

## Making Marketing Meaningful to Practitioners: Internationalization of People-Processing Services

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### ABSTRACT

Despite the emergence of service marketing literature in the mid-1980s, international business/marketing literature remains mired in business experience, service(s) research remains lacking, especially for international services. Although services span a wide scope, extant research suffers from a tendency to treat all services as “one” and few research studies focus on a single service category.

The authors have engaged in international service theory-building research of people-processing services by interviewing executives in two countries whose companies are or have engaged in exporting, to address three primary decision-making issues: the motives or barriers to export, market selection, and mode(s) of entry. The findings call into question various theories associated with international marketing as applied to services.

### BODY

The significance of the service sector in the world economy overall is well documented, growing faster than international trade in manufactured products, and already accounting for 25% of world trade and 50% of foreign direct investment (FDI) [29]. Its importance to GDP and employment in developed economies, e.g. the U. S., numerous European Union countries, etc., is similarly recorded.

Services marketing emerged in the mid-1980s; given its importance internationally since, it seems logical that it would be an appealing and attractive academic research topic. Despite having long been alerted to the need for this research, it has nonetheless been largely shunned by academics. Knight [26] upon review of 1980-1998 marketing services internationally literature, concluded that the literature was fragmentary with little attempt to develop theory, conceptualizations and constructs for marketing services internationally. Little has changed since, as the global marketing of services remains under-researched; there continues to be a scarcity of literature that systematically and empirically investigates the phenomenon [22], [40], [28], [8]. Business owners engaged in exporting their services abroad need assistance, but lack the ability in large part due to the lack of systematic services devoted to service(s) internationalization issues [28], [8].

Perusal of international marketing literature reveals peer-reviewed research and pedagogical texts that remain mired in manufacturing experience. A review of 54 articles relevant to this research that were published in the *Journal of International Business Studies* since 1970 reveals scant attention to services. Various authors, e. g. [6] have maintained that “service MNEs...do not require special definitions and theories,” an assertion widely accepted in later research. Vargo and Lusch [38] developing the worldview of “service dominant logic (SDL),” maintain that errant thinking has led to international service marketing, etc. being treated as appendages to mainstream marketing theory. While the discussion and debate about services dominant logic superseding “goods dominant logic” continues, the characteristics of services, i.e. intangibility, inseparability, heterogeneity, and perishability [32] provide justification for claiming that services marketing is different from marketing physical products, which would challenge the assertions of Boddewyn et al [6] and others.

Services are notable for their variety, including telecommunications, hospitality, professional services, e.g., law, medicine, consulting, etc., and ranging from one-person businesses to those delivered by major corporations. Although services exist in a wide range, a complicating deficiency observed in extant services literature is the tendency to treat all services as “one,” e.g. [5], [15], [17], [18], etc., rather than as distinct classifications or categories.

Classification specific theories reflecting business practices are required that would close the deficit that exists between the academic and service practitioner communities identified by Baker [3]. Industry or business classifications provide a basis for generalizations about marketing strategies, e.g. consumer products divided into convenience, shopping, specialty goods, etc. However there have been few attempts to classify services, perhaps the most notable being by Lovelock and Yip [27], identifying people-processing, possession-processing, mental stimulus and information-processing services. Failure to conduct research by classifications has led to often fragmented, less than systematic, and at times conflicting results of the existing research about international trade in services [14], [16], etc..

Respecting the need to address research by category, the authors have engaged in theory-building research [11], [33], [41], [12], [13] of internationalization of people-processing services, interviewing executives in two countries whose companies are or have engaged in exporting, to address three primary decision-making issues: the motives or barriers to export, market selection, and mode(s) of entry. The findings call into question various published theories as applied to services.

## **RESEARCH METHODOLOGY**

Exploratory case studies are considered appropriate where the existing knowledge base is poor and available literatures can provide no conceptual framework or hypotheses of note [41], or where limited previous academic research and theory development exist [34], as in this study involving services globalization. According to Yin [41] and Eisenhart [12], [13]) case research seeks to investigate a contemporary, dynamic phenomena and its emerging body of knowledge, using interviews, observation and other sources of data [34] to address “how” and “why” questions [33]. Cases are the basis from which to develop theory is developed inductively [11] Yin [41] advocates “posing clear questions...the use of theory and review of previous research to develop hypotheses and rival hypotheses.” It is also generally accepted that four to twelve cases are sufficient for most case research purposes ([13], [20] the chosen unit of analysis being appropriate to the research undertaken, e.g. individuals, knowledgeable business executives, etc.

Our classification-specific study is limited to people-processing services, that are engaged or having engaged in outbound exporting, focusing on six Irish and six U. S. service businesses, to investigate three key export issues addressed in international marketing literature: (1) motivations and barriers to exporting, (2) choice of market(s), and (3) mode of market entry. Depth interviews were conducted with each of the executives using a discussion guide, the interviews being recorded and later transcribed for analysis. The study is unique in being the first to concentrate on one service classification in more than one country, providing a starting point to more accurately understand the differences between the extant literature and the experiences of senior managers in people processing services.

## **FINDINGS**

### **Motivations/Barriers to exporting**

Numerous variables identified in the international marketing literature as motivating focuses, e.g. management attitudes, competitive intensity and opportunity, host country market size, home country market saturation, etc.; profit, home-country competition and desire to reduce excess inventory have

been asserted as “internal stimuli,” together various “external stimuli,” such as sales agent influence, for engaging in foreign markets by Simpson and Kujawa [36]. However only two of these factors were predominant in participants’ experiences: CEO (drive and commitment) and opportunity. The importance of the CEO expressed by respondents finds support in the findings of Weinstein’s [39] study of multinational advertising agencies, wherein initial interests of a senior executive was deemed first in importance among motives for internationalizing: “In over 80% of the decisions studied, the initial interest of a senior executive was perceived as a very important factor in the specific investment decision.” Cavusgil and John R. Nevin [7] further identified management expectations and commitment to export to be central to decisions to internationalize, further supported by Reid [35]. Johanson and Wiedersheim-Paul [24] also support respondent assertions about the importance of opportunity, suggesting the “first activity phase of export planning... is identifying and measuring market opportunity,” i.e. market size influences decisions in the internationalization.

Many of the barriers otherwise suggested in the extant literature were either rejected or considered of little significance, e.g. experience, language, physical distance, loss of control and finances were dismissed as barriers. Lack of experience internationally is sometimes cited as a barrier to exporting, but respondents did not consider it as such; a respondent for a globally recognized hotel brand said, “we didn’t have any experience at the outset, but that wasn’t going to stop us.” Extant literature suggests the presence of competition in prospective foreign markets as an inhibiting factor to internationalize. Respondents in this research were dismissive, if not to some degree arrogant about potential competitors; they were not fearful. Characteristic of their attitude was the remark of one executive who said “the competition is there to be beaten and that’s what we do.” Management availability in prospective market(s) was also acknowledged to be an important issue, but inherent company capabilities rendered it not a barrier.

## Market Selection

Market selection is commonly deemed a crucially important decision in the international marketing literature [2], [35]; Hollensen [27] has suggested that location “can be a major determinant of success or failure, especially in the early stages of internationalization,” an assertion supported by study respondents. As Reid [35], Erramilli [17] posits service firms choosing culturally similar foreign markets at low levels of experience, but favor increasingly unfamiliar territories at higher levels of experience, i.e., based on “psychic distance.” However psychic distance, as often cited in international business literature [30], [24], [31] did not emerge as a major consideration in market selection among the twelve respondents, although it may have been a contributing factor in some degree. Although Canada is the top trading partner of the U. S. [37], and one company included in the study did extend its operations to Canada from the United States, the... A globally recognized U. S. based retailer’s first venture abroad was to Canada (1985), it was rapidly followed by expansion to Mexico (1992), United Kingdom (1993), Korea (1994) and Taiwan (1997), hence there was no discernable pattern that could be attributed to psychic distance, in terms of physical distance or cultural familiarity, as otherwise suggested by Johanson and Wiedersheim-Paul [24], however stage of economic development in countries chosen may have been a contributing factor. Another retailer chose Japan for its only international expansion; an Irish limited food service expanded to Southeast Asian markets as well as the United Kingdom.

Although none of the executives interviewed employed a formal market selection process such as a written rating checklist, most had very clear ideas on what constituted an attractive market. Only a minority of authors suggest market selection methodologies, e.g. Albaum and Duerr [1], Hollensen [21], the latter suggesting a market attraction/company capabilities matrix for decision-making. A common failing is that they deal only with marketing issues such as market size and growth, competition, prices,

etc. As recognized by respondents, outbound exporting of people processing services, involves the Servuction system, e.g., hotel, fast-food restaurant, etc., being established in the export market, requiring equal attention to operations issues. Many respondents told us of markets which were attractive from a market viewpoint but not from an operations perspective (and vice versa) and so were rejected. Our research identifies a need to develop methodologies to help management methodically select markets using appropriate marketing and operations criteria.

### Market Entry Mode

International marketing texts discuss an array of potential market entry methods from indirect to direct to hierarchical modes [21]. Doole and Lowe [9] argue that “the various alternative market entry methods...cover a span of international involvement from almost zero, when the firm merely makes the products available for others to export but effectively does nothing itself to market its products internationally, to total involvement where the firm might operate wholly owned subsidiaries in all its key markets.” That position was deemed almost completely irrelevant in this study, e. g. only two respondents considered the Uppsala Model and other gradual market entry formats [25], [4], [24] as being relevant in any degree to their companies. The ultimate extension of that model is a high control (dominant equity interests) mode via wholly owned subsidiary or shared ownership “...is the focus of the entry mode literature because it is the single most important determinant of both risk and return” [2]. However a great deal of what is offered as entry methods, e.g. all indirect export methods, are irrelevant to these businesses; as one respondent succinctly said, “...its all or nothing for us and so an expensive and risky decision.”

Inseparability is a central characteristic of many services, most notably people-processing services and best illustrated in the Servuction model [10] depicting the interactions between customers and service providers, including the service inanimate environment, and demonstrating that customers are an integral part of the service process. People processing services experienced in the Servuction system can't be manufactured in one country, boxed and shipped to global markets. Fisk et al [19] claim there are only two export options for such services; inbound exporting (attracting customers to visit Servuction systems in their domestic locations, e.g. tourism) or outbound exporting (locating the Servuction system in chosen export markets, e.g. hotels, restaurants, retailing, etc.). Market entry choices for people-processing services engaged in outbound exporting are thereby limited to foreign direct investment, franchising, acquisition/merger, or strategic alliances, including management services contracts widely used in the hospitality industry.

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

The findings of this study illustrate the differences that exist in established theories of business internationalization and the experience of practitioners engaged in outbound exporting of people-processing services. The absence of systematic and classification specific research creates valuable opportunities to develop understanding of phenomena associated with service internationalization. Practitioners need the benefit of such research to inform their decisions to market their services internationally. Insofar as this people-processing study represents the first of its kind involving two countries, there is ample opportunity for additional studies for this category as well as for the remaining categories identified by Lovelock & Yip [27] possession-processing, mental stimulus, and information processing services.

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