

# **Assessment of Service Exporting Capabilities: *Profile for the Internationalization of Service Firms***

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## **Abstract**

This study examined service firms' characteristics and key factors that affect the process of internationalization among six service firms in Puerto Rico that are currently exporting. The research objective was the assessment of the value and appropriateness of the *Profile for the Internationalization of Service Firms* as an instrument that is useful in the identification and definition of service firms with exporting capabilities. The results seem to support the framework, but it also serve to heighten and elucidate the meaning of some dimensions. The characteristics, factors and challenges that determine export performance appear to be interdependent. They are in some sort of way all interconnected and one has an effect on the others. Customization or adaptability, technical capacity, marketing knowledge, and entrepreneurial orientation seem to be the most important dimensions for which some sort of weight can be applied to them to define a firms' export readiness. New formats for steps 1 and 2 are suggested as result of the analysis. For Step 1- Business Industry Analysis the most important variables take front stage in the firm's description, and in Step 2 – International Challenges Assessment, marketing management, human resources management and operational management are introduced as a way of interconnecting the dimensions.

## **Literature Review**

### **Introduction**

Services have been thought of as locally produced solutions, and service firms have been considered local establishments. Although services still, to a large extent, are produced by small and local firms, service businesses have become more international. A traditional way for service firms to start going abroad is to follow manufacturers that they are supplying with services in their domestic

markets (Gronroos, 1999). Now, ways of internationalizing services have become more diverse as the development of new technologies for electronic commerce has made services less dependent on local operations (Winsted and Patterson, 1998).

Service managers can no longer ignore the international competition of services. Therefore, a service manager needs to understand factors and internationalization challenges in order to develop strategies to compete in the global market. In the literature on international marketing of services, an internationalization strategy is often considered more risky for service firms than for manufacturers of goods. One reason for this is that in many services the producer and the production facilities are part of the service, which requires that the firm has greater control of its resources than would otherwise be the case.

The dynamic nature of the service economy requires both researchers and practitioners to keep pace of the changes taking place in the service industry. Services account for almost two-thirds of the world's total output (World Bank, 2002). An examination of the USA service sector suggests that in the USA alone the service sector accounts for three-fourths of the GNP and 80 percent of world-wide employment, with exportable services being the largest segment of the US global service trade. The US dominance in the service sector has given the US competitive advantage in the world trade of services. Other industrialized economies such as Western Europe and Japan have also witnessed the rapid

development of the service sector as a percentage of gross domestic product (GDP) and employment.

Growth in the services sector is not restricted to the USA and other industrial nations. Developing nations have achieved growing share of world trade in services, surging from 19 percent in 1980 to over 20 percent in 1997 (World Bank, 1999). This trend is growing in many of the less developed and emerging economies. For instance, emerging economies such as China and Indonesia employ almost 40 percent of the work force in the service sector; in Latin America, service account for close to two-thirds of GDP for Argentina, and 64 percent for Mexico. According to Tata Services Limited (2002-2003), the average annual growth of the services during the 1990s was 9 percent in China and 8 percent in India.

Several trends have precipitated the increasing globalization of services. Some of the driving forces to the growth of service include the following (Javalgi and Martin 2007; Winsted and Patterson 1998):

1. The shift to services in the economies of most developed countries as manufacturing activity has shifted to low-wage economies.
2. As manufacturers go global, their service suppliers must follow.
3. Service intensity of the manufacturing sector, manufactures are shifting their focus more and more toward service differentiation

4. Increasing advancements in information and telecommunication - Technologies are making it easier and faster to trade services across national borders and bring services where customers are located regardless of where they live. Technology has had a unifying effect, making national boundaries less significant than in the past.
5. The opening up of previously closed markets has led to vast opportunities for service providers to expand into these areas where their expertise is badly needed.
6. GATT negotiations have eliminated some of the barriers to service exporting. The establishment of the World Trade Organization (WTO) and regional trading blocks (e.g. NAFTA, EU) has created more opportunities for goods and services.
7. As many economies develop and reach higher levels of affluence, more services are demanded. Often these services are not available locally or are required on a global scale

Exporting services offers a crucial opportunity to developed countries and to services firms whose domestic markets are saturated or are becoming obsolete. As it becomes easier for services firms to transcend distances and national borders, professional services and other services firms are increasingly considering marketing services internationally. The growing importance of exporting to both services firms and to the export balances of their countries make it vital to understand better what the impediments are that prevent many

firms from exporting and what the motivating forces are that encourage others to do so (Winsted and Patterson 1998)

The internationalization of services has been a critical element in the global marketplace. While the internationalization of services has increased in importance there is no tool to help in the identification of firms with exporting or international capabilities. The provision of a profile for the exporting service firm may suggest important policy considerations for export promoting agencies and strategic considerations for service firm owners and managers.

### **A Profile for the Internationalization of Service Firms**

The proposed definition of a profile for international service firms is comprised of all factors and challenges that influence the process of internationalization and which defines service export readiness. The profiling process is depicted in a schematic format that leads the service owner or service manager through an assessment process that starts with an evaluation of the service firm-business/industry analysis (Step 1) followed by an assessment of the exporting challenges the firm may confront (Step 2) and then finishes with an evaluation of the market/country (Step 3) followed by the selection of a foreign entry mode (Step 4) (see Figure 1).

Steps 1 and 2 are the firm's profiling definition process and steps 3 and 4 are the internationalization/exporting opportunity assessment process. Even though the

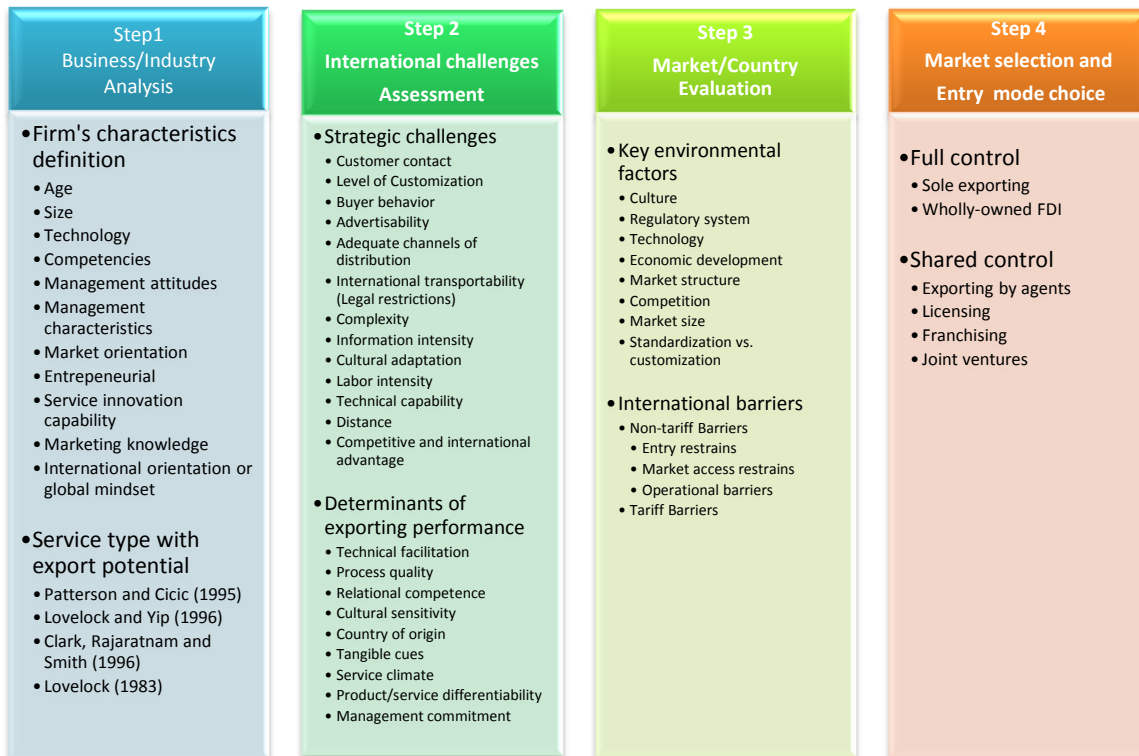
model considers an orderly step by step process the final international profiling process is dependent in the consideration of variables and components of latter steps.

Figure 2 summarizes the content of the proposed framework for the Profiling Process for the Internationalization of Service Firms.

**Figure 1**  
**Profiling Process for the Internationalization of Service Firms**  
(Basic steps of proposed framework)



**Figure 2**  
**Profiling Process for the Internationalization of Service Firms**  
 (Detailed Proposed Framework)



The framework proposed defines service firms export readiness through four distinct steps. In step 1 a business and industry analysis is conducted in which the firm defines its current success factors, competitive advantage, company commitment, and service type with export capabilities. Alongside, in step 2 the firm assesses the international challenges and determinants of exporting performance to define how competitive the industry is in global markets and its growth potential. Then, in steps 3 and 4 a marketability analysis is performed in which the firm matches the service with global trends and needs by identifying profitable markets for their products through market research. All this international profile evaluation process leads to service internationalization with a final market selection and entry mode choice.

### **Step 1 – Business/Industry Analysis**

Two categories of variables comprised the business/industry analysis (Step1): Service firm characteristics and Service type with export potential. The firm characteristics include:

- **Size:** Researchers report a positive relationship between total sales and export activity. Firms with higher sales can adequately cover the higher costs associated with the exporting as opposed with firms with fewer overall sales. Researchers measuring firm size in terms of total number of employees have determined that the larger firms are more likely to possess' managerial expertise required to successfully export. (White, Griffith and Ryans, 1999; Javalgi and Martin 2007)



- Age: Older firms have strong incentives to explore new markets via exporting. Conversely, the researchers suggest that younger firms are more likely to be interested in foreign markets than are older firms, especially firms in technology-related industries. (White, Griffith and Ryans, 1999, Javalgi and Martin 2007)
- Technology: It has been concluded that any firm should be able to compete successfully in international markets regardless of its general resources, the technological intensity of its products, and the type of market in which it operates, but that firms with large resources and a high technological intensity might expect a slightly better performance. (Javalgi and Martin 2007; Carneiro, da Rocha, Ferreira Da Silva, 2008)
- Competencies: Experience in international markets is considered an important firm competency. Another firm competence relevant to international activities is the ability to establish and develop relationships with partners in foreign markets. (Carneiro, da Rocha, Ferreira Da Silva, 2008)
- Management (Attitudes): Managerial attitudes toward exporting can be examined along two dimensions: the desire to internationalize and the profit expectations that can be linked to exporting. Managements' predisposition to internationalization positively influences the firm actually engage in exporting. It has been found that managements' perception of the relative advantage of exporting to be the single most

significant indicator of export performance. Alongside, management's perception of the profit potential from exporting is also considered to be a significant motivator to internationalize. (White, Griffith and Ryans, 1999; Carneiro, da Rocha, Ferreira Da Silva, 2008)

- Management (Characteristics): Since the decision to export is ultimately made by top management the decision maker characteristics, such as managers' proficiency in one or more languages, and his overall international experience are thought to be positively related to exporting. (White, Griffith and Ryans, 1999; Javalgi and Martin 2007; Carneiro, da Rocha, Ferreira Da Silva, 2008)
- Market orientation and Consumer knowledge (Javalgi and Martin 2007; Slater and Narver 1994): Firms with research resources to learn about markets, to identify markets, and to respond to customer inquiries are thought to be positively related to exporting.
- Entrepreneurial orientation (Javalgi and Martin 2007): Management with entrepreneurial capacity should be able to succeed in international markets.
- Service innovation capability (Javalgi and Martin 2007): Firms that have systematic means and capacity to respond and handle customer needs and demands are positively related to exporting.

- Marketing Knowledge: Management capable of matching service with a global trend or need, of identifying the most profitable markets for the services, of determining the overall best business approach with respect to pricing, promotion, customer service and logistics are headed for international success (Zou and Stan 1998).
- International orientation and mindset (Gupta and Govindarajan 2002; Javalgi and Martin 2007; Zou and Stan 1998): An international oriented firm would better identify and benefit from emerging international opportunities and avoid threats.

The service type with export potential is defined by four service typologies. These classificatory dimensions are considered relevant to the understanding the process of internationalization.

Patterson and Cicic (1995), building on Vandermerwe and Chadwick (1989), proposed a typology based on two dimensions – degree of tangibility and degree of face-to-face contact with the client in service delivery – and two levels for each dimension.

- Location-free professional services
- Location-bound customized projects
- Standardized service packages
- Value-added customized service

Lovelock and Yip (1996) proposed a similar taxonomy, based on the nature of the process (tangible or intangible) and on the degree of involvement of the client (physical presence or absence during the rendering of the service).

- Possession-processing services
- People-processing services
- Information-based services

Clark, Rajaratnam and Smith (1996) proposed a classification scheme based on whom or what crosses the border.

- Contact-based services
- Vehicle-based services
- Asset-based services
- Object-based services

Lovelock (1983) proposed several services typologies, one of which categorizes services according to the degree of standardization vs. adaptation. There are two dimensions of customization: the degree of flexibility allowed by the characteristics of service production and delivery; and the level of interference of the service provider in the configuration of the service.

- Standardized services with little influence by contact personnel
- Customized services with little influence by contact personnel
- Standardized services with considerable influence by contact personnel

- Customized services with considerable influence by contact personnel

### **Step 2 – International challenges assessment**

Two categories of variables comprised the international challenges assessment process (Step 2): strategic challenges and determinants of exporting performance. The strategic challenges include an assessment of (Samiee 1999):

- Customer contact - When the service is defined by the customer contact experience, translating the required human behavior of service personnel across national boundaries becomes a challenge.
- Level of Customization - When taking a high customer contact service overseas, language and culture can create barriers to effective communication.
- Buyer behavior
- Advertisability
- Adequate channels of distribution
- International transportability (Legal restrictions)
- Complexity – Complex work routines require the development of skills among service personnel.

- Information intensity - Information-intensive services, such as financial services, travel reservations, and technical publishing, have led the way in globalization.
- Cultural adaptation - Service companies are faced with the problem whether or not to adapt their services to the user's culture.
- Labor intensity - Labor intensity is currently a factor in the globalization of services. Many of the back room operations moving offshore are doing so to acquire less expensive, but well-educated labor.
- Technical capability
- Distance – Distance refers to the factors preventing the flow of information from and to the market. By improving the information flow more firms would decide to internationalize (Dichtl et al 1986).
- Competitive and International advantage – By matching internal resources and complex bundles of skills with a changing external environment, service can achieve competitive advantage in a foreign market. The organization must create sustainable superior value for its customers (Day 1994; Javalgi and Matin 2007; Mclaughlin and Fitzsimmons, 1996).

While the determinants of exporting performance include an examination of (La, Patterson and Styles 2005):

- Technical facilitation – Technical facilitation is the process of service delivery and the systems that facilitate it. It is also the manner in which the service is “manufactured” and delivered. Technical facilitation is to formulate and implement service delivery strategies, which improve not only the firm’s efficiency and/or effectiveness but also customer value.
- Process quality and relational competence - For high contact services the ability to communicate effectively, engender trust and develop rapport with clients represents the attributes that clients judge, as outcome quality is difficult to confidently assess. Further, given export relationships for professional services are by definition, across national and cultural boundaries, international relational competence skill take on added importance.
- Cultural sensitivity- While understanding national and/or societal culture, it is crucial because of the intensive interpersonal communications between clients and service provider (Cicic, Paterson and Shoham, 1999), understanding business culture is equally essential because of different business practices.
- Country of origin effect - Since the buyer cannot inspect or sample the service before purchase, they are forced to rely on the exporter's track record, country of origin image, reputation, word of mouth, and other communication messages to assess prospective quality.
- Managing tangible cues - For those services that are high in credence properties, consumers endeavor to judge a service by its tangible cues

(Lovelock, Patterson and Walker, 2001), be it the servicescape, the physical appearance of the service personnel or the personality and behavior of individual professionals (Ellis and Watterson, 2001).

- Service climate - Climate for service is referred to "employee perceptions of the practices, procedures, and behaviors that get rewarded, supported, and expected with regard to customer service and customer service quality" (Schneider, White and Paul, 1998). Service climate serves as a moderator in delivering the task productively.
- Product differentiability - The greater the differentiability and the more unique the service, the greater is the source of competitive advantage.
- Service personnel's affective commitment - To develop strong business relationships, key service personnel need to have the interpersonal and relationship building skills to attract and retain key clients and simultaneously also need to show their affective commitment.

### **Step 3 – Market/Country evaluation**

Once the profiling examination has been performed an assessment of the International Market/Country is conducted followed by market selection with an entry mode choice. The International market/country assessment (Step 3) includes an assessment of (Dahringer, 1991, Geracimos, 1987/88; Javalgi and Martin 2007; Samiee, 1999, Skipper, 1987; Zimmerman, 1999):

1. Key environmental factors
  - a. Culture



- b. Regulatory system
  - c. Technology
  - d. Economic development
  - e. Market structure
  - f. Competition
  - g. Market size
  - h. Standardization vs. customization
2. Barriers to internationalization
- a. Non-tariff Barriers
    - Entry restrains
    - Market access restrains
    - Operational barriers
  - b. Tariff Barriers

#### **Step 4 – Market selection and Entry mode choice**

The market selection and foreign entry mode choice constitute the final step (Step 4). The entry mode choice includes two basic decisions (Erramilli, 1992). The first decision is whether production should be conducted in the host country or in the home country. So this is a decision about foreign (local) production versus exporting. The second decision relates to who should control production. This comes to a decision between full control, and sole ownership modes (either sole exporting or wholly-owned FDI) versus shared control modes such as exporting by agents, licensing, franchising, and joint ventures. Hill, Hwang and

Kim (1990) proposed three underlying variables that would influence the entry mode decision: level of control desired, amount of resource commitment and dissemination risk. They considered three general entry modes: licensing, joint ventures and wholly-owned subsidiaries. Depending on the level of each variable, different entry modes could be more appropriate, and trade-offs would have to be accepted when choosing one entry mode over another.(Carneiro, da Rocha, Ferreira da Silva, 2008; Javalgi and Martin 2007)

In summary, the framework proposes four distinct steps to define a profile for the internationalization of service firms. Through the profiling process the firm:

1. Defines its current success factors, competitive advantage, company commitment, and export capabilities.
2. Assesses the international challenges and determinants of exporting performance to define its competitive advantage in global markets and its growth potential.
3. Matches the service with global trends and needs by identifying profitable markets for their products through a market research and a marketability analysis.
4. Selects an international market and a foreign entry mode choice.

This research continue this important line of theory development and research by examining the appropriateness and value of step 1 and step 2 of the *Profile*

*for the Internationalization of Service Firms* framework developed on 2011 by the researcher.

## **Research Methodology**

An exploratory research procedure was followed to examine the appropriateness and value of the Steps 1 (Business Industry Analysis) and 2 (International Challenges Assessment) of the *Profile for the Internationalization of Service Firms* framework. Six owners/general managers of service firms in Puerto Rico that are currently exporting their services were interviewed. The interviews assessed the value of the proposed framework as an instrument that helps in the identification and definition of service firms with exporting capabilities. The research approach was in-depth interviews where a questionnaire was used as guideline. The research was complemented with information available on websites and public records. The service industrial sectors examined were: education/training, information/communication technology services, and professional consulting services. The service exporting companies were conveniently selected based on their time availability and willingness to answer the questions. The results are presented as a whole since complete anonymity was guaranteed for the participants.

## **Summary of Findings**

The research findings that establish the appropriateness and value of the *Profile for the Internationalization of Service Firms* (framework proposed) as an instrument for defining and identifying firms with exporting capabilities are presented following the same order of the variables that are define in step 1 (Business industry analysis) and step 2 (International challenges assessment). In step 1 a business and industry analysis is conducted in which the firm defines its current success factors, competitive advantage, company commitment, and service type with export capabilities. Subsequently, in step 2 the firm assesses the international challenges and determinants of exporting performance to define how competitive the industry is in global markets and its growth potential.

### **Assessment of Step 1 Business/Industry Analysis**

The framework proposed establishes that two categories of variables comprised the business/industry analysis (Step1): Service firm characteristics and Service type with export potential.

#### **Service characteristics**

The service characteristics defined in the framework proposed are size, age, technology, competencies, management characteristics, management attitudes, market orientation and consumer knowledge, marketing knowledge,

entrepreneurial orientation, service innovation capabilities, and international orientation and mindset. Each characteristic has been examined among the service exporting firms interviewed and the results are presented below:

- **Variable Size:** Size is defined by sales and by number of employees. In this regard, the literature indicates a positive relationship between total sales and export activity. In addition, researchers indicate that the larger firms are more likely to possess managerial expertise required to successfully export. (White, Griffith and Ryans, 1999; Javalgi and Martin 2007). The interviews conducted suggest that there is a positive relationship between size and export success. However, there are small and medium size service firms that are currently successfully exporting which imply that this may not be a determining factor for exporting potential.
- **Variable Age:** The literature suggests that older firms are prompt to export and that younger firms in technology-related industries are more likely to be interested in foreign markets than are older firms (White, Griffith and Ryans, 1999, Javalgi and Martin 2007). These assertions prove to be true with the firms examined. Older firms were exporting basically because they felt they have a solid statute in the market while the small firms exporting were those related to technology or those with a capacity of conforming to new markets needs easily using technology. Therefore, age seems to be a determining factor, and for small firms the

industry sector and technological capability and usage of technology for the provision of services seem to be a determinant variable for exporting.

- **Variable Technology:** The international management literature has concluded that any firm should be able to compete successfully in international markets regardless of its general resources. However, firms with high technological intensity might expect a slightly better performance (Javalgi and Martin 2007; Carneiro, da Rocha, Ferreira Da Silva, 2008). The results point out that this conclusion is true, but not only with respect to that any firm has export potential but that export potential is related to the effective usage of technology available such as websites, Facebook, twitter, and arms' length transactions. This finding imply that it is not necessary to be a firm from the technology sector to export, what is necessary for a better performance is the usage of technology appropriately and to its advantage.
- **Variable Competencies:** Researchers stress that experience in international markets and the ability to establish relationships with foreign partners are considered important firm competencies (Carneiro, da Rocha, Ferreira Da Silva, 2008). These suggestions were confirmed and more important among small and medium size firms. Even though, some large firms rely on international experience and relationships with foreign markets their reliance on these competencies for exporting were in a lesser degree.

- Variable Management (Attitudes): The international literature asserts that managements' predisposition to internationalization positively influences the firm actually engage in exporting. It has been found that managements' perception of the relative advantage of exporting and the perception of the profit potential from exporting are considered to be a significant motivators to internationalize (White, Griffith and Ryans, 1999; Carneiro, da Rocha, Ferreira Da Silva, 2008). The results indicate that managements' positive attitudes toward internationalization positively appear to determined exporting potential. All exporting firms indicate that they saw internationalization as a stepping stone for profits and as a necessary growth step.
- Variable Management (Characteristics): The international research stream states that managers' proficiency in one or more languages, and their overall international experience are thought to be positively related to exporting (White, Griffith and Ryans, 1999; Javalgi and Martin 2007; Carneiro, da Rocha, Ferreira Da Silva, 2008). Language proficiency seems to be an important and a determinant factor related to exporting among the firms interviewed but it was in conjunction with a greater level cultural sensitivity, appreciation of cultural diversity, and overall international experience acquired through travelling experiences and friendships developed.

- Variable Market orientation and Consumer knowledge: Researchers contend that exporting is positively related to firms' marketing research resources, to its capacity to identify markets and to its ability respond to consumer needs (Javalgi and Martin 2007; Slater and Narver 1994). The results corroborate these contentions but in a more elaborate manner. The firms coincide that the exporting process requires a market opportunity analysis instilled with a deeper knowledge and understanding of consumers' needs while being able to adapt or customize the service to each market. This finding suggests that is not only to respond to consumers' needs but being able to adapt the service offer to the requirements of the exporting market.
- Variable Entrepreneurial orientation (Javalgi and Martin 2007): International researchers agree that management with entrepreneurial capacity should be able to succeed in international markets. This statement is avowed by all companies examined, especially small and medium size firms agree on this since their own entrepreneurial predisposition moved them to exportation.
- Variable Service innovation capability (Javalgi and Martin 2007): The literature acknowledges that firms that have systematic means and capacity to respond, and firms that handle customer needs and demands are positively related to exporting. In this regard, information/communication technology firms were more in agreement to



this claim, while the rest agree on this but relating it to a capacity of being sensible to culture and being capable of customizing, were customizing is seen as a form of innovation.

- Variable Marketing Knowledge: Researchers proclaim that application of marketing to business decisions is related to international success. Marketing knowledge is defined by: 1. matching a service with a global trend or need; 2. identifying the most profitable markets for the services; and 3. determining the business approach with respect to pricing, promotion, customer service and logistics (Zou and Stan 1998). This allegation is considered critical for exporting success among firms examined. However, not all firms have that capability within their organization, but recognized the importance of marketing and therefore some hired other firms with that capacity to the work or at least were able to define a global trend or need on their own.
- Variable International orientation and mindset (Gupta and Govindarajan 2002; Javalgi and Martin 2007; Zou and Stan 1998): Researchers conclude that an international oriented firm would better identify and benefit from emerging international opportunities and avoid threats. In this regard, the firms interviewed are convinced that an international mindset is needed to succeed. They all express that it is necessary to understand that we are part of a global market or community, that to

grow to the fullest of our capacities, and to be competitive nowadays it is necessary to move outside our borders.

### **Service type**

The service type with export potential is defined by four service typologies. These classificatory dimensions of these schemes are considered relevant for the understanding of the process of internationalization. The service exporting firms interviewed were classified with the following classificatory schemes:

- Patterson and Cicic classification scheme (1995) - Patterson and Cicic (1995), building on Vandermerwe and Chadwick (1989), proposed a typology based on two dimensions – degree of tangibility and degree of face-to-face contact with the client in service delivery – and two levels for each dimension. The participating companies can be classified as location free professional services or location bound customized projects all of which offered value-added customized services. These classifications seem to imply that what's relevant for defining exporting capability are the added value customized services. Thus, location is not a determining factor.
- Lovelock and Yip classification (1996) - Lovelock and Yip (1996) proposed taxonomy, based on the nature of the process (tangible or intangible) and on the degree of involvement of the client (physical presence or absence during the rendering of the service). The companies evaluated can be

classified as Possession-processing services, as People-processing services and as Information-based services. Based on these results it seems that the degree of involvement and level of tangibility are not necessarily determining exporting potential.

- Clark, Rajaratnam and Smith scheme (1996) - Clark, Rajaratnam and Smith (1996) proposed a classification scheme based on whom or what crosses the border. The companies interviewed can be classified as Contact-based services and as Asset-based services. Vehicle and object based services were not identified among the firms interviewed, but this does not mean that firms with these classifications cannot be exported.
- Lovelock service typology (1983) - Lovelock (1983) proposed several services typologies, one of which categorizes services according to the degree of standardization vs. adaptation. There are two dimensions of customization: the degree of flexibility allowed by the characteristics of service production and delivery; and the level of interference of the service provider in the configuration of the service. The companies interviewed can be classified as customized services with little influence by contact personnel or as customized services with considerable influence by contact personnel and as standardized services with considerable influence by contact personnel. Therefore, it seems that customization is a common thread among the companies exporting.

While on those firms where the offer is standardized, the influence of contact personnel adds some kind of adaptability.

### **Assessment of Step 2 International challenges assessment**

The framework proposed establishes that two categories of variables comprised the international challenges assessment process (Step 2): (1) strategic challenges (Samiee 1999), and (2) the determinants of exporting performance (La, Patterson and Styles 2005).

#### **Strategic challenges**

The strategic challenges examined among the service exporting firms were degree of customer contact, level of customization, buyer behavior, advertisability, adequate channels of distribution, cultural adaptation, labor intensity, technical capability, distance, and competitive international advantage (Samiee, 1999). The companies interviewed declared the following with respect to each strategic challenge:

- Customer contact – Based on the answers given by the participants, those services that required customer contact are a challenge because they require adapting the behavior of the personnel to the country to where the service is being exported. This challenge implies: 1. hiring personnel with cultural sensitivity, 2. contracting personnel from the country to which

the service is being exported, and 3. signifies that specialized training has to be provided.

- Level of Customization – Exporting a service requires a high level of customization not only in terms of the service itself, but with respect to the communication levels, which represents that training on language and culture is needed for exporting.
- Advertisability – All companies considered that success in exporting a service requires communication effectiveness and promotion. But what's really challenging is adequately communicating the service intangibility to the foreign country.
- Adequate channels of distribution – The companies interviewed indicated that finding adequate channels of distribution are a challenge on those services classified as location bound. Conversely, for those services classified as location free the channel of distribution is primarily technologically based, which implies technical capacity on the part of the service providers.
- International transportability (Legal restrictions) – Meeting legal requirements is necessary and a challenge that affects the possibility of doing business across the borders. In the case of exporting a service it is not different, but it seems that many organizations think that since they are not moving literally abroad they can bypass these restrictions or

embarked on exporting without considering what these legal restrictions convey.

- Complexity – The export services companies interviewed agreed upon that complex work routines require the development of specialized skills through a training process for service personnel. Moreover, they express that another problem related to complexity is that it requires providing constant supervision as a way of guaranteeing service quality.
- Information intensity – All companies interviewed coincided that managing information is a definite challenge. Adequate usage of technological information channels can successfully lead to globalization.
- Cultural adaptation – The service companies subscribed that cultural adaptation is not a question, but a requirement for exportation.
- Labor intensity – Services are by definition mostly labor intensive and companies that have exported their services expressed that it has been a major consideration for moving abroad the cost of labor. This has been specially a major challenge for services classified as location-bound and high-contact services.
- Distance – Firms interviewed concurred that the adequate management of the information flow from and to the markets represent a decisive factor that some of them considered for internationalizing. Some

expressed that they have considered this challenge along the way once they have embarked in the process.

- Technical capability - The companies concurred that technical capability is a challenge that not only affects the delivery of the service but that is related and concomitant to other challenges. Among the challenges mentioned that are associated to technical capability are: advertisability, channels of distribution, complexity, information intensity, and distance.
- Competitive and International advantage – Defining the competitive advantage at the international level is a significant challenge. As expressed by the exporting services companies examined, it is sometimes a process of identifying a hidden trend or an opportunity. Achieving competitive advantage entails an understanding and analysis of the changing external environment, and market needs while matching internal resources and skills to create sustainable superior and added value to customers.

### **Determinants of exporting performance**

The determinants of exporting performance examined or assessed among the service firms interviewed were technical facilitation, process quality and relational competence, cultural sensitivity, country of origin, tangible cues, service climate, product/service differentiability, and management commitment

(La, Patterson and Styles 2005). The companies interviewed expressed the following with respect to each determinant factor:

- Technical facilitation – Continuous improvement of the service delivery process to enhance customer’s service experience is a determinant factor of exporting performance.
- Process quality and relational competence – Process quality and relational competence are unquestionable determinants of export performance. The service quality process seems to be associated with the experience customers have with the service providers at the service encounter independently if it is a location bound or location free service. Providers’ relational capacity generates trust and service reliability among customers since customers assess quality through the experience lived.
- Cultural sensitivity- Cultural sensitivity not only at personal levels but at organizational levels is a crucial factor of export performance.
- Country of origin effect – Consumers rely on country’s image and export record to evaluate the quality of services. Therefore, a previous experience with companies from the exporting country has an effect on customers’ expectations affecting possibilities of doing business.



- Managing tangible cues – To manage the tangible cues is a way to manage the intangibility of the service exported. Consumers' inability to evaluate in advance a service or consumers' lack of technical or professional competence increases the importance of managing tangible cues. In this sense, the service physical environment and personnel appearance are used as tangible cues of quality and acquire a higher level of importance as a factor that determines export performance.
- Service climate – The perception of a good service climate among employees in regards to company practices, support to employee and customers, fair work compensation, and commitment from higher level administrators operate as a moderator of productivity which at the end serves as a contributing factor of export performance.
- Product differentiability – Service uniqueness and level of differentiation provides competitive advantage, but this has to be accompanied of customization and service quality.
- Service personnel's affective commitment – People oriented personnel, committed to quality, appreciative of their business and of customers serve as a determinant factor of export performance.

## **Discussion and Concluding Remarks**

The research objective was the assessment of the value and appropriateness of the *Profile for the Internationalization of Service Firms* as an instrument that is useful in the identification and definition of service firms with exporting capabilities. The study, specifically examined service firms' characteristics (Step 1- Business industry analysis) and key factors that affect the process of internationalization (Step 2- International challenges assessment) among six service firms in Puerto Rico that are currently exporting. The companies that were examined in the study were from the following sectors: education/training, professional consulting, and information communications technology.

The results seem to support the framework but it also serve to expand and clarify the meaning of some dimensions and what some characteristics, factors or challenges need to consider. In addition, from the analysis it can be inferred that some factors, characteristics or challenges seem to be more important, crucial or relevant for which some sort of higher weight can be applied to them to define export readiness. In this regard, the results suggest that customization or adaptability, technical capacity or technology capacity, marketing knowledge, and entrepreneurial orientation are fundamental and that they have a direct effect or define other characteristics and factors. Another important consideration is that the dimensions that define the characteristics as well as the factors that determine export performance are not independent, they are in some sort of way all interconnected and one has an effect on the others. This is

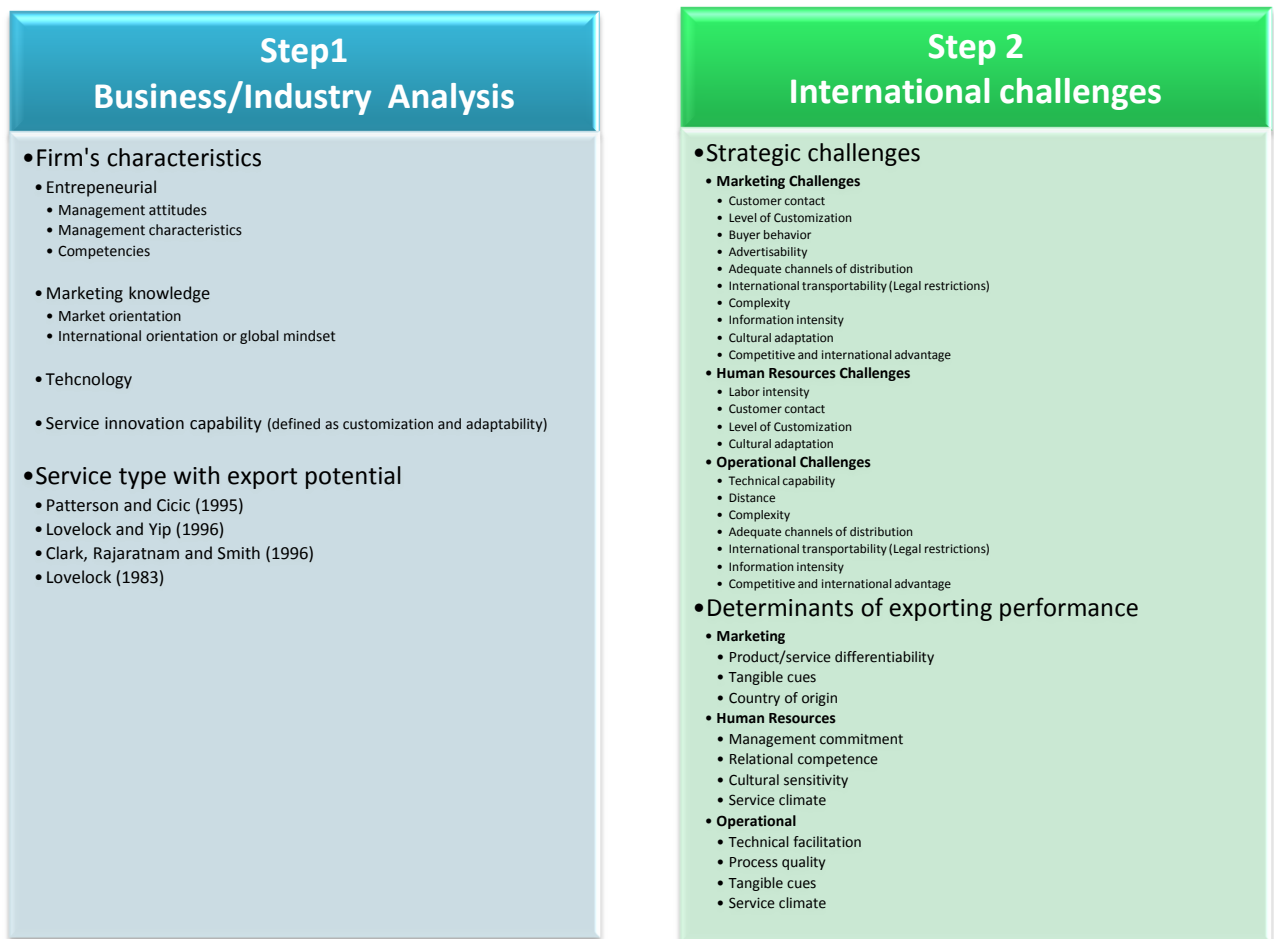
mostly due to the fact that services are an experience and that their processes have to be seen and understood holistically for strategic purposes in terms of a mixture of marketing management, human resource management, and operations management. This possible interconnection must be examined and proved through some advanced statistical analysis, such as factor analysis to establish clear unitary dimensions.

One more interesting result in the study is that firms' size and age appear as less important and relevant for export readiness in comparison to other characteristics. In this regard, managerial entrepreneurial predisposition among small and medium size and younger firms appear to move them to exportation. Another unexpected result is that the classifications that are used to classify the firms do not appear to have a definite effect on export readiness. However, no definite conclusions can be made with respect to these results since they may be affected to the limited number of participants in the study.

As a result of this exploratory study, Step 1 and Step 2 of the framework (*Profile for the Internationalization of Service Firms*) may have a new format in which some characteristics and variables supersede others, are defined by others or in their evaluation need to consider others (see Figure 3). For Step 1- Business Industry Analysis the most important variables (customization, entrepreneurial orientation, technology and marketing knowledge) take front stage in the firm's description, and in Step 2 – International Challenges Assessment, marketing

management, human resources management and operational management are introduced as a way of interconnecting the dimensions.

**Figure 3** – Suggested New Steps 1 and 2



In order to be able to conclude that the profile is useful and appropriate for defining companies exporting capabilities further evaluations should be conducted among other service sectors and among firms from other countries that are exporting. Nevertheless, the results suggest that the proposed framework may serve in general as a tool:

1. To better understand the characteristics that seem to describe exporting services and differentiate them from domestic service firms.
2. In the identification of firms with exporting or international capabilities
3. To define firms' international potential
4. In defining firms' export readiness.
5. In defining areas that can be developed through consultation and training.

Steps 1 (Business Industry Analysis) and 2 (International Challenges Assessments) of the profile framework may be especially helpful for service firms themselves by providing an understanding why they have failed to give appropriate consideration to internationalization of their services and to rating exporting/international opportunities. It may suggest that those firms with the least likely profile to export could engage international business education that could offer them a more objective evaluation of their true export potential. In addition, the service characteristics and key determinants may suggest important policy considerations for export promoting agencies and strategic considerations for service firm owners and managers.

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