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**Doctoral Thesis**

## The Internationalisation of Service Firms: The Impact of Value Creation on the Internationalisation Strategy of Firms

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THE INTERNATIONALISATION OF SERVICE FIRMS

Denitsa Hazarbassanova Blagoeva

# THE INTERNATIONALISATION OF SERVICE FIRMS

The PhD School of Economics and Management

PhD Series 35.2016

**CBS**  COPENHAGEN BUSINESS SCHOOL  
HANDELSHØJSKOLEN

PhD Series 35-2016

# **The Internationalisation of Service Firms**

## ***The impact of value creation on the internationalisation strategy of firms***

PhD dissertation by

**Denitsa Hazarbassanova Blagoeva**

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## **Dedication**

To my Mom, because she knows everything about everything.

## Acknowledgments

I want to thank my supervisors who have provided me invaluable feedback and support throughout the three years of this project. They have been my anchor as I blindly explored what it meant to be a PhD student. Their engagement and concern have been vital to this project, and more so to me. Thank you, Peter and Christian, for sharing this journey with me.

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## Foreword

This PhD is structured as an article based dissertation.

- Chapter 1 is the introduction to the project, its aim, intended contribution, theoretical and methodological framework.
- Chapter 2 is the first paper titled “The “service” landscape: How much do we know about the internationalisation of services?”. This is a joint paper with Peter D.Ø. Jensen and Hemant Merchant. This is a literature review paper, presented at the *AIB conference, Vancouver, 2013*.
- Chapter 3 contains the first empirical test of the theoretical framework. This paper, titled “Value creation through internationalisation: the value creation logic and the internationalisation process of Internet firms” is single authored and (partially) published at *Review of International Business and Strategy*.
- In Chapter 4 the theoretical framework is further developed and tested quantitatively. “Value guided internationalisation - identifying differences in foreign operation mode, speed and scope of internationalisation based on value creation logics” is a joint paper with Christian G. Asmussen, presented at *mini-AIB 2015 Milano*.
- Chapter 5 summarises the findings of each of the articles and the overall contribution made to the realm of services internationalisation. It discusses implications and final reflections on the PhD project as a whole.

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## Abstract

The question the thesis aims at resolving is: *How do the value creation logics of firms impact their internationalisation?* The overall aim of this PhD project is to explore and test an approach to understanding the internationalisation of service firms, based not on opposing them to manufacturing ones, looking at descriptive service characteristics nor industry effects, but on the way they create value. Why and how are service firms different? and What are the drivers behind their internationalisation? are the questions motivating this PhD project. It explores if the value creation specificities may be universal axes around which all MNCs, both manufacturing and service ones, configure themselves internally and externally across geographic locations.

We do not in fact know that services are different from manufacturing - some empirical evidence suggests they are (e.g. Laanti, McDougal and Baume, 2009), some - that they are not (e.g., Terpstra and Yu, 1988). What we do know is that services are very important. They generate roughly 80% of GDP in the United States and the European Union, and the proportion is well over 50% in most countries, industrial and developing alike (International Monetary Fund, the World Bank and OECD, 2014). The attention to internationalisation of services has significantly increased and yet, many questions remain open (e.g. Pla-Barber and Ghauri, 2012).

This PhD project contributes to the field of internationalisation of service firms by adapting and testing a typology of firms developed in the realms of organisational science and strategic management. The inherent strength of a classification of firms by their value logic is to facilitate the understanding of service firms by allowing them to differ among themselves just as much as they differ from manufacturing. At the same time, relying on a strategic dimension - the value creation - allows some services to be similar to manufacturing. The theoretical foundations of the research are Thompson's work on organisational technologies (1967), developed further by Stabell and Fjelstad's notion of value creation logics (1998).

The research within this PhD project is multi-method. In the introduction, the potential of the value creation classification for understanding the foreign operating mode, speed and scope of internationalisation is explored conceptually. The first paper identifies the need for such an approach through a review of extant literature on the internationalisation of services. The second and third papers test the value creation framework through a multiple case study and a large sample quantitative study.

The contribution of the project is threefold. Firstly, this research offers a link between a value-based perspective of the firm and its internationalisation. Seeing firms as bundles of value creation units may explain the differences observed in firm internationalisation, thus developing a conceptually rigorous and more coherent framework of reference, valid for both manufacturing and service firms.

Secondly, the study not only extends a theoretical framework developed within organisation science and strategic management to the realm of international business, but it also tests it empirically on a large sample of firms, manufacturing and service ones. Finally, the study addresses the robustness of existing definitions and classifications of service firms, such as industry boundaries, how or whether services distinguish themselves from manufacturing, etc., thus contributing to the difficult task of defining services (Jensen and Petersen, 2014; Merchant and Gaur, 2008).

The results of the research suggest the literature on service internationalisation is abundant and yet somehow fragmented and contradictory, thus open to ideas that may contribute to its unification. We propose to explain apparently contradictory findings with the fact that firms create value differently, thus requiring different responses to critical elements of the internationalisation process. This seems to be the case for digital firms - a group of firms considered having the same approach to internationalisation. When the concept is tested on a larger sample of firms, we find that the value logic classification delivers significant results for our measures of internationalisation. Additionally, we find that when value logic classification is used the similarities across industries as well as the differences within the service group are emphasised at the same time. This testifies for the potential of applying the value logic framework in international business research, and opens further opportunities for research into fine-tuning it to become an overarching framework for the understanding of firm internationalisation.

## Dansk resumé

Denne afhandling adresserer følgende hovedspørgsmål: På hvilken måde påvirker servicevirksomheders værdiskabelseslogikker disse virksomheders strategi for internationalisering? PhD projektets overordnede formål er at udforske og empirisk afprøve en ny tilgang til forståelsen af internationalisering af services og servicevirksomheder. Til forskel fra tidligere forskning på området er denne tilgang ikke baseret på en sondring mellem produktion af henholdsvis fysiske produkter og services, på serviceaktiviteternes karakteristika, eller på betydningen af brancheforhold indenfor service. Formålet er at undersøge virksomhedernes værdiskabelse og betydningen heraf for internationaliseringen. Her er de underliggende motiverende spørgsmål, for det første, hvorfor og hvorledes adskiller servicevirksomhederne fra andre typer af virksomheder? For det andet, hvilke faktorer driver og bestemmer servicevirksomheders internationalisering? Afhandlingen udforsker de særkender vedrørende værdiskabelse, som kan være de universelle omdrejningspunkter for alle multinationale virksomheder, inden for service såvel som inden for produktionserhverv, samt omdrejningspunkter for hvorledes virksomhederne organiserer sig internt og i forhold til eksterne samarbejder på tværs af landegrænser.

Det er et åbent spørgsmål hvorvidt services adskiller sig fra produktionsaktiviteter – nogle empiriske undersøgelser peger på forskelle (fx Laanti, McDougal og Baume, 2009), mens andre undersøgelser konkluderer det modsatte (fx Terpstra og Yu, 1988). Men vi ved, at services har stor samfundsøkonomisk betydning. Services står for omtrent 80% af BNP i USA og i den Europæiske Union, og serviceaktiviteters andel af BNP udgør over 50% i de fleste lande, såvel industrialiserede lande som udviklingslande (International Monetary Fund, the World Bank and OECD, 2014). Spørgsmålet om internationaliseringen af services og servicevirksomheder har tiltrukket sig betydelig forskningsmæssig interesse, men der er fortsat mange ubesvarede spørgsmål (fx Pla-Barber og Ghauri, 2012).

Dette PhD projekt bidrager til forskningen om internationalisering af services ved at tilpasse og empirisk teste en virksomhedstypologi, som har sit teoretiske udgangspunkt i forskningen om strategisk ledelse og organisation. Fordelen ved at typologisere virksomheder ud fra deres værdiskabelseslogikker er, at forståelsen af servicevirksomheder udvides ved at fremhæve den variation som findes imellem typer af servicevirksomheder. Samtidig fremstår fællestræk mellem henholdsvis services og produktionsaktiviteter ved at fokusere på værdiskabelsen som den centrale strategiske dimension. Afhandlingens teoretiske grundlag udgøres af James D. Thompson's (1967) begreber om "organizational technologies", som senere er videreudviklet af Stabell og Fjeldstad (1998) til at omfatte værdiskabelseslogikker ("value creation logics") indenfor service- og produktionsvirksomheder.

PhD projektet anvender forskellige empiriske metoder. I afhandlingens introduktionskapitel udfoldes den begrebsmæssige afklaring og diskussion af den potentielle betydning ved at anvende

værdiskabelseslogikker i analyser af virksomhedernes styring og organisering af udenlandske aktiviteter. Kapitlet indeholder desuden en begrebsmæssig afklaring af værdiskabelseslogikker i forhold til omfang og progression i virksomhedernes internationalisering af specifikke aktiviteter. Afhandlingens første forskningspaper argumenterer for behovet for denne tilgang på grundlag af en gennemgang af forskningslitteraturen om internationalisering af services og servicevirksomheder. De to efterfølgende forskningspapers indeholder empiriske analyser af de teoretiske begreber om værdiskabelseslogikker. Dette gøres gennem henholdsvis et multipelt case studie og en kvantitativ analyse af et større antal virksomheder.

PhD projektet yder tre forskningsmæssige bidrag. For det første etablerer projektet en forbindelse imellem perspektivet om virksomhedens værdiskabelse og dens internationalisering. Ved at betragte virksomheden som en samling af forskellige enheder med forskellige værdiskabelseslogikker skabes en begrebsmæssigt klarere og mere sammenhængende teoretisk ramme. Hvor projektets primære fokus er servicevirksomheder, så kan denne ramme anvendes både på servicevirksomheder og virksomheder indenfor fysisk vareproduktion. For det andet yder projektet et bidrag i form af en empirisk test af de teoretiske begreber. Dette gøres igennem en analyse af et større udvalg af virksomheder inden for service og produktionserhverv. Herunder afdækkes betydningen af virksomhedernes finansielle styrke og resultater, produktionen af henholdsvis services og fysiske produkter, branchekategorisering, udenlandske datterselskaber, samt landespecifikke faktorer. Endelig diskuterer projektet robustheden i de eksisterende og hyppigt anvendte klassifikationer og definitioner af service virksomheder, fx branchedefinition og –afgrænsning, samt hvorvidt og hvordan services og servicevirksomheder adskiller sig fra aktiviteter og virksomheder inden for fysisk vareproduktion. Afhandlingen bidrager således til den vanskelige opgave med at definere services (Jensen og Petersen, 2014; Merchant og Gaur, 2008).

Projektets resultater peger på, at forskningslitteraturen om internationalisering af services og servicevirksomheder på samme tid er omfattende men også fragmenteret og modsigende. Der er således tale om et forskningsfelt, som er åbent for bidrag, som kan lede til en mere samlet forståelse af områdets centrale spørgsmål og begreber. Afhandlingen giver et bud på at forklare forskningslitteraturens tilsyneladende modsigende resultater ved at anskue virksomheders værdiskabelse gennem forskellige begreber, som videre fordrer forskellige tilgange til vigtige elementer i virksomhedernes internationaliseringsprocesser. Dette synes at være tilfældet for digitale virksomheder – en gruppe af virksomheder som anses for at have den samme tilgang til internationalisering (?). Når begreberne om værdiskabelseslogikker testes på baggrund af et større virksomhedsudvalg, viser analysen, at de teoretiske begreber giver statistisk signifikante resultater i forhold til forskellige mål for virksomhedernes internationalisering. Endvidere viser analysen, at når begreberne om værdiskabelseslogikker anvendes, tydeliggøres ligheder mellem virksomheder på tværs af brancher samt forskellene inden for gruppen af

servicevirksomheder. Disse resultater peger på et potentiale for at anvende de teoretiske begreber om værdiskabelseslogikker i forskningen om virksomheders internationalisering. Herunder er der et potentiale for udvikling af et mere detaljeret teoretisk begrebsapparat, som kan bidrage til forståelsen af virksomhedernes internationalisering.

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## Chapter 1: Introduction

The overarching research question of this PhD thesis is: *How do the value creation logics of firms impact their internationalisation?* The area that can best benefit from an answer to this question is the service sector. Therefore, the overall aim of this PhD project is to explore an approach to understanding the internationalisation of service firms. This approach is based not on opposing them to manufacturing ones, nor on descriptive service or industry characteristics, but on the way service firms create value. The papers in this research project develop and test the idea that the value creation specificities may be universal axes around which firms configure themselves internally and externally across geographic locations.

Why focus on services? Services are the central characteristic of post-industrial societies concerned with quality of life and information as a key resource (Bell, 1973). They are not only a leading sector of the global economy, but also the driver of globalisation and overall economic development (Myszkowska, 2014). The data confirms the central position of services. According to the World Bank, in the last 42 years the value added from services as percentage of World GDP is growing steadily from 53% in 1970 to 71% in 2011. In 2013, the net output of services was 46% of the GDP of low-income, 55% of middle-income and 74% of high-income countries, while trade in services represented 13% of world GDP (World Bank, 2016). For 2015 the estimate is that 71,2% of the GDP of the European Union, 79,6% of the GDP of the UK and 77,6% of the GDP of the USA came from services (World Factbook, 2016). Trade in services globally has demonstrated itself resilient to the turmoil of the last financial and economic crises in the sense of lower magnitude of decline and speedier recovery (UNCTAD, 2012). The service sector accounts for the larger part of FDI stock in Europe (87% of inward and 62% of outward FDI, 2011) and globally (63% overall, 2012), which suggests that service firms have been most active internationalising their operations (Eurostat, 2016; UNCTAD, 2015). The World Investment Report 2015 confirms the shift towards services FDI.

A review of the literature on services internationalisation, the first paper of this PhD project, suggests scholarly knowledge in this area has become more sophisticated and to a great extent has caught up with the economic importance of service multinationals in the global economy. However, vast opportunities exist to contribute to this line of enquiry. Currently, trying to synthesise the insights from extant research feels like comparing apples to oranges. Some authors rely on industry classification. However, industry boundaries appear frequently confusing — in some cases an argument is made for similarity between several industries, while in others — for distinction. Technology development further complicates the issue causing the rapidly changing nature of services and service industries. The different service typologies seem to rely on descriptive characteristics, also not stable enough in conditions of



technological change. The opposition service/good still lingers despite enough evidence to suggest it is way too simplistic to capture the reality. How do we analyse such “moving targets” in academically rigorous ways, let alone gather and access relevant data to understand such phenomena? What is missing is a dimension that can unify the different typologies and ensure that they speak a common language.

The way *this* PhD project contributes to the study of services internationalisation is by attacking the problem that existing research on this topic still appears fragmented. The challenge is defining the object of study in a way that insights from multiple enquiries are comparable and can come together for a 360 degrees understanding of internationalisation. This PhD project suggests the value creation process of firms is among the intangible determinants of foreign direct investment - an underlying mechanism pervading different classifications of firms. The contribution of the project is threefold. Firstly, this research offers a link between a value-based perspective of the firm and its internationalisation. Connecting the way firms create value, and thus their strategic configuration, to the way they internationalise results in a conceptually rigorous and coherent theoretical framework of reference, valid for both manufacturing and service firms. Secondly, the study not only extends a theoretical framework developed within organisation science and strategic management to the realm of international business, but it also tests it. The empirical contribution of the research is to test Thompson’s (1967) and Stabell and Fjeldstad’s (1998) frameworks on a large sample of firms, manufacturing and service ones. The theoretical foundations of the research lie in organisation science and strategic management. While the potential of those theories for understanding the internationalisation of firms has been conceptually discussed, few empirical tests exist. In this way, we support with evidence this conversation within international business (IB). Finally, the study addresses the robustness of existing definitions and classifications of service firms, such as industry boundaries, and how or whether services distinguish themselves from manufacturing, thus contributing to the difficult task of defining services (Jensen & Petersen, 2014; Merchant and Gaur, 2008).

To recap, the main argument of the research you are about to dive in is built around a typology of firms first engendered by Thompson (1967) within the realm of organisation science, and later introduced into strategic management by Stabell & Fjeldstad (1998). The research is multi-method. The theoretical framework explores the potential of the value creation classification for understanding internationalisation conceptually. The first paper identifies the need for such an approach through a review of extant literature on the internationalisation of services. The second and third papers test the value creation framework through respectively a multiple case study, and a large sample quantitative study. The rest of this introductory chapter will first present briefly the challenge this PhD intends to tackle. The theoretical foundations of the research and its framework will come next, followed by an introduction to the papers within the project.

## Positioning of the research project

The term “services” covers “a heterogeneous range of intangible products and activities that are difficult to encapsulate within a simple definition” (UN, 2002, p.7). Therefore, the definitions of services are not fully consistent. Defining what is “service” is a tough task, frequently skipped in extant research. The most used approach to the study of services are typologies based on a variety of service (product) characteristics, or the opposition based on characteristics of the process of production of service and manufacturing. From the many typologies of services that exist, the ones used to explain their internationalisation focus on the output rather than organisational characteristics (e.g., Rathmell 1974). The typologies relying on distinctive characteristics of services point out several axes such as intangibility, inseparability, heterogeneity, perishability and ownership (e.g., Buckley, Pass & Prescott, 1999; Pla-Barber & Ghauri, 2012; etc.). However, few services contain all these characteristics, many goods include intangible parts and many services have some tangible parts. As a result, the characteristics approach is not applied uniformly. Different interpretations and multiple typologies exist, each partially encompassing the large variety of services out there. The degree of overlap between the different typologies has not been explored. For example, capital-intensive services appear to cover industries similar to hard services, but it is not clear if what we know about one group can be extended to the other. The relationship between services and goods has been approached in a variety of ways. Perishability and ownership (i.e. the view that some/most services cannot be owned or stored) for some authors clearly sets services apart from goods (e.g., Thomas, 1978). Others see the good-service distinction as a continuum of intangibility (e.g., Shostack, 1977) or customer-employee contact (e.g., Armistead, Bowman & Newton, 1995). The continuum approaches place pure services at one end and pure manufacturing at the other, with several mixed categories in between. Yet another approach is to study services without having to define them by focusing on single industries. A significant contribution to our understanding of services comes from single industry studies (Jensen & Petersen, 2014). Yet, the question remains whether these findings can be extended to all firms within the service sector, whether they can guide service managers in their decision-making. There is an increasing need for cross-industry studies, because they may suggest ways for concepts and strategies to be extended across (service) industries (Lovelock & Wirtz 2004). This is where I see the contribution of this PhD project.

The apparent lack of agreement as to the definition of the subject of study exposes the academic contributions in the field of services to the risk of being fragmented and incoherent body of research. The typology, explored and tested in this PhD project, has the potential to answer the challenges identified in the literature on services internationalisation. The activity configuration types, tied to the “firm technology” and “value creation logics”, is positioned as the source of heterogeneity and systematically related to international challenges such as speed and onset of internationalisation, geographical and

cultural diversification. The typology is based on the strategic configuration of firms, rather than descriptive characteristics. It is at the same time more detailed than the manufacturing/service classification, less detailed than industry divisions, and yet detailed enough to create categories encompassing real observed behaviour.

Another factor contributing to the confusion in extant research is technology. Recently, it has enabled the collection, analysis, and diffusion of large quantities of information at a minimal cost, and thus has had a pervasive influence on the service sector (Ball, Lindsay & Rose, 2008; Castellani, Jimenez & Zanfei, 2013; Miozzo & Soete, 2001;). Technology puts the idea of services as labour-intensive activities in the past (Miozzo & Soete, 2001). Technology has an important effect on the tradability of services, the pace, speed and pattern of internationalisation, and the structure of the service and manufacturing value chains (Cicic, Patterson & Shoham, 1999). Medicine can now be digitally exported and a doctor in Europe can consult patients in Asia, while neither has to move. It affects directly the separability trait of service activities - the characteristics with the strongest impact on internationalisation (Cicic et al., 1999), and opens new geographical markets for services. Technology also represents an important cost centre, a fact that is frequently left out when considering the capital intensity of the service sector. Additionally, technology increases the linkages between goods and services and their interdependence. As a result, the structure of service sectors fluctuates due to technological change. For instance, supermarket chains are able to serve as mobile operators and banks (Miozzo & Soete, 2001). New industries are popping up, and their accommodation into this framework may be difficult as the characteristics become ambiguous. In summary, technology has a pervading influence on the landscape of services as it changes their very nature and hence the classifications upon which extant research is based. This PhD project explores if such challenges can be overcome by taking a step back, and instead of trying to define service firms, look at what firms do.

The typology, tested in this PhD project, differentiates firms by what their core strategy is, thus enabling the accommodation of new industries into the framework. This way, for example, the app development industry will be understood faster, even though most of its characteristics have not been seen before. It allows services to be similar to goods, if they create value in the same way, and at the same time it allows services to differ from each other, when their activities are configured and coordinated differently. In the next section, the theoretical foundations of this approach are explored.

## **Theoretical foundations**

This section aims at introducing you to the theoretical frameworks underlying the core of this PhD project, as well as the rationale behind its choice.

We know a lot about how firms internationalise, and yet there are contradictory findings in the

literature. In the area of services, the opinion is divided between those who suggest manufacturing and services internationalise similarly (e.g. Elg, Ghauri & Tarnovskaya, 2008; Terpstra and Yu, 1988; etc.) and those who see significant differences based on the specific characteristics mentioned above and requiring fundamentally different theoretical frameworks (e.g. Contractor, Kundu & Hsu, 2003; Erramilli, 1991; Roberts, 1999; Sanchez-Peinado & Pla-Barber, 2006; Sharma & Johanson, 1987; etc.). Scholars have looked beyond the discussion which theory explains the internationalisation of firms, asking why different firms follow different approaches to foreign markets (Malhotra & Hinings, 2010; Oviatt and McDougall, 1994). There is growing interest in how organisational characteristics influence the internationalisation process (Jensen & Petersen, 2014; Malhotra & Hinings, 2010). To continue within this line, this PhD project adapts a typology originating in organisation science to differentiate patterns of internationalisation behaviour of firms.

The theoretical foundations of the model are Thompson's (1967) work on organisational "technologies" and its adaptation into the realm of strategic management by Stabell & Fjeldstad (1998) as the value configuration framework. Organisation science has long ago established that the production process of firms dictates their behaviour (Reeves and Woodward, 1970; Thompson, 1967). How activities within the firm's value chain are organised matters, and yet this is not frequently considered in the leading IB theories. Organisations emerge from many objects, activities and bits of information, and what makes them unique is how these elements combine to achieve the organisational goals.

Thompson's (1967) "firm technology" typology originates from the modern period of organisation science and it considers both service and manufacturing firms. "Technology" here refers to the configuration of activities of the firm, determined by the goals and character of the output of the firm. The "technology" is inherent in the value proposition of the firm and determines what activities firms do, how they organise and coordinate them, how they integrate them, and how they create value for their customers. The rationale of "firm technology" rests on both formal (e.g. technical efficiency), and substantive (e.g. desired objective) rationality, thus ultimately having value-based roots (Weber, 1947). In other words, different desired ends will lead to different formal rationalisations, thus ending with a distinct organisational technology. The "firm technology" is interrelated to the behaviour of the individuals within the firm in such a way that it steers social relationships, attitudes and feelings, which in turn affect the output of the firm (Emery, 1969). Interdependencies between activities, at the same time, determine the need of coordination, the ability of the organisation to process information (Simon, 1955), and the danger of organisational inefficiencies (Levinthal, 1997). What the theory posits is that there is a best match between organisational characteristics and environment.

Thompson (1967) identifies three types of firm technology - *long-linked*, *mediating* and *intensive* - and three types of task interdependency - *sequential*, *pooled* and *reciprocal* - with increasing levels of

complexity (Table 1). The task interdependence is the variation in the interrelation of the work processes and it is related to coordination mechanisms, so that the more interdependent tasks are, the higher the complexity, and in turn, the higher the coordination/communication needs of the firm, as well as the uncertainty which it experiences. Sequential interdependencies are coordinated by formal methods such as planning, technical and administrative coordination (Chopra and Meindl 2006). This sequential interdependence is characteristic of the “*long-linked technology*”. In firms with “long-linked technology”, the output, be it a service or a product, is a combination of successive stages, where each stage’s outputs is the input for the next. Pooled interdependence is added to sequential interdependence in the firms with “*mediating technology*”. Such firms bring customers (sellers/buyers, subscribers, lenders/borrowers) together enabling them to transact. Pooled interdependency is coordinated by standardisation and ensures compatibility between activities. All three types of interdependency - sequential, pooled and reciprocal - are typical for “*intensive technology*” firms. These firms are the most complex to coordinate as they convert a unique input into a highly customised output. The tasks are coordinated by mutual learning and adjustment. Reciprocal interdependencies mean all resources are pulled creatively to solve a particular problem, and the actions of an actor need to be brought into line with those of other actors. Hence, the outputs of unit A is the input of unit B, and the output of B can in turn be the input of A until the problem is solved.

**Table 1: Thompson’s (1967) and Stabell & Fjeldstad’s (1998) typologies**

Firm “technology”	“Value creation logic”	Task interdependency	Industry example	Cost drivers	Value drivers
Long-linked technology	Value chain	Sequential	Furniture manufacturer	Scale and capacity utilisation	None
Mediating technology	Value network	Sequential and pooled	Online marketplace	Size of customer pool	Size and quality of customer pool
Intensive technology	Value shop	Sequential, pooled and reciprocal	Engineering consultancy	People	Reputation

Building on Thompson (1967), Stabell and Fjeldstad (1998) connect value creation, the value chain concept (Porter, 1985) and dominating “firm technology” into their “value creation logic” framework (Table 1). Their three types of firms are called value chain, value shop and value network. The first describes a firm that converts raw materials into standardised, tangible products. A value chain is primarily cost orientated, with the different primary activities representing successive cost stages. The core activities of this type of firm are inbound logistics (delivering the raw materials to the production process), operations (the transformation of raw materials into final output), outbound logistics (transporting the output to the customers), marketing (making the output available to customers), and

after-sales service (enhancing/maintaining the value of the product (Stabell & Fjeldstad, 1998). Coordination between these activities is through planning and scheduling. The value network, on the other hand, is a model applicable to firms providing mediation between customers. A value network concerns itself with the synchronisation of simultaneous parallel activities, the balance of cost and value of scale, capacity utilisation, and network size and composition. Value shop, finally, is about solving problems. Stabell and Fjeldstad (1998) use the doctor-patient relationship to illustrate the dynamics of this type of firm. Reputation and previous successes are key value drivers, supported by information asymmetry.

Both the firm technology, as well as the value logic frameworks have been applied widely in the literature to understand supply chains, supply networks and business systems (Hammervoll, 2009; Huemer, 2006; Lorange & Fjeldstad, 2010); in strategic literature to understand competitive advantage (Fjeldstad & Ketels, 2006); in international business literature to understand global sourcing of services (Jensen & Petersen, 2013); and so on. Their potential has been suggested, but not yet been explored empirically to identify internationalisation patterns (Jensen & Petersen, 2014).

Before we go on to extending the work of Thompson and Stabell & Fjeldstad into the realm of international business, it is necessary to discuss briefly what we mean by “value” and “value creation” - a set of elusively defined concepts. “Value” has been seen as the labour put in creating a commodity (Brown, 2008), the difference between inputs and outputs (Kay, 1995), marginal utility (Dobb, 1973), consumer utility, subjective consideration or perception (Pitelis, 2013), willingness to pay allowing for opportunity costs (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece & Winter, 2007), willingness to pay for a firm’s offer (Porter, 1985), etc. These definitions take sometimes value as existing independently from the end consumers, and other times - as fully dependent on them. The same is valid for “value creation” - it is seen as a process of identifying the benefit from the firm’s activity from a customer point of view, or as the sum of efforts of the organisation and its network of partners and suppliers. In this paper, we follow Pitelis (2013) in his notion that organisational value can be conjectured or realised, thus allowing for the firm to suggest the value it creates in its value proposition, and then realise it through its sales. The value here is a result of an activity of the firm, realised when consumers buy the product. Firms can be better or worse at realising value. Our suggestion is that value will be realised optimally when the firm’s strategy and cost structure match the firm’s “technology” inherent in, and determined by, its value proposition. The rationale behind it is that the “technology” of the firm would reflect the optimal cost structure enabling the creation of value. In other words, when money are allocated to the activities of the firm with the highest importance for the expected output, and costs are cut at parts of the value chain which are not critical, the result is better competitive position capturing higher profits. By following the “technology” inherent in their value proposition, organisations

build their intra-firm barriers or “relatively impregnable bases” (Penrose, 1959:137, in Pitelis, 2013) - the bundles of skill, competences, capabilities and other advantages making the firm unique. Therefore, our assumption is that a rational firm will make the internationalisation choices most suited to its “technology” because they would be the ones bringing the highest returns. What is more, it has already been suggested that a mismatch between the value creation logics and firm practices may have an adverse impact on the firm (Othman & Sheehan, 2011). Consecutively, by the process of natural elimination, choices which do not match the firm’s “technology” will not survive, and the firm will learn.

### **Theoretical framework**

In this section, the extension of the theoretical foundations is presented. This framework was formulated in the beginning of the research and is its starting point. The papers within this PhD project have further developed it. The overall question is whether the way activities within the firm are configured in order to produce the output of the organisation affects how the organisation reacts to its environment in general, and therefore to the internationalisation challenges in particular, influencing the choices made in the pursuit of internationalisation. Each type of firm described above counts with specific cost and value drivers and interdependencies within the value chain. The cost and value drivers impact the role of human capital and the level of task complexity. The task complexity is related to the character of the key knowledge, upon which the firm relies. The interdependence between firm activities influences the coordination and communication needs of the firm. The three value configurations rely on distinct firm specific advantages to achieve their competitive edge – (using Stabell and Fjeldstad’s terminology) value chains have efficiency expertise, value networks rely on the size and composition of their customer pool, and value shops have the reputation of their human capital. Therefore, the three types of firms are likely to approach differently the advantages offered by internationalisation. The question is what internationalisation speed, scope and operation modes make sense for which of the three types. The theoretical framework below suggests likely scenarios depending on how the characteristics of each firm type interact with the predictors of foreign operation mode, scope and speed of internationalisation.

The value chain (VC) type of firm operates like a machine. The communication is hierarchical and centralised, and exchanges formalised. Therefore, coordination is comparatively easier than in the other two types, as it can be automated. The nature of knowledge in the VC firm is explicit and codifiable, hence complexity is comparatively low. Finally, the human element - talent and customers are tangential to the value proposition. The key cost drivers being scale and capacity utilisation, suggests the firm would more often chose cost-reduction strategy. Internationalisation implies scale and opportunity to cut costs locating each of its activities in the most cost-efficient location. Therefore, we may expect VC

firms to both export and locate production abroad. For VCs, the importance of achieving low cost and scale (Porter, 1985; Thompson, 1967) suggests country-specific advantages can be used to match the need for efficient production (Dunning, 1988; Rugman & Verbeke, 1990), for instance natural resources or offshoring opportunities. The firm will offshore the core activities to the most cost-efficient locations, and it is likely that it will keep them in-house. The VC needs to make the transfer of knowledge to happen easily and fast. However, the value chain firm will protect its core activities by internationalising them through non-cooperative equity modes. While this implies higher costs, it is a trade-off for the risk opportunism - given the explicit nature of the knowledge of the firm, the risk of imitation is high. At the same time, as communication is comparatively easy and the knowledge is standardised, it is likely that exports will be more efficient for market-seeking internationalisation. However, as products are also standardised, the highest efficiency will be achieved if little adaptation is necessary for foreign markets. Therefore, the location for exports will be chosen based on psychic distance (the perceived differences between the home and host countries, Valhne & Wiedersheim-Paul, 1973). Finally, the explicit knowledge and standardised processes of VCs will enable early onset of exports. However, as they need to ensure demand as well as raw materials for their output, increasing their capacity will take time. Establishing the production process abroad with a wholly-owned subsidiary (WOS) will also require capital, hence there will be a comparatively longer pause between subsequent entries.

***Proposition 1: Value chain firms will internationalise early through exports preferring markets with low psychic distance. It will offshore production within the boundaries of the firm to the most cost-efficient locations.***

The value network (VN) firm links, directly or indirectly, people or businesses, “who wish to be interdependent” (Stabell & Fjeldstad, 1998, p.427). Their value proposition offers the option to be connected, as well as the actual use of the connection. Who or what kind of customers are in the customer pool is an important value and cost driver. The value implications can be explained best through an example. eBay connects sellers and buyers. Buyers visit the platform frequently if there are many interesting sellers, and sellers put their products on the platform if they see high traffic numbers, which means there are enough buyers for them to realise sales. The role of the customer for value creation requires that activities such as recruitment and approval of customers have physical presence in the country. The employees performing these activities must also be familiar with the specificities of the foreign market. The customers are important in this value logic, because they are an essential element of the value creation process - their being in the customer pool is what attracts more customers. Customers contribute to the service - money in the case of banking, content in the case of Facebook, shopping opportunities in the case of eBay. Without a critical mass of customers, the firm would not be able to deliver value anymore. eBay’s entry into Germany was accompanied by an acquisition of alando.de



(50,000 registered members at that time), and the entry into Australia was accompanied by a partnership with eCorp, (a local internet portal with established audience). Through these and other similar moves, eBay ensured itself the critical mass of customers unlocking competitive advantage. In comparison, consider its initial entry into Japan in 2000, where the company aimed at building its business from bottom up. Even though it was already an established company internationally, it ended up exiting in 2002. It seems reasonable to suggest that the sole capability of managing the network is not sufficient to ensure value creation, when not accompanied by a certain critical amount of quality nodes. The importance of network externalities is such that foreign entry is motivated by its acquisition, making firms likely to adopt cooperative modes to access a local partner's already developed customer base (Agarwal & Ramaswami, 1992). The core activities of the VN: network promotion, contract management, service delivery and infrastructure maintenance are modular in nature, and allow the disaggregation of the value chain. Process standardisation and knowledge codification will assist the disaggregation effort (Thompson, 1967; Contractor & Kundu, 1998) allowing for less value-added activities, such as service maintenance, to be placed in more cost-efficient locations or outsourced. The combination of knowledge standardisation, collaborative foreign operation modes and modular value chain enables a wide selection of markets, and relative independence from psychic distance. Speed-wise, VNs need to develop their internationalisation business model or replication package - the competencies and systems transferrable to foreign markets. To enable the easy and smooth integration in collaborative operation modes, standardisation of the core activities is necessary. Once this standardisation is completed, subsequent entries will need little preparation time. This implies late onset, but small gaps between subsequent entries.

***Proposition 2: Value network firms will internationalise late through collaborative modes. They will internationalise at high speed, not differentiating markets by their psychic distance from the domestic market.***

Value shops (VS) perform, select, combine, and schedule resources and activities according to the requirements of the problem at hand. The main characteristics of this value logic is the heterogeneity (and hence complexity) of its production process, its people-intensity and customer-centrality. In terms of coordination and planning, this activity configuration requires intense, usually face-to-face communication, teamwork and joint decision making between units. Such reciprocal interdependence implies integration of actors in each other's' production processes and can lead even to joint innovation activities (Sivadas & Dwyer, 2000). The production process takes form of the problem, while at the same time the actors recycle knowledge and develop signature problem solving tools. This accounts for the three types of task interdependencies. Value is enhanced and costs are reduced by incorporating the object worked on, e.g. hospitalising patients, or providing consulting services in-house (Thompson,

1967). The core activities of VSs - problem finding, problem solving, choice of solution, execution of solution, assessment (Stabell & Fjeldstad, 1998) - are heavily dependent on the skill and experience of the individuals forming the team. Therefore, usually VS firms require proximity to the client, and what is even more important - the knowledge reservoirs, i.e. the team members - must be close to each other. The high informational asymmetry that exists between the customers and the firm makes it difficult to assess the quality of the service in advance. Hence, customers rely on reputation or past successes as an indicator of the value produced by the firm. The importance of reputation and previous successes as key value drivers would suggest that firms will follow clients or ensure local project successes prior to entry. The VS firm needs to establish domestic presence first and build good relationships with domestic customers. Customers are a source of value for value shop firms, not only because they pay the billable hours, but also because working on a new problem enhances the skill set of the firm, as well as its reputation. Sourcing international clients is thus important for value shops who want to start internationalising. Therefore, we would expect value shops to source international clients and serve them before they attempt internationalisation. Theory would predict that the pace and scope of internationalisation would be inversely related to the tacitness of knowledge (c.f., Zander & Kogut, 1995). However, the high customer centrality and the people-intensiveness would also suggest VSs expand internationally by demand of their existing customers or partners (Malhotra & Hinnings, 2010; Malhotra, 2003). Client-following allows a wider choice of locations for VSs, because they need not adapt their offering to foreign markets from the start, as long as their relationship with the client is resilient enough. The high complexity of the production process will suggest that, at least for some part of the project, both the client and the representatives of the firm co-locate. This will offer further learning opportunities about operating abroad. Once the firm has carried out several projects in the host country for existing clients, it can either continue in the same way expanding its market presence through searching existing clients or subsidiaries of existing clients in that host country, or it can go for establishing a base there. As the output of this type of firm is unique and highly dependent on its existing talent, it is unlikely that it will chose non-equity modes. The tacitness of knowledge and high degree of task interdependence also pose great challenges and high costs for collaborative operation modes. Rather, high asset specificity, high coordination and transaction frequency and high uncertainty, would suggest VSs would tend toward high-control modes. These modes would ensure growing of the knowledge base by incorporating local talent, and would still allow a fair amount of flexibility as the main resource of the firm - its people - is fairly mobile. It is likely that VS firms will start internationalisation late and progress slowly, building on the competitive advantage built in their home country. Serving international customers from the home base, VSs will gradually develop skills and knowledge for foreign markets. People-embodied exports can build up project inflow abroad and prepare the stage for equity

establishment. Once there is a base in the foreign country, the firm can start serving neighbouring countries, too.

***Proposition 3: Value shop firms will internationalise late, and progress slowly from low- to high-control modes. Their location choice will not be affected by psychic distance.***

## Methodology

The epistemology embedded in the theoretical foundations of this research is objectivism – the empirical papers in this project test theory against practice using deductive modes. The modernist organisational theorists, whose reasoning this PhD research adopts, largely fall within the group of those who believe reality exists independently from those who live in it. People (and consecutively firms) are believed to react in predictable ways, and their behaviour just like the behaviour of matter is determined by causes (Hatch and Cunliffe, 2006). The ontological foundation of this research is postpositivism as my main objective is theory verification. It is assumed that one can discover what happens in organisations through categorisation and measurement of behaviour. While the idea of absolute truth of knowledge is left behind, this project still focuses on potential causes of different internationalisation choices in a reductionist fashion (Creswell, 2003). Even though cases were used in the first illustration of the theoretical framework, it was assumed that language mirrored reality without any loss of meaning. Modernists base their general theories and predictions of future behaviour on this reasoning, avoiding subjectivity as it is believed to undermine scientific rigor. This PhD project adapts their thinking to the realm of international business, and the first steps in that direction are taken in their philosophical shoes.

The methodological strategies used in this project are both qualitative and quantitative. We explored the research question through cases and with a quantitative study. This PhD project tests a theory, which previously has been explored little in IB (Jensen & Petersen, 2014; Mathews & Zander, 2007). As noted above, the firm “technology” and the “value logic” frameworks have been used in a number of fields. However, while its potential has been conceptually explored in IB, few empirical tests exist. Therefore, a multi-method approach was suitable to embark on this journey. This allowed for exploring the effect of activity configuration on internationalisation. The analysis is on firm-level. Even though we use activity configuration and industry codes to determine how to classify firms, the data used is firm-level data. An exploratory sequential strategy was used, starting with a qualitative exploration of how the three types of activity configurations look at firm level (Creswell, 2003).

Purposeful sampling delivered three illustrations of the firm types, which provided a starting point for the theory verification. The first empirical paper uses cases to explore and illustrate different internationalisation paths. I chose Internet firms as the first context to test the framework in, because I see similarities with service firms. Firstly, Internet firms are generally considered a homogeneous group

in the literature on internationalisation. Secondly, their output is hard to evaluate prior to purchase (Chellappa & Shivendu, 2005). The aim of the paper is not to generalise the findings to all firms. This is not to deny generalisability from case studies, but rather to emphasise its main aim, which is to learn about, and test the power of the framework to reflect real-life differences across firms. The chosen cases are critical because they come from a group that so far has been seen as homogeneous in terms of internationalisation. Each firm falls clearly into one value creation logic - hence if the internationalisation processes of these firms does not differ, the framework is not a good typology. Face-to-face, and telephone interviews, emails, company presentations, press releases, public documents, reported interviews ([youtube.com](https://www.youtube.com); newspapers), published case studies, annual reports, database entries were analysed. We focused on the story behind the internationalisation of the case firms, their activity configuration and its change after internationalisation. The aim of the paper is to illustrate through the three cases the ability of the framework to evoke differences, where previously similarities have been argued. Therefore, the cases are not explored in the depth that would be required if a theory of the internationalisation of Internet firms was the purpose.

The second empirical paper is a large sample quantitative study. Data for this paper was taken from Orbis and Zephyr databases (Bureau van Dijk, [www.bvdinfo.com](http://www.bvdinfo.com)) and where there were missing values, other sources were referred to, such as media, press releases and annual reports. These databases have been previously used in IB research literature (e.g. Driffeld & Crotty, 2013). The firm-level dataset consists of publicly listed firms as of October 2015 from six industries: furniture, computer manufacturing, employment services, telecommunication services, management consulting and hospitals. We selected furniture and computer manufacturing for the value chain configuration group, employment services and telecommunication services for the value network group, management consulting and hospitals for the value shop group. The choice of industries was based on several factors. Telecommunications, consulting, personnel services and hospitals are industries used by Thompson (1967) and Stabell & Fjeldstad's (1998) as examples of distinct activity configurations. As the purpose of this paper is to test the value logic framework, the same industries were selected. Computer manufacturing and furniture were selected instead of the examples given, because they contained a comparable number of publicly listed internationalised firms, and do not count with significant institutional burdens. Listed companies were chosen to ensure comparability across firms; a common identifier through different commercial databases, which facilitated completing the information; as well as the reliability of the data. The sample was coded for home/host cultural cluster and geographical region. To classify all firms and subsidiaries into a given cultural cluster, we extended the cultural clusters of Gupta, Hanges and Dorfman (2002), based on GLOBE, to accommodate all the countries in

the sample, respecting the cultural groupings. The classification of geographical regions is based on the classification of the World Bank<sup>1</sup>.

## Conclusion

**Table 2: Summary of propositions.**

	<b>FOM</b>	<b>Speed</b>	<b>Scope</b>
Value chain	Exports (market-seeking)/ WOS (resource-seeking)	Early onset of exports/Late equity establishment/Slow subsequent entries	Serving many markets with low psychic distance/ Production offshored to cost-efficient locations.
Value network	Collaborative FOM	Late onset/ Fast subsequent establishment	Serving many markets independently of psychic distance/ Production offshored dependent on country specific advantages.
Value shop	Inward internationalisation/People-embodied exports/WOS	Late onset/ Slow subsequent establishment	Serving few markets independently of psychic distance

This PhD project puts forward and tests the idea that the configuration of activities determines how the firm effectively and efficiently transfers its competitive advantage across borders. The theoretical framework above proposes an activity model for understanding why internationalisation processes differ. Table 2 summarises the propositions extended. The motivation and one of the main achievements of this PhD project is to open the conversation about applying concepts such as activity configuration and value creation process to enhancing our understanding of internationalisation.

The theoretical foundations of the research illustrate, though a simplified model of firm heterogeneity, how firms can organise their activities to create and capture value. The images built for each organisational type show how activities interrelate and what weight each of them has in the achievement of a specific value proposition. The simplicity of this approach, however, requires several assumptions. Most importantly, we assume that the three types can comprehend all firms. Stabell and Fjeldstad (1998) contend that their three value logics cover a significant part of all firms. The theoretical foundations of this research also assume firm “technologies” and “value logics” can be captured on industry level. This suggestion resounds with the law of requisite variety (Hatch & Cunliffe, 2006), which posits that organisations survive when they mirror their environment with their internal structure. In other words, successful organisations isomorphically map their environment (Lawrence & Lorsch, 1967). Therefore, assuming firms in a given industry are submerged in a similar environment, they will

<sup>1</sup> <https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries>, accessed 20/07/2015.

have similar internal organisations, hence similar core technology and coordination mechanisms. In reality, however, in each firm at different times we would see activities obeying all three logics. For instance, when a car engine underperforms in certain condition, the engineers of the car manufacturer will do problem solving and solution testing, activity that obeys the intensive firm “technology”. Finding a dominating firm “technology” and “value configuration” may prove difficult and open empirical research to bias risks. Nevertheless, this research adopts a reductionist approach assuming static dominating activity configurations for value creation. The rationale is that this is the first test of the activity configuration approach. Therefore, what is necessary is to establish a base line, upon which additions, such as dealing with hybrid configurations and dynamic value creation processes can be built. With the empirical evidence gathered in this research, we can question the assumptions, and move on to develop a model closer to reality, explore interaction of logics/technologies within the firm, the interpretation of these concepts by the individuals and teams within the firm, etc.

To conclude few words need to be dedicated to those who may say that more recent theories exist. While the theory this project is based on indeed dates back from the modernist times of organisation science, it has never been proven wrong. Its roots are in the Enlightenment Age of Reason of Descartes and Kant. The insights from this period incorporate the previous work of economic, engineering and sociology approaches to organisations (e.g. Fayol, 1919; Smith, 1776; Weber, 1924; etc.). Organisational modernism, itself, is accumulated in later works from the symbolic interpretative and postmodern times of organisation science. The reasoning behind the typology used here resonates with Foucault’s governmentality concept that language and discourse define reality into distinct problems and needs (Foucault & Lemke, 1999). We can see how, through language and discourse, firms define problems and needs in their value proposition, and then propose suitable management “technologies” to resolve them. The firm then organises its operations and defines its core and boundaries accordingly. Finally, the potential of the theories as a base for a unifying typology of internationalising service firms has been already suggested (Jensen & Petersen, 2014). Other organisational typologies, with similar theoretical foundations, have been demonstrated able to differentiate between internationalisation processes (Malhotra & Hinnings, 2010).

## Structure of the PhD

**1. The “service” landscape: How much do we know about the internationalisation of services?** (joint paper with Peter D.Ø. Jensen and Hemant Merchant, literature review, presented at *AIB conference, Vancouver, 2013*).

Why and how are the non-manufacturing sectors different? and What are the drivers behind their internationalisation? are the questions motivating this paper. Merchant and Gaur (2008) documented the

extent to which academic work in IB focused on the non-manufacturing sector, reviewing five multidisciplinary IB journals over a period of five years (2003-2007). In this paper, we first repeat their study for the five years following publication. With this we aim to see if their appeal towards more scholarly work done in IB towards the non-manufacturing sectors made a difference. We enquire whether there has been a difference in the quantity and quality of research on the non-manufacturing sectors. We however, do not stop there and zero in to the scholarly knowledge on the internationalisation of services. The literature review extends to all papers published so far on this topic in order to identify what we already know and what we still need to find out. Our conclusions identify main trends and underexplored phenomena, offering an opportunity for future research.

**2. Value creation through internationalisation: the value creation logic and the internationalisation process of Internet firms.** (single authored, multiple case study, Revise & Resubmit at *Review of International Business and Strategy*).

In this paper, the internationalisation process of Internet companies constitutes the context of theory development. It is believed that the idiosyncratic internationalisation process of Internet firms is not as homogeneous as it has been considered so far. In extant literature, Internet firms have been treated as one group, albeit distinct from non-Internet firms. We propose that the value creation process of Internet firms causes them to behave differently from each other, just as much as they differ from traditional firms. Our research question is thus *How the value creation logic of Internet firms influences their internationalisation process?*. We answer this question through multiple case study research comparing the internationalisation process of three pure play digital service firms, each falling into one value creation logic.

**3. Value guided internationalisation - identifying differences in foreign operation mode, speed and scope of internationalisation based on value creation logics** (joint paper with Christian G. Asmussen, quantitative research, presented at *mini-AIB 2015 Milano*).

This paper sets off to test if a consideration of the configuration of activities within the value chain can improve the theoretical foundations of the internationalisation of service firms. We explore the differences in international strategy between firms with different types of value chain configuration. Our contribution is twofold. Firstly, we test whether the value configuration framework, as an enhancement of Porter's value chain (1985), can explain variations in the international strategy of firms. Secondly, we compare its strength in that regard to the service vs. manufacturing and industry classifications. This exploration is motivated by the need to find a meaningful classification of firms, which reflects better the heterogeneity among service sectors while being still parsimonious.

To answer our research question *How does value chain configuration of firms impact speed, onset, scale*

and scope of internationalisation?, we use a dataset of publicly traded firms from six industries: furniture and computer manufacturing (chain configuration), personnel services and telecommunications (network configuration), and hospitals and management consulting firms (shop configuration).

We find that the value logic classification delivers significant results for our measures of internationalisation, either alone or when interacting with the control variables. Additionally, we find that it can be stronger than the manufacturing vs. service, and more meaningful than the industry classification. Results show, contrary to previous research, that value shop and value chain firms behave similarly in most internationalisation measures, despite the different industries and the service/manufacturing difference.

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## Chapter 2: The “service” landscape: How much do we know about the internationalisation of services?

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### **Abstract**

Merchant and Gaur (2008) documented the extent to which academic work in IB focused on the non-manufacturing sector. They reviewed papers published in four multidisciplinary IB journals over a period of five years (2003-2007). They paid particular attention to identifying future research avenues in the area of services. In this paper, we repeat the study for the five years following its publication to see if their appeal towards more scholarly work done in IB towards the non-manufacturing sectors made a difference. We enquire whether there has been a difference in the quantity and quality of research on the non-manufacturing sectors. We however, do not stop there and zero in to the scholarly knowledge on the internationalisation of services. The literature review extends to all papers published so far on this topic in order to identify what we already know and what we still need to find out. Our conclusions identify main trends and underexplored phenomena, offering an opportunity for future research.

## Introduction

International trade reaches back roughly 4000 years to the Arabian nomads trading in spices and silk from the Far East. Since then, it seems international business scholars have thought mostly about goods. In this paper, we address two questions. The first one is whether we, i.e. the scholarly community in the international business (IB) field, know enough about the behaviour on the international arena of this part of the economy. The second question is how we can advance the knowledge on internationalisation of services as a sub-area within IB and the research on services.

Previous research suggests that scholarly knowledge of the internationalisation of service firms and activities does not reflect their economic importance in the global economy (Capar & Kotabe, 2003; Merchant & Gaur, 2008; Pla-Barber & Ghauri, 2012). Services are increasingly dominating national economies. According to the World Bank, in the last 42 years the value added from services as percentage of World GDP is growing steadily from 53% in 1970 to 71% in 2011. Twenty years ago, the net output of services represented 40% of the GDP of low-income, 48% of middle-income and 69% of high-income countries (World Bank, 1997). In 2013, these numbers gave grown to 46%, 55% and 74% respectively, and trade in services represented 13% of world GDP (World Bank, 2016). For 2015 the estimate is that 71,2% of the GDP of the European Union, 79,6% of the GDP of the UK and 77,6% of the GDP of the USA came from services (World Factbook, 2016). Trade in services globally has demonstrated itself resilient to the turmoil of the last financial and economic crises in the sense of lower magnitude of decline and speedier recovery (UNCTAD, 2012). The service sector accounts for the larger part of FDI stock in Europe (87% of inward and 62% of outward FDI, 2011) and globally (63% overall, 2012), which suggests that service firms have been most active internationalising their operations (Eurostat, 2016; UNCTAD, 2015). The World Investment Report 2015 confirms the shift towards services FDI. Several factors gave rise and are sustaining this trend: increased liberalisation of services in developed and developing countries, growing demand for consumer services and higher real incomes, technological and communication advances which increase the tradability of services across borders. The service sector has been dominating the international scene for quite a long time, hence it is reasonable to expect that IB expertise in this field has grown to become cutting edge.

Indeed, business and economic studies have explored the subject from various angles (e.g. Daniels, 1982; Gershuny and Miles, 1983; Riddle, 1986, 1987; Shelp, 1981, 1984, 1985; etc.). One consistent issue within extant research on services is how to generalise the outcomes of the studies. Given the heterogeneity of services, it is challenging in academia to agree on what “service” or a “service firm” ultimately means. Several reviews of the knowledge on services internationalisation have appeared since the beginning of the 21st century, all remarking the crucial role of the service sector in the post-industrial

era, and all lamenting the comparative inadequacy of research on the topic. Contractor, Kundu and Hsu (2003) point to the discrepancy between the greater importance of services over manufacturing and the little research on their internationalisation. In their search of a universal theory of the relationship between multinationality and performance for service firms, they point to several discrepancies and methodological faults in research on the topic. Lommelen and Matthyssens (2005) carry out a literature review on the internationalisation process of service providers focusing on motives, market selection, entry mode choice and profile of exporters. By 2005, a significant body of research on international services already exists, featuring more empirical than theoretical studies published in a wide variety of journals. However, their conclusion is that solid theoretical base on the topic is lacking, and extant research does not offer an unequivocal insight in the internationalisation patterns of service companies. The main challenges hindering the knowledge development concern the selection of the research context and the lack of empirical verification. The choice of service industries/types insufficiently acknowledges the heterogeneity across services or the specificities of services. The lack of studies verifying the theories developed in the context of manufacturing for application in the context of services limits the impact of conceptual developments (Lommelen and Matthyssens, 2005). The theoretical frameworks used range from those used in manufacturing research and custom made ones, but opinions differ as to the applicability of the different frameworks in the context of services. Frequently, different frameworks are blended together as each offers a partial explanation. Hence, the restricted conceptual and methodological approach to the subject leaves unclear if the findings from the existing research can be generalised or based on what underlying characteristic this can happen. Additionally, in some areas findings are incomplete and/or conflicting. Opportunities are seen in the reasoned involvement of the specificity and heterogeneity of services into the research design. For instance, the development of typology of services that matches patterns of internationalisation, or the definition and empirical validation of the factors influencing internationalisation choices are possible directions for future research. Within a special issue on the internationalisation of services (*Management International Review* 48(4)), Merchant & Gaur (2008) assess the contribution of IB scholars to enhancing the knowledge on the non-manufacturing sector and discover “a largely barren academic landscape vis-à-vis recent academic work pertaining to the non-manufacturing sector in general and services sector per se in particular” (Merchant & Gaur, 2008, p.1). Among the factors impeding research on the topic are lack of theoretical frameworks, reliable data, understanding and open-mindedness of journal reviewers. Opportunities are identified for cross-country comparative and longitudinal studies, search for common characteristics and typologies, multi-theoretical perspectives, defining “service” and its unique aspects, and repetition of studies carried out with manufacturing firms to assess if the same design and theories apply to services. For the introduction to another special issue on the internationalisation of services (*the Service Industries Journal* 32(7)), Pla-Barber and Ghauri (2012)



acknowledge again the comparative scarcity of research on the internationalisation of service industry firms. They suggest several outstanding themes where improvement can be offered. The impact and interaction of service specificities with elements of internationalisation such as location and entry mode choice, speed, onset and progress of internationalisation form one of the recommended directions. Alternatively, zeroing on the service and manufacturing as opposed categories of firms and activities, more knowledge would be necessary to spell out the differences in essence and behaviour, as well as reaction to globalisation and institutional factors. Essentially, a similar argument as the previous reviews - is what we know about internationalisation from manufacturing research applicable to service firms?, and why?. In summary, despite the increasing amount of research on internationalisation, some fundamental gaps appear to remain.

The contribution of the present paper lies in assessing whether this has hindered the development of scholarly knowledge on the internationalisation of services. Our focus is twofold. Firstly, we assess the development of service-thinking in the IB field. Repeating a study carried out eight years ago, we describe how IB scholars have responded to calls for more focus on services. We quantitatively show how much new content has been brought to the table in the discussion on service internationalisation. We repeat the study by Merchant and Gaur (2008) in order to be able to connect the insights from both papers, and pinpoint the developments. This is done reviewing 896 papers published between 2009 and 2013 in five IB journals. Our second focus is on what is known about internationalisation of services and what remains unanswered. To achieve this objective, we conduct a keyword search unrestricted in time, journal or territory. We also do not restrict the review to a particular topic within the internationalisation of services, such as the international marketing of services (Knight, 1999) or the internationalisation process of service firms (Lommelen and Matthyssens, 2005). We carry out content analysis of the resulting sample of 333 papers. Our purpose is to map the knowledge about the internationalisation of service firms and activities, analyse the trends in publishing research in this field, and identify interesting questions and promising avenues for future research. The contribution of this paper is to lay foundations of a systematic inquiry into the still existing gaps in our knowledge about service firms in the global trade. Our findings suggest the IB interest in services is growing and significant development is palpable in the last decade in terms of number of papers, rigor, and methodological approaches. Underexplored themes and angles of course still exist and we lay them out as future research recommendations.

This article is structured in the following way. First, we present the methodology we employed in both parts of the research. We next commence the discussion by a quantitative comparison with the results from Merchant and Gaur (M&G, 2008). The forth section draws attention to several themes underlying the body of literature on internationalisation of services. The next four sections summarise the research falling under each of our four theoretical themes and identify gaps and understudied areas. The last section offers

reflections on the research carried out and directions for future research. We map the themes, theories, and approaches used, as well as suggest ways in which research can further advance the theoretical and empirical knowledge within the field of services internationalisation.

## Methodology

Since M&G's (2008) study—which identified a “...barren academic landscape” vis-à-vis services research—IB scholars have pursued work on services. Consequently, our goal is to systematically explore the current landscape of scholarly activity on services internationalisation. Our work was carried out in two stages. Firstly, we repeated the previous review following the same methodology in coding themes, journal selection, and time span (Table 1). Taking the period 2009-2013, we aim at assessing in quantitative terms, how much the landscape has changed and whether the calls to action extended by M&G (2008) made a difference. Secondly, we conduct a keyword search unlimited in time and journal to complete the insights of a quantitative overview. While the first part focuses on the non-manufacturing sector, the second considers research specifically on service industries, firms and activities. We do not limit this literature review to IB journals and do not ignore function-based journals nor journals with a singular “services” focus. We believe a wider range of journals and years gives us a wider opportunity to include papers, which address the topic of services internationalisation.

For the first part of the analysis, we reviewed 896 research articles published in the selected journals between January 2009, and December 2013 (both inclusive). Research notes, editorials, book reviews, keynotes, corrigendums, perspectives and retrospectives were excluded. Our survey covers 25 journal-years – a time span that provides us all with a reasonable overview of academic work within the field of international business pertaining to the non-manufacturing sector. To develop and evaluate the validity of our coding scheme, we initially coded 100 articles with the goals of the research in mind. We discussed the result in conjunction with the categories developed by M&G (2008) and settled on a final coding scheme. We distinguished between:

- a) Studies that focused on the non-manufacturing sector (studies with a sample composed exclusively of service firms)
- b) Studies that focused on the non-manufacturing as well as the manufacturing sector (studies with a sample including both manufacturing and service firms)
- c) Studies that focused on the manufacturing sector (studies with a sample composed exclusively of manufacturing firms).

This division enabled us to concentrate on two big subsamples: the “Service” and the “Mixed” articles. After developing relevant coding skills/competence, all remaining articles were coded by one of the authors. Subsequent random checks suggested accurate classification. Each article was read and coded

further along several other dimensions: i) type of article (i.e., empirical or conceptual), ii) article keywords, iii) article research question, iv) applied theories, v) sample size and composition, vi) level and unit of analysis, vii) type of data and research strategy, viii) specific industries studied, ix) article's geographical focus, and x) the article's main conclusions. For studies that considered non-manufacturing as well as manufacturing sectors, we looked for a variable(s) that differentiated between these sectors and discussion of the significance of such variable in the results or discussion sections. We then conducted quantitative analysis in order to establish whether there had been any developments since the earlier analysis by M&G (2008).

In the second part of the research, we conducted a keyword search of “internationalisation” and “service” occurring together in Abstract, Keywords or Title, unlimited time frame in Scopus database. This second part of the paper asks three questions:

- 1) What do we know about the internationalisation of service firms?
- 2) Which topics within the internationalisation of services have received less than sufficient attention?
- 3) How new research may advance our understanding of key phenomena?

Consequently, the main goals of this literature review are to:

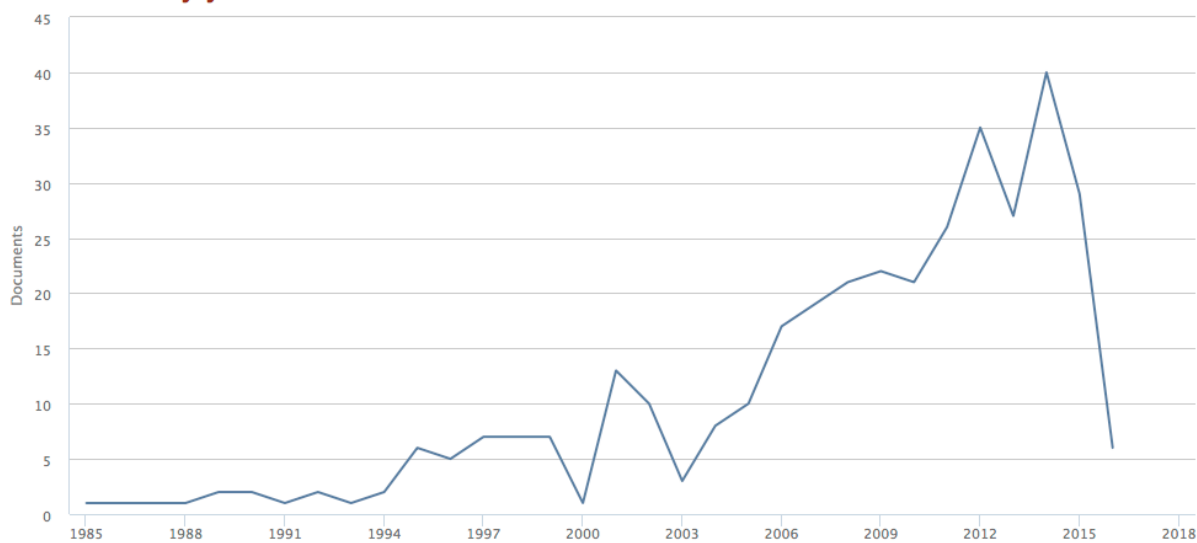
- a) Integrate the literature on services internationalisation.
- b) Briefly review main topics on which work has been published and point out main insights.
- c) Bring forward key underexplored questions and identify ways in which future research can best contribute to this area of knowledge.

The search rendered 1209 documents. Excluding conference reviews, editorials, surveys, notes and erratums, books and book chapters left 926 documents: published and in press articles. The next step was to filter through the list of results, excluding documents, which did not focus on aspects of the internationalisation of service firms. We excluded papers where “internationalisation” and “service” coincided but were not related to the subject of the study. For example, we excluded “Publicly funded business advisory services and entrepreneurial internationalisation” (Cumming, Fischer & Peridis, 2015) because it focused on the effect of publicly sponsored advisory services on the degree and motivation to internationalise of small and medium-sized firms. We also excluded articles where the internationalisation was the context of the phenomena investigated as in “Taiwanese College Students’ Motivation and Engagement for English Learning in the Context of Internationalisation at Home: A Comparison of Students in EMI and Non-EMI Programs” (Chen & Kraklow, 2014). Papers where both manufacturing and service firms were considered (for instance, where the sample contained both types of firms and there was a control variable differentiating between them) were included only if they focused on a comparative

approach and discussed at length the differences between the two groups. For instance, we included “Internationalisation capabilities of SMEs: A comparative study of the manufacturing and industrial service sectors” (Raymond, St-Pierre & Uwizemungu, 2014), but excluded “The influence of political risk on the scope of internationalisation of regulated companies: Insights from a Spanish sample” (Jimenez, Luis-Rico & Benito-Osorio, 2014). We also eliminated papers that were not in English, French or Spanish. The resulting number of papers was 354, published between 1985 and 2016.

**Figure 1: Documents by year.**

### Documents by year



We then used the analytical tools Scopus provides to get a sense of the sample of papers. There were less than 15 papers a year until 2006, but this number grew significantly afterwards (Figure 1). Two journals stand out: *Service Industries Journal* and *International Business Review* - while all other journals published less than ten papers on our topic of interest, these two published 40 and 13 respectively. The breakdown of affiliation, territories and authors can be seen in Tables 2 - 4.

Figure 2: Documents by country/territory.

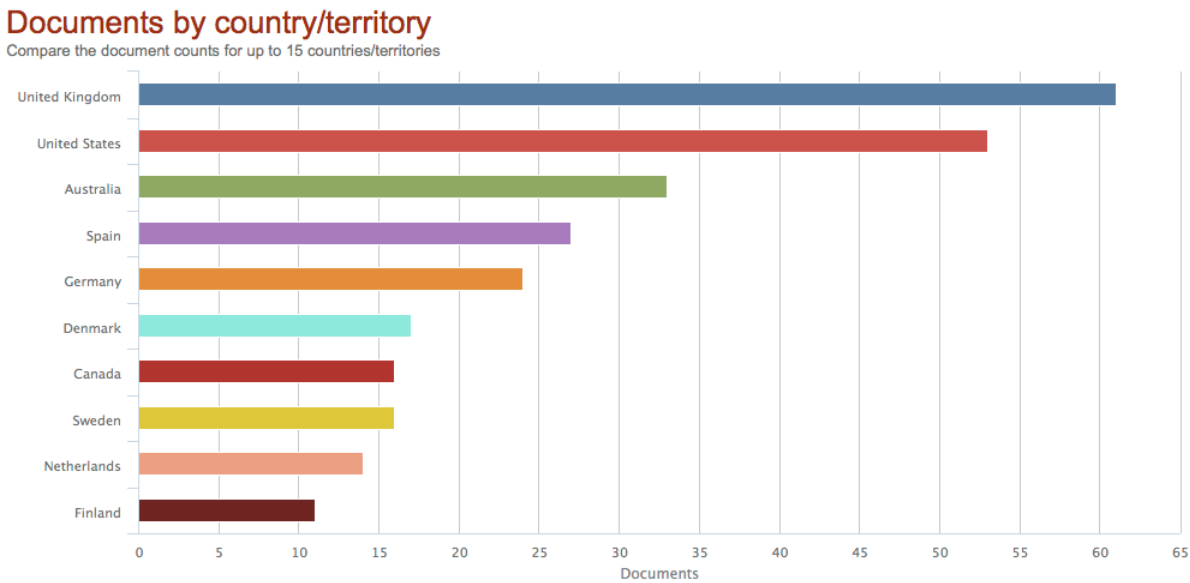
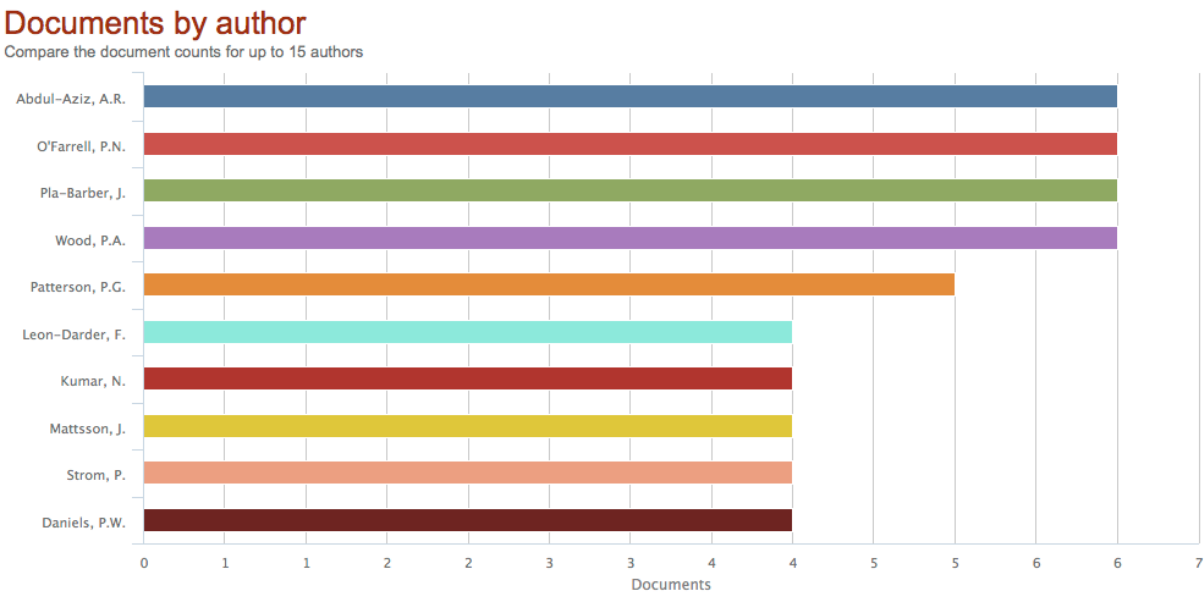
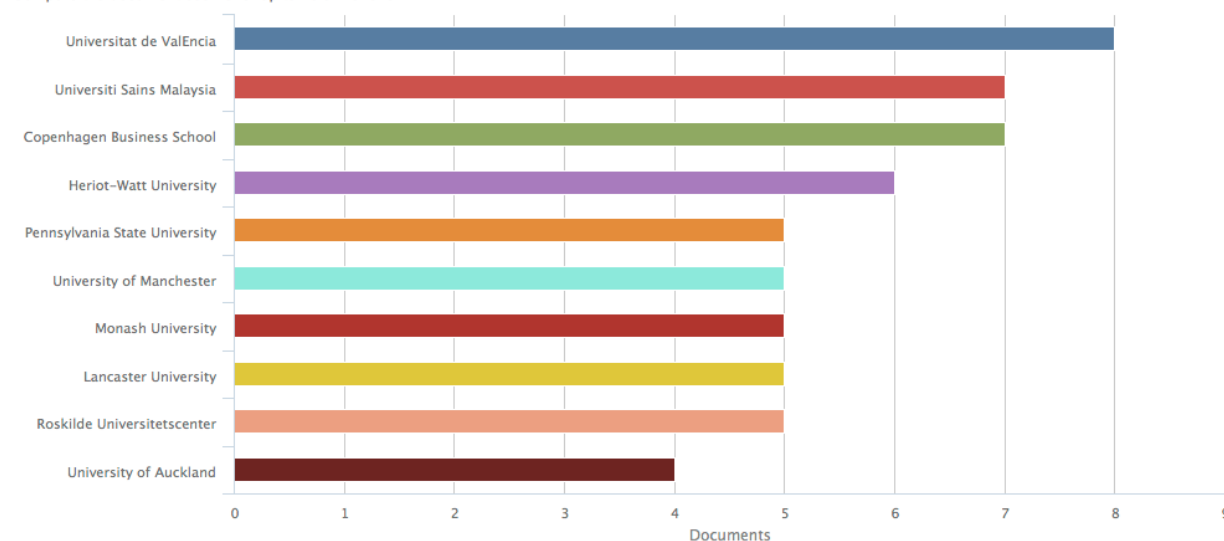
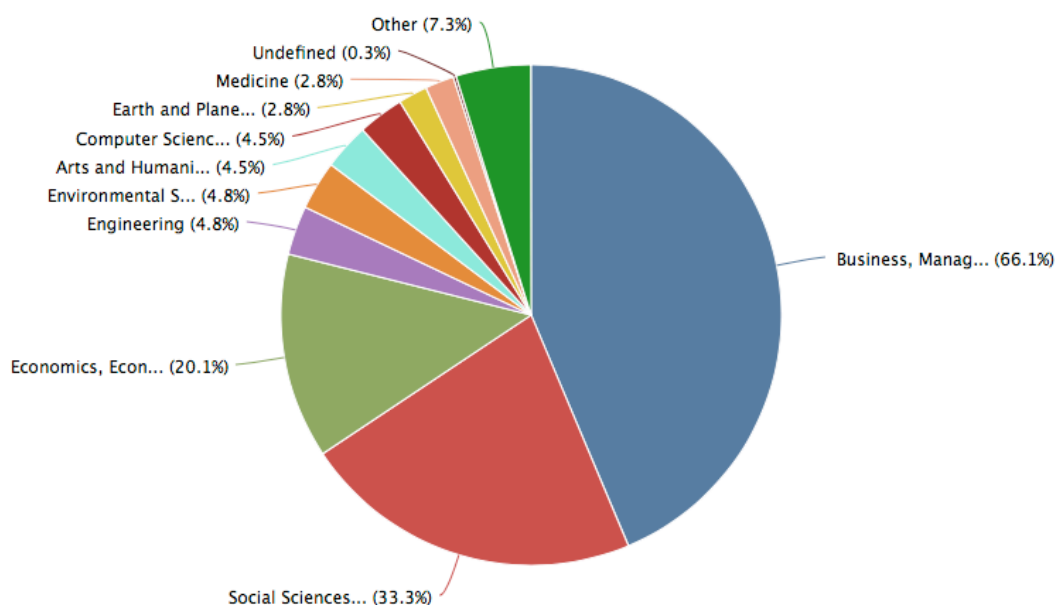


Figure 3: Documents by author.



**Figure 4: Documents by affiliation.****Documents by affiliation**

Compare the document counts for up to 15 affiliations

**Figure 5: Documents by subject area.****Documents by subject area**

Finally, the subject areas dominating in the sample are Business, Management and Accounting (234 papers); Social sciences (118); and Economics, Econometrics and Finance (71) - Figure 5. The papers from our sample were cited in 3364 academic texts - articles, book chapters, conference papers, etc. from 25 different subject areas. The next step was to obtain digital full text copies of the papers. This eliminated further 62 papers, which were not available through the library of neither Copenhagen Business School nor Google Scholar. We also added 41 papers and book copies from our personal libraries to the resulting 292

papers. The final sample of 333 papers was separated into English language group (288 papers) and Foreign language group (4 papers: 2 in Spanish and 2 in French). The English group was entered into the content analysis software (NVivo). The two groups were analysed separately: the former through software, and the latter - manually.

We derived a list of themes to use in the content analysis corresponding to the main phenomena IB engages with, along with elements we know are related to services. We considered three main groups of themes: antecedents of internationalisation, internationalisation process, and service MNE. Along with those themes, we took note of the methodologies, theories and level of analysis in each of the papers. We then looked at the titles and abstracts of the papers and did an initial outline of the content through a bottom up approach. We put both the expected theoretical themes and the themes coming out of the initial reading of the sample of papers side by side (Table 2) to see where there was an overlap and where there seemed to be differences. Generally, there was overlap and yet some theoretical themes were not found through a simple title review.

**Table 1: Coding themes.**

Theoretical themes	Empirical themes
<b>1. Antecedents of internationalisation:</b>	Regulative environment of services/Property rights
1.1 Motivation for internationalisation	Internet/ICT and internationalisation
1.2 Decision to internationalise: firm-specific factors; home/host country factors; network ties;	Partnerships and internationalisation
<b>2. Internationalisation process:</b>	
2.1 Foreign entry mode choice	Entry modes and foreign operation modes
2.2 Foreign operation mode sequence	
2.3 Location choice	Market/Location choice
2.3.1 Effects of distance in geography, institutions & culture	Cultural elements of internationalisation
2.4 Speed and onset of	

internationalisation	
2.5 Scale and scope of internationalisation	
2.6 Multinationality and performance	Multinationality and Performance; Internationalisation and IPOs
2.7 Role of emerging economies (as host or home)	Emerging economies as home and host countries
<b>3. Service MNE:</b>	Innovation and internationalisation
3.1 International innovation (R&D location)	Customer role/influence; Employee-Customer interaction
3.2 International marketing	Standardisation vs Adaptation
3.3 International economic exposure (exchange rate effects)	
3.4 Structure of service value chains/International sourcing	Outsourcing and global service delivery models/Distribution systems
3.5 Relationship HQ-subidiaries	Talent, HR, Human capital
3.6 Role of the managers	
3.6 CSR and environmental responsibilities	Ethics and Corporate Social Responsibility
3.7 Service specific factors (trust, customer role)	Trust impact on internationalisation; Knowledge and learning
<b>4. Trade in services</b>	Market power
4.1 Manufacturing - Service relationship	Differences in the internationalisation of services and manufacturing;  Services embedded in goods.
4.2 Forms of service trade	Internationalisation at home / Inward internationalization;



	Designing services for international users
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### Quantitative analysis of research on non-manufacturing sectors in five IB journals

Repeating the previous literature review conducted by Merchant and Gaur (2008), our analysis reveals significant developments in terms of quantity and quality of papers on the non-manufacturing sectors (NMSs) published in the reviewed journals. Table 2 (mirroring Table 1 of the previous study) summarises the analysis of the manuscripts included, while Table 3 shows the percentage difference with the previous study. The overall amount of papers published was 37% higher compared to the 2003-2007 period. Of these 896 papers, almost 60% were focused on the NMS, more than twice than in the previous study. From these 12% were conceptual, and the rest empirical. The conceptual papers were 12% less than in M&G (2008). About 14% of all papers focused exclusively on the NMS, while 45% addressed both the manufacturing and non-manufacturing sectors. We did not find any studies, which did not report their focus.

**\*\*\*Table 2: Journals reviewed and included papers per journal 2009-2013 (N=896) – see end of paper\*\*\***

88% of the non-manufacturing papers were empirical studies, which testifies for an increased focus on understanding of the empirics of firms operating in various NMSs. The reporting of the sample size has also significantly improved since the last review – no non-manufacturing studies failed to report their sample size. About 2% of the mixed papers made that omission, however. Furthermore, from an industry perspective, our results show more variance than Merchant and Gaur (2008). We find wider variety of industries and geographical span. The papers are evenly distributed among the mentioned sectors, with the *multiple industry* and *global geographical focus* having the lead in number of studies. Finally, another difference with the previous five years of publications is in the advancement in country-specific or cross-country analysis of non-manufacturing firms. This was almost inexistent in the previous study but clearly appreciable in the more recent sample of studies. The reviewed papers show remarkable diversity in terms of the disciplines they draw from (accounting, economics, entrepreneurship, finance, international business, law, marketing, organisational behaviour and theory, and strategy), the research levels (micro and macro), types of focal firms (non- and for-profit, state owned), and theoretical perspectives and conceptual lenses. The published studies make use of established theories, as well as theories borrowed from outside of the management disciplines.

**\*\*\* Table 3: Comparison with Merchant and Gaur (2008) – see end of paper. \*\*\***

Almost half of the “mixed” papers included an independent or control variable differentiating between the service and manufacturing firms in their samples – nearly three times more than in the last review. Unfortunately, while in about half of those papers the results were presented differently, thus enabling a comparison on the dimensions studied between manufacturing and non-manufacturing firms, the differences and similarities were discussed in only 15% of the cases. Still, this effort is greatly appreciated as the mixed sample of papers has a great potential to illuminate our understanding of the NMS.

In terms of journal differences, all journals except TIBR have similar distribution of non-manufacturing/manufacturing papers. The highest percentage of non-manufacturing sector specific papers is also in TIBR, while for the other journals the bulk of papers include mixed samples. TIBR and MIR are the exclusive sources of non-manufacturing conceptual. Regarding the topics addressed, some variation can be observed, with e.g. JWB articles having a relatively strong emphasis on HR and cultural dimensions, and JIBS articles addressing questions relating to banking and offshoring/outsourcing of services (and the latter theme is also frequently addressed in JIM and JWB). From a methodology perspective, the journals also show some variation, e.g. where the majority of articles published in JIBS are based on extensive quantitative analysis, using country and firm level data from databases or surveys, and most of the articles specific to the services sector in JWB are based on qualitative small sample research.

Our conclusion at this stage of analysis is that there has been significant progress since Merchant and Gaur published their review. The emphasis in these five years has been uncovering the empirics of the NMS, which will, hopefully, be a solid base for further conceptual development.

### Reflections and content analysis of service-specific papers

As mentioned above, we continued our review with a content analysis of a sample of papers focusing specifically on the internationalisation of services (the keyword search sample). We grouped the insights from all these studies under different themes, which are analysed in the following subsections. By way of introduction, however, we should emphasise that these themes are our interpretations, and by nature shaped by our own research training and experiences. In a multidisciplinary field, such as services research, other scholars who carry different theoretical “luggage” might derive other themes from these data, as noted by Allison (1971) in his seminal illustration of different theoretical interpretations of the Cuban missile crisis in 1962.

**\*\*\* Table 4: Industry distribution of the keyword search sample – see end of paper. \*\*\***

The keyword search sample of documents offered a broad overview of service sectors. Just to illustrate a few, Agarwal & Ramaswami (1992) examined the determinants of FEM choice by US

equipment leasing firms, Erramilli (1996) - by US and European advertising agencies, Brouthers (1995) and Brouthers, Brouthers & Werner (1996) - by US computer software firms, Parente, Choi, Slanged & Ketkar (2010) - by the US insurance industry, Kathuria, Joshi & Dellande (2008) - by banks, and Contractor & Kundu (1998) and Erramilli, Agarwal and Dev (2002) - by the international hotel sector. The General group (Table 4) included papers focusing on phenomena spanning all services - either conceptual or empirical with samples including a variety of industries. The Education group was the largest single industry group and focused on subjects mostly related to higher, but also professional and childhood education. The Technology-related group included studies focusing on industries with a strong technological component: software services; IT consulting; e-business; etc. The miscellaneous group included single industry studies, which explored gaming, sports management, facility management, etc. The keyword search sample contained both empirical and conceptual papers, an interesting collection of research designs and methodologies, as well as wide geographical span. Due to space constraints, we decided not to include here an analysis of the different research approaches used, although such a focus will be useful in identifying the usual difficulties met when studying services, as well as will help understand some of the contradictions and shortcomings in extant research.

Before we dive into the academic insights into services from this part of the research, it is necessary to keep several general facts in mind. The heterogeneity across service firms and activities, the variability of approaches to internationalisation observed, and the discussion as to which theories can explain them are unresolved issues which pervade extant research. We consider they go to the very object and framing of the research, and hence affect the way we take in results.

Firstly, researchers agree that services are a heterogeneous group of activities. The heterogeneity observed causes a doubt on generalisability of results between different types of services, and even suggests that service and manufacturing are not necessarily different groups. From the many typologies of services that exist, the ones used to explain their internationalisation focus on the output rather than organisational characteristics (e.g., Rathmell 1974). Defining what is “service” is a tough task, frequently skipped in extant research. While opinions differ as to how and why exactly services differ from manufacturing and each other in internationalisation, the most used approach to the study of services are typologies based on a variety of service (product) characteristics or the opposition based on characteristics of the process of production of service and manufacturing. The unique characteristics of services vary from 5 to 8, and constitute a central characteristic of extant research approaches. These characteristics are the foundation of typologies, which try to encompass the service reality. These typologies are necessary to tackle variability such as goods complemented by services, services delivered through intangibles, service activities performed by both service and manufacturing firms. This, in our opinion, illustrates the need to approach research using the umbrella term “service” knowing that such group in fact does not exist.

Secondly, service delivery is another important, but not widely considered factor when studying service internationalisation (e.g., Lommelen & Matthyssens, 2005; Meyer, Skaggs, Nair & Cohen, 2015). International services - those offered in foreign markets and/or to foreign customers - can be delivered in (at least) four ways: the movement of service providers to clients abroad; the movement of foreign clients to service providers at home; the movement of both clients and providers abroad; and no movement by either client or service provider due to service delivery through objects, technological vehicles and/or assets. This means that production factors may move to consumer (repair service), consumer may move to production factors (hotels), production factors may be located in a country different from that of the consumer (cloud computing), and face-2-face interaction and simultaneous production and consumption (hair-dressers). While the attention to modes of delivery other than FDI has increased, a comprehensive approach to service delivery is not typical. Hence, when we investigate internationalisation, we need to think of internationalisation of delivery channels.

Finally, the debate whether FDI- MNE theories developed in the context of manufacturing are suitable to study the internationalisation of services is by no means concluded (e.g. Boddewyn, Halbrich & Perry, 1986; Buckley, Pass & Prescott, 1992; Dunning, 1989). The heterogeneity of approaches to internationalisation across service sectors underlines for some researchers the need to develop new approaches (e.g., Edvardsson & Olsson, 1996; Hurmelinna-Laukkanen & Ritala, 2012; Lewin & Volberda, 2011; O'Farrell & Wood, 1998; O'Farrell, Wood & Zheng, 1998). Others focus on the adaptation of existing theoretical frameworks to the specificities of services (e.g., Buckley et al., 1992; Cicis, Patterson & Shoham, 1999; Coviello & Martin, 1999; Erramilli & Rao, 1993) and even on generalisation of manufacturing results to service industries (e.g. Terpestra & Yu, 1988). Interestingly, results exist to support all approaches. The transaction cost approach (Brouthers & Brouthers, 2003), the eclectic paradigm (Brouthers et al., 1996; Ekeledo & Sivakumar, 1998) and the internalisation theory have all been deemed unable to explain the internationalisation of some service firms, and used as the base of frameworks used in a service setting (Carvalho, 2014; Dicken, 2003; Javalgi, Griffith & White, 2003). The same is valid for the internationalisation process model (IPM), which is both confirmed (e.g., Cheung and Leung, 2007; Eriksson, Johanson and Majkgård, 2000; Parada, Alemany & Planellas, 2009;) and contradicted (e.g., Bangara, Freeman & Schroder, 2012; Pogrebnyakov & Maitland, 2011). Good explanatory ability is found for the industrial network theory (e.g., Coviello & McAuley, 1999; Coviello & Munro, 1997) and RBV (e.g., Ekeledo & Sivakumar, 2004) in combination with other frameworks to complement the analysis. Finally, the linkages-leverage-learning (LLL) framework helps explain the specificities of internationalisation of emerging market firms (Ström & Ernkqvist, 2012) correcting for shortcomings of the traditional IB approaches. Therefore, when looking at service internationalisation research it is important to note how the fit between theory and context is interpreted.

### Service typologies used in internationalisation research

Independently from which set of factors are considered to affect the internationalisation of service firms, their influence can be interpreted in opposite directions depending on the service type or industry in focus. These sometimes conflicting effects are explained by the variety within the service group, and are tackled by multiple typologies (Castellacci, 2010). The purpose of this paper is not to summarise all knowledge in the area of services, so we concentrate on the typologies used in internationalisation research. Most frequently, five distinct characteristics of services are seen as setting them apart from goods: intangibility, inseparability, heterogeneity, perishability and ownership (Zeithaml, Parasuraman and & Berry, 1985). The number of unique service characteristics may vary from study to study, as some characteristics are considered less relevant, interpreted differently or added in (e.g., tradability, capital/knowledge/labour intensity, co-production and co-creation, etc.). Tradability is among the first characteristics used to differentiate types - Boddewyn et al. (1986) distinguishes between: tradable services, location-bound services and cases in between. The separability and asset specificity (soft/hard and capital-/knowledge-intensive) distinctions are the most frequently used to discover patterns of international competitiveness, innovation cooperation, multinationality-performance, etc. Services as experiences, difficult to assess before consumption (Bateson, 1977) is the domain of intangibility (Vandermerwe & Chadwick, 1989). The degree of consumer–producer interaction - a symptom of separability or value chain flexibility - divides internationally tradable services into soft and hard (Erramilli, 1990; Erramilli & Rao, 1990). The former is inseparable (health and restaurants), which means consumption and production for these service sectors happens simultaneously (Zeithaml et al., 1985).

**\*\*\*Table 5 about here: Some typologies of services – see end of paper.\*\*\***

Additional characteristics have been added to those basic five. For example, the predominant human element in service production has been linked to the variability in production and quality from one instance of service produced and delivered to the next (e.g., Contractor et al., 2003; Erramilli & Rao, 1993; Thomas, 1978). Knowledge intensity and capital intensity usually form a continuum representing the “magnitude relative to the volume of investment in fixed assets that are necessary to begin production and carry out operations in a given industry” (Sánchez-Peinado & Pla-Barber, 2006, p. 217). The international expansion of capital-intensive services (CIS) demands sizeable investments in infrastructure, and is thus said to be very similar to that of manufacturing firms. Knowledge intensive services (KIS) depend on human capital or intellectual material. Their internationalisation is hence assumed to be less burdened by initial investments, but those dedicated to human resources and adaptation of the product (Sánchez-Peinado & Pla-Barber, 2006; Erramilli & D'Souza, 1995; Palmer & Cole, 1995).

The relationship between services and goods has been approached in a variety of ways.

Perishability and ownership (i.e. the view that some/most services cannot be owned or stored) for some authors clearly sets services apart from goods (e.g., Thomas, 1978). Others see the good-service distinction as a continuum of intangibility (e.g., Shostack, 1977) or customer-employee contact (e.g., Armistead, Bowman & Newton, 1995). The continuum approaches place pure services at one end and pure manufacturing at the other, with several mixed categories in between. Another approach is to classify all firms (before dividing them into manufacturers or services) along dimensions of interest. For example, the origin and implication of technological change gives a typology based on the role of technology for competitive advantage. It distinguishes four types of activities: supplier-dominated; scale-intensive physical networks; information networks; and specialised suppliers/science-based (Miozzo & Soete, 2001). The capability to compete in overseas markets and the specific channels and strategies adopted by firms differ across the four groups. These types include both manufacturing and service firms and emphasise that the source of innovation and hence competitive advantage of a service firm can come from a manufacturing one, and vice-versa.

Internationalisation research develops frameworks with combinations across these characteristics (e.g. Sampson & Snape, 1985; Vandermerwe & Chadwick, 1989). For example, hard services are frequently also intangible, storable, homogeneous and dependent on a tangible object for export and storage. Intangibility and inseparability together are frequently blamed for hindering foreign expansion by adding to the already existing costs and barriers such as need for foreign presence and local adaptations of the product (e.g. Edvardsson, Edvinsson & Nyström, 1993). The degree of overlap between the different typologies has not been explored. For example capital-intensive services appear to cover industries similar to hard services, but it is not clear if what we know about one group can be extended to the other. One conclusion clear to researchers using typologies is that while the five characteristics are true for most services, the problem of defining services remains because not all service activities exhibit all those elements. Some dimensions, such as the one between capital and knowledge intensity have been questioned (e.g., Capar & Kotabe, 2003) as based on an aspect that is not static in time and context. The criteria used in their development are either ambiguous or descriptive and hence subject to change or interpretation. One problem stemming from this is locating service sectors in the “right” type. For instance, advertising has been identified as soft service by Erramilli and Rao (1990) and as a hard service by Ekeledo and Sivakumar (1998). In Erramilli’s work, hard services are the ones associated with technology, while in other conceptualisations (e.g. Cicic et al., 1999) telecommunications is said to be a soft service. Technological components in a service hence can mean either an international expansion similar to manufacturing (Erramilli, 1991), or one that is idiosyncratic and flexible (Vandermerwe & Chadwick, 1989). Finally, the variety of typologies is somehow confusing and makes the literature on services appear fragmented. However, while the huge variety of services and the stark differences across service sectors

are widely acknowledged, most research concludes that yes, services differ, and yet some general predictions may be made about the nature of their internationalisation (Rugman & Verbeke, 2012).

One factor has emerged to put this assumption into question. According to Buckley et al. (1992), technological advantages and innovation offer little to service sectors for achieving competitive advantage because of free availability of the technology involved in service production and the imitation risks/low patent possibilities. Recent developments, however, clearly contradict this statement. Technology makes it possible to collect, generate, analyse, and diffuse large quantities of information at a minimal cost, and thus has a pervasive influence on the service sector (Miozzo & Soete, 2001; Bell et al, 2008; Castellani, Jimenez & Zanfei, 2013). The role of technology (Internet, ICT, etc.) in the internationalisation and change of the service sector seems underexplored, while frequently mentioned as an important antecedent of the increased international trade in services. Technology improves information collection, management, and analysis, which enhances knowledge creation opportunities. Technology puts the idea of services as labour-intensive activities in the past (Miozzo & Soete, 2001). Technology has an important effect on the tradability of services, the pace, speed and pattern of internationalisation, and the structure of the service and manufacturing value chains (Cicic et al., 1999). It affects directly the separability trait of service activities - the characteristics with the strongest impact on internationalisation (Cicic et al., 1999), and opens new geographical markets for services. Technology also represents an important cost centre, a fact that is frequently left out when considering the capital intensity of the service sector. Among the effects of technology is also the increased trend of domestic and cross-border mergers and acquisitions within and across service sectors, and between services and manufacturing firms. Additionally, technology increases the linkages between goods and services and their interdependence. This along with the specialisation/increased knowledge intensity of services increases the tendency toward externalising services to independent providers in order to increase productivity. Examples of this are software providers, cloud computing and analytics, etc. As a result, the structure of service sectors fluctuates due to technological change. For instance, supermarket chains are able to serve as mobile operators and banks. One effect of these fluctuations is the increasing meaninglessness of statistics on the trade of services (Miozzo & Soete, 2001). For this paper, the pervasive effect of technology means that existing research on services needs to be examined carefully and judgement needs to be exercised before generalising it as firms which five years ago fell under one type of service, may now belong in a different group. For example, medicine can now be digitally exported and a doctor in Europe can consult patients in Asia, while neither has to move. In summary, technology has a pervading influence on the landscape of services as it changes their very nature and hence the classifications upon which extant research is based.

### **Antecedents of internationalisation**

Just as there is a debate whether services and manufacturing firms are fundamentally different

enough to obey by different sets of theories, the internationalisation of services proper is seen as more difficult by some (e.g., Kathuria et al., 2008; Reardon, Erramilli & D'Souza, 1996), and easier by others (e.g., Ball, Lindsay and Rose, 2008; Youngdahl, Kellog, Nie & Bowen, 2003). The first group of researchers sees all characteristics of services as making internationalisation more challenging. Inseparability (hence the need to redeploy and to adapt firm specific advantages/resources in a bundle) precludes exports and increases the risk of foreign entry, intangibility and customer importance hinders FDI because the difficult to evaluate intangible nature requires firms to understand local demand in order to build a reputation, trust and ensure quality. Heterogeneity and perishability require more flexibility in servicing foreign markets (Meijboom & Houtepen, 2002). The high human element constitutes a “quality” barrier for internationalisation (Rugman & Verbeke, 2012). Institutional factors such as regulation and cultural differences increase the liability of foreignness (Reardon et al., 1996; Schulz, 2005). Scale and scope imply costs that can outweigh the benefits from internationalisation for service firms. For example, due to the need to customise the service to the consumer or the risk of losing the advantages accrued by specialisation. The fans of service internationalisation find services internalise operations to a greater degree than manufacturing firms because their firm-specific advantages (FSA) are more easily transferable across borders, and they require less capital investment (Buckley et al., 1992; Rugman & Verbeke, 2012). Additionally, benefits from internationalisation such as experiential and inherited knowledge can be more valuable. For instance, services are able to reap the benefits from exposure to export markets very early in their internationalisation (De Prijcker, Manigart, Wright and De Maeseneire, 2012; Love & Ganotakis, 2013; Sofka, 2008). Finally, the service sectors are a dominating force in the global economy.

Among the determinants of service exports are global factors such as technology, globalisation of demand, liberalisation and trade agreements and focus on the service component in goods as a competitive edge. Firm specific antecedents include reputation, talent and skill pool (Bryson Daniels & Warf, 2004), and infrastructure (particularly ICT) (Myszkowska, 2014). An existing and potential network abroad may also have positive effect on internationalisation (Sigfusson & Chetty, 2013; Ström & Mattsson, 2006; Venzin, Kumar & Kleine, 2008), as well as the characteristics of the host market (size, ease of doing business; Javalgi et al., 2003) and the institutional environment in which internationalisation happens (Myszkowska, 2014; Ström & Ernkvist, 2012). A stable regulatory environment contributes to the development of trust so necessary for smooth service transactions (Myszkowska, 2014). The reasons to enter a particular market feature desire for growth, learning, diversification through foreign customers or serving existing customers (E.g. Ström & Mattsson, 2006, 2006). Motivation to internationalise results from both push (competitor threats, domestic market saturation or poor performance) and pull factors (recognition of foreign opportunities, client following, proactive diversification for profit or capabilities leverage, product lifecycle, defensive reasons) (Cheung & Leung, 2007; Patterson, de Ruyter and Wetzels,



1999). Some studies emphasise the customer as a central figure and key element when it comes to the decision to internationalise. For them the decision is taken by entities external to the firm: following customers, responding to foreign demand, network influence, small domestic market, etc. Law and advertising firms, for example, globalise pulled by client demand (resulting in client following, or better reputation at home), competitor pressures, and need to dissuade new entrants (e.g., Brock, Yaffe and Dembovsky, 2006; Contractor et al., 2003; Cheung & Leung, 2007). Proactive search is less typical, and emphasises the role of the manager, and the dual role of networks as a reactive motive and a proactive tool (Edvardsson et al., 1993; Lommelen & Matthyssens, 2005). The attitude of managers toward internationalisation is frequently a key for its initiation (Cicic et al., 1999). The factors influencing the decision to internationalise seem related to the characteristics of the operations rather than the size of the firm (Kathuria, et al., 2008). Yet, Javalgi et al. (2003) contend that from the perspective of the managers, firm size plays a critical role. The attitudes of managers are more positive towards international growth when the firm is larger as it is capable of absorbing risks and has the skill and human capital necessary for it. Finally, the motivation to *continue* exporting is found in both the role of managers and clients, as well as the involvement in, and results from exports (Patterson et al., 1999).

Several factors facilitate the ability to benefit from internationalisation. The advantages that compensate for the cost of operating abroad - traditionally cost-reduction opportunities - lie in FSA (Buckley et al., 1992). For services, this means investment in branding (to reduce uncertainty and assure consumers of stable quality), in spatial location (to gather and exploit ample information, i.e. economies of learning); in integration and specialisation (to scale the information benefits); in human capital (to acquire knowledge by incorporating highly skilled employees) and partnership building (to complement scope, without losing the advantages of specialisation). Despite some opinions that successful service innovations are easier to copy compared to product innovations (Carman & Langeard, 1980), Rodríguez & Nieto (2010) conclude based on data from Spanish firms that both cooperation and innovation are positively related to both motivation for, and success in internationalisation of KIBS. Cooperation is known to facilitate the internationalisation of service firms through opportunity and motivation (Rodriguez & Nieto, 2010; Boojihawon, 2007). Collaboration offers access to markets and favours innovation through access to resources and mutual learning. Innovation, too, is an important source of motivation for internationalisation, as well as of competitive advantage, as it is related with greater capability to enter new international markets (Rodriguez & Nieto, 2010; Castaño, Méndez & Galindo, 2016). This is true also for manufacturers - the use KIBS is positively related to internationalisation and innovation, because they have the advantage of bringing highly specific and focused know-how, while reducing the risk of knowledge and information leakage to competitors (Shearmur, Doloreux & Laperrière, 2015; Miozzo & Soete, 2001).

### **Internationalisation process**

Multiple factors have been related to the internationalisation process of service firms. Some findings concern all aspects of the internationalisation, while some refer to a specific element such as pattern, location and foreign entry mode (FEM) choice. We will first explore briefly the individual factors pointed as predictors, and then how they come together to affect FEM, pattern of internationalisation, location choice and multinationality-performance (M-P) relationship.

The nature of the service naturally affects how the internationalisation process develops. Some research investigates the effect of concrete characteristics of the nature of the activity of the firm (Meyer et al., 2015), and some depends on a typology or industry classification. For example, uniqueness, high service and technology intensity are associated with high control FEM, while low differentiation is associated with independent modes (Brouthers et al., 1996). Similarly, more asset specificity decreases the likelihood of adopting shared control modes. The relationship is reversed by capital intensity and dependent on cost and ability to integrate (Erramilli & Rao, 1993). The centrality of capabilities that cannot be easily imitated or transferred without loss of value for the competitive advantage of hotels increases the likelihood of preferring management contracts over franchising, especially in the case of quality competence (Dev, Erramilli & Agarwal, 2002). Apart from the typologies of services based on characteristics, there are functional groups of services such as business services and professional services. For example, business service firms are highly internationalised and take internationalisation as a dominant strategic objective. They may even start to internationalise before they have enhanced their domestic presence (Roberts, 1999).

The effect of firm size on the internationalisation process is not quite clear. For example, size may not necessarily correlate with the propensity to use high-ownership modes (Contractor & Kundu, 1998) nor have an impact on market selection (Erramilli, 1991). Yet, size is found negatively associated with acquisitions, joint ventures, and greenfields for hotel chains (Pla-Barber et al., 2014), and an important discriminator between exporters and non-exporters (Cavusgil & Naor, 1987). When size is taken as an indicator of resources, smaller resource constrained firms prefer low-control modes (Erramilli, 1992). Some interaction effects have been considered, too. Size and previous experience have been associated with service FDI (Terpestra & Yu, 1988). Larger and more experienced firms prefer integrated entry modes while the smaller and less experienced firms prefer independent modes (e.g., Brouthers & Brouthers, 2003; Erramilli & Rao, 1993; Carvalho, 2014). Additionally, whether production is located abroad or at home moderates the effect of firm size and resource availability (Erramilli, 1992). Theoretically, firm characteristics, technology-intensity, asset specificity are among the rest of the factors that influence the effect of size on internationalisation.

The characteristics of the home market are another area of little agreement. The home market is important for the outcome of internationalisation as it can be a source of learning, capital, reputation and network (Edvardsson et al., 1993). There could be culture-specific differences in this respect. For example, Ström & Mattsson (2006) find most Japanese professional business service firms are more influenced in entry mode and location choice by their domestic network of relationships than Western ones. The home culture, especially in regard to trust, affects entry mode choice (trust propensity is associated with collaborative FEM, Brouthers and Brouthers, 2003) and host country relationship building (Ström & Mattsson, 2006). Finally, competitiveness at home has been seen as a prerequisite for international success of KIS (Edvardsson et al., 1993). In research on emerging market firms however, internationalisation can happen in absence of domestic competitive advantage in order to access intangible resources abroad (branding, networks, knowledge), and develop FSAs in the *domestic* market (Boehe, 2011 and 2015).

The host market size and institutional environment show similar discrepancies. Host market size (measured by GDP) has been found to positively impact service FDI (Terpestra and Yu, 1988). High-control FEM and the propensity to integrate are positively associated with bigger and high-potential markets (Carvalho, 2014; Erramilli, 1992). At the same time, host markets with a high potential are found most appropriate for contractual collaboration FEM because the exploitation of technical, organisational and commercial knowledge is made easier and adaptation costs are lower (Pla-Barber et al., 2014). Perhaps the last finding goes more to say that high potential markets are more likely to have supportive institutional environment and a wealth of potential partners. Propensity to decrease control over international operations increases with availability of partners in the host location (Erramilli, 1992), and availability of managerial talent (Dev et al., 2002). Another reason to consider that the networking potential in the host country is important is the finding that it may explain differences between the entry modes adopted by early and late entrants in the advertising industry (Weinstein, 1977). The host institutional environment (formal and informal) affects internationalisation of service firms through the cultural distance effects and regulation/political stability. For example, propensity to choose low-commitment operations increases with ownership restrictions in the host environment (Erramilli, 1992; Brouthers and Brouthers, 2003). A risky host environment is counteracted by low-control FEM in the hotel industry (Pla-Barber et al., 2014). However, more developed host markets have the same effect for this industry (Dev et al., 2002).

Psychic and cultural distance between home and host location may limit the foreign expansion for services to a greater degree than manufacturing (Rugman and Verbeke, 2008; Gulamhussen, 2009). Increasing cultural distance may not affect (Contractor and Kundu, 1998; Erramilli and Rao, 1993), or may increase (Erramilli et al., 2002) or decline (Erramilli, 1991) the level of control sought by firms. Interestingly, the contradictions are always supported by a theoretical explanation and frequently come

from studies of the same industry - hotels. This may be due to the moderating/interaction effects on the distance variable. For instance, cultural distance influences the use of high commitment modes, due to both the difficulties in transferring knowledge/organisational capabilities to third parties but also the imperative need of learning from local markets. Hence in high-distance conditions, acquisitions, joint ventures and greenfields are chosen and not changed in time (Pla-Barber et al., 2014). In low distance, only hotels with strong international experience choose such modes (Pla-Barber et al., 2014). Low cultural distance (as part of the measure of locational advantage) is also associated with high-control modes for software companies (Brouthers et al., 1996). Distance is usually associated with uncertainty. The latter was found to be a principal driver of market (Erramilli, 1991) and FEM (Erramilli and D'Souza, 1995) selection. One view is that *internal* uncertainty increases with cultural distance and causes firms to prefer non-FDI modes, while the effect of *external* uncertainty is the opposite (Erramilli and D'Souza, 1995). More friction is introduced by the findings that in conditions of *environmental* uncertainty, services choose wholly owned FEM, while in conditions of perceived high *behavioural* uncertainty, service firms preferred collaborative over wholly owned modes (Brouthers and Brouthers, 2003). *Uncertainty of demand* affects CIS, hence their likelihood of using full control FEM declines so that they can keep flexible to respond to changes. The *uncertainty of behaviour* increases the likelihood of both CIS and KIS to choose high control modes, due to marketing intensity for the former and tacit know-how for the latter (Sánchez-Peinado and Pla-Barber, 2006).

Previous experience is another factor that may affect FEM (Erramilli, 1991) or be unrelated to internationalisation (Blomstermo et al., 2006). Supporting the former line of enquiry, findings suggest service firms are influenced in their international growth strategies by prior international experience (Erramilli 1991; Kathuria et al., 2008). Further evidence shows that more knowledge leads to more aggressive (Erramilli & Rao, 1990) and resource-augmenting FEM choices (Pla-Barber et al., 2014). As to market selection, lack of prior experience is associated with choice of markets similar to the home market first (Cicic et al., 1999). Prior knowledge can come in various forms. Prior business knowledge appears to be of less significance for internationalisation (Blomstermo, Eriksson & Sharma, 2004), while prior experience with acquisitions, joint ventures and greenfields increases the propensity to use lower-commitment modes to exploit non-location FSAs (Pla-Barber et al., 2014). Additional factors interact with prior knowledge or experience. A greater length of domestic operations is associated with greater *perceived* lack of internationalisation knowledge, and yet it allows firms to gain knowledge about market expansion that helps them when they internationalise (Blomstermo et al., 2004). Finally, when it comes to FEM choice the effect of prior experience becomes very context specific. A U-shaped relationship has been found between prior experience and propensity to use integrated FEM - both inexperienced and highly experienced firms prefer high-control modes (Erramilli, 1991). Service firms with more region

specific experience prefer wholly owned FEM (Brouthers & Brouthers, 2003; Erramilli, 1991).

These factors come together to determine the way internationalisation happens for service firms. Next, we review the research on the concrete patterns of internationalisation, location and entry mode choices of service firms.

### **Pattern of internationalisation**

The premise based on the assumption of the uniqueness of services is that the type of FDI and the pattern of internationalisation will be flexible and idiosyncratic. In confirmation, Malhotra & Hinings (2010) demonstrated that the internationalisation process of service firms could be highly industry-specific because firms can jump over stages or follow a different sequence of international activity. For example, the internationalisation behaviour of mobile operators has been found to differ from the staged process predicted by the internationalisation process model (IPM) (Pogrebnyakov & Maitland, 2011). Incremental commitment and slow progression are said to be more rare, because learning happens by doing accompanied by full commitment (Edvardsson et al., 1993; Rugman & Verbeke, 2012). Additionally, what has the strongest influence is the diversity of experience resulting from the scope of internationalisation (Erramilli, 1991). Although incremental internationalisation in terms of commitment has not been observed (Sharma & Johanson, 1987), preference for familiar markets when firms have low experience - has (Erramilli, 1991). At the same time, the internationalisation of advertising agencies in China does follow the IPM in form (path of increasing commitment), but not in logic (Cheung & Leung, 2007). The reasons for progressing to the next level of involvement frequently have to do with client or competitor behaviour, to a lesser extent - with building a network in China, and in very few occasions - with a felt increase in local knowledge. Late movers' entry into China progressed as predicted by Johanson and Wiedersheim-Paul (1975) - much faster and starting with higher commitment modes. The reasons, again, have more to do with the regulative environment than with learning. Similarly, the successful internationalisation process of Banco Santander is consistent with two key features of the IPM: incremental resource commitment to foreign markets, and sequential entry into foreign markets, starting with those with close cultural and/or economic proximity to the home country (Parada, Alemany & Planellas, 2009). While the concrete forms of FDI differ from those predicted by the model - exporting seen as unavailable to banking - this success story underlines the merits of an exploratory approach, learning about new markets, small-scale acquisitions or strategic alliances to assess growth potential abroad, and location choices enabling the transfer of capabilities developed at home to new acquisitions, and their integration into the existing international network.

Typologies based on separability of production help reconciling the observed differences. High level of inseparability (soft services) is associated with swifter internationalisation processes and higher

sensitivity to cultural differences, thus starting directly with high commitment in foreign markets and gradually increasing cultural distance. Separable (hard) services behave more like manufacturing (Cicic et al., 1999). KIS - a largely studied group of service - are said to internationalise in four stages: prospecting, introduction, consolidation, and reorientation. For them, experiential learning and network building open the process, and specialisation/routinisation and local adaptation/knowledge sourcing conclude it, as the firms balance local adaptation and global standardisation (Edvardsson et al., 1993). In terms of commitment, internationalisation starts at home through overseas clients, continues to exports, then a delivery establishment abroad to internationalising production. The level of commitment at each stage may mirror manufacturing firms, but the level of exports indicating the need to establish a presence is likely lower than that characteristic of manufacturing (Roberts, 1999). Firm-specific variations, however, also exist. For example, ING (a bank) designed its international business model before internationalising, then considered the match (rather than psychic distance) between this model and potential markets, and then used its network to initiate business in the selected locations choosing entry modes coherent with the pre-determined international business model.

In our sample, few papers focused on the pattern of foreign operation modes used by service firms within each foreign location. What successive operation forms are used in foreign locations and how firms re-configure themselves throughout their internationalisation is part of the research asking what happens after foreign entry. Gulamhussen (2009) finds market entry progression from deferring to partial, and finally, to full FDI. The switch between phases is faster when firms are present on the foreign market. Interestingly, predictable demand conditions allow banks to jump from deferring FDI directly to full FDI, but volatile demand conditions increase full FDI.

### **Entry mode choice**

A considerable amount of research has focused on entry mode selection of service firms (e.g., Ekeledo & Sivakumar, 1998; 2004; Erramilli & Rao, 1993; Erramilli, 1990; Qian & Delios, 2008; etc.) based on the premise that the same theories apply for both service and manufacturing firms, but special attention needs to be paid to the distinctive characteristics of the former (Boddewyn et al, 1986) and results from manufacturing research cannot be generalised to all services (Blomstermo et al., 2006). The findings point to a considerable diversity of entry modes. The choices examined have been wholly owned subsidiaries, joint ventures, contractual arrangements (i.e., licensing or franchising), management contracts, object/people-embodied exports ("body shopping", Bryson, 2001, p. 229), etc. Among the factors that have been considered to affect FEM choice are specificities of the activity (Erramilli, 1990; Dunning, 1989), size of firm, prior experience (Erramilli, 1991), home/host market characteristics (Ekeledo & Sivakumar, 1998; Dunning, 1989), distance (geographical, cultural, institutional) and uncertainty (Erramilli & Rao, 1990).

Early studies suggest service firms tend toward high control FEM more than manufacturing firms (Buckley et al., 1992; Erramilli and Rao, 1990). This is due to the inseparable nature of most services, which precludes exports and thus incremental internationalisation (Patterson et al., 1999; Carman & Langeard, 1980). Only services embedded in goods were considered able export, while all other (i.e. medical, engineering project management, training programs, travel and tourism) need to ensure direct contact with the customer for the service to be produced. This calls for establishment of local presence abroad and requires the firm to manage the cultural and institutional differences, relocate personnel, adapt the product (McLaughlin & Fitzsimmons, 1996), etc. With the increase of empirical studies, a more flexible approach to explaining differences in FEM choice developed. The inseparability and intangibility characteristics of services - the most researched aspects of foreign entry mode choice - are related to high control FDI (Blomstermo et al., 2006; Carvalho, 2014; Ekeledo & Sivakumar, 1998). From the customer perspective, intangibility evokes uncertainty and consecutively a potential negative attitude towards the provider (Rushton & Carston, 1989), and from the perspective of the firm it constitutes a major challenge to ensuring quality consistency and a need to invest in branding, firm reputation, trust/relationship building and effective communication capabilities (Blomstermo et al., 2006; Patterson et al., 1999). Inseparability dictates the need of proximity and adaptation both up- and down-stream activities to foreign locations (Erramilli, 1990). Many studies position service sectors or types of services along a continuum of these two dimensions and show differences in their entry mode choices. The more separable production and consumption is, the lower control/commitment entry modes are chosen. The more intangible the service, the higher the control/commitment sought. Services embodied in goods are expected to seek minimum investment, control and presence (Vandermerwe & Chadwick, 1989). On the whole, although KIS, which fall under traditional low tangibility/high interaction services, can use a variety of export modalities, they prefer higher control FEM than CIS (Sánchez-Peinado & Pla-Barber, 2006; Vandermerwe & Chadwick, 1989). Yet, when inseparable services involve intangible actions directly for customers (i.e. management consulting), internationalisation can happen through exports (embodied in objects, channels or people), inward internationalisation, host market partnerships, and client following (Ball et al., 2008).

The relationship between intangibility/inseparability of services and their FEM choices is moderated by environmental factors and their influence varies in importance in different situations (Erramilli, 1993). The results in this respect also do not offer a single answer. Erramilli (1991) and Brouthers et al. (1996) report that the use of full control modes declines with increasing cultural distance. Blomstermo et al. (2006) show the opposite - that the greater the cultural distance between home and host country, the more likely service firms are to choose a high control entry mode. Further discrepancies have been introduced with industry studies. For instance, in the insurance industry, cultural distance has a U-shaped effect on the likelihood of high-control FEM (Parente et al., 2010). The knowledge intensity

typology accommodates these patterns: a positive relationship between uncertainty of the host environment, cultural distance and high control FEM for KIS, and reduction of commitment and control in politically and economically unstable and distant countries for CIS (Sánchez-Peinado & Pla-Barber, 2006). Similarly, tangibility discerns inverse relationship between distance and degree of control for tangible services, and the opposite for intangible ones (Ekeledo & Sivakumar, 1998). More concretely, in high distance conditions, highly tangible services and those with high capital intensity are likely to prefer exports embodied in people or via ICT (Czinkota & Ronkainen, 2004; Brouthers & Brouthers, 2003).

The importance of the human factor for service firms' internationalisation has been emphasised explicitly (Bouquet, Hébert & Delios, 2004). Internationalisation of service sector firms relies heavily on people-transfers such as expatriates, expert visits and training programs (Grosse, 1996). The higher the human-capital intensity, the higher the likelihood of high control FEM/wholly owned subsidiaries, as well as the likelihood of expatriating staff to foreign subsidiaries. This is dictated by the need to ensure quality, and adapt the service to local demand, which in turn requires the acquisition of specific capabilities. In other words, to be operational in foreign markets, service firms need comparatively less physical commitments, but more investment in transferring the social assets, skills, and capabilities developed at home. The preference for wholly owned subsidiaries and expatriate management staff is one strategy to manage this challenge (Bouquet et al., 2004).

In our sample, few papers focused on specificities of cross-border M&A related to services, despite the increased number of deals within the sector (Angeli & Maarse, 2012; Lahiri, Elango & Kundu, 2014). M&A offer significant advantages in terms of speed and network building (Roberts, 1999). Economies of scale and scope are cited as the reasons behind industry integration in healthcare (Angeli & Maarse, 2012). Chari and Chang (2009) find lower share of ownership sought in service firm acquisitions. Lahiri et al. (2014) concretise this effect for hard services only, except in conditions of greater institutional distance. They add that the factors influencing the degree of ownership appear to be type of service offering (soft versus hard), institutional distance between acquirer and target nation, and acquirer's country-of-origin (Lahiri et al., 2014). For example, it is more likely that full acquisition is chosen over partial one when a soft service target from an institutionally distant country is acquired by a MNE from a developed economy. Success in M&A seems to be determined by the post-merger integration and specifically its speed, transparency, commitment of investors, deploying the best human capital (and not simply expatriate) and limitation of the geographical span of the target markets (Venzin et al., 2008). Yet, a large number of antecedents of the entry mode choice in general and of M&A decisions in particular remain untested for service companies.



### **Location choice**

Factors affecting the choice of location for services span the service type, separability of production from consumption (Rugman & Verbeke, 2012), the size of the market, the quality of local resources, governmental policies and the political climate (Boddewyn et al., 1986), the ability to get close and respond to the local customer needs, (Dunning, 1989; Buckley et al., 1992), and the firms' network (to ensure constant project flow, Krull, Smith & Ge, 2012). For example, location choice is greater for tradable services than for location-bound ones and depends on need of adaptation, transport costs, economies of scale, availability of inputs, degree of integration (vertical and horizontal), and regulative environment. For location-bound services, demand determines location, while tradable services can benefit from lower input costs in a variety of locations. Regulations preventing foreign entry remain for a variety of service categories, raising the barrier for inter-regional expansion. Most studies include psychic/geographic distance as a factor for location decisions, others expressly exclude such influence. For the former, FDI in services is negatively affected by geographical and cultural distance because of the need to invest in adaptation to overcome buyer uncertainty (Beleska-Spasova and Glaister, 2010; Li & Guisinger, 1992; Rugman & Verbeke, 2012). Moreover, because geographical "stickiness" of knowledge is related to its complexity (Ström & Ernkvist, 2012), international (external) knowledge sourcing does not have a positive effect for some services - specifically those where tailor-made solutions are offered. For some industries (like gaming, Ström & Ernkvist, 2012) the knowledge base is highly complex and hinging on close interaction with customers and their environment. When adaptation of both up and down-stream operations is required due to the inseparability of the service value chain, redeployability of resources is lower compared with goods (Rugman & Verbeke, 2012). Therefore, services are more home region oriented than manufacturing when considering both assets and sales (i.e. both performance and management capabilities). Depending on the value chain activity considered, the decay of FSA with distance may vary - the more up- and down-stream activities are separable, and the more location optimisation is possible, the interregional market expansion will be larger and more successful (Rugman & Verbeke, 2012). Additionally, institutional distance (cognitive, normative and regulative) was found to affect location choice of mobile operators (Pogrebnyakov & Maitland, 2011). From the factors with both general and service specific influence, competitor behaviour, market size, and manpower availability are the most notable (Lommelen & Matthyssens, 2005).

### **Multinationality-Performance relationship for service sector firms**

Several studies focus on the M-P relationship in the context of services. Multinationality allows risk and overhead spreading over multiple units (Tallman & Li, 1996), learning and experience accrual (Kobrin, 1991), resource access (Porter, 1990), cross-country market exploitation (Contractor et al., 2003), etc. Empirical studies add that multinationality can, in certain circumstances, be unrelated to performance,

or hinder performance in the beginning of international expansion, and beyond an optimal level of international scale. For service firms, benefits lie in leveraging the brand and reputation building, offer development, knowledge, experience and capability development, and cross-sell opportunities. To achieve these, firms need to build higher level organisational capabilities for information and knowledge management able to support quality uniformity across locations. Achieving this efficiently is more complex for service firms than for manufacturing ones - hence the typologies based on capital intensity are likely to discern patterns of M-P curves. Yet, the ability to manage experiential knowledge may be one underlying dynamic capability that enables all types of services to succeed in their internationalisation effort (Brock et al., 2006).

The net impact of multinationality on performance seems to depend on the ability to structure overseas operations to minimise transaction costs inherent in increasing scale and expedite information processing and learn to attract and retain the relatively rare resources (like knowledge and experience) to maximise the gains offered (Contractor et al, 2003; Hitt et al., 1997). Capar and Kotabe (2003) find initial diseconomies of scale in German service industries due to internationalisation investments, and a positive M-P relationship in the longer run. This phenomenon is confirmed also for the restaurant industry with the higher incremental effect of internationalisation on performance for full-service compared to quick-service restaurants (Rhou & Koh, 2014). The more tacit know-how of full-service restaurants is more difficult to transfer abroad, hence internationalisation is costly and difficult at first, however the costs are overcome in the long run due to greater opportunities for establishing sustained competitive advantage that stem from more complex and sophisticated resources to serve overseas customers. Hitt et al. (2006) focus on the importance of human and relational capital and report positive linear and negative quadratic M-P effects for US law firms - an inverted U-shaped M-P relationship. The idea of an optimal level of internationalisation is extended by Contractor et al. (2003) into an S-shaped M-P curve: an initial U-shaped effect (economies then diseconomies) followed by decreasing returns. The initial net effects on performance appear negative due to investment and learning costs, then the effect is positive, and for some firms beyond a certain point, the effects becomes negative again. Decreasing returns are associated with peripheral/non-essential markets, markets where there is no pre-existing network (proactive expansion), large cultural distance, and high coordination costs.

The lower capital intensity of some services contributes towards a flatter M-P curve (Venzin et al., 2008) when compared to manufacturing. When comparison is between knowledge- and capital-intensive services (e.g., Contractor et al., 2003), knowledge-intensity is associated with returns at a lower DOI and early reach of over-internationalisation. Because of lower risk of irreversibly committing resources to a foreign market, KIS tend to follow clients and existing networks which ensures demand, and (perhaps) a better global standardisation. CIS do not generally over-internationalise and take time to realise gains from

internationalisation (Contractor et al., 2003). Brock et al., (2006) suggest a convergence between findings about KIS and CIS firms. They suggest the M-P curve is context-specific and find the country of origin affects the M-P relationship for law firms, which may be the reason for contradicting results in extant research. Additionally, the differences in capital investment fluctuate over time and industry. For instance, currently consulting or law firms need to invest in ICT and information security, as well as data protection arrangements, while effective management of global value chains has reduced the costs of overseas capital investment (Brock et al., 2006). The role of expatriates in KIS also suggests significant costs related to internationalisation (Bouquet et al., 2004).

Finally the connection between public offering and internationalisation is an emerging topic in the internationalisation–performance literature, though not extensively studied - only one paper in our sample was focused on it. The preference of service firms to choose FDI as their FOM make them an ideal setting to explore the relationship between pre-IPO internationalisation and performance, as it is expected that the increased market share and diversification that come with internationalisation will be more visible for FDI operations. Results so far suggest that internationalisation works as a signal reducing the information asymmetry, thus improving IPO returns. In other words, investors incorporate the internationalisation into their pricing and decision-making and establish a more realistic and positive return expectations (Ozdemir & Upneja, 2016). Additionally, in the post-IPO period international service firms show higher excess returns compared to their domestic counterparts. These findings are interpreted to confirm that internationalisation offers service firms opportunities for gaining operational skills and capabilities, scale and market share, which support their long-term positive performance and survival (Ozdemir & Upneja, 2016).

The wealth of material on the internationalisation process of service firms offers excellent empirical data, and to a lesser extent conceptual basis for understanding the factors shaping the existing trends. It feels, however, still difficult to predict how a new industry - one not included in a study - will behave in a new situation. Aside from the existing contradictions, confusion may come from the highly context specific explanations of the empirical phenomena observed. Additionally, some industries count with high internal heterogeneity, like universities, and do not follow any uniform internationalisation pattern. It is also not clear what are the criteria for FEM choice in service types of a mixed-persuasion. For instance, Kathuria et al. (2008) find that services which include both high and low-customer contact activities (like banking) prefer collaborative FEM rather than wholly owned ventures. Yet banking is usually part of the group of inseparable services, which would suggest high-control modes should be preferred. It is also capital intensive, but that would suggest low-control modes when possible. We do not know which is the underlying factor that governs the choice. While conclusions are made for this or that type of service, explanations frequently pertain to the specific industry composition of the sample. Finally,

few studies consider the form of entry differentiating between producing at home (and then exporting through vertically integrated or independent channels) and producing abroad (through contract arrangements and FDI) (e.g., Erramilli, 1993).

### **The Service multinational**

Under this section, we grouped insights about the structure and operations of the service multinational company. Few papers in our sample focused specifically on this. However, we found more work on the offshoring/outsourcing phenomenon and we were able to synthesise insights on specificities of service MNEs from studies with a different focus.

Service MNEs are more centralised and integrated to keep service quality consistent. Service value chains are less likely to be divided than manufacturing (Myszkowska, 2014). Still, within the service value chains, the activities unrelated to the general business functions of a given firm requiring specific know-how, can be shifted to external suppliers such as banks, multimedia providers, customer loyalty solutions, etc. (Myszkowska, 2014). Williams & van Triest (2009) however model the development of MNE decentralisation to conclude that being in the service industry is likely to create more decentralisation for a firm. Perhaps an explanation of this lies in the development over time of the relationship between parent firm and foreign subsidiaries. While expatriates are key for the development of capabilities supporting survival abroad (Bouquet et al., 2004), in the long run building non-location bound FSAs and learning become crucial to overcome the challenge of distance (Rugman & Verbeke, 2008). For instance, the globalisation and international profitability of large corporate law and insurance firms depends on process optimisations and meaningful integration within and across the firm, enhancing internal consistency to allow clients to experience the service across multiple locations worldwide (Segal-Horn & Dean, 2009; Parente et al., 2010). Nevertheless, overcoming the liability of foreignness requires upgrading these non-location bound FSA with new, host-location-bound FSAs (Rugman & Verbeke, 2008). Some authors observe a progression from setting up a local office, moving the regional headquarters into larger market countries, replacing expatriate senior managers with local senior managers, and releasing more power and resources to the regional headquarters (Cheung & Leung, 2007). Over time, subsidiaries develop the ability to supply overseas markets independently of the parent firm, and move to intermediary service trade, as well as two-way flows with HQ (Roberts, 1999). In these cases, firms allow learning to happen in all subsidiaries and combine the knowledge to become competitive in all locations (Barrutia & Echebarria, 2007).

Finally, from the papers in our sample, we found little about alliances, partnerships and collaborative operation modes and the specifics of their handling. Some important aspects of the strategic partnerships are the commitment of senior management, employee identification with the projects,

establishing of trust and transparency, cross-cultural understanding and sensitivity (Søderberg, Krishna & Bjørn, 2013). The cultural challenges pertinent to collaborative FOM are bound to become exacerbated in conditions where knowledge plays a central role, as described in a study of a creative/knowledge industry (Ström & Ernkvist, 2012).

The offshoring/outsourcing phenomenon of service activities is a topic of growing interest. While the categories of services offshored has amplified in the last decade, the process is still more complex and challenging than offshoring manufacturing activities. The distinctive features of services such as the significant client role in the process, difficult to standardise intangible elements, and quality variations increase the difficulty of managing service offshoring successfully, whether internally or externally (Myszkowska, 2014). Global service sourcing differs from product sourcing strategies in several ways (Murray & Kotabe, 1999). Firstly, asset specificity negatively affects internal sourcing. Secondly, capital-intensity of the activity positively affects internal sourcing. The unique service characteristics such as inseparability and demand uncertainty are associated with the trend to source externally. There are conflicting views about international sourcing - some studies relate it inversely to performance, while others contend it offers more opportunities to learning than in manufacturing firms. Jensen (2012) for instance finds that, due to specific process features, offshore outsourcing may make a positive contribution to the resource stock of client firms engaging in offshore outsourcing of advanced services. Jain, Kundu & Niederman (2008), on the other hand, acknowledge the magnitude of the impact of IT service offshoring in the host location and argues for better understanding of this phenomenon on different levels – individual, firm and nation. Foreign firms and host countries are seen as mutually influencing each other's behaviour, resulting in a certain adaptation of the host context to the specificities of IT services. R&D services are outsourced/offshored through different arrangements aiming at cost reductions and access to external technological knowledge. This is seemingly not a generalised strategy as some firms still maintain all of their R&D services in-house, depending on their technological capabilities, formal institutional context and international strategy (Martinez-Noya & García-Canal, 2011). The higher degree of technological sophistication is associated with higher propensity to outsource/offshore R&D, but the ability to benefit from this is contingent on the formal institutional environment, and more concretely on the intellectual property rights system (Martinez-Noya & García-Canal, 2011). On the activity-level, task characteristics (task interdependence, physical presence needed, specific knowledge requirements), managerial intentionality (e.g., a top-down offshoring strategy or bottom-up experimentation), capabilities of the global provider industry, national institutional configuration of home country, industry competitive pressures and isomorphic forces among outsourcing firms condition the decision to offshore (Lewin & Volbreda, 2011), while the success is determined by the ability to align integration with task characteristics and interdependence (Luo, Wang, Zheng & Jayaraman, 2012). These studies illustrate an opportunity to

clarify further the relationship between different independent variables in offshoring and offshore outsourcing service operations and firm performance, learning and internationalisation decisions.

### **Other specificities of the internationalisation of services**

Services are a powerful driver of general economic prosperity and globalisation (Bryson, 2001; Jain et al, 2008; Myszkowska, 2014). Without services global value chains would not exist. To develop an idea about the future of service trade, one needs to consider not only the gross trade in services, but also the value added by services embedded in the trade of goods (typically one-third) and its source (import or domestic) (Miozzo & Soete, 2001; Myszkowska, 2014). When considering all ways of delivering services, as well as the value added by services in the trade of goods, one can realise two major truths. Firstly, that the greatest economies in service trade are also leaders in the trade of goods, so countries need not chose between focusing on one or the other. Secondly, that the negative impact of offshoring of services on the growth of service trade for mature economies, which has been a media topic for a while, is not in fact consistent with the data. Towards the end of the financial crisis (2011), 70% of the leading exporting and importing countries in world trade in commercial services count with a surplus (Martinez-Noya, Canal & Guillen, 2012; Myszkowska, 2014).

Large part of the extant research does not take into account that FDI is in fact only one out of many possible ways to trade in services (Ball et al., 2008). As we remarked in the beginning, international trade in services can be carried out through cross-border supply (object-embodied exports, distance servicing), consumption abroad, presence abroad as a firm (FDI) or a natural person. Servicing international clients domestically is not considered international trade in services in the trade statistics, but for firms it represents a way to internationalise. Limited research exists on the service delivery to overseas customers in the domestic market, such as tourism, education and healthcare industries (Bianchi & Drennan, 2012). Several studies originating in the higher education industry serve to illustrate the inward internationalisation phenomenon from both the perspective of customers and providers (e.g., Bianchi & Drennan, 2012). Inward internationalisation counts with specific factors influencing its success, such as domestic government immigration policies. Inward internationalisation asks the service provider to manage a customer journey on which it has only partial control: the interaction between the international customer and the provider's home country environment. Another side of inward internationalisation is one addressing the global customer. Globalisation of demand has created the need for domestic firms to upgrade themselves to be able to respond to the expectations of modern customers. In the ambit of higher education for instance, library partnerships and agreements support targeted internationalisation strategies of universities as part of the aim to educate "global citizens" (Hammond, 2008, p. 88). On a different note, Boehe (2011) posits that when firms' resources and capabilities prove insufficient to overcome the liability of foreignness in overseas markets, firms could turn inwards and seek to exploit domestically the learning

developed through their internationalisation. Thus harnessing the international network developed can offer value, which can help the firm overcome barriers for domestic expansion. Foreign expansion within the firm's home triad region could be an option for service firms to keep their internationalisation costs down and avoid some of the formal institutional challenges (e.g. the EU common market).

Regulation barriers are an important phenomenon in service internationalisation. While not affected by customs tariffs and other taxes applied to merchandise trade, services trade is affected by domestic regulations behind the border. Beneficial property rights institutional context facilitate internationalisation of some services. In some countries, like China, the regulative environment dictates the choice, initiation and progress of operations in the country (Cheung & Leung, 2007). Therefore, research in this direction can advise national policies targeted at the development of the service sector. In order to attract services, potential host countries should invest in competitiveness through tailoring their legal systems, infrastructure, service industry specific policies. Human capital is highly attractive for service firms and it can be upgraded through investing in education (Jain et al., 2008). Services are inherently connected to the concept of “learning economy” (Lundvall & Nielsen, 2003) and their development depends on the ability of nations to learn rapidly through gaining competences and upgrading them through learning by doing and by interacting. Strong ties between home and host countries also contribute to the offshoring of high-value services (Martinez-Noya et al., 2012). The unknowns are what kind of education, which infrastructure and what combination of government policies is the optimum for growing and attracting service firms.

The pervasive role of the customer for services is little explored in the context of internationalisation, at least as far as our sample of papers testifies. From the published material, it can be inferred that this is not only a viable, but also interesting and promising path of enquiry. Customer (experience) is crucial for successful internationalisation (expressed in more countries, longer survival, higher scale of internationalisation). The relationship with the customer for B2B services dictates many of the decisions related to internationalisation - from initiation to the increase of resource commitment to foreign countries. Existing customers are a source of cross-selling and therefore growth, so the scope of operation and the business volume of existing international clients are the main reasons for B2B service firms to increase their level of involvement (Cheung & Leung, 2007). Customer satisfaction for B2C services is seen as a path to reputation building and hence growth of outward and inward internationalisation (Bianchi & Drennan, 2012; Chong, 2015). For creative industries, customers co-create knowledge and participate in the design of the service, hence “a vibrant and interesting social community is seen as a prerequisite for success” (p. 323, Ström & Ernkqvist, 2012). Building and managing the relationship with clients is emphasised in studies of offshoring (Jensen, 2009; Lewin & Volbreda, 2011; Vivek, Richey & Dalela, 2009; etc.), and some focus on professional and education services (Dou, Li,

Zhou & Su, 2010; Czinkota, Grossman, Javalgi & Nugent, 2009). Factors such as partnership quality, managing the knowledge asymmetry, finding common goals, talent management and a global mindset interact to affect the performance of service providers. Specifically, global mindset affects firm performance both directly and indirectly, through partnership quality and talent management (Raman, Chadee, Roxas & Michailova, 2013). The relationship with clients, on the other hand, is influenced by numerous external factors, such as the competitive environment and the local contract law (Jensen & Petersen, 2013).

Youngdahl et al. (2003) explore the relationship between culture and customer involvement in service delivery. They map the journey of customers from *preparation* (research, seeking referrals, assessing alternatives), *relationship building* (acting as partial employees or supervisors), *information exchange* to clarify requirements, to potentially *intervention* if faith in the service providers is lost and there is risk not to receive the expected level of service. The highest level of satisfaction is associated with the relationship building stage of involvement, and there were no cultural differences relative to the aspects of customer participation in service design. Customer satisfaction is further found to be related to customer loyalty resulting in satisfied customers both recommending and returning to the service provider (Lam, Shankar & Erramilli, 2004).

Meyer et al. (2015) explore the meaning of uncertainty for the internationalisation of services. They place special emphasis on the uncertainty coming from the interaction with the customer: the variability of delivery and the range of alternatives produced - and its management. The strategy relative to knowledge resources deployed in the process of service delivery is positioned as main governing factor for internationalisation choices. Hence, at low customer interaction uncertainty, firms will opt for cross-border supply models or collaborative and low-control FEM, depending on the need to have a presence abroad or not. Conversely, when firms allow high customer interaction uncertainty, they will prefer people-embodied exports or high-control modes. The influence of high customer interaction uncertainty is further moderated by the nature of knowledge (tacit/codified/localised) and the level of customer interaction so that services with complex processes, localised knowledge needs and high customer interaction need high-control FEM, while those that limit their interaction with the client resort to people-embodied exports or service international customers in the home country. The unique characteristic of this framework is the degree of control over FEM choice located in the firm - it is the design of the delivery process that determines what form the internationalisation process should take. Thus, this model has a viewpoint on the internationalisation of services that truly goes beyond approaches adapted from the manufacturing literature.

At the firm level, the human capital is frequently mentioned as critical (Contractor & Mudambi, 2008; Ben Hamida & Gugler, 2009; Lewin, Massini & Peeters, 2009; etc.): specific HRM strategies need



be crafted for the nature of the service offering of firms, while at the same time the indigenous traditions of the location need be taken into account. Satisfaction, productivity and quality of work are seen as contributors to firm profitability and organisational innovation in services (Mathew, Ogbonna & Harris, 2012). Some of the challenges for HRM in service firms are the high chronic employee turnover in emerging markets, here with the case of India (Demirbag, Mellahi, Sahadev & Ellison, 2012), managing globally distributed teams, prospecting specialist talent with the right knowledge and competencies, low-skilled nature of the work, lack of well-developed HR systems and processes, lack of work-life balance, dealing with contract employment, etc. (Agrawal, Khatri & Srinivasan, 2012). Internal branding has been found to have a double positive effect - both on the human capital of the firm and on its differentiation in the market. The more brand-committed managers are the easier it is for them to excel in internal brand building (Vallaster & Lindgreen, 2013). Finally, the managerial skills required by service firms are different due to the constantly changing portfolio and its adaptation to each new location requiring specific managerial attention (Nachum & Song, 2011). Most research in some degree shows that service firms' internationalisation is significantly influenced by the management/entrepreneurial team (e.g. Edvardson et al., 1993). Managerial characteristics are said to be associated with attitudes and perceptions towards foreign sales and the external environment, which is a determinant of the propensity to export and the perceptions of risk and difficulty to internationalise (Cicic et al., 1999).

We could not claim to have done a literature review without considering the topic of emerging markets. The rapid increase in outward FDI by emerging market firms is not surprising nor new anymore, yet the number of papers looking into the service portion of that group is still limited (e.g., Boehe, 2015; Bangara, Freeman & Schroder, 2012; Li, 2010; Mathews, 2006; Ström & Ernkvist, 2012). The presence of emerging countries in service trade has changed towards spanning exports of a wide variety of services to a large number of countries. Additionally, the "developed countries" are no longer a dominating client. However, there is a dissociation between trade in goods and trade in services, which is not present for the leaders in service trade (Myszkowska, 2014). The question how can internationalisation happen without FSA or CSA goes to the core of traditional IB explanations of internationalisation. Research from the container port and the online gaming industry suggests emerging market MNEs benefit from inward internationalisation and inter-regional diversification to enlarge the span and speed of their internationalisation (Satta, Parola and Persico, 2014; Ström & Ernkvist, 2012). Evidence from India suggests a global mindset from the beginning, proactive legitimacy seeking FDI strategies, network building and partnerships, accelerated internationalisation and flexible selection of headquarter location (Bangara et al., 2012). Gaining legitimacy is a big part of the approach to internationalisation of service SMEs from emerging markets and the factors contributing to it are endorsements, local funding and committed foreign operation modes (Bangara et al., 2012). Finally, the phenomenon of domestic market

seeking internationalisation - FDI by resource-scarce service firms targeted at access to intangible resources abroad (branding, networks, knowledge), in order to develop FSAs in the *domestic* market (Boehe, 2011 and 2015) - has been developed in the context of emerging market service firms. This service firm internationalisation strategy may be a preliminary phase of internationalisation for firms with low resources. The development of FSA in this way leads to increase of domestic clients and thus access to other internationalisation strategies, such as the client following (Boehe, 2015).

The last phenomenon typically attracts little attention and our search produced few papers engaging with corporate social responsibility in international markets. Service firms seem to engage less in CSR, compared to manufacturing firms (Kang, Ryu and Kim, 2010; Li, Fetscherin, Alon, Lattemann & Yeh, 2010; etc.), but highly competitive environments may force them into focusing on organisational sustainability (Weerawardena, McDonald & Mort, 2010). Engaging in the development of sustainable solutions, empowerment opportunities, and social value creation has a positive return for service firms. For instance, social entrepreneurship projects in collaboration with NGOs facilitate their access to and learning about base of the pyramid markets (Ghauri, Hadjickani & Johanson, 2014). There are dissimilarities across service sectors in terms of bribing, too - Lee, Oh & Eden (2010) find that construction services are more similar to manufacturing than to other service sectors in their tendency to resort to corruption.

## Discussion and future research recommendations

**Figure 6: Most frequently used words in abstracts and keywords sections.**



Undeniably, the amount of research on services has increased significantly and has covered a wide range of topic within IB. However, the resulting body of research still appears fragmented. One reason for this may be the heterogeneity of service sectors and activities, which conducts researchers to resort to single industry studies or the numerous typologies that have been extended. One basic question for future research is defining the object of study in a way that insights from multiple studies are comparable and can come together for a 360 degrees understanding of service firms and activities. Currently, trying to synthesise the insights from extant research feels like comparing apples with oranges. Some authors rely on industry classification. However, industry boundaries appear also frequently confusing — in some cases an argument is made for similarity between several industries, while in others — for distinction. Part of the challenge in this regard is the rapidly changing nature of services and service industries. Consider, for example, the firms that develop mobile applications for portable devices (smartphones etc.), which we, for lack of a better word, may label the “mobile applications industry”. Ten years ago this “industry”

hardly existed, and now it is evolving to become an important driver in the global economy. How do we analyse such “moving targets” in academically rigorous ways, let alone gather and access relevant data to understand such phenomena? In the reviewed papers, we found few definitions of services and many elements differentiating services from goods. The difficulty of finding a definition of what “service” is brought us to take a step back and look for papers which ask what a service is not - i.e. are service firms really different from manufacturing ones. The opposition service/good still lingers despite enough evidence to suggest it is way too simplistic to capture the reality. The typologies seem to rely on descriptive characteristics, not stable enough in conditions of technological change. What is missing is a dimension that can unify the different typologies and ensure that they speak a common language.

Perhaps it is not necessary to define what is service, but rather speak of activities and their combinations as suggested by the literature about offshoring and outsourcing (e.g. Jensen and Petersen, 2014). For instance, Lewin et al. (2009) study the determinants of firms' decisions to offshore innovation activities. Though they study the phenomenon from the point of view of the offshoring firm, their insights are relevant to the characteristics of the activities off-shored, which are essentially services. Very few of the service typology frameworks have been applied to activities within the firm. For instance, for banking both high-contact (loan officers) and low-contact (back-office) activities have been distinguished (Kathuria et al, 2008). There is great potential in this path of enquiry as opinions amount that the nature of the activity is what ultimately governs the behaviour of firms. The motivation and ability to benefit from internationalisation have been seen to depend on the nature of the offering of the firm (Blomstermo et al., 2006; Erramilli, 1990; Hurmelinna-Laukkanen & Ritala, 2012). Rugman & Verbeke (2008), while accepting extant classifications and characteristics of services, posit that manufacturing and service firms are not intrinsically different when looked through the prism of transaction costs, but rather differences seem to lie in the specific activities performed. These specificities determine the internationalisation of services and to study them we need to look at the value chain of services. The point is, that while different portions of the production process of service firms behave differently from the classic Porterian value chain, this is not valid for all types of services and all sections of the value chain. A potential approach would be the exploration of existing typologies of services based on organisational characteristics. For instance, does ownership have any differentiating characteristics in terms of internationalisation? Are there different types of service processes and do they result in meaningful typologies for internationalisation? Such typologies already exist (e.g., Lovelock, 1983) and the degree of routinisation (Wemmerlov, 1990) or complexity and divergence of the service process (Shostack, 1987) have been utilised as a part of a service taxonomy. Meyer et al. (2015) extend a model of service firm internationalisation based on uncertainty in the service transaction and the knowledge resources deployed in the face of that uncertainty. An early attempt at analysing the activity nature is Baumol's (1967) division of activities “technological” structure

and role of labour into those in which innovation and capital accumulation can produce economies of scale and productivity improvements, and those in which productivity is only sporadically increased. The nature of the activity determines whether the productivity will grow slowly or rapidly. Services (particularly teaching) are an example of the second type. The grim conclusion of Baumol's analysis is that the costs of service activities can be expected to grow constantly, which seems to have proven true. He also predicts the disappearance off the free market of some services with elastic demand, such as theatre, or their migration into hands of amateurs, which has only partially happened. This suggests labour input is only one element of the service activity that needs to be considered.

The second major opportunity for future research is in the conceptual development of frameworks applicable to service internationalisation. Peng, Sun & Pinkham (2009) place institutions, along with industry conditions and firm capabilities, as independent variables, and strategy as the dependent variable, so that strategic choices become a product not only of industry and firm level factors, but also of the dynamic interaction of the firm with formal and informal constraints of a particular institutional framework (Peng, 2002; Jarzabkowski, 2008). Very few papers consider all three dimensions of Peng et al's., (2009) tripod. Therefore, there seems to be a genuine window of opportunity open for further studies that manage to take a more "holistic" view on the topic of service internationalisation. However, from an author's perspective, addressing all three dimensions in a substantial way easily becomes very encompassing and difficult to cover in the limited space available in the standard format of a journal article. This reinforces the call we made at the beginning of this section for research that can come together, hence for finding a stable dimension around which different service activities can be positioned. Many articles use industry variables as a context but do not, in a substantial way, analyse how the specific industry context influences the firm and the firm's (international) strategy. Furthermore, few studies try to apply a cross-industry perspective, or comparisons, so it is not clear to what extent findings from a study in one industry context may be generalisable in a broader industry perspective. In view of this, one could argue that the industry factor is an underexplored topic to analyse, due to the complexity in various subindustries that are quite often changing very dynamically. One investigative direction is what salient 'service' components would underscore the generic categories in Peng et al.'s (2009) strategy tripod framework if it were to be applied to services research? How, if at all, would the boundaries of underlying theoretical perspective (e.g., the resource-based and institutional views) have to be redrawn to accommodate the richness and heterogeneity of services? What would explain the rise of global investment in services, what might a paradigm that explains it look like, and what might its distinctive traits be?

Another promising avenue for future research would be the strategic behaviour of emerging market service firms on international markets and the changes that happen post entry both internationally

and domestically. It would also be interesting to know whether there are performance differences among service firms that operate in certain areas of the world? Do the risks of operating in riskier institutional frameworks, e.g. emerging markets where political, economic, and legal domains can be volatile, offset the potential gains of entering and operating in these markets?

Emerging industries are also underexplored in terms of internationalisation. Single service type or industry studies can be very useful in the exploration of comparatively new services, such as digital services, e-commerce and online gaming. It would be interesting to know how these approach internationalisation and what theories explain their behaviour. From a practical perspective, knowing how these businesses tick can enable the design of appropriate regulative mechanisms, which is currently an unresolved question.

Few studies in our sample spoke about the internal operations of service multinationals. Future researchers have an opportunity focusing on the relationship between headquarters and local offices and on the specifics of collaborative foreign operation modes (FOM). The focus of the papers we reviewed was on the likelihood of their deployment in different situations, rather than the challenges they represent in operation. One direction to go would be to compare inter-firm partnerships to intra-firm relations in connection to firm performance. One may inquire what are the relevant configurations of, respectively, external and internal factors in service firms and industries that contribute to superior performance? The most interesting insights about collaborative FOM were built upon longitudinal research that studied the relationship development through time from transactional to trust and long-term orientation. Hence another direction for future research is finding the appropriate sources of data to carry out robust analysis of the challenges met in collaborative operation modes when either one of the sides or both are service firms. A comparison between these situations and the extensive literature on this topic for manufacturing firms will be fruitful. Finally, even though innovation depends on the same factors in manufacturing and service firms, the human capital and customer participation have a greater role for the latter than institutionalised processes such as R&D departments. The organisation of the innovation process in service firms is more experiential, incremental or imitative than scientific and spreads across functions, while protection of innovation is more difficult (Rodriguez and Nieto, 2010). To us, such findings raise broad questions regarding human resource management, for example whether employees in services firms requires different forms of education and training, and need to be managed differently? These topics offer opportunities for qualitative research able to incorporate micro factors such as affective and cognitive processes into the macro dynamics of service internationalisation.

The practical angle is of special importance given the amount of confusion in existing empirical work. We did not find enough in the literature to instruct countries on questions concerning public policy and the shaping of macro-economic factors at national and international levels that influence, positively or

negatively, the internationalisation of services. Future research might humour business practitioners with recommendations and ideas on organisational and strategic resources useful for international expansion. Additionally, direction on how to develop a market orientation and a global mindset capable of supporting competitive advantage internationally will be useful both for future and current managers of service firms. Cross-fertilisation with organisation science, marketing and psychology may offer clues on how to deal with global, picky and culturally diverse customers.

## Conclusion

The aim of this paper is to find out what is known about the internationalisation of service firms. After reading the main trends, directions and myriad of viewpoints explored, we can confidently say that the internationalisation of services - in the words of Doctor Who - is a “is a big ball of wibbly-wobbly-timey-wimey stuff”<sup>2</sup>. On a more serious note, due to space constraints, this paper cannot be taken as an exhaustive synopsis of the literature on services internationalisation - many more viewpoints and analytical angles remain unexplored. From our study, two definite points emerge. Firstly, our findings suggest the academic landscape on services is not as “...barren” (Merchant & Gaur, 2008, p. 379) as it was only eight years ago. Secondly, and even more positively, there continues to be a vast opportunity to contribute to this line of enquiry addressing the questions and gaps we have highlighted in previous sections of this paper. One of the obvious ways in which scholars can leverage their academic brainpower is through more conceptual work in order to develop robust theories that can accommodate the dynamic nature of service sectors and activities. One aspect we did not have time to explore in this paper was understanding how others have described and framed constructs related to service internationalisation. We do believe, however, that this may reveal the reasons for apparent contradictions and open further ways of research. Furthermore, the new ‘service’ modalities which seem to permeate our daily lives via emergence of new industries, rapidly changing boundaries of existing industries, and also the very nature of services themselves are asking us to rethink our existing notions of studying services—an umbrella term that covers a vast and very heterogeneous field of specific services and industries. In our review, few studies embarked on the task of defining services or examining service characteristics in detail. Moving away from the dichotomy “service” / “manufacturing” towards a more detailed analysis of what firms are and do appears to be an increasingly recommended new way of understanding services and how they internationalise. We support this movement - it is time we “dig deeper” and examine how service activities and processes actually operate. Future research may address the robustness of existing definitions and classifications of industries through such a lens. Contingent upon the re-evaluation of the very concept of ‘service’ as we presently understand it, is an important opportunity to study the influence of institutional,

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<sup>2</sup> [https://www.youtube.com/watch?v=q2nNzNo\\_Xps](https://www.youtube.com/watch?v=q2nNzNo_Xps)

firm and industry factors on the internationalisation of services. At a macro-level, a public policy and macro-economic question emerging from the reviewed research is what kind of education, which infrastructure and what combination of government policies is the optimum for growing and attracting service firms.

The take away from this study could be that we know a lot more about services, perhaps enough to take a step back and think of ways all this knowledge may be unified and leveraged.

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Tables: The “service” landscape: How much do we know about the internationalisation of services?

Table 2: Quantitative analysis of research on non-manufacturing sectors published between 2009 and 2013 in 5 IB journals

	Total		JIBS		MIR		JWB		TIBR	
Panel A										
[A] Total published papers	896		258		172		245		221	
[B] (Possibly) non-manufacturing papers	532	59,4%	156	60,5%	102	60,3%	173	70,6%	101	45,7%
[C] Balance (manufacturing and unrelated)	364	40,6%	102	39,5%	70	40,7%	72	29,4%	120	54,3%
Panel B										
[D=A] Total published papers	896		258		172		245		221	
[E] Focus: only non-manufacturing sector (empirical and theoretical)	124	13,8%	31	12%	11	6,4%	33	13,5%	49	22,2%
[F] Focus: Non-manufacturing and manufacturing sector (empirical and theoretical)	408	45,5%	125	48,5%	91	53%	140	57%	52	23,5%
[G] Not reported/Unclear	0	0%	0	0%	0	0%	0	0%	0	0%
[H=C] Balance	364	40,6%	102	39,5%	70	40,7%	72	29,4%	120	54,3%
Panel C										
[I=E] Papers focusing on the non-manufacturing sector alone	124		31		11		33		49	
[J] Conceptual papers	15	12,1%	0	0%	3	27,3%	0	0%	12	24,5%
[K] Empirical papers	109	87,9%	31	100%	8	72,7%	33	100%	37	75,5%
Panel D										
[L=K] Empirical papers focusing on the non-manufacturing sector alone	109		31		8		33		37	
[M] Papers not reporting sample size	0	0%	0	0%	0	0%	0	0%	0	0%
[N] Papers reporting sample size	109	100%	31	100%	8	100%	33	100%	37	100%
Panel E										
[O] Empirical papers focusing on non-manufacturing and manufacturing sector (“Mixed”)...	326		112		72		99		43	
[P] ... not reporting sample size	7	2,1%	0	0%	4	5,6%	2	2%	1	2,3%
[Q] ... papers reporting sample size	319	97,9%	112	100%	68	94,4%	97	98%	42	97,7%
Panel F										
[R=Q] Mixed papers reporting sample size...	319		112		68		97		42	

Tables: The “service” landscape: How much do we know about the internationalisation of services?

[S] ... but not sample breakdown into manufacturing and non-manufacturing firms	168	52,7%	55	49,1% %	45	66,2%	53	54,6%	15	35,7%
[T] ... and sample breakdown into manufacturing and non-manufacturing firms	151	47,3%	57	50,9%	23	33,8%	44	45,4%	27	64,3%
Panel G										
[U=T] Mixed papers reporting sample size and composition...	151		57		23		44		27	
[V] ... but do not present results separately for manufacturing and non-manufacturing firms.	73	48,3%	36	66,6%	6	26%	16	35,3%	13	48,1%
[W] ... and present results separately for manufacturing and non-manufacturing firms.	78	51,7%	19	33,3%	17	74%	28	63,6%	14	51,9%
Panel H										
[X=W] Mixed sample papers reporting sample size and composition, presenting results separately...	78		19		17		28		14	
[Y] ... but do not focus on differences and similarities in the discussion section.	66	84,6%	19	100%	13	76,5%	27	96,4%	7	50%
[Z] ... and focus on differences and similarities in the discussion section.	12	15,4%	0	0%	4	23,5%	1	3,6%	7	50%

Tables: The “service” landscape: How much do we know about the internationalisation of services?

Table 3: Comparison of the 2009-2013 quantitative analysis with Merchant and Gaur (2008)

	% difference with M&G (2008)				
<b>Panel A</b>	<b>Total</b>	<b>JIBS</b>	<b>MIR</b>	<b>JWB</b>	<b>TIBR</b>
[A] Total published papers	37%	14%	28%	61%	57%
[B] (Possibly) non-manufacturing papers	224%	346%	209%	284%	98%
[C] Balance (manufacturing and unrelated)	-26%	-47%	-31%	-33%	33%
<b>Panel B</b>					
[D=A] Total published papers	37%	14%	28%	61%	57%
[E] Focus: only non-manufacturing sector (empirical and theoretical)	182%	343%	767%	317%	75%
[F] Focus: Non-manufacturing and manufacturing sector (empirical and theoretical)	374%	594%	288%	328%	206%
[G] Not reported/Unclear	-100%	-100%	-100%	-100%	-100%
[H=C] Balance	-26%	-47%	-31%	-33%	33%
<b>Panel C</b>					
[I=E] Papers focusing on the non-manufacturing sector alone	182%	343%	267%	450%	75%
[J] Conceptual papers	-12%	0%	0 before	-100%	-14%
[K] Empirical papers	304%	343%	167%	1000%	164%
<b>Panel D</b>					
[L=K] Empirical papers focusing on the non-manufacturing sector alone	304%	343%	167%	1000%	164%
[M] Papers not reporting sample size	-100%	-100%	0%	-100%	-100%
[N] Papers reporting sample size	474%	417%	167%	3200%	311%
<b>Panel E</b>					
[O] Empirical papers focusing on non-manufacturing and manufacturing sector (“Mixed”)...	279%	522%	177%	296%	187%
[P] ... not reporting sample size	-83%	-100%	-73%	-78%	-88%
[Q] ... papers reporting sample size	280%	522%	162%	288%	180%
<b>Panel F</b>					
[R=Q] Mixed papers reporting sample size...	280%	522%	162%	288%	180%
[S] ... but not sample breakdown into manufacturing and non-manufacturing firms	310%	511%	200%	489%	88%

Tables: The “service” landscape: How much do we know about the internationalisation of services?

[T] ... and sample breakdown into manufacturing and non-manufacturing firms	251%	533%	109%	175%	286%
Panel G					
[U=T] Mixed papers reporting sample size and composition...	251%	533%	109%	175%	286%
[V] ... but do not present results separately for manufacturing and non-manufacturing firms.	115%	300%	-33%	23%	333%
[W] ... and present results separately for manufacturing and non-manufacturing firms.	767%	0 before	750%	833%	250%
Panel H					
[X=W] Mixed sample papers reporting sample size and composition, presenting results separately...	767%	0 before	750%	833%	250%
[Y] ... but do not focus on differences and similarities in the discussion section.	N/A	N/A	N/A	N/A	N/A
[Z] ... and focus on differences and similarities in the discussion section.	N/A	N/A	N/A	N/A	N/A



Tables: The “service” landscape: How much do we know about the internationalisation of services?

Table 4: Some classifications of services used in the service internationalisation literature.

Characteristic	Service types	Internationalisation (among others!)	Authors (among others!)
Tradability	Tradable/Location-bound services/Cases in between		Boddewyn et al. (1986)
Inseparability	Hard/Soft	Hard services internationalise more easily and are more similar to manufacturing in internationalisation. Soft services require local presence OR/AND choose contractual entry, licensing, franchising and FDI.	Erramilli and Rao (1990); Ekeledo and Sivakumar (1998); Blomstermo et al. (2006); Carvalho (2014)
Tangibility / Technological intensity	Pure/Embodied in goods Equipment-based/ People-based Tangible/Intangible	Pure services have limited international potential. Services delivered through goods have high internationalisation potential. Services embodied in goods can be easily exported and globalised. Traditional services (intangible with high interaction) internationalise through people.	Thomas (1978); Vandermerwe & Chadwick (1989)
Asset	Knowledge-based/ Capital-based	Different M-P curve. Different reaction to distance. KIS prefer high-control modes. CIS do not generally over-internationalise.	Contractor, Kundu and Hsu (2003); Rodríguez and Nieto (2010)
Role of technology	Supplier-dominated/ Physical networks/ Information networks/Specialised suppliers/Science-based	From least likely to internationalise to naturally global. Different effect of innovation on international performance.	Miozzo and Soete (2001)
Customer contact	Location-intensive/Information intensive; Interaction with client low/high	The lower the face-to-face interaction, the higher the propensity to internationalise.	Coviello and Martin, 1999; Ball, Lindsay and Rose, 2008

Tables: The “service” landscape: How much do we know about the internationalisation of services?

Customer	Directed to people’s bodies/ minds/possessions/intangible assets		Lovelock (1991)
Delivery	Continuous/Discrete/Membership Customisation Location of delivery		Lovelock (1991)

Table 5: Industry distribution of the Scopus keyword search sample

<b>Group</b>	<b>%</b>
General focus	28 %
Education	15 %
Technology related	8 %
Banking	7 %
Professional services	6 %
Business services	5 %
Construction, Architects and Engineering consulting	5 %
Hotels and hospitality	5 %
Knowledge intensive	5 %
Manufacturing vs Service comparisons	4 %
Healthcare	2 %
Miscellaneous single industry	2 %
Transport	2 %
Telecoms	2 %
Fashion	1 %
Advertising	1 %
Staffing	1 %
Public	1 %
Insurance	1 %
<i>(percentages are rounded up)</i>	

## **Chapter 3: The value creation logic and the internationalisation process of Internet firms.**

### **Abstract**

In this paper, the internationalisation process of Internet companies constitutes the context of theory development. It is believed that the idiosyncratic internationalisation process of Internet firms is not as homogeneous as it has been considered so far. In extant literature, Internet firms have been treated as one group, albeit distinct from non-Internet firms. We propose that the value creation process of Internet firms causes them to behave differently from each other, just as much as they differ from traditional firms. Our research question is thus *How does the value creation logic of Internet firms influence their internationalisation process?*. We answer this question using three cases illustrating the internationalisation process of three pure play digital service firms, each falling into one value creation logic.

*“Uber, the world’s largest taxi company, owns no vehicles.*

*Facebook, the world’s most popular media owner, creates no content.*

*Alibaba, the most valuable retailer, has no inventory.*

*And Airbnb, the world’s largest accommodation provider, owns no real estate.*

*Something interesting is happening”<sup>3</sup>.*

## Introduction

In this paper, the internationalisation process of Internet firms constitutes the context of theory development. It is believed that such firms exhibit an idiosyncratic internationalisation process, and they have been treated as a homogeneous group, albeit distinct from non-Internet firms. We propose however that, if we look at the value creation process of digital service firms, we can discern clear differences in the way they pursue competitive advantage abroad. Our research question is thus *How the value creation logic of digital service firms influences their internationalisation process?*. Internet firms frequently position themselves at the interface layer of vast global value chains, aiming at capturing the greater part of value generated. Nevertheless, existing international business theories do not shed a lot of light upon how value is created there. To do so, we choose three cases, each with a different value creation logic based on Stabell and Fjeldstad’s (1998) analytical framework. We explore the differences in the scale and speed of their internationalisation, the process followed, and the foreign entry modes chosen.

The impact of Internet on firms has been defined as the interdependent digitalisation of actors, processes and products (Whinston, Stahl, & Choi, 1997). The penetration of communication technologies into the way firms work has made it difficult to define Internet firms. The literature speaks of Internet-based firms, digital good/service providers and e-business without clearly differentiating between them. Locating Internet-based firms through industry codes is also not possible, as in recent revisions of industry classifications, the Internet/digital groups were absorbed into the other categories according to activity. Following Penrose’s (1959) recommendation for researchers to choose purposefully the definition of a “firm”, we defined an Internet firm (IF) as *a for-profit organisation, which conducts its business exclusively through an Internet-based platform, in a way that if the central servers of the firm are turned off, the business of the company will be interrupted*. From this it follows

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<sup>3</sup> The Battle Is For The Customer Interface, Posted Mar 3, 2015 by Tom Goodwin, <http://techcrunch.com/2015/03/03/in-the-age-of-disintermediation-the-battle-is-all-for-the-customer-interface/#.yi1muc:6fYU> , last accessed 22 of July 2015

that the core product of the firm must be digital, consisting only of data distributable over digital channels (the Internet). This definition allows IFs to participate in physical value chains. In other words, eBay is an IF even though buyers on eBay get products as the final result of their transaction. Even though the activity of eBay accompanies a physical product, it does not produce or store physical objects. The service eBay offers is fully digital - it is a platform facilitating a transaction, and this is independent from any additional services offered (e.g. preferential contracts for logistics, such as eBay offers its merchants).

As this paper studies the internationalisation of IFs, it is important to define this term. The market-seeking behaviour of IFs can be passive, as well as active. Passive internationalisation in the context of IFs means having a general or domestic website, and serving foreign customers through it. IFs in this situation do not actively pursue or target foreign customers through any adaptations of their domestic offer. As any website can be reached from anywhere, demand from foreign customers can be passively accepted. For example, Amazon.fr allows Spanish customers to shop at the platform. Active pursuit of foreign customers implies the establishment of presence in a foreign country, or adaptations of the website/output to foreign languages and preferences. Presence can be established through a local website, which can be supported or not by some form of FDI or alliances with local firms.

The contributions of this paper are threefold. For one, IFs represent a growing portion of GDP - 30% of the total GDP growth for the EU, 55% for the US (2001-2011)<sup>4</sup>. A better understanding of this group is of clear practical significance. We also address outstanding calls for research on how Internet-based enterprises operate globally (de La Torre and Moxon, 2001), how their process of international expansion looks (Kotha et al., 2001), and how value is created by international activities (Mathews and Zander, 2007). Secondly, IFs are similar to service firms, they can even be seen as a subset. Services are also largely considered homogeneous and difficult to define. Additionally, the output of services and IFs is hard to evaluate prior to purchase, hence it falls under the experience goods classification (Chellappa & Shivendu, 2005). Digital products, as well as services, frequently make it difficult for the provider to reveal and the buyer to comprehend all benefits and costs implied in purchasing them. Many authors have suggested that the current categorisations of firms — services vs. goods, hard vs. soft services, etc. — do not elucidate enough about service industries and their internationalisation, and have made a call for more strategic dimensions to shed light on this issue (e.g. Carneiro, da Rocha & da Silva, 2008; Jensen & Petersen, 2014). The similarities between service and Internet firms allow us to explore the potential of a differentiation framework, which may answer this

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[http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/gen\\_info/good\\_governance\\_matters/digital/2014-03-13\\_fact\\_figures.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/good_governance_matters/digital/2014-03-13_fact_figures.pdf), accessed 1/2/2016.

gap in our understanding, on a comparatively smaller set of firms. In other words, this study may serve as a launch pad for a more strategic approach to the internationalisation of service firms. Finally, digital firms are still a puzzle for existing international business (IB) theory, because they are said to deviate from predicted patterns (de La Torre & Moxon, 2001; Globerman, Roehl & Standifird, 2001). Thus, this paper contributes to elaborating existing IB theories, making them more resilient in a world that is changing. By integrating the value creation logic into the existing theories of international expansion, we respond to critical remarks in the international business literature for a more integrated, holistic theoretically driven approach (e.g. Madsen and Servais, 1997; Coviello and Martin, 1999; Oviatt and McDougall, 1999; Mahnke and Venzin, 2003; etc.). We test the applicability of existing IB theories by determining the degree to which current IB assertions about internationalisation can be generalised to different value creation logics. In summary, this paper addresses gaps in the IB literature regarding the internationalisation of service firms in general, and Internet firms in particular.

Since the beginnings of economic activity, people have developed complex supply chains, which technological advances, especially the development of the Internet, are feverishly working to change, attacking all their links. The impact is felt in speed, ease, cost and frequency of communication (de La Torre & Moxon, 2001), expansion of the relevant geographical markets and increased competition (Globerman, Roehl & Standifird, 2001), reduced complexity and removal of intermediary layers, increased global market participation of firms from peripheral markets (Zaheer & Manrakhani, 2001), etc. Nevertheless, this paper is not about the impact of the Internet on the internationalisation of firms. It is about the new type of firm, which emerged in the Internet economy. The shifting of the economy from goods to services and the rapid expansion of the information economy are long established (Rust and Kannan, 2002) and causing the appearance of new markets and intermediaries. By 2015, most industries have seen layers being added to their value chains. Some of the most popular and the fastest-growing companies in history worldwide have moved into those thin layers on top of the vast supply chains closest to the customers. Uber, Alibaba, Airbnb, eBay, Groupon, and Amazon to name a few focus on the interface layer. The interface is where the majority of value and profit is in the Internet economy because it is able to attract customers, thus generating traffic towards the goods or service offered. The firms we study here position their services at the interface layer. They separate material from immaterial value, creating critical mass economics (Sweet, 2001), which is further step from unbundling the services from the goods. It is also a further step from conducting some of the firm activities over e-channels.

The paper progresses as follows. The next section presents the differentiation framework, followed by a review of extant literature on IFs. The methodology section gives the details on case selection and measures used. The findings are outlined afterwards, and analysed within and across cases. Implications of the results and future research suggestions conclude the paper.

### Value creation analysis

The way the production process of a firm is organised has a significant bearing on its behaviour. The modernists of organisation science called this “firm technology”. This approach has its roots in the Enlightenment Age of Reason of Descartes and Kant, and aims at developing principles and typologies giving us the best way of structuring and managing organisations, because the fundamental belief is that humans control their environment through scientific knowledge (Hatch & Cunliffe, 2006). Thompson’s (1967) “firm technology” theory of organisations has value-based roots, and rests on both formal (e.g. technical efficiency), and substantive (e.g. desired objective) rationality (Weber, 1947). It posits different desired ends will lead to different formal rationalisations, thus ending with a distinct organisational “technology”. “Firm technology” is interrelated to the behaviour of the individuals within the firm in such a way that it steers social relationships, attitudes and feelings, which in turn affect the output of the firm (Emery, 1969). “Technology” here is the combination of activities a firm does - a bakery’s “technology” consists of procuring raw materials such as flour and water, combining them in a certain order, transporting them to the oven and subjecting them to thermal treatment, loading them into racks, offering them to the customer. Interdependencies between activities determine the need of coordination, the ability of the organisation to process information (Simon, 1955), and the danger of organisational inefficiencies (Levinthal, 1997). Thompson (1967) identifies three types of “firm technology” — long-linked, mediating and intensive — and three types of task interdependency — sequential, pooled and reciprocal — with increasing level of complexity (Table 1).

**Table 1:** Thompson’s (1967) and Stabell and Fjeldstad’s (1998) typologies

Firm “technology”	Value creation logic	Task Interdependence	Cost drivers	Value drivers
<b>Long-linked technology</b>	Value chain	Sequential	Scale and capacity utilisation	None
<b>Mediating technology</b>	Value network	Sequential and pooled	Size of customer pool	Size and quality of customer pool
<b>Intensive technology</b>	Value shop	Sequential, pooled and reciprocal.	People	Reputation

Thompson’s (1967) work has been extended in the field of strategic management to classify firms according to their value creation logic (Stabell & Fjeldstad, 1998). There, the “long-linked technology” (Thompson, 1967) — the transformation of raw materials carried out through activities organised in a pre-defined sequence, where the output of each activity is the input for the next — is at the core of the firms with “value chain logic” (Stabell & Fjeldstad, 1998). An industry with dominating long-



linked technology is automobile manufacturing. The value is contained in the final product, and the customer is peripheral to the production process. Coordination is achieved through planning and scheduling (Thompson, 1967). Hence, the structure is usually hierarchical, highly formalised, centralised, and the operations make use of standardisation, close supervision and vertical communication. The performance of the firm hinges on process optimisation, cost reduction and operational efficiency, taking advantage of economies of scale and capacity utilisation.

The second type of value creation logic is the “value network” (Stabell & Fjeldstad, 1998) - based on “mediating technology” (Thompson, 1967). Its value proposition is to connect customers who desire to interact. Examples would be clubs, insurance agents, telecommunication networks. These firms sell something they do not own — the subscription to the service acting as a gate into the value provided by the company. The value of the product depends on the quality and size of the pool of connected customers, hence value is co-created with the customer. The production process is disaggregated and standardisation is necessary to enable the connection and matching of a large number of customers (Laffey & Gandy, 2009). There is also need to balance capacity of the infrastructure, quality of service and quality of customer pool.

The third type is the “value shop” (Stabell & Fjeldstad, 1998), based on “intensive technology” (Thompson, 1967). It exists to diagnose and solve unstructured problems (Christensen, Grossman & Hwang, 2009), while also sometimes offering in parallel standard solutions (Laffey & Gandy, 2009). It is highly complex, less formalised, decentralised, communicating laterally and vertically. Coordination is through mutual adjustment, teamwork, authority based on knowledge of the task, and high individual discretion (Thompson, 1967). Examples would be professional service firms, and medical practices. Its central characteristics are the knowledge asymmetry between customer and firm, the tacit knowledge embedded in the employees, and the inseparability of the customer from the production process and the final output. As the customer is in fact the raw material, the process followed varies significantly each time it is performed, and can be evaluated after its delivery (Nayyar, 1990).

The value logic framework has been applied in supply literature (Huemer, 2006; Lorange & Fjeldstad, 2010; Hammervoll, 2009), in strategic literature (Fjeldstad and Ketels, 2006), in social policy literature (Gottschalk, 2009), in resource management (Othman and Sheehan, 2011), in industry specific literature (Peppard & Rylander, 2006; Fjeldstad, Becerra & Narayanan, 2004; Andersen & Fjeldstad, 2003), in global sourcing literature (Jensen & Petersen, 2012), and so on. Its potential to identify internationalisation patterns has not yet been explored. Therefore, in this paper, we set off in this direction of enquiry. We think that the value creation logic of firms is a way to differentiate firms on their strategy – the core activity configuration for achieving competitive advantage. The activity configuration of firms has been suggested as a means to gain additional insights on the impact of the

Internet on firms (Globerman et al., 2001). A deeper explanation of similarities and differences between firms is crucial for a better understanding of strategic and operational implications as well as internationalisation (Jensen & Petersen, 2014; Bouquet, Hebert, & Delios, 2004; Patterson & Cacic, 1995).

### **The internationalisation of Internet firms**

No single entrepreneurship or strategic management theory can fully explain the value creation of IFs (Amit & Zott, 2001) and there is no one single theory of their internationalisation. Among the few studies of pure IFs, there are diverging opinions. Some consider digital products are a contradiction to classic internationalisation theories especially as to the need of the firm to gather knowledge or build a network through previous operations in a given country. The agreement within this group of studies is that IFs are more inclined to internationalise (Petersen & Welch 2003), and to do so faster, more easily and at a lower cost (Mahnke & Venzin, 2003), to have broader reach from inception (Petersen & Welch, 2003; Singh & Kundu, 2002), care less about location (Porter, 2003), and have a distinct pattern of internationalisation (Kim, 2003; Forsgren & Hagström, 2007). In terms of internationalisation scale, scaling is said to be a lot easier for IFs, but information asymmetries in electronic markets (when a firm is unknown, it undergoes difficulties similar to a liability of foreignness), and the intangibility of the competitive advantage (i.e. the difficulties in transferring know-how and brand to foreign markets) make the replication of the code in a local language insufficient without the traffic and the product portfolio (Dunning & Wymbs, 2001). The evidence points to simultaneous use of equity and non-equity entry mode choices, as well as an important role of partnerships. Larger markets vindicate equity establishment, while smaller ones are served through exports (Le & Rothlauf, 2008), which differs from Uppsala's prediction of gradual commitment within each market (Yonatany, 2011; Le & Rothlauf, 2008; Mahnke & Venzin, 2003). At the same time, there is also evidence that location does matter when the services are more complex (Rask & Petersen, 2004) and classic internationalisation theories still fit the internationalisation of IFs (Robles, 2002). Kotha, Rindova and Rothaermel (2001), among others, found that Internet firms behave consistently with traditional IB theory in that they rely on transferring competitive advantages from the home market to foreign markets. Yet a third group of studies, featuring few papers so far, seeks to differentiate between IFs to explain the contradictions. International IFs are at least two types – technology platforms (usually a global platform, serving all markets, having different interfaces in local languages, offering a system of complementary products, for instance Google) and market intermediaries (usually distinct websites for each foreign market, offering intermediation between participants, for instance eBay) (Thomas, Autio & Gann, 2014; Yonatany, 2011). The speed, market and entry mode choice can vary depending on the type of IF

(Yonatany, 2011). Network effects for market intermediaries create significant first-mover advantages, which lead to aggressive growth strategies aiming at acquiring and locking in customers, thus preventing competition (Cennamo & Sentalo, 2013; Mahnke & Venzin, 2003). Global internet platforms, however, also offer significant efficiency gains and network economies of scale (Yonatany, 2011). Most notably, access to an established customer base was seen as absolutely crucial for both types to unlock network effects (Le & Rothlauf, 2008; Mahnke & Venzin, 2003). The scant amount of research following this line of enquiry makes it difficult to explain this overlap.

What the literature points to is that IFs are a prominent player on the international scene. Their internationalisation choices offer an excellent context where to explore how IB theories can be extended. What the literature lacks however is a theoretically grounded explanation of the observed differences and similarities not only between digital service providers and “traditional” firms, but also within the Internet group. What this paper endeavours to discover is the latter. We classify IFs depending on the organisation of activities within their value chains. The value logic framework gives us a theoretical lens through which to look at internationalisation behaviour. The next section explains the case selection and methodology, which will enable us to find out how the value creation logic of Internet firms influences their internationalisation process.

## Methodology

In this paper, seek an underlying mechanism causing differences in their internationalisation choices. Because value creation has been explored little in IB (Mathews & Zander, 2007), multiple longitudinal case study methodology is suitable to embark on theory elaboration.

The philosophical position underlying the research is objectivism, as such are the roots of the classification framework. While the primary data is gathered through interviews, we assume that the body of beliefs of the interviewees is true and grounded in empirical observations, hence reflecting reality rather than its interpretation (Sankey, 2008).

We selected three IFs - Rakuten, FactSet and MindTree (Table 2) - as critical most likely cases (Flyvbjerg, 2006). The aim of the paper is not to generalise the findings from these cases to all firms. This is not to deny generalisability from case studies, but rather to emphasise our main aim. We want to learn about, and test the power of the value configuration framework to reflect real-life differences across firms. Therefore, we used theoretical sampling. The chosen cases are critical because they come from a group that so far has been seen as homogeneous in terms of internationalisation. Each firm falls clearly into one value creation logic - hence if the internationalisation processes of these firms does not differ, the framework is not a good typology.

### **Table 2: Case companies description.**

Firm	Home country	Value creation logic	Main Activity	Established	FDI onset	Number of markets served	Market valuation	Revenue 2014
Rakuten	Japan	Value network	Online marketplace	1997	2007	25	\$24.7 billion	\$5.66 billion
FactSet	USA	Value chain	Software as a service provider of financial information	1978	1988	18	\$2.5 billion	\$330 million
Mindtree	India	Value shop	Digital technology consulting	1999	1999	19	\$1.8 billion	\$580 million

To select the case companies, firms that corresponded to the definition of an IF had to be identified. It was not easy to locate a population of IFs as there is no common identification, nor a database collecting all incumbents. The search in Orbis database for publicly listed companies with market capitalisation of over one billion US dollars in 2015, delivered 65429 firms. This choice of criteria aimed at facilitating the information retrieval, and ensuring that the case companies are not resource restrained. From this list of 7142 firms, the firms that were not internationalised were eliminated, which left a pool of about 6600 firms to choose the cases from. This was made manageable by looking for keywords such as “Internet” and “digital” in the trade description and overview information. The final choice was based on the overview, trade description and product lines of the firms, making sure each case fell squarely in one of the value creation logics defined by Stabell and Fjeldstad (1998). For value chain and value network logic, the choice was more ample as several firms corresponded to the description, while for the value shop logic we found only one good candidate. The priority was to get as much information as possible for the three cases, so when there was choice, firms, for which more data was available were chosen.

Both qualitative and quantitative data were analysed, attempting to triangulate sources on each of the measures, when possible. The data came from face-to-face, and telephone interviews, emails, company presentations, press releases, public documents, reported interviews ([youtube.com](https://www.youtube.com); newspapers), published case studies, annual reports, and databases of country and firm information. The focus was on the story behind the internationalisation of the case firms, their activity configuration and its change after internationalisation. In order to have comparable narratives, information was sought about market and foreign entry mode choice, pace and scale of internationalisation. To establish patterns in market selection the Network Readiness Index and the unweighed cultural distance were used. Given

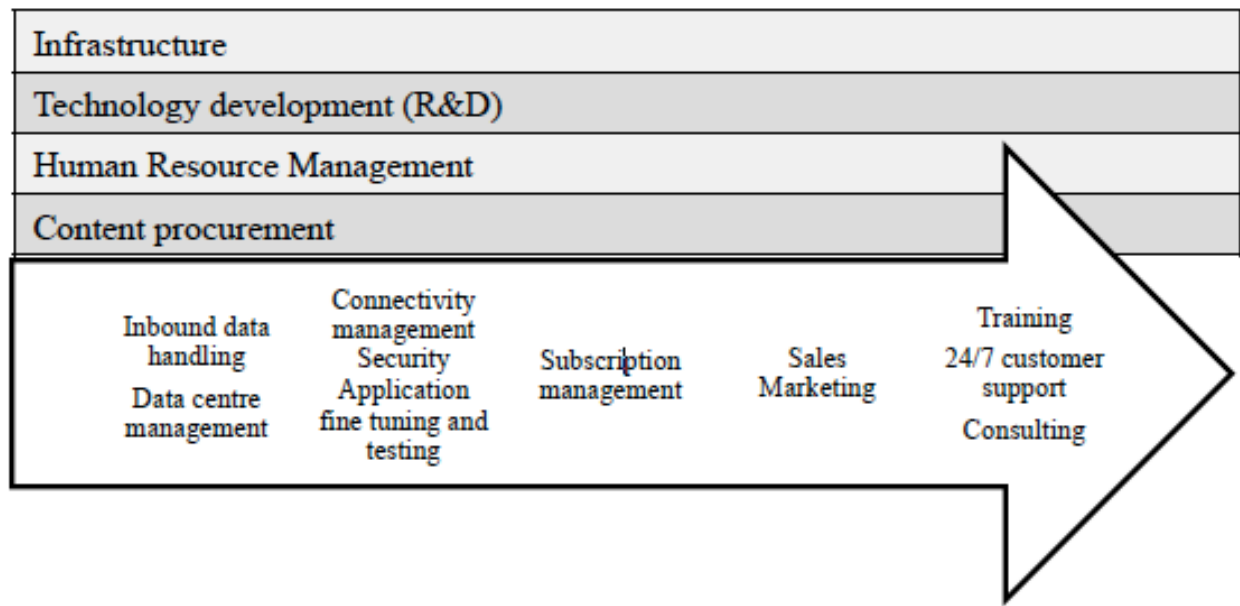
the technological nature of the activity of the case companies, the Network Readiness Index (NRI, World Economic Forum) was used to measure the appeal of markets. The NRI indicates the propensity for the countries to exploit the opportunities offered by information and communication technologies. The index is published every year and can be used as proxy for market development in the IT sector. The unweighed cultural distance was based on Hofstede (1984). Pace of internationalisation was broken down into “Onset” and “Speed”. Speed of internationalisation was measured in number of subsidiaries divided by number of years since first foreign subsidiary, onset was measured in years since inception. Scale was measured by the number of countries entered by the case firms.

### Case study data

In this section, the story of each case from inception until the time of writing (September, 2015) is explained. The within-case analysis involved writing individual case stories, outlining the value creation, the history, and the development of the internationalisation process. The relationship between the value creation logic and the choices made in internationalisation were explored in depth in the cross-case analysis. Detailed account of internationalisation and data about performance were gathered during the process, but omitted in this account of the cases, as it is beyond the focus of this paper.

#### **Value chain logic: the online content provider**

FactSet Research Systems provides access to financial data and analytical applications to the global investment community by combining third party and in-house developed content into a proprietary interface. Its headquarters have been in the US since its foundation in 1978, and it has internationalised to 18 countries on four continents. In 2015, the company has recorded its 35th consecutive year of growth, and a market capitalisation of \$6.5 billion. Since 2007, more than 30% of the firm’s revenues come from overseas, the majority of international customers located in Europe.

**Figure 1: FactSet's value creation process (adapted from Stabell and Fjeldstad, 1998).**

FactSet's value proposition initially was bringing together data from multiple sources, and providing analytical tools to help finance specialists do more robust analysis and financial modelling. Until the 1980s, the firm was providing a niche product focusing on equity. The data was originally delivered to clients by bike messenger. Later on, and still in the pre-internet age, FactSet delivered their product through a client terminal (1981). The service provided was an online pioneer preceding even browser technology (Dinger and Covell, 2015). The firm greatly benefited from the technological developments in the last thirty years, and currently a variety of products are delivered from FactSet's data centres to the desktop PCs of subscribers anywhere on the Globe via high speed private network. The firm generates revenue mainly through subscriptions, and its customer retention rate is 95%. FactSet, defined by its management as a "tech company", gradually surrounded its core business with several add-on services such as advisory services for its clients, 24/7 support, training seminars and international training centres, security for each access device. Through this contact with clients, FactSet gathers insights into their needs and activities which feeds into the firm's R&D activities.

Within the global market for data and analytics for the finance community, FactSet started as a small player. This market has traditionally been ruled by two main players - Reuters and Bloomberg - each having approximately 30%. The rest of the market is occupied by niche service providers or raw data providers. FactSet's development was influenced by two main factors - the changes in the financial services industry and the advances in technological solutions. In the last twenty years, financial service

companies increased their demand for data and analytics. The trend was due to the understanding<sup>5</sup> that having more data improved the precision of predictions. The technological advances - such as computing and data storage capacity - allowed the management of huge volumes of disparate data at high speed, and the provision of real-time analysis. These two trends enabled FactSet to shift from a niche solution provider to a generalist, developing more products, and being able to compete with the industry leaders. Through a number of acquisitions (Table 3), enhancement of the in-house data collection capacity, and extensive third-party content agreements, the company improved its product, both in span of the content, as well as in functionality. This combination, which is difficult to replicate by new entrants or existing vendors (Bokhari, 2006), and the high demand for FactSet's products supported the "controlled and stable" international growth of the firm.

FactSet's internationalisation started shortly before the two founders - US-educated former Wall Street veterans - left the firm. There is no evidence that they influenced the expansion of the firm abroad. According to its current management, FactSet is a global company. It started adding foreign data sources very early on, and considered its competitors globally. Internationalisation was seen as something natural, especially considering that the firm's audience is global and demand is comparatively homogeneous.

**Table 3: FactSet's history in milestones.**

1978	Formation of the firm in the US.
1991	First foreign clients (Europe)
1993	First overseas office (London)
1995	Tokyo office
1996	IPO on NYSE and NADAQ
2000	Founders retire
2000	First acquisition (Vision Technology database management, US)
2002	Start of a 12-year-long period of operating margins above 30%
2003	Client servicing in Japan and Singapore
2005	First advertising campaign
2008	Acquisition of Thompson Fundamentals (financial database)
2009	Product consolidation with extended online functionality
2010	Acquisition of Market Metrics (market research)
2012	Acquisition of StreetAccount (realtime company updates)
2013	Acquisition of Revere Data (line-of-business industry taxonomy)
2015	Acquisition of Code Red (research management technology)

<sup>5</sup> Nugent, A. 2014. How Big Data Will Influence the Financial Space in 2015, Wall Street & Technology, accessed 22 January 2016, <http://www.wallstreetandtech.com/data-management/how-big-data-will-influence-the-financial-space-in-2015/a/d-id/1317234>.

FactSet's internationalisation started in 1991 with European clients, and in 1992 - with clients in the Asia-Pacific region, office locations opening the following years to support the overseas business (Table 4). According to FactSet's Regional manager for the Nordic region, expansion abroad has been easy to plan for as once closed, a subscription is very stable. Before each entry, a critical mass of clients was established giving financial sense to base an office in the region. In countries where the volume of the business is not sufficient to support an office, customer acquisition and support are carried out from a regional hub. For instance, London - the European hub - is responsible for UK, Ireland and the Nordic region, Amsterdam carries Netherlands and Benelux, clients in Singapore were serviced by the subsidiary in Hong Kong until the opening of a Singapore office in 2014. FactSet effectuated all its international entries through greenfield establishment. By 2015, FactSet had completed several cross-border acquisitions of databases and service providers, none of which were aimed at attaining entry. The acquisitions are oriented at expanding the availability and variety of data provided to subscribers — the companies acquired provided either technology or content. Each new acquired product is integrated into the existing structure of the offering and frequently rebranded. An exception is the JCF acquisition in 2004, which “brought a lot of European clients to FactSet” (Interviewee 1).

The country choice and sequence of entries do not follow a path of increasing cultural or geographical distance nor network readiness. The international customers can come from anywhere, and have been engaged simultaneously. The choice seems more likely to be influenced by the location of the greatest centres of the finance industry, rather than any country characteristics.

FactSet internationalised gradually, only two times opening simultaneously international operation in the same year. Due to the nature of its internationalisation - the firm used virtual exports to serve a client base without a physical presence abroad - it is not easy to pinpoint the exact onset. The first entity established abroad was ten years after inception (1988), in France. This entity carried out research, and did not serve as a sales office until long after. The first record of clientele abroad was in 1991, and the first office abroad was opened in London in 1993. The speed in subsidiaries per year is 0.73, and the time lapse between successive subsidiary establishments - an average of 1.4 years - has clearly diminished since 2009. The internationalisation process was interrupted between 2003 and 2007 while the firm was consolidating, and the speed after that period increased significantly.

Foreign operations are staffed mainly with sales and support personnel, and do not share expenses for software development, computing centres, and data costs (FactSet 10-K, 1999). The core product development is based in the US, though small engineering teams may be based in the bigger international hubs to ensure technology is deployed smoothly. The first data centres were established in



the US after 2001. Data centres abroad were established to support existing overseas operations when transaction volume dictated it. The exception are the three data collection centres in Latvia, India and the Philippines, and the research centre in France, which deliver their services to the entire firm. Content collection and research are the (comparatively) low skill, labour intensive activities of the value chain of FactSet, therefore the firm is taking advantage of the lower labour costs, and the availability of personnel covering multiple languages in these four locations.

**Table 4: FactSet's pattern of internationalisation.**

Year	Country	Type of market entry	Cultural distance	NRI
1988	France	Greenfield	56,1	N/A
1993	UK	Greenfield	12,9	N/A
1995	Japan	Greenfield	73,7	N/A
08/1998	Hong Kong	Greenfield	73,9	N/A
09/1998	Australia	Greenfield	6,6	N/A
2000	Germany	Greenfield	31,1	5,11
2001	Italy	Greenfield	35,1	4,70
2002	Portugal	Greenfield	94,6	4,57
2003	Ireland	Greenfield	27,2	4,55
05/2007	Netherlands	Greenfield	49,8	5,54
10/2007	India (data content)	Greenfield	57,4	4,06
2009	Philippines (data content)	Greenfield	80,0	3,60
2010	United Arab Emirates	Greenfield	90,3	4,85
03/2012	Brazil	Greenfield	68,7	3,92
11/2012	Latvia	Greenfield	N/A	4,35
2013	Sweden	Greenfield	63,4	5,91
04/2014	Singapore	Greenfield	88,5	5,97
06/2014	Spain	Greenfield	62,4	4,69
08/2014	Canada	Greenfield	15,0	5,41

FactSet internationalised by offering its product, without modifications (FactSet 10-K, 1999), to a very specific audience. The only adaptation made for international audience is a translation of the interface to Japanese, keeping the content and structure the same. The finance community has relatively homogeneous demand for content. By amplifying its content, FactSet has become able to serve a wider variety of firms within the finance industry, which has supported its international expansion.

In summary, FactSet exhibits a stable international growth determined by the development of the industry it serves and advances in content management technology. It offers a proprietary content

delivery technology combining own and third-party data, which needs not be adapted for internationalisation and can be accessed from anywhere in the world. The firm services its clients through virtual exports, supported by wholly owned subsidiaries established in regional hubs. The key elements of the expansion of FactSet were greatly summarised by a manager from one of its international sales divisions:

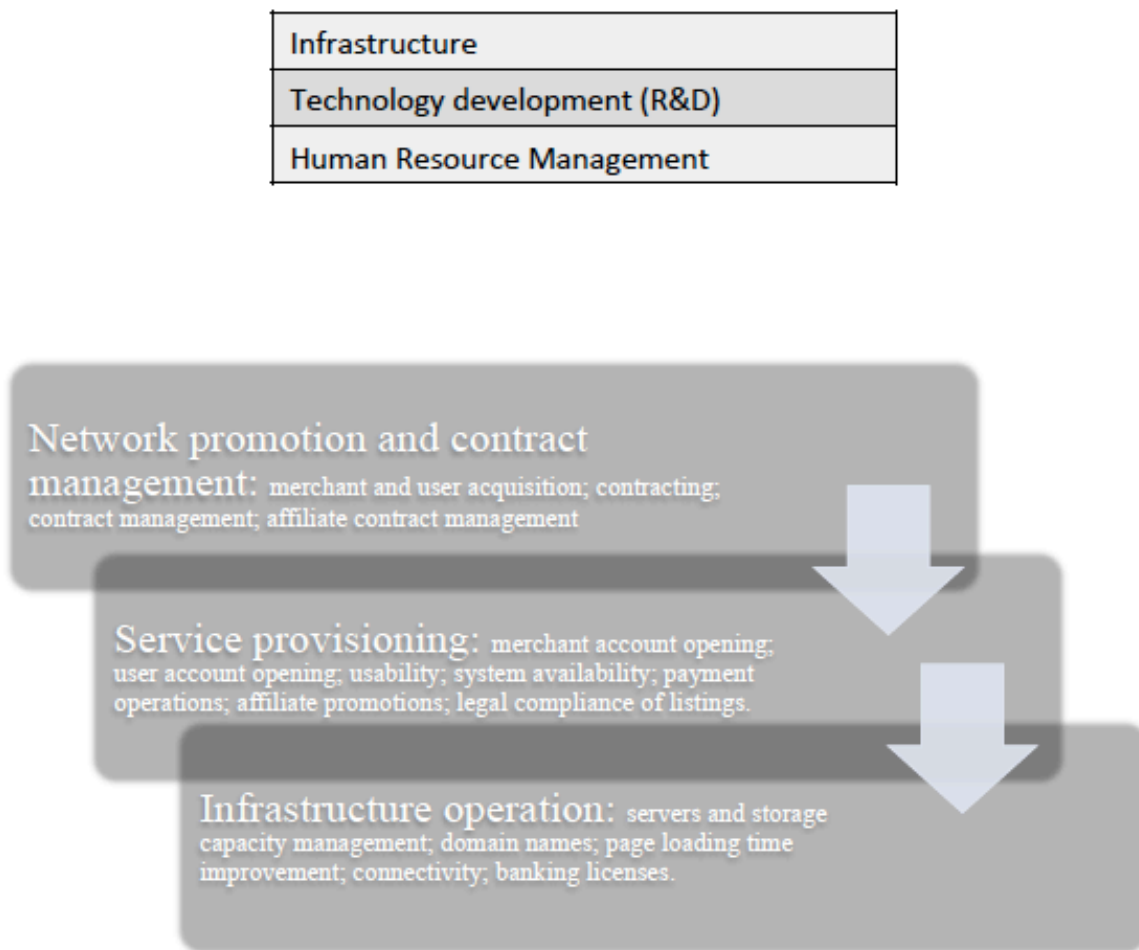
*“The data analytics market is important to understand, the network effects drive these markets, just like Facebook. Once you have a big network - and that is why it is difficult to beat Bloomberg - it sticks with you. The product is easy to internationalise, but it depends on the development of the industry.”*

#### **Value network logic: the online marketplace**

*Rakuten* is listed under NAICS: 541513 Computer Facilities Management Services, and classified as online consumer retail by Forbes. It is the leading provider of online retail services in Japan, controlling more than 26 percent of Japan's total online business to consumer (B2C) market. Rakuten is diversified in a number of online businesses such as e-reading, travel, banking, securities, e-money, media portals, online marketing, etc. (Figure 4<sup>6</sup>). Its market capitalisation as of May 2015 is \$24.7 billion. Created in 1997 and IPO'd in 2000, the firm now has a foothold in 25 countries across Asia, the Americas, and Europe.

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<sup>6</sup> Image obtained from: <https://www.procurious.com/blog/in-the-press/rakuten-alibaba-and-amazon-the-battle-of-the-electronic-storefront> (accessed 20-09-2015).

**Figure 2: Rakuten's value creation process (adapted from Stabell and Fjeldstad, 1998).**

The global ambition of Rakuten is to integrate its portfolio of businesses into a single ecosystem<sup>7</sup> (Figure 3). In Japan, this integration has been achieved almost to the fullest. The marketplace business is the core of the ecosystem, and the first service the company offered. This online mall of sorts was the means through which a critical mass of customers was acquired. The initial growth of the company was based on attracting businesses (sellers) to the website, which brought in the traffic (buyers), and that, in turn, attracted more businesses<sup>8</sup>. Two mechanisms work to captivate buyers and sellers. One is a loyalty programme — each purchase generates “Super Points”, which work as digital money and can be spent in subsequent purchases. The other one is a rating system similar to the ones eBay and Amazon have. Sellers on the Rakuten website are evaluated by buyers, which serves as feedback and learning source for merchants, as well as reputation indicator attracting further purchases

<sup>7</sup> Interview with Hiroshi Mikitani, <https://www.youtube.com/watch?v=xI-820hpFvg>, accessed 14th of July 2015.

<sup>8</sup> Hiroshi Mikitani: "Marketplace 3.0": Talks at Google; <https://www.youtube.com/watch?v=xI-820hpFvg>, published on Apr 8, 2013, last accessed 14.07.2014.

(Interviewee 4). Gradually, additional services were included under the same loyalty programme and marketed to the registered website users, allowing them to spend points generated from e-shopping across the portfolio. This unique ecosystem of services leveraged the brand and the customer pool already acquired (Interviewee 4).

**Figure 3: Rakuten's ecosystem (© Rakuten Deutschland GmbH).**



In each new foreign market, a similar strategy is implemented. First, a marketplace is either established from scratch or acquired and rebranded. Sellers are recruited and allowed to market their products through Rakuten's website for no charge during an initial period ranging from few months to a year. Once, there are products on the website, buyers are attracted through heavy promotions relying on low margin popular products. These initiatives are both negotiated with sellers and financed as marketing activities by Rakuten. For example, in Germany, electronics is the category of products used

to attract traffic. To persuade new buyers to shop at Rakuten, the company periodically runs campaigns allowing a certain percentage of the purchase to be reimbursed back to the buyer in loyalty points, which can be spent in subsequent visits to the website. That implies losses, which are expected to be recovered through sales of long-tail high-margin products at a later point of the buyer lifetime. Once a critical mass of buyers is acquired and performing well, other services from the portfolio of Rakuten are established in the same country, taking into account the market readiness:

*“... first step – marketplace together. Second step – connect the marketplace with all the companies [from the Rakuten group] to create proper ecosystem. Third step – creating new, and new business models, which do not even exist [now]” (Interviewee 2).*

Rakuten prides itself for inventing the B2B2C model, which consists of an online technological platform facilitating transactions between businesses and customers. As such, it does not sell itself, and thus does not hold inventory, but pushes the logistics and buyer support responsibilities to the businesses themselves. Rakuten’s marketplace business is seller-centric, which means they see themselves as serving the sellers (or merchants, in the firm’s jargon). The main efforts - and the greater part of activities in the firm’s value chain - focus on convincing and teaching the sellers how to attract and better serve buyers. Revenues depend on how well sellers do that, so a variety of technological tools are acquired or developed in house to support the interaction between sellers and buyers. Rakuten’s revenue model is based on advertising, monthly merchant subscriptions, and a percentage charged on completed transactions through the platform.

Rakuten was created, and is still managed, by Hiroshi “Mickey” Mikitani, widely credited as one of the pioneering forces in Japan’s e-commerce sector. Harvard-educated, Mikitani came from investment banking, and M&A consulting, where he worked with leading Internet and mobile communications players.

**Table 5: Rakuten’s ecosystem history in milestones.**

**Table 5: Rakuten’s ecosystem history in milestones.**

<b>1997</b>	Establishment as MDM Inc. in Japan
<b>1999</b>	Name changed to Rakuten and expansion of platform services to C2C and advertising
<b>2000</b>	Launch of “Rakuten University” and systems expansion enabling businesses to configure their online shops themselves
	IPO, market cap \$6 billion
	FDI in the US (no commercial activity)

**Table 5: Rakuten's ecosystem history in milestones.**

<b>2005</b>	First cross-border acquisition of LinkShare (US)
<b>2006</b>	FDI in China: Ctrip travel site (partial ownership)
<b>2008</b>	Subsidiary establishment in Luxembourg (administrative functions) Establishment of a global site and borderless delivery from Japan
<b>2010</b>	JV and acquisitions in China, USA, France and Indonesia (marketplace internationalisation)
<b>2011</b>	Acquisitions in UK, Brazil, Germany and Austria (marketplace internationalisation) Acquisition of Kobo - a global eReading service
<b>2012</b>	Acquisition of Wuaki.tv - Spanish-based premium Internet content provider Entry in Malaysia through greenfield
<b>2013</b>	Acquisition of Viki - a global site with TV shows, movies and other premium content, translated into more than 200 languages Entry in Spain through greenfield
<b>2014</b>	Acquisition of Viber - a global messaging and VoIP service operator Entry in Singapore through greenfield
<b>2015</b>	Acquisition of <a href="https://fits.me">fits.me</a> - a global virtual fitting room technology provider

In its first eight years, Rakuten was concentrated on amplifying its portfolio and strengthening its position domestically (Table 5). A number of international acquisitions were made thereafter aimed at enhancing the portfolio of services offered by Rakuten. The marketplace business started expanding internationally in 2007 with a joint venture in Taiwan (the site launched in 2008). The “only” (Interviewee 1) motivation behind the internationalisation was the belief of Hiroshi Mikitani that the Japanese market will shrink as the population ages.

**Table 6: Rakuten's marketplace pattern of internationalisation**

Year	Country	Type of market entry	Cultural distance	NRI
2007	Taiwan	JV	62,3	5,28
2009	Thailand	Acquisition	72,7	4,14
01/2010	China	JV	77,7	3,68
05/2010	USA	Acquisition	73,7	5,46
06/2010	France	Acquisition	59,7	4,99
11/2010	Indonesia	JV	77,1	3,72
06/2011	Brazil	Acquisition	51,6	3,92
07/2011	Germany	Acquisition	48,7	5,32
07/2011	Austria	Acquisition	51,7	5,25
09/2011	UK	Acquisition	79,4	5,50
2012	Malaysia	Greenfield	89,8	4,80
2013	Spain	Greenfield	53,7	4,51
2014	Singapore	Greenfield	101,7	5,97

The marketplace business spans 13 countries, covered in less than seven years, with 8 nearly simultaneous entries (Table 6). The average time between entries is 0.5 years and the speed of internationalisation is 1.9 subsidiaries/year. Initial international expansion concentrated on markets closer to home: Taiwan, China, Thailand, Indonesia. This phase of the expansion into Asia was fully engendered and managed by the headquarters in Tokyo. The expansion into Europe and the US started in 2008 with the establishment of a subsidiary in Luxembourg, but revenue was generated after 2010's acquisition of PriceMinister and Buy.com. The European acquisitions increased the talent pool within the company. Proactive managers from the newly acquired subsidiaries were able to suggest subsequent markets to enter, and were involved in market assessment and business plan development. The assessment process was then repeated by teams of Japanese employees and the decision-making would happen at the highest level among the Japanese executives. The final decision on any new establishment is made by the Board of Directors.

Rakuten's marketplace expanded internationally through acquisitions, joint ventures, and greenfield establishments (Rakuten annual reports 2008-2014). Joint venture (JV) partners selected were local leading search engines, offline retailers and media companies. Acquisitions targeted existing e-commerce sites with already established national audiences. Greenfield establishments came later in the process. Parallel to equity-based foreign expansion, Rakuten started virtual exports through its global site

and international delivery service in 2008, usually into territories where it does not operate a local website. Virtual exports were also used to gather initial audience prior to greenfield entries.

Given the nearly simultaneous entry in several markets, we used Zephyr database to determine the exact date of the completed deals to put the entries in sequence. The correlation between sequence of entry and cultural distance was 0,21, and when NRI was considered: 0,36. When the entry modes were considered separately (Table 7), there was no significant difference between the NRI or the cultural distance for the countries chosen for each entry mode.

**Table 7: Rakuten's entry mode choice, cultural distance and NRI.**

Entry mode	Acquisition	Greenfield	Joint venture
Number of entries	7	3	3
Average cultural distance	62,5	81,7	72,4
Average NRI	4,9	5,1	4,2

Prior to establishing a foreign subsidiary, Rakuten's headquarters carry out market studies and assess potential candidates for acquisition. Through indicators such as credit card and internet penetration, they assess whether the market is ready for the services they offer. When, in the selected markets, no good candidates for acquisition present themselves, but the market is promising, Rakuten chooses greenfield. A manager who was working at an acquired company, and who continued working there after it became part of Rakuten, told us that what was mainly sought after in potential acquisitions was the customer pool:

*“...they decided to buy into an existing entity, because with that came millions and millions of customers that that we could communicate with, and already had an existing relationship. So that was the reason, the major reason why [the UK subsidiary] was purchased.” (Interviewee 3).*

Traffic - the quality and quantity of buyers - is what sellers look for before subscribing to Rakuten's services, hence it is decisive for revenue generation. In the UK, the first attempt to enter the market was through a greenfield entry. Upon failing to establish sufficient traffic, an acquisition was carried out. What happens after a company is acquired is gradual assimilation into the business model, technology and organisational culture of Rakuten. This most of the times implies significant changes for the acquired companies. [play.com](http://play.com) - now [rakuten.co.uk](http://rakuten.co.uk) - changed from first-party to third-party retailer, shedding logistics and grand part of operations along the way. The technological platform also had to change to the global technological platform of Rakuten, as it was better suited to scale. Despite the



efforts to maintain the same face towards the customer, the change was of such magnitude that a large percentage of the audience was lost. From management practices perspective, the change required greater focus on communication, accountability and transparency. The push of logistics to the seller side meant forecasting and planning became very important as they allowed time for negotiations with sellers. First-party sellers have control over pricing and margins, so they can react to the market and performance changes a lot quicker than third-party retailers who are positioned to broker the relationship between sellers and buyers (Interviewee 3).

Establishing a subsidiary from scratch was, in the opinion of a manager who was CEO of one of Rakuten's greenfield entries, easier than dealing with an acquired company. Aligning with the global strategy is facilitated by the lack of inherited organisational culture and technology. The greenfield subsidiaries established after 2010 adopted the global technological platform, and followed the global operations process. The global web infrastructure is implemented for a local website either upon establishment (when the entry is effectuated through greenfield), or after integration of an acquired firm. As a consequence, not all Rakuten websites are based on this platform. The migration to the global web infrastructure is the last stage of the re-branding process that international acquisitions go through. Migration to the global platform is a long and costly effort, and it requires that the business models of the acquired firms be changed to fit the B2B2C model of Rakuten:

*“We apply our B2B2C marketplace business model to every overseas group company that we acquire. At the same time we are ensuring that all overseas employees gain a thorough understanding of the concept of Rakuten Shugi, which is the corporate culture and philosophy developed by the Rakuten Group in Japan”* (Rakuten annual report 2012).

After the first phase of expansion, which ensured foothold of the marketplace business on the leading e-commerce markets, Rakuten entered in a consolidation period. This was marked by the development in 2012 of Rakuten's global web infrastructure. This is a common platform underlying all Rakuten marketplaces outside Japan. It facilitates scaling the technology development. The consolidation efforts dictated a global distribution of activities. Some activities are delivered at global level to all subsidiaries. Operations for the region are concentrated in the regional headquarter, while *“countries are like sales blanches”* (Interviewee 2). The rationale behind this is efficiency gains and better localisation. The idea was arrived at through the learning of operating abroad in the last five years. It currently absorbs the greater part of managerial effort, both at regional and central level. One example of the global distribution of activities is product management. This activity is carried out in the bigger hubs (Germany for Europe, San Francisco for the US), but controlled from Japan (Japanese product managers acting as gate keepers to production). Production (coding of the web platform - another key activity) is scattered throughout developments centres around the world (US, China and India). The process can be

illustrated by the progress of a website feature: the recommendations for add-on products, which appear after a customer has put an item in his or her virtual shopping basket. The marketing department of the Spanish subsidiary of Rakuten would suggest that recommendations for products that combine with the customer's purchase will increase the basket size. They want the platform to be able to display a list of products on the checkout page, and these products must be related to what the customer has purchased already. In other words, a customer buying a popcorn machine, should see offers for popcorn, butter and salt just before he pays for his purchase. The Spanish marketing team would develop a business plan for this feature and share it with the regional product development manager for Europe during the weekly meetings held over teleconference. The regional product development manager would elaborate on this request, and integrate it with the bulk of marketing requests from the other European countries running on the global platform. These are in turn joined to all requests from all department from the region, and shared onto the global project management system. The feeds into the system are organised and scheduled for discussion by the product managers located in Japan. Prioritisation is suggested by regional product managers, discussed in weekly meetings between the regional product managers and the product managers in headquarters. The final decision on priorities and content of features is made by the lead product manager in Tokyo. So the request of the Spanish marketing department for a recommendation engine is now in a list of modifications of the platform that will affect the whole world. Its priority may rise if other countries, for instance Taiwan, also requests similar functionality. From then on, production schedules are agreed upon among Japanese teams, and development is spread across different locations, based on skill and workload needs. In this way, the global platform of Rakuten is constantly adapted and enhanced to be able to serve international markets.

Within Rakuten the communication is key to moving things along - all interviewees agreed on that point. There are cultural clashes between subsidiaries and headquarters because of the tension between standardising and adapting locally. This is resolved by frequent virtual meetings, and complex reporting systems. Additionally, Japanese employees are deployed to foreign subsidiaries to function as connectors and ambassadors of the country, reporting into the headquarters. Japanese expatriates improve the match between subsidiary and headquarters, help the integration efforts, bring back insights into foreign markets, and contribute to making the communication easier. Their help is essential for making any modifications into the technology that is needed by the subsidiaries.

The current international strategy is to work towards standardising the business model, technology, and operations. This is based on the belief that best practices can be best disseminated and implemented this way. Replication is not full, as each subsidiary focuses on adapting to local tastes and preferences, for example in payment methods. The global technological platform allows for certain flexibility to accommodate this:

*“[We] have a global strategy, global connection, global value – but we have local execution, and local tactics to every single one of the countries” (Interviewee 2).*

### **Value shop logic: the digital consultancy**

MindTree is a public multinational information technology (IT) and implementation (outsourcing) company. It has headquarters in India and USA, active operations in 19 countries in Asia-Pacific, North America, Europe (as of July 2015). The company defines itself as a digital-born technology consultancy company. Its mission is to *“deliver business enabling software solutions, by creating partnership with our customers, in a joyous environment for our people”*<sup>9</sup>. It creates customised solutions across the digital value chain from ideation to execution through a *“high consulting low-cost model”* (Ashok Soota, CEO<sup>10</sup>). The differentiation strategy of MindTree is based on a well defined domain, sophisticated service delivery tools and methodology, holistic approach to quality, managed innovation process and branding.

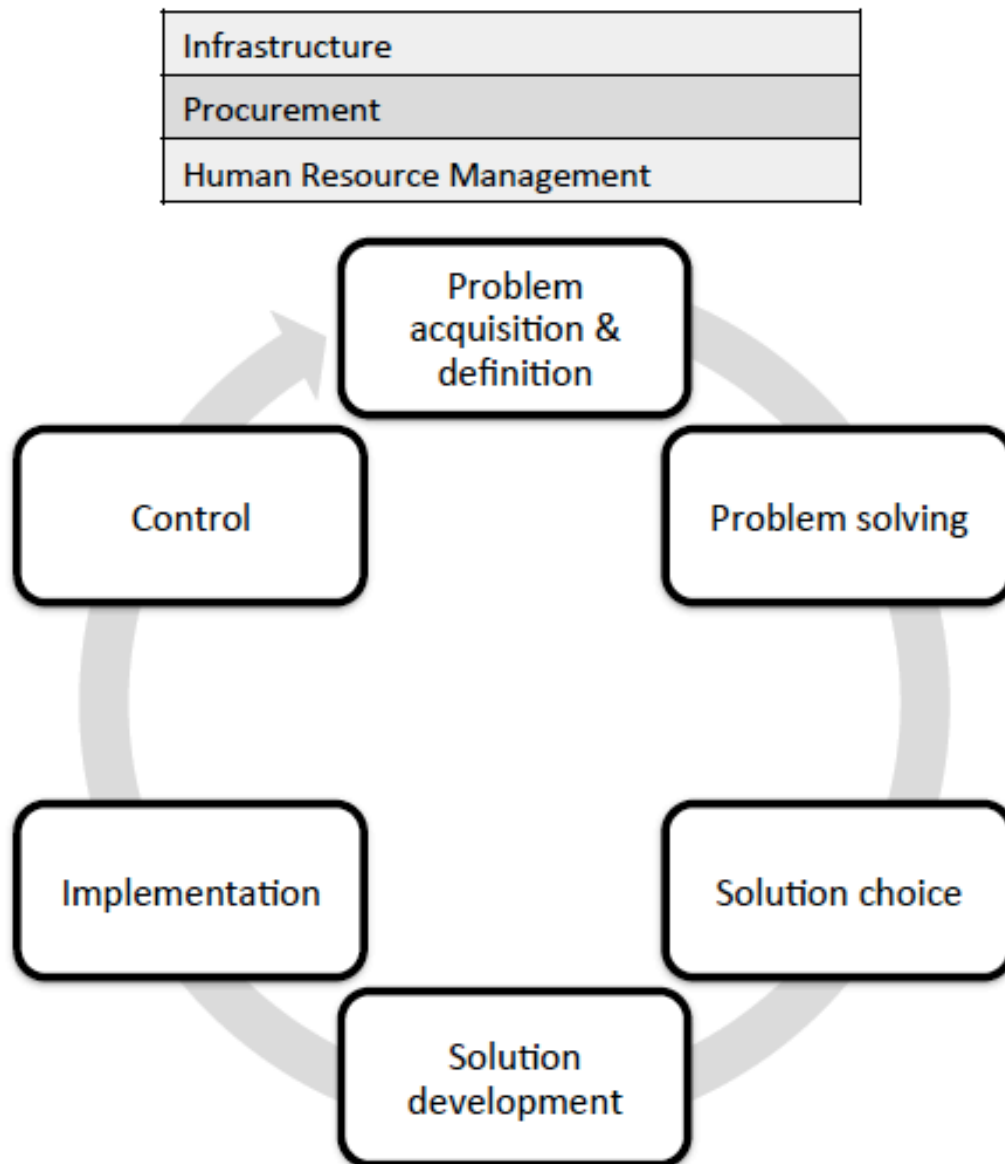
The production process of the company starts with a problem delivered by the customer. The company consultants define the problem jointly with the customer and deliver solution ideas. Knowledge is actively shared throughout this process from both sides. The final solution is developed and tested in MindTree’s premises, after which it is implemented and maintained either on customer hardware or on MindTree’s storage space. MindTree’s consultants may also visit and spend time at clients’ premises. MindTree has gradually acquired or developed technology which can allow it to scale and be able to manage its data centres from anywhere in the world. However, the *“the biggest cost item for all the IT industry is people cost”* (Rostow Ramanan, CEO)<sup>11</sup>. Mindtree’s core advantage, according to its founders, is its expertise contained in its talent - the Mindtree Minds. Since inception, HR management is a big part of the strategic focus of the firm.

**Figure 4: MindTree’s value creation process (adapted from Stabell and Fjeldstad, 1998).**

<sup>9</sup> <http://www.mindtree.com/sites/default/files/making-of-mindtree-1.pdf>, accessed 30.10.2015.

<sup>10</sup> <http://www.cio.in/ceo-interviews/it-built-mindtree>, accessed 31.01.2016.

<sup>11</sup> [http://www.moneycontrol.com/news/business/earnings-will-go-up-operational-costs-too-mindtree\\_945307.html](http://www.moneycontrol.com/news/business/earnings-will-go-up-operational-costs-too-mindtree_945307.html), accessed 31.01.2016.



The founding team of MindTree was composed of ten highly educated and internationally experienced IT professionals: nine were Indian and one was from the US. The founding team engaged the first customers in the USA even before the Indian operations started. They were global companies sourced from the founder's existing personal network. According to the press and MindTree's own documents, the initial confidence of the clients was bestowed to them because "*the names behind MindTree were associated with unimpeachable integrity*"<sup>12</sup>. Customers were converted into references to grow the business.

MindTree, according to its founders, was created to be international: "[our] Vision reflected our need to build an enterprise that would truly have an international look and feel. To be truly

<sup>12</sup> <http://www.mindtree.com/sites/default/files/making-of-mindtree-2.pdf>, page 9.

**Table 8: MindTree's history in milestones**

<b>1999</b>	Formation of the firm with 2 customers
<b>2000</b>	First round of funding
<b>2001</b>	Second round of funding for expansion to Europe and Asia Pacific (ineffective due to 9/11 events)
<b>2003</b>	Client servicing in Japan and Singapore
<b>2003</b>	Partnership with City Practitioners (consultancy) London to create an European base
<b>2004</b>	First foreign acquisition: ASAP solutions -software development (US and India)
<b>2006</b>	IPO at Bombay Stock Exchange and National Stock Exchange, India
<b>2012</b>	New identity targeted at global expansion
<b>2012</b>	First major US-based development centre
<b>2014</b>	Several co-founders exit the company

*international we needed to develop software code internationally*"<sup>13</sup>. Their software developers were initially based both on India and the US, working simultaneously on the same projects — a process MindTree calls OneShore© development. To deal with clashing work and national cultures throughout its growth, MindTree relied on informal coordination through shared values.

MindTree's operations are currently concentrated in India, USA and UK. While the first two started operating upon inception, the European headquarter was set in 2001.

The foreign entry mode of choice is greenfield. From the accounts in the firm's press releases and the press, it appears that entry beyond the three hubs (UK, US and India) is motivated by client acquisition — for instance, the 2009 entry in China after closing a contract with Huawei. The availability of active customers seems to be decisive point in maintaining the presence in a given country (for instance, the presence in China was reduced due to insufficient growth). IT consulting - or "private engineering services" as Rostow Ramanan, Mindtree's CFO calls the sector - is a highly client-dependent sector. This can have negative effects sometimes. For instance, in 2013 due to the global economic uncertainty led by the Eurozone crisis, revenues coming from European clients were significantly

<sup>13</sup> <http://www.mindtree.com/sites/default/files/making-of-mindtree-1.pdf>, page 9.

reduced as IT budgets were cut back. Mindtree's global spread mitigated this effect, so that its US clients made up for the decline in that year. Another factor making IT consulting firms very susceptible to macroeconomic changes is their focus on getting higher amount of revenues from lesser number of clients as opposed to a larger basket. Mindtree focuses primarily on large project clients - their segmentation is "USD20 million clients, USD10 million clients, USD5 million clients" betting on the potential of those relationships. Consecutively, its marketing in the first 14 years was limited and focused on branding (Paul Gottsegen, CMO<sup>14</sup>). Clients were acquired based on reputation built upon the firm's portfolio of successful projects. Its current marketing strategy is also focused in the direction of acquiring high-quality clients. Mindtree's content marketing emphasises reputation and relationship building: "*selling trust through thought leadership*" (Paul Gottsegen, SMO).

MindTree has performed a number of acquisitions since its inception targeted at increasing its existing capabilities. For instance, the acquisition of Relational solutions in 2015 was intended to strengthen the firms position in predictive analytics, and the BlueFin Solutions acquisition - to allow full spectrum SAP services or expanding in new technologies<sup>15</sup>. Entry in new markets was not the purpose, as the acquisitions happen post-entry. In 2011, MindTree underwent a consolidation aimed at focusing its business toward becoming a specialist in a narrower number of areas, abandoning some of the segments it served, such as energy and utility<sup>16</sup>. The expected result was to leverage its expertise and obtain better reputation.

Taking India as a country of origin (as 9 out of 10 founders are Indian), we explored the sequence of entry and the cultural distance (unweighted). The Network Readiness Index (NRI, World Economic Forum) for each foreign entry, indicating the propensity for the countries to exploit the opportunities offered by information and communication technologies (Table 9), showed a negative correlation (-0.63) with the sequence of entries. This suggests Mindtree entered initially markets, which were ready for digital services, gradually moving to less technologically developed locations. The NRI of India at the time MindTree was founded was 3,89, and of the US: 5,79, which accounts for the fact the US-based clients have been providing the lion share of sales for the firm since inception, while Indian-based ones frequently account for the smallest percentage. Because not all locations count with a registered legal entity, we included the data for the entries where there is record of the year of establishment. The correlation between sequence of entry and cultural distance is also negative: -0,41 (when there were multiple entries in a given year, the average cultural distance was taken as an indicator).

<sup>14</sup> <http://www.cmo.com/articles/2014/9/18/cmo-interview-mindtree-gottsegen.html>.

<sup>15</sup> Software Snapshot, FRPT Research, 2015

<sup>16</sup> <http://www.rediff.com/business/report/mindtree-rejigs-its-business/20110315.htm>

**Table 9: MindTree's Pattern of internationalisation.**

Year	Country	Type of market entry	Cultural distance	NRI
1999	USA	Greenfield	57,4	5,79
2001	UK	Greenfield	59,7	5,31
2006	Germany	Greenfield	53,4	5,22
2007	Sweden	Greenfield	73,3	5,66
2007	Canada	Office	50,5	5,35
2007	Australia	Greenfield	59,9	5,24
2007	Netherlands	Greenfield	66,9	5,54
2008	Japan	Greenfield	69	5,19
2008	United Arab Emirates	Office	48,3	4,6
2009	China	Greenfield	31,5	4,2
2011	Belgium	Greenfield	61,6	4,8
2012	Hong Kong	Greenfield	27,1	5,5
2013	Romania	Greenfield	56,5	3,9

The process of internationalisation of MindTree shows that the company enters markets both simultaneously and sequentially. Client-following behaviour was exhibited in the markets beyond US and UK. The speed of equity establishment is 0.98 subsidiaries/year and the average lapse between subsequent equity establishments is 1.1 years.

### Within case analysis

We characterised long-linked technology firm as one having a lineal production process with pre-defined sequence of activities, value concentrated in the final product, focus on cost reduction and operational efficiency, economies of scale and capacity utilisation facilitated by the comparatively easier coordination through planning and scheduling (Thompson, 1967; Stabell and Fjeldstad, 1998). These are characteristics we have recognised in FactSet. Their investments have been aimed at improving the product, its delivery and appeal to a global audience. Internationalisation for them is an opportunity to

scale. The whole production process was never located outside the home country. The internationalised activities were sales and raw material provision (research and data collection). The latter took advantage of lower factor costs in foreign locations. Sales abroad followed a path of increasing commitment: virtual exports were followed by equity establishment. Despite the fact that FactSet falls under high tech, entrepreneurial internationalisation does not seem to match the process followed by the firm. The firm had a late, slow and planned internationalisation, with a clear strategic focus on optimising cost and scale. Locations were chosen based on existing customer base (for sales and support activities), or factor prices (for research and data collection). Network effects do not seem to have a major role in the firm's internationalisation, beyond the need for certain volume of customers to render a location ready for FDI. Network effects were important because client loyalty and long subscription lifetime ensured stable revenues, and not because access to an established customer base was crucial to unlock network economies. FactSet does not seek partnerships to support its internationalisation, and does not invest in versioning its product after local preferences.

The value network firm - Rakuten - based its value proposition on network effects. The value of its online mall platform depends on the quality and size of the pool of connected customers. We can speak of value co-creation on both sides of the business model. Value from the point of view of buyers is the availability of varied product portfolio at acceptable prices. Rakuten puts tools in the hands of sellers enabling them to market their offer, which allows buyers to access that value. The more buyers visit Rakuten's platform, the more sellers have the opportunity to access value from their point of view - i.e. sales of their products. Rakuten's job in the meantime is to balance capacity of the infrastructure and customer pool. The internationalisation of the firm started comparatively late, but progressed quickly. Both collaborative and greenfield entries were chosen, depending on the availability of suitable partners. Virtual exports, while existent were not dominant. Through full control modes, Rakuten gains control over the delivery process where it can best capture the value of the customer — both as traffic figure, as well as transaction originator. Depending on the type of entry mode, either the full production process or part of it were located abroad. Rakuten's initial preference for geographically close - though not culturally close - markets does not fit the propositions of the process model of internationalisation. Rather, the findings support Sharma and Johanson (1987) in that service firms enter markets with higher psychic distance, despite no previous experience, learning after entry by doing and through acquisitions. The core product being standard has enabled the firm to direct its international strategy towards cost and efficiency optimisation, centralising product development and distributing production where it has talent and cost advantages.

The third type of firm - the value shop - focused on customised problem solutions. Its complex and not formalised process dictated a focus on talent and knowledge management. Mindtree's



reliance on reputation made the role of its founders, as well as the relationship with its customers decisive for international growth. Its market was defined as global upon inception, and FDI was located based on where its prominent customers were, and the countries that could best benefit from its services. MindTree's deference to market development and existing client relationships contradicts both Kogut and Singh's (1998) cultural distance argument, and Uppsala's psychic distance one. Interestingly, the results also contradict Yonatany's (2011) findings for the internationalisation of eBay, Facebook, Google and Yahoo (positive correlation between cultural distance and internationalisation mode, varying from 0,20 to 0,40). One explanation for this comes from the entrepreneurial internationalisation studies — the founding team of the company seems to have had a great influence in client acquisition, and is greatly experienced internationally, which made the firm oriented toward a global market from inception. The client-following behaviour, typical for consulting firms, and the preference for countries with higher NRI would be explained by the particularities of the firm's value creation. Mindtree co-creates value with the customer by incorporating the object (project) and producing learning, which is afterwards re-used by the firm in consecutive projects. That would dictate that the firm aims at having complex projects and keeping clients close, following the development of the projects longitudinally.

### Cross case analysis

Table 10 summarises the findings for the three cases. Internalisation theory seems to explain the internationalisation of Rakuten - it mitigated the risk of foreign markets by high-control entry modes and internalising the production process. Entrepreneurial internationalisation seems to explain Mindtree's behaviour, and the process model largely fits the foreign expansion of FactSet. The three IFs differ in what their motivation was to internationalise, how they dealt with their liability of foreignness, and how they learnt to internationalise.

**Table 10: Foreign entry mode, pattern and speed of internationalisation of the case firms.**

	Onset	Speed	Lapse between entries	Country selection	Entry mode	Span
<b>Value network</b>	+10 years.	1.9 subs/year	0.5 years.	Technologically and economically developed markets.	M&A, JV and greenfield.	13 countries
<b>Value shop</b>	Inception.	1 sub/year.	1.1 years.	Prominent customer following; technology ready countries.	Greenfield.	13 countries
<b>Value chain</b>	+10 years.	0.7 subs/year	1.4 years.	Existing client base; location of target customers.	Greenfield.	19 countries

The three firms differed in a number of aspects. The founder(s)' influence on internationalisation was strong for Rakuten and MindTree, but inexistent for FactSet. For Rakuten the

influence was on the strategic direction, while for MindTree it was directly connected to revenue – the founders were the only rainmakers in the initial phase. Market selection was pragmatic for MindTree and FactSet, while for Rakuten geography and culture did play a role. The network effects look different in the three firms. For MindTree critical mass of customers was not as influential as reputation – the type of customer and project was what brought new customers in. For FactSet, a critical mass of customers (number of closed subscriptions) was necessary to open an office in a given country, as well as to ensure stable revenues. For Rakuten, the critical mass of customers was what made subsidiaries successful. The proper functioning of the two-sided market Rakuten facilitates cannot happen without good and many sellers on one side, and many solvent buyers on the other.

Cuervo-Cazurra, Narula and Un (2015) revisited the motivation to internationalise and its importance, joining the extensive list of motives into four groups: “buy better”, “sell better”, “upgrade” and “escape”. Looking at the expectations of our case companies regarding the conditions of the firm, its activities and location, we can recognise all of them. All firms sought to sell more. However, while for Rakuten and FactSet this meant economies of scale, Mindtree took it as a learning opportunity. Comparative advantages of host countries were also integrated - FactSet located its low-skill/time-consuming activities in countries with cheap labour, Mindtree and Rakuten distributed activities across its locations depending on skill, availability and cost. None of the companies directly indicated “upgrading” as a motivation for internationalisation, but they did access international location advantages and integrated them into existing operations. While for Rakuten this meant managerial talent, for Mindtree it was skill development through international clients. The interviewee at FactSet did not initially comprehend the question about motivation: *“I am not sure what you mean with Why? You have seen all companies going abroad, there is hardly anyone who didn’t”*. Internationalisation was not understood as a choice, but rather as a natural progression and a must-do. The company *“had to be in Asia”*, because everyone who was someone, was. Finally, the “escape” motivation was the main push behind Rakuten’s venturing into foreign markets. The firms differ in the motives behind their foreign investments, too. The FDI portfolio of Rakuten and FactSet is wide, aimed at acquiring a generalist firm profile. Mindtree aimed to become more specialised into a narrower segment of their industry. Additionally, FactSet acquired technology and content, Mindtree acquired capabilities, and Rakuten invested both to gain foothold and customers for its marketplace or technology for its ecosystem. This is similarly reflected in the consolidation periods, which the firms underwent. The consolidation of MindTree in 2011 aimed at focusing its talent better, narrowing the scope to fewer industries, in order to become a leader. Rakuten consolidated to ensure standardisation by the introduction of a global platform, improving coordination. FactSet consolidated to integrate its newly acquired services, becoming a generalist rather than a niche provider. We can see that internationalisation is not a one-off event with

one motivation behind, but rather a process where exploitation/exploration and seeking/avoidance tensions constantly interplay. At the same time, we can see that the meaning of each motivation plays out differently, depending on how the firm creates value. Therefore, we can add to Cuervo-Cazurra et al. (2015) that while the circumstances of the firms can predict their motivation for internationalisation, the value creation specificities of the firm can predict how the motivation is going to be fulfilled.

The way the firms overcame their liability of foreignness fits their value creation process, too. Mindtree relied on the reputation of its founders and built its own, sourcing global clients. Rakuten bought networks, relying on network externalities to gain market share. FactSet invested in its product - tailored it to the global finance community, sourced international “raw material”, amplified its coverage. This explains their choice of markets - strongest e-commerce markets for Rakuten’s marketplace, markets able to exploit the opportunities offered by information and communications technology for Mindtree, and global financial centres for FactSet.

Learning also happened differently. Both Mindtree and FactSet established subsidiaries in markets where they had solid customers, but previous experience with the market came in the former case from the team, and in the latter - from virtual exports. There was no indication of any previous experiential knowledge in Rakuten’s case, they relied instead on learning through acquisitions.

Internationalisation played a different role for the value creation of the firms. Network-based advantages make internationalisation crucial for the future of Rakuten. Establishing a strong customer base in new countries affects directly the value created in all countries. For value networks, value is created by the participation of customers in a two-sided market. That community then performs a quality assurance function, weeding out badly performing product or merchants. The better the quality and the bigger the size of the community, the more value the firm can offer. Acquiring a critical mass of global customers is necessary, if the firm wants to market its products internationally. The internationalisation of FactSet does not impact value creation - whether the company sells abroad or not, impacts revenue and scale, but does not impact the quality of the service delivered. Value chains rely mainly on their own research and development for product improvements. Hence to attract customers, they do not need to internationalise, but rather to offer a good product. Therefore, FactSet internationalised much later and slower than the other cases. For MindTree internationalisation directly impacts the service, as each new client brings in knowledge and improves the skill-set of the firm, and thus - the service variety. Value shops’ reputation and capabilities depend on having worked on complex problems and with big clients. Clients serve as both learning and portfolio building opportunities, hence there are significant knowledge economies. The value provided is in the ability to solve problems, the core product is the skill of the consultants and developers, and it needs not be versioned for international clients, but rather improved by each new project.

## Discussion and conclusion

The dominating value creation logic of the case companies seems to have influenced them towards a different approach to internationalisation. The take away is that the value creation specificities can explain the observed differences and similarities between the firms' behaviour. The value creation framework fleshes out heterogeneity among firms by looking at their activity configuration, and their way of attaining a competitive advantage. Another insight from our research is that IFs use internationalisation to support their value creation. Bringing this reasoning to internationalisation helps us understand how firms replicate their competitive advantage across borders, and how value creation shapes international strategy.

The theoretical implications of this research are twofold. Firstly, it contributes to the open debate whether existing IB theories can still be used, or we need new frameworks to address modern firms. We have seen here that rather than speaking of replacement, we need to focus on application. A contingency approach based on the activity configuration of firms can strengthen the predictive power of existing theories. Secondly, this research questions the habit of amalgamating firms into large groups. Artificial labels - such as "Internet-based" or "service" - may be meaningless if they are not attached to theoretically grounded elements dictating differences and similarities. While we are conscious that the value logic framework assumes pure types, it emphasises the need to look deeper into the strategic built of firms before we put them in one group or another.

The message to practitioners is that international strategy not only can, but needs to be different across firms. It needs to be tailored to the concrete way a firm endeavours to generate and capture value. "One strategy fits most" is unlikely to succeed, because different value propositions demand different approaches to realising them.

This research has suggested that Internet firms and their internationalisation differ among themselves, just as much as when compared with traditional firms. The value creation logic is a strong theoretical criteria which gives meaning to differences observed in the internationalisation process of firms. However, both the theoretical and the empirical foundations of these observations must be strengthened further before any general conclusions can be drawn. One possible direction of further enquiry would be large sample research using the value logic framework to discern patterns of internationalisation across industries. Alternatively, looking at the concrete activities that are internationalised or the mindsets of managers behind the decisions, future research may enquire whether or not there are differences between value configurations. We hope that our article will inspire deeper research into the influence of the value creation process on the internationalisation of firms in general, and of Internet firms in particular.

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## Chapter 4: Identifying differences in speed, onset, scale and scope of internationalisation based on value chain configuration

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### **Abstract**

This paper explores the differences in international strategy between firms with different types of value chain configuration. Our contribution is twofold. Firstly, we test whether the value creation logic framework, as an enhancement of Porter's value chain (1985), can explain variations in the international strategy of firms. Secondly, we compare its strength in that regard to the service vs. manufacturing and industry classifications. This exploration is motivated by the need to find a meaningful classification of firms, which reflects better the heterogeneity among service sectors while being still parsimonious.

To answer our research question *How the does value chain configuration of firms impact speed, onset, scale and scope of internationalisation?*, we use a dataset of publicly traded firms from six industries: furniture and computer manufacturing (chain configuration), personnel services and telecommunications (network configuration), and hospitals and management consulting firms (shop configuration).

We find that the value creation logic classification delivers significant results for our measures of internationalisation, either alone or when interacting with the control variables. Additionally, we find that it can be stronger than the manufacturing vs. service, and more meaningful than the industry classification. Results show that a contingency framework classifying firms by the way they configure themselves to create value allows us to discover differences and similarities in internationalisation behaviour, that may have been lost if firms were grouped by industries or branded as either service providers or manufacturers.

## Introduction

In the research dealing with the internationalisation of service firms, two distinct directions of inquiry have emerged, each with its own set of unresolved questions. On the one hand, building on the manufacturing/service dichotomy, it has been argued both that the internationalisation of manufacturers is fundamentally different to that of service firms, and that it is essentially the same. Accordingly, a lively debate exists as to whether theories of the multinational firm and foreign direct investment developed in the context of manufacturing are suitable to the study of the internationalisation of services (e.g. Boddewyn, Halbrich & Perry, 1986, Buckley, Pass & Prescott, 1992; Hurmelinna-Laukkanen & Ritala, 2012). On the other hand, the literature on internationalisation of services as a category in itself has been hampered by the large diversity that exists *within* the service group (Erramilli, 1990; Jensen and Petersen, 2014). Clark and Rajaratnam (1999) go as far as to suggest that it may not be possible to develop valid theories because the international services domain is so complex and diverse. This paper develops a theoretical framework, and presents empirical evidence, that speak to both of these research directions, by examination of the differences observed in the internationalisation strategies of all firms through the lens of a typology based on strategic configurations.

In the literature that distinguishes between manufacturing and services, firms are categorised as belonging to one of these groups based on international standards for industry classification (NAICS, SIC, NACE, etc.). Empirical evidence following this approach shows similarities as well as difference between services and manufacturing. For instance, service firms leverage innovation to support their internationalisation, while manufacturers focus on building marketing capabilities (Raymond, St-Pierre, Uwizeyemungu and Le Dinh, 2014). On the whole, service providers tend to choose high-control modes in foreign markets, and control increases as cultural distance increases, while this relationship is inverted for manufacturers (Buckley, Pass and Prescott, 1992; Erramilli and Rao, 1990). Both seem to be largely home-region oriented (Rugman and Verbeke, 2008), but psychological distance is more important for services, than for manufacturing (Lehman, 2009). Capar and Kotabe (2003) argue that the M-P curve for service firms is quite different from that of manufacturing firms. These differences affect the generalisability of results from the manufacturing sector to service studies (e.g., Blomstermo, Sharma and Sallis, 2006). Like it is the case for manufacturing firms, the internationalisation of service firms has been explained by transaction cost reasoning (Brouthers & Brouthers, 2003), the eclectic paradigm (Brouthers, Brouthers and Werner, 1999; Ekeledo & Sivakumar, 1998), internalisation theory (Buckley et al., 1992), and the internationalisation process model (IPM, e.g., Bangara, Freeman & Schroder, 2012; Cheung and Leung, 2007; Eriksson, Johanson and Majkgård, 2000; Parada, Alemany & Planellas, 2009; Pogrebnyakov & Maitland, 2011;

etc.). However, while some authors have argued that these perspectives are useful to explain the internationalisation of services (e.g., Cheung and Leung, 2007; Eriksson, Johanson and Majkgård, 2000; Javalgi, Griffith & White, 2003; Parada, Alemany & Planellas, 2009; etc.), others suggest that they are unable to do so (e.g., Bangara, Freeman & Schroder, 2012; Pogrebnyakov & Maitland, 2011). For instance, contrary to the finding that market choice of service firms follows the prediction of the Uppsala model, and that they prefer to expand into culturally and linguistically close markets (e.g. Erramilli, 1991; Khoury, 1979; Rugman and Verbeke, 2008), Sharma and Johanson (1987) find that service firms enter markets with higher psychic distance, despite no previous experience.

As a potential explanation of these mixed results, it has been suggested the heterogeneity of approaches to internationalisation across service sectors means that the service sector cannot be approached as one group (e.g., Edvardsson & Olsson, 1996; Hurmelinna-Laukkanen & Ritala, 2012; Lewin & Volberda, 2011; O'Farrell & Wood, 1998; O'Farrell, Wood & Zheng, 1998). Several classifications have been put forward to accommodate the apparently contradicting empirical results. Services have been divided into hard and soft (Erramilli, 1990; Ekeledo and Sivakumar, 1998), interpersonal and non-interpersonal (Driver and Johnston, 2001; Vandermerwe and Chadwick, 1989), knowledge intensive, location-intensive and information-intensive (Ball, Lindsey and Rose, 2008), etc. Of course, the different types of services are not mutually exclusive, suggesting the consideration of different service industries along a continuum across several dimensions. As a result, we have learned about the internationalisation of services mainly from industry or different classification studies (e.g. Coviello and Martin, 1999; Villar, Pla-Barber and León-Darder, 2012), but the extent to which the insights from them can be extended to other types of services is not clear. One explanation of these contradictions might be that the existing classifications - while helping us understand the nature of services - are not based on strategically important elements within the firms (Jensen and Petersen, 2014).

It appears that there is agreement on the fact that internationalisation is influenced by distinctive characteristics of the service provided. It is also clear that services cannot be treated as a single class or captured in a single classification (Malhotra and Hinings, 2010; Zeithaml, Bitner and Gremler, 1985). Tuning in with the desire of international business scholars to figure out how multinationals (MNCs) organise across borders, this paper asks if there may be universal axes which guide MNCs' behaviour internationally. We blend organisation science and strategic management into the international business (IB) realm to determine if there are universal mechanisms pervading the manufacturing/service distinction or the industry classifications. We propose using the way firms configure their activities to produce value to build a framework for the analysis of international strategies. The framework can be seen as an extension of Porter's value creation concept, based on the concept of "firm technology" introduced by Thompson (1967), and consecutively adapted by Stabell and

Fjeldstad (1998) into three-way typology of industries organised around value chains, value networks, and value shops. This typology, which we test here, is at the same time more detailed than the manufacturing/service classification, less detailed than industry divisions, and yet detailed enough to create categories encompassing real observed behaviour.

Our research question is *How does the value chain configuration of firms impact onset, speed, scale and scope of internationalisation?* For each value chain configuration model, we develop and test hypotheses, based on their strategic characteristics and extant research specifically within the domain of transaction cost economics, learning theories of internationalisation and the resource-based view. We furthermore contrast the results obtained for the value creation framework with those coming from the manufacturing/service and industry classifications in order to determine the strength of the classification based on value creation logic.

## The typology

Organisational typologies based on “firm technology” originate mostly from the modernist times of organisation science. Thompson (1967) considers the organisational goals and output determine the nature of the core production activity - the “firm technology” - for any firm. He identifies three types of “firm technology” — long-linked, mediating and intensive — and three types of task interdependency — sequential, pooled and reciprocal — with increasing level of complexity. His typology applies to service as well as to manufacturing organisations. This paper sets out to test if activity configuration types, tied to the “firm technology”, may be the underlying mechanism governing firms’ internationalisation behaviour. Value creation logic has been positioned at the command centre of firm behaviour – i.e. it is believed that the value creation logic is a mechanism operating at a deeper level as it related to the strategy of the firm, the way it fulfils its value proposition. As firms’ heterogeneity is systematically related to international challenges such as speed and onset of internationalisation, geographical and cultural diversification, it follows that the way firms create value, as the source of the heterogeneity, can be a characteristic around which a typology can be built.

James Thompson's study (1967) challenged classical management's belief in the existence of universal principles to structure effective organisations (Donaldson, 2007). Thompson (1967) differentiates organisational types by coordination and work process or “firm technology”. The rationale of “firm technology” rests on both formal (e.g. technical efficiency), and substantive (e.g. desired objective) rationality, thus ultimately having value-based roots (Weber, 1947). In other words, different desired ends will lead to different formal rationalisations, thus ending with a distinct organisational technology. Firm technology is interrelated to the behaviour of the individuals within the firm in such a way that it steers social relationships, attitudes and feelings, which in turn affect the output of the firm

(Emery, 1969). Interdependencies between activities, at the same time, determine the need of coordination, the ability of the organisation to process information (Simon, 1955), and the danger of organisational inefficiencies (Levinthal, 1997). Thompson's (1967) work has been extended in the field of strategic management (Table 1) to classify firms according to their value creation logic (Stabell and Fjeldstad, 1998). Therefore, each value creation logic counts with specific coordination mechanisms, task complexity, people centrality and knowledge tacitness.

**\*\*\*Table 1: The value logic framework – see end of paper.\*\*\***

The “long-linked technology” (Thompson, 1967) — the transformation of raw materials carried out through activities organised in a pre-defined sequence, where the output of each activity is the input for the next — is at the core of the firms with “value chain” logic (Stabell and Fjeldstad, 1998). Examples of industries with dominating value chain (VC) logic are high-street fashion and automobile manufacturing. The value is contained in the final product, while the customer and the human capital are peripheral to the production process. Coordination is achieved through planning and scheduling (Thompson, 1967). The operations make use of standardisation, close supervision and vertical communication. The performance of the firm hinges on process optimisation, cost reduction and operational efficiency, taking advantage of economies of scale and capacity utilisation.

The second type of value creation logic is based on “mediating technology” (Thompson, 1967) and called a “value network” (Stabell and Fjeldstad, 1998). Its value proposition is to connect customers who desire to interact. Examples would be clubs, insurance agents, telecommunication networks. The customers of a value network (VN) firm may be buyers and sellers in an online marketplace, subscribers of a mobile operator, members of a club, lenders and borrowers in a bank. These firms sell something they do not own — the subscription to the service acting as a gate into the value provided by the company. The production process is disaggregated and standardisation is necessary to enable the connection and matching of a large number of customers (Laffey and Gandy, 2009). Because activities may be performed sequentially as well as at the same time, coordination is more complex. Balancing the capacity of the infrastructure, the quality and quantity of the customers is crucial for the desirability of the output. The tasks are more complex as especially in the beginning the focus is on convincing and selecting a critical mass of units to become customers. This critical mass unlocks network externalities and scale, as the desirability of the output depends on the quality and size of the pool of connected customers. In this sense, value is co-created with the customer.

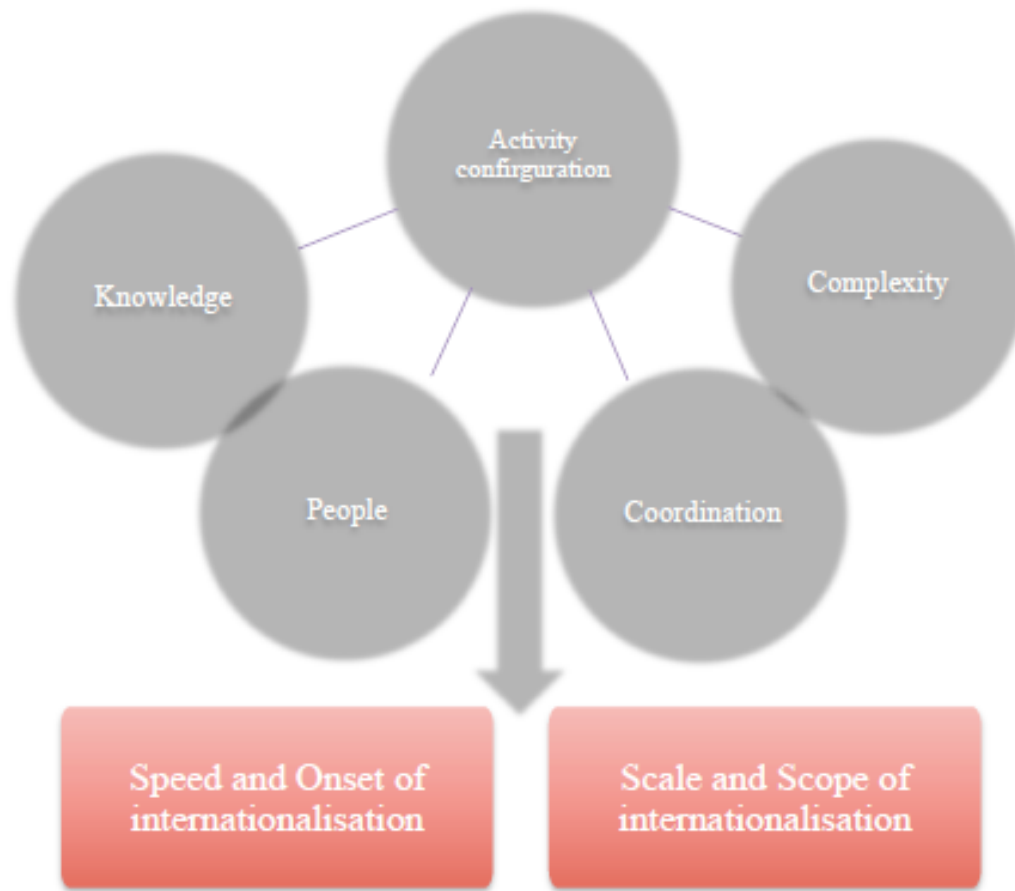
The third type of firm is the “value shop” (Stabell and Fjeldstad, 1998), based on “intensive technology” (Thompson, 1967). It exists to diagnose and solve unstructured problems (Christensen, Grossman and Hwang, 2009), while also sometimes offering in parallel standard solutions

(Laffey and Gandy, 2009). It is highly complex, less formalised, decentralised, communicating laterally and vertically, and with high need of coordination. It works through mutual adjustment, authority based on knowledge of the task, and high discretion of the individuals forming it. Examples would be knowledge-intensive industries relying on high degree of knowledge tacitness such as professional service firms, creative advertising agencies, and medical practices. The central characteristics of value shops (VS) are the knowledge asymmetry between customer and firm, the tacit knowledge embedded in the employees, and the inseparability of the customer from the production process and the final output. As the customer is in fact the raw material, the process followed varies significantly each time it is performed. The coordination mechanisms are mutual adjustment and teamwork (Thompson, 1967), which usually work best when team members are physically collocated. The final output has experiential character and can be partially evaluated after its delivery (Nayyar, 1990).

Thompson predicts that most change is initiated by external factors. However, his theory has not been extended to account for a dynamic environment. It still stays within the technological determinism of contingency theory and negates the possibility of using one technology in multiple ways. Similarly, Stabell and Fjeldstad's (1998) focused on intra-firm factors and firms with a single value logic. Thompson's not Stabell and Fjeldstad's work has not been tested quantitatively considering external factors that may influence the dynamics within each type. Its potential to identify internationalisation patterns has also not been explored yet. It has however been applied in supply literature (Hammervoll, 2009; Huemer, 2006; Lorange and Fjeldstad, 2010), in strategic literature (Fjeldstad and Ketels, 2006), in social policy literature (Gottschalk, 2009), in resource management (Othman and Sheehan, 2011), in industry specific literature (Andersen and Fjeldstad, 2003; Fjeldstad, Becerra and Narayanan, 2004; Peppard and Rylander, 2006), in global sourcing literature (Jensen and Petersen, 2012), and so on. Contingency theory assumes one factor can change while the other variables remain constant, however in practice, this is rather impossible. Our test will explore the strength of the typology within context. In the following section we will develop hypothesis regarding the internationalisation of each of the three types of firms. In the analysis section, we will test these and incorporate control variables to explore the change occurring from external factors.

## Theoretical framework

**Figure 1: Theoretical framework.**



Seeing firms as different activity configurations may explain the differences observed in their internationalisation choices, thus developing a conceptually rigorous, and more coherent theoretical framework of reference on the topic of internationalisation, valid for both manufacturing and service firms. Each value creation logic described above counts with specific cost and value drivers, coordination mechanisms, complexity, people centrality and knowledge tacitness. The interdependency between activities impacts complexity and coordination needs. The three configurations can be seen as points on a continuum of internal complexity, VCs being on the lower end and VSs being at the top. The cost and value drivers impact the role of human capital and tacitness of knowledge. The three value configurations rely on distinct firm specific advantages to achieve their competitive edge - VCs have efficiency expertise, VNs rely on the size and composition of their customer pool, and VSs have their human capital. Therefore, the three types are likely to approach differently the advantages offered by internationalisation and thus affect the scale, scope, onset and speed of internationalisation (Figure 1). We expect to see firms within the same value creation logic making similar choices.



## Speed and Onset

Chetty, Johnson and Martin (2014) distinguish between time to internationalisation and speed of internationalisation, identifying four different strategies. High speed/early onset and low speed/late onset strategies have been studied extensively under the entrepreneurial internationalisation paradigm and the Uppsala model (in comparative terms as incremental and gradual internationalisation is not in absolute terms late nor slow). Strategy of high speed, but late onset resembles the born-again globals (Swoboda, 2012), whereas the combination of low speed and early onset has not been a focus of the literature so far. Differentiating between onset and speed of successive entries makes sense as these metrics may result from different organisational circumstances. Some factors affect both. Standardisation of the marketing mix, for instance, facilitates the transfer of the firm offer from the home market to foreign markets (Swoboda, 2012). When the company needs to standardise its marketing mix, the onset of its internationalisation will be delayed, but its ability to speedily enter foreign markets will be increased. Similarly, making tacit knowledge explicit takes time and resources, but once knowledge management practices are in place, speed of internationalisation is positively affected.

Researchers seeking to explain determinants of early onset of internationalisation show that the entrepreneurial competencies of the venture's management team, the knowledge-intensity of the firm's resources, the strategic plans for those resources, and the firm specific advantages and their transferability cross borders make early internationalisation possible (Oviatt & McDougall, 1994; McDougall, Shane and Oviatt, 1994). Hence, it seems early onset is related to what the firm does. The different sources of competitive advantage combined with the specificities of the production process of each value logic type are likely to produce differences in the onset of their internationalisation. VC configuration is generally characterised by comparatively little complexity and standard products, which will allow it to internationalise early. It seeks economies of scale and early internationalisation will facilitate them. Such firms can internationalise to the markets where there is demand for their products immediately after inception as they do not need excessive time and resources to adapting their processes to foreign markets (although they may eventually choose to produce different variations of the products for different markets).

In contrast, the VN aims for a more carefully calibrated balance of scale, capacity utilisation, and network size and composition. The VN concerns itself with the synchronisation of simultaneous parallel activities (new customer contracts and infrastructure capacity, for example). The asset, to which the firm allows access to (club premises, funds, telecommunications network) needs physical presence in the foreign country, hence the offer needs to be adapted to the preferences of the local customers. Therefore, VN configurations need to embed themselves in the domestic market before they internationalise. In order to facilitate coordination, VN firms need to invest time in standardisation of activities. This will

reduce communication costs, ensure accurate knowledge and information transfer and accurate execution of their modular production process. Finally, VS firms have reputation and previous successes as key value drivers, which points to strong relationships with clients. Reputation can be gradually built through providing the service in the home country. Previous work per se allows what is critical for the VS: learning, relationships and high-quality personnel base. Moreover, the output of the VS activity configuration is unique. In order to preserve its quality and uniqueness, VS firms need to invest time in developing their people, indoctrinating them in the culture of the firm and its signature reputation. Therefore, internationalisation of VS firms, like that of VN firms, is likely to start comparatively later than that of VC firms.

*H1: Firms with value chain configuration are more likely to internationalise early than firms with value network or value shop configurations are.*

The main discussion regarding speed of internationalisation is concentrated around the Born Globals perspective (Knight and Cavusgil, 2004; Oviatt and McDougall, 1994) and the Uppsala model (Johansson and Vahlne, 1977). Even though there is no single theory joining the vast research on rapid internationalisation, there is an agreement that the factors contributing to this phenomenon are resource constraints, size of the home market, industrial/technological clustering in home market, new global market conditions, increasingly homogeneous global demand, technological advances, logistics (Cavusgil and Knight, 2015), increasing importance of global network relations, entrepreneurial team capabilities and personal networks (Coviello and Cox, 2006; Oviatt and McDougall, 1999; Zander, McDougall-Covin and Rose, 2015), etc. Except for the latter two, these factors are external to the firm. For antecedents of speed within the firm, the concept of “time compression diseconomies” (Dierickx & Cool, 1989) is frequently turned to. It states that individuals, groups, and corporate societies are subject to diminishing rates of return when faced with time pressure due to absorptive capacity limits (Cohen & Levinthal, 1990). It suggests that FDI increases complexity to a point that it affects performance. In other words, organisational actors cannot effectively handle too much complexity, and therefore the speed of internationalisation is paced so that the absorptive capacity of the firm is not overtaxed. Another firm antecedent of speed is the ability or necessity to gain experiential knowledge rapidly (Chetty, Johnson and Martin, 2014). Finally, Vermeulen and Barkema (2002) posit certain internationalisation goals may be more prone to time compression diseconomies. They suggest cost optimisations is realised at higher speed than knowledge development or competence transfer, for instance, because the latter depend on interaction and communication.

Complexity, the ability to gain knowledge, and firm goals have different influence on the three value logic configurations. The internal complexity differs across the three types as the value creation process requires multiple coordination mechanisms. In VC configurations, coordination can be

done through planning and scheduling, and is therefore the least complex. The drivers of competitive advantage for VCs are cost and scale, suggesting that these are better adapted to achieve high internationalisation speed. VN firms may have higher internal complexity, but their technologies, processes, and marketing mix can still be standardised. This standardisation is time consuming (reflected in their late onset as discussed above), but once it is completed it facilitates the international transfer at a rapid pace to achieve network economies in foreign markets. In contrast, VSs incorporate their customers in the production process. Experiential knowledge is gained through client projects. Each new customer increases the portfolio of skills of the firm, and therefore the interaction implies knowledge creation, transfer, learning. Value is co-created in an iterative process, which would suggest that high speed would hurt the rate of return. Therefore, value configurations with less internal complexity can effectively absorb external complexity from FDI and address it adapting their production processes up to a higher speed threshold, compared with value configurations with higher internal complexity. Therefore, assuming equal external complexity facing the three types of configurations, it follows that the firms with VS configurations will reach the threshold of absorptive capacity at comparatively lower speeds of international expansion than will firms with VC or VN configurations.

*H2: Firms with value chain or value network configurations are likely to internationalise at higher speed than firms with value shop configuration are.*

**Table 2: Hypothesis summary: Speed and Onset of internationalisation (adapted from Chetty, Johnson and Martin, 2014) – see end of paper.**

### **Scale and Scope**

A common way to measure the degree of internationalisation is the number of export markets (Crick 2009). Frequently, a regional aspect is added to it to capture whether firms focus on markets within the same region, or in multiple and diverse areas of the world (e.g., Dimitratos, Plakoyiannaki, & Pitsoulaki 2010). The scale and scope of internationalisation are related to a variety of benefits, including obtaining greater returns from intangible resources, gaining market power, diversifying risks, learning and building competencies (Hitt, Hoskisson & Kim, 1997). They also entail costs related to increases in the complexity of operations and the need to balance between efficiency gains from standardisation and local market responsiveness. How many and which markets a firm chooses depend on managerial perceptions of risks of (not) internationalising and foreign market opportunities. We expect these perceptions to be closely related to the value proposition of the firm and the drivers of its competitive advantage. Just as different desired ends will lead to different formal rationalisations and distinct organisational configurations, we expect the chosen activity configurations to

steer risk perceptions and attitudes and thus produce differences in the internationalisation behaviour of firms.

**International Scale.** The number of foreign markets a firm enters indicates the extent to which its activities depend on the home market. Scaling operations abroad allows firms to leverage their domestic skills and investments and acquire market share (Bartlett & Ghoshal, 1998). The challenges are integrating foreign operations, and ensuring effective coordination (Porter, 1986). Making knowledge explicit and standardising the activities involved in production support the achievement of scale economies and cost reduction through sourcing and producing at the locations best suited for it. It is important to note that onset of internationalisation is connected to the number of markets entered (Autio, Sapiens & Almeida, 2000), so that the earlier internationalisation starts, the greater the scale of foreign expansion the firm can potentially achieve. This is adjudicated to the development of knowledge and routines enabling firms to enter additional foreign markets. Additionally, the age of the firm needs to be taken into account when comparing scale for obvious reasons. The VC organises its activities in such a way as to be able to follow the market demand home and abroad. VCs produce standardised output and their competitive advantage lies in cost optimisation and scale (Porter, 1985). It counts with low complexity, explicit knowledge and comparatively easy coordination, and therefore comparatively low transaction costs. These characteristics suggest VC firms will be likely to enter high number of markets. VN configurations similarly rely on standardisation, but they also need to balance customer acquisition with service capacity. The pooled interdependence between activities suggests greater challenges for coordination. To make use of network externalities, VNs make their output standard and thus connectable to the output of other firms. Subscribers to a mobile operator in Denmark can use their mobile phones abroad, because of service compatibility with the local network. Firms with VS activity configuration need to replicate the whole value chain across borders, so large international scale is likely to be costly. They rely on tacit knowledge located in their human capital, so they are likely to reach a limit of scale very early on. Scale would mean acquiring and training new people, which means that at comparative age with the other two activity configurations, VS firms will have achieved lower scale. Therefore, it follows that the firms with VS and VN configurations will tend to have smaller scale than VC firms.

*H3 Value chain firms will be more likely to achieve large scale of internationalisation than value network or value shop firms.*

**International Scope.** The scope of internationalisation refers to the range of markets, in which a firm decides to enter. It reflects the ability of firms to deliver value, to diversify risk, and to manage a network of assets irrespectively of geographic or cultural boundaries. Geographical and cultural distance present internal coordination challenges and endanger scale if the whole value chain is

replicated in new locations (Rugman & Verbeke, 2008). Rugman and Verbeke (2004) find that very few MNEs are truly global - the majority of firms seem to expand within their home region. The explanation lies in the costs of operating within versus the costs of operating across regional blocks. Cultural distance has long been thought to determine market selection. However, research in entrepreneurial internationalisation and some services has shown firms selecting markets by project availability, client location, or size without regard to geographical or cultural proximity (Bell et al., 2004; Coviello & Martin, 1999; Erramilli, 1990; Knight & Cavusgil, 1996; Malhotra & Hinings, 2009; Sharma & Johanson, 1987). It seems not clear whether cultural and geographical distance affect all firms' internationalisation decisions.

Several antecedents have been related to the scope of internationalisation. Firstly, the degree of separability between service and product components of the firm's offer, as well as between production and consumption is known to influence the people intensity and thus the choice of market and location of activities abroad (Boddewyn et al., 1986; Vandermerwe & Chadwick, 1989; Buckley et al., 1992). The more people intensity, the more need for closeness. Secondly, transferability of firm specific advantages affects scope positively. Intangible routines transferred easily to foreign locations facilitate foreign market penetration (Rugman & Verbeke, 2008). Thirdly, the ability to expand to culturally distant markets has been connected to innovative corporate cultures and knowledge-intensity of industry. The idea is that human capital factors allow firms to prevail over cultural distance (Autio et al., 2000; Bell et al., 2001; Knight & Cavusgil, 2004).

VC activity configuration counts with relatively low complexity (sequential interdependency and coordination by scheduling and planning), linear production process, and low human capital centrality. To achieve competitive advantage, VC firms seek process optimisation, cost reduction and operational efficiency, taking advantage of economies of scale and capacity utilisation. This will suggest that these firms are likely to expand over large distances, but to prefer culturally closer markets. The ability to coordinate through scheduling and planning, and the standardisation of knowledge facilitates managing production across geographical space. The quality of the output can be guaranteed through replicating quality control routines throughout the production process. Firm specific advantages can be transferred comparatively easily to foreign locations.

VN firms seek to benefit from network externalities. For this they rely on standardisation, and a modular production process that facilitates balancing the size and quality of customers and the service capacity. Complexity is moderate and the human capital is not central to the value proposition of the firm. Nevertheless, while in the VC, customers are peripheral, in the VN they become part of the value proposition. People get a mobile to be able to connect with other people - if these other people are not using mobiles, the appeal of the mobile subscription would be a lot less. The centrality of the

customer would suggest expanding to culturally and geographically close markets. There, VN firms can benefit from network externalities because culturally and geographically close markets are more likely to want to be connected to each other. Investments reducing buyer uncertainty are also likely to be lower. Balancing between supply and demand, and between economies of scale and local responsiveness is facilitated by the standardisation, but made difficult by the pooled interdependence between activities.

VS create value from assembly and matching of both problems and problem-solving resources to reach a desired state (Stabell & Fjeldstad, 1998). Here, human capital centrality, and the idiosyncratic and complex nature of the production process may hinder scope. While VS firms' main assets - its people - are highly mobile, the tacit knowledge located into the human capital of the firm is difficult to transfer is inversely related to the scope of internationalisation (e.g., Zander & Kogut, 1995). An example is the consulting sector, which is known to be geographically concentrated in proximity to key demand markets and clients (IBIS World, 2014). Therefore, we would expect VS firms to have the narrowest scope compared with the other two types.

*H 4 Value shop firms will likely have a smaller scope of internationalisation than either value network or value chain firms.*

**\*\*\*Table 3: Summary of hypotheses: scale and scope of internationalisation– see end of paper .\*\*\***

Within the scope of internationalisation, it is necessary to consider the degree to which firms expand out of their cultural and geographic area of proximity. VCs' and VNs' focus on economies of scale suggests these types of firms will try to avoid customisation of products, and therefore they will likely prefer culturally closer markets. This will ensure homogeneous customer preferences and values. The geographic concentration of VS firms is due to the inability of customers to evaluate the offer beforehand, which constitutes a barrier to internationalisation. The value proposition of VS firms - delivering a solution to a problem - is heterogeneous in nature, and quality assurance cannot be deployed until after delivery. This high complexity of the production process complicates the coordination of supply and demand, the monitoring of country managers and consecutively - of output quality across space. Hence, it appears that the internationalisation of firms with VS configuration is likely to happen to geographically close markets. This does not imply, however, cultural proximity because the human capital centrality will allow VSs to prevail over cultural distance.

*H5: Firms with Value chain configuration will likely have smaller percentage of their foreign subsidiaries in their home region, than value network or value shop firms.*

*H6: Firms with Value shop configuration will likely have smaller percentage of their foreign subsidiaries in their home cluster, than value network or value chain firms.*

**\*\*\*Table 4: Summary of hypotheses: regionalization– see end of paper.\*\*\***

## Methodology

### Data

Data for this paper was taken from Orbis and Zephyr databases (Bureau van Dijk, [www.bvdinfo.com](http://www.bvdinfo.com)) and where there were missing values, other sources were referred to, such as media, press releases and annual reports. These databases have been previously used in IB research literature (e.g. Driffield & Crotty, 2013). The firm-level dataset consists of publicly listed firms as of October 2015 from six industries: furniture, computer manufacturing, employment services, telecommunication services, management consulting and hospitals. We selected furniture and computer manufacturing for the VC configuration group, employment services and telecommunication services for the VN group, management consulting and hospitals for the VS group. The choice of industries was based on several factors. Telecommunications, consulting, personnel services and hospitals are industries used by Thompson (1967) and Stabell and Fjeldstad's (1998) as examples of distinct activity configurations. As the purpose of this paper is to test the value logic framework, the same industries were selected. Computer manufacturing and furniture were selected instead of the examples given, because they contained a comparable number of publicly listed internationalised firms, and do not count with significant institutional burdens. Choosing listed companies is based on data availability, comparability across firms, as well as the opportunity to have a common identifier through different commercial databases, which facilitated completing the information.

Before selecting an industry, we examined the description of the dominant activities of the industry (based on the Encyclopaedia of Global Industries, 2011), as well as the description of the activities of each firm (based on Orbis database). The rationale behind this was to choose industries which clearly fall within a single value logic. We selected computer manufacturing and furniture as industries containing firms with predominant VC configuration, because their production tends to be highly standardised and guided by uniform rules (Encyclopaedia of Global Industries, 2011). Telecommunication and Personnel services link subscribers within a mobile network and job seekers and employers, respectively, which is the core definition of the VN logic. The size and quality of the nodes in their networks are the key to their competitive advantage. Finally, management consulting and hospitals diagnose and solve problems. Their activity includes from simple to complex tasks aimed at bringing their customers from an initial to an ideal state, and in this sense they fall under the VS logic.

**\*\*\*Table 5: Classification and number of firms in the sample– see end of paper.\*\*\***

The search in Orbis delivered 178 firms in the computer manufacturing, 174 in the furniture, 78 in telecommunications, 88 in personnel services, 297 in management consulting, and 99

hospitals. From this list, we eliminated the firms wrongly classified into the industries, as well as the firms which were not internationalised in either sales or equity. In the hospital group, most eliminations were due to lack of internationalisation, while in management consulting there were too many wrong classifications. The final sample was 307 firms (Table 5). Of course, there are several limitations of this choice of data. Numerous private firms worthy of studying are excluded and the final conclusions need to take this into consideration. Additionally, the industry selection was based on NAIC/SIC core code, therefore if the firm did fall into one of the chosen industries, but was not assigned the corresponding industry code, we would miss out on data. The resulting firms and their subsidiaries were coded for home/host cultural cluster and geographical region. To classify all firms and subsidiaries into a given cultural cluster, we extended the cultural clusters of Gupta, Hanges and Dorfman (2002), based on GLOBE, to accommodate all the countries in the sample, respecting the cultural groupings. An additional group was added for tax havens (Appendix I, Table 1). The classification of geographical regions is based on the classification of the World Bank<sup>17</sup>.

### Variables

Dependent variables were internationalisation scale, scope, speed and onset. Scale and scope were assessed by measures of extent, geographical, and cultural distribution. Considering number of foreign markets only is not enough, as we do not know whether firms focus on their home geographic region, or enter markets located in multiple areas of the world (Dimitratos, Plakoyiannaki, & Pitsoulaki 2010). We also wanted to know if the firms prefer culturally close markets. Therefore, we included the number of foreign countries where there is a subsidiary established (Crick 2009) and the number of overseas subsidiaries as a percentage of total subsidiaries to assess Scale of internationalisation. Scope of internationalisation was measured by number of subsidiaries in home region and cultural cluster as a percentage of total foreign subsidiaries (Asmussen & Goerzen, 2013). Pace of internationalisation is a time-based measure, which we broke down to “Onset” and “Speed”, measuring the number of subsidiaries per year since first foreign subsidiary (Vermeulen & Barkema, 2002) and the lapse between inception and first foreign equity.

The independent variables were Manufacturing/Service; Value creation logic: value network; value shop and value chain; and Industry. The control variables were size (number of employees), age (years since inception), home geographical region: North America, East Asia and the Pacific, Europe, Other (Latin America, MENA, South Asia, Sub-Saharan Africa) and home cultural

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<sup>17</sup> <https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries>, accessed 20/07/2015.



cluster: Anglo cultures, Confucian cultures, Germanic Europe, Latin Europe, South Asia, Other (Arab World, Eastern Europe, Latin America, Nordic Europe, Tax).

## Analysis and Results

### Descriptive statistics

Figure 2 shows a summary of the sample by industry.

**\*\*\*Figure 2: Distribution of companies by age and size– see end of paper.\*\*\***

Tables 2 and 3 in Appendix II contain the distribution of the firms in the sample by cultural clusters and geographical regions respectively. The majority of firms came from Asia, the Pacific and Europe. The Confucian cluster and Southern Asia were the home clusters of the majority of value shop and value chain firms, while value network firms fall predominantly in the Anglo cultures.

### Hypotheses analysis

The first test to determine whether there are significant differences observed across the three classifications in terms of internationalisation scale, scope and speed was done by means of an analysis of variance. The tables can be found in Appendix III.

The onset measure was significantly different between industries ( $p=.0401$ ) and not significant between value logics and manufacturing/service ( $p=0.1089$  and  $p=.2449$ ). The measure for subsidiaries per year (Figure 3) differed significantly between value logics ( $p=.0420$ ), but not between manufacturing/service ( $p=.8938$ ), nor between industries ( $p=.2641$ ). A Tukey post-hoc test revealed that the speed was statistically significantly higher in the Value network group compared to the Value shop group ( $p = .031$  for the first measure).

**\*\*\*Figure 3: Subsidiaries per year, by value logic configuration– see end of paper.\*\*\***

The ANOVA analysis of the number of countries across (Figure 4) the different classifications delivered significant results for the manufacturing/service ( $p=.0215$ ), value logic grouping ( $p=.0009$ ), and industry ( $p=.0000$ ). Tukey's posteriori test for the value logic grouping showed that the value network group of firms has the largest scale of both chains ( $p=.001$ ) and shops ( $p=.008$ ). The second scale measure - foreign subsidiaries as a percentage of total subsidiaries - delivered significant differences only among the industry classification ( $p=.003$ ).

**\*\*\*Figure 4: Number of foreign countries, by value logic configuration– see end of paper.\*\*\***

For the percentage of subsidiaries in home region, the results suggest there are no significant differences. For the percentage of subsidiaries in the home cultural cluster, there were differences between industries ( $p= .0327$ ), but not between value logics and manufacturing/service firms.

Next, we conducted factorial analysis of the seven measures for the variables speed, onset, scale and scope, to discover if there are meaningful groupings among them. Four factors had eigenvalues above zero, two had meaningful factor loadings. Uniqueness is the percentage of variance for the variable that is not explained by the common factors. It could be pure measurement error, or it could represent something that is measured reliably in that particular variable, but not by any of the others. The greater the uniqueness, the more likely that it is more than just measurement error. Onset and Speed had more than 0.6 unique variance so they are not well explained by the factors. The maximum likelihood procedure retained two factors (Figure 5), which we rotated. We created variable SCOPE and SCALE based on this, because there are only 2 eigenvalues  $>1$  and we wanted to measure 2 latent concepts.

**\*\*\*Figure 5: Factor analysis– see end of paper. \*\*\***

According to the plot above, component 1 identifies Scope and component 2 identifies Scale. The resulting set of variables used in the analysis from this point in was: Speed, Onset, Scope (composite, Cronbach's alpha 0.7246), and Scale (composite, Cronbach's alpha 0.7991). The correlation between the resulting variables was low (below 0.3), except for a positive 0.4197 correlation between Speed and Scale (Table 6). Figure 7 shows how each of the groupings scope on the four resulting dependent variables.

**\*\*\*Figure 6: Dependent variables set per classification– see end of paper.\*\*\***

The third step was to check if there were discernible natural groupings through a cluster analysis. Cluster analysis attempts to determine the natural groupings of observations. One of the more commonly used partition clustering methods starts with pre-specified the number of clusters to create using an iterative process. Each observation is assigned to the group whose median is closest, and then based on that categorisation, new group medians are determined. These steps continue until no observations change groups. The algorithm begins with seed values acting as the group medians. The resulting clusters did not coincide with our groupings (manufacturing/service, value logic and industry). Second, we carried out agglomerative hierarchical clustering, where each observation is being considered as a separate group, close groups are combined until all observations belong to the same group. This process creates a hierarchy of clusters. The graphics did not show a clear distinction between the groups. Comparing 2, 3 and 6-cluster solutions, the first one has the largest Calinski–Harabasz pseudo-F value of 46,74, indicating that it is the most distinct. The three-group solution has a value of 41,62, and the six-group solution - 31,12. Next, we carried out median linkage clustering to allow observations from groups with few observations to carry more weight than observations from groups with many observations. To determine the number of clusters, we used the Calinski and Harabasz (1974) pseudo-F index and the Duda–Hart (2001)  $Je(2)/Je(1)$  index. The Calinski stopping rule indicates that the pseudo-F value for 3-

group solutions is the highest (43,26). The Duda–Hart stopping rule produces high  $Je(2)/Je(1)$  for 1,3, 6 and 8 clusters, and low pseudo-T values for 6-, 11-, and 13-cluster solutions. The conventional wisdom for deciding the number of groups based on the Duda–Hart stopping-rule table is to find one of the largest  $Je(2)/Je(1)$  values that corresponds to a low pseudo-T-squared value that has much larger T-squared values next to it. This strategy, combined with the results from the Calinski–Harabasz results, indicates that the six-group solution is the most distinct from this hierarchical cluster analysis. A key finding of this stage of the analysis is that within the manufacturing and service groups, the variability is huge (Figure 6). The value logic grouping also shows significant heterogeneity as between, as well as within, the industries the variability is significant.

**\*\*\*Table 6: Correlation matrix– see end of paper.\*\*\***

Finally, we turned to regression analysis to estimate the effect of the different firm classifications over the four dependent variables. The linear regression model featuring only the four control variables was significant for all dependent variables ( $p<.000$ ). The control variables explained 12% of the variance in Scope, 41% of the variance on Speed, 12% of the variance in Scale, and 53% of the variance in Onset. When only the independent variables were used, VC was significant predictor of Speed ( $p<0.05$ ), VN - for Onset ( $p<0.1$ ), VS - for Scale ( $p<0.05$ ), and VC and VN - for Scope ( $p<0.05$  and  $p<0.1$ ).

**\*\*\*Table 7: Value logic as a predictor of speed, onset, scale and scope of internationalisation– see end of paper.\*\*\***

The Speed, Onset and Scope models (Table 7) showed no heteroskedasticity. The values of the Breusch-Pagan / Cook-Weisberg test are respectively ( $p=0.5105$ ;  $p=.9841$ ;  $p=.5933$ ). There was no collinearity detected in these models ( $VIF=2.47$ ;  $3.06$ ;  $2.51$ ). The residuals assessed graphically were almost perfectly normally distributed (Shapiro-Wilk normality test produced  $p=0.00048$ ;  $p=.00104$ ;  $p=.00044$ ). The Ramsey RESET test suggested omitted variable bias ( $p=.0100$ ) for the Speed model. A reduced model, however, predicting Speed through size, home region and home cluster ( $p=.0.0000$ ;  $R-sq=0.4112$ ) also has a significant Ramsey RESET test ( $p=.0118$ ), and dropping value logic and age as predictors did not hurt the power of the model significantly. Same happened for the Onset and Scope models - Ramsey RESET test of respectively  $p=.0444$  and  $p=.0496$ . A reduced model, however, predicting Onset through age and value logic ( $p=.0.0000$ ;  $R-sq=.5396$ ) has a non-significant Ramsey RESET test ( $p=.2127$ ). Similarly, a reduced model predicting Scope through size, home region and home cultural cluster ( $p=.0.0001$ ;  $R-sq=.1080$ ) has a non-significant Ramsey RESET test ( $p=.4025$ ). The Scale model had no collinearity ( $VIF=2.51$ ), normally distributed residuals (Shapiro-Wilk normality test produced a  $p=.00003$ ). The Ramsey RESET test suggested no omitted variable bias ( $p=.4504$ ). However,

the Breusch-Pagan / Cook-Weisberg test shows heteroskedasticity ( $p=.0386$ ). This suggests the model is not specified correctly.

Models 2,4,5,6,8 are significant. Models 1,3,7 are not significant (Table 7). The reference category for Onset is VC, as VN firms are likely to initiate internationalisation once they have standardised their knowledge, and VS firms need more time to build a domestic network and strong bonds with customers. The results partially confirm Hypothesis 1: both dummies (VS and VN) are positive as expected, but VS is insignificant. Hence, VS firm do not necessarily internationalise as late as expected. It is possible that they internationalise early in spite of the need to build a domestic network and reputation. VN is the reference category for Speed, as VC firms may be slow due to capital investments and VS - due to the need to build reputation and adapt to the foreign markets. The results partially confirm Hypothesis 2. Both dummies, VC and VS, are negative as expected, but VS insignificant. Hence, VS firms may not be as slow as expected, and seem able to internationalise fast in spite of inculturation, reputation, tacit knowledge, etc. Therefore, our first two hypotheses are only partially confirmed, with VS firms appearing prone to internationalise earlier and faster than expected.

For scale of internationalisation, our reference category was VC, because it was expected to achieve the highest scale of internationalisation of the three logics. The results show VN and VS dummies are indeed negative, but VN is not significant. Therefore, Hypothesis 3 is only partially confirmed. For Scope, the reference category is VS, as it is expected to have the least scope of the three logics. This is confirmed - both VC and VN dummies are positive and significant. Hence, VS indeed has the smallest scope of internationalisation of the there logics. Hence Hypothesis 4 is confirmed.

**\*\*\*Table 8: Regionalisation models– see end of paper.\*\*\***

For hypotheses 5 and 6, we apply a so-called Fractional Logistic Model. Fractional logistic models allow for estimations of rates bounded in the interval  $[0,1]$ . Since the data shows many “zeros” and “ones”, we think it is the best approach to follow. Estimating the percentage of subsidiaries in the home region, we see significant interactions of value logic with Size, Cluster and Region are significant (Table 8 and 9). This means that the choice of a closer geographic market has to do with the home cultural cluster and region of the firm. The models featuring only the value logic configuration are not significant. However, VC firms have a lower number of subsidiaries in their home region than the other two configurations, as hypothesised, if their home cluster is Latin Europe, Germanic Europe or Other (Figure 8). The effect of home region produces less differences - for firms from the European region, VC configurations have the highest home region preference (Figure 7). For the percentage of subsidiaries in the home cultural cluster, the biggest differences between the logics are for firms coming from the Anglo, Germanic Europe, Latin Europe and Other clusters (we consider significant any p-value

close to 0.05, not just  $p < 0.05$ , Figure 10). In particular, VC subsidiaries rates are higher than VN and VS firms for the mentioned clusters. VC firms coming from Asia Pacific or Other regions, have higher preference than the other two logics for locating within their cultural cluster (Figure 9). European VC firms however, have the least percentage of subsidiaries placed in the home region than the other two configurations (Figure 10). Therefore, hypotheses 5 and 6 are not confirmed.

**\*\*\*Figure 7: Interaction between Value logic and Region– see end of paper. \*\*\***

**\*\*\*Figure 8: Interaction between Value logic and Cluster– see end of paper. \*\*\***

**\*\*\*Figure 9: Interaction between Value logic and Region– see end of paper. \*\*\***

**\*\*\*Figure 10: Interaction between Value logic and Cluster– see end of paper. \*\*\***

We fitted the models with stepwise and re-fitted them with a nested models procedure (Table 9) to test the significance of the different ways to classify firms as predictors of scale, speed, scope and onset of internationalisation. We do not find the Manufacturing/Service classification better than the Value Logic one because there is a significant difference between shop and network categories for models concerning Onset, Speed and Scope. It appears better to keep Value logic instead of Manufacturing. Since we believe that it is very important to include interactions in predictive models, we state that Value logic is more convenient than Industry, too. The rationale is that a multi-industry study considering interactions with multiple variables is too complex to conduct and interpret. It also requires a bigger sample than ours. With the value logic classification we can get a trade-off between a proper number of categories and informative models. Furthermore, we have shown that Industry variable contains most of times the same information included in Value Logic but with a huge number of categories which does not allow for more complex models.

**\*\*\*Table 9: Nested models– see end of paper.\*\*\***

Next, we created interaction terms between independent variables and control variables (Table 10-13). Estimating Speed, gives us a significant model with size and age, VC and VS interaction. However, the interactions themselves are not significant, and they do not improve the R-squared significantly. Estimating Onset, the model with size, VC and VS interaction is not significant. Using Age produces a significant model, but no significant interactions (Table 11). Estimating Scale, gives us a significant model with size and age, VC and VS interaction, but the interactions themselves are not significant, and they do not improve the R-squared significantly. At a lower level of significance, the interaction between VN and size in the Scale model is significant in Block 3, but not in Block 2 ( $p = 0.09$ ), and the Block 3 addition is not significant, and therefore not reliable (Table 12). No interactions are significant in the Scope models (Table 13).

**\*\*\*Table 10: Nested models with interactions, estimating Speed– see end of paper.\*\*\***

**\*\*\*Table 11: Nested models with interactions, estimating Onset– see end of paper.\*\*\***

**\*\*\*Table 12: Nested models with interactions, estimating Scale– see end of paper.\*\*\***

**\*\*\*Table 13: Nested models with interactions, estimating Scope– see end of paper.\*\*\***

The final step of the analysis was to compare the value logic framework with the manufacturing/service and industry classifications. The 3 typologies are nested each other - manufacturing/service (M/S) is nested inside the value logic typology (VL) and VL is nested in the industry classification (I). This means, for instance, that we can identify VC firms as manufacturing firms and as Computer and Furniture firms. This implies that to verify that M/S is better than VL, we have to verify if we can aggregate VN and VS firms for all models. If there is no significant difference between Network and Shop, then we can aggregate these categories. In this case, we can choose manufacturing as predictor because we can save one category and obtain the same results out if the. We found M/S is not better than VL because there is a significant difference between VS and VN categories for models concerning Onset, Speed and Scale. Categories can be aggregated only when considering Scope (no difference among the 3 groups). For the I classification, when we plot the firms in each industry for home region and cultural cluster, our sample produces some “zeros” and “ones” in some profiles of Industry#Region and Industry#Cluster. As consequence, we cannot run models with interactions, because we will not get reliable estimates (in terms of standard error) with few observations. In other words, to consider multiple industries, a good study needs to count with a bigger sample. We ran the same models as for VL above, to check if we could aggregate the industries into the three VL. We were able to do so for Onset, Speed, and Scale. For Scope, computer manufacturing and furniture could not be aggregated into a VC group ( $p=0.004$ ). Our conclusion was, thus, that the VL typology has potential to differentiate patterns in internationalisation behaviour. It is more accurate than M/S and more convenient than the I classification.

## Conclusion

This paper asked the question *How does the value chain configuration of firms impact onset, speed, scale and scope of internationalisation?* For each value chain configuration model, we developed and tested hypothesis about their internationalisation behaviour, based on the elements of their value creation. We furthermore contrasted the strength of the value creation framework to differentiate patterns of behaviour with that of the manufacturing/service and industry classifications.

Our first three hypotheses were partially confirmed, with VS firms appearing more prone to internationalise early and fast than expected. VN firms were the fastest to internationalise, and VC firms internationalised earlier than the other two types. VC firms were also the ones with largest scale, while VS firms were the ones with the narrowest scope. The regionalisation tests suggested significant

influence of the domestic market and cultural cluster on the percentage of global dispersion of firms. Finally, the comparison with the manufacturing/service and industry classifications underlined significant advantages of using the value creation logic as a differentiating mechanism.

This work counts with several limitations. Firstly, the theories on which the typology is based have several core assumptions, which may be seen as problematic. Both Thompson (1967) and Stabell and Fjeldstad (1998) envision pure types, assuming firms have single core value logic and that it is static throughout their development. This is not necessarily so - firms change their value propositions and adapt their value creation processes accordingly to a larger or smaller extent. Frequently, firms have multiple logics with equal weight, or they start with one and change into another. For instance, firms may start with a higher percentage of customisation on their products, and gradually streamline their offer to few star products appealing to large audiences. Additionally, the theories do not consider external factors. Our analysis shows that the control variables have important weight, so their inclusion in the theoretical framework is a logical next step. Secondly, the number of companies in the analysis is comparatively small - a wider selection of industries will strengthen the generalisability of the results. Thirdly, operationalisation of our variables may affect the outcome as well. Speed is operationalised as a mean in the analysis, but firms do not internationalise at a constant speed. There likely are strong variations over time. An acceleration/deceleration measure and a way to assess critical events affecting the speed can contribute to understanding both initial and late internationalisation. A process perspective can contribute detail to the analysis, which is lost in a cross sectional study. We chose this approach because this is the first empirical test of the value logic framework. Finally, because we selected publicly listed firms, most of the firms in the sample are parent firms, hence we are able to examine their behaviour. We do not know if their subsidiaries behave in the same pattern.

## Discussion

The development of communication technology increased the tradability of services and is among the most influential factors behind their growing economic importance. Information and communication technology enables standardisation and specialisation of the service sector, which in turn opens new ways of trading and producing services. Among the existing issues in researching services is the difficulty of uncoupling them from manufacturing. Frequently, when faced with the matter of defining services, researchers find that manufacturing activities are intertwined with services, and moreover, the service-product combination is what constitutes the overall value proposition. The emergence of the digital product represents another difficulty in defining the boundary between services and manufacturing. Does this mean that the product has become a service? Where is the boundary between manufacturing and service? What is the element that tells us something is a service and

something else is a product? If we do not know where the boundary between services and manufacturing is, how can we produce meaningful results? Relying on descriptive characteristics or industry classification may be deceptive, as this paper shows. What this paper suggested was to approach the issue from a strategic angle. We proposed a typology of firms based on their activity configuration, which was developed by Thompson (1967) and introduced into the strategic management literature by Stabell and Fjeldstad (1998). The framework operates on the central assumption that economic activities can, taking into consideration the logic of the way they are organised, be grouped into three distinct types. In testing this framework, our overall conclusion is that it improves on the classical manufacturing/service distinction, but that it perhaps does not go far enough in separating out the subdimensions on which industries differ. On the one hand, we have found significant differences across the three value logics in the way they approach internationalisation. In particular, given the differences between VN and VS firms, it seems naïve to collapse these two configurations into one “services” category as is common practice. On the other hand, our results also suggest that the same may be true for manufacturing, and that the VC category contains as much variance within it (especially for scope) as there is variance between the three types.

Although, the three types of firms suggested here cannot accommodate all possible business models, they do accommodate a large portion of firms and comparison between them helps our understanding of variations in internationalisation. Of course, in reality there are numerous intermediate organisational forms and activity configurations that fall somewhere between these discrete types. We, however, believe that distinguishing firms by their activity configuration may have considerable practical implications. It takes a qualitatively different approach to classification of firms that does not necessarily overlap with existing classifications. In this regard, we can speak back to the theory our research is based upon. Even though manufacturing industries here form the value chain group, value chain and manufacturing are, in our belief, not interchangeable terms. This is a point that has not been clarified in Thompson (1967) and Stabell and Fjeldstad (1998), and the examples provided do appear to point at value chain and long-linked technology being characteristic for manufacturing, while the other two types - for services. The variance within the value chain category suggests however that further effort is necessary to perfect the way we categorise firms. In other words, the value shop and network configurations are not a way to differentiate between service firms, but rather the value logic framework as a whole can be applied to all firms producing types unrelated to the manufacturing/service division. The underlying idea of the framework is powerful *because* it looks at all firms without considering anything but the configuration of activities. So a firm producing a physical product may end up being organised after a value shop logic. We see exploring this line of enquiry essential, but beyond the limits of the current paper.



Apart for correcting for the limitations of our research setup, there are several directions which future research can pursue. Firstly, taking the theoretical framework of this paper and exploring it in a case study setting will allow matching the activity configuration of firms to the three value logic archetypes. Then the internationalisation strategies of the cases can be compared with the outcomes from this study, which will serve as a test whether using industry classifications as the mean to consider firms as one or another value configuration type is reasonable or not. Secondly, tying performance to internationalisation choices and value creation logic may be able to test whether following the internationalisation steps congruent with a firm's value logic in fact results in positive outcomes. What is more, it has already been suggested that a mismatch between the value creation logics and firm practices may have an adverse impact on the firm (Othman & Sheehan, 2011). Finally, devising a research methodology that can study the concrete value configuration within a firm (activity-level) on a large sample scale will help including in the analysis hybrid firms and will enhance our understanding of strategic combinations and the way they play out internationally.

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Table 1: The value logic framework

Thompson (1867) term	Interdependency	Value/ Cost drivers	Stabell and Fjeldstad (1998) term	Coordination difficulty	Complexity of task	People centrality	Knowledge tacitness
Long-linked technology	Sequential	None/ Scale, capacity utilisation	Value chain	Low	Low	Low	Low
Mediating technology	Sequential and Pooled	Scale, capacity Scale capacity	Value network	High	High	Low	Low
Intensive technology	Sequential, Pooled and Reciprocal	Reputation/ None	Value shop	High	High	High	High

Table 2: Hypothesis summary: speed and onset of internationalisation (adapted from Chetty, Johnson and Martin, 2014).

		Speed	
		High	Low
Onset	Early	VC	
	Late	VN	VS

Table 3: Hypothesis summary: scale and scope of internationalisation

Scale of internationalisation			
		Small	Large
Scope of internationalisation	Small	VS	VN
	Large		VC

Table 4: Hypothesis summary: regionalisation.

Geographical Region			
		Within	Out
Cultural cluster	Within	VN	VC
	Out	VS	

Table 5: Classification and number of firms in the sample.

Industry	Description from Encyclopaedia of Global Industries (2011)	VCL	M/S	# of internationalised firms
Computer manufacturing (SIC 3571)	"The industry produces mainframes, supercomputers and personal computers...[It is] ever evolving and new technologies emerge weekly"	Value chain	M	116
Furniture (SIC 2510)	"The technology of making furniture [looks like this]: wood and other natural materials are pegged or nailed together to make objects"	Value chain	M	57
Telecommunications (SIC 4810)	"The ... field of telecommunication services include of [fixed line telecoms market] as well as cellular and other mobile phone and paging." (p. 697)	Value network	S	36
Personnel services (SIC 7360)	"Personnel services link job seekers with employers [according to] certain criteria. Successful [firms] must be able to place [satisfactory] employees to fill open slots, being aware of clients' needs."	Value network	S	41
Management consulting (SIC 8742)	"Management consultants provide administrative, strategic and technical advice and training to organisations"	Value shop	S	43
Hospitals (SIC 8060)	"Hospitals provide diagnostic services, extensive medical treatment, as well as continuous nursing services."	Value shop	S	14

Table 6: Correlation matrix

	Scope	Speed	Onset	Scale	man	shop	F	MC	ES
Scope	1								
Speed	-0.1254	1							
Onset	0.1521	0.0082	1						
Scale	0.2620	0.4197	-0.0466	1					
man	-0.0182	0.0252	-0.1043	-0.0052	1				
shop	-0.0156	-0.2012	-0.0523	-0.0327	-0.5425	1			
F	-0.1549	0.0210	0.2018	-0.1601	0.4202	-0.2280	1		
MC	-0.0128	-0.1457	-0.0295	0.0195	-0.4586	0.8452	-0.1927	1	
ES	0.0830	0.1294	0.1016	-0.0331	-0.4461	-0.1975	-0.1875	-0.1584	1

<b>TABLE 7</b>	(Speed)	(Speed)	(Onset)	(Onset)	(Scale)	(Scale)	(Scope)	(Scope)
VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
vc	-0.533** (0.226)	-0.268 (0.221)					0.264** (0.114)	0.232** (0.117)
vs	-0.450 (0.296)	-0.190 (0.280)	0.151 (0.277)	-0.0448 (0.213)	-0.373** (0.152)	-0.328** (0.154)		
lnSize		0.219*** (0.0290)		-0.0233 (0.0292)		0.0546** (0.0246)		0.0536*** (0.0187)
Age		0.00135 (0.00270)		0.0281*** (0.00267)		0.00170 (0.00240)		0.000523 (0.00182)
2.Region		0.148 (0.296)		0.0787 (0.373)		-0.233 (0.272)		0.659*** (0.206)
3.Region		-0.147 (0.274)		-0.159 (0.282)		-0.321 (0.237)		0.414** (0.180)
4.Region		-0.446 (0.480)		0.385 (0.468)		-0.211 (0.363)		0.240 (0.275)
2.Cluster		-0.0562 (0.278)		-0.177 (0.352)		-0.356 (0.245)		-0.381** (0.186)
3.Cluster		0.314 (0.274)		0.0767 (0.267)		0.775*** (0.280)		-0.0203 (0.212)
4.Cluster		0.583** (0.277)		0.128 (0.274)		0.123 (0.249)		-0.297 (0.189)
5.Cluster		-0.363 (0.477)		-0.486 (0.473)		-0.390 (0.273)		-0.630*** (0.207)
6.Cluster		-0.341 (0.308)		0.289 (0.299)		-0.0383 (0.245)		0.200 (0.186)
vn			0.441* (0.256)	0.431* (0.224)	-0.198 (0.136)	-0.231 (0.146)	0.221* (0.131)	0.144 (0.136)
Constant	0.447** (0.207)	-1.333*** (0.362)	-0.0810 (0.103)	-0.834*** (0.263)	0.119 (0.0755)	0.0553 (0.226)	-0.204** (0.0993)	-0.804*** (0.193)
Observations	142	140	126	124	307	302	307	302
R-squared	0.039	0.419	0.024	0.531	0.022	0.133	0.017	0.121

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

<b>TABLE 8</b>	(% of subsidiaries in home region)	(% of subsidiaries in home region)	(% of subsidiaries in home cluster)	(% of subsidiaries in home cluster)
VARIABLES	Model 1	Model 2	Model 3	Model 4
vc			0.0849 (0.096)	0.0643 (0.222)
vs	-0.0749 (0.197)	-0.0818 (0.152)		
vn	0.0460 (0.377)	0.0101 (0.851)	0.00938 (0.872)	-0.00332 (0.957)
lnSize		0.0188* (0.040)		0.00555 (0.510)
Age		0.0005 (0.598)		-0.0003 (0.757)
2.Region		0.464*** (0.000)		0.149 (0.110)
3.Region		0.355*** (0.000)		-0.0053 (0.948)
4.Region		-0.158 (0.241)		0.0157 (0.899)
2.Cluster		-0.185* (0.043)		-0.159 (0.059)
3.Cluster		0.131 (0.207)		-0.149 (0.120)
4.Cluster		-0.0213 (0.818)		-0.227** (0.008)
5.Cluster		-0.217* (0.033)		-0.310** (0.001)
6.Cluster		0.181* (0.047)		0.0392 (0.640)
Constant	0.432*** (0.000)	0.0107 (0.898)	0.268*** (0.000)	0.294*** (0.001)
Observations	307	302	307	302
R-squared	0.011	0.179	0.014	0.099
Adj. R-squared	0.004	0.145	0.008	0.061
F	1.670	5.254	2.172	2.639

p-values in parentheses: \* p<0.05, \*\* p<0.01, \*\*\* p<0.001



Table 9: Nested models (incremental).

Speed						
Block	F	df	df	Pr>F	R2	Change in R2
Manufacturing/Service	0.01	1	138	0.9027	0.0001	
+ Value logic*	8,88	1	137	0.0034	0.0609	0.0608
+ Industry	0.08	1	136	0.9719	0.0626	0.0001
+ Age	2.91	1	133	0.0905	0.0826	0.0195
+ Size***	69,77	1	132	0.0000	0.3998	0.3187
+ Region***	0.03	1	131	0.8592	0.4000	0.0000
+ Cluster***	0.35	1	130	0.5545	0.4016	0.0014
Onset						
Block	F	df	df	Pr>F	R2	Change in R2
Manufacturing/Service	2,34	1	122	0,129	0,0188	
+Value logic	3,35	1	121	0,0697	0,0452	0.0264
+ Industry	1,09	1	118	0,3549	0,0710	0.0258
+Age***	110,72	1	117	0.0000	0,5227	0.4571
+ Size***	0,71	1	116	0,4017	0,5256	0.0029
+ Region***	0,11	1	115	0,7457	0,5260	0,0004
+ Cluster***	0,40	1	114	0,5258	0,5277	0,0017
Scope						
Block	F	df	df	Pr>F	R2	Change in R2
Manufacturing/Service	0,27	1	300	0,6	0,0009	
+ Value logic*	0,38	1	299	0,5	0,0022	0,0013
+ Industry	3,42	1	296	0,0176	0,0356	0,0335
+ Age	1,51	1	295	0,2202	0,0405	0,0049
+Size**	8,27	1	294	0,0043	0,0668	0,0263
+Region**	3,20	1	293	0,0749	0,0769	0,0101
+Cluster**	0,00	1	294	0,9754	0,0769	0,0000
Scale						
Block	F	df	df	Pr>F	R2	Change in R2
+Manufacturing/Service	0,15	1	300	0,6965	0,0005	
+Value logic	0,51	1	299	0,4755	0,0022	0,0017
+Industry**	5,37	1	296	0,0013	0,0537	0,0515

+Age**	2,96	1	295	0,0863	0,0631	0,0094
+Size**	4,82	1	294	0,0289	0,0782	0,0151
+Region**	0,59	1	293	0,4442	0,0801	0,0018
+Cluster**	0,33	1	294	0,5635	0,0811	0,0011

TABLE 10	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
vs	-0.136 (0.244)	0.107 (0.608)	1.04 (0.814)	-0.435 (0.298)	-0.256 (0.408)	-0.414 (0.463)
vc	-0.210 (0.189)	-0.203 (0.190)	0.871 (0.652)	-0.512** (0.224)	-0.510** (0.225)	-0.709** (0.356)
lnSize	0.221*** (0.0271)	0.226*** (0.029)	0.344*** (0.074)			
vsxsize		-0.036 (0.083)	-0.154 (0.106)			
vcxsize			-0.139* (0.081)			
Age				0.00665** (0.00313)	0.00745** (0.00338)	0.00291 (0.00714)
vsxage					-0.00587 (0.00913)	-0.00133 (0.0111)
vcxage						0.00586 (0.00811)
Constant	-1.323*** (0.274)	-1.35*** (0.0229)	-2.3*** (0.0282)	0.216 (0.232)	0.188 (0.236)	0.346 (0.322)
Observations	141	304	304	141	141	141
R-squared	0.356	0.910	0.932	0.069	0.072	0.076

TABLE 11	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
vn	0.375 (0.265)	0.874 (0.916)	0.772 (0.921)	0.333* (0.177)	0.539* (0.291)	0.484 (0.293)
vs	0.133 (0.278)	0.127 (0.279)	-0.774 (0.909)	-0.0237 (0.197)	-0.0229 (0.197)	-0.346 (0.313)
lnSize	0.0436 (0.0378)	0.0522 (0.0408)	0.0362 (0.0436)			
vnysize		-0.0629 (0.110)	-0.0468 (0.111)			
vsysize			0.129 (0.124)			
Age				0.0271*** (0.00247)	0.0282*** (0.00275)	0.0265*** (0.00301)
vnxage					-0.00559 (0.00626)	-0.00396 (0.00636)
vsxage						0.00979 (0.00735)
Constant	-0.372 (0.263)	-0.427 (0.281)	-0.325 (0.298)	-0.992*** (0.109)	-1.029*** (0.117)	-0.974*** (0.124)
Observations	125	125	125	125	125	125
R-squared	0.036	0.039	0.048	0.512	0.515	0.522

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

TABLE 12	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
vn	-0.210 (0.137)	-0.771* (0.397)	-0.858** (0.406)	-0.184 (0.135)	-0.119 (0.220)	-0.0450 (0.227)
vs	-0.362** (0.151)	-0.365** (0.151)	-0.831* (0.483)	-0.396** (0.153)	-0.397*** (0.153)	-0.156 (0.236)
lnSize	0.0584** (0.0244)	0.0363 (0.0284)	0.0226 (0.0315)			
vnxsize		0.0825 (0.0549)	0.0962* (0.0565)			
vsxsize			0.0741 (0.0731)			
Age				0.00384 (0.00241)	0.00425 (0.00265)	0.00671** (0.00323)
vnxage					-0.00240 (0.00640)	-0.00486 (0.00665)
vsxage						-0.00757 (0.00566)
Constant	-0.257 (0.173)	-0.116 (0.196)	-0.0286 (0.215)	0.00355 (0.104)	-0.00887 (0.109)	-0.0829 (0.123)
Observations	304	304	304	305	305	305
R-squared	0.039	0.046	0.050	0.031	0.031	0.037

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

TABLE 13	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
vn	0.197 (0.130)	0.304 (0.308)	0.454 (0.417)	0.235* (0.133)	0.123 (0.189)	0.168 (0.211)
vc	0.247** (0.113)	0.247** (0.113)	0.431 (0.364)	0.271** (0.116)	0.269** (0.116)	0.333* (0.180)
lnSize	0.0549*** (0.0182)	0.0591*** (0.0213)	0.0830* (0.0497)			
vnysize		-0.0159 (0.0413)	-0.0398 (0.0610)			
vcysize			-0.0294 (0.0550)			
Age				0.00202 (0.00183)	0.00132 (0.00201)	0.00268 (0.00354)
vnxage					0.00407 (0.00486)	0.00270 (0.00566)
vcxage						-0.00202 (0.00431)
Constant	-0.547*** (0.150)	-0.574*** (0.166)	-0.723** (0.326)	-0.272** (0.117)	-0.249** (0.121)	-0.293* (0.154)
Observations	304	304	304	305	305	305
R-squared	0.046	0.046	0.047	0.021	0.023	0.024

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

# **Chapter 4: Identifying differences in speed, onset, scale and scope of internationalisation based on value chain configuration**

Figures

Figure 1: Theoretical framework

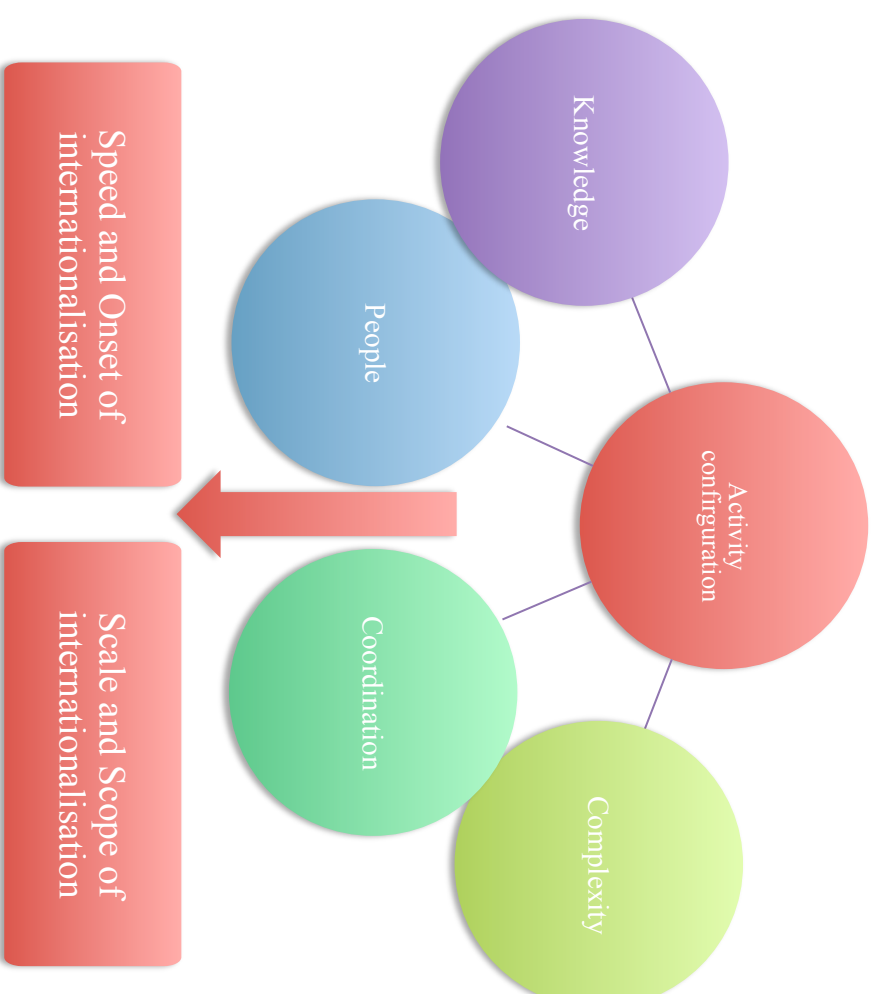




Figure 2: Distribution of companies by age and size.

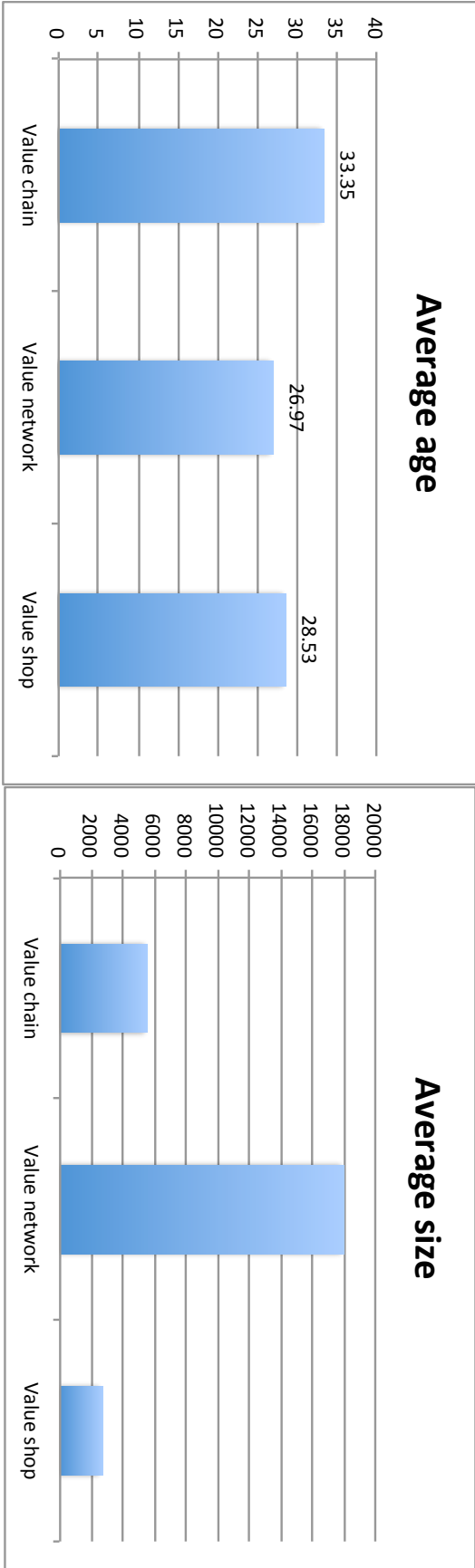


Figure 3: Subsidiaries per year, by value logic configuration

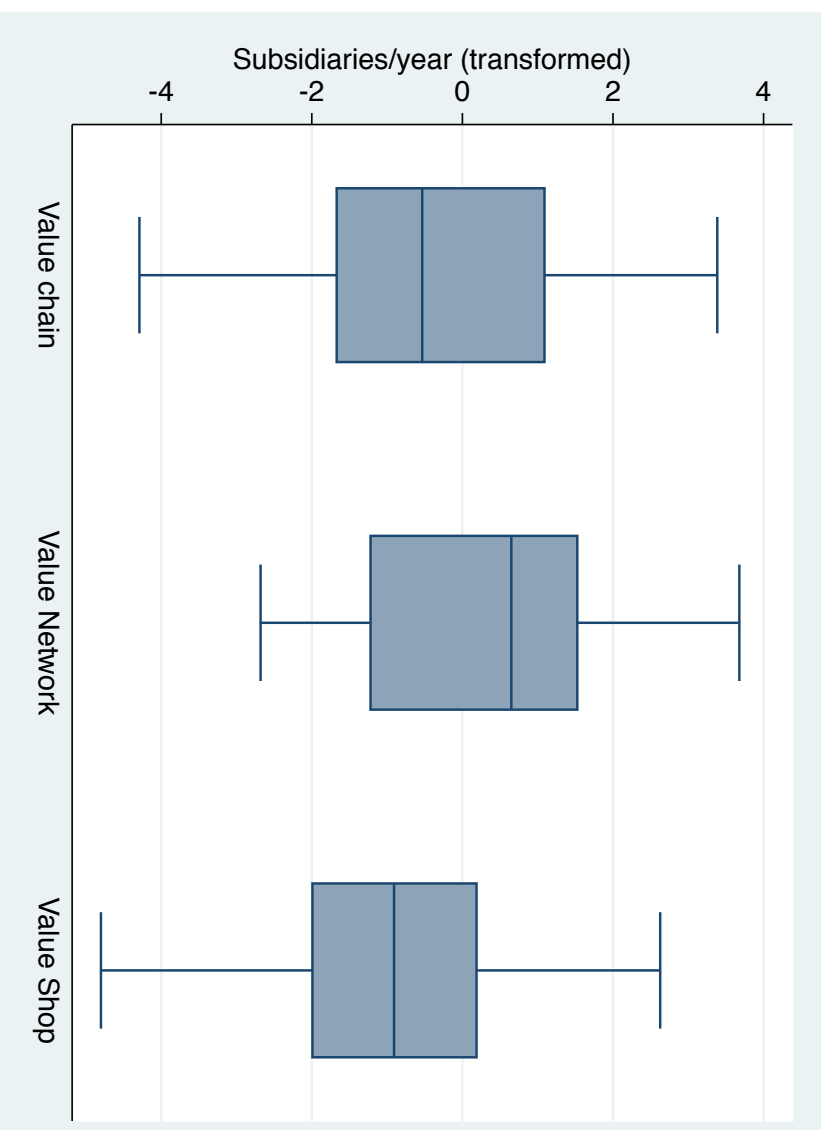


Figure 4: Number of foreign countries, by value logic configuration

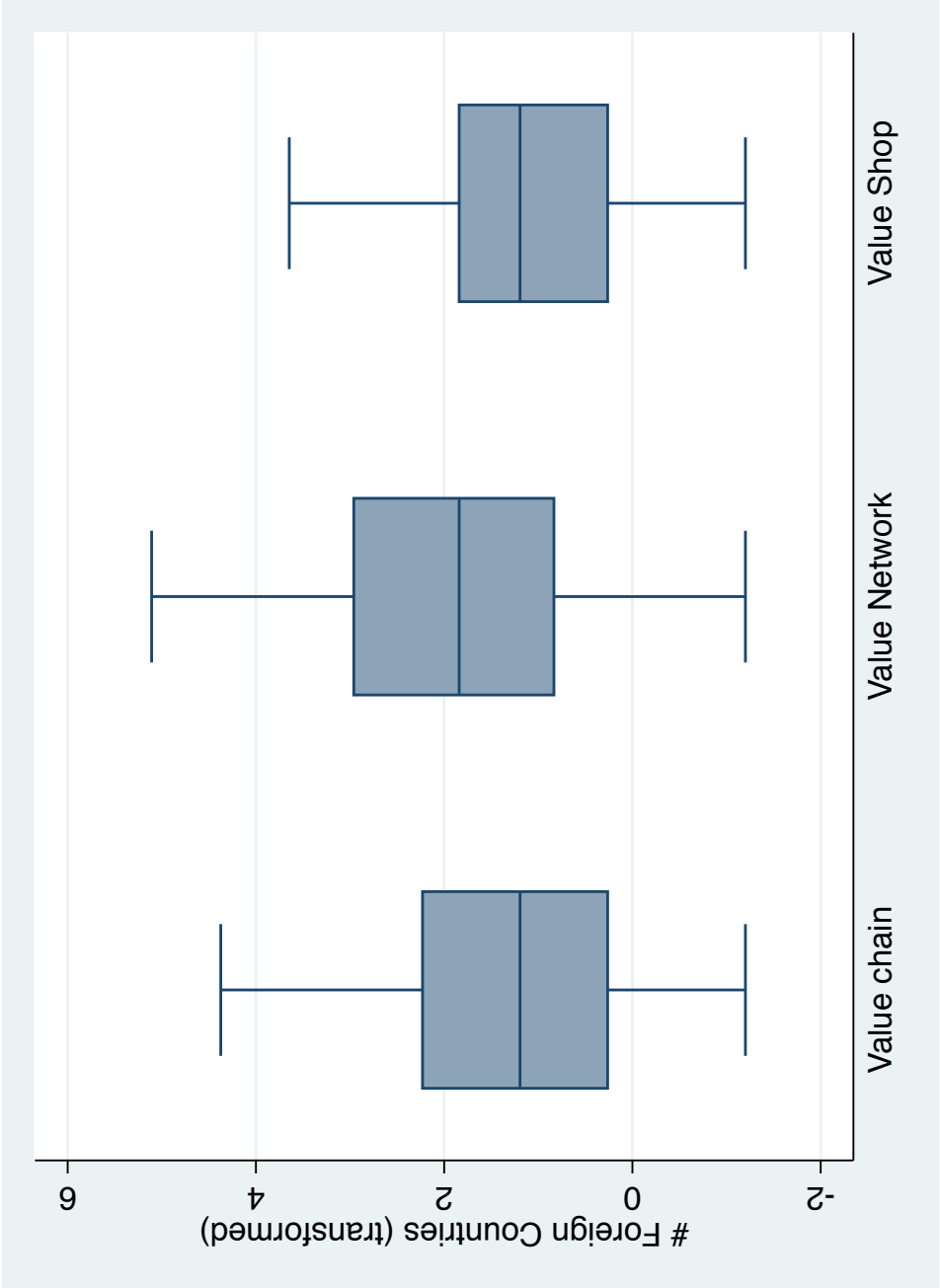


Figure 5: Factor analysis

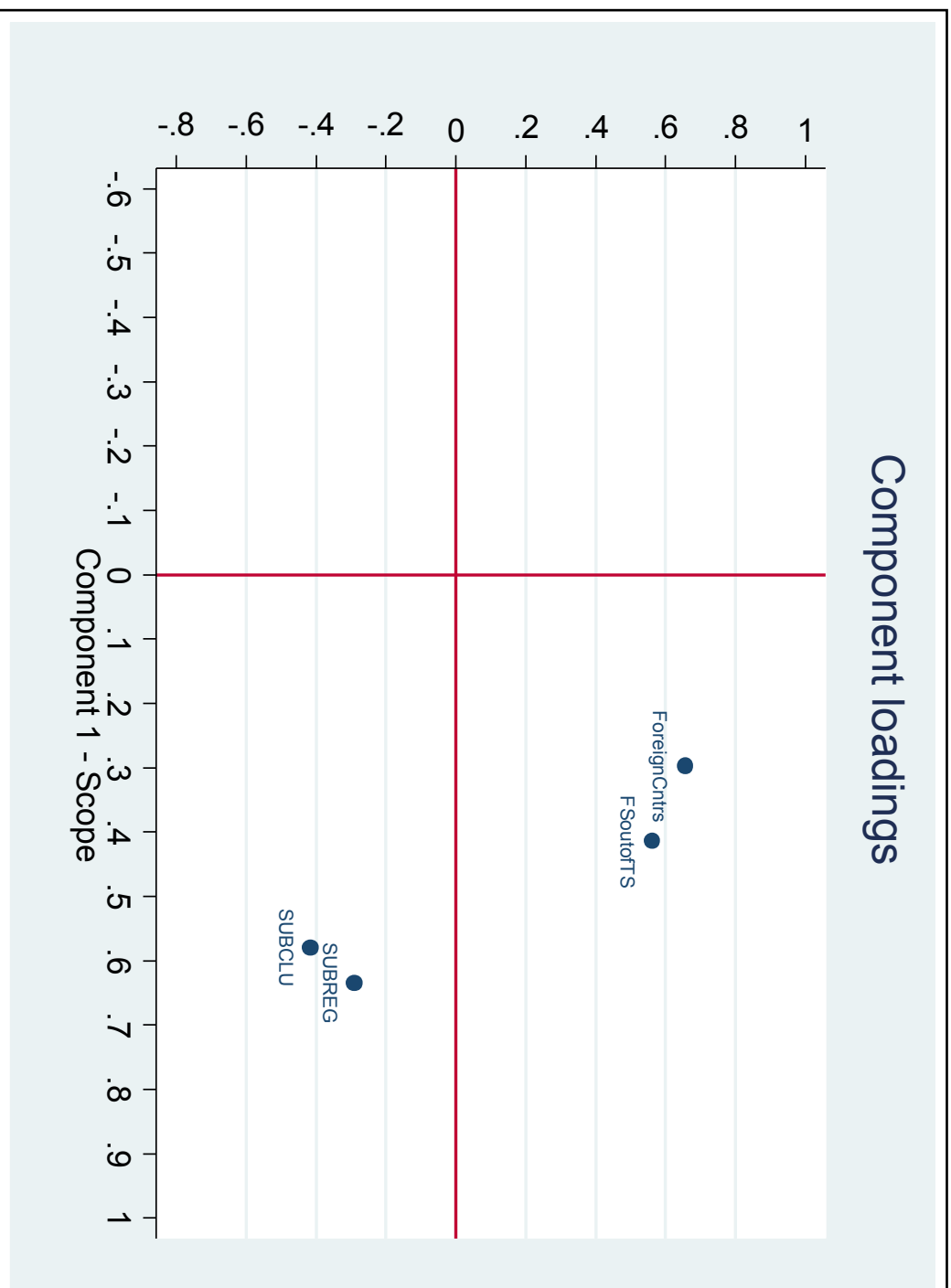


Figure 6: Dependent variables set per classification

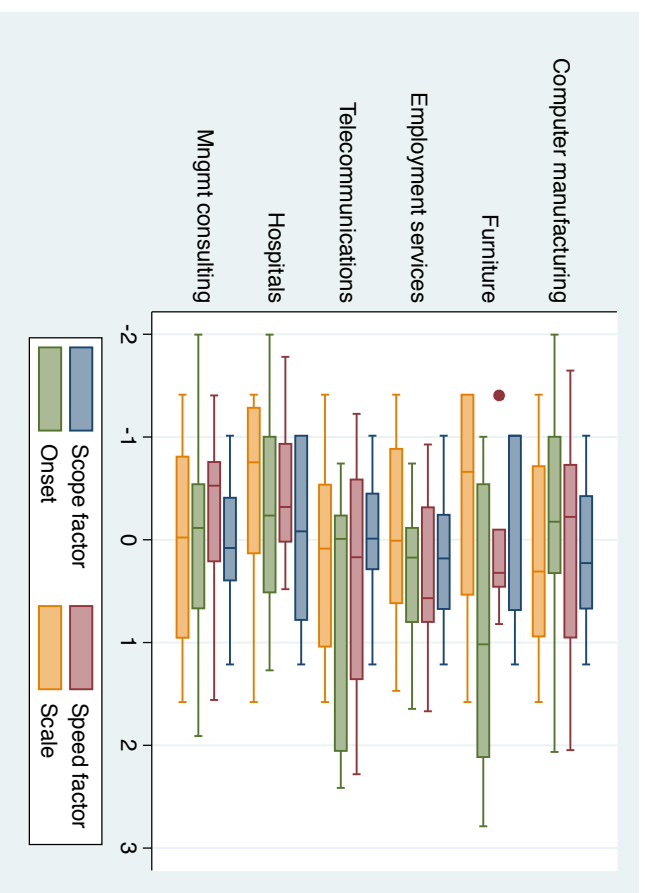
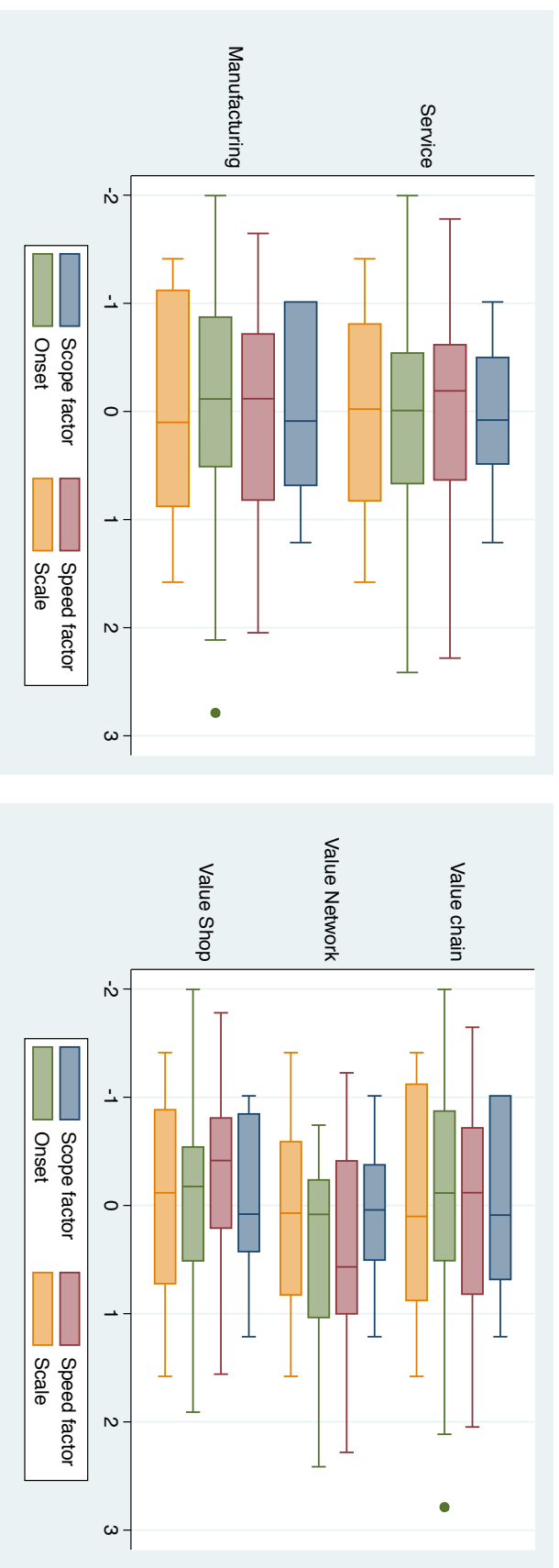


Figure 7: Interaction between Value logic and Region (geographic dispersion)

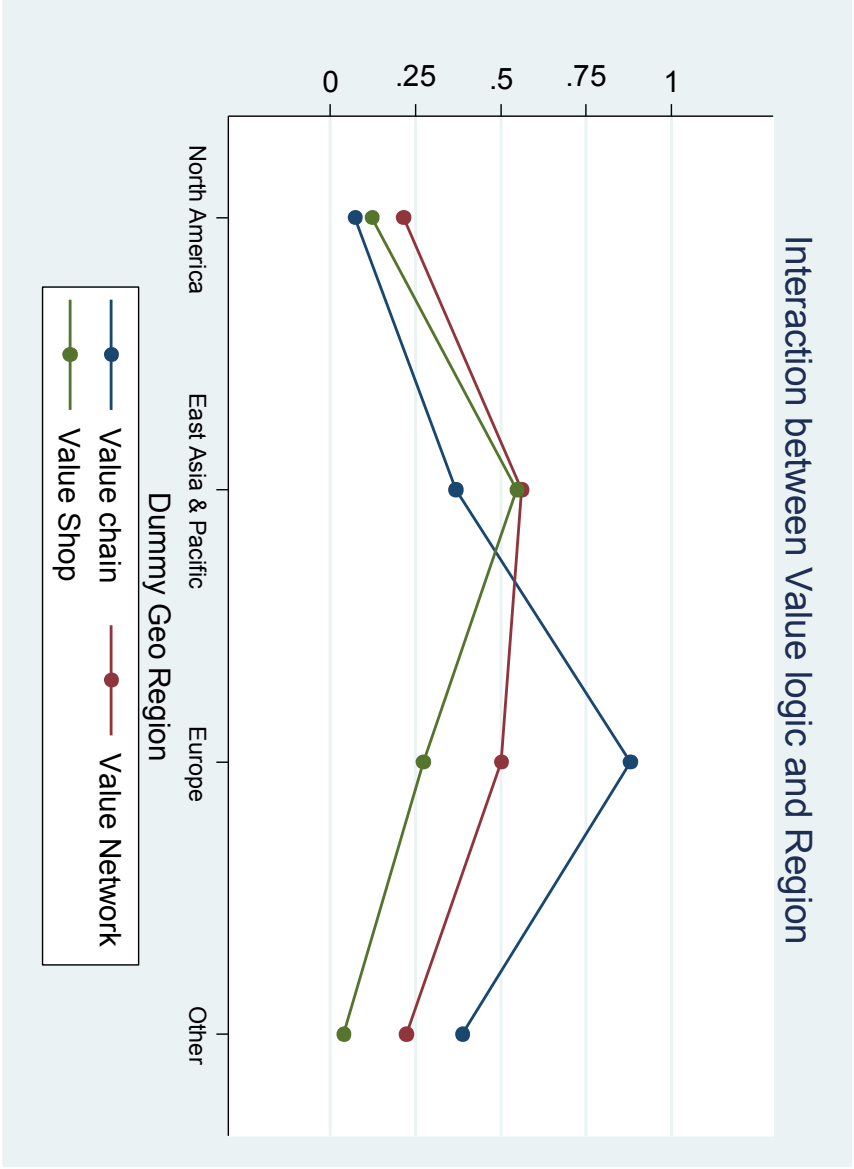


Figure 8: Interaction between Value logic and Cluster (geographic dispersion)

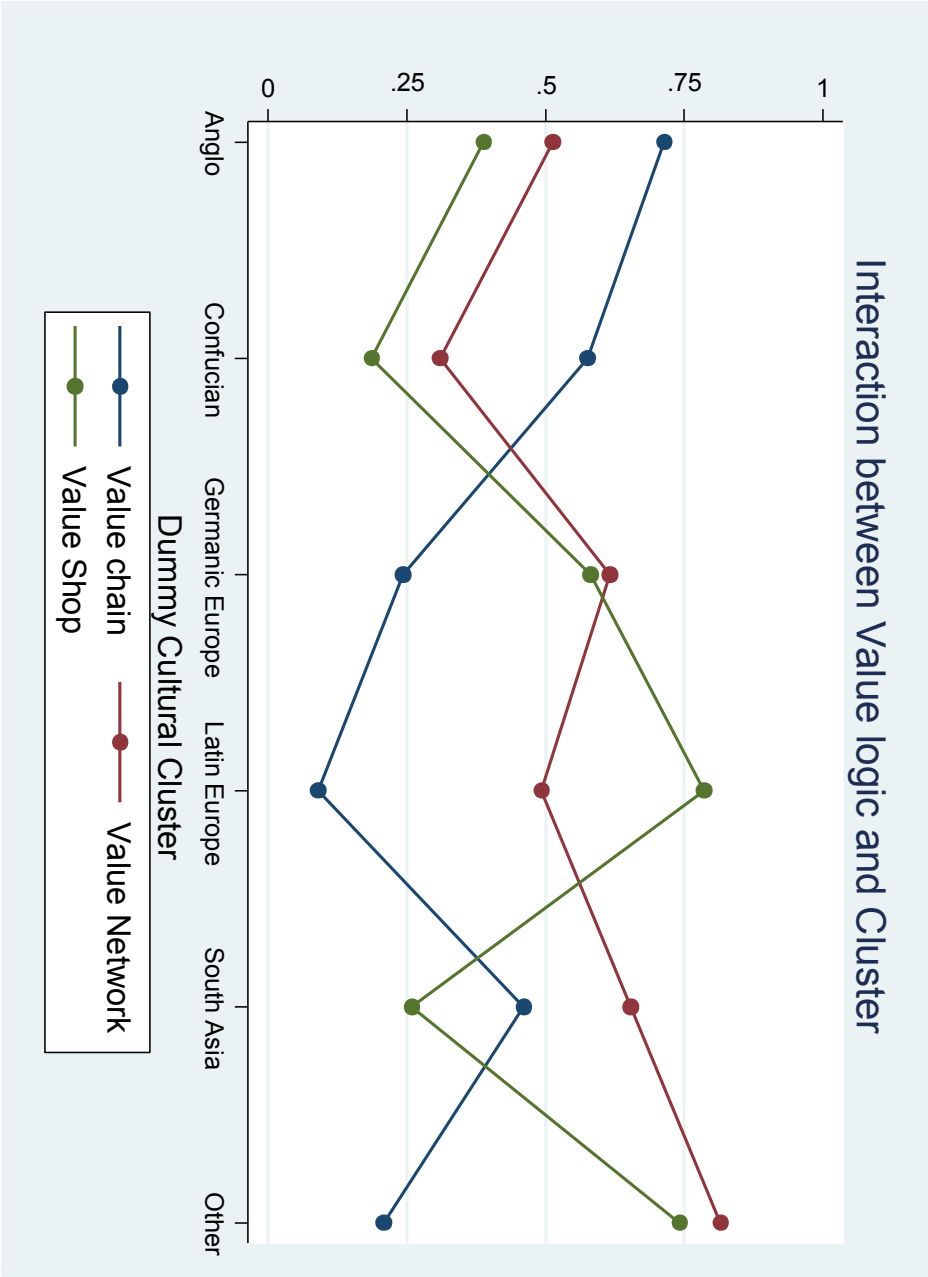


Figure 9: Interaction between Value logic and Region (cultural dispersion)

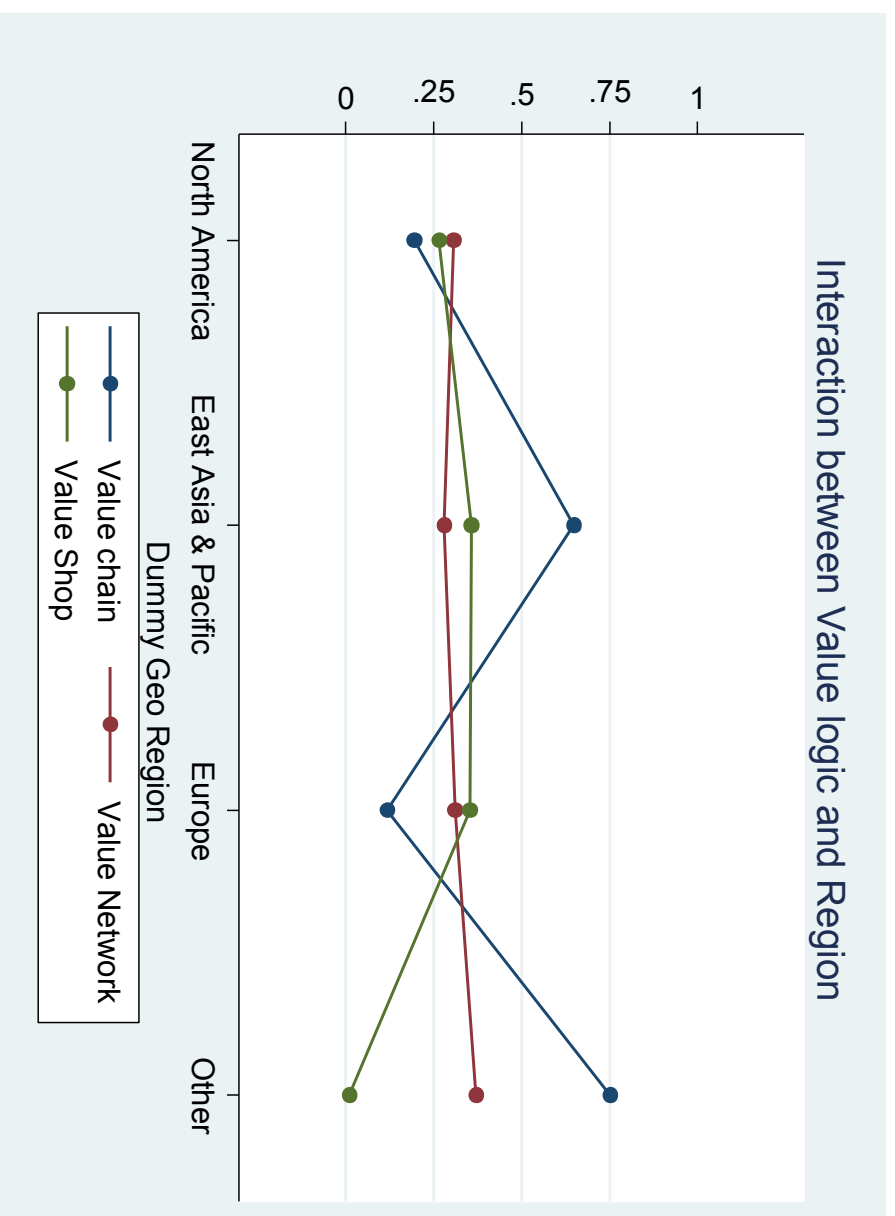
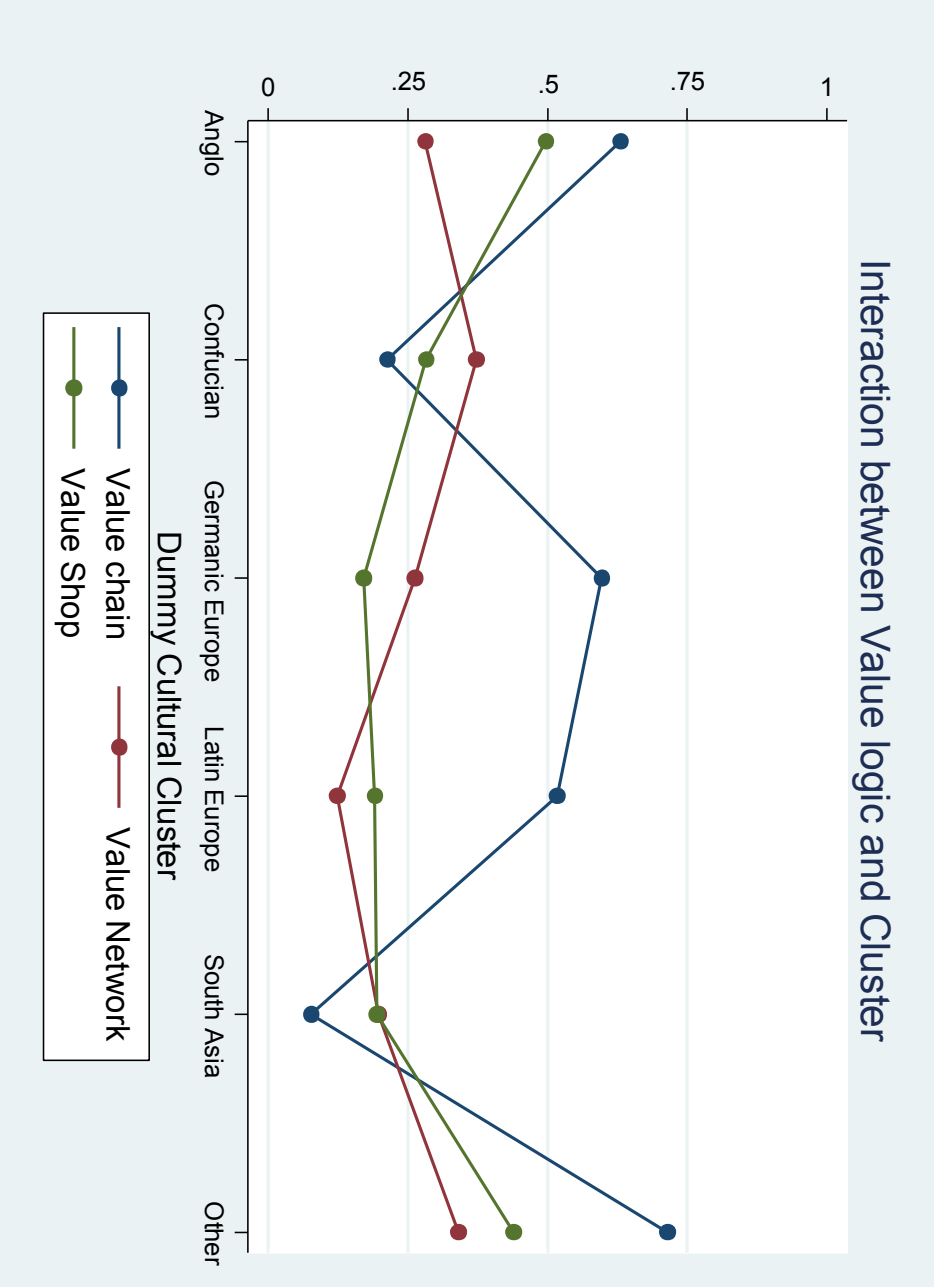




Figure 10: Interaction between Value logic and Cluster (cultural dispersion)



## Chapter 5: Conclusion

This chapter addresses the theoretical and methodological implications of the papers presented so far. Since each paper included in this dissertation has a discussion of its own, this final chapter will briefly summarise what has been done and how it has contributed to the conversations in the international business community. Each paper of the dissertation was a stepping-stone to a deeper investigation of the value creation typology and this final chapter proposes where future research could go from here.

The overarching research question of this research was: *How do the value creation logics of firms impact their internationalisation?*. It was answered through a literature review on the internationalisation of services, a multiple case study of Internet firms and a quantitative study of firms from six different industries. The organisations I think can best benefit from an answer to the research question are service firms. This research however did not focus exclusively on them. It took a step back and explored the ability of the value creation configuration to find meaningful differences and similarities across any and all firms.

The review of the literature on internationalisation of services offered a starting point for the project. In this first paper, we concluded the heterogeneity of service sectors and activities may be why this body of research still appears fragmented. Single industry studies or the numerous typologies that have been extended seem to lack a solid theoretical foundation, which can allow their insights to build upon each other. The valuable insights from single industry studies offered only partial understanding of the internationalisation of service firms. Previous research taken together made us doubt the concept "services" in fact covers firms sharing common elements. The typologies seem to rely on descriptive characteristics, not stable enough in conditions of technological change. The literature review evidenced the persistence of the opposition service/good, despite enough material suggesting it is way too simplistic to capture the reality. It appeared that the missing link was a dimension that could unify the different typologies and ensure that they speak a common language. This is the gap this research project set off to fill. The literature review pointed to a growing stream of enquiry not aiming to define services, but rather speaking of what firms do, about activities and their configurations (e.g. Jensen and Petersen, 2014; Malhotra and Hinings, 2010). The motivation and ability to benefit from internationalisation have been seen to depend on the nature of the offering of the firm (Blomstermo et al., 2006; Erramilli, 1990; Hurmelinna-Laukkanen & Ritala, 2012). Rugman & Verbeke (2008), while accepting extant classifications and characteristics of services, posit that manufacturing and service firms are not intrinsically different when looked through the prism of transaction costs, but rather differences seem to lie in the specific activities performed. These specificities determine internationalisation and to study

them, we need to look at the value chain of the firms we want to talk about. Few studies in our literature review looked inside service multinationals. Such an approach would require cross-fertilisation from organisation science, marketing and psychology. It has the potential to take a more "holistic" view on the topic of (service) internationalisation. The configuration of activities is a dimension around which cross-industry perspectives, or comparisons, can be organised to determine to what extent findings from a study in one industry context may be generalisable to another. Moving away from the dichotomy "service" / "manufacturing" towards a more detailed analysis of what firms are and do appears to be an increasingly recommended new way of understanding services and how they internationalise.

The literature review confirmed that it would be of use to "dig deeper" and examine how service activities and processes actually operate. Therefore, the next paper focused on exploring the potential of a typology based on organisation science to underline differences across firms' internationalisation. The fourth paper extended this line of thinking and addressed the robustness of existing definitions and classifications of industries.

The second paper compared the internationalisation of three Internet firms with distinct value creation logics. Despite the fact that the literature suggests Internet firms make similar choices in internationalisation, each case had a different internationalisation process, explained by a different theory. The firms also differed in what their motivation was to internationalise, how they dealt with their liability of foreignness, and how they learnt to internationalise. The differences were consistent with the specificities of their value creation. Internationalisation played a different role for the value creation of the firms. Network-based advantages made internationalisation crucial for the future of Rakuten. Establishing a strong customer base in new countries affected directly the value created in all countries. For value networks, value is created by the participation of customers in a two-sided market. That community then performs a quality assurance function, weeding out badly performing buyers or sellers. Acquiring a critical mass of global customers is necessary, if the firm wants to market its products internationally. For FactSet whether the company sells abroad or not, impacts revenue and scale, but does not impact the quality of the service delivered. Value chains rely mainly on their own research and development for product improvements. Hence to attract customers, they do not need to internationalise, but rather to offer a good product. Therefore, FactSet internationalised later and much slower than the other cases. For MindTree internationalisation directly affected the service, as each new client brought in knowledge and improved the skill-set of the firm, and thus - the service variety. Value shops' reputation and capabilities depend on having worked on complex problems and with big clients. Clients serve as both learning and portfolio building opportunities, hence there are significant knowledge economies.

The take away from this paper is that the value creation specificities can explain differences and similarities between the firms' internationalisation choices. Using the way firms configure themselves to

achieve competitive advantage as a differentiating trait may help to understand how firms replicate their competitive advantage across borders. For this project, this finding indicated that the value creation typology has potential in international business (IB). Artificial labels - such as “Internet-based” or “service” - may be meaningless if they are not attached to theoretically grounded elements dictating differences and similarities. The value creation logic is a strong theoretical criterion, which gives meaning to differences observed in the internationalisation process of firms. However, both the theoretical and the empirical foundations of these observations needed to be strengthened further before any general conclusions could be drawn. This is what the final paper did through a large sample research using the value logic framework to discern patterns of internationalisation across industries.

The third paper asked the question *How does the value chain configuration of firms impact onset, speed, scale and scope of internationalisation?* The question was answered through a quantitative analysis of firms from six industries – two industries for each value chain configuration. The hypotheses about their internationalisation behaviour were based on the elements of their value creation. We furthermore contrasted the strength of the value creation framework to differentiate patterns of behaviour with that of the manufacturing/service and industry classifications. The findings partially agreed with the hypothesised behaviour. Value shops deviated from expectations however, appearing more prone to internationalise early and fast than expected. Value network firms were the fastest to internationalise. Value chain firms internationalised earlier than the other two types and at the largest scale. Value shop firms were the ones with the narrowest scope. Moreover, the findings shed light on the influence of some environmental factors such as the significant influence of the domestic market and cultural cluster on the global dispersion of firms. Finally, the comparison with the manufacturing/service and industry classifications underlined significant advantages of using the value creation logic as a differentiating mechanism. Although, the three types of firms suggested cannot in most likelihood accommodate all possible business models, they do accommodate a large portion of firms and comparison between them helps our understanding of variations in internationalisation. We believe that the distinguishing firms by their activity configuration may have considerable practical implications. The paper suggests a number of directions, which future research can pursue, and which we will revisit again at the end of this chapter.

One important question this chapter of the thesis must answer is So what? What the papers within this research did was to take a solid theory from one academic area and test if it can be a solution of a problem in another. The main achievement of this project is to open a conversation about the potential of the value creation typology in IB. When I started this research, the conceptual work of both Thompson (1967) and Stabell and Fjeldstad (1998) appealed to me immediately. It looked like the ideal framework for understanding how firms function: neat, convenient and making logical sense. However, I had many questions about its application in practice, which I could not answer as there was no data on this. Now,

after three odd years, I still have many questions about its application in practice, but I have a starting point. I can also talk back to the theories regarding the glitches I have seen when applying them in IB.

Both Thompson (1967) and Stabell and Fjeldstad (1998) envision pure types, assuming firms have single core value logic and that it is static throughout their development. This is not necessarily so - firms change their value propositions and adapt their value creation processes accordingly to a larger or smaller extent. Frequently, firms have multiple logics with equal weight, or they start with one and change into another. For instance, firms may start with a higher percentage of customisation on their products, and gradually streamline their offer to few star products appealing to large audiences. Additionally, the theories do not consider external factors. Our analysis shows that the control variables have important weight, so their inclusion in the theoretical framework is a logical next step. Finally, it is important to note that even though manufacturing industries in this research form the value chain group, value chain and manufacturing are not clearly interchangeable terms. This is a point that has not been clarified in Thompson (1967) and Stabell and Fjeldstad (1998), and the examples provided do appear to point at value chain and long-linked technology being characteristic for manufacturing, while the other two types - for services. A better conclusion, however, would be that the activity configuration approach takes a qualitatively different approach to classification of firms that does not necessarily overlap with existing classifications. In other words, the value shop and network configurations are not a way to differentiate between service firms, but rather the value logic framework as a whole can be applied to all firms producing types unrelated to the manufacturing/service division. The idea of differentiating between firms based on the configuration of their production processes is powerful, because it looks at all firms without considering anything but the configuration of activities. So a firm producing a physical product may end up being organised after a value shop logic. This is what I think will be the major task for future research.

This first exploration of the value creation typology opens multiple opportunities for further research. Ideally, future research should have as a unit of analysis the organisation, the activities of the firm as a sub-system, and the environment as a super-system. Quantitative designs can incorporate longitudinal data and introduce more dynamic measures of the internationalisation process of the different firm types. Operationalisation of the variables affects the outcome and consecutively the understanding of what is truly happening. For one, when speed of internationalisation is operationalised as a mean, we miss the point that firms may not internationalise at a constant speed. An acceleration/deceleration measure and a way to assess critical events affecting the speed can contribute to understanding both initial and late internationalisation. A process perspective can contribute detail to the analysis, which is lost in a cross sectional study. Qualitative approaches can make an epistemological and ontological change, allowing for symbolic-interpretative and post-modernist ideas to influence the way

the concept of activity configuration is approached. The influence of context and intersubjective meaning will refine our understanding of the influence of the activity configuration on the internationalisation of the firm incorporating the viewpoint of organisation actors. Qualitative approaches can prepare the ground for researching combinations of value logics within the same firm and their influence on firms' internationalisation. Furthermore, the work of the Modernist school of organisation theory and in particular, contingency theory, within which the value creation typology would fall, holds that the best way of designing and managing an organisation hinges upon the particularities of the situation/environment where the organisation is. Factors of the environment such as market uncertainty, competition, bounded rationality, and/or country specificities may steer the internationalisation path of firms into different directions (Malhotra & Hinings, 2010). Some of these factors were explored in the empirical papers of this PhD, and both qualitative and quantitative designs can continue to further assess the impact of the environment in which internationalisation is happening.

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