THE INTERNATIONALIZATION PROCESS OF SERVICE PROVIDERS:
A LITERATURE REVIEW
Chumpol Taweelertkultorn*

ABSTRACT
The present paper provides an overview of current insights and unresolved issues to the extant literature on the internationalization process of service providers under three headings: internationalization motives, country/market selection and entry mode choice. Although literature is gradually developing, this paper concludes that research both at the theoretical and empirical level is not increasing in proportion to its relative importance. Specific suggestion for better and more focused future research is formulated to develop internationalization of services into a viable research area.

INTRODUCTION
The last few decades have demonstrated significant changes with regard to the internationalization of service industries. The importance of services to the world economy has increased rapidly, and most service industries have increased their international involvement significantly (Aharoni and Nachum, 2000; Javalgi et al., 2003). Developed countries often have the competitive advantage in human capital and technological innovations and by leveraging on these core capabilities, they can maintain a short term superior position in services abroad (Malhotra et al., 2005; Hisanaga, 2008). However, the

*Chumpol Taweelertkultorn is a candidate for Joint Doctoral in Business Administration (JDBA) majoring in International Business at Thammasat University, Bangkok, Thailand. E-mail address: seenyao@hotmail.com
globalization of the service sector has not been restricted to developed countries alone, new competitors are emerging from developing countries (Wirtz, 2000; Javalgi and White, 2002; Javalgi and Martin, 2007). Porter (1990) indicates that as international competition in services increases, so does the issue of national competitive advantage in services (Chen and Hsieh, 2008). It seems apparent that competitiveness in the service sector, rather than in manufacturing, will become the drivers of economic activities and propel the global economy in the twenty-first century (McRae, 1994; Javalgi et al., 2005; Javalgi and Martin, 2007).

Despite the growing importance of services, the impact of international services on the economy has not been sufficiently captured academically. Although there have been several attempts by major publication outlets to stimulate research on internationalization of services, it remains univocal that there is the paucity of research progress and the lack of research rigor at both conceptual and empirical levels (Clark et al., 1996; Knight, 1999; Javalgi and White, 2002; Javalgi and Martin, 2007; Lommelen and Matthyssens, 2005; Merchant and Gaur, 2008).

This paper presents a literature review of contemporary studies that emphasize on the internationalization process of service providers (service firms and manufacturing-based service firms). The aim of this review is to restructure current insights as well as identify anomalies and priorities for further research. Accordingly, in the sections that follow I first provide an overview of service internationalization reviewing the definition and the characteristics of services. Second, I review the direct and indirect applicability of theoretical concepts borrowed from the international behavior of manufacturing firms to the service providers. Third, the main findings of the reviewed studies are critically summarized and eventually, in the conclusive section, a roadmap is drafted that starts from unresolved issues to make suggestions for further research to progress insight in the internationalization process of services.
OVERVIEW OF STUDIES ON SERVICE INTERNATIONALIZATION

Research on international services is challenging because of difficulties in arriving at precise definitions, generalizing about services across various cultures and comparing service firms to industrial firms (Boddewyn et al., 1986; Clark et al., 1996). These problems in classifying international service are because most service production has no physical output. As a result, the parameters used to define international are not so helpful in defining international services. International services differ critically from domestic services in two respects: first, they necessarily involve something crossing national boundaries; and second, they have some type of engagement with a foreign culture.

In this literature review, I follow Lommelen and Matthyssens (2006) who adopt the definitions of O’Farrell and Wood (1998) and Clark et al. (1996) to give content to going and being international in a service context. They define an international service as a service that is offered in foreign markets and/or to foreign customers. As such, 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; and (4) no movement by either client or service provider for service delivery through objects, technological vehicles and/or assets.

In terms of characteristics of services, there are four main features that generally make marketing of services different and potentially more challenging than marketing of goods internationally (Zeithaml et al., 1985; Winsted et al., 1998). First, services are intangible, meaning that they are performances or experiences which cannot be touched, seen, or physically transported. This characteristic always poses challenges for marketers who must explain and promote services without being able to show them – a problem that is compounded in international markets by language barriers and illiteracy, and where perceptions of risk and other cultural differences are involved.
Second, services are inseparable from their users. Most services require direct involvement and input from those benefiting from the service, and production and consumption take place simultaneously. Because of this, service providers are generally required to have a local presence in a foreign market and cannot casually test the market through exporting from a distance (Lovelock and Wirtz, 2007; Erramilli, 1990). This heightens the risk and investment required to enter these markets. Also, high levels in interaction demand increased customization of service offerings to meet the needs of local clients, leading also to increased cost and need for understanding of the local culture (Lovelock and Yip, 1996; Campbell and Verbeke, 1994).

Third, services are perishable and cannot be inventoried like manufactured goods. This presents special challenges for balancing supply and demand. While supply and demand patterns may be well known, predictable, and easily manipulated in domestic markets, cultural norms, demographics, competitive dynamics, and other factors may contribute to difficult-to-understand and harder-to-manage variations in supply and demand patterns abroad.

Finally, quality control in services is very difficult due to the heterogeneity caused by the integral role of personnel in providing services. Service output may vary widely from location to location, service provider to service provider, and from moment to moment (Winsted and Patterson, 1998). This challenge is heightened when hiring and training people from different cultures and instilling corporate ideas and values from a distance. In particular, variation in service outputs becomes significant with labor-intensive services or those services involving significant customer contact.

Even though some researchers clearly stress 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. The review reveals that various groups of research can be distinguished within the retained studies. The first group of studies mainly aims to describe and/or explain internationalization processes of service providers 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; Léo & Philippe, 2001; Majkgård & Sharma, 1998; Roberts, 1999). The second group also focuses on the internationalization of service providers but does not explicitly discuss the findings in the light of the distinctive service characteristics or service types (e.g. Chadee & Mattsson, 1998; Javalgi et al., 1998; O’Farrell et al., 1996; Patterson et al., 1999). 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).

Overall, researchers do not mention their rationale for studying particular subsets of services nor do they refer to the classification scheme used. 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, I 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, I question the assumption that the client following stimulus is equally important in every service industry included in the sample. Therefore, researchers need to better acknowledge the characteristics of services, particularly their heterogeneity.
THEORETICAL FRAMEWORKS OF UNDERLYING STUDIES

Researchers have indicated that different service characteristics (intangibility, inseparability and heterogeneity) are the reason as to how well traditional theories based on manufacturing firms apply to service providers (Bouquet et al., 2004; Aung and Heeler, 2001; Capar and Kotabe, 2003). Moreover, a closer look at the theoretical frameworks of the underlying studies reveals that most scholars tend to rely rather unreservedly on theories and concepts developed in a manufacturing context. As a result, the literature on services partially borrow and use concepts from stages internationalization process models, the eclectic paradigm, transaction cost theory, industrial network theory, a combination of these frameworks (eclectic) or, too often, no framework at all. Opinions on the applicability of the various frameworks in a service sector differ as evidence is found that either supports (Li and Guisinger, 1992; White et al., 1999; Winsted and Patterson, 1998) or questions the applicability of the manufacturing-based theories (Johanson and Vahlne, 1990; O’Farrell et al., 1996; O’Farrell et al., 1998; and Javalgi et al., 1998).

Results on the applicability of Johanson and Vahlne’s (1977, 1990) Uppsala model are mixed. On the one hand, Eriksson et al. (2000) and Goerzen and Makino (2007) find that initially service providers with limited stock of knowledge slowly invest in services that are close to their core businesses, but subsequent investments are more rapid and more location-specific the closer the relation between the foreign environment and a firm’s stock of knowledge. On the other hand, Cheung and Leung (2006) find that changes of modality of advertising agencies in China are client-driven, rather than being driven by an increase in market knowledge. Similarly, Bell (1995) and Hellman (1996) find that the internationalization process is influenced by domestic and foreign client following and competitor following respectively, rather than by the psychological or geographical proximity of export markets reflected by the ‘stage’ theories.
The industrial network approach is also widely adopted in studies on internationalization of services. It states that a part of a firm’s international potential lies in its relationships with customers, suppliers, competitors, and institutions, all of them coming together to form a business network. Thus, the internationalization process is driven, facilitated, and inhibited by a set of formal and informal network relationships. There are many studies that find ample support for the industrial network theory (e.g. Martinez-Gomez et al. 2009; Björkman & Kock, 1997; Coviello & McAuley, 1999; Coviello & Munro, 1997; Gluckler, 2006; Boojihawon, 2007) although it is stressed that other frameworks are needed to complement the analysis.

The resource based framework is used by Ekeledo and Sivakumar (2004) which can explain entry mode choice well for manufacturing firms and non-manufacturing firms. Other internationalization model such as that of Dunning’s eclectic paradigm is used by Javalgi et al. (2003) to find that the firm specific factor of firm size and the location specific factor of market characteristics influence management attitudes toward operating internationally, which in turn influence the degree of internationalization of service firms.

Some studies take several frameworks into account and present an (eclectic) custom-made empirical frame, supporting the argument that service internationalization is too broad a concept to be defined exclusively or examined by any one theoretical framework (Coviello and Munro, 1997; Clark et al., 1996). Coviello and Martin (1999) suggest that concepts inherent in foreign direct investment theory (including transaction cost analysis), the stage models of internationalization, or network theory should be examined in an integrated and holistic manner. Others develop their own theory like Edvardsson et al. (1993) who conceptualize the internationalization process in four stages (prospecting, introduction, consolidation and reorientation) stressing the concept creativity mix (combination of creative activities e.g., R&D, financial, organizational, and marketing).
Due to the complex and diverse nature of services, no single all-encompassing theory manifests. This is plausible since no all-encompassing theory exists for products either. And this may be one of the reasons why scholars have been slow to devise externally valid theories on international services. As a result, research on the internationalization of services to date is relatively sparse, with much work focused on highly specific industries (Knight, 1999). One aspect of making a sustainable growth in research on internationalization of services is to strengthen its foundation with more research efforts on theoretical frameworks.

**FINDINGS ON SERVICE INTERNATIONALIZATION**

To analyze and summarize the major findings, the review of key aspects of a company’s internationalization process are categorized around the following consecutive steps: (1) *motives for internationalization* - the decision whether to internationalize; (2) *country/market selection* - deciding which markets to enter; and (3) *entry mode choice* - market entry strategies.

1. **Motives for internationalization**

Firms need a motivation to go international: they look for external sources of increased competitive advantage (Baird et al., 1994); they follow their competitor’s moves or are asked explicitly by their customers (Norwell et al., 1995); or they need a larger market potential for economies of scale and scope. Usually a combination of factors affects the internationalization decision, but particular attention is paid to the ‘client following or market seeking’ motive. Client following reactive motive occurs when firms enter new export markets as a result of the international strategies of their domestic clients while market seeking proactive motive means that firms enter foreign markets primarily to serve foreign customers (Erramilli, 1990; Erramilli and Rao, 1990).
For client following motive, evidence of influence by domestic and foreign clients in their internationalization is found for UK service companies in O’Farell et al. (1996), for software firms in Bell (1995), and for architectural practices in Winch (2008). Similarly, evidence of competitor following motive is found for Finnish banks and insurance companies in Hellman (1996). Moreover, for the influence of networks motive, social networks are very influential for tourist companies in Björkman and Kock (1997), for small advertising agencies in Boojihawon (2007), for European consulting companies (Frankfurt, London and Madrid) in Gluckler (2006), and for SME construction design service firms in London (2010). Also, investment in network relationships is valuable for small software firms in Coviello and Munro (1997).

Other motives concern stimuli originating from the domestic market. Market maturity, saturation and dominance, increased competition and excessive regulations are the motivations for retail internationalization in Williams (1992). Japan’s highly regulated financial services markets (push) and London’s liberalized markets (pull) are the twin forces largely responsible for the internationalization of Japanese banks into London in Howcroft et al. (2010). Other stimuli include the role of export promotion programs by governmental and trade organizations for service providers from small countries in Laanti et al. (2009) and the availability of excess capacity in Winsted and Patterson (1998).

Next to reactive triggers, the importance of economies of scale proactive motive is not clear as it is significant for Dutch service companies in Patterson et al. (1999) but to the contrary, national responsiveness and scope economies appear to prevail over it in Katrishen and Scordish (1998). Nevertheless, studies are consistent in favor of the active role of management motive in searching for opportunities (Patterson et al., 1999; Winsted and Patterson, 1998; Hutchison et al., 2007) and in achieving managers’ ambitions and commitment to growth (Edvardsson et al., 1993). Moreover, Sharma and Johanson (1987)
find that managers actively search for and develop relationships with strong network actors in order to prepare the internationalization process as they do not wait until the network identifies opportunities for them (Majkgård and Sharma, 1998). Thus, networks not only represent a key reactive motive but are at the same time proactively used to expand abroad.

The results of aforementioned studies that investigate the motives for internationalization of service providers are arguably context specific. In other words, they are potentially applicable to that particular research setting at one point in time. Moreover, it is inconclusive to determine whether reactive or proactive motive, or any factor that belongs in both categories of motives, is behind the decision of service providers to internationalization. Although some studies suggest that it is the combination of both reactive and proactive motives (Cardone-Riportella et al., 2003), researchers should further investigate the dominant factors that motivate service providers to internationalize as well as the context in which they apply.

In addition, some scholars advocate the study of evolutionary path of motives as they are expected to decrease or increase over time. They argue that initially, firms that follow clients enter foreign markets primarily to serve foreign subsidiaries of their domestic clients. However, once a foreign market presence is established, motivation seems to shift to serving local foreign customers and as such a market seeking approach is adopted. There are some authors who agree with the switch in motives with the reasoning and take it along in their study (Björkman & Kock, 1997; Cicic et al., 1999; Roberts, 1999) but there are others who challenge that the switch is not found (Majkgård & Sharma, 1998; Winsted & Patterson, 1998). Still other researchers do not even consider a switch (Alexander & Lockwood, 1996; Ekeledo & Sivakumar, 1998; Erramilli, 1990; Grönroos, 1999; Stare, 2002). The benefit of studying the switch in motives should provide insights to management to accommodate for challenges that service providers confront with increasing degree of internationalization.
2. Country/Market Selection

When service providers make decision upon which overseas markets to enter, it can be systematic or ad hoc. In theory, the optimal decision for a service firm is to select the country that maximizes long term returns by using systematic methods to evaluate and choose between alternative foreign markets. Studies show that service providers prepare their international market entry very consciously - thoroughly preparing and investigating alternative options (Yip et al., 2000; Brewer, 2001). In particular, Yip et al. (2000) find that companies perform better the more systematic the approach to new internationalization.

However, scholars argue that in practice, optimization does not occur because of real world complexity: the bounded rationality of decision makers and uncertainty (O’Farrell et al., 1996). The most common entry mechanism is responding to a particular ad hoc order and that the majority of firms make the mode choice decision without considering any alternative modes. The lack of interest in studying the systematic or ad hoc internationalization decision making process of service providers results in limited studies. Thus, it is unsurprising that there has been no research to directly identify the differentiable characteristics of service providers’ decision making process. Moreover, it is interesting to investigate whether ad hoc decision to internationalize is categorized as temporary or permanent establishment in the foreign market as well as the success and failure of systematic decision making process to specific service sector.

The factors that influence market selection are generally divided in two broad groups of external and internal factors. External factors are such as the political, economical, demographic situation of the targeted countries, while internal factors are such as product fit, resources and experience of the company (Lommelen and Matthyssens, 2005). Boddewyn et al. (1986) are the first to theorize the locational choice of service providers and they suggest that it is affected by the service type, the size of host market, the quality of local resources,
governmental policies and the political climate. Subsequently, Dunning (1989) adds
closeness and responsiveness to the local customer to the discussion as well as Buckley et al.
(1992) who stress that rapid technological changes like in telecommunications redefine the
situation constantly. Dunning (1997) suggests that the most important consideration in
selecting country or market to enter is the fit among the country’s characteristics, the
company’s competencies, the possibility of synergistic effects, and foreign market demand
characteristics. However, theoretical research on factors that influence country/market
selection needs to be updated to reflect the dynamics of globalization.

Empirical research in particular industries illustrates the impact of both general and
service-specific factors on the locational choice. The locational factors found significant are
U.S. business banking presence abroad and openness of the host country to foreign bank
branches in Nigh et al. (1986); larger advertising market size irrespective of their geographic
place in Terpstra and Yu (1988); traditional general macroeconomic indicators for market size
(e.g., GDP), as well as hotel sector-specific demand indicators such as tourism receipts and
inward investment FDI into the country in Kundu and Contractor (1999). However, empirical
evidence on locational factors remains relatively narrow as the studies are centered on US
service providers including general factors next to idiosyncratic factors.

In addition, the emerging factor that researchers emphasize is the impact of network
partners, such as the location of current or potential clients, competitors and other business
partners, have on (co)determining the selection of country and/or market both initially and
subsequently. The influence of network is significant for engineering consulting service
companies in Coviello and Martin (1999), for computer software firms in Bell (1995), and for
banks and insurance companies in Hellman (1996). Therefore, it seems that the location of
third network parties determines market selection and this is the area that demands greater
research attention as the world becomes increasingly interconnected with network parties.
3. Entry Mode Choice

Foreign market entry behavior in the services sector is characterized by a considerable diversity in entry mode patterns. Vandermerwe and Chadwick (1989) suggest that internationalization modes for service providers tend to cluster around three categories: FDI (foreign subsidiaries, mergers and acquisitions, etc.), contractual methods (licensing, strategic alliances, franchising, etc.) and exportable services (telemedicine, etc.). The chosen entry mode has significant implications for performance (Brouthers, 2002) and determines whether a company has full control over the foreign unit or has to share control with a partner (Benito and Welch, 1990; Hill et al., 1990; Arregle et al., 2006; Brouthers and Hennart, 2007). Service providers may find themselves changing internationalization mode, or operating in more than one mode as no particular mode of entry gives a higher probability of success than another a priori.

No general solutions can be given to the entry mode choice as each situation requires a thorough analysis of the best way to enter specific foreign market. Very little is known with regards to the entry mode selection process but it tends to occur in a rather pragmatic way or that only a minority of service providers consider alternative modes (O’Farrell et al., 1996). Studies reveal that a number of internal and external factors simultaneously affect the choice of a particular foreign market entry mode for service providers (Welch, 1999; Doherty, 2006). Internal factors include product service characteristics, firm characteristics, managerial and behavioral characteristics while external factors include entry mode characteristics, home market and host market.

The first internal factor concerns service characteristics e.g., the degree of inseparability between the production and consumption of services. There are many classification schemes (Patterson and Cicic, 1995; Clark et al., 1996; or Lovelock and Yip, 1996) but they can all be compressed into hard or soft services of Erramilli (1990) who
suggests that services are divided into separable hard service (e.g. life insurance, music, or education) and inseparable soft service (e.g., food service, health care or lodging service). Consequently, joint ventures, licensing/franchising, and foreign direct investment are the entry modes suitable for the needed client-provider interaction during service delivery. However, Ekeledo and Sivakumar (1998) argue that hard or soft services classification scheme excludes product of the firm that contains both elements of good and service. They propose a classification scheme that allows some services to be grouped with manufactured goods in terms of entry mode choice. As such, the low degree of inseparability implies a direct entry mode for providers of manufactured goods with client embedded in them (Jack et al., 2008; Bryson, 2001; Cicic et al., 1999; Erramilli & Rao, 1993; Stare, 2002).

Another service characteristic that can partially explain entry mode choices is the capital and labor intensity of services (McLaughlin and Fitzsimmons, 1996; Knight, 1999). Wholly owned subsidiaries are preferred particularly if the service requires a great deal of well educated or highly trained workers and close interactions with end customers (Bouquet et al., 2004). Moreover, information intensive business is not capital intensive but skilled labor intensive and it can thus afford the less costly mode of entry (Roberts, 1999). However, Ball et al. (2008) argue that capital intensive service is not always restricted to substantial resource commitment entry mode such as wholly owned subsidiaries.

The second internal factor is firm characteristics which comprises of internationalization motive, international experience, and firm size. First, findings on the impact of the firm’s client following or market seeking behavior are mixed. Market seeking service providers are more willing to invest in entry modes that require larger amounts of resources abroad (Majkgård and Sharma, 1998) while client following service providers are more aggressive in their entry mode choice (Erramilli and Rao, 1990). Second, on the experience factor, Erramilli (1991) argues that less experienced service providers tend to
prefer higher-control modes, moving to lower-control modes as they gain moderate experience, and moving again to higher-control modes as they reach higher levels of experience. Contrarily, service providers with international experience prefer higher equity and control entry modes, for example hotels in Contractor and Kundu (1998) and international and management consultancies in Glückler (2006). Third, findings with reference to firm size are mixed. Brouthers et al. (1996) find that larger and more experienced US software firms prefer integrated entry modes while the smaller and less experienced firms prefer independent modes. Similarly, Alon and Mckee (1999) find that the size of the franchising system significantly influences the intention of domestic professional business service franchisors to seek franchises overseas. In contrast, McIntyre and Huszagh (1995) suggest that franchise executives should not view smaller size or limited experience as constraints to foreign involvement. Contractor and Kundu (1998) conclude that high equity and control modes are not seen as crucial for hotel firms as they place considerable reliance on non-equity partners and franchisees.

The third category of internal factors comprises managerial and behavioral characteristics that are assumed to affect entry mode choice. For behavioral characteristics, a high degree of entrepreneurial orientation (Miller, 1983) and/or innovation orientation (Shane, 2003) enhances the ability of the firm to recognize and create opportunities through its conducts and actions (Covin and Slevin, 1991) enabling service providers to opt for high control entry modes in foreign markets and also accelerates their process of internationalization (Melia et al., 2009). For managerial characteristics, global mindset and attitudes influence the firm’s orientation towards internationalization (White and Javalgi, 2002; Sacramento et al., 2002) and affect the entry mode choice (Cicic et al., 1999). Ström and Mattson (2006) find a much higher degree of control by a mother company for Japanese firms as they are tightly connected in groups or single large company structures.
Next to internal factors, three categories of external factors are expected to influence the entry mode choice of service companies: level of control, degree of flexibility and resource commitment (Buckley et al., 1992; Ekelado and Sivakumar, 1998). Control refers to authority to influence the operations of a foreign subsidiary, while involvement refers to the level of market-specific managerial and financial resources committed to a foreign subsidiary by a firm (Anderson and Gatignon, 1986). Erramilli (1992) finds that the propensity of service providers to integrate its international operations increases when it has a policy of maintaining control over foreign operations, but decreases when it has aversion to environmental risk and internal resource constraints. Kirca (2005) finds that service providers that use more vertically integrated modes of operation in international markets obtain higher sales performance as a result of high levels of control they exert on their marketing activities.

Characteristics of the host market are extensively included in the studies on entry mode selection: cultural distance, political, technological, economic and market factors. They impact the commitment of service providers to internationalization (Root, 1994; Ekeledo and Sivakumar, 1998; Terpstra and Sarathy, 1994; Morschett et al., 2010). The propensity of service providers to integrate increase with market size, the unavailability of partners, lower restrictions of foreign ownership and environmental risk of host country in Erramilli (1992), and increase with cultural, economic and political similarity, infrastructure similarity, and strong market demand in Brouthers et al. (1996). Another important aspect of internationalization is the issue of post-entry behavior and host market development which requires repeat business from existing clients and/or contracts from new customers, often in a market made more competitive by unfamiliar cultural or regulatory conditions. O’Farrell et al. (1998) find that deepening involvement with foreign markets is not necessarily associated with investment in contractual arrangements or FDI.
Furthermore, characteristics of the home market are included in the studies on entry mode selection. In particular, service providers from developing countries face challenges such as relatively smaller domestic markets (Benito et al., 2002; Pedersen and Petersen, 2004) and limited financial and management resources (Carr and Garcia 2003). They are also dominated by large country firms. In order to compete, they implement strategies at the early phase of internationalization (Laanti et al., 2009): niche strategies (Benito et al., 2002; Dick and Merrett, 2007); develop consulting projects, invest in minority JVs, and enter into strategic alliances with each other to compete with the dominant firms in the industry (Cho, 1998; D’Aventi, 2002). Therefore, it is equally important to investigate the factors that influence the entry mode choice of service providers both from developed and developing countries.

A ROADMAP FOR FUTURE RESEARCH

Based on this literature review, extant research does not offer an unequivocal insight in the internationalization process of service providers because of the restricted conceptual and methodological approach to the subject. The literature to date is relatively sparse, with much work focused on highly specific industries. It is thus apparent that the findings in this literature review reveal mixed evidence in the different aspects of internationalization process, 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 section, particular problems with regard to the selection of research context and theoretical frameworks are used as the basis for suggesting a roadmap for further research.
1. Selection of research context

The first challenging issue concerns the selection of research context or more specifically the choice of service industries to study. The literature review indicates that when focusing on one industry or a multitude of industries, studies do not sufficiently acknowledge the heterogeneity in the group of services and distinguish between different service types (Nicoulaud, 1989; Erramilli, 1990). Few studies provide definitions or specify qualifying industries’ boundaries and fewer still report algorithms for classifying the industries they study. Limited attempt is made to differentiate among various service sectors. The existence of several classification schemes of services (Clark et al., 1996; Lovelock & Yip, 1996; Patterson & Cicic, 1995; and Vandermerwe & Chadwick; 1989) do not find widespread acceptance in the service internationalization studies for purposes such as sampling or data analysis.

As a good start to future research on internationalization of services, researchers should always begin their research by giving their definition of services and clearly specifying the boundary of services industries. They should attempt to explain their rationale for studying particular subsets of services and the selection of classification scheme used. Being aware of the heterogeneity in the group of services and the different service types they offer, researchers should attempt to develop a typology or their own classification scheme. Generating a typology denotes a notable contribution given the substantial differences among different types of services (Contractor et al., 2003).

In my opinion, a typology should provide a conceptual/theoretical demarcation of various types of service sectors that should facilitate a more refined approach to the literature’s future development. This is in line with Merchant and Gaur (2008) who suggest that generating a typology of services, for example, not only would help validate theoretically derived typologies thereof, but also help minimize the intrinsic variance researchers have
found in their study of this sector alone. For example, Holden (2005) develops a typology in the investigation of the extent of internationalization among large corporations engaged in significant health-related activities by allocating them to five key categories: providers of services to the end consumers; producers of goods; suppliers of services to state or private providers; insurance and managed care companies; and firms involved in the construction, maintenance or ownership of premises.

2. Theoretical frameworks

The second challenging issue concerns the use of theoretical frameworks. The literature review shows that researchers tend to fragmentarily and sometimes even haphazardly borrow and use theories and concepts developed in a manufacturing setting. However, the applicability of existing theories is seldom explicitly questionable in the literature although the empirical findings lead researchers to conclude that extant theories are suited or not. In my opinion, future work on the internationalization process of service providers should explicitly start from critical analysis of the suitability of applying existing theories to the research question. Researchers need to consider the pros and cons of choosing a particular theory as well as the trade-offs of choosing a particular theory over others.

Nevertheless, researchers need not be compelled to using existing theories when they cannot find a suitable one. They always have the alternative of developing their own strong and concise conceptual frameworks and/or comprehensive and empirically testable frameworks that are applicable to general or specific research context. Such development enables data collection, analysis, and interpretation. This is consistent with the suggestion of Javalgi and White (2002) and Javalgi and Martin (2007) that for marketing of international services to develop as a viable research field, more research efforts coalescing in theory development, measurements, and practice need to be addressed. More theory-building
research is needed that takes previous research into account via ongoing iteration between induction and deduction (Lommelen and MatthysSENS, 2005).

Furthermore, the development of conceptual and/or empirically testable frameworks may be derived from a multi-theoretic perspective. This integrated framework has the advantage of providing more holistic understanding and makings of the intricacies of services (Merchant and Gaur, 2008). For example, Picot-Coupey (2006) develops a conceptual model of French retail store networks’ operation mode choice in a foreign market. In particular, Picot-Coupey (2006) suggests meta-theoretical conclusions in that the Nordic model, the network theory and the born-global approach may provide interesting underpinning elements for operation mode decision rationale in international retailing.

3. Internationalization process

Specific suggestions for research in the four sub-fields are made. The first theme – internationalization motives – calls for further research on greater diversity of research context examining the impact of reactive and proactive motives on the internationalization decision making process of service providers. The literature review has indicated that neither reactive nor proactive motive alone is behind the internationalization process therefore researchers should consider the combination of both reactive and proactive motives to determine the dominant motives for the particular research context. For instance, the role of network actors appear to be crucial motivators for most service providers, and the difference of service providers’ reactive and proactive use of networks in progressing the internationalization process calls for further attention. Moreover, research attention should be given to cross-country and/or cross-industry comparison of the internationalization motives to generalize results in terms of country or industry. A longitudinal approach with a scrutiny of the sequencing of particular motives can provide insights at differences in motives depending
on the particular stage in the internationalization process and in the switch from client following to market-seeking behavior (and/or vice versa).

The second theme – country/market selection – calls for further research in terms of acknowledging the heterogeneity of the service sector as well as the requirement of specific analysis of each service sector. For service providers, research in theoretical development provides a strong and contemporary framework for them to select country/market to internationalize while research in empirical testing in particular industries can illustrate the impact of both general and service-specific factors on the locational choice. As such, the question remains whether there are more general – cross-industry – factors that affect and characterize the country/market selection of service providers from developed and developing countries. Moreover, further research can identify the differentiable characteristics of service providers between making systematic and ad hoc internationalization decision. Researchers can investigate whether ad hoc decision to internationalize is categorized by temporary or permanent establishment in the foreign market and whether systematic decision always leads to success or failure in specific service sector.

For the third theme – entry mode choice – calls for further research to develop a broader theoretical perspective to provide further evidence of the determinants of the entry mode choice of service providers. For example, Sanchez-Pienado et al. (2007) introduce new variables beyond those drawn from traditional manufacturing sector e.g. strategic variables. Pla-Barber et al. (2010) propose a model for choice of entry mode that breaks down the decision into two levels of analysis: first, at the more macro level, the choice of the degree of commitment is influenced mainly by country-related variables; second, at the more micro level, the choice of the degree of control is addressed by firm-related variables. Nevertheless, the existing conceptual models of entry mode choice in service providers like that of Ekeledo and Sivakumar (1998) or that of Cicic et al. (1999) are still open for empirical validation.
For service providers that have made their entry, research on the influence of post-entry behavior and host market development on next entry mode choice can add dynamic to research on internationalization process of services (Erramilli and Rao, 1993; Holm et al., 1995; Eriksson et al., 1997). Research on pre-entry aspects of services internationalization has generally taken the perspective of the home-based parent firm (headquarters), rather than the firm’s foreign market operations (e.g. subsidiary). However, research should specifically consider the perspective of the foreign market firm actors, and their external market-based networks (Forsgren and Pahlberg, 1992). Taking this approach, Lindsay et al. (2003) develop a conceptual model of knowledge flows between parent company and foreign market operation in relation to mutual organizational learning and competency development.

In my opinion, the most important overall research agenda is to determine the factors that both drive and inhibit success of multinational service providers. It is therefore apparent that there is great need for systematic research both at the conceptual and empirical level to extend the frontiers of knowledge on service providers, particularly the dynamic and flexible environment of their internationalization process. For example, London (2010) conducts an exploratory study of Australian construction design service firms to establish a detailed set of empirical observations from which to develop further a grounded theoretical model of reflexive capability for the internationalization process. Also, Reihlen et al. (2009) used case study of Deutsche Treuhand-Gesellschaft, a professional accounting service firm, to understand the dynamics of change in the internationalization process as a strategic change process over time.

As service providers gradually become the drivers of economic activities, the need for longitudinal studies will become quintessential in understanding their international evolution (Kundu and Merchant, 2008; Nummela et al., 2004; Pedersen et al., 2002; Petersen and Welch, 2002). For example, Shukla et al. (2010) design a quantitative longitudinal research
to test the validity of the stages model in investigating aspects of change in the post-entry resource commitment decisions of Australian service providers.

In addition, researchers need to understand why, where, how and when of the internationalization process of service providers from developing countries. In particular, many researchers have emphasized the relatively significant role of governments in developing businesses and supporting internationalization of service providers from developing countries (Lewis, 1999; Rugman and Hodgetts, 2001) in network industries (Laanti et al., 2009), in airline industries (Goodovitch, 1997; Ramamurti and Sarathy, 1997; Antoniou, 2001) and in the banking industry (Boldt-Christmas et al., 2001; Benjamin and Merrett, 2007; Dick et al., 2007). Therefore, there remains tremendous opportunity for further research in the internationalization process of service providers from developed and developing countries.

CONCLUSION

This paper critically reviews the extant research on the internationalization process of service providers under four key themes – internationalization motives, country/market selection and entry mode choice. It structures current insights, identifies anomalies, and suggests opportunities for further research in the fields of selection of research context, theoretical frameworks and internationalization process. It is clear that studies on the internationalization process of service providers are still largely fragmentary, exploratory, and lack strong theoretical bases (Merchant and Gaur, 2008); and if they are ever to take off and develop as a viable research area, more research efforts in theory development and empirical testing need to be given a closer look (Javalgi and Martin, 2007). By means of this literature review, I hope to have contributed that the topic of internationalization process of service providers deserves further academic attention and stimulates the debate on the way forward.
REFERENCES


