities. While a variety of means have been adopted to diversify SOE ownership structure, one major principle for this reform is the state capital's retreat from the service industry (OECD 2005; Wang, 2008).

Given the many stakeholders involved, the process of SOE restructuring has been far from efficient. CNTA's (2008) survey shows a very small number of firms have actually completed such a transition. Compared to those in Central and West China, the more economically advanced areas, i.e. Guangdong, Zhejiang, Fujian, Jiangsu and Shanghai have shown a higher ratio of completion with tourism SOEs' restructuring. This reality clearly mirrors the regional disparity in the pace of institutional transformation. As maintained by Yi (2006), until 2006, the main channels for private travel service firms to acquire legal status were through the process of SOE restructuring, gaining control of individual departments through the model "chengbao" (contract) and "guakao" (being affiliated to). A group of contracted departments have become independent travel service firms through this means.

Qian (2003) thoroughly explains how the chengbao model functions in the travel service market. Typically, chengbao is done by individual staff members (mostly departmental managers) who would reach an agreement with the general manager of a travel agency to meet a profit quota and who would then be given full charge of the operation and management of their departments. According to CNTA, the chengbao system is a type of unregulated privatisation and, therefore is officially opposed by CNTA. What is actually happening under this system is that a travel service firm is split into a number of smaller agencies. The departmental managers are entitled to use the brand name of the enterprise, an intangible property, to pursue their short-term interests. No legal restrictions have been imposed on this practice and if there was any loss, the departmental manager may simply quit without having to be responsible for any loss, leaving the enterprise to deal with it.

Capacity and interaction between firms

Alongside the accelerated reinstitution of the market, the structure of the industry has been experiencing constant changes. Whilst larger operators attempt to gain economies of scale and market power mainly through horizontal integration, the consolidation of the value creation chain (i.e. gaining control over distribution channels, internalising key suppliers) has been less intensive. Nonetheless, it has been observed that as organisational restructuring and horizontal integration has taken place, the more capable players in the market have also sought to vertically consolidate other elements of the value chain, i.e. hotel, coach services, destinations and other industry sectors. For example, Beijing Tourism Co. Ltd (BTC), through years of development, is now one of the

biggest integrated groups in the market, with business interests covering hotels, tour operating, coach services, catering services as well as destination management. Meanwhile, some well operated destinations have been venturing into upstream sectors, through forming their own travel service companies or acquiring shares in other travel service companies. At present, China's travel service providers extend their network coverage mainly through three forms of involvement: franchising, wholly owned branches with no legal person capacity and share-holding subsidiaries (Yi, 2006).

ICT and accelerating development of travel service market

The increasingly popular "online mode" of travel organising has fundamentally transformed market competition at many levels. For domestic travel, there are no language barriers or travel document requirements. It is observed that more and more people prefer to travel independently rather than join the organised tour groups. When speaking about online travel websites and e-tourism in China, the high recognition of "Ctrip" (brand name) by the public reflects their relative positions in the online sector. Ctrip primarily targets frequent independent travellers in China. These travellers form a traditionally under-served yet fast-growing segment of the Chinese travel industry (Ctrip website, 2011).

As previously revealed in this section, the traditional distribution networks in this market are far from impressive. The accelerating development of the travel service market, particularly distribution networks, is of course the beneficiary of the advance of information and communication technologies (ICT). One of the

biggest advantages of the Internet technology is its ability to maximise cost efficiency, particularly to SME operators in emerging economy settings (Akbar and Samii, 2005). As for China's travel service market, it is a fact that high street travel agencies are a more recent phenomenon. This is first due to the industry's relatively short period of development. Secondly, although a number of travel service companies have broken regional barriers, and attempted to set up joint ownership retailers, most high street agencies are still confined to selling their own upstream owners' service packages. For the vast majority of operators, their sales volume is not sufficient to cover the expense of high street retailing premises. Hence, the Internet is believed by many industry commentators to be a realistic choice for those seeking cost efficient distribution channels in emerging economies (Yi, 2006).

ICT has certainly reduced the gap between the developed and emerging economies. China's emerging travel service market has seen more and more technology affluent consumers. This new generation of consumers is believed to be more sophisticated, and much more willing to embrace new ICT and experience new products. It is clear that consumers are increasingly tired of being fed with advertising information that they are not particularly interested in. With the aid of faster connections and better site development, online operators are able to provide more utilitarian services, integrate personal recommendations, pre-viewing (photos or film of the destination), and advice via interactive forums or blogs with their offers. By involving and interacting with consumers, online operators are able to create an atmosphere that

stimulates consumers' desire for destinations or innovative travel services (Davost Tourism Consultancy, 2007).

While the dotcom companies are trading well in the travel service market mainly through online booking engines, more and more traditional travel service providers spot opportunities and attempt to leverage their offline expertise to the online sector so as to broaden the competitive spectrum and add more value to their products. What Chinese industry practitioners call "mouse + cement" business style has become a model for many followers from the traditional tour operation sector, who the hope to secure a market share (Davost Tourism Consultancy, 2006). Some have set up their own online booking engines. CYTS Cendant is one good example of this. Others choose to cooperate with existing online service providers. Meanwhile, some dotcom companies such as Ctrip have been extending their business scope to the offline segment, and involvingthemselves in the substance of the travel service industry (Ctrip website, 2011).

Performance

Competition still remains at the lower level, where price reduction is the most commonly deployed weapon to fight against competitors. As such it is often counter-productive. The direct outcomes of such tactics are compromise of service quality, dissatisfied consumers and damage to business in the long run (Yi, 2006). Though occasionally disputed by some practitioners, it is many industry observers' belief that "chengbao" and "guakao" are very problematic approaches to the management of travel service enterprises. Many travel

agencies that practised the chengbao system were on the verge of bankruptcy after three or four years. The chengbao by individuals, a practice which was far from being standardised, was one of the root causes of unfair competition in the Chinese marketplace (Qian, 2003). Under the contract system, a significant number of contractors frequently violate relevant regulations as well as generally agreed rules for practice, and so applying inferior competition tactics. Their behaviours have seriously damaged the order and normal functioning of the market. Since many contracts are not legally enforceable, in order to identify those most likely to cause contracts to fail, firms invest a large amount of time on developing information systems, and compiling trading information on poorly performing and opportunistic players.

To a large extent, integration in this market has remained at a provincial or regional level, with the aid of government allotted funds. Many of the self claimed “large, integrated tourism groups” may be impressive in terms of the scale of assets. However, regarding organisational structure, there has not been any fundamental change when compared to before the integration (Deng, Wang and Hu, 2006). Most of the existing alliances are comprised of somewhat loosely connected individual companies, rather than powerful, competitive coalitions. The lack of interest in product innovation and development, as well as the limited vision for long term development strategies has seriously hindered the industry’s progress. While state intervention has helped to incorporate resources and establish nationwide networks, the internal coordination among many of the newly made “travel service conglomerates” is considered to be fairly weak. In spite of being the shareholders of many regional operators, managerial ties

between headquarter and regional branches are often nonexistent. Such integration brings about little fundamental changes to the way the travel service business is being operated (Davost Tourism Consultancy, 2006; Lai and You, 2006).

It is a widely accepted that, taken as whole, the concentration level in China's travel service market is relatively low. The absolute majority of the firms in the market are SMEs, and this is particularly evident with private enterprises (Qian, 2003). Recently, non-state owned enterprises are gradually gaining ascendancy in the determination of economic choices. However, statistics show that since 1979, although the absolute number of travel service firms has increased, private companies are of much smaller proportion relative to the total number. Until the end of 2002, privately owned travel service firms accounted for 27% of the total number of firms (with a market share less than 20%), while state wholly owned or holding companies constituted 50% of the total population (Yi, 2006).

Summary

Chapter Five presents the desk research findings with a focus on the macro institutional environment and the economic organisation of China's travel service market. After the WTO ascension, the market sector has had swift development; the institutional environment has continued to improve in favour of private and foreign enterprises. A growing amount of social capital has been injected into the tourism industry, including the travel service sector. Nonetheless, barriers to market access have, to a certain extent, deferred foreign travel service companies' penetration.

It is proposed that further integration of market resources, and optimisation of market structure, will not only rely upon the operators from within the country (Yi, 2006). There shall be plenty of scope for foreign players to be a part and/or even notably influence this process. Moreover, consumer opinion polls show a disappointing level of satisfaction with the service provided by current operators (Qian, 2003; Yang, 2007). While desk research findings support the conception that institutions intervening between the causes of and expected responses to transaction costs, there appears to be an overwhelming focus on formal institutions, leaving informal institutions relatively understudied. Hence the importance of informal institutions in the market place will be given more attention. This chapter has served the designated research objectives, explored China's macro institutional environment, discussed how formal and informal institutional forces facilitate or impede tourism growth, and explained the relationship between the influential institutional forces and the economic organisation of the current travel service market. It lays down a solid foundation for further analyses of how market institutions, industry structure and penetration strategies interact through institutional oriented networks.

CHAPTER SIX

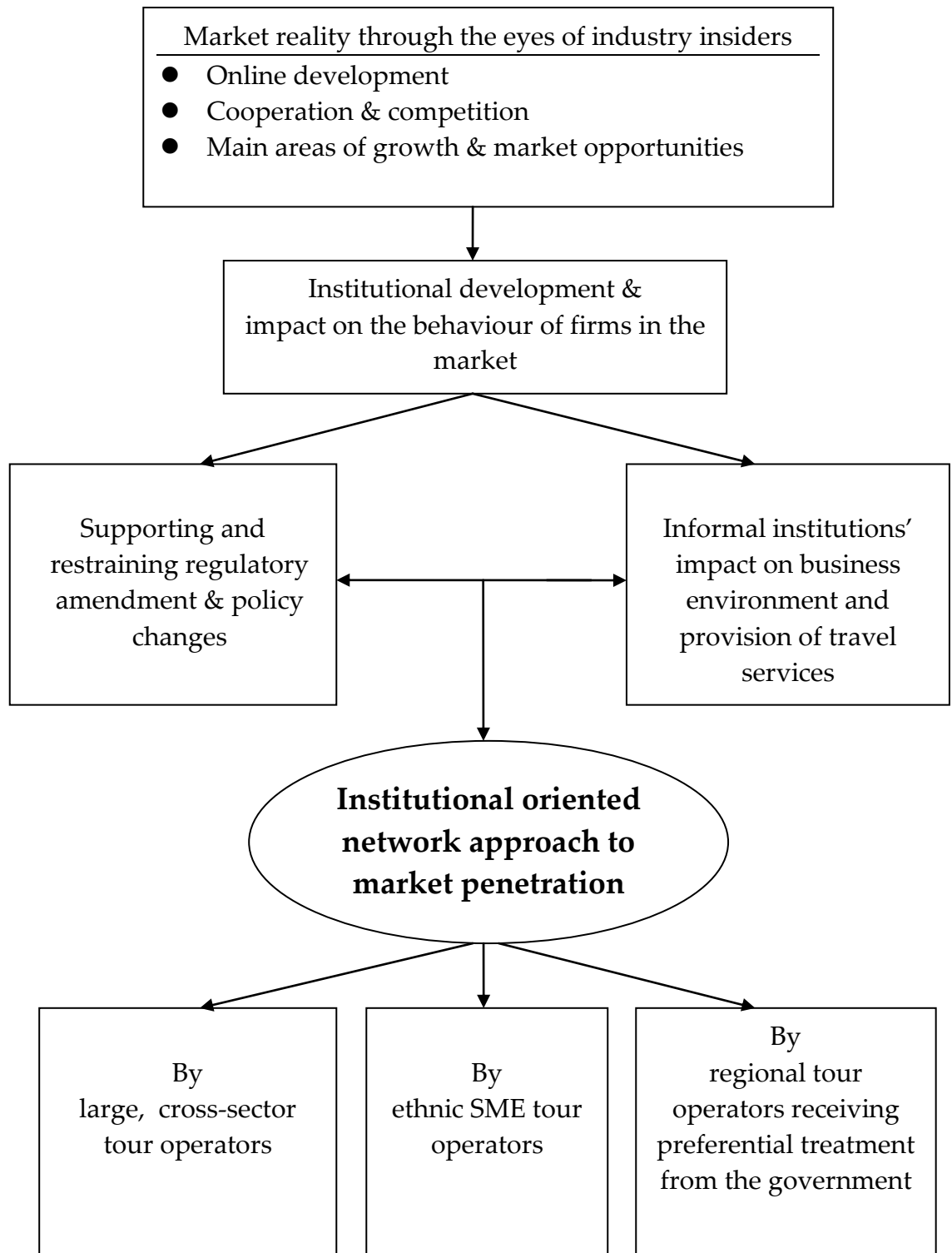
MARKET INSTITUTION AND PENETRATION NETWORKS

Research is progressed in Chapter Six by communicating the findings derived from the synthesis of field work, which was initiated in May, 2006, mainly undertaken during the period of February to June 2008, and completed by follow up interviews and additional documentary data gathered at the beginning of 2009. The geographical location of fieldwork spans eight cities in two countries. In the order of visiting time, they are Edinburgh, Shengzhen, Guangzhou, Zhengzhou, Nanjing, Shanghai, Beijing and London. The interviews were conducted with industry insiders such as company CEOs, heads of departments and tour managers, government officials as well as academics, in face to face sessions, via telephone and on Skype. Three participant observation sessions of business networking were also arranged in Guangzhou and Shenzhen. The selected industry insiders all had rich, firsthand experience of the market; some have been involved in the industry for a substantial period of time. Many were decision makers within their respective organisations, therefore bear sufficient stature to provide data in the pertinent areas. Moreover, the interviewees provided a proportion of information on their personal career development paths, which mirrored the trajectory of industry growth.

Chapter objectives

- œ Explore the travel service providers' perceptions on relevant formal and informal institutions in China, and their implications on market penetration strategies
- œ Identify and illustrate the representative market penetration approaches adopted by foreign travel service firms, and the conditions under which those approaches are adopted

Chapter structure



Introduction

In this chapter, the researcher aims to systematically present and analyse the related institutions and responses of firms in terms of market penetration strategies. At first, drawing on interviews and close observation of the market, the researcher depicts the market profile. The empirical findings are compared with the results derived from desk research. In accordance with the theoretical sampling approach adopted, the researcher writes up three cases, using standard variables and analyses each case in depth. Once each case is well understood, the key features of cases are displayed in condensed matrices, permitting further systematic comparison and a pattern to be drawn in the next chapter.

Market reality through the eyes of industry insiders

The travel service market has seen unprecedented growth in China in the last thirty years. This section presents the major developments in the current market, in the areas of online development, cooperation and competition, as well as the main areas of growth. They are identified from interview findings, researcher's field notes on market trends across five Chinese cities covering both first and second tier markets, and involvement with the industry. These areas were chosen to highlight the distinct market features, opportunities and threats that are present to travel service providers. The importance of these areas is likely to increase over the near future.

Online development

The development of the “online world” has transformed the competitive model of travel service and related businesses dramatically. Inevitably, emerging economies have been affected by such transformations. The field research findings show that some industry practitioners (notably those who have rich experience in China’s travel service market) still appear to be reluctant to acknowledge the “overnight success” of online travel service providers, accusing them of “invading” traditional travel service businesses. For example, one interviewee expressed this sentiment:

“To be absolutely honest, many who have been in the tour operation industry for many years, including myself, feel rather painful to witness the deterioration of traditional travel agencies, and the market leader position being taken over by online travel service providers such as Ctrip.”

(04 – Sales Director, CITIC International Travel (Guangdong) Co. Ltd.)

Nonetheless, all practitioners being interviewed admitted either plans or substantive moves towards the consolidation of online and offline resources. For example, the head of the outbound department of CGZL International Travel Service Ltd., revealed their strategic move in this area:

“...with the economy of scale, bulk purchasing of accommodation, flight capacity so on and so forth, we are well in the position to extend scale advantage into the online sector. Recently, we have introduced a strategic cooperative partner, etchina.com, a rising star in the online travel service sector. CGZL’s advantage lies in the off line sector; etChina,

on the other hand, has had one of the best performances in e-business and electronic ticketing. This alliance aims to incorporate the resources of both online and offline travel service providers, extend CGZL's business scope to the offline segment

(28 – Head of Outbound Department, CGZL International Travel Service Ltd.)

The industry insiders being interviewed also believed that at the present time, a significant number of consumers do an information search online, but do not necessarily make online transactions their first option. This is due to a couple of factors. First, the Internet search results show that although many travel service providers (including some of the biggest players in the market) have an online presence; their websites often need vast improvement. Secondly, during the fieldwork stage, all respondents admitted that the general credit environment is less than desirable. The concern for online payment safety is still very much an issue. In fact, as suggested by the Director of ChinaContact, a consultancy company for travel and tourism business development in China,

“Online travel companies cannot operate in China as their normal business model. Therefore, traditional wholesalers who are able to offer online products to their agents have an advantage as far as online bookings go. In order to be profitable from direct sales the business model needs to adapt and become flexible, offering call centre and offline payment solutions...Successful local ‘online’ travel service companies not only offer support over the telephone, but provide ticket delivery and cash payment services. Loyalty programmes are frequently used and cooperation with banks and associations helps to build further trust.”

(25 - Director, ChinaContact - Travel Industry Portal to China)

The fieldwork experience in first and second tier markets also corroborated evidence on this point. Thirdly, through the researcher's own industry experience, it was discovered that for operators who provided traditional group travel package services, the forming of groups required much coordination with clients. This was especially evident in the case of overseas travel, for which acquiring adequate travel documents and accommodating many other needs of clients demand a lot of communication between service providers and receivers. Hence, to what extent and in what form the "online world" could significantly influence the industry's future is under scrutiny. It must be pointed out that given the time and resource limitations, the industry practitioners being interviewed for this study mostly commenced their career within the offline sector. It is reasonable to suggest that their interpretations of the current market development and vision for the future were inevitably confined by their own experience. Nonetheless, it was agreed by all respondents, regardless of background, that the synergy between online and the online sectors will be the ultimate direction of market development.

Cooperation and competition

The interview result supports the desk research findings relating to privatisation models such as Chengbao and Guakao. As revealed by one interviewee, who has been involved in the industry for more than 20 years:

"Certain companies can contract as many as 30-50 units. Each and every single unit is run like a small company. There is little "division of work", those units work on whatever business they can get hold of, inbound, outbound, domestic, everything. By

doing so, together they manage to totally outrun bigger players in the market on the number of annual customers."

(22 – General Manager, CTS Henan Co. Ltd.)

The Assistant General Manager of Central China International Travel Agency Co. Ltd. commented on this phenomenon:

"In theory, (the contract departments) share the same brand name, advertising benefit and retention money for quality assurance, and unified customer complaint handling agency. In reality, the contracted departments are the de facto tour operators. There are no managerial links among them in any manner."

(15 – Assistant General Manager, Central China International Travel Agency Co. Ltd.)

A travel service firm which is operated through the contract model is much like a marketing alliance rather than an integrated business entity. Large enterprises are merely the basic collection of many small operators. Not only does economy of scale not exist in this type of business entity, there is little cooperation among different units.

It goes without saying that competition as such is often counter-productive. The direct outcomes of such tactics are compromise of service quality, dissatisfied consumers and damage to business in the long run. In addition, the illegal practices of some of the "contracted" operators have seriously jeopardised the credibility of the industry as a whole. The image of the travel service industry, according to all respondents, was far from reputable among the public. Though

some practitioners argued that the contract management model has, in its own ways, enhanced the enterprises competitiveness to a certain extent, many are of the opinion that its benefits are greatly outweighed by problems.

In spite of the general propensity to closer inter and intra industry cooperation, some industry practitioners interviewed expressed a rather pessimistic view toward the performance of existing cooperative partnership in the market, particularly on Sino-foreign joint ventures. The Assistant General Manager of Central China International Travel Agency Co. Ltd, revealed that with the intention to lower cost and increased market share, tour operators have been trying to form close cooperative relationships with airlines, particularly in the outbound sector. Because of their relatively small sizes, many of them choose to collectively enter alliances with airline companies. One respondent gave the following comment:

“For most of those so-called strategic alliances or cooperative partnership, there is little asset link among the parties involved. Most of those cooperative relationships are short-sighted and short-lived.”

(31 – Head of Outbound Department, Comfort Travel Henan Ltd.)

Main areas of growth and market opportunities

Outbound and business sector

The interviews with various industry practitioners suggest that outbound is the most profitable sub-market, but considerable differences existed in their

responses regarding the profit level in this market. Some reveal that the actual gross profit can be as high as 20-30% of their sales, while most respondents put 5-8% percent as an industry average. In either case, it is not difficult to tell why this sector attracts the most attention from foreign travel service business. During the fieldwork, all respondents showed confidence in the future of the business travel sector, even those with less favourable performance in the market so far. As the country's economic importance increases over time, the common notion is that a booming domestic as well as international business travel market will be irreversible for a relatively long period. At present, this subsector is still in its infancy and under regulated.

Regional variation and extensibility

Based on the desk research findings and pilot interviews with industry insiders, the researcher reached the decision to travel to the three economic centres with the most prosperous travel service sector, namely Guangzhou and Shengzhen in the Pearl River Delta, Shanghai in the Yangzi River Delta, as well as Beijing. It was learnt that as travel service providers progressively consolidate their position in the first tier market, the focus of growth was gradually transcending to the inland. This situation was described by the Head of Outbound Sector in China Travel Service (CTA) Henan Co. Ltd.:

“Without direct flights, the demand for outbound travel cannot be properly released. There is an important issue of airline routes and departure ports. Take a travel agency based in central China for example, because there are relatively less international airlines flying directly to and from inland cities. This central China operator would

normally source the Southeast Asia packages from Guangdong operators, European packages from Beijing operators. In other words, they directly or indirectly act as the distributors of wholesalers based in more economic prosperous regions."

(22 – General Manager, CTS Henan Co. Ltd.)

However, in accordance with desk research results, interviews with industry experts also confirm that consolidation in the travel service industry was far from successful. Cross - region integration was even more difficult. One respondent, who was formerly involved with the negotiations on joint venture between Touritik Union International (TUI) and China Travel Service Corporation (CTS) Guangdong, stated:

"In spite of being the shareholders of many regional operators, there's no managerial link what-so-ever. To a large extent, the integration in this market has remained at provincial or regional level".

(29 – Manager, GZL-Hong Thai International Travel Service Co. Ltd.)

This view obviously received resonance from the General Manager of CITIC Travel Co., Ltd Guangdong (canton) (part of China International Trust and Investment Corporation Group (CITIC),

"The travel service market is highly geographically verified and diversified. The practice of tour operation varies largely from one area to another. It's impossible to develop to cross region integrated groups with tourism alone. Many integrated tourism groups are expanding their horizon in areas out of tourism, real estate for example."

(03 – General Manager, CITIC International Travel (Guangdong) Co. Ltd.)

The Managing Director of ChinaContact expressed his consent on this issue of regionality:

“It is critical to accept that your traditional business model will need to adapt to local conditions. Often this means the flexibility to change it for different regions within China. It is critical to have humility in understanding that your strong brand identity may mean nothing to Chinese consumers.”

(25 - Director, ChinaContact - Travel Industry Portal to China)

Institutional development and impacts on the behaviour of firms in the market

The previous section presents the fieldwork findings on institutional development and their impact on the behaviour of firms in China’s travel service market. It is noted that interviewees responded to this issue through explicating their own industry involvement/career development path. It was found that among all respondents, industry practitioners and alike were generally keen to discuss the difficulties they faced and the constraining institutions which accounted for those difficulties. In contrast, government officials were more inclined to stress the facilitating, or what they believed to be positive institutional development in the wider context. This is believed to be a reflection of their respective positions in the market.

Impact of policy and regulation changes on firm behaviour

Supporting regulatory amendment and favourable policy changes

The last thirty years has seen the most drastic yet gradual changes in the macro market environment in China. Among them, the ease of restrictions on outbound travel has infused new vigour to the latest development in the world travel and tourism market. From the government officials' perspective, China as a signatory of WTO has fulfilled its promises on the travel agency sector within the set time frame.

The government has been consistent in removing restrictive practices, creating and maintaining a business-friendly policy environment. Within the last ten to fifty years, the nation has experienced major SOE restructuring and reform of formal institutions. The authorities have openly clarified their intention to adjust roles in market economy, i.e. Withdraw from an operational role, diversify ownership of SOE, and retreat from tertiary industries.

Compared to central government's "consistent restrained opening up" attitude, the position of local governments regarding foreign involvement in the travel service industry seems to be more audacious. Many interviewees revealed that they either provided or received support to connect various layers of the tourism value chain at a local level, given the authorities' intention to stimulate tourism development. Local governments and tourism boards are often highly involved in the formation of integrated travel service groups, campaigning hard to attract foreign interest.

Constraining regulatory practices and poor enforcement of business laws and regulation

The responses from industry practitioners indicate that the consequences of policies which are supposed to enhance free competition often lead to opposite results, creating more regulatory stringency or hazards. One of the causes for such a discrepancy could be attributed to judicial inexperience. The nation's rapid economic advances make it difficult for authorities to keep up with the development of events. In other words, the advance of formal institutions often lags behind the development of the market. As explained in Chapter Five, with reform viewed as "to feel the rocks (on the riverbed) as one crosses the river" approach, it is inevitable that new legislation is likely to be passed in haste. Frequently, new laws or regulations have to be re-interpreted by legislators, after its defects or discordance with market reality are discovered by the public. Consequently, plenty of room is left to discretion by the executors. An expatriate manager who has lived and worked in China for years epitomises the common view on the country's formal intuitional environment:

"In China, after a new law or regulations has been introduced, a frequently occurring scenario is that the public either question the new law's/regulation's inconsistency with previous ones, or discover their inherent flaws. In response to public doubts, the authorities try to justify or explain their regulatory approach, often by stating the new law/regulations are of "advisory" function. Unlike in Europe, once the law is enacted, it must be enforced... It gives people the impression that Chinese laws/regulations merely act as a guiding framework."

(16 – Honorary President, Guangzhou Opera Institute)

The Chinese managers seem to be more used to this approach, and one interviewee gave the following comment:

“The Chinese, for thousands of years, have been making harsh laws but habitually enforcing them in a loose manner. The executers are always delegated with immense power.”

(18 – Director of Outbound Department, Crown Holiday International Travel Service Co. Ltd.)

In addition to judicial inexperience, regional protectionism is another major obstacle to the creation of an efficient market environment. Expansion across provincial borders is made difficult by the lack of objectivity of local judiciaries. Although the latest *Regulations on the Administration of Tourism Agencies* by CNTA (2009) firmly states that the establishment of travel agency branch offices shall not be restricted geographically, many of the industry practitioners interviewed believed that it would take some time for regional protectionism to crumble away, before nationwide integration and restructuring could really take place. Moreover, in accordance with the desk research findings, interview results also suggested that even though tourism is not perceived as one of the industries strategically significant to the country’s economic well being, the government is heavily involved in the strategic development of the market, particularly at a regional level. As pointed out by Peng and Zhou (2005), in many cases, the intervention has simply been shifted from central to local government. As put by the Assistant General Manager of *Central China International Travel Agency*:

“Although the government has announced its gradual retreat from relevant industries, the reality couldn’t be further than that.”

(15 – Assistant General Manager, Central China International Travel Agency Co. Ltd.)

Indeed, the fact that many of the travel service SOEs still retain a strong flavour of state involvement in their strategic moves mirrors the path dependent trait of a market under swift institutional transformation. Many of the current players entered the market with some sort of background or connection with government agents. For instance, in reviewing the development path of the Central China International Travel Agency Co. Ltd. (CITA), its Assistant General Manager said:

“We first started as a foreign trade company which belonged to the provincial foreign trade office. Tourism later came to the sight. The good connections with the authorities and overseas partners, by all means helped to establish our mature footprint in the outbound industry.”

(15 – Assistant General Manager, Central China International Travel Agency Co. Ltd.)

The ownership and control of those commercial organisations often remain vested in the state or local authorities. About this situation, one interviewee gave the following view:

“Indeed, many local tourism bureaus still have subsidiary travel service companies. State, province owned operators still exist in the market, even with sluggish performance. Bankruptcy was literally unheard of for them.”

Despite the government's intention to create a more business-friendly policy and regulatory environment, the general perception of industry practitioners remains that business activities tend to be over-regulated and often subject to government intervention. There are many man-made factors in the market. Rather than market forces, authoritarian orders often have the final say. Some interviewees revealed that for a long time, the best way for tour operators without an official background to survive in the market was to "guakao" (become affiliated to) state owned enterprises.

Moreover, state resources such as land and/or access to credit from state-owned banks have always been allocated in favour of the interests of firms with some background in the political system. On the whole, it is fair to suggest that compared to the pre- economic reform and market opening period, the country has seen substantial progress in the legal system. However, in practice, regulations and policy are still the main body of formal institutions affecting business entities' operation. As disclosed by many scholars, the problem with regulations and policy, especially policy, is that they are highly likely to be arbitrarily imposed by officials in power. In other words, political forces still very much influence the behaviour of business entities.

Impact of informal institutions on market environment and provision of travel services

“The core of Chinese culture is in its emphasis on “centre”. Its influences and centripetal force has been proven in different historical period. There were numerous groups which conquered the mainland and ruled the country. None have succeeded without absorbing the Han culture and adjusting to it. By the end of their reign, they were more or less assimilated by the majority of Han culture, adopted the customs and beliefs of their new home. I believe international players which have taken root in the Chinese soil, can learn from the history.”

(15 – Assistant General Manager, Central China International Travel Agency Co. Ltd.)

The “law” of “guanxi” based networks

In the context of this study, the focus of network content is twofold: business-to-government (B2G) ties and business-to-business (B2B) relationship. The literature showed that extensive networking with both business partners and government officials (known as “guanxi” in China) are more pervasive in Asian countries such as China, and South Korea, due to both institutional voids and cultural heritage (Peng and Luo, 2000; Xin and Pearce, 1996; Peng and Zhou, 2005). Some authors argue that “guanxi” based networks have historical and theoretical foundation derived from Confucianism. The fieldwork findings apparently weigh more on the officialdom nature of this type of network. It is evident that in China’s current travel service market, where state and local governments as well as SOEs are still the principle forces of consumption

(particularly in the outbound sector), many commercial organisations made their fortune through doing business with government officials. Unsurprisingly, building and maintaining relationships with the appropriate authorities and individuals has been the most critical factor for conducting business. The comment of the Director of Outbound Department, Crown Holiday International Travel Service is a testimony to the status quo:

“It has been proven over and over again that Chinese way of doing business is all about “guanxi”. In many cases, whether a company will be chosen to do business with has more to do with “guanxi” and authoritarian orders...Although state own tour operators’ rich experience in the market does not necessarily translate to market success in today’s highly competitive market, those early operators’ well established business networks, especially with the authorities, are their most valuable assets for doing businesses in China.”

(18 – Director of Outbound Department, Crown Holiday International Travel Service Co. Ltd.)

The evidence from this research also shows that service sectors’ reliance on “guanxi” based network may be stronger compared to other industry sectors.

“As service providers, our business model is different from manufacturing industry. Tour operating firms rely more on connections (人脉) and networks, aka “guanxi”, than any other industry.”

(27– Sales Associate, CTS Head Office Co., Ltd.)

This view is also approved by another manager:

“When you are China, do what the Chinese do. Chinese like to consider “guanxi”, when it comes to virtually everything. Travel service business is no exception. The accumulation of “guanxi” and “renmai” (networking) “人脉” can be equal to accumulation of “clients”. What happens in the market very often is that when a capable travel expert left the company, he/she didn’t just walk away with himself, he took his clients away.”

(03 – General Manager, CITIC International Travel (Guangdong) Co. Ltd.)

As an unspoken law for many service industries, building a “guanxi network” matters more than anything else, as one industry insider bluntly put it:

“We don’t spend much energy thinking about our services, I think you have to acknowledge the fact there is little we can do to differentiate our offerings from many others in the market. You won’t make much profit from sales to common people anyway. The most profitable deals are those made with government agencies and state owned enterprises. I have to please the people who are in charge of making purchases for those organisations. I spent most of my time creating “guanxi network”; knowing who exactly I should please to get the deals. I can honestly say this is pretty common.”

(34 - Owner of an international travel agency)

It was also discovered that the “scope” of such networks often expands as the business scope of firms shift. As very few firms in this market are specialised, the maintenance of extensive “guanxi” networks seem to be a must for catching

the widest range of clients and potential business partners. For example, for many Chinese, education is ranked as a priority legitimate spending. Combining educational programmes with overseas travel experiences has been the market trend for many years. Similar products such as overseas training, cultural exchange and educational tours are also included in the business scope of many travel service firms. During the fieldtrip to South China, the researcher participated in several business banquets with “guanxi” network building as the main purpose. It was found that participants in such events came from a wide spread of sectors well beyond the traditional perceived tourism value chain. On one occasion, the hosts from a prominent regional travel service company were planning to develop an international exchange product for students and teachers at musical academies. The participants ranged from local bankers, counsellors of cultural affairs from consulates, regional cultural and education affairs ministers, and related institutes. According to the hosts, the participants would be key figures for enabling the smooth operations of such a program. Although these kinds of inter-personal and inter-firm networks are frequently fraught with opportunism, it cannot be denied that they serve as channels and hubs for exchanging high quality information.

Impact of informal institutions on travel services provision

Sinclair and Stabler (1997) argued that the level of consumption and choice of products at the microeconomic level, as well as the ethos of consumption and saving at the macro level were strongly influenced by the social environment. As with many other culturally grounded services, the provision of travel services is a culture intensive process which inevitably involves a great deal of

appreciation of consumer desires in association with their culture, customs, and etiquette. Moreover, the consolidation of tourism products is unique in the sense that its end users plays a big part, perhaps larger than in many other service industries, in the whole production process, from planning to actual operation. Imanishi (2007) studied the Japanese travel service companies' overseas expansion and believed that such customer correspondence in regard of informal institutions influences the international management of the tourism industry. Such influences are also found in firms attempting penetration into the Chinese travel service market, and will be explained in more detail in the following section.

While going through economic reform and market opening, changes are not only documented in altering formal institutions, but also witnessed in informal institutions. The travel service market appears to be an area where the effects of revival of inherited cultural institutions and new institutional changes occur simultaneously. One respondent suggested:

“For many Chinese, tourism is deeply rooted in some sort of cultural background. What we have to deal with is how to effectively integrate culture with tourism and make profit from it”.

(27 –Sales Associate, CTS Head Office)

This situation puts emphasis on the so-called cultural industries, i.e. educational, performance art and international exchange of such activities, for which travel and tourism can act as their platform. Hence, many travel service

firms have been sensitive to such institutional changes and developed relevant services. Fieldwork results reveal that such development has already had de facto influence on the penetration approach of certain travel service firms. As demonstrated in the last section, where possible, they are required to cultivate a wider “guanxi” web which incorporates “reviving institutions forces” into their business model.

Market penetration – the institutional oriented network approach

In this section, the researcher discerns how foreign operators respond to those prevailing institutional forces. The “pattern matching” technique suggested by Yin (1994) is deployed to find out whether a systematic pattern exists related to the conceptual framework. Indeed, a certain level of consensus is found in their motivation and conducts in adopting institutional oriented networks to emerging market penetration.

While a firm often simultaneously deploys both B2G and B2B network strategies with a combination of formal and informal influences, it is likely to benefit from one type of network and/or institution more than the other during a given period depending on the conditions of the firm. In this part, the researcher introduces three types of travel service firms and explains how they exploit institutional oriented networks based on their own conditions. With each category of travel service firms, the researcher identifies their collectively characteristics, illustrates how they engage with the formal and informal

institutional forces in implementing network strategies, and finally provides a scrutinised case study drawing upon experience of the representative firm.

Cross-sector, large tour operators

Overview

Before China joined the WTO, seven Sino-foreign joint venture travel service companies gained licenses from Chinese authorities. The following are some of the renowned players in the market. In 1998, Diethelm Travel Group (DTG) headquartered in Zurich, with an extensive network in South East Asia and South Asia, set up Litian Travel Agency Co. Ltd. with China International Travel Service (CITS)'s Head Office and Yunan Tourism Group in Yunan, South China. In 2000, a joint venture by Beijing Tourism Group (BTG) and Carlson Wagonlit Travel, now part of Accor Travel, was approved by CNTA and the Ministry of Commerce. In 2001, American Express founded CITS American Express Travel Services Ltd. Beijing, with China International Travel Services Head Office, subsequently CITS American Express Air Services Ltd. was established in Shanghai, and CITS American Express Southern China Air Services Ltd was set up in Guangzhou. In 2002, Rosenbluth International Co. Ltd. and Comfort Travel Co. Ltd. established a joint venture company in Beijing and later 15 branches in other large to medium sized cities including Shanghai, Guangzhou. After WTO ascension, in 2003, JTB initiated JTB New Century International Tours Co. Ltd. In the same year, Shanghai, BTI Travel and Jinjiang International jointly set up BTI Jin Jiang China, the first foreign-controlled joint venture travel management company in Shanghai. Touristik Union International

Company (TUI) and China Travel Service Corporation (CTS) signed a memorandum of cooperation and established the first Sino-German JV Travel Agency. Table 6.1 is a list of some of the foreign operators who entered the market before and after China's WTO ascension in 2003.

Table 6.1 A list of travel service companies centered Chinese market through official means

Year	2003	2003	2003	2001	2001	2001	2000	1998
Name	CTS-TUI	JTB New Century International Tours Co. Ltd.		CITS American Express Southern China Air	CITS American Express Air Services Ltd.	CITS American Express Travel Service Ltd.	BTG-Accor	Litian travel agency Co. Ltd.
Geographical location	Beijing, North China	Shanghai East China	First in Beijing and later 15 branches in other large to medium sized cities	Guangzhou	Shanghai, East China	Beijing, North China	Beijing, North China	Yunan, South China
International partner	Touristik Union International	(JTB)	Rosenbluth International Co. Ltd.	American Express	American Express	American Express	Carlson Wagonlit Travel, (now	Diethelm Travel Group
Partner Sino	China Travel Service Corporation		Comfort Travel Co. Ltd.			CITS Head Office	Beijing Tourism Group	CITS Head Office, Yunan
Joint venture/cooperative/sole	First Sino-German JV Travel Agency.	Joint venture	Joint venture		Joint venture	Joint venture	Joint venture	Joint venture

Source: CNTA(2006)

Organisation profile

1) Property size/ Scale of business

Before China joined the WTO, the minimal amount of capital needed to register as a foreign travel service operator was Ren Min Bi (RMB) 5,000,000. With the exception of American Express, which scored the highest amount of registered capital: US dollar 2,500,000, the rest of the foreign travel service firms more or less all began with RMB 5,000,000. After WTO ascension, the requirement for minimal registered capital was lowered to RMB 4,000,000. However, some operators exceeded this basic requirement, reflecting their relatively strong market position. All firms in this group are commonly referred to as large, cross sector (or integrated) travel service companies or belong to vertically/diagonally integrated firms with their own networks of travel agencies around the globe.

2) Target markets and competitive positioning

Though each has an individual character and focus, firms in this group appear to share similar attributes in terms of target markets and positioning. First of all, in the light of the policy restraints previously stated, the business scope of foreign operators has been confined to the provision of inbound and domestic travel services. Therefore, their source markets are relatively concentrated in the countries where they originated from. However, there is a relatively clear division between inbound operators mainly handling leisure travellers and business travel agencies. For example, with their involvement in different links of the tourism value creation chain, JTB New Century International Tours Co. Ltd. is able to bring in a large number inbound Japanese tourists, use JTB

invested hotels, restaurants and other entertainment facilities. CITS American Express, on the other hand, claims to provide business travel management services to clients from multinational corporations, regional companies and foreign corporations.

Secondly, in alignment with the desk research findings, interview results also suggest that firms in this category tend to position them in the higher end of the market. The business travel sector has been the choice for most the operators in this category. According to Davost Tourism Consultancy (2007), in the business travel sector, major international players possess obvious competitive advantage in terms of experience and network resources. As competition in the conventional tour package market becomes keener among existing Chinese operators, less room is left for newcomers to take advantage. However, the business travel sector is relatively more stable and profitable. During the interviews, all industry practitioners expressed the view that at least for the present time the domestic leisure market seems to be commercially less desirable to many foreign operators. The stability and long term prospect of the business travel market in China is undoubtedly more appealing. Travel service providers expect to form long term relationships with their clients, possibly encourage growth in other business travel services i.e. employee training, incentive travel.

Penetration approach

It is observed that large, cross sector travel service firms often choose to use multiple portals when accessing the Chinese market. For example, the first American Express representative office was established in Beijing in 1979. Since

then, it has opened an additional representative office in Shanghai, Guangzhou and Xiamen. American Express also founded CITS American Express Travel Services Ltd. Beijing, with China International Travel Services Head Office, and subsequently CITS American Express Air Services Ltd. Shanghai, CITS American Express Southern China Air Services Ltd. Guangzhou. Given the distinctive characteristics of their offerings, the distribution networks for travel service firms show much more flexibility and variety than other industries. However, it is still crucial for travel service firms to increase market exposure through a wide range of agents at varying levels. Both desk and field research indicate that market size and regional variation are two important factors for adopting such a “multi-point” market penetration approach. At present, most Chinese agents lack complete nationwide networks. In other words, it is impossible to achieve national coverage through collaboration with (or acquiring) one single firm. Inevitably, a multi-point approach is chosen in order to penetrate into different market segments, possibly through regional/local partners. In the following section, the researcher will identify and analyse the forms of organisation associated with the use of this market penetration approach, how firms adopted this approach engage with both formal and informal institutional forces, and overall performance of firms chose this approach.

1) Penetration approach and organisation form

For travel service firms who have taken a “multi-point” approach to market penetration, it is discovered that a variety of organisational structures have been adopted including: wholly owned enterprise, equity joint venture,

representative office, management contract and licensing. The types of inter-firm relationships pursued range from internalisation, cooperation to minimal inter-firm contact. By far, equity joint venture appears to be a commonly used organisational structure among firms in this category. It goes without saying that the most salient benefit of a joint venture is its potential to complement each other's advantages. With years of experience in its market fragment, the local partners tend to have an in-depth knowledge of their consumers. Moreover, the local partner often has established a relatively complete supply network covering key elements of the tourism products. Some may have accumulated a good commercial reputation and brand awareness. Such qualities cannot be easily gained within a short time frame. Then of course, there is the attractiveness of the foreign operator, who brings into the joint venture a high level of professionalism and expertise in the respective market sector, i.e. business travel.

In terms of management, although expatriates are of a small proportion relative to the total number of staff employed by joint venture companies, they are often assigned to the key positions controlling the strategic direction of these companies. Respectively, the Chinese side is normally in charge of the day to day operation. In other words, the foreign partners have been dominating strategic development of joint venture companies. As a travel industry expert who was involved with negotiations on the forming TUI CTS Guangdong joint venture,

“The enormous gap between the sizes of firms entering joint ventures decides the nature of such cooperation. Although the Chinese side is often the market leader, they are significantly smaller than their partners. Therefore, more often than not, they merely act as the distributor/agent of their foreign counterpart.”

(29 –Manager, GZL-Hong Thai International Travel Service Co. Ltd.)

2) Level of engagement with formal institutions

For large integrated travel service firms attempting to enter the Chinese market, equity joint venture is a common organisation form. Moreover, most of those equity JVs were formed with state-owned enterprises. It is no secret that the Chinese central authorities have always played a critical role in the selection of foreign firms' market entry modes since the beginning of the country's opening up. To the authorities, such a selection process is not only a matter of economic interest, but often influenced by various political and social concerns. According to CNTA publications, the presence of foreign travel services companies in the Chinese market is highly praised. Their involvement is expected to stimulate competition and contribute positively to the restructuring and upgrade of the industry. There is also a desperate need for know-how transfer to the Chinese travel industry, so as to raise overall quality standards. At the same time, to avoid the public's criticism related to the sensitive issues of foreign commercial occupations, it is not unusual to find that authorities often comprise or even “interfere” with seemingly commercial processes.

As illustrated above, the extent to which travel service firms can decide their own destiny is inevitably constrained by governmental institutions. This is not

to suggest firms in this category are in a passive position when dealing with government institutions. In favour of their own interests, firms often attempt to influence the development of formal institutions through lobbying. For example, the tourism working group is a lobbying group which represents the interests of the European travel industry, including tour operators, hotels, airlines, national tourism boards. In order to enable a legal framework to license EU companies to operate outbound, inbound and ticketing businesses (especially its members participation in the outbound travel industry to Chinese Nationals), it has been negotiating with CNTA and the Ministry of Commerce. It seeks to facilitate dialogues between member companies and the Chinese authority to finalise the current Authorised Destination Status (ADS) negotiation, and promote the Chinese travel industry using internationally recognised technology. Indeed, the international status and credibility of many large integrated operators puts them in a favourable situation with higher bargaining power when dealing with national and local governments. Hence, they are often able to secure or strengthen very advantageous terms.

Interaction with regional governments and institutional forces constitutes a major part of travel service firms' market penetration activities in China. As tourism's economic benefits are widely recognised across different regions, it is highly likely to benefit from public sector support at a local level. For example, in order to attract European visitors with strong spending power, regional governments and tourism promotion bureaus in Hainan and Sichuan province are competing to invite major international and national tour operators to survey the existing tourism resources and attractions at destinations, so as to provide and develop appropriate promotional strategies.

3) Level of engagement with informal institutions

Aside from regulation restraints, uncertainty and incomplete information with the market enforce the need to acquire local knowledge. In fact, how to accumulate knowledge of local markets, government and commercial contacts, as well as cultural and social contexts is the essential task for market penetration. The results of both interview and desk research data show that one of the alluring motives for foreign operators to cooperate with local partners, is to acquire rich, context-specific knowledge and tap into local information sources through network nexus intertwining relations between the corporate, social and political spheres. Another aspect to the engagement with informal institutional forces can be observed in firms' human resource strategy. The desk research findings suggest that in existing foreign invested travel service firms, the absolute majority of staff is employed locally. Field research results imply that despite cost concerns (frequently referred to by respondents), the desire to utilise local workforce's familiarity with market conditions is the main motive behind such an approach. Local managers with exemplary language ability, understanding of business processes and good professional networks are often the top choice for companies of this category.

As explained previously, it is more intricate and sometimes even burdensome for foreign operators to engage with "informal institutions" alone, reflecting the weight of informal institutions in emerging market settings. The innate connection with local "guanxi" networks make the Chinese side of JVs ideal for dealing with government bureaucracy and exercising day-to-day operations. Foreign operators may have to rely on managers with an in-depth

understanding of these informal institutions within the Sinic cultural frame in order to liaise with local officials. On the other hand, the political advantage which the local partners have access to, and their knowledge of operation in the local environment, suggests their potential to become rival to their foreign partners. This is a possibility which their JV partners need to consider and be alert for.

Performance

For the following reasons, it is difficult to measure the performances of large, cross sector foreign travel service firms' market penetration strategies using one single standard. First of all, each individual firm may target a different market segment and have its own agenda. As explained in the overall section, some firms are more inclined to organising inbound leisure tourism while others may be more involved in providing business travel services. Secondly, according to the empirical research conducted by Reid and Walsh (2003), the profitable companies have an average duration of 9 years from entering China, whereas the unprofitable concerns reveal the average market entry duration to be 5 years.

The annual report on the travel agency sector published by CNTA in 2007 shows that in 2006, there were 21 foreign invested operators, constituting 1.32% of international agencies. Among them, 7 were foreign sole ownership, 5 were foreign holding companies, and 9 were Chinese hold companies. 13 of them were based in Beijing, 3 in Shanghai, 3 in Guangdong Province, 1 each in Yunnan and Tianjin. Foreign invested operators account for 2.08% of the total revenue of international travel agencies (CNTA, 2007). Although firms in this

category are mostly well established multinational corporations in the world travel service market, collectively they are yet to make major impact in China's travel service market. According to semi official statistics, some score highly in respect of revenue, i.e. JTB New Century, while others show zero profit or even loss. However, during the fieldwork, industry insiders revealed that most of the registered equity or cooperative joint venture companies had shown average, rather than outstanding performance. It seems that many international operators have not yet got what they initially expected.

The seeming "underperformance" of large integrated tour operators in China, may be attributed to the following causes. First of all, depending on the experience with a particular market, some operators are still in the market familiarisation stage. Secondly, if business relationships in China could be compared to marriages, then joint ventures set up by foreign operators and their Chinese partners might be considered as "arranged marriages" in many cases. There are strong influences from formal institutional forces in determining who will make a good spouse. Secondly, as described by one interviewee who was involved in the negotiation of one Sino-foreign joint venture tour operators, more often than not, the two parties involved are much like a couple "sleeping on the same bed but with different dreams". Moreover, the underperformance of a joint venture company does not necessarily indicate the failure of a foreign operator's penetration strategy. In many cases, joint ventures often act as a platform for both sides to gather what they deem to be valuable from each other. In other words, profitability or expanding market share may not be a company's foremost important mission. Some focus on setting up networks, therefore they are not confined to current profit or loss; others may concentrate

on gaining the control of ground handling inbound markets, and then gradually establishing their own networks.

Future strategic direction

The fieldwork results show that at this stage, foreign operators are concentrating on perfecting their cooperative networks and establishing their business reputation in the market. Meanwhile, the tourism landscape property is another focal point in a country with rich tourism resources. With the intention to extend their value generating chain, major tour operators have been searching for destinations with good potential. For long term strategies in China, the cultivation of high end human resources is the one of the most important concern. For example, in 2006, Kunoit initiated a scholarship programme with two prominent universities based in China: University of International Business and Economics, and ShanghaiNormalUniversity. The purpose of this programme was to select students with good potential, and develop them to international tourism professionals with both overseas experience and an understanding of China's institutional environment, and the ability to enhance mutual influence.

Table 6.2 Summary of cross sector, large tour operators' market penetration profile

CATEGORY	Cross sector, large tour operators
Active market sectors*	Inbound travel, business travel services for expatriates
Organisation structure	Joint venture Sole ownership
Form of market presence	Visible
Scope of business	Multi-dimensional, spread to different links of the tourism value chain and related business i.e. destination development, financial services
Scale of business	Medium to large
Level of engagement with formal institutions	High
Level of engagement with informal institutions	Low to medium
Strength of B2B network	Medium to high
Strength B2G network	Medium
Profitability	Low

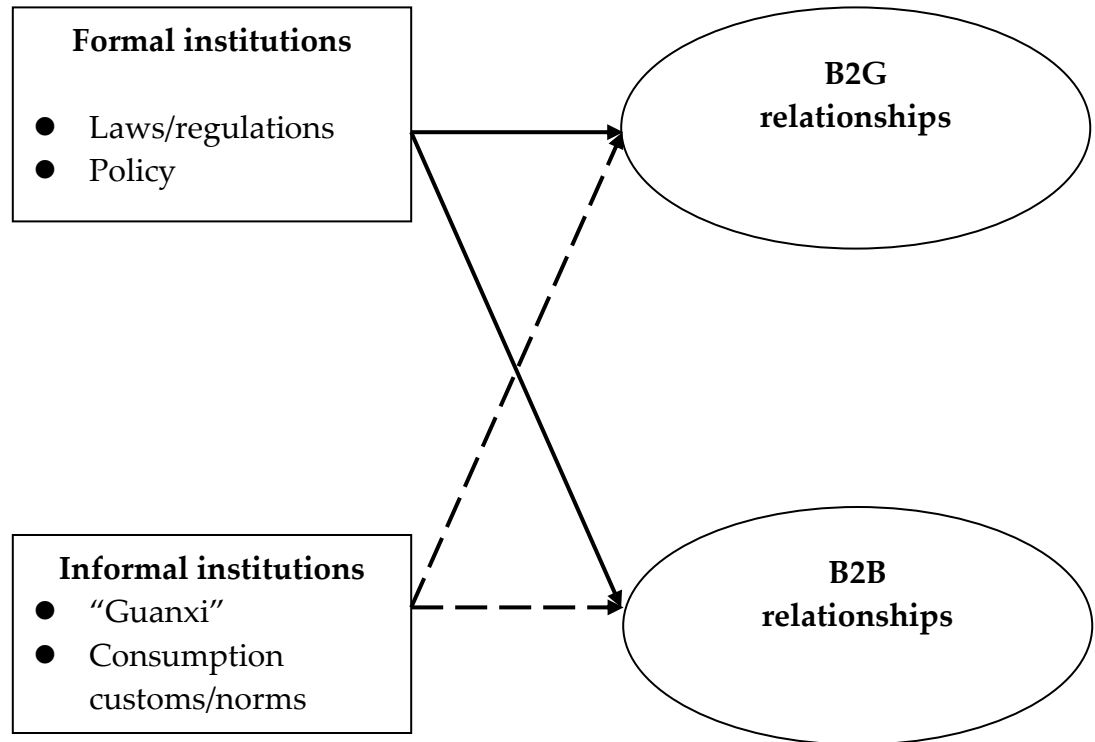
* Most active market sectors

Source: the author

Figure 6.1 Cross sector, large tour operators' network strategies and engagement with institutional forces

INSTITUTIONAL FORCES

NETWORK STRATEGIES



Note: ———→ High level of involvement
 - - - -→ Low level of involvement

Source: Adapted from Peng and Zhou (2005) How network strategies and institutional transitions evolve

Case one

Organisation profile

Epsilon is an internationally active group which commands a leading market position in the European travel and tourism market. It has a majority share holding in the Travel PLC division (tour operating, online sales, high street outlets, airlines and incoming agencies), involvement with the Hotels and Resorts division, cruise ship business, as well as financial investment in the container shipping industry. Its source markets are concentrated in North America, the United Kingdom and Ireland, as well as Continental Europe. In recent years Epsilon has also participated in large, fast growing emerging markets such as Russia, China and India. In the 2008 financial year it returned revenue of €24.9 billion with total earnings (underlying EBITA) of €759 million. As at 31 December 2008 the Group had 70,200 employees.

Target market

Prior to setting up branches in China, Epsilon addressed European visitors' demand for China tours, in cooperation with Chinese inbound operators. The management of Epsilon's first joint venture (JV) in Beijing has been successfully organising tours and trips to China since 1982. In the process of establishing a presence in China's tourism market, Epsilon is well aware of the huge opportunity China's domestic tourism market represents, thus it decided to include domestic tourism in its business scope. It is claimed that with a sophisticated network, state-of-the-art technology and a wide portfolio for city tours and special interest groups, the company is able to deliver individual,

custom-made tours and travel arrangements, hence meeting requirements from diverse international source markets.

As the Chinese economy is rapidly expanding, numerous opportunities are created for international companies to operate and host events in China. Epsilon provide international travel management solutions to serve corporate travel needs and help optimise and consolidate travel expenses with sophisticated travel reporting tools. Meanwhile, the ever growing exchange in the cultural and business fields has promoted mutual learning between Asia and Europe. The MICE and More department of Epsilon try to facilitate Western businesses' activities in China's diverse and vast market. Epsilon's approach to MICE services has been developed to meet the requirements of customers in China, as well as customers from overseas conducting MICE activities in China. At present, Epsilon's main target markets are inbound (leisure and MICE business from Europe) and businesses with expatriates (within China as well as to foreign countries). At present, the business for expatriates is concentrated in Beijing, Shanghai and Canton.

Penetration approach

In 2003, Epsilon and a major stated enterprise, CTS Headquarters, set up the first foreign majority share joint venture (JV) in the Chinese travel industry, in which Epsilon later achieved 75% of the total share. The employment structure at the JV is composed of staff from Epsilon and its partner. Epsilon provided the CEO of the equity joint venture, and the key post in finance. Respectively, the COO and the majority of department heads were from the Chinese side.

Following the official opening of this JV by the then German Chancellor, Epsilon introduced its business travel subsidiary to China, and started to operate branches in major commercial centres such as Shanghai and Hangzhou. At the height of outbound travel to Europe in 2004, Epsilon signed agreements with CTS Canton to cooperate in the South China market. It was hoped such cooperation would bring high a quality travel service to the travel savvy Cantonese consumers.

According to official sources, Epsilon's main motive to set up a JV was to deploy its JV partner's existing nationwide distribution network. At the same time, as said by Epsilon's CEO and departmental heads on several occasions, the company had been discussing possible distribution co-operations with various partners. However, according to the JV's COO from the Chinese side, the travel service industry in China has long been under the government's protection and immune from outside competition. In 2006, there were 300 local CTS companies throughout the country. Together they had the potential of becoming a large distribution network. Among them, the headquarter company had already become a controlling share holder of 15 restructured local companies in major tourist cities, with more local CTS companies are going through this process. Epsilon could use the existing network of its JV partner to explore the market and enlarge sales volume.

Epsilon's Chinese partner did not have substantial control over other local agencies sharing the same brand name throughout the country. To what extent such networks really could assist Epsilon's market penetration is questionable.

To this end, it may be naïve to assume that the “marriage” between Epsilon and its JV partner was purely a result of market forces. In fact, the so-called nationwide network never existed in this market. Therefore, it is not difficult to understand why Epsilon has adopted a multi-point approach and sought to establish its presence with other regional operators. Epsilon also attempted to make the most of its resource advantage by extending its tourism value chain in China, and offer a coordinated service which is often lacking in the current market. In the process of enlarging its network coverage and developing value chain activities, it has been inevitable to engage with local authorities, which are heavily involved in the development of the travel and tourism market.

In 2005, the CEO of Epsilon’s Chinese JV flew to Chengdu, capital of Sichuan province in Southwest China. The Epsilon team and officials from the provincial tourism bureau discussed cooperation regarding a business development plan in Southwest China. Epsilon demonstrated its ability to bring more European inbound groups into that part of China (KLM flew Amsterdam/Chengdu flights 3 times a week at that time). In 2006, Epsilon finished the survey of Sanya, a holiday resort on the island of Hainan. It concluded that Sanya possessed all necessary conditions for becoming a top seaside holiday resort and that it would be very marketable in the European market. Epsilon revealed its plan to initiate holiday products from Nordic countries such as Sweden, Norway and Finland to Sanya. It is estimated that around 180 people per week could depart from Stockholm, Oslo and Helsinki, via HongKong and finally arrive in Sanya weekly. The average length of the stay for the products was 11 days.

While interest of Epsilon is mainly in their need to access a distribution network and acquire local knowledge, the interest of the local partner is mainly, as in the case of CTS, in their desire for adding the Epsilon brand name to its portfolio and a willingness to gain advanced managerial experience from Epsilon. The COO of the JV, assigned from the Chinese side, expressed its confidence in the future of the “marriage” of Epsilon and the CTS Headquarter. He pointed out that the travel service industry in China is in desperate need of advanced development experience from international competitors, a mission which could be achieved through setting up JVs. Moreover, Epsilon’s Chinese partners valued the Epsilon brand and its ability to attract inbound tourists. In the case of the CTS Headquarter, it is believed that Epsilon’s brand name will have a positive influence on the restructure of local agencies by the CTS headquarter, will help to complete its own wholesaling-retailing network construction, and will accelerate integration with the international platform of travel and tourism business.

Performance and future prospects

In an emerging economy with a comprehensive geographic spread and highly diversified market conditions, Epsilon has attempted a multi-point penetration approach which involves deploying a wide range of local partners at varying levels. It is clear that the main interest of Epsilon has been concentrated on enlarging its network coverage as the regulatory restrictions on this market gradually being lifted while waiting for the opening of the outbound market. Meanwhile, Epsilon was hoping to tap into the Chinese business travel market through local operators’ network nexus. Despite its managerial as well as

technological advantages over local operators, during the fieldwork it was found that penetration into the Chinese business travel market had not been easy. From 2009, the restrictions on outbound travel have been officially lifted for foreign operators such as Epsilon, and there is no doubt that it will move quickly into this most profitable sector. Meanwhile, Epsilon has been planning to conduct more value chain activities in major destinations depending on service development needs, in order to promote service packs with attractive prices.

**Table 6.3 Chronological assessment of network penetration strategies of
Epsilon**

Year	1982	2003	2004	2005	2006
Activities	Started organising tours to China	Set up first foreign majority share JV with CTS Headquarter	Signed agreements with CTS Canton to cooperate in South China market	Discussed inbound cooperation with government of Sichuan province Southwest China	Surveyed Sanya, famous holiday resort on Hainan island, initiated holiday products with local authorities
B2G network				√	√
B2B network	√	√	√		

Source: the author

Figure 6.2 Epsilon's market penetration in China



Source: the author, the map is from "lonely planet" website

Ethnic SME tour operators

Overview

A firm's network, or ties to other firms and individuals who could directly or indirectly assist in the lobbying campaign, also alters the efficacy of its lobbying and influences strategies. The simplest example of such a tie is a direct personal link to a political or regulatory actor that allows for preferential access and/or treatment. Unlike cross sector, larger tour operators, although results of preliminary interviews with industry insiders proved the existence of ethnic SME tour operators to market penetration, there is no comprehensive record (either official or non official) of operators which have taken this approach in China's travel service market. To uncover the previously undetected issues and reveal a more complete picture of the market, the snowballing technique is a natural choice for gaining access to this "hidden" sector of the market. The fieldwork findings imply that there exist a group of influential players of this type set up by overseas Chinese residing in Europe, Australasia and North America, and concentrated in major outbound markets such as Beijing, Shanghai and Guangzhou. For example, Caissa travel service GmbH, Favor travel service GmbH, Lily travel service GmbH, all set up by overseas Chinese from Germany, now rank among some of the biggest tour wholesalers in Beijing; and Omega Travel Group Ltd., has formed a close cooperation with the British Council China in with regard to educational affairs. Contrary to their relatively less visible status on publications, some of them have relatively high media exposure and a good industry reputation in China

Organisation profile

1) Property size/ Scale of business

The fieldwork result shows that most ethnic SME travel service providers which have entered China's travel service market, are "born international", independent operators. They often have become an element of the value chain of Chinese outbound operation by acting as ground handlers for outbound operators based in China, or starting as a ticket selling agency with visa services, and then moving into organising outbound travel. Many of them are SMEs and cash strapped. The relatively smaller players among them tend to offer full service ranges online and/or over the telephone, while a number of larger ones engage in establishing a high street presence in major tourist generating cities, competing against major domestic and international players.

2) Target markets and competitive positioning

Travel service companies falling into the category of ethnic SMEs are inclined to take advantage of their "ethnic network" (Loane, Bell and McNaughton, 2007; Waldinger, Aldrich and Ward, 1990; Williams, 2007a). At the same time, their development often expands from one department or destination, quickly becoming specialised in certain destinations/market sectors. Collectively, the respondents in this category stated that their products mostly focus on business, educational, cultural exchange, and training programmes, targeting the medium to high end of the market. However, participant observations reveal that there is no obvious consistency in the positioning of firms in this category, except for the fact that the absolute majority of their clients are Chinese from the Mainland

who travel to overseas. Nonetheless, it is reasonable to suggest that at present they are not competing against multinational integrated operators in the same market segment.

Penetration approach

1) Penetration approach and organisation form

For this study, it is speculated that ethnic SME tour operators are likely to adopt market penetration strategies which heavily exploit a firm's ethnic advantages or perceived ethnic advantages. These advantages may include: embedded knowledge of culture and institutions (Blackler, 2002), ethnic networks (Loane, Bell and McNaughton, 2007; Waldinger, Aldrich and Ward, 1990; Williams, 2007a) and language capital to unlock knowledge sources (Dustmann, 1999; Williams, 2007b), last but not least, their prospective clients' tendency to use services provided by "culturally familiar" companies, which can be found in Imanish's (2007) study on Japanese tousim companies. Tour operators falling into this category normally share the following features: despite the countries they were previously based in, those travel service companies are almost exclusively owned and operated by overseas Chinese or at least those of Chinese descent. Many of them initiated as ground handlers in destination countries. The emergence of operators owned and operated by ethnic Chinese can be attributed to their ability to interpret the institutional development, as well as take advantage of their ethnic identity for developing and maintaining good communication in the host country.

It was found that two organisational forms are frequently adopted by firms in this category: representative office and management contract. As noted by many scholars and industry practitioners alike, setting up representative offices has been a popular way of establishing market presence in China. According to Mechem (2004), the attractiveness of a representative office is typically reflected in a couple of respects: 1) It is quick and less expensive to set up; 2) It enables a company to acquire market knowledge through “field” research, build reputation and brand awareness; 3) It helps to foster important and necessary relationships with actual or potential customers, regulators, and future partners. To summarise, opening a representative office is great for building capacity while the firm waits for further market openings. However, the fieldwork findings uncover the real functions of representative offices set by those firms. While maintaining the stated functions, more often than not, representative offices are performing the functions of sales offices, despite the regulatory constraint stating that representative offices cannot engage in “direct profit making” activities. The only difference is that before the limitation on registered capital was relaxed (see Chapter Five), travel service providers in this category normally registered as international exchange/training companies so as to disguise the nature of their business.

Another frequently used penetration vehicle is “chengbao”, a highly disputed style of management contract in China. It was revealed by industry insiders that ethnic SME operators normally contract a division of a local tour operator with a license to operate in the outbound market so as to legalise their operations. To fulfill the requirements for getting a business license in overseas markets,

operators had to change liaisons operation to local subsidiaries, and try to run their business as local companies in the host society. The decision to seek local partners with whom a management contract can be signed corresponds foremost to the need to circumvent regulatory constraints, especially those concerning the outbound market, thereby enabling them to enjoy equal status as local operators. Additionally, the desire to tap into local information sources through their partner's web of intertwining "guanxi" nexus between the corporate, social and political spheres, also explains the popularity of management contracts.

2) Level of engagement with formal institutions

Further investigations have shown that the prevalence of such models can be largely attributed to the formal institutional setting of the emerging market. Though the numerous policies and regulations are not specifically designed against ethnic SME operators, until 2009, the requirement of the initial entry capital amount required effectively deterred them from entering the market through formal channels. As a result, ethnic SME operators had to either risk the unauthorised channels, or seek individual approvals from each level of government. One of the travel agencies specially approved by the Chinese National Tourism Administration to organise Chinese citizens to travel abroad, CAISSA, was previously known as POLY International Travel Service Co., Ltd and was founded on 17th March 2000. On top of that, the ADS regulation inevitably posed obstacles to their penetration into the Chinese market. Some of the respondents being interviewed believe that despite the numerous regulations, the actual market environment is rather chaotic. For example, the government does have regulations stating that the business activities of foreign

operators' representative offices are confined to advertising and promotional affairs, no involvement in other areas is allowed. However such representative offices conducting regular tour operating businesses are often found in major tourism generating cities. The ADS regulation proved to be a major barrier to many ethnic SME tour operator operators as much as to those large, cross sector tour operators.

Under these conditions, it becomes clear that before the existing government institutions on foreign operators are further relaxed, how to get around existing regulations is the foremost important part of ethnic SME operators' market penetration strategies. Apart from those circumventing regulations by fraudulent means, it was found during fieldwork that direct personal links to political or regulatory actors often allow preferential access to the market. Indeed, in the relatively short history of the emergence of ethnic SME tour operators, firms' network resource, especially those of their business owners/operators, have been directly or indirectly altering their market penetration strategies.

3) Level of engagement with informal institutions

Even in the countries where their business originated from, ethnocentric operators tend to employ a workforce of Chinese ancestry, expatriates, students and the like for product design and liaison. The underlying assumption is that the aforementioned type of workforce has the ability to comprehend and address the institution of idiosyncrasies related to trading with their Chinese partners, as well as the behaviour and ways of thinking of their clients. As

suggested by Imanish (2006), tourism has a close relation to one's lifestyle, and companies consider this framework in order to provide the sort of service which tourists can feel comfortable with even if they are travelling abroad and are in a different cultural space. Such an operational style can be said to be related to the nature of the travel service business.

Given their background, the exploitation of a "guanxi" network seemed to be a rational choice for ethnic SME operators' emerging market penetration. However, the extent of reliance on those networks varies significantly among the operators being interviewed, depending upon their target market and personal background. For example, an ethnocentric business owner and operator admitted that she accumulated good "guanxi" networks and personal contacts when she worked for the Ministry of Commerce in China (see Appendix 2: 24). She took advantage of this factor when setting up her own business by targeting business travel Chinese citizens, particularly those in relation to overseas training. Since then, her previous contacts have helped her in securing deals.

In another case, an entrepreneur of an ethnocentric travel service company had a dissimilar experience on the use of personal networks. Though aware of the opportunities in the business travel market, it was believed that the available network resource was not rich enough to make it a significant target market. Instead, the company targeted "Internet affluent" independent travellers, providing cyber surfers with online consulting services and an online forum (see Appendix 2: 23).

Despite their various backgrounds prior to commencing market penetration to Mainland China, the ethnic operators being interviewed were confident in their existing knowledge and understanding of the market. The proposed conceptual framework for this study also assumes that ethnic SME tour operators would encounter fewer difficulties and enjoy the benefits brought by their ethnocentricity with regard to informal institutions. However, their experiences in China proved a gap existed between the market reality and ethnic SME operators' perception of the institutional environment. In line with the empirical work done by Pan and Laws (2001b), the fieldwork results also suggest that ethnic SME tour operators may face difficulties dealing with their Chinese counterparts, mainly in terms of the different ways of doing business. In the end, this often leads to the hard tradeoffs between directly planting their operation in the source market and purely relying on local agents for product distribution.

Performance

To start with, most of the ethnic SME tour operators did not have the same market influence and reputation as those of large integrated tour operators. Rather, they specialised in their own market niches. For example, it was learnt that in cities with prosperous outbound markets, such as Beijing, Shanghai, Guangzhou and Shenzhen, there were many representative offices from the most popular overseas tourist destinations. As explained in the last section, these so-called representative offices often conduct business. With superior knowledge of the destinations they represent and good connections with respective airlines, some managed to create competitive products and

outperformed bigger operators in their particular market sectors, i.e. Germany, France and the UK. Increasingly, the network resources accumulated and commercial reputation enable them to become a leaders or wholesaler in individual market niches. At this stage, some ethnic SME tour operators are ready to extend their operations to the second tier market. It was discovered during the field trip that some of the leaders among ethnic SME operators had inland agencies or smaller operators to distribute their products.

On the other hand, problems also arose with tour operators in this category. It is no secret that some play on the edge of being lawful and unlawful. It was reported that some opportunists risked destroying the reputation of the whole industry by engaging in short-sighted opportunistic deals which subsequently led to many consumer complaints. Some industry practitioners believed that ethnic SME tour operators' long term development prospects would be somewhat limited. This view is derived from the belief that to achieve market leader positions, one cannot rely on the tour operation business alone. Though official statistics are lacking, it is believed at this stage the majority of ethnic SME travel service companies are independent operators with tour operations as their sole business. Despite the current scale of operation, they do not have the integrated strength to combat large cross-sector groups.

Future strategic direction

Imanishi (2006) discovered that Japanese travel service companies' overseas expansion very much remained an ethnic way; same was found by King and Choi (1999) in the Korean outbound market to Australia. While ethnic SME tour

operators widely exist, particularly in outbound markets, there is no research tracing either the further development of those operators as the market grows, or the role they play in the emergence of travel service markets.

As demonstrated in the previous section, the “side effects” of ethnic SME tour operators’ approach to market penetration could be particularly ascribed to the policy restraints set by the Chinese authorities. For example, while continually focusing on the outbound market, Caissa Travel, one of the biggest ethnic SME tour operators in the market, planned to deepen its cooperation with regional tourism boards and develop more domestic tourism products. It is yet to be seen how the policy adjustments will influence the development directions of ethnic SME tour operators as a group in the future. What can be said for certain for now is that some operators in this group already have their positions in the market well established.

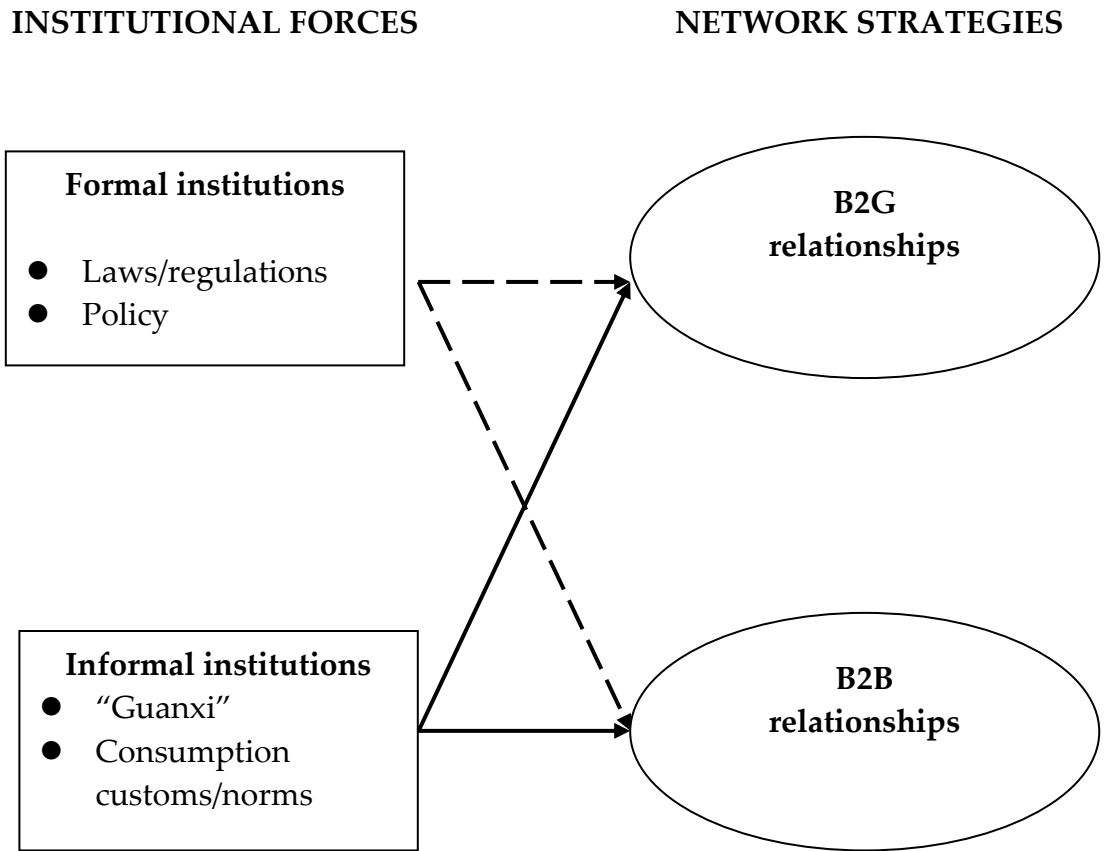
Table 6.4 Summary of ethnic SME tour operators' market penetration profile

CATEGORY	ethnic SME tour operators
Active market sectors*	Outbound travel for leisure purposes and public affairs
Organisation structure	“cheng bao” “gua kao” (management contract) Representative office
Form of market presence	Hidden, less visible
Scope of business	Concentrate in tour operation sector in major open port cities
Scale of business	Small to medium
Level of engagement with formal institutions	Low
Level of engagement with informal institutions	High
Profitability	Relatively high

* Most active market sectors

Source: the author

Figure 6.3 Ethnic SME tour operators' network strategies and engagement with institutional forces



Note: —————>

High level of involvement

- - - - ->

Low level of involvement

Source: Adapted from Peng and Zhou (2005) How network strategies and institutional transitions evolve

Case two

Organisation profile

Registered in 1998 in the UK, Beta is a company owned and managed by Chinese British, which specialises in arranging services in the areas of human resource training, international investment invitation and exhibition, cultural and educational exchange as well as business tours reception. In 2000, Beta established a cooperative company in Beijing, which was later approved by the State Administration of Foreign Experts Affairs of P. R. China as one of its UK training channels. According to the management of the company, Beta has been engaging heavily in promoting international exchange and cooperation between Britain and China in the area of business, culture and education, by providing thorough training modules and travel services for business executives and government officials. In 2008, Beta became a part of a larger travel group, which specialises in long haul destinations in Asia, the Far East and Australia, with a history dating back to 1965 and operating under multiple brand names within the UK.

Target market

The current service range of Beta mainly encompasses the following: 1) information enquiry services for those with the intention of training or organising business tours, in the UK and US; 2) a series of short and long term training programmes designed for Chinese domestic clients in the areas of finance and banking, medicine and health, agricultural economy, food technology and processing, food safety, logistics, urban planning and construction, social safety, environmental technology, legal studies, education,

business administration, human resource management, public relations, language education etc.

The primary target clientele of Beta are Mainland Chinese citizens travelling to the UK in a business capacity and at the expense of their respective organisations, with clients from government agencies, local authorities, trade unions, professional organisations, educational institutions, corporations and entrepreneurs. Beta provides them with a tailor made one stop solution to their demands regarding travel, business and leisure. They are supported by a database management system designed to manage clients ranging from 25 different industries. Beta also asserts that with good network connections in various regional governments, as well as an understanding of Chinese laws, policies and specific national conditions, they are able to arrange cost effective observation groups, even meetings with respective officials in charge of their Western customers. In addition, the company offers marketing service to its UK training courses, representing and promoting them in the Mainland China market.

Penetration approach

Like many other ethnic SME tour operators, Beta started as a ground handler, taking business from outbound tour operators based in China. Since then, Beta has become an element in the value chain of the Chinese outbound market. One of the owners initially planned to start a foreign trade company given her expertise in the field. Today, one of Beta's businesses includes providing services for the clients in China who look for the products manufactured in the

UK for the purpose of importing. However, she quickly realised the potential of the outbound travel business in this emerging market, and decided to capture such business opportunities through good connections from her previous work in the ministry of commerce of China, which helped to establish the company's position in the outbound tourism industry. As an ethnic SME company attempting to penetrate into a vast and varied country such as China, the decision to forge "strategic partnerships" with many influential organisations seems to Beta logical step in accessing resources that it does not possess. Beta has become a member of different business networks, such as Thames Valley Chamber of Commerce Group, the Meridian Club and China British Business Council (CBBC) Business Network. In 2006, Beta negotiated a strategic alliance with its online partner, in order to further market its products to wider audiences.

In 2000, Beta set up a joint venture company in Beijing, China, which is referred as a "sister company" of its UK operation. On its own company site, it states that Beta Beijing is an "international training and exchange" company, which provides information enquiry and consultancy services only. Indeed, Beta Beijing has committed itself in cultivating public relations with government and non-governmental agencies and organising promotional conventions, so as to augment sales and influence among Chinese domestic clients. For example, from 2000, Beta organised the International Human Resource Training and Development Conference in China for three consecutive years. The conference has been sponsored by the Service Centre for Expert and Overseas Chinese Scholars under the Ministry of Human Resources and Social Security of China,

Centre for Economic and Technical Exchanges (CICETE) of the Ministry of commerce, Department of Human Resources and Training, the State Economic and Trade Commission, The German Association for Personnel Management (DGFP) as well as The Chartered Institute of Personnel and Development (CIPD). The conference invites speakers including notable human resources experts and business executives. Around 1,500 delegates have attended the conferences. With a decade's efforts, Beta has established a good relationship with authorities at different levels, and maintained fruitful cooperation with a number of international and local human resource training organisations, universities, and other educational organisations from the USA and UK, i.e. ICMA centre at University of Reading.

When asked if Beta considered itself as competing in a niche market compared to those mainstream operators, the owner/manager replied:

“Size wise, we are a small business. Our focus is different from those mass tour operators, their competitive advantage lies in their scale, and their ability to reach great discount. We opened another battle field out of the major one. However, we have been doing rather well in our specific sector, with group training, events planning and organisation, international educational exchange etc. Our products mostly concentrate in the area of educational, cultural exchange, educational and training programmes, targeting the medium to high end of the market, and market opportunities which are either not spotted or overlooked.... Although the composition of outbound travellers has had changes over years....currently, the majority of residents who travel overseas are

“business travellers” (those who mainly travel on leisure purposes but sponsored by state own companies or government bodies).”

(See Appendix 2: 24)

Beta’s owner believes that China’s outbound travel for business purposes is still on the rise, with a very high demand for tailor-made products. Such operators have what it takes to tap into this market. Beta reveals the recent domestic natural crisis and political unrest have put “crisis management” on many government agencies’ agenda. They are therefore planning to launch new training programmes in this regard. As one of Beta’s manager put it:

“(the programmes) will have both short and long term options to choose from...the selling point of such programmes are the certificate/degree at the end of training programme...(because) such qualifications are closely linked to promotion of civil servants. Such programmes are often a joint effort of many relevant organisation, and demand. The ability to apprehend and bring together those elements...at the moment, we are working the sponsorship for it.”

(See Appendix 2: 24)

Based on this notion, Beta argues that its competitive advantage lies in its good business connections and the resource network in China, and the ability to comprehend the demand of current outbound business travellers from China. Beta’s employees also confirm that many of their customers are satisfied with their services, particularly with their rich and accurate knowledge of destinations and attention paid to service details. In this respect, they believe

that Beta's own establishment in overseas countries and the ability to convey such knowledge in conjunction with awareness of the institutional factors has proved to be a competitive advantage not only over their Chinese counterparts but multinational firms.

Performance and future prospects

Beta's approach to market penetration very much relies on its ability to tap into and consolidate business networks using its ethnic advantage. Such an approach has proven to be effective in acquiring arguably the most desirable sector of China's current outbound market – business travel of domestic clients (see Chapter Five). The decision to go around the regulative burdens, appear to have allowed its entrepreneurs to get a head start on operations, without having to go through the once lengthy, bureaucratic procedures involved in setting up a foreign invested travel agency. For a small business trying to penetrate into such a vast market, this is considered to be critical.

The participant observations show that Beta has been delivering high quality services and customer care and hence ensured a long term sustainable business for the past ten years. On its own website, Beta displays an impressive list of clients from various governmental institutions and business enterprises from different industry sectors in China, including the former State Economic and Trade Commission, Ministry of Science and Technology, State Food and Drug Administration, The Securities Association of China etc. Those clients have engaged in training and official tours to numerous governmental departments,

professional associations, chambers of commerce, financial institutes, universities and research units in the UK.

During an interview with one of the owners of Beta, she admitted that one of her biggest struggles in running the business is to keep a balance between short term profitability and building cooperative relationships with many organisations in the long run. After Beta' own experience and witnessing many others with similar capacities having relinquished their business plans, she believes that the amount of time and expense required in cultivating the market probably is beyond the capabilities of many smaller businesses. Nonetheless, in accordance with the incessant market development, Beta decided to further expand the business to the second tier but quickly growing market – Western China, and set up a representative office in Chengdu, capital of the inland province, Sichuan.

Table 6.5 Chronological assessment of network penetration strategies of Beta

Year	Activities	B2G network	B2B network
1998	Set up specialist operator in arranging services in the areas of human resource training, international investment invitation and exhibition, cultural and educational exchange as well as business tours reception	√	√
2000	Established a cooperative company in Beijing, later approved by the State Administration of Foreign Experts Affairs of P. R. China as one of its UK training channels	Organised International Human Resource Training and Development Conference in China for three consecutive years	√
2006	Negotiated strategic alliance with its online partner, in order to further market its products to wider audiences		√
2009	Set up representative office in Chengdu, capital of inland province, Sichuan		√

Source: the author

Figure 6.4 Beta's market penetration in China



Source: the author, map from "lonely planet" website

Regional tour operators¹

Overview

One of the most salient features of the travel service market in China is its strong regionality. The geographical as well as cultural variations are often associated with differences in the market institutions and practices of firms. According to the industry practitioners being interviewed, the distinctive historical as well geographical background decided Hong Kong's exceptionally advantageous position in the nation's much appraised recent economic advances, and, in the context of this study, the growth of the travel service market in Canton region. Though there have been a large number of studies conducted on Hong Kong firms' investment in the Mainland, the commonly held datasets simply lack the requisite information on the travel service sector. According to the official news agency, Xinhua News Agency, the first joint venture tour operator in this region was set up in 1999, by Hong Kong HongThai Travel Group and GZL International Travel Service Ltd (with headquarter in Guangzhou). The field trips to Guangzhou, Shenzhen and Hong Kong further proved the existence of the regional approach to market penetration. The meeting with travel experts in this region led to subsequent interviews with both industry practitioners from GZL, CTS Canton and CITTC Canton and officials at Shenzhen Tourism Bureau.

¹ Here regional tour operators refer to regional travel service providers receiving preferential treatment from Chinese authorities.

Organisation profile

1) Property size/ Scale of business

At the forefront of the country's economic reform and market opening, Guangdong province has seen the first wave of outbound travelling. The majority of this outbound traffic is to Hong Kong. With its specific geographic location, it was natural that Hong Kong became the first window through which the majority of Chinese (excluding the party elite and their investment in Hong Kong) could glimpse the "outside world" after more than thirty years of "closing" since the communist party seized the power in the Mainland.

Because of the relatively tight control on the travel agency and tour operating sector, it was not until the 1990s that the Honk Kong travel and tourism industry commenced operation on the mainland. Again there is a lack of official statistics on the size/scale of the Hong Kong travel service companies which attempted market penetration to the Mainland. However, reflected in the firms attending the 2008 International Travel and Tourism Trade Expo in Guangzhou, there is no conforming standard to those who have taken the regional approach to market penetration. In other words, firms of all sizes, ranging from public trading integrated groups to small specialist players, as well as integrated groups diversified into the travel service sector.

2) Target markets and competitive positioning

The interview with industry practitioners in the region confirms speculation that the consumption pattern Guangdong's residents have been heavily

influenced by those of Hong Kong and Macau. For example, the Head of the outbound department in the most influential tour operator in Guangdong - GZL, gave the following comment:

“The travel and tourism sector (in Guangdong) closely follows the steps of our Hong Kong counterparts. We used to say: their today is our tomorrow. We keep an eye on the latest development of this market sector”.

(29 –Manager, GZL-Hong Thai International Travel Service Co. Ltd.)

Cantonese people, particularly those based in the Pearl River Triangle, have always had a strong desire for overseas travel. More recently, the development of satellite towns and villages on the periphery of major metropolitan cities in this region has generated a new demand for travel and tourism, providing travel service firms the opportunities for economies of scale and scope for further development. The industry experts in this region nominated a few attributes of the new wave of consumers in prominent source markets: the willingness to experiment with new products and services, sophistication in purchasing and, particularly, a greater appreciation of education related products, which constitute the target market of many new players with high performance. Industry experts expect the proximity between the two markets to increase as the economic integration deepens.

Penetration approach

1) Organisational form and penetration approach

Initially, regional operators often cooperate with their mainland partner and receive inbound travellers to Hong Kong, Macau and Southeast Asia (given their advantageous geographical location). They are in charge of obtaining and handling visas and other arrangements on the ground. Increasingly, Hong Kong investors are looking to increase market exposure in the mainland through a wider range of partners at varying levels. This may be taken as an indication of the maturity of the business's life-cycle and the result of the latest market developments in the Pearl River Delta region.

The organisational structure of regional firms ranges from management contract, joint venture to wholly owned branches. As there are still restraints over market access, many of them choose to invest in existing mainland companies in major tourism destinations and generating market, or export brand and management team before large scale expansion, such as merger and acquisition can take place. For example, in 2007, Wing On Travel (Holdings) Limited of Hong Kong (incorporated in Bermuda) became a controlling shareholder of Sichuan Hengxin International Travel Service Co. Ltd.; the latter owns various travel agency brands in major tourism destinations in Western China. Despite the close day-to-day economic exchange between Hong Kong and Guangdong, there has been a recent movement towards contractual joint ventures between Hong Kong firms and Chinese enterprises, often facilitated by the governments at the provincial and regional levels. As observed by Nicholas

and Maitland (2006), contractual joint ventures are often dynamic and easy to adjust for changes of formal institutions in China. Moreover, the field trip to this region witnessed frequent commutes of managers between the two sides. The direct input by the Hong Kong side is made easy due to its geographic closeness to Guangdong.

2) Level of engagement with formal institutions

Since the beginning of the 1990s, the Hong Kong travel service companies who sensed the change of macro environment in the mainland, started to set up branches in Guangdong to receive mainland travellers to Hong Kong and Macau. However, the changes of formal institutions in China only started to have a major impact on the development of the Hong Kong travel service sector from 2003. Soon after the SARS outbreak, the central government of China signed the previously discussed Closer Economic Partnership Arrangement (CEPA) and Pan-Pearl River Delta (PPRD) Regional cooperation framework agreement with the government of the Hong Kong special administrative region. The PPRD Scheme allows residents of nominated mainland cities to visit Hong Kong in an individual capacity. The coverage of the Scheme has expanded ever since. The Scheme is now implemented in 38 mainland cities, including all 21 cities in Guangdong province.

According to the US-China Business Council and Hong Kong Trade Development Council, as a result of implementing CEPA's policy, both Hong Kong and Macau have seen their tourism numbers rise sharply (WTTC, 2006). To deepen the economic partnership between the Mainland and Hong Kong SAR,

Macau SAR, the state council initiated another policy change in 2008, which clearly states Hong Kong and Macau based tour operators are permitted to organise oversea travel for Chinese citizens born in the Mainland. This policy was further reinforced under Article 23 of the latest Regulation.

At the industry level, the effects of these policy measures have been felt by the Hong Kong travel and tourism industry. As for travel service providers who have taken the regional approach, such a policy undoubtedly puts them in a more favourable position than those opting for other market penetration approaches. Indeed, the Chinese authorities have always been open about their act in implementing policy in favour of enterprises from Hong Kong, Macau and Taiwan, and the political pursuit behind such policy tools. In the event of the SARS outbreak and its traumatic effects on the Hong Kong economy, the implementation of such an economic policy was seen as a move to stimulate the regional economy as much as to substantiate the legitimacy of central government's rule over the region. The political nature of such policy implementation is also reflected in the concerted actions taken at the provincial/regional authorities' level, where cooperation with Hong Kong based firms is put as a priority. The interaction with regional governments and institutional forces constitutes a major part of travel service firms' market penetration activities in China. With economic benefits of tourism development being widely recognised and officials' promotion closely linked to their performance in a prospering local economy, the provincial/regional governors and officials often take the initiatives in promoting tourism development.

The combination of political as well economic drives means the cooperation between Hong Kong and Macau operators and provincial authorities is often backed up in an official capacity. For instance, facilitated by the provincial government and tourism board of Hunan, Hong Kong Yong-An set up a first wholly owned branch in the province of Hunan. This is the first travel service company of this kind opened in an inland province after the CEPA agreement was enacted. Industry observers believed its opening marked the penetration of international travel service companies to the more inland provinces and second tier market. The presence of Hong Kong Wing-an is expected to bring in around 20,000 Hong Kong and Macau tourists to Hunan province annually, and introduce state of the art managerial and service concepts to the local industry. In 2008, to attract investment and promote cooperative tourism development, a body of delegates consisting of local government officials from Heilongjiang province arrived in Hong Kong. With help from the representative office of central government in Hong Kong and members of the central and regional Chinese People's Political Consultative Conference and Hong Kong Chamber of Commerce, they successfully held exhibitions on cross border tourism in Heilongjiang. The exhibitions were attended by delegates from Hong Kong tourism and business circles and five contracts on joint development programmes were eventually signed.

3) Level of engagement with informal institutions

The province of Guangdong (also known as Canton) has an area of 178,000sq km and a population of 83 million (www.visitgd.com, www.gdtravel.com). As the core of original Cantonese residents, the Guangdong province, particularly

those concentrated in the Pearl River Delta, have maintained their spoken language (Cantonese) and “Yue” culture which are distinct from their compatriots in the rest of the Sinic culture zone. For historical and political reasons, there are strong ethnic, cultural and language links among Hong Kong, Southeast Asia, Australasia, North America and Canton province.

The majority of Hong Kong residents was either born or descended from counties and villages in Canton, with approximately 80 percent of Hong Kong’s Chinese population having relatives in the province, and around 95 percent of Hong Kong’s six million residents being Cantonese-speakers (Child and Mollering, 2003). It can be said that the ties between those groups facilitated the development of informal institutions based on reputation and the sharing of information within business and social networks (Nicholas and Maitland, 2006).

The strong kinship, racial, linguistic and cultural ties directly contribute to the formation of a compatible operating platform for Hong Kong firms in the Mainland, at least with regard to informal institutions. First of all, the geographical and cultural closeness make it possible for personnel from Hong Kong to invest considerable time and efforts in their mainland operation. Secondly, the comparative advantage associated with informal institutions, and the fact that many Hong Kong firms have been operating in or been connected with the Mainland market for a relatively longer period of time, provide them with the undeniable ability to comprehend mainland consumers’ needs.

Performance

From interviews with industry experts in this region, it is possible to gather some impression about the overall performance of tour operator belonging to this group. In an indirect manner, one interviewee expressed his view on the current status of many regional operators:

“We are fairly confident about the prospect of the market, short-term return is not our main pursuit, neither is the traditional/conventional mass tourism market and package tours, our new company’s main focus will be in international business travellers visiting mainland...The key mission today is to cooperate with our partners, work together towards the prosperity of the market. Once the market gets further developed, we’ll have our fair share of it.”

(29 –Manager, GZL-Hong Thai International Travel Service Co. Ltd.)

The respondents also revealed that the JVs between the two sides often lacked impetus, and that both sides which entered the joint venture had their own business focus. The highly profitable outbound section is often where their interests conflict.

Future strategic direction

Some commentators argued that Hong Kong travel service providers' market penetration to the Mainland might be short-lived given the region's declining economic prominence. However, despite the intensifying competition from the Yangzi River Delta (Shanghai and East China), the Pearl River Delta region still maintains its commercial substance. For example, the cities of Guangzhou and Shenzhen have hosted the well-known China Export Commodities Fair (Guangzhou Fair), China Hi-tech Fair. While many players from Hong Kong concentrate on South China, in particular the Canton province, some have been evolving alongside further development of the inland market. Some of them operators have taken advantage of their geographical adjacency to the South East Asian market and expanded their network to inland markets through local distributors. During the fieldwork, some industry practitioners appeared to be confident in the further integration of a market, suggesting a cross-sector, cross-region, national network is attainable in the near future; suggesting Hong Kong and Macau tour operators are capable of playing a role in the integration of the market.

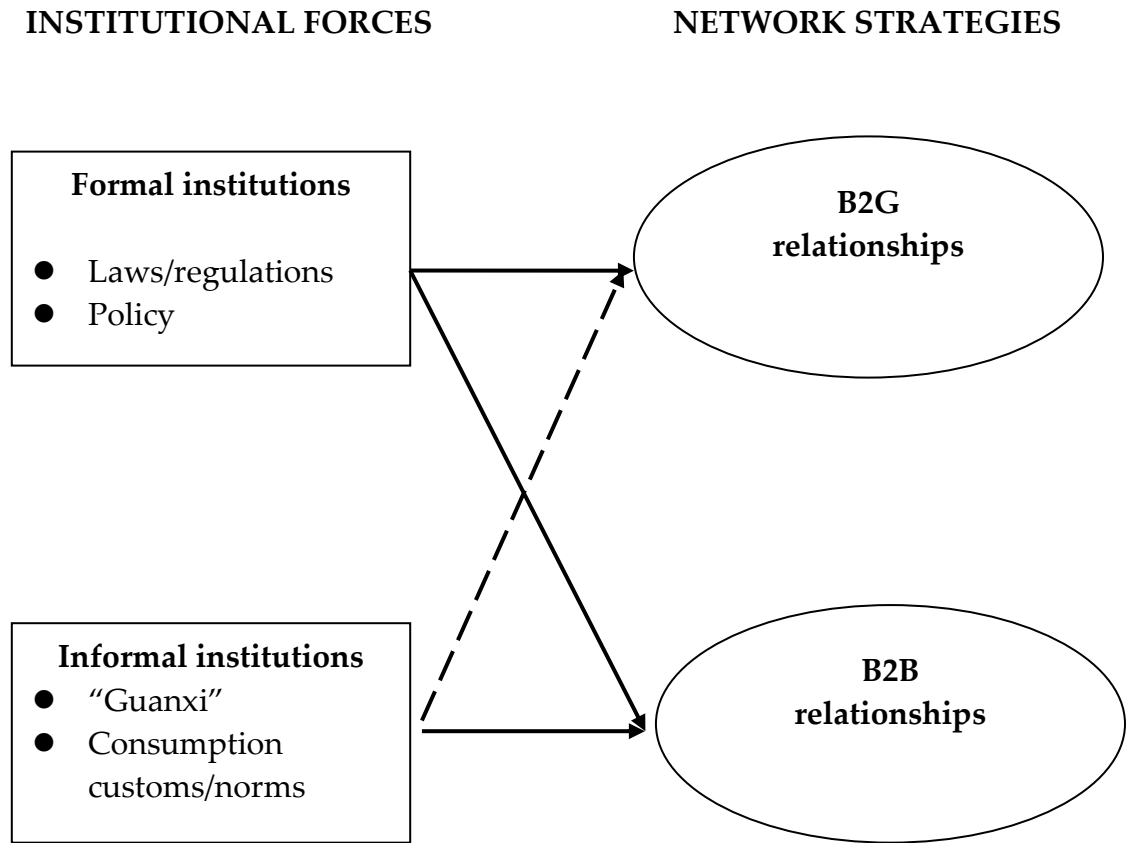
Table 6.6 Summary of regional operators' market penetration profile

CATEGORY	Regional tour operators receiving preferential treatment from the government
Active market sectors	Inbound, outbound*, Leisure & business travel services
Organisation structure	Joint venture, management contract, strategic alliance
Form of market presence	Visible
Scope of business	Regional, Spread to destination development and other non-tourism sectors, i.e. real estate
Scale of business	Medium
Level of engagement with formal institutions	High
Level of engagement with informal institutions	High
Profitability	Variable

*mainly to Hong Kong and Macau

Source: the author

Figure 6.5 Regional operators' network strategies and engagement with institutional forces



Note: **————→**
 High level of involvement

- - - - -→
 Low level of involvement

Source: Adapted from Peng and Zhou (2005) How network strategies and institutional transitions evolve

Case three

Organisation profile

Gamma was established in the 1960s. After more than 40 years of development, it has developed into a renowned travel service firm with a highly rated reputation among consumers in Hong Kong and South East Asia. With over 1,200 employees and about 30 branch offices spread across China, Hong Kong and Macau, the US and Canada, Thailand and Taiwan, it sells around 250,000 international air tickets each year. Gamma claims that it is able to maximise its global resource network and technology advantage, and provide the customers with the best travel arrangements and service at competitive rates. Based on AC Nielsen's Hong Kong Media Index report, Gamma achieved the highest outbound passengers count for seven consecutive years since 2001, handling more than 450,000 passengers each year.

Target market

At the early stage of its development, airline and ferry ticket sales and ground handling inbound of tourists were the major business scope of Gamma. Today, Gamma provides a comprehensive range of personal and business travel services that includes inbound and outbound tours, hotel reservations, wholesale, air ticketing and visa arrangements, MICE (Meetings, Incentives, and Conventions and Exhibitions) and special interest groups and surface transportation. The target market of Gamma includes Hong Kong residents, overseas Chinese resides in Southeast Asia and North America, and more recently, the affluent mainland residents in Guangdong Province.

Penetration approach

In 1992, Gamma opened its first mainland branch in the Shenzhen special economic zone, the neighbouring city of Hong Kong, and it was wholly affiliated to its Hong Kong headquarter. In 1999, Gamma and its mainland partner - GZL International Travel Co. Ltd. co-established the first joint venture tour operator in Guangzhou, the capital of Guangdong Province. The JV company draws on Gamma's technological advantages and more comprehensive business network, as well as GZL's strengths in interpreting the surrounding environment. According to GZL's director of the outbound department in Guangzhou, GZL is one of the first tour operators to sense the macro policy changes and has been at the forefront of the market opening. Thanks to its advantageous geographical location (adjacent to Hong Kong), they received great success in organising mainland travellers' outbound trips to Hong Kong, Macau and Southeast Asia. More recently, Gamma expanded its network to include major tourism generating markets such as Shanghai, and destinations out of Guangdong province.

Between 2002 and 2003, Hong Kong was severely hit by the SARS crisis. Its tourism industry, particularly the inbound sector suffered most among all industries. Faced with this unprecedented threat, Gamma sought to increase media and press exposure in order to rebuild the inbound tourism flow. It collaborated with the biggest local television company and sponsored the filming of an edition of a television programme about Hong Kong as a major tourism destination. The widespread impact of SARS urged various tourism associations and the government in Hong Kong to seek solutions to the

situation. As a response to re-energise Hong Kong' tourism industry, in July 2003, the central authorities of China further relaxed regulations on outbound travel for leisure purposes to Hong Kong and Macau. Such a policy measure has had long lasting effects on the Hong Kong tourism industry in the post SARS period.

In the same year, the Closer economic partnership arrangement (CEPA), aiming to promote trade and investment and cooperation at a more comprehensive level was signed between Hong Kong and the Mainland. According to the CEPA and Pan-Pearl River Delta (PPRD) regional cooperation framework agreement between Mainland and Hong Kong, Hong Kong travel agencies/tour operators could apply for a license to operate businesses regarding mainland residents' travel to Hong Kong and Macau. In September 2007, Gamma, along with another major travel service company based in Hong Kong was officially granted a license by CNTA. The Vice General Manager of the company conveyed Gamma's observation on the mainland market and its plans on developing the mainland market to the media:

“At present, mainland consumers' awareness or recognition towards travel and tourism brands is still very obscure. We hope to provide high quality services, not the heavily discounted mass products, so as to establish our brand image in time. We will also deliver more products with characters, for example, products targeting gourmets and promoting top Hong Kong restaurant and food festivals.”

(China News.com, 2007)

Gamma also expressed wishes for the mainland authorities to open outbound business to other ADS destinations to Hong Kong operators. The Hong Kong tourism industry also pointed out that opening the mainland market to Hong Kong operators also gave mainland consumers more choice and perhaps an improvement on the overall service quality of the industry.

Since 2003, Gamma has been making good use of its policy advantages afforded by the CEPA and PPRD cooperation frameworks, gradually developing business networks with Chinese authorities, business enterprises and other relevant organisations in Guangdong and other mainland provinces. It has collaborated with several regional tourism boards in Guangdong, and developed a range of travel packages, aimed at Hong Kong travellers who prefer short haul destinations with cultural familiarity. Gamma has also been sponsoring exchange programmes for mainland and Hong Kong students with outstanding performance since the year 2002. It is estimated that there are 10,000,000 primary and secondary school pupils in Guangdong province alone. Gamma sees Guangdong as a market with enormous potential for educational travel related services.

From 2005, Gamma and the tourism boards of several inland provinces such as Henan and Hunan jointly organised a series of promotional events. Gamma sponsored and co-organised the “Ms Hong Kong candidates in Henan” with a major TV company as well as the tourism board of Henan province. A documentary made about this event was later broadcast on major television channels in Hong Kong and received a positive response from the public. Later that year, Gamma allied with another major operator in Hong Kong to devise

the “Moon Festival Night Gala” and other cultural tourism products with the scheme “Following in Your Ancestors’ Footprints”. Subsequently, Gamma also signed a contract with the Henan Tourism Board, with the aim of channeling tourists. In 2008, 32 specialists from Gamma were invited to Weifang, Shangdong province. They were accompanied by staff from provincial and local tourism promotion offices, to investigate the potential for agricultural tourism development. The next year, Gamma organised a group visit and investigated China-Russia cross border tourism in Mohe, Heilongjiang province in North China. Altogether, Gamma sent five groups comprising a total of 125 people to the Greater Hinggan Mountains in Heilongjiang, to research on local tourism attractions and the potential for developing eco tourism.

Performance and future prospects

With different forms of representation in Guangdong and the rest of the country, Gamma seems to always be at the forefront of penetration into this vast market. Gamma argues that it has been continually working with mainland tourism boards in developing new tourism products and destinations. In this process, its managerial model and service standards have received favourable comment from mainland consumers and industry counterparts. A recent incident on possible trade mark infringement by a mainland travel agency may be indirectly prove that Gamma has established a valuable and trustworthy brand image among mainland consumers.

On the other hand, fieldwork results show that Gamma’s operation in the mainland is not always smooth. For example, several industry observers point

out that Gamma's JV Company with its mainland partner has seen a lack of impetus in terms of encouraging growth from both sides. Indeed, the separate agendas of the two sides seem to be driving them further apart. For example, Gamma has been devoting itself to the tourism real estate sector, developing properties and extending its value creation chain in the emerging mainland market. One industry commentator believes that the highly profitable outbound section is where their interest conflicts. Although such a claim has not been confirmed by either side of the JV, the potential conflicts of interest cannot be denied.

Table 6.7 Chronological assessment of network penetration strategies of Gamma

Year	Activities	B2G network	B2B network
1992	Opened first mainland branch in Shenzhen special economic zone, the neighbouring city of Hong Kong	√	
1999	Co-established the first joint venture tour operator in Guangzhou with mainland partner, GZL International Travel Co. Ltd.		√
2003	Making good uses of its policy advantages defined by the CEPA and PPRD cooperation frameworks; gradually developing business networks with Chinese authorities, business enterprises and other relative organisations in Guangdong and other mainland provinces	√	√
2005	Gamma and tourism boards of several inland provinces such as Henan and Hunan jointly organised a series of tourism promotional events	√	√
2007	Granted license to operate business of mainland residents travelling to Hong Kong and Macau by CNTA	√	
2008	32 specialists were invited by provincial tourism board and local government of Weifang city and Shangdong province, to investigate and discuss the potential for agricultural tourism development	√	
2009	Organised five groups with 125 people to Mohe and the Higgnan Mountains, Heilongjiang province in North China. Accompanied by local officials, conducted research on the potential for eco- tourism and China-Russia cross border tourism	√	

Source: the author

Figure 6.6 Gamma's market penetration in China



Source: the author, the map is from "lonely planet" website

Summary

Although there is no identical route which may be followed for travel service firms wish to penetrate emerging markets, the combined findings of fieldwork and available documentary data have illuminated the major direction of such attempts. The research identified three types of travel service firms and discussed how they used institutional orientated networks for market penetration. In accordance, three travel service firms' experiences in an emerging market are presented. The researcher has analysed and compared their engagement with formal and informal institutional networks not only as a response to combat transaction costs, but also to facilitate long term development in the emerging markets. This chapter also lays a solid foundation on which further discussion can take place about how market institutions, industry structure and penetration strategies interact through institutional oriented networks. As pointed out by Nicholas and Maitland (2006), institutions are dynamic and strongly path-dependent. The chapter has effectively illustrated the path-dependency of formal and informal institutions in the emerging Chinese market. How the dynamism of institutions interacts with firms' market penetration strategies in the long run is the question which requires to be answered in the next chapter.

CHAPTER SEVEN

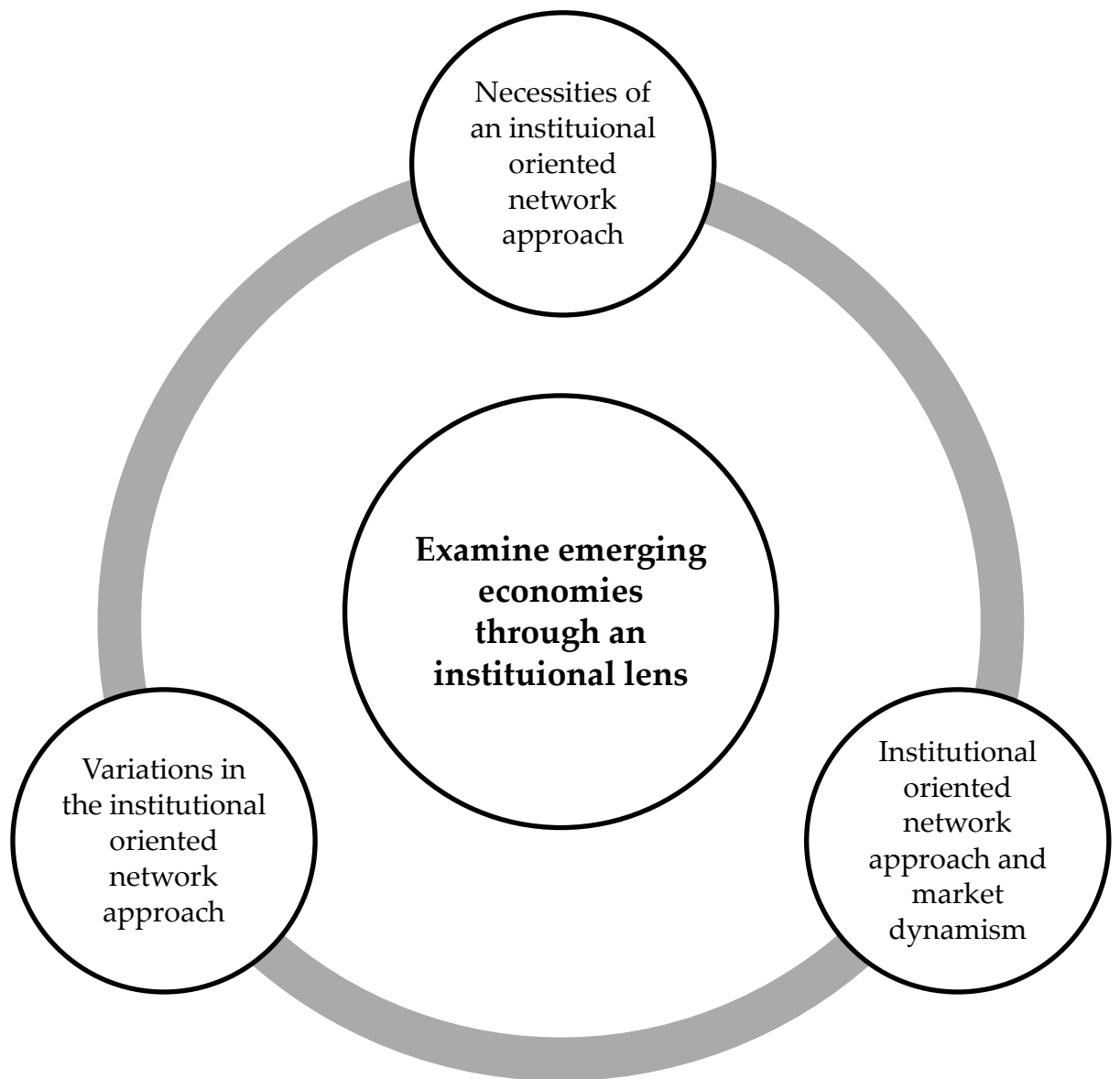
DISCUSSION AND SYNTHESIS OF RESEARCH FINDINGS

Chapter Five addressed the structural diversity, technological adaptability and demographic variety of China's current travel and tourism market. On that basis, Chapter Six identified and explicated three representative manifestations of the institutional oriented network approach to emerging market penetration by travel service firms. In this chapter, the researcher aims to discuss and synthesise the main findings in Chapter Five and Six, contribute to the understanding of the impact of transaction costs and institutions on service firms' emerging market penetration strategies, as well as the dynamic nature of institutional development in emerging economies. Finally, an emerging market penetration framework incorporating institutional development, industry specific factors, and organisational resources is proposed.

Chapter objectives

- œ Compare the three representative market penetration approaches on the grounds of their responses to transaction costs and utilisation of institutional oriented networks
- œ Synthesise findings from literature and field research, and discuss the dynamism of key analytic sets and their relationships
- œ Propose a dynamic market penetration framework which incorporates institutional development, industry specific factors, and organisational resources

Chapter structure



Introduction

Traditionally, international business researchers assumed that the logical response to globalisation is the multinational corporation. With the development of information and communication technologies (ICTs), the emerging economies, as demonstrated in previous chapters, have become a playing field for multinational corporations and newly established enterprises. Hence, multinational corporations are no longer the only agenda for studying emerging market penetration strategies. Chapter Six illustrated that despite their individuality, all three types of travel service firms attempting emerging markets penetration have to cope with the broad scope and rapidity of formal and informal institutional change in the host country.

Emerging market institutions

Transaction cost theory and the study of travel and tourism service market penetration

As discussed in Chapter Three, the transaction cost theory has had extensive application in the studies of firms' international market penetration arrangements. The primary focus of this perspective is cost minimisation and conditions responsible for market failure (Ekeledo, 2000). Foss (1993) argues that the transaction cost theory is capable of addressing the integration strategies that may support competitive advantage, but has little to say about why firms pursue different generic strategies. Buckley (1987) contends that under the transaction cost framework, firms often react to "transaction costs" rather than

being proactive or “strategic”. In other words, the transaction cost approach provides a compelling logic for the study of marginal transactions in reasonably well-defined and stable industries, but loses explanatory power when extended to the study of strategic integration or diversification in complex and volatile ones.

The travel and tourism market is known as being information intensive and frequently relies on one another to provide joint services demanded by consumers. In major tourist generating countries, cross-border merger and acquisitions (M&A) as well as diversification have become common practice. Buckley (1987) suggests that transaction cost perspective provides a clear and simple language for the analysis of travel services, and highlights the critical role of information asymmetry in shaping tourism contractual relationships in order to exploit short-term efficiency gains. However, **this** perspective fails to provide a rationale for long-run strategic decisions. Such a view is shared by Tremblay (1998), who, in an examination of the applicability of transaction cost theory in tourism, argues that transaction cost theory alone is not capable of grasping the economic organisation of tourism. In looking for an alternative theoretical paradigm, he believes that coordination of capabilities is essential to the travel and tourism market. As regards this research, it is discovered that China’s emerging travel service market is structurally highly uncertain, dispersed and even chaotic. Therefore the explanatory power of transaction cost theory in such a market is limited.

Examine emerging economies through an institutional lens

It is generally agreed that service industries supply disembodied knowledge or knowledge embodied in people or information-related equipment (Dunning, 1989). Naturally, a service firm tends to rely more on specific and individual knowledge relative to a goods producing firm, which relies more on general and hardware knowledge. In an international environment, these characteristics of services may impact a firm's market penetration strategies in several aspects. Service firms will require a high investment in people and relatively low investments in plant, equipment, and inventory. Secondly, services are difficult to standardise and produce in the same way abroad as in the home market (Bjorkman, and Kock, 1997; Erramilli and Rao, 1993). Travel services are particularly closely embedded in cultural and social contexts. While cross-border transport costs (as opposed to the availability of transportation facilities) are obviously not as important a factor in service industries as in goods industries, being near to customers and adapting a service to their particular tastes plays a more significant role in service firm's market penetration choices. Often, the size and character of the market influences the siting of business and professional services (Dunning, 1989).

The rationale for examining Mainland China is twofold. First of all, the country is of enormous strategic importance to travel service firms seeking to expand their international operations. Secondly, Mainland China's institutional changes and integration with the capitalist market economy system started at a later stage than the former Communist nations of Russia and central Eastern Europe, its

institutional transformation has been continually reliant on cultural forces, which will determine the extent to which management learning occurs.

The power of institutions in shaping business practices, particularly in emerging economies, is being acknowledged by more and more authors (Child and Tse, 2001; Peng 2003). Institutional theory proposes that the strength or weakness of institutions might affect the range of responses available to firms. As reviewed in Chapter Three, institutional forces have been examined from both economic (Clague, 1997; Coase, 1998; North, 1990) as well as sociological (DiMaggio and Powell, 1983; Scott, 1995, 2003) perspectives.

This study has adopted a macro to micro approach to explicate how formal institutions affect travel service firms' market penetration strategies. The desk research findings support the conception that formal institutions in legal and political spheres strongly influence firms' market penetration strategies, but imply that the impact of informal institutions is understudied. That said, analysis of the fieldwork results reveal that the informal institution is an indispensable dimension required in the analysis of China's institutional environment relevant to travel service firms. Four groups of interrelated institutions are proven to be most influential: political, legal, industry structure and regulations, as well as business-relevant intermediate institutions.

Political institutions and implications

The desk research and fieldwork findings reach a consensus in that the process of China's transition from a closed, planned economy to a more market oriented

economy involves the interplay of a field of forces operating at different levels. Although the development of micro-level regulatory institutions and practices is not determined by formal institutional changes at a macro level, it is inevitably endogenous to the larger political game in which they are embedded.

To begin with, the steady breakdown of political barriers since 1978 has provided the prerequisite condition for the travel and tourism market to flourish. The more acute changes of the political system came in 1998, when power redistribution between central and local authorities marked the inception of a new era of economic growth in China. While the central government still attempted to direct industry development, the decisions over economic development policy have been very much left to local authorities.

Not only do local authorities in China have real incentives to encourage foreign involvement in the travel and tourism sector, they also have the power to do so. As explained in Chapter Five and Chapter Six, recent years have witnessed local governments campaigning hard to attract foreign interest, some by formally endorsing development of the tour operating sector. As a result, the principle and practice of tourism development at a local level, as well as relationships with local governments are often of great importance to foreign investors. Having conceded the weight of relationship with political institutions, without the transparency and accountability backed up by a sound legal system, political institutions can easily become a vehicle for rent seeking activities.

Legal institutions and implications

The last 30 years have seen enormous changes in the country's legal framework along with its economic reform. According to Laprès and Zhang, (2008), the experiment with its legal framework attempts to optimise past experience within a national context and other mature legal systems, but does not closely emulate either common law or civil law traditions. Though the country's political peculiarities place the nature of those changes with regard to the constitutional framework under much debate, both desk and field research results accepted that changes in this area reflected the development of formal legal institutions within the country, and the government's intention to create and maintain the necessary business-friendly environment. China's entry to the WTO implies that laws of international business begin to apply. Nonetheless, the law in China remains largely a tool of state administration and is subject to variations in local interpretation (see Chapter Six).

As local Chinese bureaucrats have both administrative and legislative power to write and apply regulations in the spirit of applicable law and the Constitution, many of the regulations are intentionally vague. Legal uncertainty is created when any of the local government units act outside the bounds of national laws and regulations. Frequently, local regulations are innovated in the interstices of national rules (Henley, 2006; Laprès and Zhang, 2008).

The field work results corroborate such disorder of the legal system. Not only are laws and regulations not applied to all enterprises using one standard, but when, where and to whom they apply is normally imprecise. Moreover, it is

evident that the authorities have been struggling to keep up with events and fast paced developments. The advance of formal institutions often lags behind the development of the market. Frequently, new laws or regulations have to be re-interpreted by legislators, after defects or discordance with market reality are discovered by the public.

Industry regulations, structure and implications

The opening of borders to both inbound and outbound travel make it possible for tourists to pursue their leisure interests. The reduced level of control over foreign exchange, and simplification of the passport application process later on provided more convenience to Chinese people's overseas travel. While the intention and actions of creating growth enhancing institutions by governments at various levels are undeniable, the further removal of regulatory hurdles, particularly in the area of outbound tourism, has been slow. The Chinese government has traditionally restricted outbound tourism for both political as well as economic reasons. Tour operators have to demonstrate their strength in inbound travel before they can apply for an outbound travel license. They are also required to balance their outbound operation with their inbound operation. Indeed, the ability of generating inbound revenue is a prerequisite for granting an outbound operation license. The outbound sector is still very much closed to competition from outside the country.

As a matter of fact, the imposition of restrictive policies on outbound tourism is widespread among developing countries, implying national government's attempts to control foreign exchange and balance tourism revenue. Sinclair and

Stabler (1997) point out that many developing countries refer to protection for the “infant industry” as grounds for the restrictive policies to foreign companies, that is, relatively small tourism firms, in low income countries with a low level of demand, may be unable to compete against larger international firms with significant economies of scale. While such an argument partially justifies why policy makers from Chinese authorities have taken a rather cautious approach to the outbound market, the actual end result of these restrictive policies against foreign players seems to contradict the “infant industry” claim.

Regulatory stringency is often closely associated with the abuse of the dominant market position by state owned enterprises, which directly hinders fair competition and consumer welfare. In addition, it is common or even “mandatory” for developing countries’ governments to assume not only mandatory and supportive roles but also act as managers and developers (Jenkins and Henry, 1982; Liu and Jenkins, 1996). Thus, it is surprising that the direct products of restrictive policies in China are State Owned Enterprises (SOEs) surviving on the authoritarian orders. For a long period, travel service firms in China belonged to different government agencies, the relationships between regional branches and headquarters were realised through authoritarian rather than economic ties.

Although a wide range of firms with different ownership and governance structures co-exist in today’s travel service market, it is both academia and industry practitioners’ belief that governments have not completely withdrawn

from the operation. In fact, they still play an important role in driving the strategic direction of the industry and heavily influence the market orientation of this sector. Indeed, many of the travel service firms still retain a strong flavour of state involvement in their strategic moves, mirroring the path dependent trait of a market under swift institutional transformation. The ownership and control of those commercial organisations often remains vested in the state or local authorities.

Regulatory frameworks enforced by governments may also determine aspects of market structure (Litteljohn and Baxter, 2006). In the case of China, given the nature of its economic development under communist rule with strong central government control, it is not surprising that the government has been pivotal to the direction of the tourism market development (Chapter Six). Regulatory frameworks are particularly decisive in shaping the structure of the outbound industry. Through a series of policy tools (i.e. the Approved Destinations Status (ADS) system, designated by the PRC government to strictly control which countries Chinese leisure tourists can visit), the government has both curtailed the free flow of tourist traffic, and, at the same time, entailed the growth of the travel service industry by enforcing their involvement in outbound tourism in the form of legislation. Under this framework, the Chinese authorities essentially decide which players (on both generating and receiving sides) will be involved in the outbound market, and in fact jeopardise the fair competition of the industry.

Against this situation, international tourism executive organisations such as the World Travel and Tourism Council (WTTC) have urged the Chinese government to eliminate regulatory hurdles to the outbound market's development, abandon ADS requirements, allowing for unlimited access to the Chinese market by foreign tour operators and national tourism organisations, and removing limits on travel agency outbound sales (WTTC, 2006).

In 2007, Zhang Jianzhong from CNTA's Policy and Regulation Department admitted that the strict control on the volume of outbound tourists is somehow divorced from reality. In fact, such regulations perform almost no function. As integration with the world economy deepens, Chinese citizens' demand for overseas travel inevitably grows. Then again, he maintained that to develop outbound tourism in a regulated manner is a national policy which has received approval from the central government. Tourism has played a positive and important role in facilitating multilateral and bilateral international relations, balancing international trade payments, and reducing international trade frictions. The ADS framework is in need of an additional article for the suspension or removal of approved destinations status. This article shall be designed to correspond with China's national diplomatic strategies. Zhang further explained when this article could apply, that is, in the case of countries or regions showing hostility to Chinese travellers, their approved destinations status ought to be suspended or cancelled in accordance with regulations. Zhang argued that adding this article would enable the Chinese authority to skillfully use tourism as a means of achieving their diplomatic goals whenever needed. In 2009, the China National Tourism Administration (CNTA) enacted

the revised *Regulations on the Administration of Tourism Agencies* based on the 2001 edition. In Chapter Three of the new regulation, China further fulfilled its WTO commitment regarding the travel agency sector by confirming the status of foreign invested travel agencies and giving them national treatment. However, the outbound market for mainland residents is still closed to all foreign invested travel agencies and operators (except those based in Hong Kong and Macau). Clearly, greater attention needs to be paid to the free-market re-orientation of the tourism business environment in China.

The study corroborates the prior studies' findings on the importance of regulations and policy to business entities' operation in China. Regarding the roles played by formal institutions, North (1994) sees the provision of economic institutions to reduce transaction costs as the responsibility of governments, but Rao (2003) sees many types of transaction costs arising from the bureaucratisation of planned economies. For this study, depending on whether it serves to facilitate or constrain the market orientation of firms, institutional forces are categorised into growth enhancing or impeding ones. The general perception of industry practitioners remains that business activities tend to be over-regulated and often subject to government intervention. There are many man-made factors in the market. Rather than market forces, authoritarian orders often have the final say. Moreover, state resources such as land and/or access to credit from state-owned banks have always been allocated in favour of the interests of firms with some background in the political system.

It was found during the field study that industry practitioners and alike were keen to discuss the difficulties they faced and constraining institutions accounted for those difficulties. Government officials, on the other hand, were more inclined to stress the facilitating, or what they perceived to be positive institutional development in the wider context. The dissimilarity of interpretation about formal institutions is believed to be a reflection of industry practitioners and regulators' respective positions in the market. On the whole, it is fair to suggest that since the inauguration of economic reform and market opening, the country has seen considerable progress of the legal system, especially in the economic sphere. However, the regulatory hurdles are still very much present and the playing field is far from level. Fundamentally, the country's legal system is still under one party's control. As a consequence, it is highly susceptible to political actors' discretions.

As disclosed by both scholars and practitioners, industry policy and regulations are highly likely to be arbitrarily imposed by officials in power and serve specific political as well economic interests. Furthermore, in a country juggling a "rapidly expanding capitalist market economy with the remnants of a communist politburo" (Hutchings, 2005: 448), lacking experience often leads policy makers and legislators to the opposite direction of the desired outcome. To what extent, when and how government institutions should be involved as a means to reduce transaction costs and promote fair competition as opposed to generating additional transaction costs is in fact the main issue the country faces. Albeit the transient nature of many formal institutions in emerging economies, the structure of national regulatory institutions and associated

transaction costs are likely to continue in the foreseeable future. The cost of overturning existing regulatory arrangements, particularly those regarding foreign operators' market entry is not negligible.

Informal business relevant intermediary institutions

While the scale and scope of formal institutions for doing business in China is well documented, the desk research did not find sizeable evidence of the role of informal institutions in emerging economies. However, informal institutional forces or social-cultural forces are most embedded in humankind and particularly enduring relative to the transformation of formal institutions. More often than not, informal institutions prove to be vital in shaping the market environment of a country (Wang, Bao and Shu, 2006). In the field of travel and tourism studies, Litteljohn and Baxter (2006:37) discern that:

“In the emerging markets of the East, models of tourism development may initially share some resemblance with the demand phases in the West. However, different cultures and the changing role of the technology will also have a significant impact on the development of the industry structure in the East.

In this study, the impact of informal institutions on the provision of travel services is confirmed emphatically in Chapter Five and Chapter Six. Inherently, travel services are culturally grounded. Their whole design and “production” process involve consumers, the end users intensively. Such close correspondence related to informal institutions is found to be influential to the international market penetration strategies of travel service companies.

Therefore, it is necessary for investors to develop an understanding and capacity to engage with informal institutions in a manner that is effective for doing business in China.

The field results on informal institutions are consistent with those of other studies and suggest that “guanxi” in business overshadows other factors in informal institutions (otherwise known as cultural/cognitive pillar of institutions) (Tseng and Kuo, 2008; Peng and Zhou, 2005). Moreover, the field research findings also show that great attention is given to the so-called cultural industries, i.e. education, performing arts and international exchanges, for which travel and tourism can act as a platform. Such development has already had de facto influence on the penetration approach of travel service firms. Where possible, they are required to cultivate a wider “guanxi” web which incorporates the revival of institutional development into their business model.

Institutional oriented network approach to market penetration

Necessities for adopting an institutional network approach

The expansion of the travel service industry in China mirrors the magnitude of extensive networking with both business partners and government officials. Many of the current players entered the market with some sort of background or connection with government agents, hoping to secure a share of the booming market. It is widely agreed among industry practitioners that building and

maintaining relationships with the appropriate authorities and individuals has been the most critical factor for conducting business.

The literature reports that extensive networking with both business partners and government officials is indispensable for doing business under the current institutional environment of China (Peng and Luo, 2000; Peng and Zhou, 2005; Wang, 2004). For travel service firms, the necessity for extensive networking is identified as follows: 1) Business and government has a long history of being welded together into a closed system. The communist rule only exacerbates these ties. To business, such coalition is often forced upon it but imperative. 2) Although business will gradually lose its independence as a result of this kind of coalition, it is believed that the condition will not be alleviated until changes over the composition of the current outbound market occur, that is, further growth in the proportion of non-public sector travel. 3) The evidence from this research shows that the service sectors' reliance on the "guanxi" based network may be stronger compared to other industry sectors in emerging economies. Respondents implied that the lack of differentiation among their offerings decide that network building matters more than anything else in getting the right customers. It is also found that the "scope" of service firms' networks often expand as the business scope of firms shift. As very few firms in China's travel service market are specialised, the maintenance of extensive "guanxi" networks seem to be a must for catching the widest range of clients and potential business partners (see Chapter Six). All these factors are interwoven together, and actually enforce the existence of "guanxi" centred on an "officialdom standard",

which, in turn, becomes a powerful institutional force which one cannot break away from easily.

For tourism SMEs, Morrison and Thomas (2004) recommended co-operative and collaborative networking using strong personal and familial networks of suppliers, customers and financiers towards beneficial clustering of stakeholders. Zhou (2007) maintained that from an institutional point of view, the network mechanism is “particularly important to newer, international entrepreneurial SMEs in emerging economies like China, where personal connections such as “guanxi” serve as a metaphor for doing business and understanding economic transactions”. There are similarities between the ethnic network approach taken by travel service firms (see the next section) and the network mechanism described by Zhou, Wu and Luo (2007) and Morrison and Thomas (2004).

On the dominance of “guanxi” in Mainland China (and even in other Asian countries such as South Korea), earlier research identified cultural heritage and absence of effective formal institutions as the root (Peng and Luo, 2000; Xin and Pearce, 1996; Peng and Zhou, 2005). Some scholars, particularly Chinese scholars, have argued that the “guanxi” based network has had historical and theoretical foundations derived from Confucianism. Hence, Sinic societies have a tradition of hinging on informal networks centred on “officialdom”, which act as the structure for social exchanges and economic transactions (Wang, 2004; Wang, Bao and Shu, 2006; Zhu, 2005). While the results of this study are unable to demonstrate that a pervasive “guanxi” culture has had a profound historical

root, it is found that most “guanxi” networks share intricate bonds to “officialdom”.

Authors have suggested previously that in emerging economies, informal institutions, “guanxi” in the case of China, have evolved to replace incompetent formal institutions and become the structure for economic transactions (Hutchings, 2005; Michailova and Hutchings, 2004; Nicholas and Maitland, 2006). Moreover, the findings accord with North’s (2005) observations on institutional structure changes in Russia. It is noted that the communist party led reform in China resembles Russia’s reform in many aspects. While liberalising economic sectors, it cannot escape the destiny of creating a concentration of political and economic power in individuals, the state bureaucracy and of course, the party itself. For this reason, it is fair to argue that by allowing the privileged few the power to differentiate themselves from ordinary people, not only is the economic reform of PRC incapable of eradicating the social cultural root which enable “guanxi” to prosper, worse still, it has intensified the “officialdom” nature of such network.

Contents of institutional oriented network

On the contents of the “guanxi” network, the researcher adopted the approach described by Peng and Zhou (2005), using Business to Government (B2G) and Business to Business (B2B) as analytical units. From the results of interviews, it is interesting to note that the boundary between business and the personal relationship network is often blurred or even non-existent. In some events, the missing boundary appears to be a deliberate result rather than a matter of

unconsciousness. This is regarded as one of the distinctive features of “guanxi” relative to other type of networks. Another important finding was relating to the magnitude of B2G relationship in the whole network nexus. The fieldwork results found a large number of companies depending on an “officialdom” centred “guanxi” network for business. While the general trend is embracing more B2B cooperation, the commonness of a strong B2G relationship is deemed to be an indication of the current composition of China’s outbound travel market, for which the majority are still civil servants or managers of SOEs.

Variations of institutional oriented network and cross case comparison

This section compares the three representative market penetration approaches adopted by foreign travel service firms. Attention is given to the context in which the cases are situated, as well as the exploration of theory-driven relationships between the attributes of cases (Ragin, 2000). The attributes of each approach are subsequently stacked in a matrix, helping to systematically compare and analyse commonalities and differences (Miles and Huberman, 1994). Refined from the emerging economies literature and fieldwork results, each case is configured to include the attributes below that are deemed to be crucial for understanding foreign travel service firms’ market penetration strategies.

Competitive positioning and active market sector

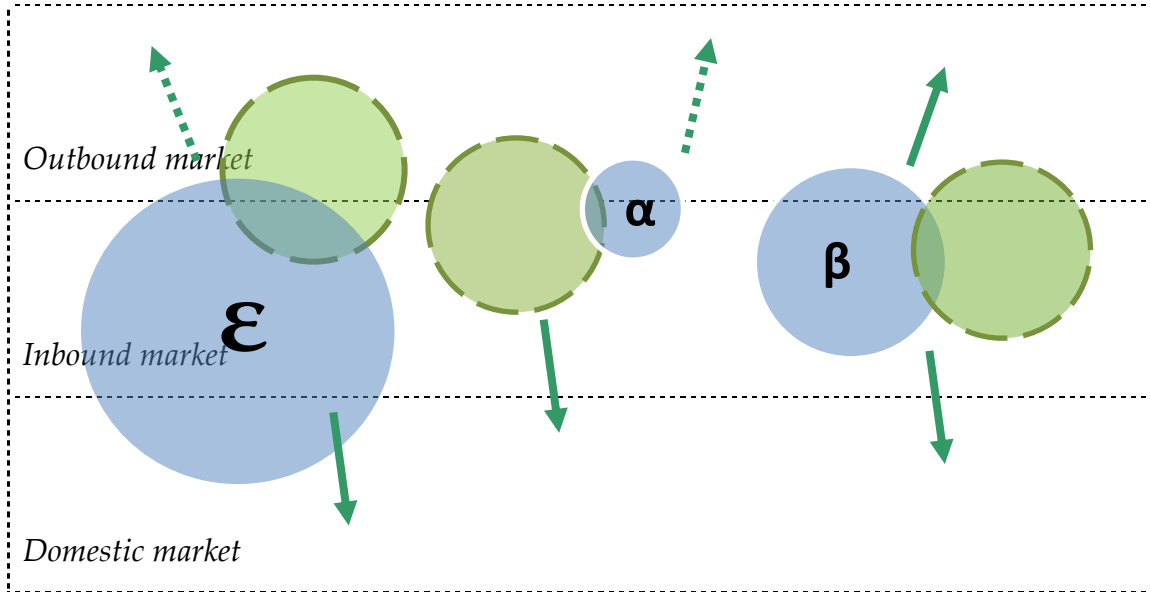
The current study found that all industry practitioners, without exception, described China as a promising market, and emphasised the importance of market positioning. That is to say, finding particular sectors of the market which are suitable to the company's business model and resources are considered to be of vital importance. Comparing the target markets of the three penetration approaches, it can be seen that substantial differences exist in their most active market sectors. The previous restraining regulation on the travel service sector has also helped to define the boundary of business activities among companies taking different market penetration approaches. Hence, there is no immediate need to emulate one another in the current market. As the researched firms are market seeking rather than client following service firms, they tend to show more aggressive market penetration behaviours.

Due to the current restraints on market access and their accumulated advantage in organising inbound travel, large multinational tour operators are mainly active in the inbound tourism sector. With the market being further developed and barriers to outbound market gradually being removed, their interests may expand to domestic tourism and will most definitely enter the lucrative outbound market. The fieldwork findings suggest that ethnic SME travel service firms are most active in the outbound market, with close B2G relationship and sound knowledge of both destination and source markets in China. Some bigger ethnic SME operators have included domestic market operation, while most ethnic SME operators' main business activities concentrate on outbound tourism. Hong Kong and Macau tour operators appear to be most active in

operating inbound tourism to the Mainland, but recently they are given permission to operate outbound tourism for Mainland Chinese travellers to overseas destinations.

Figure 7.1 maps out the most active market sectors of foreign travel service firms, including large, cross-sector firms (shown as ϵ), ethnic SMEs (α) and regional travel service providers receiving preferential treatment from Chinese authorities (β), and the market sectors they intend to enter. The different sizes of blue pies signify the dissimilar sizes of firms. Their possible engagement with Chinese firms is shown as the green dotted line pies. The arrows point to the market sectors they are set to be more involved, as the dotted arrows represent the possible indirect channel of market penetration.

Figure 7.1 Active market sectors of three types of foreign invested travel service firms in China



Source: the author

It is also noted that those companies offering package tours targeting the general public tend to face fierce competition against their Chinese counterparts. The business travel market is somewhat more divided. Whilst a number of international players offer highly professional corporate travel services to international business invested in China, the sector of outbound travel by Chinese civil servants and business people is shared by operators from source markets and destinations. Interestingly, it is observed that many existing foreign operators in the market actually perform a relatively wide scope of business activities, which seems to contradict their statement on market positioning. This rather contradictory result may be explained by the fact that China's current travel service market is still in the formation stage, and the institutional environment is highly volatile and fast changing. The uncertainty associated with the risk level of market environment and opportunities for business ventures demand firms, especially those which are new to the market, to develop the flexibility to act swiftly to varying market conditions. The manifold B2G and B2B relationships found in cases can be seen as a need to satisfy the imperative of diversifying their business rather than pursuing specialisation.

Variations in penetration mechanism and forms of market presence

For large, cross sector tour operators, a variety of organisational structures have been adopted, including wholly owned enterprises, equity joint ventures, representative office, management contracts as well as licensing. By far, equity joint venture appears to be a commonly used organisational structure among firms in this category, and is believed to be a product of governmental influence

in many cases. The huge gap between the sizes of firms which have entered joint ventures determines that the Chinese side often acts as the distributor/agent for their foreign counterpart. Some firms which have taken this approach also gradually increase their share of the joint venture, and have developed from a minority holding to a majority holding in the joint venture.

It was discovered that representative offices and management contracts are the two most frequently used penetration mechanisms for ethnic SME travel service firms pursuing market penetration. Opening a representative office is great for building capacity while the firm waits for further market openings. Despite the regulation stating that representative offices cannot engage in “direct profit making” activities, many representative offices operated by firms in this group are performing the functions of sales offices. Some ethnic SME tour operators have registered as international exchange/training companies so as to disguise the nature of their business and perform normal tour operating business (see Chapter Six). Another frequently used penetration vehicle is “chengbao”, a highly controversial form of management contract in China. Some operators contract a department from a local tour operator with a license to operate in the outbound market so as to legalise their operations. Their operation is not entrusted to local tour operators at all. The decision to seek local partners with whom a management contract can be signed is driven by their need to circumvent regulations on the outbound market, so as to enjoy equal status with local operators.

Initially, Hong Kong and Macau tour operators often cooperated with their mainland partners and sent Hong Kong visitors to the mainland, as well as receiving mainland travellers to Hong Kong, Macau and Southeast Asia (given their advantageous geographical location). Gradually, more Hong Kong investors are looking to increase market exposure in the mainland. The field trip to South China witnessed the frequent commuting of managers among Hong Kong, Shenzhen and Guangzhou. The direct input by the Hong Kong side is made easy by its geographical closeness to Guangdong. The organisational forms of these firms in the Mainland range from management contract, joint venture, to wholly owned branches. Some of them choose to invest in existing mainland companies based in major tourism destinations and generating markets, or export brands and management teams before any large scale expansion. Cooperation between Hong Kong and Mainland enterprises is often promoted and facilitated by governments at the provincial and regional levels with both political as well as legal means.

Table 7.1 List of market penetration mechanisms for travel service firms

Penetration mechanism	Descriptions	Benefits
Representative office	Liaison between the home office and related industries in China; often engage in market research and establish contacts with prospective customers and partners; not a separate legal entity	Great for building capacity while the firm waits for further market openings*
Wholly owned branch	Wholly owned and controlled entity	Strong control over the branch
Equity joint venture	Limited liability between one Chinese and one foreign firm	Potential to tap into local information sources and acquire market knowledge
Management contract	Agreement between a Chinese and foreign firm, no separate legal entity established	Circumvent regulation on the outbound market Reduce risks associated with direct investment

*Some may be performing the functions of sales offices

Source: the author

The empirical findings on penetration mechanisms and forms of market presence suggest that different patterns of business development occur in the emerging travel service market of China. Although the exact number of firms penetrating into the market through less formal channels is unknown, industry insiders believe that a substantial amount of business activity has been conducted outside the legal framework, using informal social networks. It is also noted that acquiring market knowledge contributes to the motives of travel service firms teaming up with those individuals or organisations that possess such know-how and “know-who”. Moreover, it is found that real or perceived institutional advantages influence their market commitment and relevant penetration strategies.

Variations in institutional resources and network strategies

As set forth in Chapter Three, economic institutions lay down a framework within which businesses develop their strategies. Variations in institutions thus explain differences in the organisational forms. The findings of this research are testimony to this proposition on the correlation between institutions and organisational forms. More significantly, this research project is devoted to investigate how institution variations lead to different organisational forms and market strategies. Correspondingly, the focus in emerging economies is on how organisations interpret the institutional environment they are facing, and capitalise on their “institutional resources”; and how they can devise market penetration strategies, through cultivating business-to-government (B2G) and business-to-business (B2B) relationships.

Variations in formal institutional resources and B2G ties

Among large integrated travel service firms, equity joint venture appears to be the most common organisation structure. Moreover, most of those equity JVs were formed with state-owned enterprises. It is no secret that the Chinese central authorities have always played a critical role in the selection of foreign firms' market entry modes since the beginning of the country's opening up. To the authorities, their selection process is not only a matter of economic interest, but often influenced by various political and social concerns. On the other hand, the international status and credibility of many large multinational operators put them in a favourable situation with higher bargaining powers when dealing with national and local governments. Hence, they are often able to secure or strengthen very advantageous terms.

It is discovered that large, cross sector travel service firms' interaction with regional governments also constitutes an important part of their market penetration activities in China, when their desire for more inland market access and local governments' desire for promoting local tourism destinations on the international stage connect. In the most profitable outbound market, those operators are in a less favourable position due to their economy of scale and global influence. At present, with the argument of protecting national infant industries, Chinese authorities insist the outbound sector is only open to Chinese operators as well as Hong Kong and Macau based operators. However, the eventual opening of this sector is rigorously persuaded by large, multinational operators and international commercial organisations with similar interests in China.

Until 2009, the amount of initial entry capital required to enter the Mainland market effectively deterred small ethnic operators from entering the market through formal channels. In response to policy discrimination, small ethnic operators had to either risk using unauthorised channels, or seek individual approval from specific government agencies. It is fair to suggest that the prevalence of such market penetration styles is largely attributed to the formal institutional setting of the market. On top of that, the ADS regulation inevitably posed obstacles to their penetration into the Chinese market. It was found during fieldwork that direct personal links to political or regulatory actors often allow for preferential access to market. In other words, the cultivation of B2G relationships is often realised through social networks. As for small SME tour operators, the actual or perceived advantage over informal business institutions further provided them with the motives and means to build “guanxi” or personal links with regulatory actors. Here, the boundary between social networks and professional networks is intentionally ambiguous. The maintenance of such ambiguity is said to be both a heritage of Sinic culture and a necessity in today’s business environment.

The changes of formal institutions in China only started to have major impacts on the development of the Hong Kong travel service sector from 2003. Soon after the SARS outbreak, the central government of China signed the previously discussed Closer Economic Partnership Arrangement (CEPA) and Pan-Pearl River Delta (PPRD) Regional cooperation framework agreement with the government of Hong Kong and Macau special administrative region. As its name suggests, the CEPA arrangements enable closer economic cooperation

between the Mainland and Hong Kong, at both a governmental and non-governmental level. The impacts of this policy measure are mainly on the supply side of tourism. Respectively, the ever enlarging coverage of the PPRD Scheme in the Mainland fuels the demand side by agreeing residents of nominated mainland cities to visit Hong Kong in an individual capacity.

Other than the motive to strengthen the economic bond between the Mainland and Hong Kong, the preferential treatment enjoyed by Hong Kong operators relative to other operators has a deep rooted political agenda. To reinforce the point made by Richter (1983; 1989) as well as Zhang, Chong and Ap (1999), China's interest in tourism historically had primarily political motivations. In the case of Hong Kong, the political message sent by those policy measures is central government's intent to maintain regional economic prosperity and stability, which is publically stated by governmental officials from both sides in many occasions. Operators in this group are the direct beneficiary of the current institutional environment in China. In the long run, they are likely to play a more important role in China's travel service market due to the foreseeable consistency of the policy.

Variations in informal institutional resources and B2G ties

Relative to formal institutions, it is more intricate and sometimes even burdensome for large integrated firms alone to engage with the "informal institutions" in China. However, informal business relevant institutions are often proven to be of more weight in emerging market settings. The need to accumulate knowledge of local markets, government and commercial

contacts, cultural and social contexts, the desire to tap into local web of intertwining network nexus between the corporate, social and political spheres, as well as the aforementioned regulatory restrains, collectively compel operators in this categories into cooperation with local partners.

As elaborated in Chapter Six, the innate connection with local “guanxi” networks make the Chinese side of JVs ideal for dealing with government bureaucracy and exercising day-to-day operation. Foreign operators may have to rely on managers with an in-depth understanding of informal institutions within the Sinic cultural frame to liaise with local officials. While large integrated operators are probably advantaged relative to their domestic counterparts on many other grounds, their partners’ advantage in managing the domestic political process and understanding of local markets could make them the potential competitors needing to be watched.

The field experiences show that ethnic SME travel service firms have best adapted into the current market, particularly early adventurers in the outbound sector. The investigation on how they develop relationships with business partners however found no consensus. While some have had a more successful experience, there were reports of commercial fraud and abuse. Given their ethnic background, the exploitation of “guanxi” networks seemed to be a rational choice for ethnic SME operators’ emerging market penetration. However, the extent of reliance on “guanxi” in B2B ties varied significantly among the ethnic SME operators being interviewed, depending on their target market and often, operator’ personal background.

The close geographical, cultural, ethnic, family and language ties between regional operators based in Hong Kong and Macau and their target market means that they are gifted not only from the formal institutional side, but also on the informal institutional side. The fieldwork results revealed that B2B connections are very close between the Cantonese and Hong Kong side even on a daily basis. As found by Chan and Wright (1999), while introducing concepts such as “guanxi” to a different culture required considerable effort, Hong Kong based staff had been schooled in these philosophies. Owing to both formal and informal institutional resource advantages, Hong Kong and Macau tour operators’ penetration to the Mainland are believed to be finer and deeper compared to large multinational players and ethnic SMEs set up by overseas Chinese in this market. The results and empirical studies discovered that the firms taking three different approaches to market penetration appear to share much in terms of common in human resource strategies, with the absolute majority of staff being locally based. The planning and marketing are specifically reliant on local expertise. This consensus implies the need to localise operation in the long-standing.

Performance

As well as co-existence, the performance of operators taking different market penetration approaches can be compared from three aspects: regionality, customisation and strategic flexibility. The empirical findings indicate that in a country with vast geographical spread and significant regional variations, gaining access to distribution networks and increasing market exposure are imperative, yet difficult for foreign firms adopting a polycentric approach. This

feature of China's market indicates that independent operators or regional chains with sound knowledge and understanding of local markets can sometimes outperform branches of nationwide, integrated groups.

In this sense, as explained by Sinclair and Stabler (1997), the large multiples with a uniformed approach may suffer diseconomies of scale. If the Chinese have not heard of these companies before, then their status as multinational conglomerates will not make a difference to their chances of success in China (Graff, 2006). More often than not, regional players can build up comparative advantages derived from an understanding of the regional market, access to distribution channels and a portfolio of loyal customers through B2G and B2B networks. As a result, they manage to outperform many bigger players in the market.

While large, cross sector operators exert more influences over other links of the tourism value chain, i.e. destinations, all industry experts being interviewed believed that multinational operators would not be able to control an overwhelming proportion of the market like they have done in many developed markets. With under exploiting market opportunities and development of the second tier market, it seems that the co-existence of all three market penetration approaches will last at least in the near future.

Figure 1 provides a summary of foreign invested tour operators in China's travel service market. Diagram 7.1 shows the interactive framework of institutions and firms in China travel service market. Within this framework,

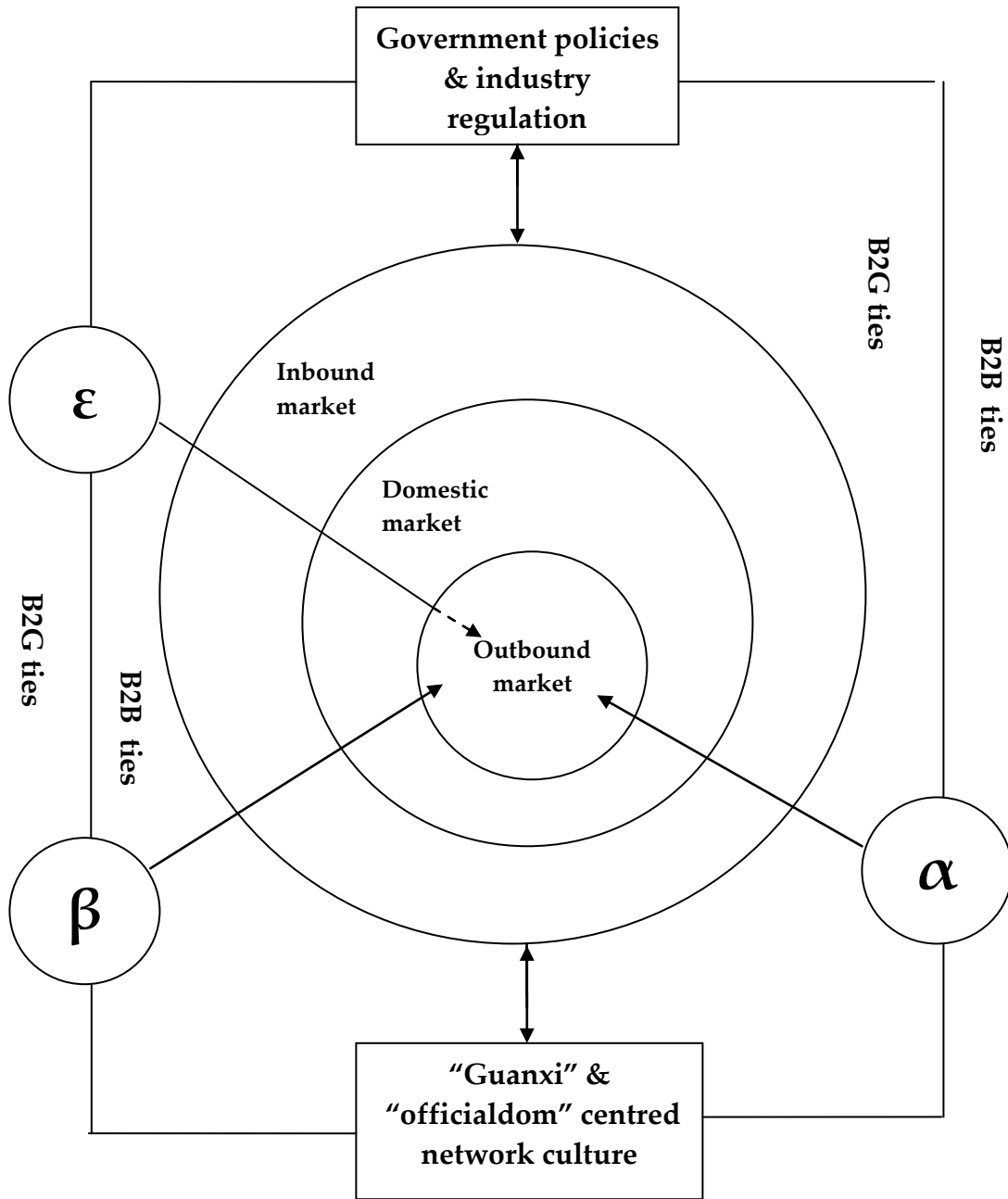
“guanxi” and the “officialdom” centred network culture (where ties between the state power and business enterprises are centre of economic and social activities, see Chapter Five for detailed explanation) together with government policies and industry regulation act as the deciding institutional forces in the market.

**Table 7.2 Summary of foreign invested tour operators
in China's travel service market**

CATEGORY	Cross-sector, large tour operators	Ethnic SME tour operators	Regional tour operators receiving preferential treatment from the government
Active market sectors	Inbound leisure travel, business travel services	Outbound travel for leisure purpose& on public affairs	Inbound, outbound leisure & business travel services
Organisation structure	Joint venture Sole ownership	“cheng bao” “gua kao” (management contract)	Joint venture, management contract, strategic alliance
Form of market presence	Visible	Hidden, less visible	Visible
Scope of business	Multi-dimensional, spread to different link of tourism value chain, i.e. destination development, financial services	Concentrate in tour operation sectors in major open port cities	Regional, spread to destination development & other non-tourism sectors, i.e. real estate
Scale of business	Medium to large	Small to medium	Medium
Level of engagement with formal institutions	High	Low	High
Level of engagement with informal institutions	Low	High	High
Profitability	Low*	Relatively high	Variable

Source: the author

Diagram 7.1 The interactive framework of institutions and firms in travel service market



ε= cross-sector, large tour operator

β= regional tour operator receiving preferential treatment from the government

α= ethnic SME tour operator

Source: the author

Peng and Zhou (2005) identify the crucial institutions and argue that different paces of institutional transitions on multiple dimensions will lead to heterogeneous evolution of network strategies in terms of both network content (B2G versus B2B) and strength (strong ties versus weak ties). The empirical studies support Peng and Zhou's proposition on network contents and strength, and March's (1991) notions of "exploitation versus exploration" over the use of networks. However, unlike Peng's (2003) assertion on "early versus late phases" of institutional transitions, Peng and Zhou's (2005) argue that during the early phase of institutional transitions, network assets are typically utilised to exploit existing resources. Most of these networks tend to be strong ties, cultivated over a long period of dense interaction with a smaller group of government officials, managers, and entrepreneurs. As institutional transitions progress, especially when these transitions advance to an intermediate phase characterised by the necessity to gradually compete on market – based capabilities (Peng, 2003), strong ties may be increasingly less likely to provide the range of resources needed to support firm growth. The findings of this research further suggest that "exploitation versus exploration" use of network varies also according to the "institutional resources" of firms. The differences in the combination of institutional resource result in different emphasis over exploitation or exploration. As institutions tend to resist changes, the market penetration situation presented in this research is expected to last. However, this is not to suggest that the present market penetration networks will stand still. In fact, the empirical findings show signs of evolvement from one approach of institutional oriented network to another.

Institutional oriented network approach and market dynamism

Regarding the long term prospective of the use of networks in emerging economies, some research (Guthrie, 1998; Peng and Luo, 2000) suggest that they will not be as important as they are now. However, undervaluing the substance of networks, given their potential in uncertainty reduction and stabilizing structure for human interaction throughout daily Chinese business activities, seems to be premature in a nation that is still feeling its way through gradualist policy.

The preceding sections have identified the most relevant institutional forces for emerging market penetration and compared how firms interpret their institutional environment and develop network strategies capitalised on their institutional resources. However, to cope with the broad scope and rapidity of economic, social and even political change in an emerging economy such as China, one has to look beyond the current advantages and identify possible future market development and respective actions. Thus, this section aims to further elaborate the relationship of different institutional forces, how they might evolve in the near future and integrate this notion in an emerging market penetration framework.

Negative connotations of the network approach

Before discussing the dynamism of institutions, it is imperative to fully comprehend the problems with the current institution environment. In this study, it is the negative connotations of network strategies when used in China. Surprisingly, the industry professionals being interviewed did not make an emphasis on the negative impact of social networks in a business context. It is speculated that such “unawareness” could be associated to their success in exploiting social networks as a market penetration mechanism. However, this is not to say that the negative connotation of networks can be ignored. It is still worth summarising the findings of previous authors in this area.

Peng (2003) and Douma and Schreuder (2008) show that “guanxi” as a transaction facilitator is of high marginal cost. The cost of per “guanxi” facilitated transaction makes high volume business very expensive. For outsiders, the process of “guanxi” building is usually opaque, difficult for foreign investors to challenge and the outcome has only a little connection with considerations of economic efficiency. They criticise this type of interpersonal and inter-firm network for being frequently fraught with opportunism.

More problematically, as explicated in Chapter Five and Chapter Six, the “officialdom” nature associated with many of this type of networks means that they are susceptible to a concentration of political and economic power in individuals, state bureaucracy, and the Communist Party. While institutional economists such as North (2003) and Chang (2007) perceive China as a puzzle, in the sense that the country has maintained high GDP growth rates without the

necessary sound formal institutional structure, more and more Chinese start to realise the serious problems with a business environment enabled by “officialdom” centred business networks.

Guthrie (1998) asserts that networks as informal norms of business are often associated with strong businessgovernmentbureaucracy ties and rent seeking activities, which he believes will hinder China’s transition to a rational-legal system. The problems found by Guthrie (1998) are also seen in Nicholas and Maitland (2006)’s speculation on institutional change in emerging economies, in which they discuss the problems of formal institutional change in the Soviet Union, where informal systems of power and privilege have impeded the emergence of new formal institutions to support private sector development.

Dynamism of political and legal institutions

China has greatly benefited from managing its opening without being really integrated into the world economy. In many ways, the emergence of the Chinese economy is compared to Japan’s post-war economic boom. The West has and will continually pressurise China to further open its market. In this regard, the current situation implies a need for Chinese authorities to their balance trade surplus by the means of outbound tourism, just as Japan did in the 1980s. In the process of shifting from government protected local competition to more open international market competition, some of the “Chinese practices” are now becoming redundant, furtherbecoming hindrancetofurther market development. Nonetheless, as Henisz (2003: 174) rightly points out, “While it is possible that the privatising governments fully extricated themselves from these previously state-owned and state operated markets, another possibility is that

the underlying rationale for state intervention remains, but the government undertook privatisation out of necessity. In these circumstances, firms should expect the government to maintain an active role in the operation of these markets." Hutchings (2005: 460) suggests that "institutional reforms in the PRC have been nonlinear, displaying a mixture of progress and regress, largely because political influence and personal relationships have been so traditionally integral to transacting business".

Nicholas and Maitland (2006) believe that new institutions evolve from existing institutions. A reliable legal system for developing countries should be designed using the informal institutions of the developing country as opposed to western models. Where a convergence of black letter law may exist across countries, the operation of legal systems is society-specific. Gradually, in the most developed coastal metropolises, the system of paid holidays has been introduced to the working population. The legal entitlement to paid holidays, however, has not received a particularly favourable response from the public. This again brings the enforcement of laws and regulation into focus, which is deemed to be a critical issue facing many emerging economies.

Dynamism of informal institutions

As presented in Chapter Six, the process of "re-institutionalise" is not only documented in altering formal institutions, but also witnessed in the changes of informal institutions in China. Indeed, the travel service market appears to be a ground where the effects of revival of inherited cultural institutions and the process of "re-institutionalise" take place simultaneously.

The rapid development of international tourism has gone hand-in-hand with the cultural changes in society, a genuinely widening of people's interests and an awareness of the global village. This process is best described by using Westwood's (2004) definition on culture, which is the dynamism of ongoing constructions through engagement and intersections. In a more integrated world, like it or not, the assimilation of informal institutions is bound to happen. First observed by industry practitioners, the new generation of Chinese consumers is upwardly mobile and actively embracing the latest trends in the leisure and tourism market. In this sense, attempts to amplify differences rather than noting similarities in cultural development are in danger of elevating mundane local contexts to be unique and specific. Though it is often believed the reliance on informal institutions in emerging economies is caused by the lack of appropriate formal institutions for a marketbased economy, Nicolas and Maitland (2006) correctly highlight that it is a mistake to assume that informal institutions facilitated economic exchanges arise only in the absence of formal institutions. In the case of China, many hold the belief that given its historical background and relative deficiency of experience in the economic integration with the international business community, the evolution of the overall market environment is expected to be reliant on cultural forces, or drastic changes of cultural forces.

Dynamism of industry regulation and market structure

The composition of China's most profitable outbound tourism market is distinct from today's major tourist generating countries. The present outbound market has demand from government agencies at all levels (including state owned

enterprises) and civilians. Civil servants travelling in the name of public affairs make up a large proportion of China's market which should not be overlooked. The CNTA estimates that around five million outbound travellers are from this category on a yearly basis (CNTA, 2008). Although this number may not be exactly accurate, it provides a glimpse of the scale of the whole market. For a long period, given the public's suspicion for leisure travelling paid by public money, government agencies and state owned enterprises have been avoiding the formal and systematic involvement of travel agencies/tour operators. However, this avoidance has no other good effects but leading to ever higher government spending. Recently, Beijing and Shanghai issued legislations clearly stating that approved public affairs by government agencies, state owned enterprises and other related organisations, are entitled to use commissioned services from commercial tour operators/travel agencies. Moreover, there is another hidden benefit from doing business with government agencies: the potential to improve vital B2G ties.

The last five years saw official statistics indicating a decrease in the proportion of trips by civil servants, possibly due to the increase of overall travel by civilians and anti-corruption campaigns. Some of the respondents reckon that although business tours by government officials will most likely to decline in the future. One tour operators target business travel sector offered the following explanation: "First of all, Civil servants don't stay in their position forever. You always get new ones come to power. Government official, professionals from every sector, they all have the urge to go abroad for cultural exchange, training, conferences so on and so forth. Secondly, as a country, China's process

of opening itself to the outside world is irreversible. As the country steadily becomes more and more open, it will inevitably have more exchanges with the outside world, which means more travelling. Therefore, the absolute spending on outbound travel at the expense of government will increase.”

The real take off of self-funded overseas holidays started much later as a direct result of increasing disposable income among the urban population. However, this market has had a reshaping effect on the travel service business sector. Not only does it mark the beginning of large scale tour operation, more importantly, a growing number of operators switch focus to a generation of affluent, upward consumers by offering “lifestyle products” that aims to meet diversified consumer demand. The development of this market has actually triggered a transformation towards a more consumer focused, market oriented industry. As the market is growing further, travel service providers will have to engage more with the segmentation of the market. Figure 7.3 demonstrates the composition of China’s current outbound travel market and the level of reliance on B2G networks.

Figure 7.3 The pyramidal composition of outbound travel in China

**Reliance on
B2G network**



Source: the author

In its 2006 report on tourism in Mainland China, Hong Kong and Macau, the World Travel and Tourism Council point out: “To achieve the full potential of travel and tourism in China, the Chinese government must treat outbound tourism as a strategic priority on a par with inbound tourism – by eliminating ADS requirements completely, and allowing unlimited access to the Chinese market by foreign NTOs and tour operators, and by removing restrictions on travel agency outbound sales. At the same time, the travel industry needs to ensure the quality of the products and services it sells by promoting transparent consumer rights, self-regulating price and quality, and further developing a sound legal operating framework...As long as there is no real permission for wholly owned foreign operations to produce tourism, quality issues will continue to persist and little if any real improvement will be made” (WTTC, 2006: 58).

In response to international and domestic changes, Zhang Jianzhong, director general of CNTA’s Policy and Regulation Department, made clear the direction of industry regulation changes in 2007: “The present policy of managing the total number of outbound flow, and ensuring the amount of inbound tourists flow needs to be amended. According to travel agencies’ past performance on organising outbound tourism, arrange respective quotas. This purpose is to control the outflow of foreign currency. Now with one of the largest foreign exchange reserve, this practice is obviously out of alignment with today’s market development. Outbound tourism can be used strategically as a means of balancing international trade surplus. The amendment of management on outbound tourism should reflect the strategic concern of national economic

policy, a market oriented principle and the public demand for outbound travel. The present regulations on travel agencies' outbound business procedures need to be simplified as well. Additionally, relevant measures are required to regulate travel agencies providing self-service to individual outbound travelers".

According to China's WTO commitment and its current regulation on the travel agency/tour operation sector, the Chinese and foreign enterprises committed joint venture must be travel agencies. However, rapidly changing business models and integration of various sectors of the tourism value chain is constantly challenging its definition on tour operation firms, making it more difficult to clearly specify the nature of these business enterprises, and, at the same time, provide opportunities for experienced players to take advantage of the market. China's increased exposure to market and global forces is likely to offer travel service firms more flexibility in their market penetration strategies.

Two major market development trends were identified by interviewees during the fieldwork stage. One is the consolidation of wholesalers and integration of the market. As demonstrated in details in Chapter Five, the present market structure is an inherently fragmented system in which a large number of small firms exist. The other trend is the large scale growth of the online sector. While respondents' views on market integration and consolidation seem to be divided, the trend towards online and offline integration is becoming a reality. The market has seen the changing role of online travel companies, from being considered as the "grave digger" of traditional operators to a platform for all players. The integration/penetration originates from traditional and online

operators. As is already happening in developed economies, cross sector penetration between the travel service, banking, finance, training and education sectors tend to intensify in emerging economies. Indeed, fieldwork shows that the business strategies of travel service firms have been targeting specific user groups by complementing services from a diverse range of sectors, with extensive B2B and B2G networking.

As a nation with vast discrepancies in standards of development and modernisation, three decades of rapid economic reform have produced a solid middle class in the metropolitan cities and along the coastal regions (Verhelst, 2003). However, central and western regions are lagging behind. For the last decade or so, the Chinese authorities have been envisaging a boost to the economy in those areas and actively promoting them. The result of this policy has already started to show, particularly in the burgeoning cities in central China. Market penetration to central and west, the second tier market, is still at an embryonic stage and displays many possibilities. The evolution of China's travel industry into a more specialised, consumer-orientated sector is likely to continue. Because of its rapid pace of change, travel service firms need to maintain a close involvement with the industry. Long term commitment to the Chinese market is required in order to maintain the important B2G and B2B ties.

Summary

This chapter has synthesised research findings, compared cases, and provided a valuable emerging market penetration framework with good reflections and explanations of reality. As a gigantic economic entity and lucrative tourism market, China has experience (and will most likely continue to experience) rapid institutional development which involving interplay between a field of forces operating at different system levels. Even though these changes are frequently hampered by a lack of reform to existing political and legal structures, the opening up of the market is largely irreversible. Just as its institutional development cannot be easily explained as economic liberalisation, simplified strategies for this market are somehow divorced from reality. It is crucial that travel service firms targeting this market stay proactive and recognise the long-term nature of their networking strategies.

CHAPTER EIGHT

CONCLUSIONS

Chapter objectives

- ☞ Reiterate the research aim and objectives

- ☞ Summarise key findings

- ☞ Explain the significance and limitations of the designated research

- ☞ Propose future research directions

Restatement of research aim and objectives

Chapter Eight presents the conclusions of this study. Looking back at the research aim and objectives, the author summarises the key findings of the study, then highlights its contribution and identifies the limitations and the reasons for this, and finally proposes areas for further research practice. The aim of this research was to investigate the impacts of institutions on travel service firms' emerging market penetration strategies. Research objectives were set up accordingly, which were as follows: 1. To explore China's macro institutional environment, and to discuss how formal and informal institutional forces

facilitate or impede tourism growth; 2. To explain the relationship between the influential institutional forces and the economic organisation of the current travel service market; 3. To identify and illustrate the representative market penetration approaches adopted by foreign travel service firms, and the conditions under which those approaches are adopted; and 4. To propose a market penetration framework which incorporates institutional development, industry specific factors, and organisational resources. It is hoped that by successfully achieving the research aim and objectives, an improved understanding towards emerging travel and tourism markets and how travel service firms formulate market penetration strategies in different institutional settings can be achieved.

Summary of key findings

Owing to the sheer size of its domestic market and the latent value of its outbound market, China appears to be particularly enticing to international investors. Indeed, the rise of China's outbound tourism market has been transforming the landscape of world tourism, giving studies on this market a strategic importance. Therefore, China was chosen as the context of this study, so as to understand how the relative strengths and weaknesses of existing theories generated from developed economies' context, and to make new theoretical contributions to studies on emerging economies. After carefully reviewing the relevant theoretical approaches, this study integrated institutional and resource based perspectives for external and internal analysis of travel service firms' emerging market penetration. The macro market environment and industry analysis was conducted from an institutional perspective, and the

internal analysis was achieved through a resource-based view. It was found that the integration of these perspectives provided a good explanation to social networks as market penetration mechanisms in an emerging economy context.

This study adopted a phenomenological approach to methodology. Triangulation of data collection enhanced the credibility of data. Cases were written in a systematic manner. Each case was a configuration of a series of attributes, describing theory driven characteristics and emphasising the consideration of context in which the cases were situated. Drawing on Yin's (1994: 196) "pattern matching" method, the key attributes and properties from cases were related back to the conceptual propositions, and a systematic pattern was found. The following part summarises the key findings of this study.

First of all, the author explored China's macro environment for travel service business by constructing the crucial institutions into four closely connected dimensions: political, legal, industry, and informal business relevant intermediary institutions. The empirical research demonstrated that an overwhelming level of attention was given to the formal institutions, particularly the political institutions' impacts on the behaviours of firms and structure of the current travel service market. The evidence garnered from the desk and field work reiterated that while improvements had been made, many remaining obstacles to the further development of the market, especially in the outbound sector, were largely attributed to the influences of the current political and legal institutions. At an industry level, regulatory stringency and inadequacy of regulatory resources coexist.

Secondly, this study confirmed previous studies' findings on the importance of informal institutions in emerging economies, and also of the contribution of informal business relevant intermediary institutions, which could play a mediating role in an environment with high transaction costs caused by ineffective legal and political institutions. This mediating role was realised through social networks. In addition, as travel and tourism services were heavily embedded in socio-cultural contexts, it was natural for businesses to develop strategies which were consistent with the cultural approach to doing businesses.

More importantly, this study identified and illustrated an "institutional oriented network approach" to emerging market penetration and its manifestation under different institutional conditions. Drawing on Peng and Zhou's (2005) work on institutions and network strategies, the author was able to analyse the "institutional oriented network approach" from two dimensions: content and strength. It was found that business-to-government (B2G) and business-to-business (B2B) relationships made up the main content of network strategies in the emerging travel and tourism market in China, a finding that was consistent with Peng and Zhou's (2005) argument. On the strength of these networks, the researcher discovered whether a firm chose to develop strong or weak ties (or "exploitation" versus "exploration" strategy) with governments and businesses, was based on their "institutional resource", be it formal or informal.

Some previous studies did point out that different firms, even those in the same industry and the same country, may seek different combinations of network

benefits, thus leading to different strategic choices in the design and development of firms' network assets. However, this study was the first to identify how different combination of network benefits lead to differences in market penetration strategies, and how well they perform in an intricate institutional setting. Adopting a theoretical sampling approach, three foreign travel service firms with very different market penetration patterns in China were studied and compared. With a different arrangement of institutional resources, each developed their networks with both private and government sector groups.

Through the findings and analysis of this research, strong arguments can be made that a more holistic way is required when attempting to understand emerging travel and tourism markets. Differences in institutional resources fabricate divergence in social networks as a market penetration mechanism, hence the institutional oriented network approach to emerging market penetration. Having discussed the key findings and analysis, it became clear that regarding social network's role in emerging market penetration, the question is not yes or no, or even how long, but how much. On this basis, the researcher went on to propose a market penetration framework which deployed social networks as the penetration mechanism, looked beyond the narrow focus on entry mode choices, and incorporated institutional forces and organisational resources.

Contribution and limitation

As stated at the beginning of the thesis, this study is a timely response to the lack of academic enquiry in tourism and hospitality business' emerging market strategies. Even though there have been a few studies addressing relevant issues, they are fragmented with certain areas of focus. This study looks at the overall market development from an institutional perspective, thus providing a refreshing yet realistic angle to the emerging tourism markets.

It is believed that this research incorporated multiple perspectives, created an intellectual confluence, and constructed a coherent theoretical basis. However, this study is more than just a theoretical review. It is a useful empirical illustration of contemporary practice that would be benefit if factored into the comprehension of emerging economies. It has demonstrated integrity between research methods and empirical strategies, provided "rich" information that was related to events that happened in the world and generated useful knowledge. The researcher has effectively dissected and analysed the chosen emerging travel service market, and proposed an institutional oriented network approach to emerging market penetration that has offered better reflections and explanations of the reality. The framework developed for travel service firms need not to be restricted to China and the travel and tourism sector. For other emerging economies and service sectors with similar characteristics, it should have some implications. On the whole, this thesis comes to fruition with well accomplished research objectives, and offers a healthy footing for a further research agenda to be developed.

In addition, the study bears potential value for practitioners. For firms intending to develop emerging market penetration strategies, this study shall act as a good base for learning more about how network strategies evolve in response to different dimensions of institutions, and identifying key issues determining long-term strategies. For governments and authorities, this study has uncovered serious problems with policy execution. If, as North (1994) argues, it is governments' responsibility to provide adequate formal institutions for doing business, the findings of this study indicate that a more rigorous reform of formal institutions is crucial in China. Such reform, as recommended by the Hong Kong Trade Development Council in 2005, should not be sector-specific, but a notable departure from the usual Chinese approach of targeted incentives.

In retrospect, the limitations of this study are mainly reflected in data collection and analysis phase. The researcher's knowledge of the travel service industry proved to be helpful in approaching key informants and understanding the complexities facing organisations in emerging economies. On the other hand, such attributes also pose questions on the selection criteria concerning the matters she chose to pay attention to. This mentality perhaps can be described using Schlevogt's (2000) observation: "Possibly due to the influence of their great philosophers, the Chinese way of thinking is markedly different from the West. Thinking in China (as evident, for example, in Chinese traditional medicine) is more systemic, taking into account a myriad of variables instead of analysing problems from a narrowly specialised point of view. Induction (often based on intuition) is more prevalent than deduction (based on analysis)".

Moreover, her connection with the industry means that while trying to remain flexible, the manufacturing of distance was difficult sometimes.

Despite generally good co-operation from respondents and satisfactory depth of interviews, the researcher was not in control over the selection of participants to a certain extent. The majority of participants were researched through the snowballing technique. While this sampling method is deemed to be appropriate for network related studies (Liamputtong and Ezzy, 2005), there are undeniable bias associated with this approach. Where and who the researcher approached at the start point placed heavy influences on other participants involved, potential significant informants may well be left out of the map, and such inconvenience might undermine the theory generating potential of the research. In other words, although the researched tried to fairly represent respondents' views, the judgments of the respondents being interviewed might not be the most representative in the market. Moreover, due to the strong market and strategic orientation of the interview questions, it is not surprising that the researcher's attempts to obtain more sensitive data were sometimes rejected due to confidentiality reasons. The possibility for false/misleading information based on similar concerns cannot be ignored. In addition, the quality of sound track recorded from speaker phone was far less satisfying than those of face to face interactions. The transcription of those interviews had to rely on hand taken notes. The possibility of missing nuance from some of the interviews certainly exists.

In practice, research projects are often trade-offs between data integrity and results currency. While previous literature demonstrates a longitudinal study may bring benefits to a research topic as such, a small budget and time constraints leave the researcher with very little room for pursuing such a time consuming approach. As a result, the time allocated to each source market is fairly limited. Given the dynamic nature of emerging economies, the high requirement on the “freshness” of the data is self-evident. Yet, it is not surprising that keeping up with the broad scope and rapidity of institutional changes in emerging economies is a challenging task. The slight asymmetry between data requirement and data generating ability poses uncertainties and potential bias on theory development.

While the “openness” of qualitative data analysis approach is widely appreciated, it must be admitted that the single biggest problem with all qualitative research methods, is the lack of a standardised approach to data analysis. Data analysis is an extremely time consuming and overwhelming process. Bias could result from several procedures, from the translation of interview materials to the categorisation of transcripts. As pointed out by Harris (2000), even the best translations involve compromises and losses of nuance, and there is always the risk of significant errors. Such compromises might also exist in the process of injecting theory into interpretations of data.

The researcher is also aware of a qualitative researcher’s role as a research instrument. Although she attempted to be sensible in playing this role, the effectiveness of the researcher as the research instrument, as put by Morrison

(1995), is confined to the skill, experience and understanding of the researcher. To start with, she had no experience in conducting research at a doctoral level, but she sought advice from her academic supervisor and other more experienced researchers on the matter of research design and data analysis. As a result, her research skills have improved as the research progressed.

Implications for further research practices

Regarding further research practices, this study offers several implications. First of all, as suggested by Peng and Zhou (2005), while firms are influenced by institutional frameworks and their development, some firms may have both the motivation and capacity to shape the outcome of certain political and legal institutions, thus changing the regulative pillar of institutions that affect network strategies. This area remains relatively unknown and needs to be explored in future work.

Secondly, as networks are dynamic organisms with ever changing context, how they evolve with the institutional development in emerging economies requires further studies. On the overall economic prospects of China as an emerging travel and tourism market, the fieldwork revealed a positive outlook with some concerns, particularly over the real estate market. The respondents revealed worries over real estate bubbles, and a lack of confidence in the social welfare system (i.e. health care, education). The interest in tourism real estate indicated the tendency towards vertical/diagonal integration of the market, and closer cooperation with local governments and the banking sector, but fears over

speculative bubbles in the sector also existed. Meanwhile, according to the statistics of China Tourism Academy (2011), the current financial crisis seem to have less impact on China as a source country, with domestic as well as outbound tourism still going strong. For the first half of 2011, outbound tourism has enjoyed the most rapid growth (32 million Chinese tourists traveled abroad, up by 19% and spent USD 28 billion, a rise of 17%), followed by domestic tourism (the number of Chinese tourists that traveled within China was 1.33 billion, rising by 12.6% and the related tourism revenue grew by 23% to RMB 930 billion), while inbound tourism has gained very slow growth (the number of inbound tourists was 66 million and 27.5 million stayed overnight, both up by 1%; the foreign exchange earnings from tourism came to USD 22.5 billion, up by 3%). It should also be recognised that in emerging economies, the path of institutional development may be interrupted by unpredictable factors or even erratic setbacks. Nevertheless, China is a rapidly changing economy, its travel and tourism market will undoubtedly show more interesting developments, suggesting the necessity for longitudinal studies.

Thirdly, as the dynamism of world tourism is expected to continue in the coming decades, other emerging tourism markets are expected to follow. There is a need to investigate the applicability of the proposed emerging market penetration framework in other emerging tourism markets. Moreover, as the levels of institutional development are different across emerging economies, it is speculated that comparative studies may be necessary to examine network strategies in different emerging economies.

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APPENDICES

[Appendix 1] Example of an interview prompt

The purpose of this interview guide is to ensure the main areas of the discussion are effectively communicated to the interviewee prior to the interview. The guiding questions are designed to obtain impressions about the company's penetration to the Chinese tour tourism market. The researcher is not seeking proprietary data. All information given will remain strictly confidential.

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Tel:

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Add:

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March, 2008

Company:

Date:

Respondent name:

Location:

Group I General information

1. Main business activities
2. Total number of employees
3. Date of establishment in China
4. Main areas of operation in China
5. Respondent's designation

Group II Market penetration strategies

1. Please describe the development history of your company in China? i.e. major expansion/setbacks since inauguration?
2. Do you consider your company as operating in niche market? Who are your major competitors?

3. What are the most influential factors in determining your market penetration strategies?

4. How do you describe your mode of market penetration?
 - a) Joint venture
 - b) Management contract
 - c) Strategic alliance
 - d) Other

5. Please identify the costs and benefits associated with your penetration strategies.

6. Please illustrate your partner selection criteria (i.e. size, years in business, staff capability, distribution network, reputation), and the characteristics of your chosen partner?

7. Do you consider entering such cooperation network (alliance/consortium/joint venture) have mediation effect on your firms' market penetration strategy in China?

8. Please explain the nature of the working relationship with your parent company, from both operational and strategic side.

9. Please describe your company's relationships with central and/or local authorities as well as other related institutions and elaborate the causes of such situation.

- Cooperation
- Sceptical
- Hesitant
- Non-existent

10. How much in the way of socialising and the "fellowship" aspect of such networks actually takes place?

11. Can you elaborate the nature, characteristics and effectiveness of such networks?

12. How does your company promote itself and its range of product/services?

13. Please describe the channels of distribution used by your company at the present time.

14. What percentage of referral business do you get through your partners?

15. Within the current institutional environment, please identify major challenges facing your operation in China.

Group III Long-range planning

1. How do you envisage the future of inbound market in 3-5 years (optional)?
2. How do you envisage the future of domestic market in 3-5 years (optional)?
3. Do you envisage any changes to the structures of the outbound market over the next 3-5 years (optional)?
4. What will be the main areas of growth for your business in the Chinese market for the next 3-5 years?
5. Please explain the long-term role of your market penetration strategies (as previously indicated), with regard to
 - Market exploitation
 - Distribution networks
6. How will the increasingly popular “online mode” of travel organising and related businesses affect the competitiveness of your company in the Chinese market?
7. Please identify any other institutional factors which are likely to be crucial for your business over the next 3-5 years?

[Appendix 2] List of interviewees and communication

Number	Designation	Organisation	Category
1	Deputy Manager of the Department of Enterprise Management and Development	Guangdong Tourism Group Ltd.	Industry practitioner
2	Director of International Business	China International Trust and Investment Company (CITIC) International Travel (Guangdong) Co., Ltd.	Industry practitioner
3	General Manager	CITIC International Travel (Guangdong) Co., Ltd.	Industry practitioner
4	Sales Director	CITIC International Travel (Guangdong) Co., Ltd.	Industry practitioner
5	Vice Dean Professor	School of Economics and Commerce South China Technology University	Academia
6	Director	Otus & Co Hospitality, Travel and Transport Businesses Consultancy	Consultancy
7	General Manger	CITIC Bank Guangzhou Branch International Department	Related sector
8	Deputy General Manager	CITIC Bank Guangzhou ranch international department	Related sector
9	Attaché Sectoriel	Infrastructures, Economie et Services Ambassade de France en Chine Mission Economique de Canton	Consulate
10	Sales Director	China Youth Travel Service Co. Ltd. Yunnan	Industry practitioner

11	Researcher	University of Edinburgh Business School	Academia
12	Inspector	Tourism Administration of Shenzhen Municipality	Government agency
13	Director of Inbound Department	TUI China Travel Co. Ltd.	Industry practitioner
14	Operation Manager	Top China Tour Co., Ltd.	Industry practitioner
15	Assistant General Manager	Central China International Travel Agency Co. Ltd.	Industry practitioner
16	Honorary President	Guangzhou Opera Institute	Related sector
17	Chief Strategy Officer	Friendship Media Co. Ltd.	Related sector
18	Director of Outbound Department	Crown Holiday International Travel Service Co. Ltd.	Industry practitioner
19	Corporate Communication Representative	Guangzhou Baiyun International Convention Center Co. Ltd.	Related sector
20	Manager of Outbound Department	China Travel Service (CTS) Guangdong Ltd.	Industry practitioner
21	Associate Professor	School of Hotel and Tourism Management, Hong Kong Polytechnic University	Academia
22	General Manager	CTS Henan Co. Ltd.	Industry practitioner
23	Director	Alba Global Wangping Travel	Industry practitioner
24	Director	Sunland International Ltd.	Industry practitioner
25	Director	China Contact – global travel industry portal to China	Consultancy
26	Tour Manager	Sunland International Ltd.	Industry

			practitioner
27	Sales Associate	CTS Head Office Co., Ltd	Industry practitioner
28	Head of Outbound Department	Guang Zhi Lv(GZL) International travel Service Ltd.	Industry practitioner
29	Head of Outbound Department	GZL-Hong Thai International Travel Service Co. Ltd.	Industry practitioner
30	Inspector	Guangdong provincial Party Committee Propaganda Department	Government agency
31	Head of Outbound Department	Comfort Travel Henan Ltd.	Industry practitioner
32	Assistant to Dean	Tourism College Hainan University	Academia
33	Head of Outbound Department	Guangdong Tourism Group Ltd.	Industry practitioner
34	Owner of an international travel agency	Anonymous	Anonymous
35	Researcher	University of Middlesburgh	Academia

[Appendix 3] An example of interview

Company: CGZL

Date: 03/24/2003

Respondent name: not willing to be revealed

Location: Guangzhou, Guangdong Province

<p>1. Q: Can you talk a little about the development path of CGZL?</p>	
<p>2. A: Traditionally, Chinese tour operators follow the order of development: inbound-domestic-outbound, the typical example for this is CITS. Our development path is slightly different. Looking back, although inaugurating from arranging visiting tours of Hong Kong and Macau patriots, we were one of the first in the industry which sensed the change of macro environment, especially the possible ease of restrictions on outbound travel.</p>	<p>1.1.1EO/DP</p> <p>1.2 CI</p> <p>2.1.1IF/LR</p>
<p>3. Through many business trips to Hong Kong, we were excited by the boom of the outbound market to Hong Kong, and became certain about the future of outbound market. We were fully aware of two facts: 1. the future market growth lies in the vast number of Chinese consumers, in both domestic and outbound market. 2. the value of brand reputation in the travel and tourism industry. Our brand name: CGZL, since the day of birth, has had one of the highest brand recognition in the market. We were also one of the first tour operators which opened high street travel agents directly facing consumers.</p>	<p>1.1.1 EO/DP</p> <p>2.1.2 IF/ME</p> <p>1.2CI</p> <p>OR</p>
<p>4. Year 1994 marked a changing point in the company's history. From then on, our operation has been truly market oriented. Thanks to our advantageous geographical location (adjacent to Hong Kong); we received great success in organising mainland travellers to outbound travel to Hong Kong, Macau and Southeast Asia</p>	<p>OR</p>

<p>5. <i>Q: My understanding is that your start point is higher than the others.</i></p> <p>6. <i>A: Yes. In domestic market, we organise travellers from inland provinces to Special Economic Zones ², such as Shengzhen (next to Hong Kong, interviewer's note), Zhuhai (next to Macau, interview's note), so on and so forth.</i></p> <p>7. <i>Our promotion strategy is not limited to advertising on traditional media, newspaper, magazine, electronic media and the Internet. As you may have seen, in the east part of Guangzhou city, we have a square specially designed for destination promotion, where many large scale performances are jointly sponsored by CGLZ and the tourism promotion bodies of exotic destinations. Not only could such events act as showcases of destination, arouse consumers; but also greatly enhance our brand awareness, trigger consumers' desire to experience our packages.</i></p> <p>8. <i>Q: Pearl River Delta as one of the most prosperous outbound markets in China, what are the main type of outbound products on offer?</i></p> <p>9. <i>A: According to international standard, when average income reaches \$ 1000, sightseeing tourism starts to develop, when it reaches \$2000, recreational activities will gain popularity, \$3000 will see the surge of holiday products. I believe our outbound market now is in a transition stage from sightseeing to recreational, but mainly concentrated on sightseeing products.</i></p> <p>10. <i>Although the absolute majority of the tourism products in the outbound</i></p>	<p>1.1.1EO/DP</p> <p>1.2CI</p>
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²For inland residents, traveling to Special Economic Zones sharing borders with other countries and regions used to require border control documents, such regulation was abolished in 2003.

<p><i>market are based on sightseeing, the number of ins-depth tours is gradually increasing. Products targeting more affluent travellers are also available now.</i></p>	<p>1.1.1EO/DP</p>
<p>11. Q: <i>Speaking of affluent traveller, do you have any FIT products now?</i></p>	<p>IF/CP</p>
<p>12. A: <i>Yes, this sector we closely follow the steps of our Hong Kong counterparts. We used to say: their today is our tomorrow. We key an eye on the latest development of this market sector.</i></p>	
<p>13. Q: <i>I learnt some on-line travel websites are also keen on digging the potential of independent travel market. As a traditional tour operator, what's your competitive strategy for this sector? Do you have any advantage in this sector comparing to online travel service providers?</i></p>	<p>1.2CI</p>
<p>14. A: <i>It's going to be an integration of the two sectors (online and traditional travel organisers). Here I have to point out: online sector is our fastest growing sector.</i></p>	
<p>15. <i>At the moment, on-line transactions are very part of the bookings. Most consumers navigating on-line, choose the routes they like. They can book use our call centre, but most still prefer to come to our high streets outlets and book their packages in there. Also our website needs much improvement. Besides, we provide full services and our clients travel in groups on certain routes. It needs much coordination and communication with our clients rather than just booking a flight ticket and hotel.</i></p>	<p>1.1.1EO/DP</p>
<p>16. Q: <i>So comparing to online travel service providers, traditional tour operators' advantage lies in tourism consulting.</i></p>	<p>IF/CP</p>
<p>17. A: <i>That's right. Also our economy of scale, bulk purchasing of</i></p>	

<p><i>accommodation, flight seats so on and so forth. We are well in the position to extend our scale advantage into the online sector.</i></p>	
<p>18. <i>Moreover, we maintain close cooperation with a number of airlines. For example, China Southern Airlines has been our strategic cooperative partner for many years. Recently, CGZL and Hainan Airlines co-established a brand new tour operator, mainly targeting business travellers using the Hainan Airlines' business class capacity.</i></p>	<p>1.2 CI</p>
<p>19. <i>Q: What are the characteristic of Guangdong (Canton) outbound market, relative to Beijing (Beijing and Tianjian economic zone) and Shanghai (Yangtze River Delta region), from both demand and supply side? Is it safe to suggest that Guangdong residents have stronger consumption motive and ability when it comes to leisure tourism?</i></p>	<p>1.2 CI</p>
<p>20. <i>A: It is fair to say that Beijing and Shanghai market are more appealing in terms business travel, given the number of international organisation and business traveller those cities host. Regarding leisure tourism, all three markets are with great potential.</i></p>	
<p>21. <i>Specifically to Guangdong, our speculation is that because Guangdong's neighboring Hong Kong and Macau. Guangdong residents' consumption pattern has always been strongly influenced by Hong Kong and Macau on many aspects. Cantonese, particularly those based in Pearl River Triangle, have strong desire for tourism. Their travel purposes are not confined to leisure and recreation only. Education and training, for example, constitutes one of the most important motives for them to travel overseas.</i></p>	<p>IF/CP/GD</p>
<p>22. <i>Q: You have the difference from the demand side. What about the</i></p>	

<p><i>characteristic on supply, for example on product design? Do you think there is possibility for the Chinese outbound market to become the type of Japanese outbound market? A single tour operator is capable of serving the market from head to toe, from tour planning to the destination?</i></p> <p>23. <i>A: Yes, absolutely. Our Australian branch is on the way. Normally when a tour operator receive 10,000 persons per year, it could consider set up a branch. Currently, our branches covered Hong Kong, Macau and Malaysia, mainly in Southeast Asia.</i></p>	<p>IF/CP</p>
<p>24. <i>Q: As a country with vast geographic coverage and strong regionality from north to south, east to west, the condition of market varies significantly from one to another. Although nationwide commercial tourism organisations are in existence with branches covering most of the large and medium size cities, many industry experts believe there is little integration between different markets, the common tourism market has not evolved yet. What is your opinion on this matter?</i></p>	<p>1.1.2 EO/IS</p>
<p>25. <i>A: What do you mean by integration? Can you specify?</i></p>	<p>IF/GD</p>
<p>26. <i>Q: What I mean is, for example, when it comes to outbound travel, there's an important issue of airline routes and departure port. Take a travel agency based in central China, because there're relatively less international airlines fly directly inland cities. This central China operator would normally get the Southeast Asia packages from Guangdong tour operators, European packages from Beijing operators. In other words, depends on their geographical location, different operators are of different specialties (on both source markets and destinations). The market climate could be very different from Beijing to Guangzhou.</i></p>	<p>IF/GD</p>

<p>27. <i>A: It should be a complementary situation. Cooperation draws on each other's strengths and work together to advance the industry in the direction of balanced development, shared benefits and win-win progress.</i></p>	
<p>28. <i>Q: But while you branches spread into North China, your main market and advantage still concentrates in South China, particularly Guangdong province.</i></p>	
<p>29. <i>A: Your question makes sense. However, I have my bet on the mega, cross sector, cross region, national, even international travel giants. What you just mentioned is another form of operation, of course. But I feel should have the courage to break the common notion, not limit ourselves to one single model, or one single market.</i></p>	<p>1.1.2 EO/IS</p>
<p>30. <i>Q: Through state intervention, the integration of resources was reached to certain extent. Nation wide networks seem to be established. However, from interviews with other industry practitioners, I learnt that the reform of some of the major tour operators is far from successful. Although the ownership link is there, the managerial link is often missing. The result of such integration is that there's no fundamental change of the way the business is being run. What's the situation of CGZL?</i></p>	<p>1.1.2EO/IS/CI</p>
<p>31. <i>A: We don't have such problems. Before, 1998, we were a 100% state owned firm. 1998 witness the reform of CGLZ, a mumble of different shareholders were introduced, although state share is still in the in dominate position.</i></p>	<p>1.1.2EO/IS/CI</p>
<p>32. <i>Q: Are you a public trading company?</i></p>	
<p>33. <i>A: Last year, we brought in strategic cooperative partner, et china. Com. You mentioned online, offline earlier on. CGZL's advantage lies in the off line</i></p>	

<p>sector. <i>et</i> China, on the other hand, is a rising star in the online travel service sector. Their best performance is in E-business and electronic ticketing. Our cooperation will best incorporate the resources of both online and offline travel service providers.</p>	
<p>34. Q: Is this sort of strategic partner model (online + offline) common in Chinese market? Do you consider it as a relatively successful model?</p>	
<p>35. A: There's no so-called successful model, not in China anyway. It depends on the personality and internal condition of firms entered the alliance.</p>	EO/CI
<p>36. Q: What's your opinion on the some of the foreign firms enter the outbound market through capital operation?</p>	
<p>37. A: Localisation. How could foreign operators to survive in Chinese market? They ought to localise. As service providers, the business model in tour operation industry is different from manufacturing industry. Tour operating firms rely more on connections and networks (人脉), aka "Guanxi", than any other industry. Reputation, words of mouth (口碑) among the public is also critical to us. We feel the pressure of foreign operators, but we don't fear them.</p>	EO/CI
<p>38. Q: I see. Many industry commentators consider the Chinese outbound market as resembling the Japanese outbound market in the 70s. For a typical Japanese tour operating firm, in their overseas companies, top management and frontline employees are predominately of Japanese origin or Japanese descent, while those positions which are more technical oriented and do not require the direct contact with consumers are occupied by the locals. Do you see Chinese tour operators follow such model?</p>	2.2PT
	SN(Social Network)
	2.2PT

<p>39. <i>A: Yes. Localisation, we (CGZL) localise even in our domestic branches, taking in count of the condition of the local market.</i></p>	
<p>40. <i>Q: Is there anything you want to add?</i></p>	
<p>41. <i>A: I have my eyes on two major trends of the market, one is the online travel service sector, and the other is wholesaling.</i></p>	
<p>42. <i>Q: Speaking of wholesaling, are you not overwhelmed by the scale of international tour operating firms with global networks?</i></p>	
<p>43. <i>A: I believe, the moment the outbound market opens, is when the wolfs are really here, their (foreign operators') existence truly becomes threatening to us.</i></p>	<p>EO/CI</p>
<p>44. <i>Q: When do you think the market will be fully open?</i></p>	<p>2.1IF/LR</p>
<p>45. <i>A: From our meetings with CNTA, this possibility doesn't exist, at least in near future.</i></p>	
<p>46. <i>Q: As airline sector gradually opening to free competition, is CGZL prepared to set up its own charter airlines, given its powerful stance in ensuring considerable amount of customer flow?</i></p>	<p>2.1IF/LR</p>
<p>47. <i>A: Yes we do have charter flights. However our current priority is in destinations. We spend much time searching for destinations with good potential, extending our value generating chain.</i></p>	<p>1.2 CI</p>
<p>48. <i>Q: I understand some of the major players in the market, both foreign and Chinese operators, such as TUI, CYTS are moving towards the control of</i></p>	<p>2.2 PT</p>

destinations. Does this mean the clash of interest between the two sides is unavoidable? If that is the case, what is your secret weapon?

49. A: This will eventually depend on your specialty and professionalism.
