

Internationalisation of professional services

– A 1999-2005 literature review

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Abstract

Today professional service firms increasingly enter new international markets. However, research on internationalisation of professional services does, by no means, reflect the industry's important position in today's Western world business. The objective of this study is to provide an up-to-date extended literature review on internationalisation of professional services. More specifically, the purpose is to summarise descriptive findings, classify which topics are evident in the literature and point out areas where further research is called for.

Three meta-drivers towards increased internationalisation of services are apparent in the reviewed literature; multilateral trade-agreements, development trends in ICT and the increased presence of global networks. On a firm-level, client-following was the most usual motivation for entering new foreign markets in the 20th century. However, today increasing numbers of professional service firms use proactive market-seeking strategies to conquer new customers abroad.

Most researchers agree that professional service firms, being knowledge-intensive and people-centred activities, must enter a foreign market "all at once" through different forms of foreign direct investment. In order to overcome barriers in risk, investments and market accessibility, cooperation strategies may be well suited. Even though export is

often not a viable option, IT-based services constitute exceptions to the rule, in that sense that they have the possibility to export through electronic media.

Building on Knight's (1999) literature review on international services marketing, seven academic journals in the time span between 1999 and 2005 are reviewed. The review left 31 articles in conformity with the search criteria. In particular the Service Industries Journal and the Journal of Services Marketing appear to be major sources for academic work on this topic. 18 out of 31 are quantitative articles, 3 are literature reviews, 6 are conceptual papers, and only 3 are qualitative research, which proves a lack of cross-industry multiple-case studies. The contributions are classified into seven research areas.

Most topics within internationalisation of professional services are only sparsely described, so more research is needed in general. However, special attention should be paid to two of the seven identified topics in the future:

- I. The role of ICT as enabler and tool for internationalisation
- II. The role of customer oriented strategies in the internationalisation process

Keywords

Professional services, Internationalisation

Introduction

Today service industries constitute more than two thirds of the most developed nations' economic activities. While internationalisation of manufacturing companies has been on the research agenda for over 50 years now, comparable research on internationalisation of services first began to emerge in the mid-1980s (Knight, 1999). So, regardless of services' dominating position in the world business, the research on services internationalisation lags behind that of manufacturing (Contractor *et al*, 2003) and does not reflect its world position (Javalgi *et al*, 2003; Samiee, 1999; Lovelock, 1999; Grönroos, 1999).

Professional services are more important than other services in today's and tomorrow's Western economies (e.g. Toivonen, 2004; Aharoni, 2000; Peneder *et al*, 2003) and are growing remarkably faster than manufacturing and other service industries in these countries. In addition; because the professional service product is an input into other service- or manufacturing firms' production chains, innovations in service processes is likely to positively affect other industries as well.

The objective of this study is to provide an up-to-date extended literature review on internationalisation of professional services. More specifically, the purpose is to conclude on descriptive findings of this path of research, classify which topics are evident in the literature and point out areas where further research is called for.

Professional services

In particular two reviews (Knight, 1999; Bryson, 2001) and four opinion-based conceptual papers (Lovelock, 1999; Grönroos, 1999; Clark & Rajaratnam, 1999; Samiee, 1999) state the status of professional services' internationalisation before the twenty-first century. In Table 1 the main findings from Knight's (1999) review are summed up.

Table 1 Summary findings from Knight's (1999) review on International Services Marketing 1980-98

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- The low number of 124 found articles, implicate that this field of research is relatively sparse and new
 - Academic research on "service industry internationalisation" first emerged in the mid-1980s.
 - Especially (1) market globalisation, (2) trade barriers reduction and (3) operation facilitating ICT, have been among the most important drivers for increased services internationalisation 1980-1998
 - Much of the research done is largely exploratory, descriptive and focused on either particular services or locations. This is in accordance with the early stage of this field, and will be followed by more generalisation and conceptualisation in future research.
 - Opposite to other research fields, the service internationalisation articles are more often conceptual and opinion-based. This is partly because of the early stage and partly because of the complexity of services relative to manufactured products.
 - The academic and practical appearance of services internationalisation is out of proportion, leaving clear gaps in the development of theory.
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Both Knight (1999) and Bryson (2001) ask for more conceptual research and theory building on services internationalisation. Up to 1998 Knight only found a few articles that intended to generalise across industries. Although there clearly have been some attempts since 1998 (e.g. Contractor *et al*, 2003; Domke-Damonte, 2000; Roberts 1999), none have managed to conclude with a common grounded theory.

One major point that is evident in literature is the lack of a common services classification. Knight (1999) and Bryson (2001) stress the need for clear definitions and taxonomies in order to be able to discuss similarities and differences between theories and conceptualisations. Samiee (1999) points out that this absence of consensus prevents effective generic theory building. One reason for this gap is the fact that there seems to be larger differences in-between service industries than between services and manufacturing

in general (Nachum, 1999). Although this classification-problem has been given a lot of attention in the literature (e.g. Silvestro *et al*, 1992; Thakor and Kumar, 2000), there still is no general by-all-accepted services classification (c.f. Clark *et al*, 1996).

Instead of “going into a normally unfruitful discussion about service classifications” (Grönroos, 1999; pg. 292), this study takes a broad approach and includes all service industries which are referred to as “professional” by other authors. That is, this study use the label “professional services” to cover; R&D services, engineering, financial services, legal services, architectural and design services, IT services, health services, auditing and accounting services, education, advertising and marketing services, management consultancy, personnel recruitment services and so on.

Intangibility, inseparability, perishability and heterogeneity are the four most widely cited characteristics that distinguish services from goods (e.g. Clark *et al*, 1996). Silvestro *et al* (1992) outline some related distinctive features of *professional* services; They have a high level of people commitment relative to equipment, they demand high people interaction, in most cases face-to-face, they have relative long interaction times and high level of discretion, most of the value added is carried out in the front office, they are characterised by process rather than product, and they have a high degree of customisation. In addition, professional services have a low volume of customers, measured by number processed by a typical unit per day. Finally, services are heterogeneous or unique. No service product is exactly alike the other, and standardisation is therefore difficult to obtain.

Summing up, professional services have four main characteristics as shown in Table 2. These distinctive characteristics leave professional services only a few options regarding internationalisation relative to internationalisation of manufacturing firms.

Table 2 Four most distinctive features of professional services

1. Knowledge-intensive
- professional knowledge constitute both the main input and output
2. People-centred
- high level of perishability and inseparability
- high level of cultural sensitivity
3. Intangible
- process / activity rather than product
- can not be stored, touched or transported
4. Customised
- low degree of standardisation
- high degree of uniqueness

Methodology

Seven academic journals in the time span between 1999 and 2005 are reviewed. The rationale for choosing journals builds on Knight's (1999) findings in his review of services marketing internationalisation. Knight, after reviewing 124 articles from 31 academic journals from 1980-1998, found that only the 7 journals reviewed here include six or more articles in this field of research (c.f. Figure 1).

Journal	Number
1 <i>Service Industries Journal</i>	38
2 <i>Journal of International Business Studies</i>	13
3 <i>European Journal of Marketing</i>	12
4 <i>Journal of Services Marketing</i>	10
5 <i>Columbia Journal of World Business/Journal of World Business</i>	9
6 <i>Management International Review</i>	8
7 <i>International Journal of Service Industry Management</i>	6
<i>Journal of International Marketing</i>	5
<i>International Marketing Review</i>	5
<i>Advances in International Marketing</i>	4
<i>Journal of Business Research</i>	3
<i>Harvard Business Review</i>	2
<i>Journal of Business and Industrial Marketing</i>	2
<i>Journal of Retailing</i>	2
<i>Industrial Marketing Management</i>	1
<i>International Journal of Research in Marketing</i>	1
<i>International Journal of Retailing</i>	1
<i>Journal of Marketing</i>	1
<i>(Scandinavian) International Business Review</i>	1

Table II. Journal outlets ranked by number of International Services Marketing articles published, 1980-1998

Figure 1 Number of International Services Marketing articles found by Knight (1999) in 31 journals

The requirements for each article to be included in the review were that they dealt with internationalisation of services in general or professional services in general. A paper is termed “general” if it covers three or more industries, or if specific industries are not identified (Knight, 1999). According to Knight (1999) and Bryson (2001), who both included industry-specific papers, much of the research done is in fact limited to specific industries. However, the reason for excluding these papers in this review, builds on the distorted spread of research into the different service industries; By only including general papers, this review will not be influenced by the relatively larger number of research into some industries (e.g. retailing and banking) than others with relatively sparse contributions (e.g. research companies and law-firms). In order to further limit the number of articles reviewed to internationalisation, the title or the abstract of the articles

had to include at least some of the following words or phrases, or similar words with the same meaning: “internationalisation”, “export”, “foreign direct investment”, “entry mode”, and/or “multinational”.

In addition to the reviewed articles, some basic and complementary articles (Vandermerwe & Chadwick, 1989; Clark *et al*, 1996, Erramilli, 1990; Peneder *et al*, 2003; Silvestro *et al*, 1992; Thakor and Kumar, 2000) and influential books (Aharoni, 1993; Nachum, 1999; Miozzo & Miles, 2002; Aharoni & Nachum, 2000; Majkgård, 1998; Løwendahl, 2005; Maister, 1993; Orava 2005) form the conceptual background of the review.

Overview of articles reviewed

The review left 31 articles in conformity with the search criteria. Table 3 gives a detailed summary of the articles.

Table 3 Articles reviewed from 7 journals 1999-2005

Study	Research focus / Title	Method & origin	Main findings
Bagchi-Sen & Kuechler (2000)	<i>“Strategic and Functional Orientation of Small and Medium Sized Enterprises in professional Services: An analysis of Public Accountancy”</i>	Quantitative 55 (rr 30%) USA	The proactive, functionally diversified, and/or internationally oriented firms outperform the reactive, functionally concentrated, and local market oriented firms.
Bowman <i>et al.</i> (2000)	Cross country differences in business service buying process	Quantitative 103 D, CDN, GB, USA	The article is more about “cross-country differences” than about the buying process it self.
Bryson (2001)	Review on European service internationalization research	Conceptual Review EU	A comparative European service research is absent, because most researchers have their own country dependent agenda. FDI (incl. licensing, franchise) is held out as an extremely important aspect of services internationalization.
Capar & Kotabe (2003)	<i>“The relationship between international diversification and performance in service firms”</i>	Quantitative 81 D	Capar & Kotabe (2003) claim that there exist a U-shaped curvilinear relationship between multinationality and financial performance (ROS) in service firms.
Cicic <i>et al.</i> (2002)	Which factors affect performance? <i>“Antecedents of international performance – A service firms’ perspective”</i>	Quantitative 181 (rr 37%) AUS	Managements’ support and attitudes strongly affect performance. Effects of barriers (especially internal) on performance are negative and the effect of positive attitudes (both management and organization) is positive.
Clark & Rajaratnam (1999)	<i>“International services: perspectives at century’s end”</i>	Conceptual Opinion-based review	Presents definitions for services’ internationalization and international services. Theory lags behind practice. “The future of global trade and research in services has never looked brighter”
Contractor <i>et al.</i> (2003)	<i>“A three-stage theory of international expansion: the link between multinationality and performance”</i>	Quantitative 103 firm data 43% USA	The article proposes a new unified three-stage theory of international expansion versus financial performance that incorporates previous partial contradictory views in a sideways-S model.
Domke-Damonte (2000)	<i>“Interactive Effects of International Strategy and Throughput on Entry Mode for Service Firms”</i>	Quantitative 24 (rr 26%) USA	The more multidomestic a firm’s strategy, the greater the preference for low control entry mode. The more global a firm’s strategy, the greater the preference for high control entry modes
Eriksson <i>et al.</i> (2000)	<i>“Path Dependence and Knowledge Development in the Internationalization Process”</i>	Quantitative 363 (rr 63%) S	Support for path-dependency of services internationalization because the first international step is shown to have an effect on a firm’s current experiential knowledge structure.
Eriksson <i>et al.</i> (1999)	Service quality	Quantitative & Qualitative S	Service quality is created in relationships between customers and suppliers. Face-to-face interaction is thus vital, and the professional service firm therefore has to be present abroad.

Study	Research focus / Title	Method & origin	Main findings
Fernández Fernández (2001)	<i>"Performance of Business Services Multinationals in Host Countries"</i>	Quantitative EUROSTAT EU	Foreign owned business services tend to perform better than locally owned. Business services internationalize mainly through FDI, this is understated by empirical findings. Validate the eclectic paradigm and industrial organization theory to business services internationalization.
Fisk (1999)	Technologies role in services international marketing	Conceptual Opinion-based essay	Need to build a technological infrastructure to support the international service firm (wiring). Need to create international service systems that are responsive to the human needs of organizations, employees and customers (growing)
Gronroos (1999)	<i>"Internationalization strategies for services"</i>	Conceptual Opinion-based review	Found five main strategies for service internationalization which are mutually exclusive. (1) Direct export, (2) Systems export, (3) Direct entry, (4) Indirect entry, (5) Electronic marketing
Javalgi <i>et al.</i> (2001)	Review on Country Of Origin as it applies to service industries	Conceptual Review	COO applies to services.
Javalgi <i>et al.</i> (2003)	<i>"An empirical examination of factors influencing the internationalization of service firms"</i>	Quantitative 228 (rr 14%) USA	As indicated in the eclectic theory, both firm- and location specific factors influence the internationalization process. Managerial attitude is a strong predictor of the level of internationalization.
Knight (1999)	<i>"Internationalization services marketing: review of research 1980-1998"</i>	Conceptual Review	The low number of only 124 found articles implicate that this field of research is relatively sparse and new. Much of the research done is largely exploratory, descriptive and focused on either particular services or locations.
Li (2005)	Regional vs global strategy	Quantitative 574 firm data USA	The author points out that a triad-based strategy is more effective than a global strategy, and that this is especially true for service firms. This because of the validity of Contractor <i>et al.</i> 's (2003) three-stage model.
Lindsay <i>et al.</i> (2003)	<i>"Relationships, the role of individuals and knowledge flows in the internationalization of service firms"</i>	Qualitative 5 USA, S/N/DK	The characteristics of services as an interaction process make the individuals especially important in the buyer-seller relationships. Service quality is created between individuals. The authors develop a conceptual model of knowledge transfer in service firms from the perspective of the foreign operation.
Lovelock (1999)	Strategy: Transnational vs multidomestic. Services marketing / Internationalizing drivers / Core vs supplementary services	Conceptual Opinion-based essay	Presents a definition of transnational vs multidomestic firms. Else, this is mostly a résumé of Lovelock's (and Yip's) earlier studies and findings. - Flower of service model (Lovelock, 1996) - 3 service categories (Lovelock, 1983) - 5 categories of internationalization drivers (Lovelock and Yip, 1996)
Mattsson (2000)	Technology in services internationalization and Organizational learning	Qualitative 4 S	Individuals play a critical role in the creation of collective organizational learning. 5 generic types of technical competency comprising different learning models: Sourcing, developing, communicating, contracting and implementing technology.

Study	Research focus / Title	Method & origin	Main findings
Nachum (2000)	Economic geography of TNCs in the USA	Quantitative Top 50 MNE USA	FPS locates in specific centers of excellence
Ochel (2002)	<i>“The International Competitiveness of Business Service Firms: The Case of Germany”</i>	Quantitative 750 (rr 20%) D	Germany has a higher potential in these services than the present performance. FDI much more important than exports in internationalization.
Pires & Stanton (2000)	Services marketing to ethnic consumers	Conceptual Review	In cultural diverse societies, ethnic consumers face unique problems that need to be understood by marketers.
Roberts (1999)	A stages approach to the internationalization of business service firms	Quantitative 279 (rr 31%) GB	Five stages in the internationalization of business service firms are identified: (1) No export, (2) Domestically located exports, (3) Embodied service exports, transhuman exports and wired exports, (4) Intra-firm exports, (5) Establishment of service production facility in the overseas market.
Roth <i>et al.</i> (2004)	<i>“Purchasing processes and characteristics of industrial service buyers in the US and Japan”</i>	Quantitative 48 USA, J	Professional service customers seem to buy more through indirect channels (referrals / WOM and network). Three unique industrial services buying segments are found: Networkers, Opportunists and Independents.
Samiee (1999)	Historical barriers and trends for services internationalization	Conceptual Opinion-based review	- Presents 7 barriers to internationalization - Often better with multidomestic rather than global strategies in many services. - Services have a large potential for further internationalization.
Stare (2002)	(Outward) services FDI in Central European Countries	Quantitative FDI figures SLO, CZ, H	Internationalization of services in transition economies can be analyzed with a stages-model because of these countries’ and industries’ characteristics. So far, CEC have not managed to upgrade their service exports in the direction of KIBS.
Taylor <i>et al.</i> (2004)	Economic geography. World cites.	Quantitative 100 firms 315 cites	Global service firms are linked to cites across the world. Globalisation is very complex and intricate. But there are some regional patterns in global companies. ICT is facilitating services centers and second-level world cites.
Toivonen (2004)	Foresight and innovation in KIBS	Qualitative 87 FIN	3 most important common development trends and the central drivers behind them are presented. 3 different internationalization models for KIBS. KIBS are very innovative.
Venard (2002)	The study outlines the role of organizational change in MNSE from the employee point of view. (Hungary)	Quantitative 369 questionn. H	In transition economies there may be several potential acquisitions in State-Owned-Enterprises (SOE). 5 main problems and following strategies are found.
Wymbs (2000)	Key factors driving the competitive transformation and globalisation of services industries, highlighting the role of internet.	Quantitative 103 USA	Internet cuts the cost of interaction. Some service industries are more affected than others. These firms must rethink their strategy in terms of complex adaptive systems (CAS)

Descriptive findings

A total of 31 articles dealing with different aspects of internationalisation of professional service firms or service firms in general were found. In accordance with Knight's (1999) findings, it seems like the major theory discussion is limited to a few journals (c.f. Table 4). In particular the Service Industries Journal (TSIJ) and the Journal of Services Marketing (JoSM) appear to be the major sources for academic work on this topic.

Table 4 Journals ranked by no. of Professional or general Services Internationalisation articles 1999-2005

Journal	Number
Journal of Services Marketing	11 ⁱ
The Services Industries Journal	10
Journal of International Business Studies	4
Management International Review	3
European Journal of Marketing	1
International Journal of Service Industry Management	1
Journal of World Business	1

ⁱ *JoSM special edition (Vol 13 Issue 4/5 1999) including 7 of the 11 articles reviewed*

There are several different definitions present, which all more or less cover the same industries. In this review the most widely term "professional services" is used to describe them all. However, "knowledge intensive business services" and the similar term "knowledge based business services" are also well established in literature as apparent in Table 5.

Table 5 Definitions of "professional services" used

Term used to describe professional services	Number
Professional Services	5
Knowledge-Intensive (Business) Services	4
Knowledge-Based (Business) Services	4
Contact Based Services	2
Intensive Throughput Technologies	1
Information-Intensive (Business) Services	1
None / Several / only (Business) Services	14

Most of the research done was published around the millennium. Except for a special edition in the Journal of Services Management in 1999 and the eight papers of the year 2000, the number of papers published seems to be around three to four papers per year. The increasing trend line of contributions per year found by Knight (1999) is thus not supported here.

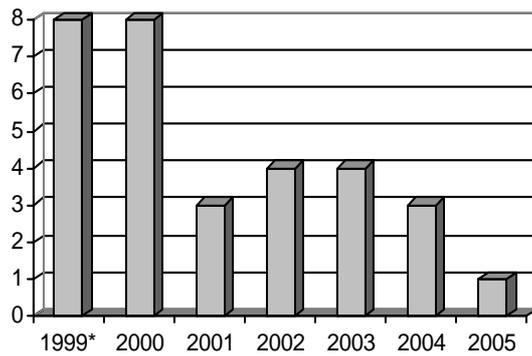


Figure 2 Number of articles per year reviewed (note: JoSM special edition in 1999)

The number of journals reviewed might be too few to generalise on size of research. Nevertheless, these figures show that the booming of services internationalisation since 1999 is certainly not followed by academics. Thus Contractor *et al.* (2003), Javalgi *et al.* (2003), Samiee (1999), Lovelock (1999) and Grönroos (1999) among others were right also in 2005 when they state that theory lags considerable behind practice in service's internationalisation.

Approximately two thirds of the reviewed articles take a general service perspective; while one third is mainly limited to professional services (c.f Table 6).

Table 6 Number of articles concerning only professional service firms vs. general service firms

Industry	Number
General (all service industries)	22
Professional services (but not single industry)	9

The literature reviewed stem from several countries. The majority of research however is conducted on US and Nordic data. Interestingly all three qualitative research papers stem from the Nordic countries (one of them is also covering US data).

Table 7 Origin of firms included in empirical research

	USA	FIN/S/N/DK	D	GB	H/CZ/SLO	EU	CDN	AUS	J
Quantitative	9	3	3	2	2	1	1	1	1
Qualitative	1	3	-	-	-	-	-	-	-

Classification of research

Table 8 shows the different methodologies used in the reviewed articles. In total 22 articles are empirical works; out of these 19 are quantitative and only 3 qualitative. The remainder, 9 articles, are non-empirical papers consisting of conceptual reviews and opinion-type contributions.

Table 8 Methodology basis in the reviewed articles

Methodology	Number
Quantitative	19
Qualitative	3
Conceptual paper (essay etc)	6
Review	3
Total number of articles	31

The large number of conceptual papers is in accordance with Knight's (1999) findings and remarks that this field of research is relatively new and therefore need such contributions. The very limited number of qualitative papers found, is a drawback for deeper insight. However it is plausible to believe that most qualitative papers are limited to one specific industry because of methodology characteristics (case studies), and thus not included in this review.

A best-effort division of the paper's research focus is carried out; as shown in Table 9 some themes are more important than others if judged on frequency of the papers' research focus (the three literature reviews are left out).

Table 9 Main research focus of the 28 reviewed empirical and conceptual articles

Main research focus	Number
Market entry strategy	9
Motivation for internationalisation	6
Cultural and market specific aspects in the internationalisation process	4
International performance (multinationality vs. performance)	3
Technology / ICT in the internationalisation process	3
Localisation decisions (economic geography)	2
Customer focus in the internationalisation process	1
Total	28

The research focus of the reviewed articles can be classified into *why* and *how* professional services internationalise. Motivation for internationalisation (the *why*) is the main topic in six of the articles, but this theme is of course also commented on in approximately all of the other contributions. Therefore the remainder of this paper will outline the motivation for internationalisation before the other themes (the *hows*) are briefly outlined.

Why professional service firms internationalise

Motivation for internationalisation

The three global meta-drivers summed up by Knight (1999) are also the three most evident in literature up to 2005. First, multilateral agreements such as The General Agreement on Trade in Services (GATS) and the EU Services Directive press towards internationalisation of services. In fact, GATS is often referred as the starting shot for services internationalisation (e.g. Javalgi *et al*, 2003; Clark *et al*, 1996). Trade agreements facilitate internationalisation of services by significantly reducing trade barriers between the participating countries.

Second, developments in ICT are a major source for increased internationalisation among professional service firms (e.g. Roberts, 1999; Bryson, 2001). Toivonen (2004) finds that increasing importance of ICT leads to increased use of professional services, and more focus of the consulting way of working in professional services. In addition, more non-professional services are becoming professional because ICT leads to higher specialisation. ICT also opens up new possibilities for electronically delivered services' export.

Third, globalisation in general surely affects professional services as well. Global networking developments lead to more emphasis on services, tightening of the strategies of client companies and blurring of industrial boundaries in professional services (Toivonen, 2004).

Parallel to the meta-drivers, both demand and supply driven forces at the firm-level press towards increased professional services' internationalisation (Roberts, 1999). The most cited motivation in the service literature is "client following" described by Vandermerwe and Chadwick (1989, pg. 79): "As producers go global, their service suppliers must follow". Even today "client-following" is a major motivation for internationalisation (Bryson, 2001; Roberts, 1999). Client-following is the ultimate demand driven motivation for increased foreign operations. Besides, an increasing demand for one-stop service-combination offerings is evident (Bagchi-Sen & Kuechler, 2000), and the increased focus on core-activities in the manufacturing sector leads to more externalisation of particularly professional services (Roberts, 1999).

Strategies built upon such demand-driven motivations can be described as reactive, while strategies based on supply-driven motivations can be described as proactive (e.g. Bagchi-Sen & Kuechler, 2000). Today more and more professional service firms proactively seek new international markets. Proactive market seeking strategies for internationalisation of professional service firms seem to outperform demand-driven ones in the long run (Roberts, 1999). Roberts (1999) furthermore indicates that as firms are becoming more international in scope, the supply driven forces are getting relatively more important. Orava (2005; pg. 65) importantly adds; "seeking and following are not mutually exclusive: even if customers are followed to foreign markets, it does not necessarily hinder new-customer procurement."

How professional service firms internationalise

Market entry strategy

Several Anglo-American researchers tend to discuss international entry modes, in particular Dunning's eclectic paradigm and multinational FDI-theory (e.g. Fernández Fernández, 2001; Lovelock, 1999), whereas Nordic contributors more often enhanced path dependency (e.g. Eriksson, Majkgård & Sharma, 2000) and learning perspectives (e.g. Mattson, 2000). These theories are to some extent contradictory to each other in that sense that a FDI demands all-in-once internationalisation. Below the two views are briefly outlined.

The path dependency and stages approach in the traditional Uppsala-internationalisation model is supported or even validated to professional service industries by several authors (e.g. Roberts, 1999; Eriksson *et al.*, 2000; Majkgård, 1998; Contractor *et al*, 2003; Li, 2005). The main point is that professional services have to go through a number of stages in the internationalisation process.

Most researchers agree that professional service firms must enter a foreign market "all at once" through different forms of foreign direct investment (FDI). Vandermerwe and Chadwick (1989) explicitly state that not all services are exportable. First and foremost the inseparability characteristic of professional services makes it impossible to sell service products without physical presence in the foreign market. Thus, export may not be a viable option for many service firms. Instead FDI (including foreign affiliates, licensing, and franchise) is held out as important aspects of services internationalisation (Bryson, 2001; Aharoni, 2000; Lovelock, 1999; Fernández Fernández, 2001; Vandermerwe and Chadwick, 1989; Ochel, 2002). Mergers and acquisitions, as well as green field establishments are typical types of FDI. According to Aharoni (1993; pg.282) "the service firm is allowed a

much shorter time for learning and getting used to the new market. It has to start producing its service all at once, maintaining direct contact with its customers". Again, this does not mean that internationalisation through export is impossible in all sort of professional services. But it emphasises proximity to the customers as a fundamental competitive advantage. Eriksson, Majkgård and Sharma (1999), for instance, argue that the professional service firm has to be present abroad, either with a subsidiary or through co-operation strategies, due to the importance of delivering service quality. Since quality is created in relationship and interaction between customers and suppliers, and thus affected by the relationships between them, face-to-face interaction is vital.

Cultural and market specific aspects in the internationalisation process

Due to the fact that professional services are people-centred and traditionally strongly trade restricted, market characteristics play an important role. Foreign market characteristics are discussed both by authors representing the eclectic paradigm (location advantages and market transactions costs) and the internationalisation process models (geographical and cultural distance). In order to overcome barriers in culture, risks, investments and market accessibility when going abroad, cooperation strategies such as joint ventures, networks, and strategic alliances may be well suited (e.g. Eriksson *et al*, 1999; Ochel, 2002).

International performance (multinationality vs. performance)

Capar and Kotabe (2003) stress that service firms often experience negative performance in the early phases of internationalisation due to three main factors; First, control regimes of countries are higher for services, which lead to considerable higher entry barriers. Second, the intangibility and need for customer-interaction (language and cultural problems) require more resources than it would do in manufacturing industries. Third, because of simultaneous

production and consumption (location-bound, time-bound) in services, there is a need for local appearance which requires significantly higher up-front investments. This first stage is referred to as “liability of foreignness” and is implicitly incorporated in the learning costs of the Uppsala-Model (Contractor *et al*, 2003). Even though liabilities may be reduced because of ICT and globalisation, there certainly will be some degree of “liability of internationalisation” anyway (Li, 2005). If Capar and Kotabe (2003), Contractor *et al*. (2003) and Li (2005) are right, professional service firms should plan a broader and deeper but geographically limited approach to internationalisation when first having decided to expand into new markets.

Javalgi *et al*. (2003) represent another attempt to address research on performance factors. Based upon the eclectic paradigm they concluded with three factors strongly influencing a professional service firm’s internationalisation process. First, firm size is positively correlated with the management’s desire to go international. Second, the location specific factor (trade barriers etc.) strongly influences the management’s desire to operate international. And finally the management’s attitude towards internationalisation is positively correlated with the firm’s international operations.

Technology / ICT in the internationalisation process

Even though services are “about people” the service companies do need a system of technology to facilitate the delivery process (Grönroos, 1999). As seen, ICT plays a crucial role in the internationalisation of professional services (e.g. Fisk, 1999; Roberts, 1999; Grönroos, 1999; Bryson, 2001; Mattson, 2001; Wymbs, 2001). Fisk (1999) represents the most radical view that ICT is revolutionising the service industry. Other authors take a more distanced point of view to the importance of ICT; Bagchi-Sen and Kuechler (2000)

underlines that face-to-face contacts are far more important than IT-based delivery. This standpoint is supported by Mattson (2000), who finds that managing technology during service internationalisation is inherently cultural and social in nature.

The importance of ICT is also highlighted in Bryson's (2001) review of European research on services internationalisation in 1998, where all country reports investigated the role of ICT and in particular E-commerce. Grönroos (1999) argues that "the internet changes the logistics of services far more significantly than for goods." Another remark is that ICT enables professional service firms to achieve economies of scope and scale (Roberts, 1999).

Localisation decisions (economic geography)

Economic geography of service multinationals is discussed by Nachum (2000) and Taylor *et al.* (2004). Both these contributions conclude that professional services locate in specific "centres of excellence" (Nachum, 2000) or "world cities" (Taylor *et al.*, 2004). In accordance with the economic theories of Dunning and Porter this is due to specific location advantages.

Customer focus in the internationalisation process

Professional service customers seem to buy more through indirect channels such as referrals (word-of-mouth) and networks (Roth *et al.*, 2004). Therefore, the importance of quality focus for internationalising professional services is underlined by several authors (e.g. Eriksson *et al.*, 1999; Ochel 2002; Lindsay *et al.*, 2003; Fernández Fernández, 2001). The customer is important in that sense that the performance and quality of a service depends upon the interaction between the service provider and the client (Fernández Fernández, 2001; Lindsay *et al.*, 2003). Even though the quality only can be controlled after the sale for service products, most important competitive advantage is quality and customer focus (Ochel, 2002).

Conclusions

The review of seven journals from 1999 to 2005 left only 31 articles in conformity with the search criteria. The literature on professional services' internationalisation clearly lags behind that of manufacturing, and does not reflect the leading role of service industries in today's world.

Most of the literature discussion takes place in the Journal of Services Marketing and The Service Industries Journal. Thus, these two journals are the right place to start for scholars and managers, who would like to learn more about this topic. Although, research stems from several countries, it clearly has a US (and Nordic) centre of gravity. 18 out of 31 are quantitative articles, 3 are literature reviews, 6 are conceptual papers, and only 3 are qualitative research, which proves a lack of cross-industry multiple-case studies.

The reviewed research on internationalisation of professional services is classified into seven research areas as listed below:

1. Market entry strategy
2. Motivation for internationalisation
3. Cultural and market specific aspects in the internationalisation process
4. International performance (multinationality vs. performance)
5. Technology / ICT in the internationalisation process
6. Localisation decisions (economic geography)
7. Customer focus in the internationalisation process

This review supports previous findings when it uncovered a clear gap between the limited number of contributions and the increasing importance of services internationalisation. In

general all the seven research areas will benefit from more contributions. However, special attention should be paid to the two areas 5 and 7, which both will increase in importance in the future:

- I. The role of ICT as enabler and tool for internationalisation
- II. The role of customer oriented strategies in the internationalisation process

First, the role of ICT as enabler and tool for internationalisation should be further analysed because of several reasons: The ICT industry is still quickly developing and changing how companies interact. Furthermore, development trends in ICT are shown to have great influence as drivers for professional services' internationalisation. Finally, ICT gives new possibilities for service operation business models and service product standardisation. This review only revealed three tailored contributions to this topic.

Second, the role of customer oriented strategies in the internationalisation process of professional services is given little attention. When service firms nowadays increasingly go from reactive client-following strategies to proactive customer seeking, new models are needed to ensure service quality and customer satisfaction in foreign markets. In addition professional services are people-centred activities with a high level of cultural sensitivity, which complicates market entry considerably relative to manufactured goods export.

There exist some limitations to this study. First, all conceptual reviews suffer from a low degree of precision because of the great distance to the analyse units of the reviewed articles. However, conceptual reviews are very objective and can easy be controlled by others. Second, the study would be more detailed if it included professional service's industry-specific papers in the review, such as internationalisation of banking, education, law-firms

etc. These articles would bring deeper insight into differences in-between professional services. This limitation is the strongest one, and should be intercepted by other researchers.

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This chapter examines the internationalization of Professional Service Firms (PSFs), outlining its drivers, varying forms, and organizational implications. It argues that conventional internationalization theory does not apply straightforwardly to PSFs. The authors identify three key sources of PSF distinctiveness—governance, clients, and knowledge—and show how these generate not only differences between PSFs and other types of organizations but also heterogeneity amongst PSFs themselves. Based on this, four different forms of PSF internationalization are identified—network, project, federal, and transnational—and the authors note that scholarly interest has mostly focused on the last two of these.

Internationalization of Professional Service Firms: Drivers, Forms, and Outcomes
Glenn Morgan and Mehdi Boussebaa
The Oxford Handbook of Professional Service Firms Edited by Robert Hinings, Daniel Muzio, Joseph Broschak, and Laura Empson

Abstract This chapter examines the internationalization of Professional Service Firms (PSFs), outlining its drivers, varying forms, and organizational implications. Keywords: internationalization, organizations, professional service firms, governance, clients, knowledge, transnational enterprise, federal structure

4.1 Introduction

IN the last three decades, many Professional Service Firms (PSFs) have evolved into transnational businesses with an impressive global reach. In economics, internationalization or internationalisation is the process of increasing involvement of enterprises in international markets, although there is no agreed definition of internationalization. Internationalization is a crucial strategy not only for companies that seek horizontal integration globally but also for countries that addresses the sustainability of its development in different manufacturing as well as service sectors especially in higher education which is a very important... Professional Service Firms (PSFs) such as accounting, consulting, law, engineering or advertising firms increasingly face changing attitudes and fluctuation among young people with high potential who question traditional career and human resource (HR) concepts. In this context, it seems vital to foster a spirit of corporate entrepreneurship in PSFs to create an attractive environment that satisfies the autonomy-striving professionals. And the reform has impacted or will impact the specific context in which many internationalisation [Show full abstract] practitioners, not only in Europe but also beyond, will have to carry out their professional activities.