

The Internationalisation of Service and Manufacturing Firms

A Comparative Study in the Swiss Economy

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Abstract

The service sector has gained a great share of international trade and foreign investments. Research on international business, though, mainly deals with the internationalisation of manufacturing companies. It remains unclear if current theoretical models are able to explain the internationalisation behaviour of service firms adequately. The present study describes the internationalisation behaviour of Swiss consulting, information technology and education enterprises and compares it with the behaviour of manufacturing companies from the areas of food, textiles and chemical products. Results show that the psychological distance to foreign markets has a greater importance for service providers than for production companies. Service providers prefer direct distribution systems and develop foreign markets faster than production companies.

Key Words

Service industries, internationalisation, international services marketing, internationalisation theory, Switzerland

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1. Introduction

In Switzerland the service sector has achieved an important position. More than three quarters of companies' turnovers are generated in the tertiary sector (value added tax statistics 2003). Service companies, though, do not only perform their services in and for Switzerland but to a growing degree in and for foreign countries. The share of service exports in the Swiss economy's total exports in 2003 amounted to almost 80% (value added tax statistics 2003). The share of service companies in direct investments abroad reached almost two thirds according to figures from the Swiss National Bank (Statistisches Monatsheft March 2007, ref. Fig. 1).¹

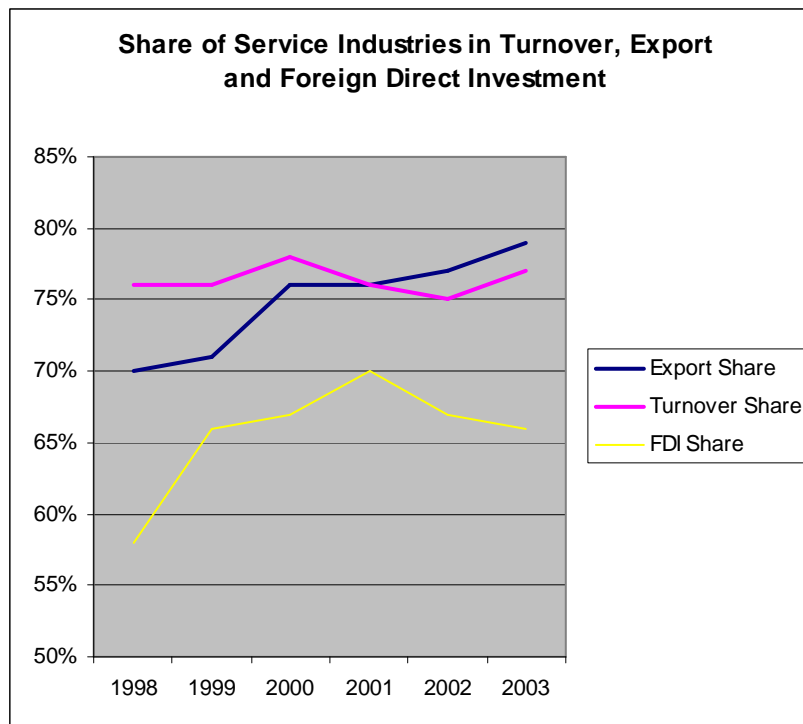


Figure 1: Share of service industries in turnover, export and direct investment in the Swiss economy

Reasons for the increasing internationalisation of the tertiary economic sector can be found in factors internal and external to the corporations. Among the external influences are the international alignment of service

¹ According to the value added tax statistics the export share of the tertiary sector is considerable higher than the one shown in the foreign trade statistics. Reasons for this are, for example, that the value added statistics include so called 'abroad-abroad-turnover' reaching considerable volumes especially in wholesale sectors.

needs, the increasing complementary relationship between goods and services, the greater individual mobility of employees because of agreements on free movement of labour, the improved communication possibilities with distant customers and the liberalisation of service markets through a reduction of trade barriers (GATS). Among the internal influences is the opportunity to multiply existing performance concepts internationally and thus to benefit from resulting economies of scale and scope (Bruhn 2005, 7ff.; Porter 1991, p. 274ff.; Czinkota/Ronkainen 1993, p. 736ff.; Hermanns/Wissmeier 2001, p. 527ff.; Javalgi/White 2002, p. 565).

Research in the international business area has not done justice to the importance of the service sectors so far (Vinh 2005). First publications on the internationalisation of service companies appeared at the end of the 1980's. In the middle of the 1990's, a pronounced interest in the topic of international service marketing arised, but it soon dropped off again (Bruhn/Stauss 2005). Existing studies investigated the importance of services in various world regions (e.g. Kassem 1989), the process of internationalisation in specific service sectors (e.g. Bhuian 1997, Terpstra/Yu 1988), the differences between individual kinds of services and their implications for marketing (e.g. Nicoulaud 1988, Patterson/Cicic 1995). All in all, the number of studies seems to be small in comparison with the importance of the service sector. Research is fragmented into unrelated topical areas, mainly explorative in nature and the theoretical basis is insufficient which shows that the field of international services marketing is still very much at an early stage (Knight 1999, p. 348).

Theoretical models explaining the internationalisation of companies like the stages theory (Johanson/Vahlne 1977) are therefore mostly based on the empirical investigation of manufacturing enterprises and the question has been asked if these models are capable of reflecting the internationalisation process of service companies adequately (Mösslang 1995). Services distinguish themselves from goods through characteristics like immateriality, non-storability, non-transportability, a high intensity of customer contact and product differentiation which could have a considerable influence on internationalisation. Literature gives a split impression of the discussion on this subject (Grönroos 1999).

There are authors who represent the perspective that service providers and production enterprises show identical internationalisation behaviours and there is no need to adapt internationalisation theories to the service sector:

On the other hand, the value added statistics include financial transactions from the credit and insurance businesses which can increase their export turnovers.

- Boddewyn et al. (1986) examined conceptually whether the theories of foreign direct investment are relevant to understanding international service firms. They concluded that no special FDI-multinational enterprise theories for international service firms are necessary, that the existing ones can be readily accommodated through relatively simple qualifications and elaborations (e.g. concerning the nature of ownership, internalization, and location advantages as far as service MNEs are concerned).
- Terpstra and Yu (1988) investigated the impact of locational factors and firm-specific advantages on the foreign investment of the 20 largest U.S. advertising agencies by using the theories on the determinants of foreign direct investment by manufacturing firms. Six hypothesis were developed and all empirically accepted for the time period between 1972 and 1984: (1) Advertising agencies enter foreign countries with large market size, (2) they do not discriminate between foreign countries because of their geographic locations, (3) they have a higher tendency to go abroad with larger firm size, (4) they are more inclined to expand internationally with increasing international operations experience, (5) they react oligopolistically in investing abroad and (6) they follow their home country client firms in going abroad. Based on their results Terpstra and Yu stated in their conclusions that theories on the determinants of foreign direct investment are applicable to the U.S. advertising industry.
- Katrishen and Scordis (1998) investigated whether multinational insurers achieve economies of scale like manufacturing companies do. Using a time-series, cross-sectional design they analyzed the relationship between expenses and output of 93 insurers from 15 different countries. This exploratory study provides evidence that economies of scale can exist for service firms just as they do for multinational manufacturing companies. Katrishen and Scordis state that their findings suggest that "theories developed to explain the behaviour of multinational manufacturing firms can be applied to multinational service firms" (p.317) - with the reservation that multinationality may not be as great an advantage for service firms as it is for those manufacturing firms that require very large plant sizes to achieve economies of scale.
- Javalgi et al. (2001) examined the country of origin research as it applies to services. They reviewed marketing and general business journals over a 20-year period for articles relating to international services and country of origin. The review identified 19 studies and concluded that the relationship between country of origin and services appears similar to the relationship between country of origin and goods - e.g. when brand names are not well known, country of origin becomes relatively more impor-

tant in the evaluation of consumers, developed countries are more highly rated than developing countries and country of origin effects lessen with the presence of additional information.

- Elango and Abel (2004) compared the influence of country characteristics on foreign direct investments of U.S. service and manufacturing firms. Their findings show that manufacturing and service FDI result from similar motives, such as market access, cultural familiarity and market size. A significant differential effect only seemed to exist in the case of country wealth. They conclude "that there is no need to develop a new theory of service FDI ... however, one may call for modifying existing theories to incorporate the differential influence of country wealth" (p. 36).

Another group of authors takes the view that the internationalisation behaviour of service and manufacturing firms differs and internationalisation models have to be adapted to the specific characteristics of service providers:

- Dunning (1993) set out to identify the main competitive advantages of multinational enterprises in providing services, the way in which these advantages are used to best advance the strategic goals and the reasons why the value added activities which these advantages generate are undertaken outside the home country. He found that certain features of service activities differentiate the internationalisation behaviour of service corporations compared to manufacturing firms. The intangibility and perishability of pure services for example mean that they require face to face contact for an exchange. Trade can only take place where buyer and seller are in the same place. The locational choice of companies supplying services may therefore be more constrained than that facing goods-producing firms.
- O'Farrell et al. (1995) investigated service firms in Scotland, England and the Netherlands on their foreign market development strategies and found that neither the internalization paradigm, nor the establishment chain theories of the Uppsala School and the diffusion of innovation models satisfactorily explain the development of foreign markets by business service firms.
- Javalgi et al. (2003) examined the factors influencing the internationalisation of 228 U.S. business-to-business service firms based upon the tenets of Dunning's (1980) eclectic theory. They found that management's attitude toward internationalisation is contingent on firm size and the market characteristics of the host country - as it was found to be the case for manufacturing companies. Nevertheless they state that caution must be taken in the application of the manufacturing literature to the service sector. "Rather, each underlying assumption from the manufacturing literature must be carefully ex-

amined (both theoretically and empirically) to determine its appropriateness for application in the service industry" (p. 195).

- Ekeledo and Sivakumar (2004) developed and tested a resource-based framework for entry mode choice and ascertained the extent to which the determinants of choices in the U.S. manufacturing sector apply to those in the service sector. They found that since key technologies in service offerings tend to be embodied in trade secrets instead of patents or copyrights, service firms favour sole ownership as a mode of entry in foreign markets more often than manufacturing companies. Service firms use licensing as a mode of foreign market entry more frequently because they often require multiple sites in a country due to the non-separability of the production and consumption of their product. And a larger part of small service firms use foreign direct investment as an entry mode than manufacturing companies because the capital requirements are much lower for them. Ekeledo and Sivakumar conclude that "entry mode concepts and practices in the manufacturing sector are not always generalizable to non-separable service firms" (p. 92).

Finally there are authors who claim that service internationalisation is too broad a concept to be explained theoretically. They state that internationalisation models should distinguish between different types of service firms:

- Erramilli presented evidence in 1990 that indicates an immense diversity in entry mode choice patterns among various service industries. He investigated 175 US service firms and found that foreign market entry behaviour in industries dominated by hard services, such as software and engineering, appears to be similar to that observed in the manufacturing sector. On the other hand, soft-service industries differ from manufacturing firms in their foreign market behaviour. His findings show that customized services are more likely to be marketed via highly integrated entry modes that give the firm a great degree of control over its international marketing operations.
- Coviello and Martin (1999) examined the internationalisation behaviour of 4 small or medium-sized New Zealand-based engineering consulting firms based on foreign direct investment theory, the stage models of internationalisation and the network theory. They found that the internationalisation of those firms were influenced by several key organizational characteristics: A product embodied in skilled personnel, a relatively high degree of client involvement, relatively low capital intensity and the project-based nature of the business - characteristics which reflect the pure service component of engineering consulting firms. None of the three theoretical frameworks fully explained the internationalisation of

this type of service SME in its own right, certain patterns were similar to those found for manufacturing SMEs though (for example the importance of network relationships for internationalisation). Coviello and Martin therefore ask "whether industry influences are less important than those related to size" (p. 60).

- Vinh et al. (2005) developed a contingency model relating to the determinants of export performance among service firms. Determinants are specified as specific firm resources like technical facilitation, process quality, cultural sensitivity, management commitment and country of origin. The effect of these factors on export performance is moderated by service types (degree of tangibility and face-to-face contact). Hypothesis were developed which propose that export performance of service firms depends on the type of service (e.g. sensitivity of key personnel has a greater influence on export success for services characterized by a low degree of tangibility compared to those with a high degree of tangibility).
- Blomstermo and Sharma (2006) investigated the foreign market entry modes of 140 Swedish hard- and soft-service firms and tested the generalizability of the research findings from manufacturing sector to service sector firms. They found that soft-service firms are much more likely than hard service firms to choose a high control entry mode into foreign markets above all if cultural distance increases. The implication of these findings is "that while hard service suppliers can learn from the experience of manufacturing firms going abroad, soft services are unique" (p. 211).

As a whole these studies present an inconsistent answer to the question: Are the internationalisation behaviours of service and manufacturing firms different? They suggest that service providers choose higher control foreign market entry modes than producers, use similar criteria in selecting foreign markets but nevertheless are more restrained in their geographical and cultural scope. The extent to which the internationalisation of service and manufacturing firms differ seems to depend on the type of service. Soft services distinguish themselves more from goods than hard services. The evaluation of these varying positions is difficult. Empirical research on the internationalisation of service firms is still rare and it remains unclear if current internationalisation models are capable of reflecting the internationalisation process of service providers adequately.

2. Methodology

The present study attempts to clarify the differences of the internationalisation of service and manufacturing firms by describing the motives, processes and challenges of the internationalisation of Swiss service providers and comparing them with manufacturing enterprises.

The study is structured into two consecutive surveys: the first one was explorative, qualitative-empirical. The sample consisted of twelve internationally active service companies, four each from the industries of corporate consulting, engineering and information technology. In each company the CEOs were questioned by means of partly structured interviews for the motives, the process and the challenges of the internationalisation. The interviews underwent a standardised content analysis and were compared with each other. Based on the results, a focus group consisting of scientists, entrepreneurs and export specialists formulated theses on the internationalisation behaviour of service providers. The following second survey was confirmatory, quantitative-empirical. As the basis for the sample the Export Directory of the Osec Business Network Switzerland - the official state-financed Swiss export promotion agency - was used. The sample consisted of 996 organisations, 443 service providers from the sectors consulting, information technology and education as well as 553 production enterprises from the sectors food, textiles and chemical products. A questionnaire was developed by means of which the agreement with the theses resulting from the qualitative survey could be measured. The questionnaire was written in German and French and was delivered by an internet-based survey instrument (Survey Generator). Questions underwent a pre-test, incomprehensive formulations and incomplete answer categories were re-edited. The questionnaire was finally sent to the persons responsible for the international activities of the businesses (i.e. heads of exports, marketing managers, CEOs). Unresponsive companies were contacted a second time and encouraged to answer the questionnaire. The return showed 330 answers which is equivalent to a 33% respondent rate.

The companies participating in the quantitative study employed on average 213 staff members (production companies 296, service providers 77) and were founded in 1952 (production companies in 1939, service providers in 1972). In 1973 they became internationally active (production companies in 1969, service providers in 1978) and generated a turnover from abroad of 47% (production companies 50%, service providers 42%). These figures illustrate the fact that the investigated service providers were considerably younger and smaller than the producers and that their internationalisation happened much more rapidly. All in all, the companies achieved a large foreign market share which is probably due to the fact that, on the one hand, all entries were selected from the Osec Export Directory and, on the other, that the non-response effect only led

internationally active companies to participate in the study. Large companies are overrepresented in the study. On average, Swiss companies have 11 employees (Federal Office for Statistics 2005). The distribution of companies in market sectors (see Fig. 2) shows that consulting agencies are heavily overrepresented within the service category if compared with the information technology companies and the educational institutions. Within the production sector, organisations spread relatively equally across the three markets chemicals, textiles and food.

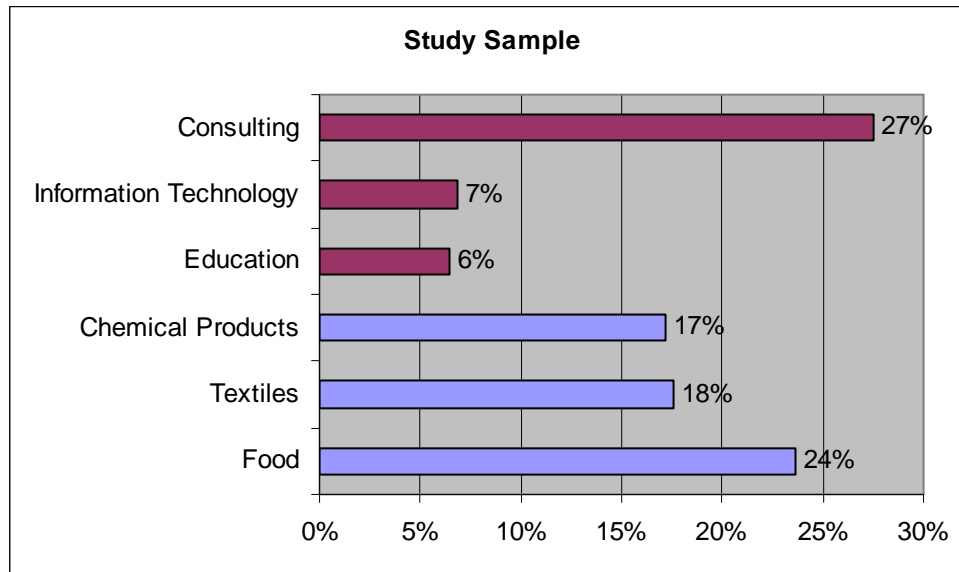


Fig 2: Distribution of studied enterprises in market sectors

The evaluation of questionnaires was done via cross tabulation. Answers from service and production companies were juxtaposed and tested for their significance of difference through Pearson's Chi Square, the continuity correction and the likelihood ratio. Answers showing an asymptotic significance of below 0.05 were categorised as significantly different, if they showed an asymptotic significance of below 0.01 as highly significant. Significance levels are indicated in the graphs with asterisks (*/**).

3. Results

In the following parts the theses resulting from the qualitative survey on the internationalisation of service providers are illustrated. It will be shown what kind of agreement they received within the quantitative survey and how much the answers from service and production companies differed.

3.1. Motives for Internationalisation

Based on the qualitative survey, the following theses on the motives for the internationalisation of service providers were developed (see also Bruhn 2005; Meffert/Bruhn 2003):

Service providers follow their customers abroad: Internationally active industrial organisations require services from one source in order to simplify procurement and to guarantee quality. This makes an international presence for service providers necessary without which they would lose their competitive edge on the domestic market too (see also Behofsics 1998).

Internationalisation is used as a reference in competition: As the market performance of a service provider is neither palpable, visible or checkable, its sales are based on trust – trust that is a result of experiences, recommendations and references. International activities can be a reference which strengthens the trust of customers in the performance of a service provider (in the home market as well).

The domestic market is too small for focused service providers. The trend towards differentiation of markets and their globalisation at the same time leads to the situation that service providers have to concentrate on progressively shrinking market segments and to work these internationally in order to justify the development costs of their services, to fully use their capacities and to build up the critical corporate size which is necessary to process larger orders.

Service providers use the advantage of Swissness in international competition: Abroad “Swiss” represents discretion, independence, service orientation, multiculturalism, security, punctuality, reliability – values which give Swiss service providers an advantage in the international competition.

Trade obstacles and regulations are being reduced: The liberalisation of service trade within the context of the World Trade Organisation (WTO) and its focus on the liberalisation of service markets (GATS) has simplified the international trade of services.

Internationalisation serves as a distribution of risks: Activities in countries that differ with regards to the economic cycle reduce the entrepreneurial risk of a service provider.

Customers are becoming more mobile: Customers are more willing to come to Switzerland to receive a service due to faster and less expensive means of transport.

Services are becoming more mobile: The internet offers the possibility to send services abroad which so far could not have been transported.

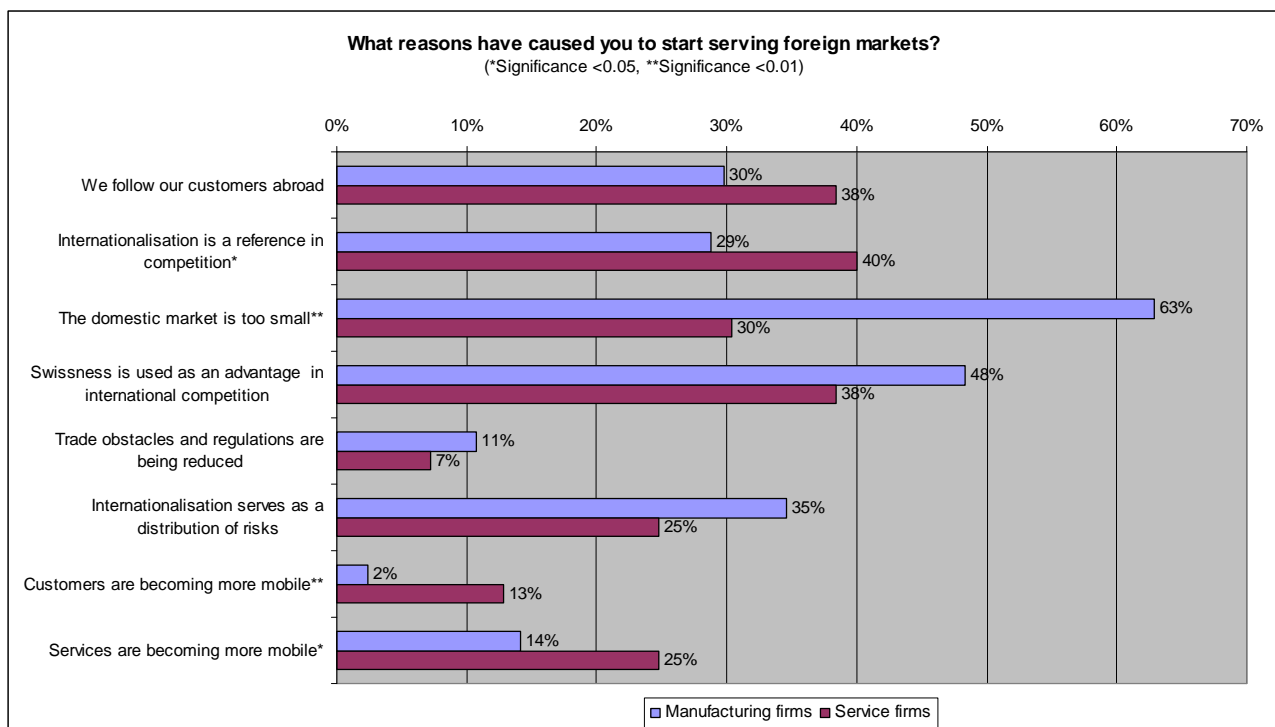


Fig. 3: Motives for Internationalisation

Within the context of the quantitative survey, the agreement with these theses was checked by means of the question: What reasons have caused you to start serving foreign markets? Fig. 3 shows to which degree the interviewed service providers agreed with the postulated motives and which relation can be seen between the agreement of service providers and the one of manufacturing companies.

The result shows that there are essentially four reasons which cause service providers to internationalise: an international orientation is a reference in competition, the service providers follow their customers abroad, the enterprises use the Swiss image to sell their services abroad and the Swiss domestic market is too small to

allow focused suppliers to achieve a critical corporate size (see also Mann 1998). The thesis that market entrance has become easier through the liberalisation of the service markets has found little consent. The WTO efforts do not seem to have resulted in the expected facilitations in the international trade of services for Swiss firms.

The comparison with the manufacturing companies shows that internationalisation as a reference in competition has a significantly higher importance for service providers than for producers. The same can be said for customers' mobility and the service mobility. New transport and communication means seem to have a greater impact on the tertiary sector than on the secondary. On the other hand, production companies mention significantly more frequently that the size, resp. the limitation, of the domestic market was the cause of internationalisation. This could be related to the fact that producing goods is mostly capital intensive while producing service is mostly personnel intensive and so economies of scale seem to matter primarily for producers (see also Katrishen/Scordis 1998).

3.2. Target Market Strategy

As for the target market strategies employed by service providers the following two theses were developed:

Service providers choose foreign markets according to the psychological and geographical distance: The provision of a service very often takes place by integrating the customer through personal contacts. Linguistic and cultural differences thus matter more than in the case of the production of goods with which the production and the consumption are separated in time and location. Because of this, service providers internationalise their activities primarily in markets that are linguistically and culturally similar to their domestic markets. For Switzerland these would be the alpine countries of Germany, Austria, France and Italy (see also Javalgi/White 2002; Karmarkar 2004; Raff/Billen 2005).

The internationalisation of services happens in successive steps: An international expansion of the field of activity needs adaptations of capacities which are more difficult to realise with service providers than with production companies as the development of services is very personnel intensive and the establishment of a qualified staff as well as an adequate reputation in a foreign country takes a long time. Therefore service providers enter foreign markets successively - contrary to the secondary sector where it can be seen since the 1990's that corporations are founded more and more internationally (born global) and enter lead markets simultaneously (Lehmann/Schlange 2004).

These theses were tested in the quantitative survey by means of the following questions (Fig. 4.5.6): Based on which criteria did you select foreign markets? In which foreign markets are you currently active? How fast did you proceed with the internationalisation?

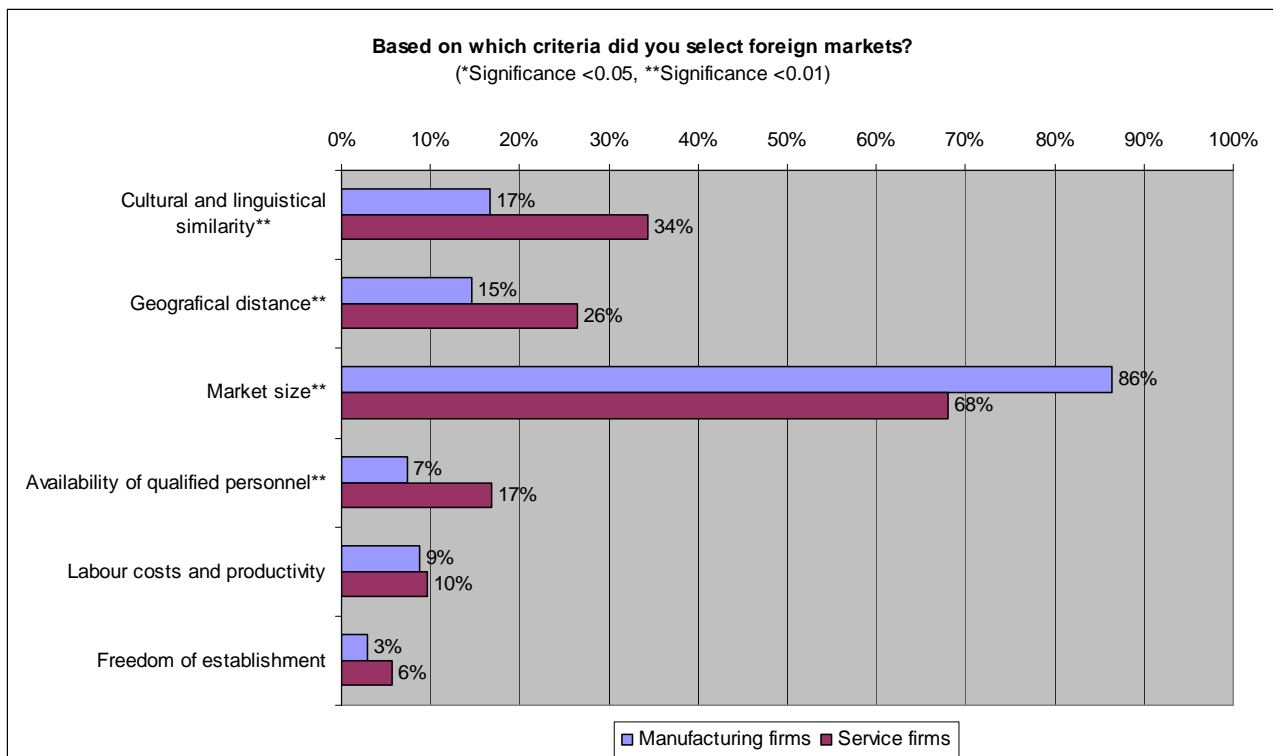


Fig. 4: Criteria for Selecting Foreign Markets

Feedback has confirmed that cultural and linguistic similarities and the distance to the domestic market are more important criteria for service providers when selecting foreign markets. Production companies in turn mention significantly more frequently that they choose foreign markets according to their sales potential (Fig. 4). These differences become slightly less pronounced through the fact that for service providers as well as for production companies the sales potential forms the most important criterion for the selection of foreign markets. The distribution of markets in which the interviewed service providers are active reflects this accordingly. Germany ranks first with 84%, followed by the alpine countries Austria, France and Italy. Slightly trailing behind are the large markets of Asia and North America (Fig. 5). The significantly weaker representation of service providers in most markets could mean that, on average, they achieve larger turnovers in fewer mar-

kets, as their total turnover share in foreign markets equals that of the producers. This could only be verified, though, through a collection of turnover data in each individual country.

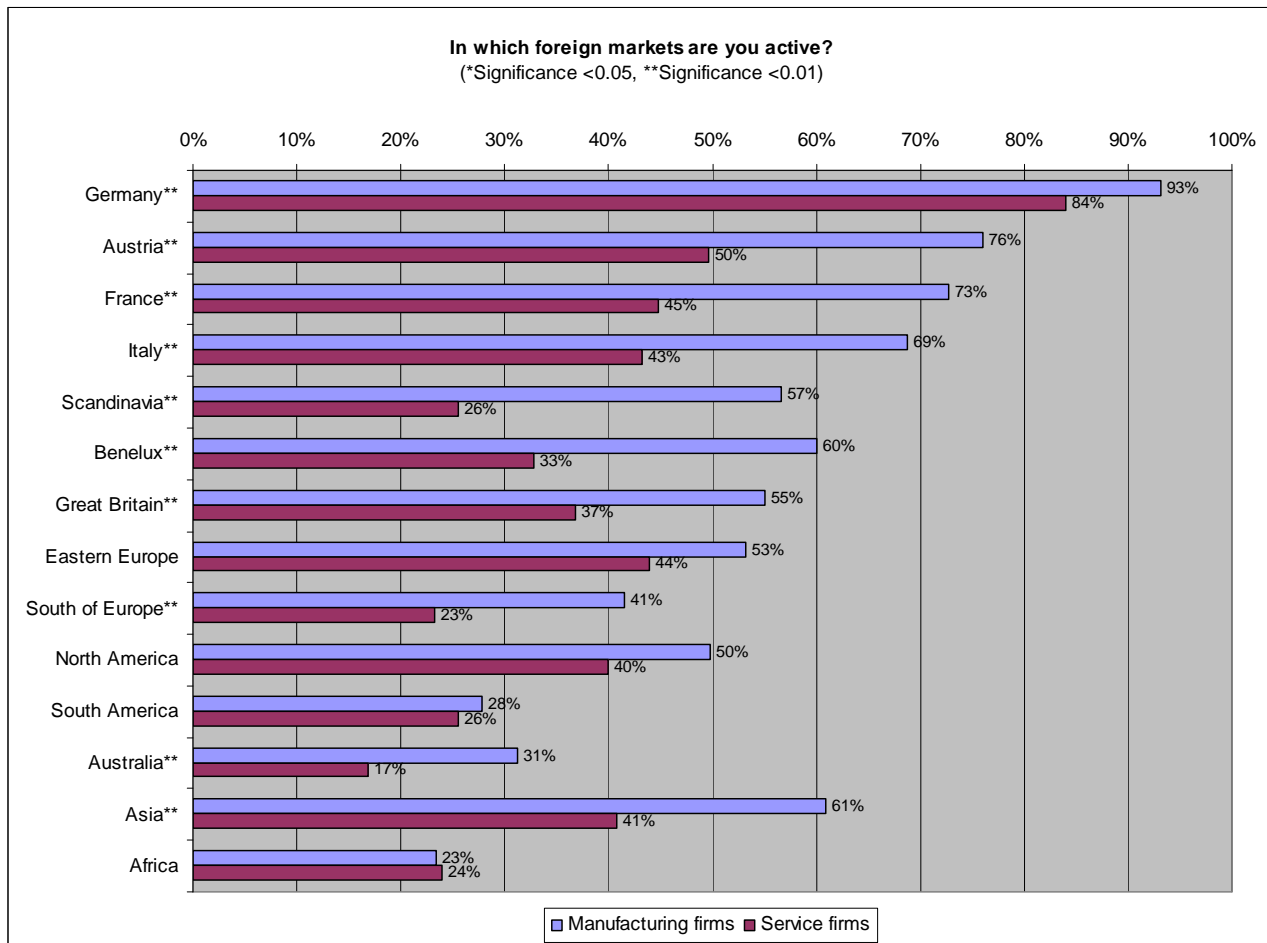


Fig. 5: Selected Foreign Markets

The speed of internationalisation among the interviewed service providers is very high, quite contrary to the hypothesis. On average, they already enter international competition 6 years after having been founded, significantly earlier than production companies which usually need 30 years until working the first foreign market. 52% of all service providers could be termed born globals in contrast to only 23% of the interviewed producers which were active for foreign customers in their first year. The speed of internationalisation of service providers can be seen as well by the fact that two thirds of the enterprises state that they are developing several foreign markets simultaneously instead of one market at a time (Fig. 6). Comparing this with the produc-

tion companies shows that they significantly less frequently choose the simultaneous market development mode (there is still a majority using this strategy though).

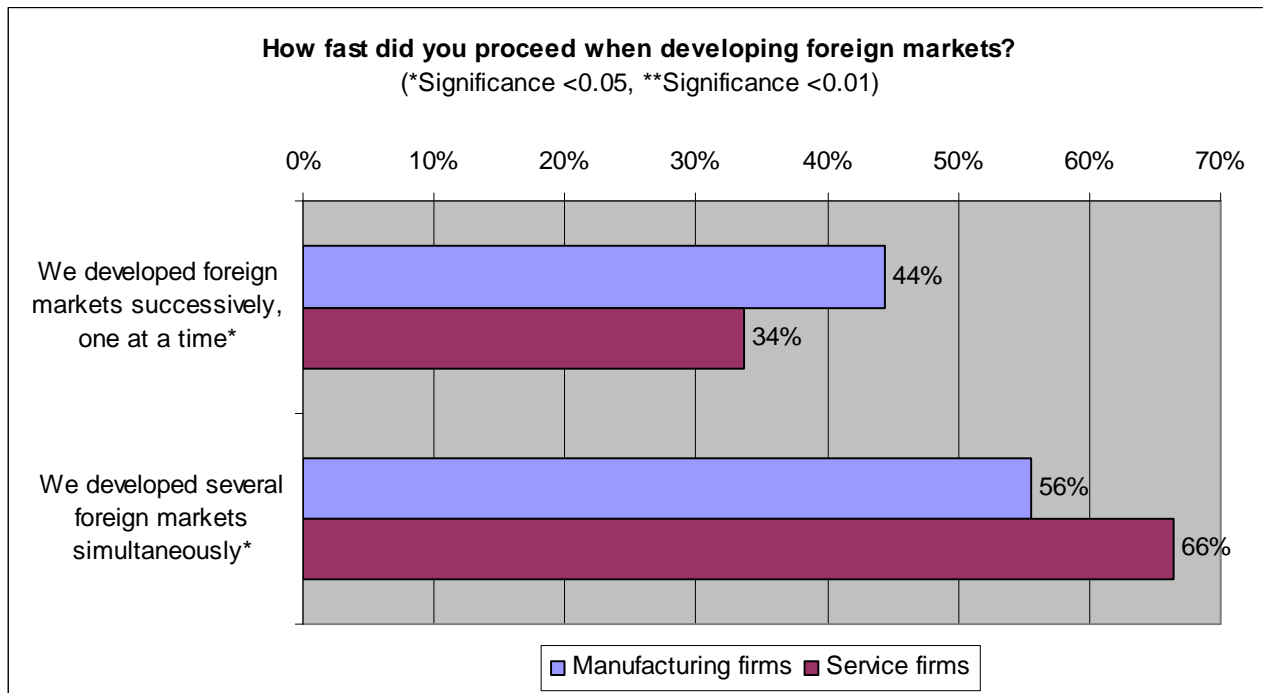


Fig. 6: Speed of Internationalisation

3.3. Market Entry Strategy

Theses on market entry strategy concern forms of distribution which service providers use in international business (see also Buckley et al. 1992; Pietikäinen/Tynnilä 1994):

Service providers lack the indirect distribution channels: The characteristics of immateriality, simultaneousness of production and consumption as well as close customer contact necessitate that services are created at the customer's location and exclude a distribution through a domestic or foreign intermediary as a market entry strategy.

Cooperation with foreign partners is limited through the difficulty of quality control: The quality of a service depends on the personnel who supplies it. Quality control of services is complicated because of its immateri-

ality. It is thus equally difficult to supply services which meet internationally comparable standards within the context of licence agreements or joint ventures with foreign partners.

Service providers export directly or establish their own foreign subsidiaries: For service providers mainly the direct options of foreign market development are available: direct exports and the establishment of their own sales and production subsidiaries to internationalise their services.

The feedback from the quantitative survey confirms the theses 1 and 3 (Fig. 7). The market entry strategy most used by the interviewed service providers is direct export. Their own employees travel abroad to supply services in situ. Contrary to our expectations, this is followed by cooperation with foreign partners. Establishing a subsidiary abroad comes third. These three forms of market entry are used parallelly by most of the

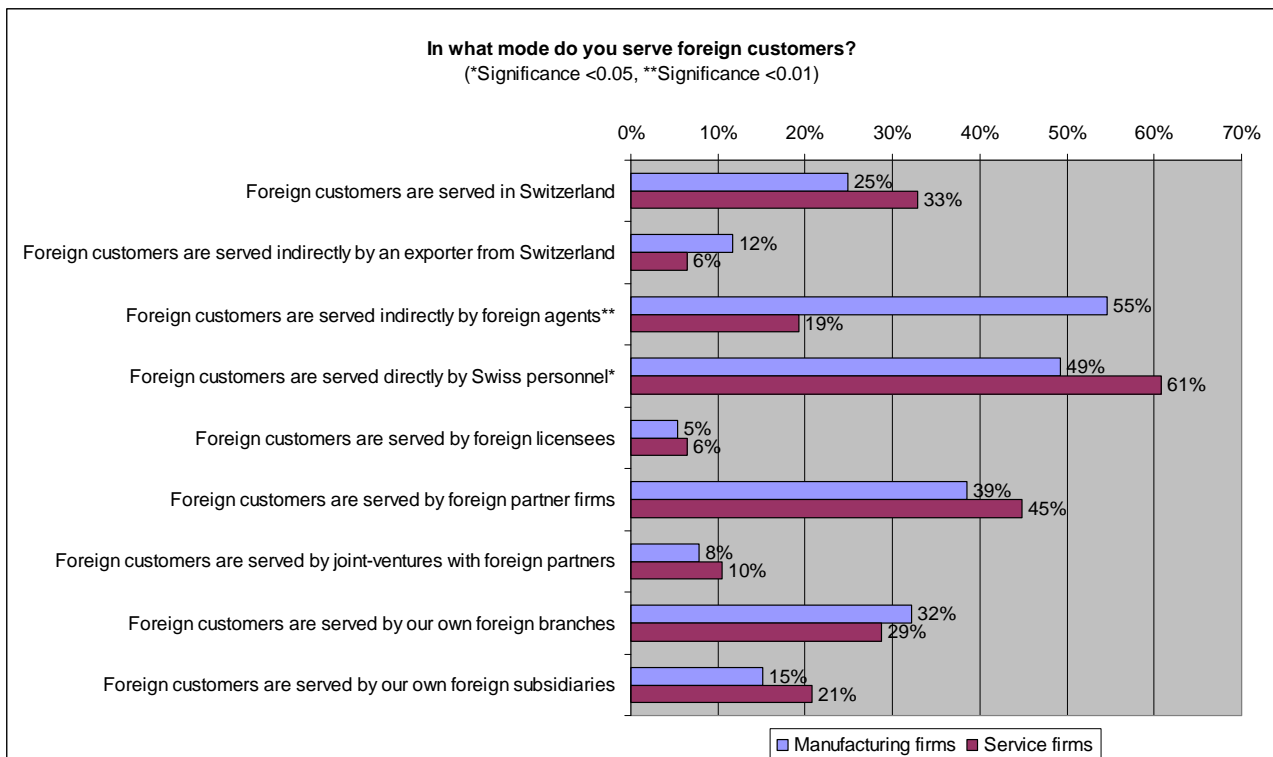


Fig. 7: Market Entry Strategies

enterprises, probably depending on the sales potential of a foreign market. It can be that initially a market is supplied from Switzerland and later a more intensive form of working it is applied once a big enough sales potential has developed. A partnership with a foreign enterprise seems advisable in case the psychological distance to the market is considerable and the foreign partner can contribute valuable market expertise and

contacts to the cooperation so that market development can be speeded up. Own subsidiaries will probably be preferred if the risk of a loss of know-how is high and quality control is difficult.

If feedback from the service providers is compared with the one from manufacturing companies, we can see that there are significant differences in the form of exports which supports our thesis that service providers use the direct distribution forms more frequently and the indirect forms less frequently than the production companies.

3.4. Challenges of Internationalisation

Concerning the challenges service providers face when internationalising, the following theses were formulated based on the qualitative survey:

The immaterial character of services makes foreign market analysis difficult: A solid product from a competitor can be acquired, looked at, dismantled and analysed concerning its characteristics. Services are immaterial, their creation is often private and subject to confidentiality. Thus the analysis of foreign markets is more difficult for services than for products.

Services have to be adapted to different market conditions: the supply of services takes place with intensive customer contact, often even with a contribution by the customer. Because of this services must be differentiated and have to be attuned to the differing needs of variable national markets. For the international competition this requires profound knowledge of the specific market and large investments in the adaptation of services.

Internationalisation requires intercultural competence: Services are supplied in close contact with customers. Good language skills and a high level of intercultural competence of the staff belong to the most important prerequisites for the internationalisation of services.

Marketing of services abroad is based on trust: Building trust has proved to be a challenge for service providers, because the product cannot be demonstrated, presented or tested. Even references can only be used to a certain degree as customer relationships are often subject to confidentiality.

Customer care needs resources and is linked to individuals: Customer contact when supplying a service is closer than with material goods and often comprises an emotional aspect. Customer care therefore has to be

practised intensively and depends on individual staff members who have established the relationship with the customer. Once the employee leaves, the customer leaves too.

Internationalisation of services necessitates high mobility of personnel: As the creation of services and their consumption takes place simultaneously, service providers have to be present with their staff in the foreign country. This can be achieved by having staff travel abroad which demands high mobility from their side and is limited by entry -, work- and residence permits and which causes travelling costs (see also Samiee 1999).

The quality of services undergoes fluctuations caused by human factors: Services cannot be standardised like industrial goods, they cannot be centrally produced and sold globally in uniform quality. Their supply happens decentralised and depends on the skills of staff members and sometimes even of customers participating in the conception of the service. This creates a challenge for the service provider to control quality, to offer an internationally comparable quality standard and to establish and maintain a positive quality image.

The internationalisation of service providers is limited by personnel resources: Internationalisation of an enterprises means growth: a growth that production companies mainly manage through the investment of capital. For service providers though, growth means enlarging the personnel base. Recruitment is time-intensive, especially if there is a lack of experience with the local recruitment system or if only a limited number of qualified workers is available and thus has to be specially trained after hiring in order to be able to supply services of the required quality. This challenge becomes more pronounced through the fact that most foreign markets are much larger than the Swiss, so the leap in size of the Swiss company caused by the internationalisation is always considerable.

Internationalisation threatens the domestic business: The entry into new markets by service providers often means that staff members have to travel abroad in order to supply the required services. So they will not be available to look after the domestic business.

The internationalisation of services requires permeable national borders: In order to supply services abroad or to deal with foreign customers nationally, national borders have to be open and entry permits as well as residence permits must be easily available.

Service know-how is difficult to protect: In cooperations with foreign partners, a service provider's know-how must become transparent up to a degree to be able to provide services in situ of equal quality. This could change the partner into a competitor.

The ranking of these challenges by the interviewed service providers shows that the market-oriented theses received a high degree of agreement while the resource-oriented theses only got a low degree (Fig. 8). The biggest obstacles within the internationalisation of a service provider seem to be in the area of marketing. Services are offered in a differentiated way reflecting varying needs and are supplied by means of a close customer contact. This results in very high requirements as far as the understanding of and the interaction with different mentalities are concerned. Services are immaterial and their sales are based on trust, i.e. their marketing abroad is extremely challenging.

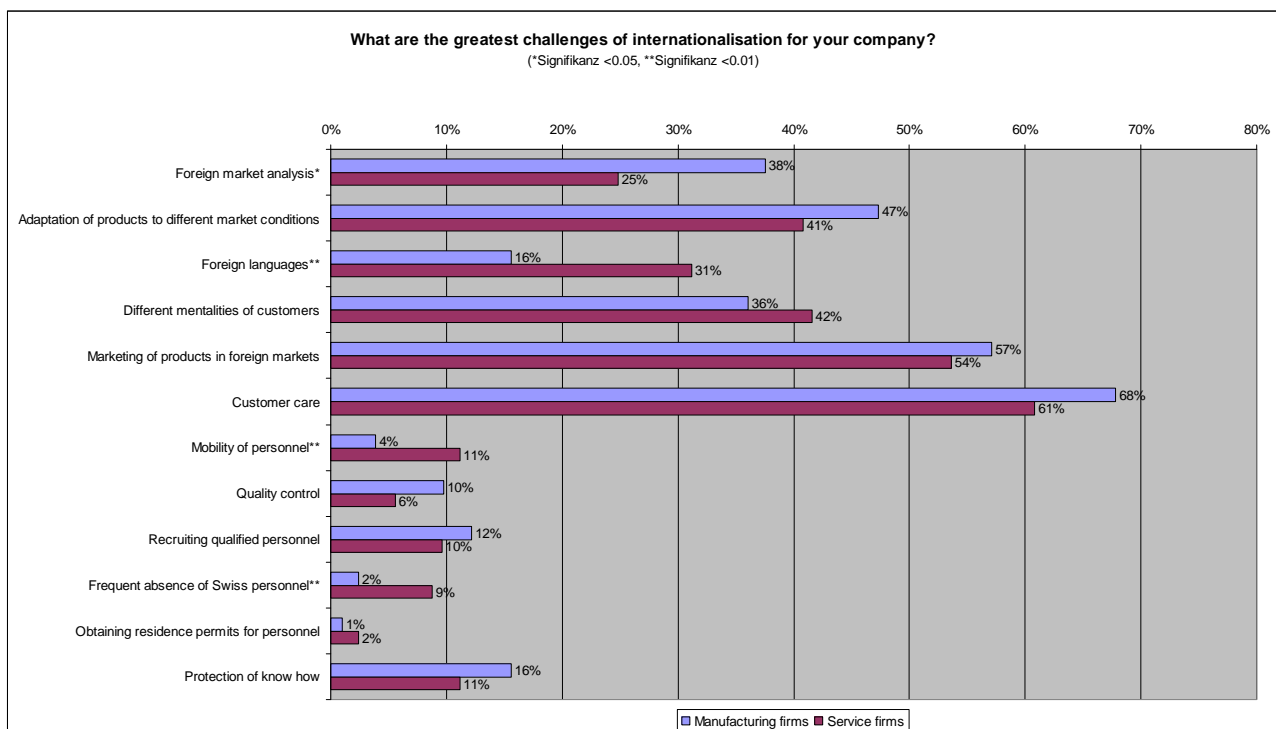


Fig. 8: Challenges of Internationalisation

The comparison with the production companies shows that foreign languages and the required mobility of staff poses significantly greater problems for service providers than for production companies. Contrary to the thesis though, the analysis of the foreign markets is the bigger challenge for production companies compared with service providers. The reason could possibly be that production companies are normally actively engaged in more markets than service providers (see Fig. 5).

4. Conclusions

The starting point of this study was the question whether the internationalisation behaviours of service providers and production companies differ in any significant way and, if this were the case, in what way it would be different. In literature there are varying attitudes. Some authors are of the opinion that service providers and production companies develop foreign markets similarly. Others think that there are fundamental differences which would make theoretical models of internationalisation questionable.

The results of the present study mainly support the second view and show that there are considerable differences in the internationalisation behaviour of service providers and production companies:

Service providers expand their activities into psychologically closer markets than manufacturing firms: Linguistic and cultural similarities of foreign markets carry a much greater import for service providers than for production companies, because services develop through personal contacts, frequently with cooperation by the customer which necessitates a high level of language skills and a good understanding of the customer's mentality.

The geographical distance is more important for service providers when selecting a foreign market than for production companies: Services are supplied in situ at the customer's location which, mainly in the initial phase of the working of the market, means frequent travels away from the domestic markets. This limits the geographical operating distance.

Service providers choose direct forms of internationalisation more frequently than manufacturers: Services are immaterial and cannot be stored. They cannot be centrally produced and distributed to foreign markets through intermediaries. Initially, service providers offer services to foreign customers through domestic staff members. Once the turnover from a foreign market exceeds a certain volume, they are forced to establish physical presence by means of a partnership with a foreign company or through building their own subsidiary. Intermediary steps of indirect distribution through exporters or agents, which are often used by production companies in the initial phases of market development (Johanson/Vahlne 1977), are rarely available to them. This raises the threshold of internationalisation for service providers (Fig. 9), causes great demands on the mobility of staff and increases the risk of investing capital into the wrong markets.

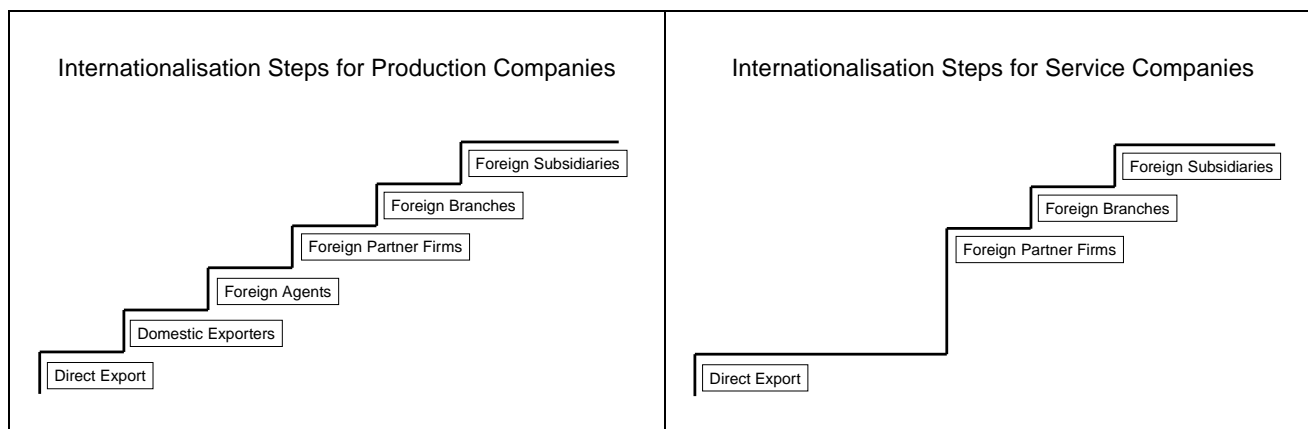


Fig. 9: Steps of Internationalisation

The internationalisation of service providers happens more quickly than with production companies: Even though the supply of services is personnel intensive and services are frequently more differentiated than material goods, service providers develop foreign markets in a shorter time period than production companies. The explanation for this surprising result could lie in the fact that the participating service providers on average were substantially younger than the producers. Empirical research from various countries shows that the internationalisation speed has increased in the course of time (Rennie 1993; Jones 1999; Madsen et al. 2000; Servais/Rasmussen 2000; Aspelund/Moen 2001; Larimo 2001; Moen 2002; McDougall et al. 2003; Bell et al. 2003). Though in these studies the sample groups mainly consisted of producers alone, it could be that the so called 'exporter's squeeze' applies to the tertiary sector as well. In the present study the influence of firm age on internationalisation speed was evaluated by means of a layered cross tabulation (Fig. 10). This shows that as expected the frequency of simultaneous market development decreases with the age of the enterprises in general. Service providers show a bigger share of simultaneous market development than the manufacturers in the groups of firms which were founded before 1942 and those which were founded between 1942 and 1980. In the group of companies which were created after 1980 there is very little difference between service and manufacturing enterprises. The differences in the groups of older firms are not significant any more, which could be because of the reduction of the sample group in the layered cross tabulation. What remains clear is that the internationalisation of service firms is not slower than the internationalisation of producers.

Firm Age				Simultaneous Market Development		Total
				No	Yes	
Founding before 1942	Sector	Service Firms	Number	4	13	17
			% von Sector	23.5%	76.5%	100.0%
		Produktion Firms	Number	43	50	93
			% von Sector	46.2%	53.8%	100.0%
	Total		Number	47	63	110
			% von Sector	42.7%	57.3%	100.0%
Founding between 1942 - 1980	Sector	Service Firms	Number	12	24	36
			% von Sector	33.3%	66.7%	100.0%
		Produktion Firms	Number	36	41	77
			% von Sector	46.8%	53.2%	100.0%
	Total		Number	48	65	113
			% von Sector	42.5%	57.5%	100.0%
Founding after 1980	Sector	Service Firms	Number	26	46	72
			% von Sector	36.1%	63.9%	100.0%
		Produktion Firms	Number	12	23	35
			% von Sector	34.3%	65.7%	100.0%
	Total		Number	38	69	107
			% von Sector	35.5%	64.5%	100.0%

Fig. 10: Market Development Strategies by Age of Enterprise

For service providers mobility and linguistic competence of staff poses a bigger obstacle for internationalisation than for companies in the production sector: The frequent choice of direct exports and the immediate customer contact create high demands on the personnel of a service provider. This is in direct contrast to production companies which often supply their foreign customers through intermediaries and thus reduce the necessity for travelling and the need for linguistic skills.

Apart from these differences there are similarities in the internationalisation behaviour of service providers and production companies. Both follow their customers abroad and try to minimize the risk by being active in a number of different markets. Both utilize partnerships with foreign enterprises to gain ground in new markets. For both, the adaptation of their performance to varying needs and its commercialisation in foreign markets is seen as a great challenge.

In spite of this, based on the present results it seems to be justified to analyse the internationalisation behaviour of service providers and of production companies separately and it appears necessary to verify interna-

tionalisation models like the stage theory for the service sectors. This is the only way to build up a sector-specific, correct understanding of motives, strategies and management challenges facing service providers, what will enable economic policy doing justice to the commercial relevance of the tertiary sector and to support its internationalisation effectively.

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