

Chapter 1:

Introduction to the study

Chapter 1: **Introduction to the study**

Aims:

- Introduction research topic – points of departure in the literature, research question, goals, approaches and structure

Chapter 2:
Literature review -
Services and
internationalization

Chapter 3:
Classification of services
offered internationally

Chapter 4:
Enriched Uppsala model

Chapter 5:
Methodology

Chapter 6:
Nine internationalization processes

Chapter 7:
Progression in internationalization
processes

Chapter 8:
Conclusion of the study

1.1 *Services and internationalization: topic for a dissertation*

We are living in a 'Service Economy' (Grönroos, 1990) as is shown by recent economic and trade statistics. Since the mid 1990s, services account for more than 75 percent of total employment and gross national product of industrialized countries in Northern America and Europe (Lovelock, 2001; Lindbergh and Wilson, 2001; Clark and Rajaratnam, 1999; Fitzsimmons and Fitzsimmons, 1994). Furthermore, services represent more than one fourth of world trade and are its fastest growing sector (WTO report 2002; Bryson, 2001; Fernández Fernández, 2001; Fisk, 1999). In 1997, Belgium had the ninth place among the ten leading exporters of commercial services in the world (Daniels, 2000). Nonetheless, service products not only provide the bulk of a country's wealth; today, many product services have become a key success factor, as services represent a vital part of the competitive strategies of most companies (Mathieu, 2001; Donaldson, 1995; Gale, 1994). In many industries, providing superior service beyond product quality is a key contributor to competitive advantage (Bateson, 1995).

The importance of services is reflected in the growing literature on services marketing and management (e.g. Berry and Parasuraman, 1993; Fisk et al., 1993; Brown et al., 1994; and Iacobucci, 1998 for extensive literature overviews, and Lovelock, 2001; Zeithaml and Bitner 1996; and Rust et al., 1996 for reference books). The first article on services in 1953 by McDowell was followed by an intense and extensive debate on the necessity of regarding services as being fundamentally different from goods. During the last decade however, academics no longer question the distinctiveness of services and focus instead on specific marketing problems of service businesses with an increasing empirical and theoretical rigor (Fisk et al. 1993; Iacobucci, 1998). Inspired by the growing international trade in services, the internationalization of service companies is

one of the topics that increasingly received academic attention over the past few years (Clark and Rajaratnam, 1999). However, after an extensive literature review of internationalization and services reported in chapter 2, we endorse scholars like Javalgi et al. (2003), Bryson (2001), Knight (1999), and Cavusgil (1998). They state that many issues about service internationalization remain unclear. This conclusion is our starting point for selecting the internationalization of service companies as our core topic with the general aim of improving insight in the process of going and being international of service providers.

This introductory chapter is further structured in three sections. In section 1.2 we briefly address the points of departure in the literature that guide the study. Next, in section 1.3, the research question, goals and approaches are introduced, to end with the structure of the dissertation in section 1.4.

1.2 Points of departure in the literature

As the internationalization process of service companies is a broad subject, a restriction in scope is needed. In demarcating the exact topic, we combine calls for further research in the field of services on the one hand, and international business on the other. Consequently, two particular limitations are set; we decided to focus the study on 1) industrial service companies, of which 2) progression in the overall internationalization process is examined as is extensively accounted for in the following chapters. Nevertheless, a brief argumentation is presented here to indicate the points of departure in the literature.

1.2.1 Industrial service companies that operate internationally

Scholars agree that services are different from goods, but services as a group are very heterogeneous as well (Robinson et al., 2002; Lovelock, 2001; Iacobucci and Ostrom, 1996). In studying service companies, this heterogeneity should be taken into account as can be expected that companies that offer different services are confronted with different opportunities, threats and ensuing solutions. In line with the seminal work of Lovelock (1983), Silvestro et al. (1992) plead for making use of classifications to divide services into more homogeneous groups. Complying with this suggestion, we choose to rely on two classifications.

The first classification that we use, builds on the kind of customer at which the service is aimed. More precisely, we focus on industrial or business-to-business services, which are services that are offered by one company to another company (Wilson, 1997) leaving consumer services aside. This choice is in line with calls for more studies in an industrial services context (e.g. Grönroos and Kock, 1997;

Byers and Lindahl, 1997; Wilson and Smith, 1996; Gordon et al., 1993). Currently, industrial services represent a significant proportion of employment and GDP in industrialized countries, and growth in this sector is larger than in consumer services (Lindbergh and Wilson, 2001). Nevertheless, despite their increasing importance, industrial services have not received a lot of research attention yet.

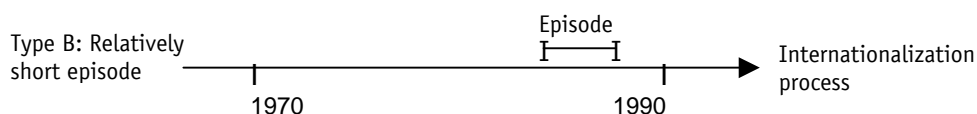
Second, we particularly focus on services offered internationally. The definitions of O'Farrell and Wood (1998) and Clark et al. (1996) are adopted to give content to 'going' and 'being international' in a service context. Services are considered to be international when one or more of the following situations occur(s): (1) the movement of service providers to clients abroad; (2) the movement of foreign clients to service providers; (3) the movement of both clients and providers; (4) no movement by either client or service provider due service delivery through objects, technological vehicles and/or assets. Furthermore, on the basis of the introductory literature review on services and internationalization reported in chapter 2, we argue that conflicting findings in extant studies are partly due to an insufficient acknowledgement of service heterogeneity when studying internationalization issues. In line with Patterson and Cicic (1995), Clark et al. (1996), and Ekeledo and Sivakumar (1998), we adopt a classification of different 'services offered internationally' to take service heterogeneity explicitly into account. Consequently, the focus on industrial services is complemented with an extra classification that distinguishes between different service types with respect to internationalization.

1.2.2 Progression in the internationalization process

For the study of internationalization processes of service companies a strong theoretical platform is needed. Since the 1960s drivers, processes and outcomes

of internationalization have been addressed from a variety of perspectives resulting in various research streams enclosing a multitude of theoretical frameworks (Weisfelder, 2001; Welch and Luostarinen, 1988; Buckley and Ghauri, 1993). Our interest in the process of going and being international of service companies requires a perspective that puts the emphasis on the process. The behavioral research stream ‘internationalization process’ particularly focuses on issues concerning attitudes and behavior of firms in the process of going international (Li and Cavusgil, 1995; Björkman and Forsgren, 1997). Within this research stream, we choose the Uppsala model put forward by Johanson and Vahlne (1977; 1990). Despite severe critiques the Uppsala model still stands today (e.g. Blomstermo and Sharma, 2003; Petersen and Pedersen, 1997) although calls are made to further refine its underlying logic to improve the explanation for contemporary internationalizing firms (Moen and Servais, 2002; Rosenzweig and Shaner, 2001; Axinn and Matthysens, 2002). A particular call is made to explicitly incorporate dynamism and non-determinism in the model (e.g. Hadjikhani, 1997; Forsgren, 2002; Liesch et al., 2002). In an attempt to comply with this call, the focus is put on particular episodes of progression in internationalization processes. Figure 1-1 depicts an episode of progression in internationalization processes.

Figure 1-1: An episode of progression in an internationalization process



Source: based on Melin (1992: 102)

In this set-up, an internationalization process is broadly defined as: “the process of adapting firms’ operations (strategy, structure, resource, etc.) to international environments” (Calof and Beamish, 1995: 116). Furthermore, we explicitly adopt

a conceptualization of internationalization as a continued forward momentum (Welch and Luostarinen, 1988) in the sense that as time passes, we assume that the company develops its internationalization. In line with contemporary views (Kutschker et al., 1997; Benito and Welch, 1997; Pauwels, 2000), this development is allowed to go in any direction in terms of financial involvement as international operations can grow, diminish or stabilize at any time.

A focus on episodes of progression in internationalization complies with Melin (1992) and Kutschker and Bährle (1997) who call for more research that is responsive to the longitudinal character of internationalization. In particular, we choose to study relatively short episodes (Melin, 1992) in the internationalization process. Progression then refers to the idea that within these episodes an organization's internationalization changes because time passes where change is allowed to concern growth, decline and status quo with regard to the previous situation. Consequently, the manifestation of progression can be very diverse like the acquisition of a foreign company, the establishment or closure of a sales office abroad, continuing export to a particular market, assessing a new market, and so on.

In Figure 1-1, we deliberately do not picture the internationalization process as a quasi-linear function that shows increases in the 'level of internationalization' (Kutschker et al., 1997) or 'foreign level of commitment' (Welch and Luostarinen, 1988) as time passes. Internationalization refers to numerous issues making it hard to be captured within one – increasing or decreasing – measure (Sullivan, 1994; 1996; Kutschker and Bährle, 1997). Besides, in the context of this study, the emphasis is merely put on the development path of international activities over time, with the core aim of refining the Uppsala model to explain progression beyond the traditionally assumed pattern of gradual and increasing financial involvement in foreign markets by Johanson and Vahlne (1977; 1990).

1.2.3 Aimed contributions

Hence, contribution to extant academic literature is aimed at in two fields. On the one hand, we conduct a study in the increasingly important sector of services, and intend to contribute to the field of services by offering further insight in the process in which industrial service companies internationalize. The sector of logistic services is selected as particular research context. Logistic services are a powerful source of competitive differentiation for a firm's overall success (Mentzer et al. 2001) and are increasingly outsourced to third party logistics providers (Lieb and Miller, 2002; Demkes and Tavasszy, 2000). In Europe, the liberalization of trade promised wide expansion opportunities for manufacturers and for those supporting them within the supply chain like logistics providers (van Hoek, 2000; Stone, 2001). Nevertheless, little attention has yet been paid to the internationalization of firms in the sector of logistics (Lemoine and Dagnæs, 2003; Stone, 2001; Ludvigsen, 2000). In this context, a study of internationalization of logistic service providers is found appropriate.

On the other hand, we aim at improving insights in the general field of international business by refining a well adopted but critiqued explanation for internationalization processes, i.e. the Uppsala model of Johanson and Vahlne (1977; 1990; 2003). The particular aim is to develop an explanatory mid-range theory of progression in the internationalization of service companies that complies with the request of incorporating the dynamic and non-deterministic character of the process explicitly into a model.

1.3 Research question, goals and approaches

The core research question that guides this study is: “How and why does progression occur in the internationalization process of industrial service companies ?” To answer this question, the study is divided into a theoretical and empirical part. Within these parts, intermediate goals are set in order to get towards the ultimate goal of improving insights in the internationalization of service companies.

In the first part, extant literature is used to develop a dual theoretical framework to study service internationalization. More specifically, a first intermediate goal concerns the identification and selection of a classification of internationally offered services to better demarcate the research context. The result is a classification built to offer guidance in the empirical study. The second intermediate goal relates to the identification of complementary research fields to enrich the original logic of the Uppsala model. The result is a preliminary conceptual framework that is used in the second part as a starting point for building the ultimate mid-range theory.

The second part presents the empirical study that starts with a discussion of the methodological approach. A qualitative research approach (Marshall and Rossman, 1999), and in particular, a strategy process research (Pettigrew, 1990; 1992; 1997; Van de Ven, 1992; Ferlie and McNulty, 1997) is used to unravel service internationalization processes. Progression in internationalization processes is seen as an organizational change process and because strategy process research links processes, outcomes and context it is suited to gain insight in the ‘black box’ of strategy making (Burgelman, 1996). By means of a comparative case study methodology (Yin, 1994; 2003; Eisenhardt, 1989) nine case companies in the sector of logistic services are studied. New insights in the

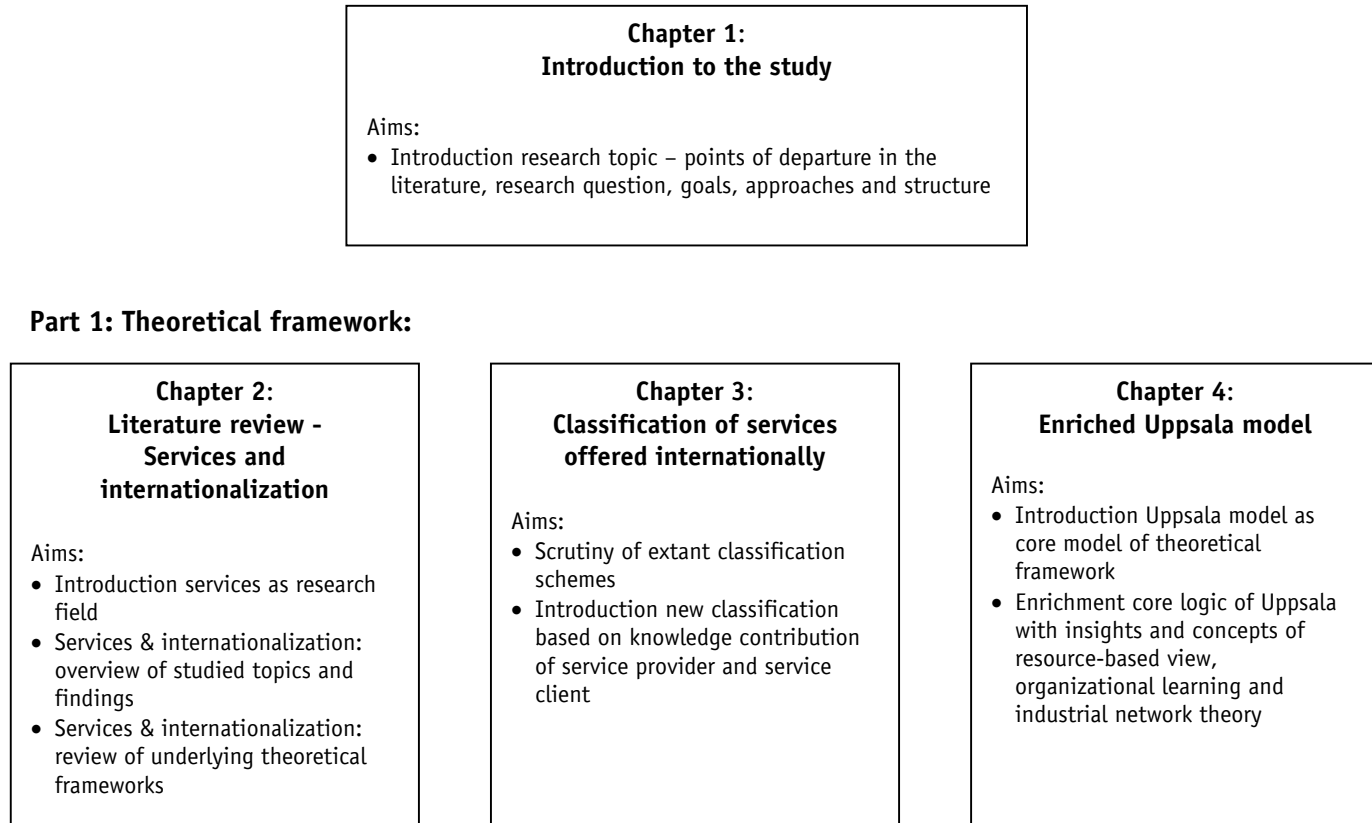
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internationalization of services are presented in two analytical chapters. First, the nine reconstructed chronologies are elaborately introduced and discussed to offer insight in key internationalization issues in the sector of logistic services. This chapter provides the context in which the episodes of progression are situated. Next, a mid-range theory of progression in internationalization processes is developed on the basis of fourteen cases of progression. Eventually, the mid-range theory offers an improved understanding of the dynamic nature of internationalization in service companies.

1.4 Structure of the study

The study is structured in two main parts, i.e. a theoretical and empirical part schematically presented in Figure 1-2. First, in three chapters a theoretical framework is set up in which the conceptual tenets of the study are developed. In chapter 2, we present an extensive literature study that starts with introducing services as a research field and continues with an examination of what has been studied about internationalization of services so far, summarizing the main findings and discussing the underlying theoretical frameworks used. In chapter 3, we scrutinize eight extant classification schemes of services offered internationally. As none of them appears to be useful to take the heterogeneous nature of services into account, another scheme is developed and put forward. In chapter 4, the Uppsala model is introduced. In search for routes to accommodate current critiques, three streams of research are put forward to enrich the explanation of progression in internationalization processes. Next, the empirical part follows that contains four more chapters. In chapter 5, we discuss the methodological approach, beginning with a discussion of the ontological, epistemological and methodological tenets of the study, and ending with an elaborate discussion of the research design that is set up in the sector of logistic services providers. In chapter 6 the internationalization processes of the nine case companies are reconstructed. Moreover, the nine case companies are briefly summarized with regard to the general internationalization issues delineated in chapter 2. Furthermore, the impact of the service types defined in chapter 3 on the internationalization is discussed. Chapter 7 offers a second analytical chapter in which the mid-range theory on progression in internationalization processes is presented. In chapter 8 we end with a synthesis of the study, address the contributions made to services and international business literature, discuss the limitations and make suggestions for future research routes.

Figure 1-2: Structure of the study



Part 2: Empirical study:

**Chapter 5:
Methodology**

Aims:

- Introduction ontological, epistemological and methodological tenets study
- Research design – comparative case study internationalization processes of nine logistic services companies

**Chapter 6:
Nine internationalization processes**

Aims:

- Description internationalization of nine case companies by reconstructing chronologies
- Discussion of internationalization in nine case companies: motives to internationalize, country/market selection, entry mode choice, and service types offered

**Chapter 7:
Progression in internationalization processes**

Aims:

- Development of mid-range theory on the basis of fourteen cases of progression in the internationalization of logistics companies
- Comparison logic mid-range theory with original logic Uppsala model

**Chapter 8:
Conclusion of the study**

Aims:

- Synthesis study
- Conclusion – contribution to extant literature, managerial implications, limitations and suggestions for future research

Chapter 2:

Literature review – Services and internationalization

Chapter 1:
Introduction to the study

Chapter 2:
**Literature review -
Services and
internationalization**

Aims:

- Introduction services as research field
- Services & internationalization: overview of studied topics and findings
- Services & internationalization: review of underlying theoretical frameworks

Chapter 3:
Classification of services
offered internationally

Chapter 4:
Enriched Uppsala model

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Nine internationalization processes

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Conclusion of the study

2.1 Introduction to the literature review

“The internationalization of service firms has not been the topic of significant research yet” (White, et al., 1999: 196). “The internationalization of business services has yet to be fully explored” (Roberts, 1999: 68). “[...] there is a substantial literature on internationalization, but this is a literature that does not have an explicit service focus.” (Bryson, 2001: 227). Conclusions like these seem to call for more research on the internationalization of service companies. On the other hand, why bother ? Why should researchers study the internationalization of service companies ? The most important argument seems to be the increasing importance of services in today’s economies as highlighted in the introductory chapter. Given that services are different from goods, it is likely that service companies are confronted with different opportunities, threats and ensuing responses in terms of internationalization. Thus, the question is what has been studied so far ? What is known about the particularities of internationalization processes of service companies ? Where are specific gaps in the literature that require further research attention ? In order to answer these questions and end up with a clear starting-point for our own dissertational research, a literature review was conducted that is reported below.

The chapter is further structured in three sections. In section 2.2 services are introduced as a separate research field. Next, in section 2.3 an overview is presented of extant literature on services and internationalization. Section 2.4 concludes the chapter with the identification of three particular challenges for further research that affect the demarcation of the particular topic underlying this dissertation.

2.2 Services as a research field

The general aim of the dissertation is gaining insight in the internationalization process of service providers. In this section, services are defined and their distinctive characteristics are discussed. Furthermore, the heterogeneity of services as a group is stressed, and the choice for a specific focus on industrial services is accounted for.

2.2.1 Definition and distinctive characteristics of services

Services are different from goods. At least, this is the conclusion after an intense and extensive debate (Brown et al., 1994). Eventually, consensus was reached that services differ fundamentally from goods and a thriving field of inquiry and academic investigation arose (Swartz and Iacobucci, 2000). Fisk et al. (1993), Brown et al. (1994), Berry and Parasuraman (1993), and Iacobucci (1998) elaborately discuss the development and emergence of services marketing thought, noting that the research focus slowly shifted from the legitimacy debate towards a wide variety of topics and interests such as service design & delivery, service encounters & service experiences, and service quality & customer satisfaction.

In today's services marketing and management literature, services are defined as "[...] deeds, processes, and performances." (Zeithaml and Bitner 1996: 5). Lovelock (2001: 3) clarifies this broad definition by stating that: "A service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in the ownership of any of the factors of production." He continues with a second approach to capture the essence of services with the statement that: "Services are economic activities that create value and provide benefits for customers at specific times and places as a result of bringing about a

desired change in – or on the behalf of – the recipient of the service.” (Lovelock, 2001: 3).

As a result of the fundamental goods versus services debate, service definitions like cited above, were formulated next to several characteristics that distinguish services from goods. It is widely accepted that services differ from goods in terms of four distinctive characteristics, namely intangibility, simultaneity of production and consumption, heterogeneity, and perishability (e.g. Iacobucci, 1998; Zeithaml and Bitner, 1996; Rust et al., 1996)¹. The first and most essential distinctive determinant of a service is its *intangibility*. Services are performances that cannot be seen, felt, tasted, or touched in the same manner that goods can be sensed (Zeithaml et al., 1985). Intangibility is seen as the most critical distinctive characteristic from which the three other characteristics emerge. The second distinctive characteristic is the *simultaneity* or *inseparability of production and consumption*. Whereas goods are produced first, then sold and consumed; most services are sold first, and then produced and consumed simultaneously (Zeithaml and Bitner, 1996). The simultaneous production and consumption of most services requires that the customer becomes an integral part of the service process (Bateson, 1995). The third distinctive characteristic of a service is *heterogeneity* or *variability* in the sense that services are non-standard and highly variable depending on the particular situation because services are performances frequently delivered by humans (Zeithaml et al., 1985). Thus, the heterogeneity characteristic is related to the simultaneity characteristic since the required interaction between the service provider and consumer(s) during the service delivery is an important cause of numerous possible outcomes (Rust et al., 1996). The fourth distinctive characteristic of a service is its *perishability* because

¹ Although these four distinctive characteristics are widely adopted in the services literature, some researchers complement them with other features or split the four ‘basic’

services cannot be saved, stored, resold or returned implying that a service that is not used at a particular time is lost forever (Lovelock, 2001).

Additionally, due to the distinctive characteristics, services also differ from products when it comes to the marketing mix. In the case of services, the traditional four P's are expanded with three extra controllable variables: people, process, and physical evidence (Lovelock, 2001; Iacobucci, 1998; Rust et al., 1996). First, *people* are added as an element of the marketing mix because many human actors participate in the service delivery process. These people have an effect on the customers' final perception and evaluation of the service. Second, services are explicitly approached as *processes* since they are delivered through procedures, mechanisms and flows of activities. The pace of the process and the skill of the providers are both apparent to the customer and fundamental to his or her satisfaction with the purchase. Third, *physical evidence* is added since the environment in which the service is delivered and where the people interact is very important, just like the tangible components that facilitate the performance or communication of the service. Making use of these additional variables, the service provider can better communicate with and satisfy its customers (Zeithaml and Bitner, 1996).

Despite the distinctive characteristics and extra P's, a clear distinction between products and services is often difficult as most services involve products (e.g. hair cut & scissors) while many products include services (kitchen & installation) (Fitzsimmons and Fitzsimmons, 1994; Lovelock, 2001; Kotler et al., 2001). Consequently, Shostack's (1977) idea of the tangibility spectrum is introduced that states that services tend to be more intangible than manufacturing products,

characteristics up to stress certain elements further (e.g. Fitzsimmons and Fitzsimmons, 1994; Lovelock, 2001).

and manufacturing products tend to be more tangible than services leading to a continuum with pure services on one side and pure goods on the other.

2.2.2 Focus on industrial services

Although agreement exists on a fundamental difference between goods and services, the group of services is still very heterogeneous as it contains a wide variety of activities. In 1983, Lovelock made this heterogeneity an issue by calling for service classifications in order to get a cross fertilization of ideas beyond service industry borders. He claimed that sound classifications could lead to a better understanding of management methods and techniques for various service types instead of studying services within narrow industries or treating them unjustly as a homogeneous group. Over the years, numerous classification schemes have been introduced based on various discriminating dimensions leading to more uniform subcategories of services.

In his seminal work, Lovelock (1983) discerns various service categories based on nature of the service act, type of relationship between customer and service provider, room for customization, nature of demand and supply for the service, and nature of the service delivery. Other researchers use dimensions such as capital- versus people based services (e.g. Schmenner, 1986; Fitzsimmons and Fitzsimmons, 1994), nature of the service encounter (e.g. Price et al., 1995; Hume and McColl-Kennedy, 1999), customers' perception of the service ranging from simple to complex (e.g. Iacobucci and Ostrom, 1996), and so on. Like Silvestro et al. (1992), Clemes et al. (2000) refer to six service dimensions that are widely recognized and used in the service operations management literature; specifically, equipment/people focus, length of customer contact time, degree of customization, degree of discretion, source of value added, and product/process focus.

In order to diminish the heterogeneity in the group of services, we choose to rely on the distinction that is made according to the kind of customer at which the service is aimed. In particular, we prefer to focus on industrial or business-to-business services, which are services that are offered by one company to another company (Wilson, 1997). Currently, industrial services represent a significant proportion of employment and GDP in industrialized countries, and growth in this sector is larger than in consumer services (Lindbergh and Wilson, 2001). Nevertheless, despite their importance, industrial services have not received a lot of research attention leading to calls for more studies in an industrial services context (e.g. Wilson, 1997; Gordon et al., 1993).

Next to the four general service characteristics, industrial services have two extra features that characterize them, *specialization* and *technology* (Jackson and Cooper, 1988). Specialization refers to the need for customization that is often present in an industrial services context whereas technology refers to the technological nature of industrial services. Keeping the various characteristics of industrial services in mind, we need to find out to what extent these attributes affect the internationalization process of industrial service companies and/or whether other attributes are required to understand their international expansions. In any case, endorsing eminent scholars such as Nicoulaud (1989), Erramilli (1990), and Patterson and Cicic (1995) we expect that the nature of a service affects its internationalization process. Consequently, in line with Lovelock's (1983) call, we believe that the heterogeneity of services needs to be taken into account when studying internationalization paths.

2.3 Services and internationalization

Studies on international services often introduce and justify their topic by stating that research efforts aimed at understanding the internationalization of services are still limited (e.g. Winsted and Patterson, 1998; Berthon et al., 1999; Kundu and Contractor, 1999; Knight, 1999; Bryson, 2001). In order to gain insight in this limited state of knowledge, a literature review was conducted to find out which particular topics have been studied and what has been concluded. Surprisingly, quite a large number of articles were found. More than a hundred studies were identified and retained in the study. Nevertheless, after examining the literature we endorse Knight (1999) who stresses that the work to date is limited in terms of being largely fragmentary, exploratory, and lacking strong theoretical bases. As is elaborated upon below, the identified articles focus on a wide variety of issues and industries, which is typical of an emerging research field. Furthermore, in the studies most scholars tend to rely rather unreservedly on theories and concepts developed in a manufacturing context. As such, we are of the opinion that the limited nature of the studies does not really concern the number of studies published but rather the conceptual and methodological approach to the subject.

In the following three sections, this conclusion is explained. First, attention is paid to what has been studied about the internationalization of service companies and in what way. Second, the main findings of the reviewed studies are summarized by focusing on four key issues; profile of service exporters, motives to internationalize or not, country/market selection, and entry mode choice. Third, the studies are discussed in terms of the underlying theoretical frameworks and the extent to which the researchers accommodate the used or formulated theories and models for the distinctive characteristics of services.

2.3.1 Research topics on service internationalization

As we are interested in the internationalization process of service companies, the literature review includes studies that examine how and/or why service providers internationalize. In going through the literature, we came across two recent literature reviews; Knight (1999) particularly reviews the research on international services marketing in the period 1980-1998 and Bryson (2001) looks at progress of research into service activities in Europe in 1998. The focus of this literature review is different to the extent that the topic is not restricted to the international marketing of services, in contrast, the emphasis is put on a wide variety of strategic issues related to the internationalization of service companies. Furthermore, the geographic origin of the studies is not limited to a certain region, although an indirect limitation occurs because only studies published in English are included.

2.3.1.1 Selection of studies

The articles retained in the literature review are found via four approaches. First, via an electronic search of the databases BRONCO², ABI/INFORM, and Business Elite/EBSCO using key words such as 'international services', 'service internationalization', and 'internationalization process of services'. Second, electronic catalogues were searched starting from the names of authors that frequently publish in the field of international services. Third, the electronic catalogues were used to review journals in the field of services, international management, international marketing and international business. Fourth, reference lists of retained articles were systematically examined to identify other

² BRONCO - *Bibliographisch Repertorium van ONline COntents* - is a database offered by the LUC and it holds the electronic tables of contents of scientific journals from 1993 onwards. The database contains approximately 10.000.000 title descriptions of articles from approximately 14.000 scientific journals. The database is updated daily via [Swets & Zeitlinger](#) in the Netherlands.

studies. In total, more than 100 articles published in a variety of journals are identified, although this selection should not be considered exhaustive.

In the search for studies on the internationalization of services, the publication date was not particularly limited to a certain time period like Knight (1999) or Bryson (2001) did, nevertheless, a bias exists towards studies published after 1993. This bias has a practical reason in the sense that our starting point, the BRONCO database offers an overview from 1993 onwards. The systematic neglect of the period before 1993 is more or less compensated by searching ABI/INFORM, and Business Elite/EBSCO and by checking the reference sections of retained articles. As such, older but very influential studies – e.g. Weinstein (1977), Carman and Langeard (1980), Nigh et al. (1986), Boddewyn et al. (1986), Sharma and Johanson (1987), Nicolaud (1989) – are included in the overview. Nevertheless, the aim of the literature study was to gain insight in the current knowledge on the internationalization processes of service companies. Therefore, we believe that a prime focus on the previous decade is a viable approach.

2.3.1.2 Seven research themes

As stated above, only studies that explicitly deal with some or several issues of the process of going and being international are included in the literature overview. For a clear understanding, the definitions of O'Farrell and Wood (1998) and Clark et al. (1996) are adopted to give content to 'going' and 'being international' in a service context. Services are considered to be international when one or more of the following situations occur(s): (1) the movement of service providers to clients abroad; (2) the movement of foreign clients to service providers; (3) the movement of both clients and providers; (4) no movement by either client or service provider due service delivery through objects, technological vehicles and/or assets. Furthermore, the concept movement is broadly interpreted as it can both refer to temporary situations in the sense of

project-based operations or to more permanent ones in the sense of establishing foreign outlets by the expanding service firms. A first conclusion from the literature review is that a wide variety of topics are studied in the context of service internationalization. In particular, we divided the selected articles in seven broad research themes complemented with an eighth theme that gathers miscellaneous topics.

The first theme concerns the history of and trends in the internationalization of service companies. Studies in this category describe the influence of past, current and future market trends on the internationalization of service companies (e.g. Samiee, 1999; Grönroos, 1999; Aharoni, 1993; Ascher, 1993). This category also includes review articles (Knight, 1999; Bryson, 2001). The second theme is related to trade in services. This category contains studies that focus on issues such as balance-of-payments (e.g. Daniels, 2000; Landesmann and Petit, 1995), trade barriers and liberalization (e.g. Deardorff, 2001; Zimmerman, 1999; Dahringer, 1991), and economic development (e.g. Stare, 2001; Primo Braga, 1996). The third theme relates to the various classification schemes of international services, in which two groups can be distinguished, the trade related schemes (e.g. Clark et al., 1996; Grubel, 1987; Sampson and Snape, 1985) and the marketing related schemes (e.g. Lovelock and Yip, 1996; Patterson and Cicic, 1995; Vandermerwe and Chadwick, 1989). The fourth theme is the internationalization process in general containing studies that theorize on the process in terms of several issues such as motives to internationalize, market selection, entry mode choice, and/or organization of marketing activities (e.g. O'Farrell et al., 1998; 1996; Cicic et al., 1999; Edvardsson et al., 1993). The fifth theme is narrower as it concerns service MNEs, and as such includes studies that particularly focus on foreign direct investment decisions by service multinationals (e.g. Boddewyn et al., 1986; Buckley et al., 1992; Dunning, 1993). The sixth theme gathers studies that look at the exporting decision of service firms such as

the initial export decision (e.g. Winsted and Patterson, 1998), the subsequent export decision (e.g. Patterson et al., 1997, 1999), export problems (e.g. Bell, 1997; Reardon et al., 1996), or the difference between exporting and non-exporting service firms (e.g., White et al., 1999). The seventh theme regards the entry mode choice of service companies that internationalize (e.g. Erramilli 1990; 1992; Brouthers et al., 1996; Ekeledo and Sivakumar, 1998). The remaining studies are classified in the group of miscellaneous topics. This group contains studies on the role of technology in the internationalization process (e.g. Mattsson, 2000; Fisk, 1999; Mathe and Dagi, 1996), the international competitiveness of SMEs (e.g. Coviello et al., 1998), performance of MNEs (e.g. Fernández Fernández, 2001), and influences on the development of experiential knowledge in the internationalization process (e.g. Eriksson et al., 1997; 2001). Table 2-1 summarizes the themes in the identified studies.

Table 2-1: Identified topics of studies on the internationalization of service companies

Themes
1. History & trends, or review
2. Trade (balance of payments, barriers, economic development)
3. Classification schemes (trade related or marketing related)
4. Foreign direct investment in services (existence of service MNEs)
5. Internationalization process in general (discussion of various issues e.g. motives, market selection, entry mode choice)
6. Export (initial and subsequent exporting decision, profiles exporters versus non-exporters, export problems)
7. Entry mode choice
8. Miscellaneous topics (e.g. role of technology, international competitiveness, development experiential knowledge)

2.3.1.3 Nature of selected studies

In terms of the nature of the studies, one-third of the contributions is classified as conceptual, review or opinion-type whereas two-thirds are considered

empirical³. Contrarily, Knight (1999) reports an equal division between empirical and non-empirical articles whereas Bryson (2001) does not explicitly discuss the nature of the studies in the review although the stress appears to be on empirical articles. The current shift towards more empirical studies could imply that the international services topic is moving out of its infancy, which might be indicated by the growing number of studies over the last five years – almost half of the retained articles are published between 1998 and 2003, especially the empirical ones.

As indicated in Table 2-2 the themes of the *conceptual studies* are mainly situated in the context of history, trends and reviews; classification schemes; FDI in services and trade, whereas the *empirical studies* focus on export decisions; the internationalization process in general; and entry mode choices. A possible explanation is that for the latter research themes, researchers rely heavily on existing research in a manufacturing context and as such seem to have a sound theoretical starting point. Furthermore, two-thirds of these empirical studies rely on a *quantitative* methodology – mail surveys or the construction of databases from secondary sources; whereas one-third uses a *qualitative* methodology – mostly case study research. The same proportion concerning the choice of quantitative versus qualitative methodologies applies for each theme except for theme 5 – studies on the internationalization process in general – where a qualitative research methodology using in-depth interviews is as frequently used as quantitative surveys. The remaining category of studies placed under the heading miscellaneous topics contains conceptual, quantitative and qualitative research.

³ A study is labeled empirical when it contains a clear description of the research methodology and a discussion of the findings. As such several articles are considered

Table 2-2: Nature of selected studies

Themes	Nature study	Methodology used in empirical papers
1. History & trends, or review	Conceptual	
2. Trade (balance of payments, barriers, economic development)	Conceptual	
3. Classification schemes (trade related or marketing related)	Conceptual	
4. Foreign direct investment in services (existence of service MNEs)	Conceptual	
5. Internationalization process in general (discussion of various issues e.g. motives, market selection, entry mode choice)	Empirical	½ Qualitative – ½ Quantitative
6. Export (initial and subsequent exporting decision, profiles exporters versus non-exporters, export problems)	Empirical	1/3 Qualitative – 2/3 Quantitative
7. Entry mode choice	Empirical	1/3 Qualitative – 2/3 Quantitative
8. Miscellaneous topics (e.g. role of technology, international competitiveness, development experiential knowledge)	1/3 Conceptual – 2/3 Empirical	1/3 Qualitative – 2/3 Quantitative

2.3.1.4 Research context

In terms of the research context, four groups of articles are distinguished.

1. The first group, containing a fourth of the articles, discusses *services in general* with no explicit attention for possible differences within the heterogeneous group of services (e.g. Baden-Fuller, 1993; Berthon et al., 1999). Studies that focus on a subgroup such as professional services (e.g. Aharoni, 1996; Ascher, 1993) are also classified in this category.
2. The second group, holding half of the articles, also takes a rather general approach. In this second group the emphasis is put on *an explicitly mentioned variety of industries* (2 to 10 different sectors) or *types of services* (3 to 6 different categories) (e.g. Cicic et al., 1999; Li, 1994).

conceptual although they extensively illustrate the reasoning with particular findings and/or examples from previous research projects.

3. The third group, representing a fifth of the articles, concentrates on *one particular service industry* such as software, retailing, freight transport, insurance, hotel, advertising, engineering consulting, banking, or tourism (e.g. Bell, 1997; Contractor and Kundu, 1998).
4. The fourth group includes studies that focus *both on goods and services* in the research context (e.g. Brewer, 2001; Chadee and Mattsson, 1998).

Important to note, the choice of research context is rarely accounted for. For instance, in the case of the second group, the reason for selecting certain industries is seldom explained. Neither seems the selection dependent on any of the classification schemes (rare exceptions are Zimmerman, 1999; and Coviello et al., 1998). An additional issue to describe current research on international services concerns the purpose of using service companies as research context. In this respect, two groups can be distinguished; the first group of studies focuses on service companies with the main aim of contributing to understanding services in an international context (e.g. Fugate and Zimmerman, 1996; Aharoni, 1996; Winsted and Patterson, 1998). The second group of studies has the ambition of improving research on a variety of issues testing the conceptual enhancement in a services context (e.g. Eriksson et al., 2000a; 2000b; 2001; Patterson et al., 1997; Brunninge and Melin, 2001).

2.3.2 Summary of findings on service internationalization

The literature search identified a rather large number of studies with a wide variety of topics related to internationalization. Due to this broad range of topics, common strategic issues that relate to the process of international expansion were sought to structure and summarize the findings over the different themes. Four key aspects were selected and are discussed below: 1) profile of service exporters, 2) motives to start and/or continue the internationalization, 3) country/market selection, and 4) entry mode choice. With regard to the seven

themes, this means that for the profile of service exporters, studies with export as theme were mainly used; for the discussion of motives, findings are summarized from studies in all themes; for the country/market selection, evidence primarily comes from studies with the themes entry mode choice, FDI in services and the internationalization process in general; as is also the case for the findings on entry mode choice. The section of the three latter aspects starts with a brief introduction of the general meaning of the concepts in the traditional international (manufacturing) marketing literature in order to have a point of comparison to interpret the findings in a service context.

2.3.2.1 Profile of international service companies

Three studies are identified that compare exporting with non-exporting service companies in order to develop profiles (White et al., 1999; Javalgi et al., 1998; Winsted and Patterson, 1998). Starting from the manufacturing-based export literature these studies expect various factors to influence the export decision of service firms. Hypotheses are tested concerning firm characteristics (e.g. size and age), management attitudes (e.g. perceived profit potential, costs, risk and trade barriers) and decision-maker characteristics (e.g. foreign language skills and international experience).

However, the results are not unanimous. For instance, in the context of seven business-to-business service sectors, White et al. (1999) describe exporting firms in comparison to non-exporting firms as generally larger, more recently established firms that have decision-makers with international work experience and a clear perception of the profit potential of exporting and as such a desire to expand internationally. Similarly, Winsted and Patterson (1998) come to the conclusion that on average, business engineering consulting exporters are larger both in terms of employees and sales although some of the smaller firms are dedicated exporters too. Furthermore, exporters see the barriers to exporting as

smaller obstacles than non-exporters except for the factor on competition and lack of support, and the one on price of services. Exporters had much more positive attitudes about the benefits and profit potential of exporting, they feel a higher domestic competitive intensity, and they see opportunities in foreign markets and the ease with which their services can be adapted to it. Contrarily, Javalgi et al. (1998) compare manufacturers with manufacturing-based service providers active in various industries in terms of their propensity to export, and conclude that manufacturing firms are more inclined to export when they are older, have more employees, have larger sales, and are publicly owned. Unfortunately, these characteristics are not able to discriminate exporting from non-exporting manufacturing-based service firms. Only the variable 'low sales' seems to negatively influence the propensity to export. As a result, the authors argue that other characteristics – for instance management characteristics – should be used to examine the research propensity of service firms.

Thus, while White et al. (1999) and Winsted and Patterson (1998) conclude that the manufacturing-based export literature offers a valid starting point in the study of service exporters, Javalgi et al. (1998) argue that other characteristics need to be included in the studies. Chadee and Mattsson (1998) support the former view as they compare the behavior and performance of service and merchandise exporters and conclude that the same variables affect the performance although the parameter-estimates are larger for service exporters than those for manufacturing goods exporters. Therefore, the authors suggest that service firms are more affected than manufacturing firms by firm size, commitment and aspiration to exporting, the adaptability of the service, the distribution channel choice and future strategies. However, they do not confirm the suggestion statistically.

2.3.2.2 Motives to internationalize (or not)

In general, firms – irrespective of the industry to which they belong – go international “to make more profit”. However, as in most business activities, one factor alone rarely accounts for any given action, usually, a combination of factors affects the internationalization decision. Before, discussing the motives of service companies, a general point of comparison is presented in Table 2-3 in which the major motives for starting the internationalization process are summarized (table based on Hollensen, 2001; Bartlett and Ghoshal, 2000; Jeannet and Hennessey, 1998). A distinction is made between proactive and reactive motives, which are stimuli that arise in the internal or external environment that firms either anticipate or respond to respectively.

Table 2-3: General points of comparison – Motives to internationalize

Proactive motives	Reactive motives
<ul style="list-style-type: none">• Economies of scale/ Access to low-cost factors• Foreign market opportunities/market information• Managerial urge• Profit and growth goals• Secure key supplies• Tax benefits• Technology competence/unique product	<ul style="list-style-type: none">• Competitive pressures (domestic or foreign)• Domestic market: small and/or saturated• Export market incentives• Extend sales of seasonal products• Following customers• Overproduction/excess capacity• Proximity to international customers/psychological distance• Unsolicited foreign orders

Source: adapted from Hollensen (2001), Bartlett and Ghoshal (2000), and Jeannet and Hennessey (1998)

Briefly summarized, from comparing the general motives in Table 2-3 with the findings of the studies on the internationalization of services, we can conclude that most of the traditional motives apply to a service setting. In the following paragraphs, we draw on the reviewed literature to illustrate the reactive and proactive motives that incite service companies to expand internationally.

Remarkably, reactive motives are mainly stressed in the discussion of triggers for services companies to internationalize. As Grönroos (1999) states, in many cases, the decision to go abroad is influenced by parties outside the service firm. The following examples show that many service providers are indeed motivated by their environment to explore opportunities outside the home market; following clients, reacting to unsolicited orders and inquiries from abroad account for a large part of the motives that cause service providers to internationalize. For instance, O'Farrell et al. (1996) find in their study of 90 Scottish and South East firms that service companies in various business-to-business sectors to a large extent respond to a contract or request for tender, following UK clients or stepping into a piggybacking arrangement to enter a particular country. Only a small minority of the companies made an active decision to select a foreign country market. Similarly, Bell (1995) reports that in most of the software firms he studied, international activities started in response to current client requests to follow them, inquiries from abroad, or unsolicited orders. Fernández Fernández (2001) stresses that business service multinationals follow their clients abroad because customer interaction is considered to be an important competitive advantage.

Next to (potential) clients that indicate opportunities, the studies indicate that competitors and partners in both formal and informal networks drive service companies to expand internationally. Like Terpstra and Yu (1988) argue for advertising agencies, Hellman (1996) reports that competitors influence to a great extent the internationalization of banks and insurance companies. Concerning the influence of networks, Björkman and Kock (1997) note that besides unsolicited orders, social networks are very influential in the inward internationalization of the tourist companies they investigated. Furthermore, Coviello and Munro (1995) clearly state that the majority of firms in their survey indicate that their initial internationalization decisions were triggered by

opportunities presented by contacts in a formal or informal network, rather than by their own proactive identification process.

Furthermore, the studies on the internationalization of service companies discuss stimuli that originate from the domestic market and that push the service provider abroad. For instance, the findings of Coviello and Munro (1995; 1997), and Coviello and Martin (1999), Patterson et al. (1999), indicate the impact of a small and/or saturated home market on the initial internationalization of service companies. The studies of Patterson et al. (1999), and Winsted and Patterson (1998) endorse the motivating role of export promotion programs by government and trade organizations, and of the fact of being close to export markets. Winsted and Patterson (1998) also report the availability of excess capacity as a stimulus to which service companies respond by internationalizing.

Table 2-4 summarizes the reactive motives, which are found to drive service companies to internationalize, and per driver some examples of studies are given. Important to note, the order of the general motives in Table 2-3 is changed according to the degree of attention paid to the various motives in the studied international service articles. Furthermore, on the base of the literature study in which the role of networks is clearly stressed, we add the motive 'Formal and informal networks' to the table. The factor 'Extend sales of seasonal products' is deleted because no identified study referred to it.

Table 2-4: Reactive motives in the case of service internationalization – Table 2-3 adapted to service context

Reactive motives	Examples of studies
• Following customers	e.g. Bell (1995), O'Farrell et al. (1996, 1998), Ramcharran (1999), Patterson et al. (1999), Coviello and Martin (1999), Katrishen and Scordis (1998), Hellman (1996), Sharma and Johanson (1987), Fernández Fernández (2001)
• Unsolicited foreign orders	e.g. Bell (1995), Björkman and Kock (1997), Coviello and Munro (1995; 1997), O'Farrell et al. (1996), O'Farrell and Wood (1998)
• Competitive pressures	e.g. Hellman (1996), Terpstra and Yu (1988), Erramilli (1992), Patterson et al. (1999), Ramcharran (1999)
• Formal and informal networks	e.g. Björkman and Kock (1997), Coviello and Munro (1995; 1997), Coviello and Martin (1999), Sharma and Johanson (1987)
• Domestic market: small and saturated	e.g. Coviello and Munro (1995; 1997), Coviello and Martin (1999), Patterson et al. (1999)
• Export market incentives	e.g. Winsted and Patterson (1998), Patterson et al. (1999)
• Proximity to international customers/psychological distance	e.g. Winsted and Patterson (1998), Patterson et al. (1999)
• Overproduction/excess capacity	e.g. Winsted and Patterson (1998)
• <i>Extend sales of seasonal products</i>	

Legend: order according to attention in literature, added motives in bold, deleted motives in italics

Next to the reactive triggers, evidence is found in favor of proactive motives that influence service companies to internationalize. Léo and Philippe (2001) note that in their sample the internationalization of business-to-business services is as often the result of following domestic clients as of the active wish of the companies to develop markets abroad. Especially the active role of management in searching for opportunities is stressed. For instance, both the studies of Patterson et al. (1999) and Winsted and Patterson (1998) identify 'management commitment' as an important motive to internationalize. Weinstein (1977) reports that managers that perceive opportunities start an intensive lobbying leading the advertising agency to commit itself internationally. O'Farrell et al. (1995) and Edvardsson et al. (1993) note that when examining what kind of strategic actions actually have initiated activities abroad, they find actions that

are decided upon intuitively and that are based on individual ambitions and commitment to growth of managers.

We added 'formal and informal networks' to the reactive motives but on the basis of the literature review it should also be put on the list of proactive motives. Some of the studies reveal that service providers do not wait until the network identifies opportunities for them. To the contrary, these studies show that managers actively search for and develop relationships with strong network actors in order to prepare the internationalization process. For instance, like Majkgård and Sharma (1998), Coviello and Munro (1995; 1997) stress the attempt of software companies to develop and maintain relationships with network partners. The studied software companies clearly acknowledge the importance of formal and informal networks in creating and identifying opportunities abroad. Sharma and Johanson (1987) note that for technical consultancy firms the external relationships are crucial in the identification of business opportunities. As a consequence, we add the motive 'formal and informal networks' and combine it with the motive 'foreign market opportunities/market information'.

Furthermore, Winsted and Patterson (1998) and Coviello and Martin (1999) report the drive of having a unique service that stimulates the service providers to go abroad. With regard to being motivated by the prospect of gaining economies of scale, evidence is mixed. For instance, Patterson et al. (1999) summarize the results that show that for Dutch service companies in various industries the expectation of gaining scale economies drive them abroad. Similarly, Ramcharran (1999) notes that for accounting services achieving economies of geographic scope are an important motive to internationalize. To the contrary, like Veugelers (1992), Katrishen and Scordis (1998) focus on multinational insurers and conclude that the benefits of extensive foreign acquisitions are questionable since the most diverse insurers seem to suffer diseconomies. Campbell and

Verbeke (1994) also question the advantage of scale economies in service industries. Scale economies in service firms occur primarily in marketing activities, national responsiveness and scope economies are strategically more important.

The findings on proactive motivators are summarized in Table 2-5 that is based on Table 2-3. Again the motives are reordered according to the attention received in the studied literature. As explained above, ‘formal and informal networks’ is added as a motive although we see it in combination with the ‘search for foreign market opportunities’. The motives ‘tax benefits’ and ‘secure key supplies’ are deleted since no indication of these factors was found in a service setting.

Table 2-5: Proactive motives in the case of service internationalization – Table 2-3 adapted to service context

Proactive motives	Examples of studies
<ul style="list-style-type: none"> • Managerial urge • Formal and informal networks: Foreign market opportunities/market information • Technology competence/unique product • Economies of scale • Profit and growth goals • <i>Tax benefits and secure key supplies</i> 	<p>e.g. Patterson et al. (1999), Winsted and Patterson (1998), Majkgård and Sharma (1998), Edvardsson et al. (1993), O’Farrell et al. (1995)</p> <p>e.g. Coviello and Munro (1995; 1997), Majkgård and Sharma (1998), Sharma and Johanson (1987)</p> <p>e.g. Winsted and Patterson (1998), Coviello and Martin (1999), Mathe and Perras (1994)</p> <p>e.g. Patterson et al. (1999), Ramcharran (1999) versus Katrishen and Scordis (1998), Veugelers (1992)</p> <p>e.g. Winsted and Patterson (1998)</p>

Legend: added motives in bold, deleted motives in italics

Addressing the matter of motives to internationalize requires a further elaboration upon the motive client following that is often mentioned in the context of services. Client following firms enter foreign markets primarily to

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serve foreign subsidiaries of their domestic clients (Terpstra and Yu, 1988; Dunning, 1993; Alexander and Lockwood, 1996; Kundu and Contractor, 1999). For a clear understanding, we want to stress that client following is both a motive and a behavior. At the request of clients, service companies start their international activities by following these clients into a foreign market. The logic opposite of client following seems to be market seeking, referring to the situation where firms internationalize by searching new foreign markets (Erramilli, 1990). In contrary to client following, market seeking is not a motive but a mere behavior that is the result of other motives.

Terpstra and Yu (1988) clearly state that the motive client following distinguishes the services sector from manufacturing. Erramilli and Rao (1990) put it less bluntly and argue that the motive client following is more prevalent in the service context in terms of importance and occurrence although it is not unheard of in the manufacturing sector as the list of general motives in Table 2-3 suggests. Nevertheless, the literature review of Bryson (2001) showed that client following behavior is still one of the most important incentives driving the export strategies of service companies. Additionally, Li and Guisinger (1992) report that most service firms initiate international operation by following clients in order to capitalize on pre-established business relationships. Once expanding service firms establish a foreign market presence, motivation tends to shift to serving local foreign customers and as such a market seeking approach is adopted. This two-stage process suggests that the importance of the motive client following may decrease over time (Li, 1994) as other motives that incite market seeking become more important when more experience is gained and consequently the perceived risk about internationalization decreases.

The suggestion of Li (1994) and Li and Guisinger (1992) of a switch in motives that cause a change from a reactive client following to a more active market

seeking behavior seems logical. Nevertheless, the literature on international services is inconclusive on the matter. Some authors agree with the reasoning and take it along in their study (e.g. Coviello and Munro, 1997; Björkman and Kock, 1997; Cicic et al., 1999; Roberts, 1999). Others, to the contrary, come to challenging findings (e.g. Winsted and Patterson, 1998; Majkgård and Sharma, 1998; McLaughlin and Fizzimmons, 1996) in the sense that a switch is not found or it occurs from a market seeking to a client following approach. Still other researchers do not consider a switch (Erramilli, 1990; Alexander and Lockwood, 1996; Ekeledo and Sivakumar, 1998; Grönroos, 1999; Stare, 2002).

In our opinion, the inconclusive results can partly be attributed to the narrow assumption of client following being caused by a reactive motive and market seeking by a proactive motive. In discussing the motives of service firms, we added formal and informal networks to both the list of proactive and reactive internationalization drivers. Continuing the reasoning started there, we assume that firms can actively use networks in preparing and implementing international expansion. As such, we consider the behavior client following both as a response to a reactive or proactive motive. Proactive client following occurs when the internationalizing service provider decides to start and/or continue its internationalization process by following clients into more foreign markets. Compared to reactive client following where the client who wants to be followed takes the initiative, proactive client following occurs because the expanding firm uses (potential) client relationships. This reasoning is a possible explanation for the absence of consensus on a switch from client following to market seeking behavior in the literature. Apparently, in some cases the service provider becomes more active although he remains a client follower capitalizing on existing relationships instead of switching to market seeking.

Related to the issue of motives that push or pull service companies abroad is the issue of trade barriers that impede the firm to internationalize. Several studies on the matter are identified. For instance, Dahringer (1991) discusses barriers to international marketing of services and various strategies to cope with them, making a distinction between tariff and non-tariff barriers where mainly the second group contains severe hindrances to the internationalization of services. Fugate and Zimmerman (1996) extensively discuss the structural barriers and regulatory limitations in international services marketing together with possible responses. Zimmerman (1999) empirically examines the impact of trade barriers on the decision of entering new foreign markets in the insurance industry. Reardon et al. (1996) study the most important problems and coping strategies of American service firms in a variety of industries. Ramcharran (1999) elaborately discusses obstacles to trade for accounting/consulting firms indicating that the magnitude of the restrictions vary from country to country.

2.3.2.3 Country/market selection

Generally, companies that decide to expand internationally need to select a country and in particular, a market to enter. In international marketing, the factors that influence the selection of a foreign market are divided in two broad groups according to the factor's source being the external (e.g. political, economical, demographic situation) versus the internal (e.g. product, resources, experience) environment. Furthermore, it is assumed that firms that internationalize consciously look for information to make a rational country/market selection (Hollensen, 2001; Jeannet and Hennessey, 1998; Andersen and Strandskov, 1998). Two of the themes in the identified studies on the internationalization of service firms discuss the country/market selection but from different perspectives. First, studies that discuss the internationalization process in general provide evidence on the passive versus active nature of the country/market selection revealing (the lack of) rationality behind the

country/market selection. Second, studies that focus on foreign direct investment decisions by service MNEs provide insight in locational choices by examining various influential factors from the internal and external environment.

Passive versus active choice: In the previous section, the motives of service firms to internationalize are discussed and apparently many firms start the process in response to environmental stimuli. Consequently, in reacting to these triggers the internationalizing service firm is confronted with the country/market selection made by the firm that incites the service firm to act across its borders. In other words, it is the origin of the stimulus – such as current or potential clients, competitors or network partners – which (co)determines the selection of country and/or market. Various examples from the literature review illustrate the passive country/market selection in service firms. For instance, Coviello and Martin (1999) note that for engineering consulting service companies, the choice of initial and subsequent markets is mainly driven by the location of clients and network contacts. Each firm's strategy is to expand to markets where project opportunities arise. Similar findings appear in the studies of O'Farrell et al. (1996) and O'Farrell and Wood (1998) that focus on business-to-business services in a variety of industries. Likewise, Bell (1995) concludes from studying computer software firms in Finland, Ireland and Norway that neither the psychic nor the geographic distance influenced the choice of markets to expand to. To the contrary, market selection is affected by the locations of clients, hardware and software producers, and niches with growth potential. Furthermore, Hellman (1996) reports that for banks and insurance companies country/market selection is mainly determined by the behavior of competitors and customers. The existing network is again indicated as very influential in the selection of markets both initially and subsequently. Thus, instead of thoroughly preparing and investigating the possibilities, often the location of the third parties that are followed or approached determines the market that is entered.

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Next to the reactive motives to enter foreign markets, some service companies start their internationalization process very consciously and prepare the internationalization process and thus the country/market selection actively and meticulously. For instance, several managers of the software companies that Coviello and Munro (1995; 1997) studied state that they searched for strong network partners once they had decided to internationalize. Yip et al. (2000) find that firms active in service or good sectors perform better if they take a systematic approach to new internationalization by considering many alternative countries and entry modes. Furthermore, from studying six Australian cases, Brewer (2001) concludes that firms are more rational than often given credit for. In preparing subsequent market entries, managers in the cases studied, search for information in order to get an idea of the market attractiveness and the competitive position of their company. Despite their active search for information, the studied companies rarely use quantitative models for that purpose. They rather rely upon incoming trade inquiries and existing clients as the most important information sources. Noteworthy, these informants as such are not found to be defining influences in themselves. It is the number and the strength of these informants available to a firm, which affects the likelihood of a country/market being identified and assessed for entry (Brewer, 2001).

Locational choice of service FDI: Boddewyn et al. (1986), Dunning (1989; 1993) and Buckley et al. (1992) examine the applicability of FDI-MNE theory to services. In general they argue that no special FDI-MNE theories for international service firms are necessary, the traditional international business theory remains unchallenged although specific factors need to be identified in order to predict the behavior of the internationalizing service firm. In terms of locational choice, alternatives are principally dependent on the type of services – locational-bound versus tradeable services – that to a great extent constrains the possibilities (Boddewyn et al., 1986; Buckley et al., 1992). Furthermore, Boddewyn et al.,

1986 theorize that the size of the market, quality of local resources, governmental policies and political climate affect the selection. Dunning (1989) adds that closeness and responsiveness to the local customer are very influential. Buckley et al. (1992) endorse these two latter factors although they stress that rapid technological changes like in telecommunications redefine the situation constantly.

Empirical research in particular industries illustrates the importance of both general and service-specific factors on the locational choice. For instance, Nigh et al. (1986) find that the US banking involvement abroad depends on the US business presence and openness of the host country to foreign bank branches but contrarily to the expectations not on the existence of market opportunities. Terpstra and Yu (1988) note that in terms of locational factors US advertising agencies enter foreign countries with larger market size irrespective of their geographic place. Kundu and Contractor (1999) look at country location choices of service multinationals in the hotel sector and find that traditional general macroeconomic indicators for market size, such as GDP, are significant. However, sector-specific demand indicators such as tourism receipts and inward investment FDI in the country offer invaluable additional information and as such should be taken into account where possible. Daniels (2000) states that especially for high technology or information/knowledge intensive sectors the locational choice of FDI is influenced by the availability of educated and well-trained manpower, technological capacity and a good transportation and communications network.

2.3.2.4 Entry mode choice

Companies that decide to enter a foreign country/market – actively or reactively – have to choose an entry mode. Root (1994: 5) defines entry mode choice as: “[A]n institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management, or other resources into a

foreign country.” The literature review reveals that the service firm’s choice of a particular foreign market entry mode is the result of a number of factors that simultaneously affect the choice. Furthermore, it needs to be stressed that foreign market entry behavior in the services sector is characterized by a considerable diversity in entry mode patterns. Apparently, for their initial and subsequent entries service firms make use of various shared and/or full control entry modes such as direct and indirect exports, agents, distributors, joint marketing and/or development agreements, piggybacking, joint ventures, and FDI through acquisitions and/or greenfields and so on (e.g. Patterson and Cicic, 1995; Fladmoe-Linquist and Jacque, 1995; Coviello and Munro, 1995; 1997; Winsted and Patterson, 1998; O’Farrell et al., 1996; Clancy, 1998; Grönroos, 1999). Additionally, the choices that service firms make sometimes seem to be in contrast with expectations based on current internationalization theories.

In order to understand the nature and magnitude of the diverse preferences for entry modes, various factors are studied and included in the discussion. In particular, the studies indicate that, similar to manufacturing industries, entry mode choice by service companies is dependent upon both internal and external environmental factors. In Table 2-6 an overview is presented of the influential factors grouped in six categories, the first three refer to factors characterizing the internal environment and the following three contain influential factors from the external environment. The table is the result of listing the indicators that are used in several conceptual and/or empirical studies. Nevertheless, in line with the findings on motives to internationalize and the country/market selection, for many service companies the selection of the entry mode occurs reactively and/or is not the result of an extensive decision process. O’Farrell et al. (1996) report that only a minority of the studied service firms actually considered alternative modes and, of those, few engaged in a systematic evaluation process of the possibilities.

Table 2-6: Overview of influential factors – directly or indirectly – on entry mode choice in a service context

Entry mode choice is affected by	Examples of indicators (in alphabetical order)
Internal factors	
Product (service) characteristics	Asset specificity Capital versus labor intensity Inseparability (soft versus hard) Interaction with client (high versus low) Technological intensity
Firm characteristics	Experience (length and scope) Export motives – strategies Resources (personnel and capital) Size (in employees and in sales)
Managerial and behavioral characteristics	Attitudes & perceptions of foreign sales Corporate policy on control Desire to get rapidly established Personal knowledge of foreign markets/ experience
External factors	
Entry mode characteristics	Control Flexibility Resource commitment (costs)
Home market	Intensity domestic competition Market size
Host market	Availability of suitable partners Economic and market infrastructure Information availability Intensity foreign competition Lack of host country knowledge Market size & growth Political instability Production costs Psychic/cultural distance Trade and investment restrictions

Source: based on conceptual and empirical work of Agarwal and Ramaswami (1992); Buckley et al. (1992); Brouthers et al. (1996); Cicic et al. (1999); Ekeledo and Sivakumar (1998); Erramilli (1990; 1991; 1992); Erramilli and D'Souza (1995); Erramilli and Rao (1990; 1993); Erramilli et al. (2002); Majkgård and Sharma (1998); O'Farrell et al. (1996); O'Farrell and Wood (1998); and Patterson et al. (1999)

Using the structure of Table 2-6, the first internal factor concerns service characteristics that can be used to distinguish between services types in order to explain and reduce the diversity in entry mode patterns. The *degree of*

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inseparability between the production and consumption of services is one of the characteristics that is often used to clarify certain entry mode choices by categories of service companies. In particular, the distinction between soft and hard services is introduced to explain the preference in entry modes between firms (e.g. Erramilli and Rao, 1990; Erramilli, 1990; O'Farrell et al., 1996; Ekeledo and Sivakumar, 1998; Cicic et al., 1999; Stare, 2002). Researchers that use this distinction define soft services as services that require the simultaneity of production and consumption. Consequently, client and service provider need to be physically close since the interaction with the client is required during the process of service delivery. This implies that a direct foreign presence is necessary from day one. As a result, export in a strict sense is no option. Hard services, to the contrary, are considered to resemble goods because the production of these services can precede the consumption. The outcome of the service process can be made tangible with the result that export in its narrow meaning is a possible mode of entry for hard services. Boddewyn et al. (1986), Dunning (1989), Buckley et al. (1992), Hirsch (1993) and Aharoni (1993) also refer to the impact of the inseparability on the operating mode by discussing the tradeability of services. These authors do not use the terminology soft versus hard services but location-bound versus tradeable services respectively.

Furthermore, researchers refer to the *capital and labor intensity of services* to explain entry mode choices. Knight (1999) states that in general, international entry for service firms via direct investment is costly. Consequently, he suggests that the most successful international service firms tend to be larger, holding substantial resources. Nevertheless, many authors hold different opinions. Erramilli and Rao (1993) state that ownership of overseas manufacturing facilities entails considerable resource commitment, risk, and switching costs for some firms. However, for many service firms, the creation of a wholly owned subsidiary is limited to establishing an office, which frequently involves little fixed

overhead. This is for instance the case for professional and business services (Aharoni, 1993; Sharma and Johanson, 1987). For these services even switching costs related to changing markets may be comparatively small, because the true value-generating assets in these types of firms are people, and people are relatively mobile (Erramilli and Rao, 1993). Roberts (1999) holds the same opinion as she discusses the internationalization of information intensive business services and argues that these services are skilled-labor intensive but not capital intensive. As a consequence, setting up foreign presence for a skilled labor-intensive business service firm is not extremely costly. O'Farrell et al. (1998: 44) note: "[...] business service companies can be more flexible than manufacturers; they can 'dip their toes' into foreign markets more easily as part of a learning process, especially if the client is a MNC and there is little risk involved." In terms of the impact on the entry mode choice, a distinction is made between services that require a lot of financial and/or labor outlay and those that do not.

The *asset specificity* of services is also assumed to have an important impact on the range of suitable entry modes. Erramilli and Rao (1993) modified the transaction cost approach (TCA) with the purpose of explaining service companies' entry mode choice. Starting from TCA, they assume that service firms with high asset specificity prefer full control modes and service firms with low asset specificity prefer shared control modes. Sometimes, however, low asset specific service firms adopt full control modes. This is the case when the cost of integration is low and/or the firm has the ability to establish full control modes. In particular, Erramilli and Rao (1993) find for instance, that service firms with low asset specificity have a tendency to prefer full control modes especially when they offer separable (hard) services, in markets with low country risk and when they are rather large.

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More characteristics to differentiate between services types that might influence entry mode choice are used although less extensively. For example, differences in the *degree of interaction* with the client during the service delivery (e.g. Patterson and Cicic, 1995; Patterson et al., 1999; O'Farrell et al., 1998; Vandermerwe and Chadwick, 1989) and in the degree of *technological intensity* of services (e.g. Cicic et al., 1999; Domke-Damonte, 2000) are also linked with the diversity of entry mode patterns. For instance, Brouthers et al. (1996) include product differentiation, and service and technology intensity in their analysis, and find that firms with a unique service offer characterized by high service and technological intensity prefer integrated modes whereas firms with low values on these factors prefer independent modes.

The second category of influential factors in terms of entry mode choice contains firm characteristics. Majkgård and Sharma (1998) address the diversity by coupling the choice for a full or shared control mode with *client following and market seeking behavior*. On the basis of their literature review and exploratory empirical findings, they propose that in the beginning of the internationalization process high control foreign market entry modes are preferred, especially by market seeking firms. Market seeking firms are assumed to be part of networks with little international experience. Therefore, the market seeking firm has little assistance from the network in going abroad. Consequently, Majkgård and Sharma (1998) suppose that market seeking firms are more willing to invest larger amounts of resources abroad than client followers in order to make the international expansion work. In line with this, they propose that market seekers are more inclined to select mergers and acquisitions as entry mode because they have the need to institutionalize experience rapidly in order to be able detect risks and opportunities. To the contrary, client followers are more patient because they have a network to rely upon. In the later years, the difference is expected to disappear.

The propositions of Majkgård and Sharma (1998) are in contrast with the findings of Erramilli and Rao (1990) who report that client following firms are more aggressive in their entry mode choice than market seekers. In their explanation Erramilli and Rao (1990) attribute the difference between market seeking and client following firms to variation in market knowledge. Unfortunately, they do not further discuss this statement, but we assume that they mean that client followers have more knowledge due to the previous experience with the client and as a consequence, are more inclined to commit more resources in entering foreign markets. Eriksson et al. (1997) interpret Erramilli and Rao's (1990) findings similarly since they assume that firms that get assistance of current exchange relationships in the internationalization process, have also access to the experiential knowledge of these partners.

Another firm characteristic concerns the impact of *experience* on the entry mode choice. According to Erramilli (1991) entry mode choice is related to the stage in the internationalization process. The author points out that service firms show a U-shaped relationship between experience and propensity for integrated entry modes. Firms with little or no experience appear to exhibit a disproportionately high affinity for full control modes in order to decrease uncertainty. When experience grows and uncertainty decreases, entry modes that give less control are adopted. High control modes take over again when the experience reaches high levels and the service firms do no longer need partners to limit uncertainty. This empirically verified U-shaped curve for services departs from the traditional linear conceptualization of the relationship between experience and propensity for control through integrated entry modes. In terms of the importance of length versus scope of experience, Erramilli (1991) concludes that for market selection the diversity (scope) of the experience is more important whereas in the case of the entry mode choice the intensity (length) of the experience is predominant. Contractor and Kundu (1998)

endorse the impact of experience as they conclude that the companies with considerable experience prefer equity-based entry modes. Although examined in a broader context than the entry mode choice, Eriksson et al. (2001) find that duration of international business operation (length of experience) is crucial in the early stages of the internationalization process as learning is very intense in that period. Similarly, Eriksson et al. (2000a) study the impact of variation in foreign experiences on the development of experiential knowledge and find that more variation leads to a broader knowledge base on which internationalization decisions can be found.

With regard to two other firm factors; Erramilli (1992) finds that the service firm's ability and tendency to integrate decreases as *internal resource* constraints become more important and influential. In terms of *firm size*, Brouthers et al. (1996) note that larger and more experienced firms prefer integrated entry modes while the smaller and less experienced firms prefer independent modes - i.e. separate companies that manufacture, sell or service abroad for the software company. Similarly, Erramilli and Rao (1990) conclude that service firms seem to prefer shared-control modes when asset specificity is low; this tendency intensifies as firms become smaller. Contrarily, Contractor and Kundu (1998) find that size is not necessarily correlated to the propensity to use high-ownership modes. Their findings indicate that large firms in the hotel sector also choose for management service contracts and franchising.

The third category of internal factors contains managerial and behavioral characteristics that are assumed to affect entry mode choice. Erramilli (1992) notes that a service company's propensity to integrate its international operations increases when the firm's policy of maintaining control over foreign operations becomes more influential in its entry mode decision process whereas its desire to get rapidly established has the opposite effect and leads to the

preference for shared control modes. Buckley et al. (1992) also mention the importance of the desire for control over foreign operations in the entry mode choice. Cicic et al. (1999) propose that managers' attitudes towards and perceptions of foreign sales, and their personal knowledge and experience affect the entry mode choice. These assumptions are empirically confirmed by Majkgård and Sharma (1998) in the context of software companies and by O'Farrell et al. (1996) in their study of service firms in various business-to-business sectors.

Next to internal factors, three categories of external factors are expected to influence the entry mode choice of service companies as is clearly shown in the conceptual work of Ekeledo and Sivakumar (1998) and Cicic et al. (1999). Entry mode characteristics are often assumed to affect the choice (e.g. Buckley et al., 1992). Contractor and Kundu (1998) find that in the international hotel sector, firms that place a higher importance on control tend to prefer equity ownership. O'Farrell et al. (1996) report that firms that consider alternative entry modes make a crude assessment of costs, flexibility and marketing advantages of the different options. Nevertheless, only a minority of firms in their sample took various entry modes into consideration. No empirical evidence is found for the impact of home market characteristics on the entry mode selection. Characteristics of the host market are extensively included in the studies on entry mode selection. For instance, Erramilli (1992) finds evidence that a service company's propensity to integrate its international operations increases with the host market size and the unavailability of host country partners, and decreases with higher host country restrictions of foreign ownership and environmental risk. Contrary to the results of Sharma and Johanson (1987) and Contractor and Kundu (1998), Erramilli (1991) reports that the use of full control modes declines with increasing cultural distance. Moreover, increasing external uncertainty but decreasing internal uncertainty is found to lead to a higher preference for full control modes (Erramilli and D'Souza, 1995). Also Brouthers et al. (1996) find

that firms prefer integrated entry modes in the case of markets with cultural, economic and political similarity, infrastructure similarity, and strong market demand. With regard to production costs in the host market, firms prefer cooperative entry modes in case of high production cost advantages and independent or integrated entry modes in case of low cost advantages (Brouthers et al., 1996). Contractor and Kundu (1998) ascertain that in the hotel sector franchising and management service contracts are preferred in riskier nations.

2.3.3 Theoretical foundations of the reviewed studies

Before assessing the theoretical foundations of the service internationalization studies, the dominant internationalization theories are briefly introduced. The core ideas of the different research streams are discussed next to the general criticisms formulated on the models. Furthermore, current trends in this internationalization research are adduced. Then, the retained international services studies are evaluated in terms of the underlying theoretical foundations.

2.3.3.1 Two streams of internationalization theories

Since the early 1960 the internationalization of the firm and the existence of multinational enterprises are key topics in research fields such as international business, international marketing and management, business strategy, organizational behavior, and so on (Li and Cavusgil, 1995; Melin, 1992). Over the years, the drivers, the processes and the outcomes of the internationalization process have been addressed from a variety of perspectives resulting in a multitude of theoretical frameworks (Welch and Luostarinen, 1988, Buckley and Ghauri, 1993). Briefly and roughly summarized, two broad approaches exist to the internationalization issue (Andersson, 2000; Björkman and Forsgren, 2000; Hadjikhani and Johanson, 2002; Liesch et al., 2002).

First, in the economic stream that draws on economic theories, two internationalization issues are dealt with. More specifically, the focus is put on understanding *why and in what form foreign direct investment takes place* next to a study of the *existence of multinational enterprises* (Dunning, 2000; Fletcher, 2001). In this perspective a firm's foreign expansion is seen as a series of static and independent choices determined by efficiency considerations and relative costs and benefits (Clark et al., 1997; Sarkar et al., 1999). The economic stream contains widely adopted paradigms such as internalization theory (Buckley and Casson, 1976; Rugman, 1981), transaction cost theory (Anderson and Gatignon, 1986; Hennart, 1982), and the eclectic paradigm (Dunning, 1988; 2000).

Second, in the process stream that is anchored in behavioral theories a different approach is taken. In the process stream internationalization is viewed an incremental and cumulative process of increasing involvement within and across markets instead of as a series of single events. Research efforts start from a behavioral view of the firm and are aimed at understanding *firms' processes of becoming international* highlighting the pace, mode and incremental nature of the foreign expansion (Pedersen et al., 2002; Sarkar et al., 1999; Melin, 1992). Björkman and Forsgren (1997) note that the main concern of these models is to understand the underlying forces of the process, rather than the reason why the firm decided to invest abroad in the first place. Frameworks such as the product life cycle model (Vernon, 1966), the stages models (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; 1990; Welch and Luostarinen, 1988; Bilkey and Tesar, 1977; Cavusgil, 1980) and the industrial network perspective (Johanson and Mattsson, 1988; Johanson and Vahlne, 1992) are considered part of the process stream. For critical and elaborate reviews of alternative theories on the internationalization of the firm, we refer to Weisfelder (2001), Pauwels (2000), Rialp and Rialp (2001), Blomstermo and Sharma (2003) and Andersen (1993; 1997).

2.3.3.2 Critiques on extant internationalization theories

Despite the numerous valuable internationalization theories, all efforts to encapsulate the internationalization concept in a definite manner have been inadequate (Weisfelder 2001; Andersen, 1993; 1997). Overall, current internationalization theories are criticized on two crucial points. First, extant approaches are believed to offer insightful but isolated views on the internationalization phenomenon not fully grasping the complexity of the process (Leonidou and Katsikeas, 1996; Andersson, 2000; Rialp and Rialp, 2001). Second, the models lack a real dynamic perspective to encapsulate the evolutionary notion of the internationalization process (Andersen, 1997; Kutschker and Baurle, 1997; Melin, 1992). In a response to the dual criticism, authors like Rialp and Rialp (2001), and Coviello and Martin (1999) argue that the broad and dynamic nature of the internationalization concept cannot be captured by one single theoretical framework and consequently suggest combining several theories to obtain a more holistic view.

Hadjikhani and Johanson (2002) stress that the attempt to integrate the behavioral and economic traditions will contribute to an understanding of internationalization dynamics. Pauwels (2000), however, notes that a full integration of the various perspectives is prevented due to paradigmatic inconsistencies that come from the different theories in which they are rooted. Nevertheless, the various perspectives should be regarded as complementary each providing a part of the explanation (Coviello and McAuley, 1999). Presently, more and more researchers adopt a theoretical triangulated approach to capture complex and dynamic internationalization issues (e.g. Pla-Barber, 2001; Sarkar et al., 1999; Zafarullah et al., 1998). Additionally, in order to capture the dynamic nature of the internationalization process, researchers use quantitative and qualitative methodologies that stress the longitudinal character of the phenomenon (Coviello and Martin, 1999; Hadjikhani and Johanson, 2002).

Next to the two core critiques, current research efforts also aim at improving extant internationalization theories on additional issues. For instance, the applicability of the traditional internationalization literature is questioned due to its specific empirical context on which it is built. In particular, Axinn and Matthyssens (2001: 7) note that: “In retrospect, it appears that these theories focus on explaining the international behavior of large manufacturing firms from developed countries that expand internationally [...]. The fact that each theory, in some circumstances, can be meaningfully used to explain the international behavior of small firms or service firms or firms from developing countries is more often an unexpected (and somewhat unintended) consequence than a planned one.” To put it differently, the applicability of the traditional theories is questioned in contexts other than those in which the frameworks are developed. Apparently, firms that internationalize are no longer large manufacturing firms that first have established a strong domestic position before they start an international expansion. A number of changes ranging from industry regulation to newly opened markets to the revolution in information technology affected the business environment tremendously (Rosenzweig and Shaner, 2001; Douglas and Graig, 2000). Consequently, foreign investments of all kinds have increased, originating in a wide range of industries undertaken with different motivations by small, mid-sized and large firms. Therefore, current research efforts are aimed at understanding the internationalization in these ‘new’ contexts. Particularly, this literature review is meant to get an overview of existing service internationalization studies.

Similarly, other ‘new’ contexts are addressed as well. For example, the internationalization of small- and medium sized firms (SMEs) is focused upon as it is observed that size is not a relevant barrier anymore (e.g. Gankema et al. 2000; Rialp and Rialp, 2001; Anderson and Skinner, 1999). Related to the internationalization of SMEs, attention is paid to those firms that

internationalize very rapidly, a phenomenon referred to as 'born globals' (Madsen and Servais, 1997; Aspelund and Moen, 2001; Moen and Servais, 2002) or 'international new ventures' (McDougall et al., 1994; Oviatt and McDougall, 1997; Yip, 2000). Still another focus is the interest in the internationalization of firms from and/or to developing countries (e.g. Barretto and DaRocha, 2001; Kwon and Hu, 2001; Zafarullah et al., 1998).

Besides the current trends of using a combination of theoretical frameworks and the focus on 'new' contexts, Hadjikhani and Johanson (2002) and Blomstermo and Sharma (2003) note that contemporary research tends to stress knowledge development and use in the network context of the internationalizing firms. Current conceptual frames of internationalization still start from traditional theories such as FDI-MNE and stages models but they go deeper into the role of learning and knowledge and expand the boundaries of the phenomenon from the firm to include interfirm relationships and networks as well (e.g. Knight and Liesch, 2002; Chetty and Eriksson, 2002; Yli-Renko et al., 2002; Petersen et al. 2003; Werner, 2002). Furthermore, internationalization is broader conceptualized including inward internationalization to the discussion (e.g. Fletcher, 2001; Servais and Jensen, 2001; Korhonen, 1999; Björkman and Kock, 1997). In short, internationalization is well studied but future research efforts are still heavily promoted (e.g. Hadjikhani and Johanson, 2002; Blomstermo and Sharma, 2003).

2.3.3.3 Theoretical foundations of studies on service internationalization

In this section, attention is paid to the theoretical frameworks underlying studies on the internationalization of service companies. The emphasis is put on the identified articles that are classified above as discussing service FDI (theme 4), the internationalization process in general (theme 5) or entry mode choices (theme 7). The focus on these three themes follows from the fact that these

studies predominantly rely on internationalization theories whereas the studies in the other categories discuss related topics but start from different theoretical concepts. For instance in studies on export (theme 6), researchers use the manufacturing export literature with contradicting conclusions about the suitability of the frameworks as discussed in the section on profiles of service exporters.

Actually, most scholars that study the internationalization of services tend to rely unreservedly on theories and concepts developed in a manufacturing context. Generally, the studies in the three selected categories build both on theories from the economic and behavioral stream. In particular, the literature sections of the studied articles reveal that service researchers partially borrow and use concepts from stages internationalization process models⁴, the eclectic paradigm, transaction cost theory, industrial network theory, a combination of these frameworks or no framework at all as is explained in more detail below. However the transferability or applicability of these concepts is seldom assessed. This is remarkable considering the controversy concerning the need for different theories to explain the internationalization of service companies (e.g. Blomstermo and Sharma, 2003). Some academics plead for new or adapted theories (e.g. Grönroos, 1990; Bell, 1995; Ekeledo and Sivakumar, 1998) whereas others are of the opinion that extant theories will do (e.g. Majkgård and Sharma, 1998; Buckley et al., 1992; Erramilli, 1991). The following sections summarize the use of theoretical frameworks in studies that are categorized as focusing on foreign

⁴ The studies on service internationalization introduce the stages models referring both to the Uppsala Internationalization model (U-M) and the Innovation-Related Internationalization model (I-M) in Andersen's (1993) terms without a clear demarcation between these contributions. However, in most cases Johanson and Vahlne's (1977; 1990) Uppsala internationalization model is meant with the particular inclusion of the concepts establishment chain and psychic distance.

direct investment in services, entry mode choice, and the internationalization process in general.

Studies that focus on service FDI: Articles that are classified as discussing FDI in services companies commonly start from traditional FDI-MNE theories. Especially the applicability of Dunning's eclectic paradigm in a service context is assessed both conceptually and empirically. For instance, both Dunning (1989; 1993) and Buckley et al. (1992) theorize on competitive ownership, location and internalization advantages and service MNEs providing numerous examples that illustrate that the eclectic paradigm is applicable in a service industries context. Boddewyn et al. (1986) take a broader view and discuss definitions, classifications, measurements and explanations of service MNEs and conclude that no special FDI-MNE theories are necessary for international service firms; the existing ones can be readily accommodated through simple qualifications and elaborations. This is also the conclusion of the empirical studies that start from traditional FDI-MNE theories (e.g. Nigh et al., 1986; Terpstra and Yu, 1988; Li and Guisinger, 1992). Hence, the general reasoning underlying the traditional FDI-MNE theories are assumed to be relevant in a service context although it is stressed that the heterogeneity of services needs to be taken into account as the type of the service is assumed to affect its internationalization; more specifically, a general distinction is made between tradeable versus non-tradeable or location-bound services (Boddewyn et al., 1986; Buckley et al., 1992).

Studies that focus on entry mode choice in service companies: Some studies on entry mode choice depart from either economic or behavioral internationalization theories whereas others include factors of both streams into the discussion as Erramilli's work for instance clearly illustrates. In particular, Erramilli (1990), and Erramilli and Rao (1993) start from economic theories; the eclectic paradigm and the transaction cost approach respectively to explain entry mode behavior in

service companies whereas Erramilli and Rao (1990) and Erramilli (1992) rely on behavioral theories to explain the variety in service entry mode choice and stress for instance the importance of experience – a concept borrowed from Johanson and Vahlne's (1977; 1990) Uppsala model. Erramilli (1991) includes both streams in the discussion, leaning on economic and behavioral approaches to explain entry mode preference of service firms. Studies of other researchers show similar approaches. For instance, Ekeledo and Sivakumar (1998) develop a conceptual model of entry mode choice of service firms with the eclectic theory as theoretical foundation. Agarwal and Ramaswami (1992) study the effect of ownership, location and internalization factors on entry mode choice in the equipment leasing industry. Brouthers et al. (1996) use the eclectic theory to examine the specific impact of location- and ownership advantages on the choice of entry modes in smaller computer software companies. Hirsch (1993) starts from his own (economic) FDI model (Hirsch, 1976 in Hirsch, 1993) that focuses on costs and revenues related to international activities and translates this model to services and service-intensive goods industries. Contractor and Kundu (1998) take a broader perspective and study the organizational mode choice of international hotels by including the traditional market entry theories, next to transaction cost theory, agency theory, and strategic theory of organizational capabilities and knowledge in firms. Erramilli et al. (2002) also rely on the organizational capability perspective to explain the hotel firm's choice between franchising and management services contracts.

Thus, entry mode choices of service companies are studied by relying on various internationalization theories separately or jointly. Generally, the used theories are deemed appropriate to study entry mode choice of service companies although certain modifications seem necessary due to the heterogeneity of services. Erramilli's work is very influential in terms of acknowledging service heterogeneity as he introduces the classification soft versus hard services

together with the assumption that the entry mode choices of hard service firms resemble those of manufacturing firms whereas those of soft services are different due to the distinctive service characteristics (e.g. Ekeledo and Sivakumar, 1998; Cicic et al., 1999). To put it differently, Erramilli (1992) suggests that researchers can borrow from the substantial knowledge base in the manufacturing sector although in some situations fundamentally new concepts and approaches need to be developed. However, we did not identify any study that responds to this call by developing an essentially different model.

Studies that focus on service internationalization processes: Researchers that study the internationalization process of services from a more holistic perspective use a wide variety of theoretical frameworks as starting point. Again some researchers rely on one theory, for instance Bell (1995) assesses the applicability of the Uppsala model to explain the internationalization of software companies; Coviello and Munro (1995) focus on the same service industry but use the industrial network theory to study the internationalization. Others develop their own theory. Edvardsson et al. (1993) view the internationalization process containing four stages stressing the concept 'creativity mix'. Similarly, Roberts (1999) captures service internationalization as a process that occurs through stages as well but with a strong emphasis on various export forms. O'Farrell and Wood (1998) conclude that the applicability of established paradigms is questionable for business services and as a consequence they introduce a regionally based conceptual framework. However, the majority of the identified studies that focus on the internationalization process take several frameworks into account, in which various combinations are made. Björkman and Kock (1997) and Coviello and Martin (1999) use the logic of the Uppsala model, the industrial network perspective and internalization theory to explain the internationalization of three companies in the tourist industry, and four companies in the engineering consulting sector respectively. Sharma and Johanson (1987), and Majkgård and

Sharma (1998) use the Uppsala model and the industrial network theory in the context of technical consultancy companies and software companies in that order. Hellman (1996) relies on stages model, the industrial network perspective and the relationship-marketing paradigm to study the internationalization of banking and insurance companies. Li (1994) examines international expansions strategies of service multinationals and includes FDI-MNE theories, the Uppsala model and industrial organization theory in the theoretical platform.

Hence, studies classified in the category of a broader focus on the internationalization processes use concepts from both streams. Due to the inherent process perspective of both the stages models, and the industrial network theory, these approaches are most often included in the theoretical foundations of these studies. Nevertheless, views from the economic stream are also incorporated as it is acknowledged that the explanations from the stages models and industrial network approach can be enriched with views from economic internationalization theories (e.g. Sarkar et al. 1999; Li, 1994). Opinions on the applicability of the various frameworks in a service sector differ as evidence is found that both – to a certain extent – supports and/or questions the traditional internationalization theories. More specifically, with regard to economic theories, O'Farrell and Wood (1998) and O'Farrell et al. (1998) severely question the applicability of the transaction cost approach, the eclectic paradigm and the internalization theory to explain the internationalization of business service SMEs. On the other hand, researchers such as Erramilli and Rao (1993) and Coviello and Martin (1999) argue that the economic approaches are well transferable to a service setting. Furthermore, evidence is found that both supports Johanson and Vahlne's (1977; 1990) Uppsala model (e.g. Eriksson et al., 2000a; 2000b, and 2001; Li, 1994) or contradicts it (e.g. Sharma and Johanson, 1987; Bell, 1995; Hellman, 1996). Finally, a lot of support is found for the industrial network theory (e.g. Coviello and Munro, 1995; 1997; Coviello and

McAuley, 1999; Björkman and Kock, 1997) although it is stressed that other frameworks are needed to complement the analysis. In general, like in a manufacturing context, researchers of service industries acknowledge that a multitude of frameworks seems to be required since each of the approaches can only offer a part of the explanation (Baden-Fuller, 1993; Bell, 1995; Coviello and Martin, 1999). Nevertheless, similar to what is concluded in terms of entry mode choice, no fundamentally different model is yet proposed to explain the internationalization of service companies.

Accommodating service characteristics: Given the controversy on the necessity of different internationalization theories for services together with the contradicting findings, an intriguing issue concerns to what extent researchers pay explicit attention to the impact of the distinctive service characteristics on the internationalization process. Various groups of research can be distinguished. The first group of studies mainly aims to describe and/or explain internationalization processes of service companies active in one or multiple sector(s) explicitly taking into account the distinctive characteristics of services both in the literature and analysis section (e.g. Erramilli, 1990; Majkgård and Sharma, 1998; Roberts, 1999; Léo and Philippe, 2001). A second group also focuses on the internationalization of service firms but does not explicitly discuss the findings in the light of the distinctive service characteristics or service types (e.g. Patterson et al., 1999; Chadee and Mattsson, 1998; Javalgi et al., 1998; O' Farrell et al, 1996). The third group improves the understanding of various internationalization issues, which are empirically tested in a service setting although the results are not discussed in terms of the examined service context (e.g. Eriksson et al., 1997; 2001; Hertz, 2001; Brunninge and Melin, 2001; Patterson et al., 1997).

Thus, although some researchers clearly stress the service characteristics by taking the differences into account both in the theoretical platform and in the analysis of the results, most research in a services context is rather negligent about the heterogeneity of services distorting a clear discussion of internationalization in service industries. For example, O'Farrell et al. (1996) discuss the process of first foreign market entry mode selection in various business services, ignoring the possibility that the simultaneous inclusion of various service types might affect the results. In other words, we question whether it is correct to assume that management consultancy firms can rely on the same entry modes as computer software or product design companies. Moreover, Patterson et al. (1999) discuss service companies' motives to start and continue exporting and compare Dutch with Australian companies. However, the authors do not clarify the composition of their sample but conclude for instance that client following is a very important motivator over the two geographical samples. Again, is it correct to assume that the client following stimulus is equally important in every service industry included in the sample ?

2.4 Challenges for future research on service internationalization

Based on this literature review, we are of the opinion that the limited nature of the studies on the internationalization of services does not primarily concern the number of studies published but rather the restricted conceptual and methodological approach to the subject. Apparently, extant research does not offer an unequivocal insight in the internationalization patterns of service companies as is discussed above. Briefly summarized, the findings reveal mixed evidence in the different themes, the applicability of extant internationalization theories is both supported and questioned on the basis of empirical studies in various service industries and no clear alternative conceptual model is developed. In this final section, particular problems in existing studies are identified that we see as challenges for furthering insights in the internationalization process of service companies. More specifically, challenging issues with regard to the selection of research context, theoretical frameworks, and research methodology are discussed. It is explained how these three challenges are the starting-points in this dissertation.

2.4.1 Use service classifications

The first challenging issue concerns the selection of the research context – more specifically the choice of service industries to study. The literature review indicates that the heterogeneity in the group of services is insufficiently acknowledged focusing on one industry or a multitude of industries without distinguishing between different service types. Nevertheless, endorsing scholars such as Nicolaud (1989), Clark et al. (1996) and Erramilli (1990), we expect that service characteristics such as the intangibility and the simultaneity of production and consumption affect the internationalization process.

However, despite the existence of several classification schemes of services offered internationally (e.g. Vandermerwe and Chadwick, 1989; Clark et al., 1996; Lovelock and Yip, 1996), none of them found widespread acceptance in the service internationalization studies for purposes such as sampling or data analysis. Furthermore, studies that do acknowledge the heterogeneity remain rather limited as they only distinguish between the tradeable (hard) and location-bound (soft) services⁵. At the same time these studies remain quite vague about the large diversity in the category of location-bound or soft services. Nonetheless, we are convinced that future research can benefit from a special focus on the peculiarities of these location-bound services because this is a very broad category that seems to be unjustly treated as a homogeneous whole on the basis of one common characteristic, i.e. simultaneity of production and consumption. However, preliminary research indicates that particularly location-bound services differ from goods in terms of internationalization processes (e.g. Erramilli, 1990; Patterson and Cicic, 1995). In sum, we are of the opinion that future research efforts should explicitly acknowledge service heterogeneity, and that especially the internationalization of service companies that offer location-bound services deserves further attention.

Therefore, a classification scheme is needed that acknowledges the existence of various location-bound service types within and across industry borders that differ in terms of internationalization patterns due to different values on discriminating criteria. A search for such a classification identified eight schemes that are based on various criteria, mostly related to the distinctive

⁵ As defined above, hard services (Erramilli, 1990) or foreign-tradeable services (Boddewyn et al., 1986) are services of which the production (partly) can be uncoupled from the consumption (e.g. architectural design, financial loans). Soft services (Erramilli, 1990) or location-bound services (Boddewyn et al., 1986) are defined as services of which the production and consumption need to occur simultaneously (e.g. healthcare, hotel accommodations).

characteristics intangibility and simultaneity of production and consumption. Chapter 3 presents the scrutiny of eight extant classification schemes. Unfortunately, the analysis reveals that various problems hinder extant classifications to capture the differences in internationalization behavior of various service categories. Consequently, not one of the eight classifications is adopted as our first starting-point. Contrarily, a new classification scheme is developed that puts the emphasis on the knowledge contribution of the service provider and client in the service delivery.

2.4.2 Use a strong theoretical framework

A second challenging issue concerns the use of theoretical frameworks. The literature review shows that researchers that study the internationalization of service companies tend to fragmentarily and sometimes even haphazardly borrow and use concepts from extant internationalization theories that are developed in a manufacturing setting. As stated above, the applicability of the existing theories is seldom explicitly questioned in the literature or discussion sections although the empirical findings lead researchers to conclude that extant theories are suited or not. We see two potential causes of conflicting findings that can be related to the insufficient use of a strong theoretical framework.

First, studies on service internationalization insufficiently rely on conceptual frameworks to analyze and interpret empirical evidence. In some cases the internationalization frameworks are questioned or supported on the basis of rather shallow analyses. For instance, Bell (1995) argues that the stage models do not explain the internationalization of software SMEs because no evidence is found for the learning patterns establishment chain and psychic distance. Nevertheless the findings show that the commitment of the firms to their international activities grows as they become more experienced, which is an argument in favor of the theoretical level of the Uppsala model. In other cases,

the findings are interpreted without referring to a clear conceptual model at all. For instance, Léo and Philippe (2001) report about the internationalization of business service activities in a French region without linking the results to any theoretical expectations or explanations. Similarly, Alexander and Lockwood (1996) make a comparison of internationalization in the hotel and retail sectors without relying on particular internationalization theories.

Second, conceptual confusion arises due to terminological carelessness. For example, the word 'export' is interpreted in many ways by researchers of the internationalization of services. For some authors 'export' is used in a very broad sense, meaning 'to internationalize' (e.g. Roberts, 1999; Winsted and Patterson, 1998). For others, 'export' has a narrow meaning, being defined as an entry mode that implies that a service is being produced in the domestic market and then transferred directly or indirectly to the host market (e.g. Erramilli, 1991; Ekeledo and Sivakumar, 1998). Still others interpret 'export' as doing projects organized and implemented from their domestic base (e.g. Coviello and Martin, 1999, Grönroos, 1999). Probably, still other interpretations can be found. The lack of a uniform and clear definition is a problem as summarizing and comparing research findings become difficult if concepts cover a broad range of meanings. The distinction between location-bound (soft) and tradeable (hard) services, for instance, is meaningless if one of the broader definitions is used. A more important argument to plead for an unambiguous definition of 'export' is the link that is made between concepts such as entry mode choice, market commitment, market experience, uncertainty reduction and/or transaction costs. Conclusions on the relationships between these concepts can only be valid if the terms for entry modes both for initial and subsequent entries are clearly defined and are uniformly used over different studies.

Hence, we hold the opinion that future work on service internationalization processes should start from a strong conceptual framework to guide data collection, analysis, and interpretation. This should not be understood as a plea in favor of exclusive theory-testing research. To the contrary, we are convinced that especially more theory-building research is needed that takes previous research into account via a continuous iteration between induction and deduction (Orton, 1997; Dubois and Gadde, 2002; Van De Ven and Poole, 2002). There is no need to reinvent the wheel (Gummesson, 2000).

As is the case for research on internationalization processes in a manufacturing context, further research efforts should be aimed at theoretical platforms that are able to capture the multidimensional and dynamic character of a firm's internationalization. In an attempt to comply with this double need, we select the Uppsala process model as our second starting-point. Despite the numerous criticisms – also in a service context (e.g. Sharma and Johanson, 1987) – the Uppsala internationalization process model is considered a viable starting point for future research of the complex internationalization process of service firms. In chapter 4 we elaborately argue that the theoretical level of Johanson and Vahlne's (1977; 1990) Uppsala internationalization process model is suited to study the internationalization of companies given the explicit enrichments of the model with insights from the resource-based view, organizational learning, and the industrial network perspective.

2.4.3 Be transparent in practical research approach

The third challenge concerns the practical research approach. The literature review shows that carefulness is required as methodological challenges arise from narrow operationalizations of concepts and vague guidelines concerning the selection of the unit of analysis. Strong examples of methodological confusion due to poor operationalizations are offered by O'Farrell et al. (1995) who argue

that the quality of studies on *entry mode choice* in a service context suffers because of three reasons. First, in surveys, entry mode choice is often defined too narrowly by asking respondent to choose from a limited number of alternatives. Second, data on entry mode choice is aggregated into a binary dependent variable – shared versus full control modes as a result of which valuable information is lost. Third, in the analysis some researchers exclude certain entry modes on which they have data. O'Farrell et al. (1995: 695) state that: [...]meaningful investigation of entry mode choices requires both the maximum degree of disaggregation at the level of the modes actually used and the inclusion in the analysis of all modes selected."

Another methodological issue that challenges future research relates to the selection of the unit of analysis. Again, the need for a well-considered selection is illustrated by O'Farrell et al. (1995) who note that in research on entry mode choice, it is common practice to let respondents choose a particular entry decision to keep in mind when answering the survey questions (e.g. Erramilli 1990; 1991; 1992). The disadvantage of this practice is that respondents tend to discuss recent and successful entries and that learning effects from earlier entries are ignored. An additional problem is the practice of pooling data by asking respondents to give information on several entries (e.g. Erramilli and Rao, 1990; 1993). The grouping of data has the disadvantage of losing information on learning effects.

Hence, for complying with calls for the development of cohesive and sound theories to explain service internationalization (e.g. Knight, 1999; Boddewyn et al., 1986), studies should reflect the decisions that service companies make and implement as completely as possible (O'Farrell et al., 1995). Overall, we believe that the use of a theoretical framework to specify the concepts and unit of analysis studied, next to transparency in reporting can prevent most problems.

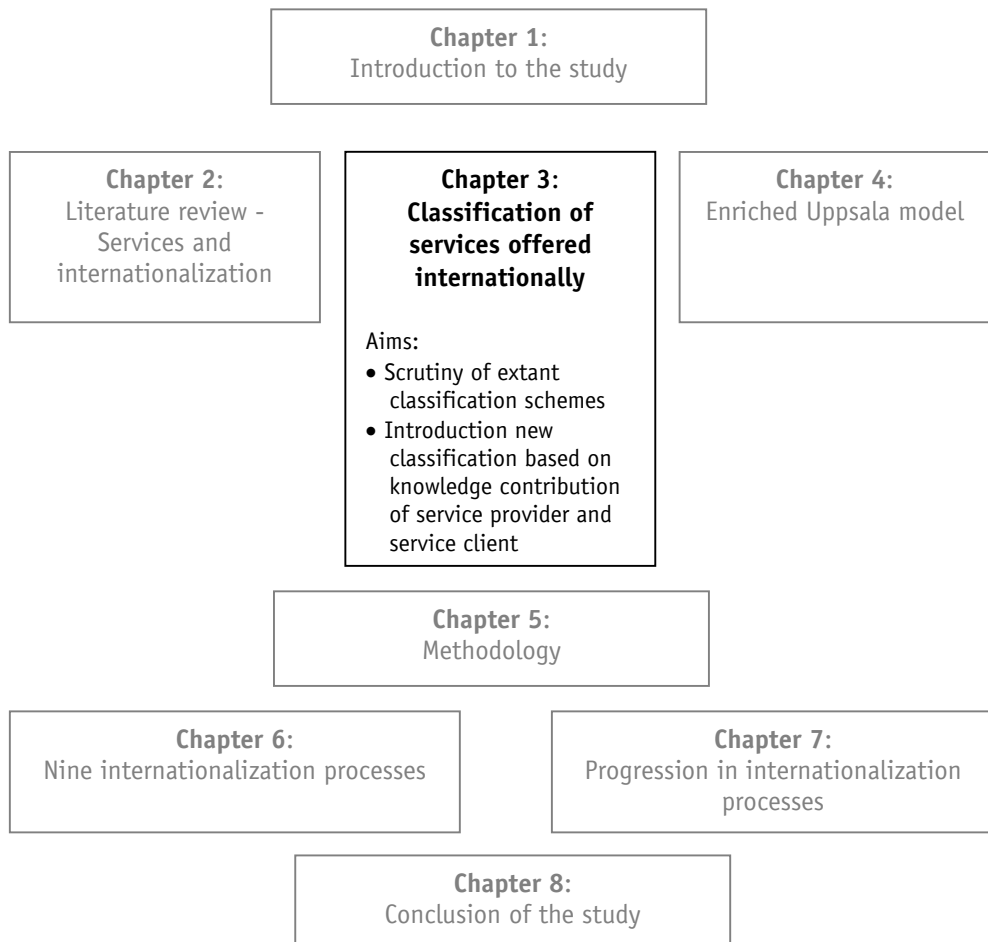
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Respondents and researchers should be clear about the selection of the unit of analysis discussed. As such, we believe that letting respondents choose is not a problem as long as the research design allows transparency about it in order to acknowledge particular implications like the effect of previous experience with internationalization.

In the introductory chapter we argued that the topic ‘internationalization processes of service firms’ is rather broad leading to the need for a stricter focus to guide the research efforts. More specifically, we choose to put the emphasis on episodes of progression in the internationalization process. The particular manifestation of such an episode of progression is allowed to be diverse such as the opening or closing of an office, the acquisition of a competitor, entering a new market via engaging with a partner and so on. Consequently, this choice allows us to study service firms in various phases in the internationalization process. Furthermore, the theoretical platform containing a new services classification and enriched Uppsala model provide the base to collect and interpret empirical evidence. In each chapter we aim at being transparent by reporting arguments for the various choices made throughout the research process.

Chapter 3:

Classifications of services offered internationally



3.1 Introduction

The group of services contains a wide variety of activities with distinct characteristics; a diversity that should be acknowledged when studying services (Aharoni, 1993; Iacobucci and Ostrom, 1996; Clemes et al., 2000; Lovelock, 2001; Robison et al., 2002). Like Lovelock (1983), Silvestro et al. (1992: 62) argue: "A service typology which transcends narrow industry boundaries may lead to some cross fertilization of ideas and to an understanding of the management methods and techniques appropriate to each service type." However, the literature review in chapter 2 revealed that current studies insufficiently acknowledge the impact of services heterogeneity.

In our opinion, the different and even contradicting findings in extant research follow to some extent from the ignorance of service heterogeneity. It is not enough to distinguish services from goods; the group of services needs further subdivision. Further progress in services internationalization studies is assumed to be dependent upon acknowledging the wide diversity in service activities and a rigorously compiled classification can aid in this regard. However, the search for a guiding classification resulted in the identification of various schemes instrumental to understanding internationalization of service companies. Unfortunately, a scrutiny of these classifications disclosed deficiencies on various issues, which leads us to conclude that none of the schemes is suited to advance research on services firm internationalization. Consequently, an alternative classification is introduced.

The chapter is further structured in four sections. In section 3.2, the eight identified classifications are elaborately introduced. Next, in section 3.3, the classifications are examined for their ability to aid the study of service firm internationalization processes. Hunt's (1991) criteria for assessing classifications are used to assist in this review. As scrutiny reveals that the various problems

hinder a widespread adoption of any of the extant schemes, a new classification is offered in section 3.4. Based on Hill's (1999) typology of output and the knowledge perspective of Kogut and Zander (1993; 1995), four service types are introduced. In section 3.5, the suitability of the alternative classification is discussed for studies on service internationalization and section 3.6 ends with concluding remarks.

3.2 Classifications of services offered internationally

By means of an electronic search in library catalogues ABI/Inform and Business Source Premier, and by systematically reviewing the reference section of articles, eight classifications of services are identified that focus on particular internationalization issues. The selection of these eight schemes is not exhaustive but aimed at capturing the most prevalent classifications in present literature.

The eight schemes are summarized in Table 3-1. For each classification, the distinctive classes are indicated together with the discriminating characteristics that are used to make a distinction between them. The last column highlights the examples that the authors mention to illustrate the types. Important to note, two streams can be recognized in the classifications (cf. Vandermerwe and Chadwick, 1989). A first type of classifications is developed to explain how different service categories are traded internationally, whereas the second type of classifications uses physical differences between services that are assumed to affect marketing and strategic issues in an international context. The table generally shows to which stream the classification belongs by indicating T for trade related classifications, and M&S for marketing and strategy related ones. Furthermore, in the same column the particular purpose of the study in which the classification is built or used is briefly summarized.

Table 3-1: Classifications of services offered internationally

Authors	Stream T vs M&S/ Aim	Discriminating characteristics	Categories of international services	Examples
Sampson and Snape (1985)	T <i>Identify characteristics of international transactions in services</i>	Movement of factors of production and/or receiver of service	<ul style="list-style-type: none"> - Without movement of factors of production or of the receiver of the service* - Movement of factors of production - Movement of the receiver - Movement of both factors of production and receiver 	<p>Consulting, life-assurance, architectural design handled through correspondence</p> <p>Books, floppy disks full of retrievable data, drawings of the plans of a bridge</p> <p>Foreign patients, tourists, and students</p> <p>Surgeon and patient in third country</p>
Boddewyn, Halbrich and Perry (1986)	T <i>Discuss service multinationals</i>	Location dependence of production	<ul style="list-style-type: none"> - Foreign-tradeable service* - Location-bound service - Combination service 	<p>Financial loans</p> <p>Hotel accommodations</p> <p>Remote computer data-processing</p>
Clark, Rajaratnam and Smith (1996)	T <i>Define & describe international services</i>	Who or what crosses an international boundary	<ul style="list-style-type: none"> - Contact-based services - Vehicle-based services** - Asset-based services - Object-based services* 	<p>Consultancy services and temporary labor</p> <p>Raw data transfer from New York to Ireland via satellite for processing</p> <p>Banks</p> <p>Computer software and video cassettes, repairs to machinery</p>
Ekeledo and Sivakumar (1998)	M&S(T) <i>Discuss entry mode choice</i>	<ul style="list-style-type: none"> - Inseparability of production and consumption - Primary source of utility 	<ul style="list-style-type: none"> - Soft services - Hard services* - (Goods*) 	<p>Restaurants, lodging (hotels), and health care (hospitals)</p> <p>Computer software, advertising, and equipment leasing, life insurance, music, architectural design, education</p> <p>Toys, automobiles, shoes</p>

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Erramilli (1990)	M&S (T) <i>Discuss entry mode choice</i>	Inseparability of production and consumption	<ul style="list-style-type: none"> - Soft services - Hard services* 	Healthcare, advertising, hospitality, fast food, car rental, management consulting, and customized data processing Packaged software, engineering design, R&D services, architectural services, and some types of banking
Vandermerwe and Chadwick (1989)	M&S <i>Introduce class. to illustrate modes & strategies of service internationalization</i>	<ul style="list-style-type: none"> - Relative involvement of goods - Degree of consumer/producer interaction 	<ul style="list-style-type: none"> - Low goods/lower interaction - Medium goods/lower interaction - High goods/lower interaction* - Low goods/higher interaction - Medium goods/higher interaction - High goods/higher interaction 	Home mail delivery, knife sharpening Hotels, air freight, shipping, retailing, couriers Movies on video-cassettes, software on diskettes, music on CD Consulting, advertising, education, engineering Banking, personal travel, maintenance systems Electronic diagnostics, teleshopping
Patterson and Cicic (1995)	M&S <i>Empirically test class. of services in international markets</i>	<ul style="list-style-type: none"> - Degree of tangibility - Degree of face-to-face contact with client in service delivery 	<ul style="list-style-type: none"> - Location-free professional services - Location-bound customized projects - Standardized service packages* - Value-added customized services 	Off-the-shelf marketing research, transportations services, insurance, and some banking Major engineering, management consulting, project management Software development, compact disks, standardized distance education courses Technical training and support that follows a major computer or telecommunications installation
Lovelock and Yip (1996)	M&S <i>Examine how globalization drivers & use of global strategy applies to various service types</i>	<ul style="list-style-type: none"> - Nature of the process tangible versus intangible) - Physical presence of customer during service production 	<ul style="list-style-type: none"> - People-processing services - Possession-processing services - Information-based services** 	Passenger transportation, health care, food service, lodging Freight transport, warehousing, equipment installation and maintenance Accounting, banking, consulting, education, insurance, legal services

Legend: * marks services that can be exported in the narrow meaning of the term

** marks services that can be provided through technology avoiding the need for physical closeness

Before getting into the problems that hinder the identified schemes to direct research on internationalization processes of service firms, the eight schemes are briefly introduced with respect to the underlying characteristics used to distinguish various categories.

3.2.1 Trade related classifications

A closer look at the characteristics shows that the first three classifications in Table 3-1 mainly discriminate on the basis of where the service production and consumption happens, a criterion that is linked to the inseparability/simultaneity characteristic of services. These classifications focus on the place of production with the aim of defining international services by determining who or what crosses international boundaries in the international trade of services. In these classifications a first distinction is made between services that do and those that do not require the movement of either service provider and/or receiver. Some services can be embedded in goods, which results in the possibility of producing them at home and then trading them like goods through export in a narrow sense¹. This category of services is referred to as 'without movement of factors of production or of the receiver of the service' by Sampson and Snape (1985), 'foreign-tradable services' by Boddewyn et al. (1986), and 'object-based services' by Clark et al. (1996).

Services for which production and consumption cannot be separated represent another group, which is further divided by the authors on the basis of related though different characteristics. Sampson and Snape (1985) focus on the *party in the service delivery that moves across the border*. As such, they distinguish the group of services that require the 'customer to go to the service provider', the

¹ Export in a narrow sense means that the services can be produced in the home country first, and that they can be transferred directly or indirectly to the host country later.

group where the 'service provider goes to the customer' and the third group where 'both parties move to a third country'. From the perspective of the service provider, the production occurs in the home country, host country and third country respectively.

Boddewyn et al. (1986) define the second category as 'location-bound services'; this group contains services for which producer and consumer share the production's time and space constraints. The location as such is no issue, the *simultaneity of the production and consumption process is determinant* in the sense that the service provider needs to set up a foreign production facility or has to convince the foreign service customer to come to their production site. The third category of Boddewyn et al. (1986) 'combination services' contains services that are partly location-bound and partly capable of being embedded in goods and thus location-free.

Clark et al. (1996) make a further distinction by specifying *how the movement over borders exactly occurs*. The category of 'contact-based services' contains services where either the producer and/or the consumer move(s) for the time of the service project. 'Asset-based services' are defined as services that are transacted across national boundaries in the context of dedicated physical assets substantially owned or controlled from the home country. For these services, a permanent foreign presence is acquired as the service is embedded in an asset but delivered through people. The category of 'vehicle-based services' refers to services that are transacted through an instrumental framework, i.e. telecommunications.

3.2.2 Marketing and strategy related classifications

Both the classification of Erramilli (1990) and Ekeledo and Sivakumar (1998) bear resemblance to the former three classifications in Table 3-1 in the sense that again the inseparability of the service production and consumption is the discriminating characteristic between the categories. In this context 'soft services' are defined as services for which the production and consumption cannot be separated whereas 'hard services' can be produced before and in a different setting than the consumption. This implies that soft services require the movement of either the consumer and/or the producer since their simultaneous presence is needed at the moment of service delivery. For hard services, the situation resembles that of goods since the production can take place in the home country after which the service is embodied in a good that can be exported. According to Ekeledo and Sivakumar (1998) the difference between a hard service and a good lies in the primary source of utility that the customer looks for, hence the service versus the good component. The aim of the classification of Erramilli (1990) and Ekeledo and Sivakumar (1998) differs from the previous three classifications as they both discuss different service types in order to explain entry mode choices by service companies and as such discuss strategies and marketing implications across the boundaries of various service sectors. Nevertheless, the implicit attention for the tradeability of the services leads to the indication M&S (T) in Table 3-1 as these classifications can be part of both streams.

The three latter classifications summarized in Table 3-1 are built with the main aim of gaining insights in the strategies and tactics of certain groups of services offered in an international context. The classifications of Vandermerwe and Chadwick (1989), Patterson and Cicic (1995) and Lovelock and Yip (1996) use two discriminating characteristics to typify the various categories, in particular, the degree of intangibility of the service and the need for interaction between

service provider and customer. Although there seems to be consensus concerning the relevance of these two characteristics to build a classification of international services, the researchers give different meanings to these criteria. Important to note, we restrict to a summary of the characteristics as described by the authors, using their exact wording.

To start with the characteristics that Vandermerwe and Chadwick (1989) use, intangibility is understood as the relative involvement of goods, i.e. pure services or service which are low on goods; services with some goods or delivered through goods; and services embodied in goods. The second characteristic is the degree of consumer/producer interaction, which is assumed to be either low or high. The combination of the two criteria leads to six service types listed in Table 3-1.

Patterson and Cicic (1995) use intangibility to divide services in two broad groups, pure services on the one hand and services embedded in goods on the other. The second characteristic refers to the degree of face-to-face contact required between the service provider and customer during the service delivery. A distinction is made between services that demand a high degree of provider/client contact and interaction during the service delivery and those that do not due to delivery by technology implying no intense interpersonal contact. Four types arise, the pure services are the 'location-free professional services' and the 'location-bound customized projects', and the services bundled with goods are the 'standardized service packages' and the 'value-added customized services'.

Lovelock and Yip (1996) make a distinction between three categories of services on the base of the tangible versus intangible nature of the actions in the service delivery process. The tangible nature refers to services that involve tangible actions to customers in person ('people-processing services') or to their physical objects ('possession-processing services'). The intangible nature concerns

services where intangible actions are directed at people's minds or intangible assets ('information-based services'). The second discriminating characteristic used is the extent to which the customer or its belongings need to be physically present during service production. For people- and possession-processing services the receiver of the service needs to be present when the service is delivered. For information-based services, the service can be produced and consumed at different times and in different places because production and consumption can be separated and/or because the delivery can be organized through electronic channels.

3.3 Problems with extant classifications

By means of classifications of services offered internationally, researchers should be able to gain insights in the internationalization behavior of companies that provide different service types. However, the limited adoption of classifications in current research together with the lack of discussing findings over service categories give an indication that extant classifications fail to give clear directions. The lack of complete and reliable data for various services sectors on a global scale (Samiee, 1999; Aharoni, 1993) that partly prevents the systematic study over various categories causes scholars to focus on one industry or on a mixture of industries on which they have data (for a detailed overview of sampling choices in extant research we would like to refer to section 2.3.1.4). However, other problems beyond data availability have caused difficulties with the general adoption of a particular scheme. Following Hunt's (1991) five general criteria for evaluating the strength of a classification, the eight identified classifications are assessed. A sixth issue is added to discuss the scope of existing classifications. We explicitly acknowledge that the eight classifications were not necessarily built with the particular aim of guiding studies on the process of service internationalization. Nevertheless, for the purpose of acknowledging service heterogeneity in this study, following scrutiny is set up to select a guiding classification and hence aims at assessing the classifications' ability to suit that particular purpose.

3.3.1 Criterion 1: Adequate specification of the phenomenon

Hunt's (1991) first criterion inquires whether the schema adequately specifies the phenomenon to be classified. In the present application, the universe of interest contains services that are offered abroad. At issue is whether the eight classifications identify what is understood as services in general, and as

internationally offered services, in particular. To assess the proper delineation of the universe studied; the eight articles are scanned for explicit definitions. Table 3-2 represents the definitions offered in the eight classifications.

Table 3-2: Explicit definition of services and international services in classifications

Classifications	Definition services	Definition international services
Sampson and Snape (1985)	Goods are a physical embodiment of factor services while 'services' are more directly supplied by the owners of factors of production to their clientele (p.172).	An international transaction is a transaction between the resident of one country and a resident of another. The transaction may take place entirely within one country (p.172).
Boddewyn, Halbrich and Perry (1986)	Emphasis is put on services that satisfy at least one of two criteria, namely, intangibility and/or dependence on a customer's participation or input (his person or assets) in the service's production (p.42).	Services that cross borders can be classified in a threefold manner (see table 3-1).
Clark, Rajaratnam and Smith (1996)	No explicit definition	International services are deeds, performances, efforts, conducted across national boundaries in critical contact with foreign cultures (p. 15).
Erramilli (1990)	No explicit definition	No explicit definition
Ekeledo and Sivakumar (1998)	No explicit definition	No explicit definition
Vandermerwe and Chadwick (1989)	No explicit definition	No explicit definition
Patterson and Cicic (1995)	Services are far from homogeneous but they possess a number of unique characteristics of which intangibility is the key differentiating characteristic from which the others emerge (p.59).	No explicit definition
Lovelock and Yip (1996)	Services can be distinguished from goods because they comply with eight characteristics: performance not an object, customer involvement in production, people as part of the service experience, quality control problems, harder for customers to evaluate, lack of inventories, importance of time factor and electronic channels of distribution (p.66).	A truly global company is one that does business in both the eastern and western hemispheres, but also in the northern and southern ones (p.65).

Table 3-2 shows that the classifications of Vandermerwe and Chadwick (1989), Erramilli (1990), and Ekeledo and Sivakumar (1998) neither explicitly define services in general nor services offered in an international context, in particular. Furthermore, Patterson and Cicic (1996) and Clark et al. (1998) include a formal definition of services but do not demarcate the international dimension. Lovelock and Yip (1996), Boddewyn et al. (1986) and Sampson and Snape (1985) discuss characteristics that distinguish services from goods alongside specifying dimensions that make services international. Overall, not much attention is paid to clearly isolating the phenomenon to be classified.

Actually, the eight classifications propose a partitioning of general service activities in order to examine international trade or particular marketing and strategy issues. However, with the exception of Sampson and Snape (1985), the classifications do not demarcate 'domestic' services from 'international' services. Nevertheless, the different service categories in all eight schemes are expected to have distinctive characteristics that affect internationalization issues although the classifications can be used for different purposes as well. Hence, we can conclude that seven of the eight classifications do not comply with the first criterion, as they all remain rather vague about what services and international services are.

3.3.2 Criterion 2: Specification of the underlying characteristics

Hunt's (1991) second criterion concerns the adequate specification of the characteristics that are chosen to do the classifying. That is, questions are asked whether these characteristics are consistently used throughout the schema and whether they lead to unambiguous classification of items. As Table 3-1 shows, the five first classifications lean on the inseparability characteristic, whereas the latter three classifications are built on the service characteristics intangibility

and interaction. Unfortunately, vague specifications of these characteristics cause confusion within and across the classifications. Concerns with the first five classifications mainly derive from the ambiguity in categorizing services due to the vague definition of its underlying characteristic while the latter three classifications suffer from multidimensional characteristics that are inconsistently defined and used throughout the classifications.

The inseparability of production and consumption is fundamental to the first five classifications in Table 3-1. In these classifications the inseparability of production and consumption is assumed to be dependent upon the possibility of capturing the service outcome into some tangible form on the one hand, and on the required physical proximity of the producer and consumer on the other. However, on closer inspection of the examples in Table 3-1, the selection of some services to illustrate the inseparable vis-à-vis the separable services group is dubious. For instance, it is unclear why management consulting is considered an inseparable service (e.g. Erramilli, 1990; Clark et al., 1998) and architectural services a separable service (e.g. Sampson and Snape, 1985; Erramilli, 1990) given the service outcomes in both cases can be captured in a tangible form (report and plan respectively). Similarly, advertising is for some an example of an inseparable service (e.g. Erramilli, 1990) and for others it illustrates a separable service (e.g. Ekeledo and Sivakumar, 1998)². Basically, this becomes a matter of definition; consultants, architects and advertisers can embody their work in reports, plans and store displays, making the service tangible, and thus separable (hard). At the same time, the required interaction, in the sense of physical proximity of service producer and customer in the process that leads to

² Because Boddewyn et al. (1986) refrain from giving numerous illustrations for the three service types, contradicting examples are hard to find. Nevertheless, the suitability of hotel accommodations as an example of location-bound services can be questioned if issuing the tangible hotel voucher is considered a separable foreign-tradeable product and as such hotel accommodations become an example of combination services.

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the reports, plans, and store displays may be overriding, making the service inseparable (soft). Hence, the inseparability of production and consumption is dependent upon two characteristics – intangibility of service outcome and/or need for physical proximity – but it is not clear under which conditions one dominates the other.

Furthermore, on close inspection, the intangibility characteristic used in the latter three classifications shows that it is often unclear what it is that needs to be intangible. Vandermerwe and Chadwick (1989) and Patterson and Cicic (1995) relate intangibility to the relative involvement of goods in the service package, whereas Lovelock and Yip (1996) write about tangible and intangible actions referring to the nature of the service act. Apparently, the intangibility relates to the service delivery process and the extent to which tangible goods are required to provide the service, which leads to a continuum with pure services and services bundled with goods at the extremes. However, discussion sometimes collapses into services embodied or embedded in goods. This implies an ability to capture the outcome of some service processes in physical goods leading to a dichotomy between services that have intangible outcomes vis-à-vis those with tangible outcomes. By using the two intangibility dimensions interchangeably within the classifications, application tends to distort the discussion because services that are bundled with goods are not necessarily services embedded in goods, or vice versa. For instance, hairdressing and lodging involve many tangible goods although the final outcome is intangible, whereas designing a bridge can occur without many tangibles although the final result is highly tangible.

Evaluating the second discriminating characteristic reveals that the multidimensionality of client/provider interaction is insufficiently acknowledged leading to further confusion within the first three classifications in Table 3-1.

Chadwick and Vandermerwe (1989) remain vague about what they mean by a 'lower to higher degree of interaction' during the service delivery. The only dimension explicitly referred to is whether the interaction occurs through people or through machines/technology, but the meaning of the interaction being 'lower or higher' remains unclear. Similarly, Lovelock and Yip (1996) limit the notions of interaction to the extent to which customers or their belongings need to be physically present during the service production, but their discussion indicates that the nature of the interaction also affects a geographic presence. Patterson and Cicic (1995), to the contrary, indicate four dimensions of the degree of face-to-face contact although they do not systematically discuss these over the four international service types that they distinguish. More specifically, the four dimensions related to the degree of face-to-face contact concern the presence of the client necessary during the service delivery, the duration of the service transaction, the frequency of the contacts during the service transaction, and the degree of standardization of the service offered (Patterson & Cicic, 1995). By implicitly referring to different meanings of the interaction characteristic throughout the schemes, the clarity of the classifications is hindered.

In Table 3-3, an overview is given of the dimensions that underlie the main discriminating characteristics inseparability, intangibility, and interaction on which the reviewed classifications are established.

Table 3-3:Multidimensionality of discriminating characteristics

Characteristics	Dimensions	Alternatives
Inseparability	Place production and consumption	Separable Inseparable
Intangibility	Service process	Bundled with goods Pure services ^a
	Service outcome	Embedded/embodied in goods Pure services ^a
Interaction	Presence during service delivery	Not required Physically presence required Presence through technology
	Frequency of interactions during service delivery	High Low
	Duration of service delivery	Long Short
	Nature of interactions during service delivery	Standard
		Customized

Note: ^a The term pure services is used in both the context of service process and service outcome although they have a different meaning. In the first case, pure services refer to the intangible nature of the service delivery process in the sense that no goods are required, and in the second case, pure services refer to the intangible nature of the outcome, the fact that it cannot be embodied/embedded in a good.

3.3.3 Criterion 3: Mutual exclusivity of the categories

Hunt’s (1991) third criterion requires that categories of the classification at the same level should be mutually exclusive. In other words, no single item can be permitted in two different categories at the same level. However, problems with vague definitions of the discriminating characteristics underlying the classifications cause services to be placed in various categories within one classification. A look at the examples used, allows making reservations by the mutual exclusivity of almost each classification. Hence, the classifications can be expected to offer little guidance for the study of internationalization issues of particular service categories.

- Erramilli (1990) and Patterson and Cicic (1995) indicate that ‘some types of banking’ belong to the category of hard services and location-free

professional services in their respective studies. However, the wording 'some types' indicates that other types of banking can be placed in another category, although it is not clear what the exact characteristics of 'some' and 'other' types are.

- Vandermerwe and Chadwick's (1989) classification includes maintenance as a medium goods/higher interaction services although it could be argued that many standard maintenance assignments require only limited interaction.
- Clark et al. (1996) illustrate object-based services with repairs to machinery although it could be the mechanic that moves to the country where the machine is located making it an example of a contact-based service.
- Ekeledo and Sivakumar (1998) classify education as a hard service, however, in many cases, the personal interaction student/teacher is required leading to education as an example of soft services.
- According to Boddewyn et al. (1986) hotel accommodations are location-bound services for which the reservation voucher is merely a pre-production scheduling and commitment device. Nevertheless, it could be argued that the reservation voucher is a foreign-tradeable product that is the result of a location-free production process.
- No contradicting examples were found within the categories in the service classification of Lovelock and Yip (1996) or Sampson and Snape (1985).

3.3.4 Criterion 4: Collective exhaustiveness of the categories

Hunt's (1991) fourth criterion advises that classificational schemes should be collectively exhaustive. Every item that needs to be classified should have 'a home'. A dubious advantage of the vague definitions of characteristics underlying the four existing classifications is that any service that is offered

internationally can be placed somewhere, although a low inter-judge reliability can be expected.

3.3.5 Criterion 5: Usefulness of the schemes

Hunt's (1991:188) fifth criterion simply asks: "Is the schema useful?" For this study, the utility of classifications of services offered internationally depends on their ability in providing assistance in studying internationalization processes of services firms. However, problems with the underlying discriminating characteristics seem to prevent informed guidance for these studies. For instance, a core decision for the internationalizing service firm is entry mode choice. The preference for certain modes is assumed to be dependent on the service type (see section 2.3.2.4 in chapter 2). Hence, the question is what can be expected in terms of entry mode choice on the basis of the eight existing classifications retained in this scrutiny ?

Some commonality across the classifications concerns the estimated (non-) exportability of services, as agreement exists that some services can be exported whereas others cannot be exported. Both the characteristics inseparability and intangibility are used to explain (non-) exportability. This basic assumption is widely adopted in services internationalization studies (e.g. Stare, 2002; O'Farrell et al., 1996; Hirsch, 1993; Erramilli and Rao, 1990; Dunning, 1989; 1993; Carman and Langeard, 1980). However, multidimensionality of the underlying characteristics complicates analysis, as there is no clear-cut demarcation between exportable and non-exportable services.

In the first five classifications, inseparability, and thus non-exportability, is assumed to be due to an intangible service outcome and a required physical proximity between service provider and customer. However, as discussed above,

it is not clear which dimension is overriding in determining the (in)separability of a service, and consequently its exportability, leading to seemingly ad hoc entry mode choices. From the five classifications that start from inseparability, only Erramilli's (1990) study offers empirical findings. More specifically, the study presents an overview of entry mode choices in six different service sectors that are classified as either hard or soft services. Nevertheless, all sectors, including the soft services ones, are reported to make use of the whole range of entry mode options from exports to wholly owned subsidiaries illustrating the ambiguity.

The other three classifications that are based on intangibility and interaction do not seem to provide an informed basis for studying entry mode choices either. On top of the confusion caused by the multidimensional discriminating characteristics, various other reasons prevent guidance from these classifications with respect to entry mode choice. For instance, Vandermerwe and Chadwick (1989) link three clusters of entry modes with their six service categories. Unfortunately, as the authors acknowledge themselves, all clusters intersect to a certain degree and very few services fit neatly into one particular cluster making predictions for each service category difficult. In Patterson and Cicic's (1995) classification, discrimination in terms of entry mode choice is absent as representative firms in the four categories show a comparable range of entry modes used. Moreover, contrary to expectations, export is not reported as an option, not even by representative firms of service types that are bundled with goods. Lovelock and Yip (1996) broadly discuss entry mode options in their three categories. However, the range of entry mode possibilities for people- and possession-processing services seems similar. In sum, on the basis of the eight classifications, predictions of preferred entry mode choices for the various service types are difficult, at best.

3.3.6 Additional criterion: Exclusive scope on services

A sixth issue considered in our review addresses the scope of the activities covered in the eight classifications. Comparing these activities with Hill's (1999) taxonomy for the classification of output reveals that the classifications seem to unjustly enclose activities as being services. Hill (1999: 427) argued that: "... the traditional dichotomy between goods and services should be replaced by a breakdown between tangible goods, intangible goods and services". As a result, the inclusion of intangible goods seems to contribute to the ambiguities concerning the classifications that limit progress in understanding service firms' internationalization paths. Therefore, we adopt Hill's (1999) taxonomy which enables the identification and, hence, exclusion of unjustly included goods and intangible goods.

Hill (1999) defines goods as distinct entities of economic value over which ownership rights can be established and exchanged because they can be separated from their producers or owners, thus making them tradeable. Goods can be consumed and/or used long after they are produced at locations distant from their place of production. Intangible goods have all the economic characteristics of goods although their originals have no physical dimensions or spatial co-ordinates of their own because they are ideas or information that need to be recorded and stored on physical media such as paper, films, disks or tapes. Like material objects, the originals are separated entities over which ownership rights can be established and traded.

Compared to goods and intangible goods, services have two discriminating characteristics. First, services are produced with the agreement, co-operation and possibly active participation of the consuming unit(s). In addition, the second and qualifying characteristic is that the outputs produced are not separate entities that exist independently of the producers and/or customers. In

more general terms, a service implies a change made in the condition of one economic unit produced by the activity of another unit, and this change cannot be decoupled from the two parties. Consequently, no new entity is created and as such it is impossible to establish or trade ownership rights in the case of services.

Hill's (1999) definitions can assist in dealing with the problems outlined above that relate to the multidimensional concepts of inseparability, intangibility and interaction. First, with regard to inseparability, extant classifications distinguish between separable and inseparable services. In our opinion, the group of separable services³ largely overlaps with Hill's (1999) category of intangible goods and as such separable services should be left out of the discussion on services firm internationalization. Sufficient similarities exist between goods and intangible goods to assume analogous internationalization processes and to focus solely on services to fully grasp their internationalization. This implies that the categories 'without movement', 'foreign-tradeable services', 'hard services', 'high goods/lower interaction' and 'standardized service packages' in Table 3-1 are deleted from the universe studied.

However, deleting separable services does not resolve the confusion concerning some of the examples placed in these categories, such as engineering and architectural services. Although these activities can partly occur away from the customer with a separate entity as a result, we firmly doubt that their internationalization process will resemble that of goods (e.g. Weinstein, 1977; Sharma and Johanson, 1987; Coviello and Martin, 1999). Therefore, these activities should remain in the universe studied. Consequently, an additional discriminating characteristic is needed, as we believe that the tangibility of the

³ Table 3-1 marks these categories in each of the classifications with an asterisk.

outcome is not the only attribute that determines whether an activity belongs to either the category of separable or inseparable services.

A potential additional attribute could be the benefit that is sought by the customer. For the example of engineering this means that the firm hires an engineer not to obtain an extra report to put on the shelf, but to obtain a change in the organization that results from the engineer-manager interaction in the firm. The crucial issue that causes the confusion with these examples is the benefit sought which could also be regarded as the moment of consumption. The confusion with the examples engineering and architectural services is thus related to the question of when does the consumption take place ? Does a firm that hires an engineering company consume the service when it receives the report, or does the consumption start earlier, when the engineer conducts investigations that lead to the report ? In other words, the group of services is complemented with activities that have tangible outcomes but where the moment of consumption lies during the process that leads to that outcome.

Second, with regard to the confusion related to the concept of intangibility, we build further upon the previous argument. Hill's (1999) taxonomy clarifies that the intangibility of the outcome is a crucial attribute to discern services from intangible goods, as Hill's (1999) second characteristic of services states that the outputs produced are not separate entities. Nevertheless, a focus on the category of services leaves us with a diverse group since service activities can still differ with respect to the use of goods during the service delivery, or in other words, a wide range of possibilities remains in terms of the intangibility of the service process.

Third, due to the participation of the customer in the service process, the timing and production location of the service is to a great extent influenced by the

customer's preferences (Hill 1999). This brings us to the crucial issue of interaction. The emphasis of Hill's (1999) taxonomy on the interaction during the service delivery provides us with an argument to focus on the interfacing between the service provider and customer. This interfacing is the starting-point to develop a classification of services offered in an international context that is elaborated upon in the second part of this chapter.

3.4 *New classification of services offered internationally*

The entry point of our alternative classification is the fundamental assumption that services are the result of an interaction between two parties (cf. Hill, 1999; Martin et al., 2001; Larsen, 2001). In this interaction, the customer takes the initiative as he/she approaches the service provider with a particular need that triggers the service delivery process. The service delivery process is defined to occur over the period between the customer's request for a particular service and the completion of this service provision. In some cases, the participation of the customer remains restricted to this starting point (e.g. posting a letter), whereas in other cases, commencing the service process is the opening of an intense co-operation (e.g. legal preparation of merger). In any case, in line with Hill's (1999) definition of services, the outcome of the service is assumed to be a change in the condition of the customer or his/her belongings that arises in the interaction and that cannot exist independently of the two parties (e.g. haircut or repair of a machine). As such, we assume that the service outcome is intangible, or at least that the interaction in the service delivery process that leads to the service outcome is the main benefit that is sought by the client. The service delivery process itself can be tangible or intangible in the sense that it can occur with or without the assistance of goods respectively.

3.4.1 Four service types on the basis of knowledge contributions

We assume that various service types can be distinguished on the basis of the particular knowledge contribution of the service provider on the one hand and the client on the other in the service delivery process. As such we apply a knowledge perspective (Grant, 1996b; Kogut & Zander, 1993; 1995) that provides

us with a platform on which assumptions can be established concerning the replication of services in foreign markets. More specifically, we introduce a classification that partitions the heterogeneous group of services into subgroups that are expected to have important commonalities in their internationalization process due to similar knowledge replication processes. Although we build the classification in the context of our study of service internationalization, the new classification is not restricted to examining internationally offered services; the scheme could be used for other purposes as well (e.g. in the field of HRM or services marketing).

Four service types are distinguished that arise from a combination of different knowledge contributions by both the service producer and customer in the service delivery process. The first characteristic used in the classification is the knowledge contribution of the service provider that concerns the 'knowing-about' and 'knowing-how' that is needed to deliver the service that the customer wants. In this context, knowledge concerns the specific information, together with the skills and capabilities that the service producer needs to be able to provide the service solution demanded by the service client. Two situations can be distinguished. In the first situation, the service is the result of the use of predominately explicit knowledge by the service provider to come to the best solution. This means that the service is delivered through a relatively standardized way of operating. The service process can be divided into specific steps so that explicit procedures, directives and manuals can be developed. New employees can be trained on the basis of these codified procedures by the use of direction (Grant, 1996b). In the second situation, services are the result of the use of predominately tacit knowledge – i.e. knowledge that can be acted but cannot be expressed (Baumard, 2002) – by the service provider. In these cases, a customized approach is required to provide a solution to the customer's problem, in the sense that the demanded expertise is primarily in the heads of the

employees. It is rather difficult to grasp and codify the service process into clear-cut steps. Consequently, it takes time to familiarize new employees with the firm's approach because it occurs mainly through observation (Grant, 1996b).

The second characteristic used to classify is the knowledge contribution of the service customer that is the 'knowing-about' and 'knowing-how' that he/she needs to bring into the interaction in order to obtain the service that he/she wants. Again, two situations are distinguished. In the first situation, the customer needs to provide the service producer with straightforward and simple knowledge. In these cases, the interaction is often limited to the customer's indication that he/she wants the service together with the transfer of specific and well-defined knowledge (i.e. facts) that the provider needs in order to deliver the service. We assume that the customer has no problems with obtaining and transferring the required data. To put it differently, the relative costs for contributing the required knowledge related to the particular customer need are low. In the second situation, the knowledge contribution of the producer is far more multifaceted. The service delivery is dependent upon the transfer of both explicit and tacit knowledge by the customer. The customer needs to 'open up' to the service provider so that the latter can match the service delivery to the particular needs of the former. Here, the relative costs for the service clients are expected to be much higher to come to the desired service delivery.

Combining the different situations of knowledge contributions by the two parties leads to four service types as is illustrated in Figure 3-1. Type A – Routine Services – concerns uncomplicated services that are the result of a standard interaction between the service producer and customer. The customer indicates his/her need, the producer asks for the required knowledge during the delivery process and the service is provided. Examples in this situation are the basic transportation of goods or people, postal services, and catering. Type B –

Modular Services – contains services that are straightforward for the service provider although they are complex for the customer. The provider relies on standard modules to deliver the service but he/she is dependent on very specific knowledge coming from the customer. In many cases, the provider needs to assist the customer in obtaining the necessary knowledge. Examples of this situation are all-embracing facilities management, market research, and consulting for acquiring ISO norms. Type C – Expert Services – includes services that require specialized knowledge by the service provider that is hard to codify but the contribution of the customer is limited to delivering rather simple knowledge. The provider relies on his/her expertise to deliver a service for which the contribution by the customer is limited to standard information. Examples are the maintenance of high-technology equipment, dredging, and engineering consulting. Type D – Co-Developed Services – encloses services that are the result of an intense cooperation between the two parties. Both sides need to open up to each other and jointly use and create the knowledge that is required for the service delivery. Examples are strategic consulting, executive recruitment, and IS/IT network development.

Figure 3-1: Four service types in alternative classification

<i>Service provider's knowledge contribution</i>	<i>Customer's knowledge contribution</i>	
	Simple (mainly explicit knowledge)	Multifaceted (combination explicit – tacit knowledge)
Standardized (explicit knowledge)	<u>Type A</u> <u>Routine Services</u> <i>(limited number of standardized interactions during a short delivery process)</i>	<u>Type B</u> <u>Modular Services</u> <i>(high number of standardized interactions during a longer delivery process)</i>
Customized (mainly tacit knowledge)	<u>Type C</u> <u>Expert Services</u> <i>(limited number of customized interactions during a longer delivery process)</i>	<u>Type D</u> <u>Co-Developed Services</u> <i>(high number of customized interactions during a long delivery process)</i>

It is important to note that these examples should be interpreted as illustrations of possible assignments in particular industries. By no means do we intend to suggest that certain industries are restricted to offering services in only one of these types. To the contrary, catering for instance is definitely a type A service when it concerns a hot-dog stall in the street. In the case of a three-day wedding party with very specific demands that require special diets due to diabetes, allergies, and so on, it becomes a type D service. Such is the case of consulting. The particular assignment determines the required knowledge contribution of both parties, and hence, the particular service type. Therefore, this classification is not only instrumental in studying services within one type over various industries, but it can also be used to study the various service types that are offered in one industry.

3.4.2 Intangibility, interaction and inseparability and the new service types

The eight classification schemes of international services discussed earlier lean on the key service characteristics of intangibility, interaction and inseparability. What do these concepts mean in the context of the four new service types defined in the alternative classification in which the focus is restricted to service activities following Hill's (1999) terminology ? A key conclusion is that the classical characteristics intangibility and inseparability are no longer the main discriminating criteria. More particularly, in terms of the intangibility characteristic, only activities are included that either have intangible outcomes or that have tangible outcomes but where the process of 'getting to' the outcome is more important to the customer. With regard to the intangibility of the service delivery process, the four new service types in the classification can be the result of either intangible or tangible processes (i.e. the use of goods). We do not expect particular relationships between the service types and the relative intangibility of the service process. In terms of the inseparability characteristic, only activities are included that require the producer and customer (or his/her belongings) to be simultaneously present during the service delivery. However, the presence can both be physical or through technology, depending on the particular service activity.

As summarized in Figure 3-1, the four service types in the new classification are expected to differ from each other in terms of the various identified interaction dimensions. More specifically, the new types vary with respect to the duration of the service delivery process, and the frequency and nature of the interactions during the service delivery process. Type A – Routine services are assumed to require only a limited number of interactions to exchange the basic knowledge, the service delivery process is rather short, and the interactions are standardized because the knowledge needs are straightforward. Type B – Modular services

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require many interactions because the customer needs to contribute much knowledge to make the service a success, the service delivery is rather long, and the interactions are the result of a relatively standardized approach in the sense that the provider knows what and how to obtain the necessary knowledge from the customer. Type C – Expert services involve only a limited number of interactions to obtain the basic knowledge from the customer, the delivery is usually longer, and the interactions are custom made depending on the idiosyncrasies occurring in the service delivery process. Type D – Co-Developed services require numerous interactions to create and collect the necessary knowledge to provide the service, which usually takes time, and the interactions are customized since both parties jointly create and collect the required knowledge.

3.5 New service types and internationalization

The main goal of the alternative classification is to provide a platform from which to study the wide variety of internationalization processes observed in services firms in which the service character can be taken explicitly into account. Due to the particular nature of the knowledge contributions of the provider and client, we expect different challenges for the four distinguished service types when they are offered internationally. In this context, we define an international service as a service that is offered in foreign markets and/or to foreign customers⁴. This broad definition covers cases in which the receiver of the service and/or the factors of production temporarily or permanently move abroad; temporarily implying that the service providers and/or the customers/their belongings move outside their domestic market for the time of the service delivery process. As such, both inward (e.g. Björkman and Kock, 1998; Fletcher, 2001) and outward internationalization are deemed possible and even likely.

3.5.1 Service types and knowledge replication abroad

We expect that the ease with which the service provider's knowledge can be replicated affects the internationalization processes of the four service types⁵. The particular expectations we advance are based on Kogut and Zander (1993; 1995) in which the focus on technology transfer posits that transfers are dependent on the tacitness of the underlying knowledge. In the context of

⁴ This definition follows the definition of international trade in services set by the OECD that refers to: "international trade in services as being between residents and non-residents of an economy" (OECD Manual on Statistics of International Trade in Services, 2002: 8).

⁵ At this point we make the simplifying assumption that a company offers only one service type. After the data gathering in our empirical study, we learnt that the case companies' service packages often contain several types although usually one type appeared to be very dominant (see Table 6-4).

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service firm internationalization we assume that type A – Routine services, and type B – Modular services, which are delivered on the basis of standardized processes, can be replicated quite easily over foreign borders because they mainly rely on explicit procedures and instructions. For type C – Expert services, and type D – Co-Developed services, the replication of the knowledge contribution abroad is presumed to be more difficult as it is the result of mainly tacit expertise. Explicit knowledge is a mobile resource that provides a flexible platform for international expansion (Autio et al., 2000). Moreover, Aharoni (1996:17) notes that "... that the more standardized the solution ... the easier it is to offer global services and to enhance the ability of each location to serve clients by drawing on the firm's systems, its accumulated knowledge in databases, and the experience of the whole network."

Kogut and Zander (1993; 1995; 2003) use three indicators of tacitness that determine the ease of replication: codifiability, teachability, and complexity. Codifiability relates to the extent to which knowledge is articulated in documents. Teachability concerns the ease with which the knowledge can be taught to new workers. Complexity refers to the number of critical and interacting elements embraced by an entity of activity.

Expected scores for the indicators codifiability and teachability are straightforward for the four service types as they are closely linked to their definitions that refer to the nature of the process from the provider's perspective. Specifically, the two standardized services score high on codifiability and teachability whereas the customized services score lower. With regard to the complexity of the knowledge contribution of the service provider, we expect it to be low for type A and high for type D because they are the most straightforward and most complicated types respectively in the classification due to particular knowledge contributions of both parties. For types B and C, we expect a medium

complexity in the sense that for type B services a high interaction with the customer to obtain the necessary knowledge complicates the service delivery, and for type C services, the interaction with the customer is not demanding, but the service process itself is. Figure 3-2 summarizes the expectations for the four service types with regard to the three indicators.

Figure 3-2: Ease of knowledge replication

Knowledge contribution service provider (service solution)	Knowledge contribution consumer (service need)	
	Simple (mainly explicit knowledge)	Multifaceted (combination of explicit and tacit knowledge)
Standardized (explicit knowledge)	<u>Type A – Routine Services</u> Codifiability: high Teachability: high Complexity: low	<u>Type B – Modular Services</u> Codifiability: high Teachability: high Complexity: medium
Customized (tacit knowledge)	<u>Type C – Expert Services</u> Codifiability: low Teachability: low Complexity: medium	<u>Type D – Co-Developed Services</u> Codifiability: low Teachability: low Complexity: high

3.5.2 Service types and entry mode choice

A crucial decision in the internationalization process is the entry mode choice (Root, 1994). To illustrate the suitability of the new classification for progressing research on service internationalization, expectations with regard to entry mode choice are put forward for the four newly introduced service types. The core assumption is that the required interaction between the service provider and service client affects the entry mode choice for an internationalizing firm where the central starting-point is that the required interaction depends on the knowledge contribution of the two parties in a service delivery process.

Four propositions are formulated below that discuss a range of suitable entry mode options for each service type. In formulating these propositions, other elements that influence the entry mode choice are abstracted. The literature

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review in chapter 2 indicated that alongside the service type, internal characteristics such as firm, managerial and behavioral characteristics, and external factors such as entry mode, home and host market characteristics affect the entry mode decision of the service firm (for a detailed overview we would like to refer to section 2.3.2.4). Furthermore, the time dimension is an important factor. The initial and subsequent entry mode choices are dependent on the history of the firm and the industry, i.e. its experience in providing services to international markets (Roberts, 1999; O'Farrell et al., 1998; Li, 1994; Erramilli, 1991).

Starting from the perspective of the service provider, we expect the ease of knowledge replication in foreign markets to affect the entry mode choice, which is in line with the arguments of Kogut and Zander (1993; 1995). In particular, higher levels of tacitness as expressed in lower levels of codifiability and teachability, and higher levels of complexity, lead to a preference for full-control modes that offer a better protection against imitation. Endorsing Erramilli and Rao (1993) full-control modes give the firm complete control of foreign production and marketing activities, whereas shared-control modes concern entry modes in which the firm has to some extent share control with external entities. Examples of full-control modes are subsidiaries, offices, branches, project or representative offices while share-control modes include modes such as licensing, franchising, partnerships, and consortia.

For type C – Expert and type D – Co-Developed services, the knowledge contribution of the service provider predominantly concerns tacit knowledge. This knowledge is the key competitive resource of the service firm and is difficult to pass on to other people such as new employees or potential partners. Consequently, the firm is expected to be cautious in the way that it will replicate this tacit knowledge as it will want to ensure that the benefits from the

replication remain within the firm (Sundbo, 1994; Hertz, 1996a; Grønhaug et al., 1999). As a result, we assume that full-control modes will be preferred in this case. For type A – Routine and type B – Modular services, the knowledge contribution of the service provider predominantly concerns explicit knowledge. This knowledge is easier to relay to new employees or partners. The competitive strength of these firms lies in a widespread use of this knowledge. As a result, shared-control modes are assumed to be preferred to allow a faster and wider knowledge replication.

However, before formulating particular expectations of more concrete entry mode options for the four new service types, the knowledge contribution of the service customer needs to be brought into the discussion. The required knowledge contribution of the customer affects the internationalization process via the three interaction dimensions, frequency, duration and nature that are expected to cause diversity in the possible entry mode options. For instance, Hirsch (1993) notes that services that require long and intense interactions need permanent establishments whereas those that need a few interactions can operate from their home market. Majkgård and Sharma (1998) also argue that services that require an intense interaction need to be located close to their (foreign) clients. Similarly, Daniels (2000) contends that services that require a regular and ongoing contact with customers are likely to be delivered via affiliates located in target markets. In line with arguments like these, expectations with regard to the four service types are proposed below.

Type A – Routine services are the result of a simple knowledge contribution by the customer and a standardized knowledge contribution by the service provider. To facilitate this specific knowledge combination, both parties need to be able to interact in a straightforward way during the short period of the service delivery process. These requirements have implications for the range of entry mode

options. As assumed above, a standardized knowledge contribution by the service provider favors the use of shared-control entry modes. Specifically, in the case where the service delivery process is tangible⁶, i.e. produced by means of an immovable infrastructure, the service firm can rely on partners in the foreign market to expand rapidly. The high codifiability, high teachability and low complexity of the underlying knowledge to provide the service allow a rapid training of partners. However, in the case where the service delivery process is intangible, in the sense of a movable infrastructure, the limited interaction between the two parties also enables temporary entries by the service firm itself alongside the option of cooperating with partners. In any case, international expansion of type A services can occur rapidly at limited investment costs. Thus, it is proposed that:

P₁: Type A – Routine Services require entry modes that allow a limited number of standard interactions to occur over a brief period of time favoring permanent shared-control modes for tangible service processes and temporary full-control modes for intangible service processes.

Type B – Modular Services are the result of a complex knowledge contribution by the customer and a standardized knowledge contribution by the service provider. To facilitate this particular combination, many interactions are required during a longer period because the customer needs to contribute substantial knowledge to make the service a success. The interactions happen in a relatively standardized manner in the sense that the provider knows what and how to obtain the necessary knowledge from the customer. These interaction requirements have certain implications for the range of appropriate entry modes. In particular, the numerous client/provider interactions that are needed demand a permanent presence in the market irrespective of the tangible or intangible nature of the

⁶ In proposing the new classification, we started from the service definition of Hill (1999), which implies that we include service activities that are either the result of a tangible or intangible service delivery process. However, in the discussion of entry mode choices, it is necessary to distinguish between the two situations.

service delivery process. As assumed above, the high codifiability, high teachability and medium complexity of the underlying knowledge to provide the service, allow a rapid training of partners that leads to an inherent preference for shared-control entry modes. Consequently, the international expansion of type B services can occur rapidly at a relatively low investment cost. Hence, it is proposed that:

P₂: Type B – Modular Services require entry mode choices that allow a continuous but standard means of interacting to occur over a longer period of time favoring permanent entries in the market by means of shared-control modes.

Type C - Expert Services are the result of a simple knowledge contribution by the customer and a customized knowledge contribution by the service provider. To facilitate this particular combination, few interactions with the customer are needed during a longer period of time to obtain the basic knowledge required. However, the interactions are custom made depending on the idiosyncrasies of the service delivery process that need to be accommodated by the service provider, as they occur. These interaction requirements have particular implications for the range of entry modes from which type C service firms can choose. As assumed above, the low codifiability, low teachability and medium complexity of the underlying knowledge to provide the service, requires the service provider to replicate the knowledge on his/her own in order to protect it. The intangible/movable versus tangible/immovable nature of service delivery processes affects the organization of the international expansion that is to be managed by temporary entries in the market or by permanent entries. Consequently, the international expansion of type C services occurs slowly at a high investment cost. Hence, it is proposed that:

P₃: Type C – Expert Services require entry mode choices that allow a limited number of highly customized interactions to occur over a longer period of time favoring entries in the market by permanent full-control modes for tangible service processes and by temporary full-control modes for intangible service processes.

Type D – Co-Developed Services are the result of a complex knowledge contribution by the customer and a customized knowledge contribution by the service provider. To facilitate this particular combination, numerous interactions are needed during a long period of time to collect and create the necessary knowledge to provide the service. The interactions between client/providers are customized since both parties jointly collect and create the necessary knowledge. These interaction requirements have particular implications for the range of entry mode options. Specifically, the numerous client/provider interactions demand a permanent presence in the market irrespective of the tangible or intangible nature of the service delivery process. Furthermore, as assumed above, the low codifiability, low teachability and high complexity of the provider's knowledge contribution favors a knowledge replication within the expanding service firm to hinder the loss of its competitive expertise. As a result, international expansions of type D services take a long time and require high costs. Hence, it is proposed that:

P₄: Type D – Co-Developed Services require entry mode choices that allow continuous and customized interactions to occur over a longer period of time favoring permanent entries by full-control modes.

3.5.3 New classification and six evaluative criteria

In the first part of the chapter, eight extant classifications were found insufficient to guide future research on service internationalization because of various problems. The question remains, to what extent does the alternative classification, introduced in the second part, meet the requirements put forward in the six evaluative criteria. Table 3-4 summarizes the six criteria and discusses how the alternative classification complies with the specified requirements.

Table 3-4: Compliance of newly introduced classification with six evaluative criteria

Six evaluative criteria	Four new service types
Criterion 1: Adequate specification phenomenon	<p><u>Definition services (in line with Hill, 1999)</u></p> <p>Services are activities with an outcome that represents a change in the condition of the customer or his/her belongings that arises in the interaction between service provider and customer, and that cannot exist independently of the two parties. Furthermore, the service outcome is intangible, or at least the interaction in the service delivery process that leads to the service outcome is the main benefit that is sought by the client. The service delivery process itself can be tangible or intangible in the sense that it can occur with or without the assistance of goods respectively. (introduction section 3.4 above)</p> <p><u>Definition internationally offered services</u></p> <p>International services are defined as services that are offered in foreign markets and/or to foreign customers. (introduction section 3.5 above)</p>
Criterion 2: Adequate specification underlying characteristics	<p><u>Two underlying characteristics</u> (section 3.4.1 above):</p> <ol style="list-style-type: none"> 1. <u>knowledge contribution service provider</u> <ol style="list-style-type: none"> a. <u>standardized contribution</u>: service delivery process is mainly based on explicit knowledge b. <u>customized contribution</u>: service delivery process is mainly based on tacit knowledge 2. <u>knowledge contribution customer</u>: <ol style="list-style-type: none"> a. <u>simple contribution</u>: service delivery process requires basic and easily retrievable knowledge from customer b. <u>multifaceted contribution</u>: service delivery process requires knowledge from customer that often demands intense communication with service provider to obtain/create the proper knowledge within the client company
Criterion 3: Mutual exclusiveness categories	<p>Guarding compliance to the notion of exclusivity appears to be the most difficult. The four alternative service types do not capture whole service industries. To the contrary, all four types can be found within most industries because the knowledge contributions determine in which category a specific service is exactly placed. However, further research is needed to identify practical indicators of the two characteristics underlying the new classification to determine the exact breaking points between standardized versus customized and simple versus multifaceted.</p>
Criterion 4: Collective exhaustiveness categories	<p>The two underlying characteristics got values at the ends of two continua – standardized versus customized and simple versus multifaceted. This implies that any service can be typified anywhere on the two dimensions leading to the allocation to one of the four service types (section 3.4.1 above).</p>

Criterion 5: Usefulness of schema	For the service provider, internationalization concerns replicating knowledge across foreign borders. On the basis of the four generic situations captured in the four service types, expectations can be formulated on numerous internationalization issues including entry mode choice as described in section 3.5.2 above. Other potential issues to be studied might be client-following versus market-seeking strategies, the impact of foreign culture on the service delivery process, the effect of technological improvements, and so on.
Criterion 6: Scope of activities included	The classification is restricted to activities defined as services by Hill (1999) supplemented with activities that have tangible outcomes but where the interaction in the service delivery process is the main benefit sought. This group still contains a wide variety of activities divided in four categories for which distinctive internationalization challenges can be expected (section 3.4 above).

Overall, in developing the new classification, we tried to comply better with the six criteria than the eight extant schemes scrutinized above. Via the use of explicit definitions, criteria 1, 2 and 6 that relate to specification issues are met. Whether the new classification meets criterion 5 requires further assessment via empirical research. Nevertheless, the proposed application of the new classification in the context of entry mode choice seems promising. Similarly, in order to thoroughly evaluate the new classification with respect to criterion 3 and 4, further research is needed to suggest particular indicators of the general characteristics ‘knowledge contribution service provider’ and ‘knowledge contribution service client’.

3.6 Concluding remarks

In the past, services firm internationalization studies have focused on one industry or on a mix of industries, and as such opportunities to learn across industry boundaries have been foregone. This shortcoming has been partially caused by the absence of a classification scheme that can guide the needed data collection and data analysis. Scrutiny of eight dominant classifications of services offered internationally reveals that the dimensions that are used to distinguish service types are limited due to the use of vague definitions of the multidimensional characteristics intangibility, interaction and inseparability. Consequently, these classifications are found limiting in providing guidance to researchers who are seeking to explain the diversity that exists in service firms' internationalization processes.

Based on Hill's (1999) definition of services, and Kogut and Zander's (1993; 1995) knowledge perspective, we introduce a new classification that is motivated by the fact that services are the result of an interfacing between the service provider and the customer affected by the knowledge contribution of both parties. Various expectations are formulated in which it is assumed that the nature of the knowledge contribution of the two parties affects the service firm's internationalization process. In particular, expectations for entry mode choices for internationalizing services firms are formulated.

In this study, we tried to use the new classification for the selection of case companies. However, as elaborately discussed in chapter 5, difficulties with convincing logistic service providers to participate in the study, caused the selection of case companies to be the result of a more pragmatic approach. Alternatively, we used the new classification to typify the case companies that agreed to cooperate a posteriori. Furthermore, we relied on the four propositions

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put forward in section 3.5.2 to assess the case companies' entry modes choices with regard to the different service types offered within their service packages delivered abroad.