

Internationalization of Service Firms and Its Challenges: A Systematic Literature Review

Parmis Katebi^{1*}, Asadul Hoque², Osama Butt³

1. *Ph.D. Student in International Management, Department of Management, Faculty of Administration Science, Laval University, Québec, Canada. parmis.katebi.1@ulaval.ca*
2. *Assistant Professor in Business Administration, American University of Kurdistan, Iraq. asadul.hoque@auk.edu.krd*
3. *Assistant Professor in Marketing, Wilfrid Laurier University, ON, Canada. osamabutt@wlu.ca*

Internationalization of Service Firms and Its Challenges: A Systematic Literature Review

ABSTRACT

The internationalization of service firms (ISF) remains an area that needs more study. This systematic literature review encompasses a comprehensive analysis of published articles during the last decade in peer-reviewed journals addressing service firms' internationalization. Those articles shed light on the motivations driving service firms to expand internationally. It successfully identifies the key factors influencing the internationalization process and the selection of entry modes. Despite the implementation of effective market penetration strategies, service firms must navigate various entry barriers while expanding in the global market, sometimes different from those faced by manufacturing firms. Main challenges emanate from cultural, administrative, geographic, and economic (CAGE) differences. Successful adaptation to the host country is critical to avoid market failures. The review demonstrates that the company's pre- and post-internationalization "network" is key to long-term success. Cultivating and sustaining these networks is essential for ensuring the longevity of foreign operations. Furthermore, the review identifies the sectors actively pursuing internationalization and explores the relationship between the ISFs and performance. It concludes by presenting an internationalization model and offers valuable directions for future research.

Keywords: Foreign Market; Foreign Direct Investment (FDI); Entry barriers; Internationalization network; Internationalization; Services Firm,

1. INTRODUCTION

Recent studies highlight the crucial role of service firms in the economy, with the US service sector contributing 80% to GDP and employment, excluding agriculture. However, research in this area still needs to be expanded, representing only 0.4% of total published papers in management over the past four decades (Chidlow et al., 2019). Service firm internationalization in emerging economies is important, yet research in this area is limited compared to manufacturing firms. Traditional theories developed for manufacturing firms may only partially apply to service firms due to the distinct characteristics of services. Multinational enterprises in the service industry exhibit different internationalization patterns. Understanding service firm internationalization requires a context-specific approach. Service firms face additional challenges in their internationalization process due to the unique nature of services (Bai et al., 2019). Applying new technologies is believed to increase productivity in information-intensive sectors, leading to an "industrialization" of services. This trend parallels the historical developments in manufacturing but with different mechanisms, challenging a purely productivity-based explanation (Karmarkar et al., 2015). This can be interpreted by three main reasons: the recent development of the service sector, the difficulty of defining and measuring the international flows of the sector, and the diversity of activities that are grouped under the services category, which is difficult to generalize.

In the last decade, service industry firms have led in internationalizing their operations, representing the majority (62%) of global inward FDI stock in 2006 (Pla-Barber and Ghauri, 2012). The United States has experienced a shift towards a service economy over the past 50 years. In 2007, service sectors contributed over 85% to the GNP and employment (Karmarkar et al., 2015). Technological progress and reduced trade restrictions have fueled the global expansion of service companies, mainly through virtual platforms leveraging information technology (Rammal and Rose, 2014).

Western firms have increasingly shifted their service operations to emerging markets in the past decade to gain cost benefits and improve efficiency (Pla-Barber and Ghauri, 2012). Emerging economies' rapid development opens new internationalization opportunities in the service sector. Economic liberalization through selling state-owned service assets has attracted foreign direct investment (FDI) and increased competition. Service firms can leverage their expertise to serve new consumer groups but also face challenges (Rammal and Rose, 2014).

Furthermore, based on (Jensen and Petersen, 2014), Firms in manufacturing and the service sector internationalize for three primary reasons. First, they may already possess a competitive advantage in their home market and seek to exploit it in foreign markets. Second, firms with a competitive advantage

may need to internationalize to maintain that advantage, as seen in professional service firms like consulting, law, and accounting. Third, firms may internationalize to gain a competitive advantage by preempting industry-scale economies or accessing strategic assets.

It is irrefutable that in recent decades, many Professional Service Firms (PSFs) have become global transnational businesses. For instance, the "Big Four" accounting firms—Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers—were operational in more than 150 countries by 2014 (Morgan and Boussebaa, 2015). However, the internationalization of service firms faces numerous challenges and risks. Furthermore, as revealed by an investigation conducted by (Morgan and Boussebaa, 2015), exporting services and other forms of internationalization, such as licensing or franchising, pose challenges due to the intangible nature of services and the importance of provider-consumer interaction. Entrusting control to third-party licensees or franchisees can lead to loss of control and reputation risks. Foreign direct investment (FDI) may appear as a suitable option. Still, due to the need for close consumer connections, service firms often rely on localization and adaptation to the local environment, limiting global economies of scale and scope. The intangibility and inseparability of services contribute to the liability of foreignness, as consumers tend to trust suppliers with a local reputation, putting additional pressure on firms to be locally responsive. This phenomenon can be explained by three main reasons: development. Over the past two decades, most developed countries have experienced strong growth in their services through the outsourcing of tertiary functions, an increase in the content of industrial services, modernization of transport and telecommunications infrastructures, and the development of new services according to the needs of enterprises. The situation in this sector in developed economies is not yet at the level of international trade, except for maritime transport and financial services, a large part of which is not exploited internationally and represents only a fifth of the trade world. The trade growth rate is to be considered since it grows more rapidly than goods (9.5% in 2010). The economic balance thus raises a gap in internationalization but also a readjustment showing that the characteristics of the service firms which made the latter little tradeable are to weaken. The first of the constraints of companies is the service relationship that can arise from the particular difficulty if the company wishes to remain close to the expectations of its customers but also remain present in its market.

The definition of certain service components, the customer's participation in the delivery of the service component, quality control, time and place of production, and its "non-storable" properties require close and follow-up contact between the customer and the company. Geographical proximity facilitates accomplishing these tasks and allows responsiveness to the unexpected. When the customer is away from the production center, it is in the service provider's interest to create proximity by establishing closer service units. While this strategy has an advantage in international development, it remains

costly. Its absence can be remedied by customary travel by staff and the customer or by increasing the use of information and communication technologies.

Despite the vital role of service firms in the economy, there is a significant research gap in understanding their internationalization dynamics, as existing research predominantly focuses on manufacturing firms. This study aims to investigate service firms' internationalization patterns and strategies, particularly in emerging economies, to fill this gap. By adopting a context-specific approach, we seek to comprehend service firms' unique challenges and opportunities in their international expansion. Our review aims to contribute valuable insights and guidance for service firms navigating the international business landscape.

1.1 Definition of services

Services are commonly characterized as intangible, non-fungible, ephemeral, and non-storable. They have a higher fixed-to-variable cost ratio and involve simultaneous production and consumption, necessitating close interactions between the service provider and the customer (Brock and Alon, 2009). Being dynamic and highly competitive, services rely on intangible resources for successful competition and value creation. International professional services, such as accounting and consulting, pose unique management challenges due to knowledge capital requirements, cross-border knowledge transfer difficulties, and operation within diverse institutional and legal systems that require local expertise (Beattie and Smith, 2013, Radulovich et al., 2018, Zambon, 2017). Furthermore, the service sector significantly contributes to international trade and internationalization. Service businesses play a dual role by expanding through foreign direct investment and adapting service delivery to different locations. Additionally, they provide essential infrastructure to support trade, foreign investment, and the provision of goods and services (Bryson et al., 2020).

1.2 Context and Background

The study of Bai et al. (2019) explores how home-country political connections impact the internationalization of service firms. The authors argue that the effect of political connections depends on the type of firm, as transferring and utilizing these connections in international markets can be challenging due to their context-specific nature. They find that process-oriented service firms, with less customer involvement and greater reliance on technical skills, experience a weaker negative effect of political connections than content-oriented service firms. Marketing capabilities can positively moderate the relationship between political connections and internationalization. The study uses data from publicly listed service firms in China from 2012 to 2016. While there has been extensive research on services and their internationalization, little attention has been given to the interaction between service firms, society, and political organizations during this process. Chidlow et al. (2019) propose an

integrative theoretical view, highlighting the need for an interdisciplinary approach. By integrating perspectives from economics, behavioral science, and political science, a deeper understanding of multinational enterprises in foreign markets can be achieved. The increasing heterogeneity of service products and the convergence of goals between business, policy, and society further emphasize the importance of this interdisciplinary perspective.

Roberts and Muralidharan (2022) investigated how service SMEs overcome challenges when expanding into distant markets. Qualitative data is collected through a forum focusing on high-tech service SMEs in Alberta, Canada. Their study aimed to understand how these firms can enter Asian markets successfully by considering institutionally distant economies. They mentioned that service small and medium-sized enterprises (SMEs) encounter unique challenges in international markets that differ from manufacturing firms. These challenges arise due to the distinctive characteristics of services, including heterogeneity, inseparability, perishability, and intangibility. These factors become particularly relevant when expanding into distant markets, as they necessitate specific strategies to address the challenges.

Moreover, a conceptual study by (Boehe, 2016) explores how service firms can internationalize without significant resources and capabilities beforehand. It introduces the concept of domestic market-seeking internationalization (DMSI), where resource-scarce firms undertake foreign direct investment (FDI) to access intangible resources abroad. These resources are then used to develop firm-specific advantages (FSAs) in the domestic market. The study presents a framework based on internalization theory, expanding our understanding of service internationalization strategies by leveraging different types of FSAs.

According to Javalgi and Martin (2007), the progress in information and telecommunications technologies has significantly facilitated and accelerated the cross-border trade of services, enabling service providers to cater to customers regardless of their geographical location. The internationalization of service offerings is contingent upon the entrepreneurial aspects of the company and its organizational flexibility to meet the market demands of the host country. These findings underscore the crucial role of technology and adaptability in the successful international expansion of service firms. Xue et al., (2013) examine the internationalization of service firms in China, focusing on the unique characteristics and differences compared to manufacturing firms. Through a comprehensive analysis of historical data, including 363 service firms and 569 manufacturing firms from 2001 to 2007, the study reveals that service firms' internationalization in China differs regarding resource requirements and experience utilization. Unlike manufacturing firms, service firms heavily rely on international experience rather than corporate resources for their international expansion. Additionally,

the study highlights the structural differences between hard and soft service industries, emphasizing the importance of identifiable intangible assets for the international growth of hard service firms in China. Service and manufacturing firms exhibit characteristic differences in their internationalization processes due to the intangible nature of services and the inability to maintain inventory. According to Capar and Kotabe (2003), the relationship between international diversification and performance varies significantly between service and manufacturing firms. External networks facilitate internationalization for service firms by enhancing their internationalization competencies (Etemad et al., 2001, Zain and Ng, 2006). These distinct characteristics and the limited research in this area emphasize the need for further investigation (Médail and Diadema, 2009).

The role of service innovation in the internationalization of small- and medium-sized enterprises (SMEs) and its impact on profitability has been investigated by Vuorio et al., (2020). Limited research exists on this topic in international entrepreneurship. The study finds that entrepreneurial orientation influences internationalization and service innovation, but different dimensions have varying effects. Human capital is a determinant of service innovation and international expansion. Surprisingly, international expansion negatively affects profitability, while the impact of service innovation on profitability is not significant. SMEs may face a paradox where pursuing internationalization and innovation may not be feasible, and prioritizing internationalization over innovation can lead to lower profitability. These findings shed light on SMEs' strategic challenges in balancing internationalization and service innovation.

Hurmelinna-Laukkanen & Ritala (2012) emphasizes the importance of an appropriability regime for facilitating the internationalization of product-oriented companies in their research entitled "Appropriability as the driver of internationalization of service-oriented firms". However, service firms face difficulties as traditional appropriability mechanisms, such as patents, primarily protect tangible products. The study addresses this issue by examining the role of appropriability conditions in the service sector's internationalization. Based on the analysis of 209 firms, the results suggest that a strong appropriability regime, especially in formal mechanisms, positively influences the international expansion of service industry firms.

B2B services are influenced by key drivers of service internationalization, including the General Agreement on Trade in Services (GATS), free trade blocs, and advancements in information technology. GATS is a global multilateral agreement to liberalize service trade, with over 140 member economies making varying commitments in different service sectors. However, GATS excludes services provided by governmental authorities and air traffic services. Free trade blocs, such as the EU, NAFTA, ASEAN, APEC, and Mercosur, aim to create broader markets and enhance opportunities for service companies. Additionally, advancements in information technology, particularly broadband

telecommunication channels, enable the efficient and rapid movement of data and services across borders, opening up new service markets globally.

1.3 Objective of the Study

Patterson (2004) examines the attitudes of export-oriented service firms by considering the potential of firms to internationalize, barriers to exports, and benefits and risks. However, this article is limited to Australia only (Kahiya, 2013). To continue the research undertaken by Patterson, we are extending the research to all the countries and sectors that deal with services, as there is no research at this level. The purpose of this systematic review is, therefore to broaden existing research to provide a framework to guide companies in their choice to internationalize their service.

By incorporating the existing literature on relocation and offshore outsourcing ;(Görg and Hanley, 2005, Görg et al., 2004) with literature on the role of networks and learning in the process of internationalization (Chetty and Agndal, 2007, Lewin and Volberda, 2011, Johanson and Vahlne, 2006), it follows that the internationalization of sourcing by outsourcing services is an important mechanism for improving international competitiveness.

Some efforts have been made to examine and measure the concept of "service" (Boksberger and Melsen, 2011, Benlian et al., 2011, Akdere et al., 2020). The study of procurement services for SMEs based on an analysis of primary and secondary benefits merits mention. This literature has generated an interesting debate on the relationship between the side effects of support programs and the growth of SME exports (De Chiara and Minguzzi, 2002, Filipe Lages and Montgomery, 2005, Pinho and Martins, 2010).

2. RESEARCH METHODOLOGY

This study is supported by a systematic review that analyzes articles published in scientific journals over the past three decades. Given the limited research on the internationalization of service firms, it was crucial to thoroughly examine articles from various years, including those published several years ago. The focus of the research is on the internationalization of service companies. The primary objective is to gain insights into the factors, strategies, and modes of internationalization employed by enterprises, as well as the sectors they operate in, the barriers they face, and the factors contributing to their long-term success. Additionally, this study aims to propose a comprehensive internationalization model for companies. Given the limited research available on the internationalization of enterprises, a systematic review spanning the past decade is deemed suitable. This review encompasses both empirical and theoretical studies, making it a relevant and comprehensive resource for this essay.

2.1 Inclusion Criterion

- Four inclusion criteria have been selected for this review:
- Articles that address the internationalization of companies.
- Articles that focus on service companies.
- Articles published between 2000 and 2010.
- Articles that discuss factors of internationalization.

2.2 Source data

The research for this review article uses three databases: ScienceDirect, AB/INFORM Proquest, and Business Source Premier (EBSCO). The keywords used include "companies," "services," and "internationalization." The search strategy involves combining these keywords with the term "AND" between each of them. Initially, a total of 223 potential articles are identified for the systematic review. To ensure data quality, duplicates and triplicates are removed during the selection process. Subsequently, the abstracts provided by the authors are meticulously examined to exclude articles that are not directly relevant to the subject matter. This step effectively filters out articles that do not align with the predetermined search criteria.

Following the rigorous screening process, 87 articles remain for further evaluation. Each article is thoroughly read and analyzed to determine its suitability for inclusion in the review. After careful assessment, a final set of 64 articles is selected to be incorporated into the review. This meticulous approach ensures that the review article encompasses a comprehensive and relevant collection of scholarly works on the internationalization of service companies.

3. RESULTS AND DISCUSSION

3.1 Characteristics of the authors

Research shows that authors interested in the internationalization of service firms are mainly American (31.3%), Spaniards (23.4%), Germans and English (17.2%). The authors are drawn from all departments of administration (46.9%) and management (34.4%). The articles are written by a single author (39.1%), by two authors (32.8%), and by three or more authors (23.4%), whether they are from the same university or not. The authors study one sector of activity in particular (57.8%) or several sectors jointly (37.5%). Table 1 presents the details on the selected articles.

Characteristics of the authors	64 articles	Period : 2000 – 2010
Origin of the authors	Numbers	Rate
The USA	20	31,3%
Spain	15	23,4%
Germany	11	17,2%
United Kingdom	11	17,2%
France	7	10,9%
Singapore	6	9,4%
Australia	5	7,8%
Canada	5	7,8%
Italy	5	7,8%
Malaysia	4	6,3%
Sweden	4	6,3%
Denmark	3	4,7%
Finland	3	4,7%
Greece	3	4,7%
Belgium	2	3,1%
Hong-Kong	2	3,1%
Taiwan	2	3,1%
Ireland	1	1,6%
New Zealand	1	1,6%
Russia	1	1,6%
Slovenia	1	1,6%
Switzerland	1	1,6%
Tokyo	1	1,6%
Turkey	1	1,6%
Department of Authors		
Not specified	33	51,6%
Administration	30	46,9%
Management	22	34,4%
Economics	11	17,2%
Marketing	8	12,5%
Geography	5	7,8%
Sciences	5	7,8%
Finance	3	4,7%
Number of authors of the arti		
1	25	39,1%
2	21	32,8%
3 et +	15	23,4%
Covered industry		
Single	37	57,8%
Multiple	24	37,5%

Table 1: Authors' Characteristics According to the Articles in the Systematic Review

3.2 Methodology Used in the Articles

In conducting their research for the review paper, the authors employ various methodologies. The analysis of numerous articles revealed that a significant portion of authors, accounting for 21.9%, utilize case studies as a methodological approach. Furthermore, many authors, representing 17.2% of the reviewed studies, rely on existing literature to shape their research. By meticulously reviewing and synthesizing previous studies, they contribute to the existing body of knowledge and provide valuable perspectives on the topic. Data collection and surveys are also commonly employed, with 15.6% of authors utilizing these methods. By gathering and analyzing data, these authors bring empirical evidence to their research, enhancing its credibility. Moreover, questionnaires serve as a valuable tool for 14.1% of authors, allowing them to gather specific information and opinions from participants, enriching their findings. Table 2 shows the distributions of methodologies used in the selected articles.

Research Methodology	64 Articles	2000 - 2010
	Nombre	Taux
Case Study Methods	14	21,9%
Others	13	20,3%
Literature Review	11	17,2%
Data Collection	10	15,6%
Survey	10	15,6%
Questionnaire	9	14,1%

Table 2: Methodology Used in the Articles of the Systematic Review.

3.3 Entry modes

Service firms go to the international markets for various reasons. Some focus on exploitation, and others on exploration of the global market. Table 3 presents different models of internationalization of service firms.

Forms	International sub-contracting
Definition	Operation by which a company called principal entrusts another called subcontractor with the task of executing for it, and according to pre-established specifications, part of the acres of production or services for which it retains final economic responsibility
Goal	Economic advantages, technical advantages, financial advantages, international presence at lower risk

Costs for the company	Search for potential subcontractors, training of the subcontractor, transport, documents, production
Control/links with the partner	Control over production relatively low / rather limited contractual links and possibility of strengthening links through training
Risks	Risk of dependence, risk of non-compliance with specifications, technological leakage
Forms	License agreement (trademark)
Definition	Temporary contract allowing the use of a brand on a defined territory
Goal	Increase brand awareness by using local companies to produce and distribute under a brand whose use is controlled
Costs for the company	Industrial property protection, partner search, remuneration of counsel and lawyers, dealer training, documentation, trade credits, aid
Control/links with the partner	Good if the terms of the contract so provide / Temporary contract of « concession », normally exclusive
Risks	Trademark counterfeiting, usurpation and imitation if monitoring is insufficient, tarnished brand image, loss of market and brand.
Forms	International Technology Transfer
Definition	Temporary contract for the use of a registered manufacturing process or the manufacturing of a registered product in a defined territory.
Goal	Make profitable a technological advance and sell in countries where it would have been difficult to set up industrially, associate with a network of partners
Costs for the company	Protection of industrial property, various visits, feasibility and profitability studies, prospecting of possible partners, intermediaries and lawyers, documentation and training
Control/links with the partner	Depending on the terms of the contract and related contracts such as various supplies and services / Concession of intangible property rights associated with a transfer of industrial and commercial know-how; the link ceases at the end of the contract.
Risks	Counterfeiting, imitation, patent disclosure to subcontractors and competitors, abandonment of know-how at the end of the contract.
Forms	Merger and Acquisition
Definition	Acquisition: financial transactions that would result in changing the balance of power and conferring the capital shares necessary to give a dominant position to the company Merger: bringing two companies together without this necessarily implying that one of them takes control of the operations and activities of the other.
Goal	Strategic, economic, managerial and financial advantages
Costs for the company	Search for a partner, purchase of shares in the coveted company, training, restructuring, documents
Control/links with the partner	Depending on the contract established during the merger acquisition / Strong links between the two companies
Risks	Loss of corporate culture, disagreement on major strategic and commercial orientations, structural problems (dual positions, ...), financial disagreement (investments).
Forms	Joint-venture

Definition	Company governed by local law, part of the capital of which is held by the parent company
Goal	Develop a commercial and/or industrial establishment using local skills
Costs for the company	Protection of industrial property, documentation, partner search, advice, lawyers and intermediaries, amount of shares subscribed, cash contributions for working capital, payment terms
Control/links with the partner	Good if members of the parent company are part of it and if major decisions cannot be taken without their consent / Participation in the capital of a local company according to local law
Risks	Commercial and financial theoretically shared, disagreement, abusive termination of contract, theft of industrial know-how, loss of market.
Forms	Subsidiary
Definition	Local company, legally independent, controlled by the parent company
Goal	Establish a permanent local presence, prospect, sell, provide after-sales service, possibly produce
Costs for the company	Constitution of own capital and advance of working capital, the costs to be taken from the sales margin or from the variable cost, transport to the agreed point when it is goods
Control/links with the partner	Control of the marketing policy normally very good but desirable autonomy of the subsidiary / Financial relations allowing a control all the more important as the share of capital held is important
Risks	Risks transferred to the subsidiary

Table 4: Source: Excerpts from the book "S'Internationaliser" by Anne Deysine and Jacques Duboin (1995).

Professional Service Firms (PSFs) play a crucial role in providing services to clients across different countries. In today's globalized world, many companies are involved in international business and may require assistance from PSFs, even if they don't have foreign subsidiaries. For instance, they may seek legal services to address contract disputes in other countries. These companies rely on professional service providers to help them navigate and effectively resolve their international challenges (Morgan and Boussebaa, 2015). Moreover, the internationalization discussion within the service industry has shed light on the distinctions between service and manufacturing companies and the internal diversity among service firms. Due to the labor-intensive and people-centered nature of services, significant variations in performance and delivery are attributed to the inherent differences among individuals involved in service production. Recent research has increasingly focused on this heterogeneity and its impact on the internationalization of Professional Service Firms (PSFs). Scholars have identified three additional sources of heterogeneity that shape the international expansion of PSFs: client requirements, modes of governance, and forms of knowledge. This emerging body of literature builds upon earlier studies, highlighting the significance of these factors in influencing PSF internationalization (Campbell and Verbeke, 1994, Brock, 2012, Hitt et al., 2006, Malhotra and Hinings, 2010, Malhotra and Morris, 2009, Morgan and Quack, 2005, Abdelzaher, 2012, Suseno and Pinnington, 2018).

According to researchers at the Nordic School, exporting starts with countries with a close "psychic distance". It gradually extends to more distant ones as companies gain experience. However, Johanson and Wiedersheim-Paul (1975) found limited support for this notion (Child et al., 2002). In contrast, Kimiagari et al., 2015 suggest that firms adopt a sequential market entry strategy, initially targeting countries with a short "business distance" and later expanding to those with greater "business distance." This heterogeneity in market entry patterns can be attributed to the unique characteristics of business services. These services often involve limited tangible goods and extensive interaction between producers and consumers. The value of intangible assets becomes crucial in service industries, where competition is based on quality rather than price. Consequently, companies with internal resources find it advantageous to establish subsidiaries abroad to internalize these intangibilities.

The theory of industrial organization appears applicable to business services, as firms that benefit from such advantages are expected to demonstrate superior economic performance. The process of internationalization is recognized as a staged approach, commencing with capacity development in the domestic market, followed by the creation of growth opportunities, entry on a larger scale, and ultimately, integration. Therefore, a dynamic and evolutionary framework for foreign market entry is proposed. The decision of an enterprise to venture into a foreign market is predominantly influenced by two factors: perceived risk and available resources encompassing human, capital, and organizational aspects.

Segal-Horn and Dean, (2009) highlight the significance of organizational integration, internal consistency, and experience as key factors contributing to the success of companies. Firstly, customer-centric integration and experience enable firms to be more responsive and establish close relationships with their customers. Secondly, the benefits derived from experience are highly challenging to replicate, creating significant barriers to entry for potential competitors who would require substantial time and resources to deliver a seamless experience. Thirdly, integration acts as a substantial entry barrier, thereby offering potential competitive advantages for the international financial services sector in global markets. Particularly in knowledge-intensive industries, the ability to deliver an exceptional experience can serve as a foundation for sustaining a competitive edge over an extended period.

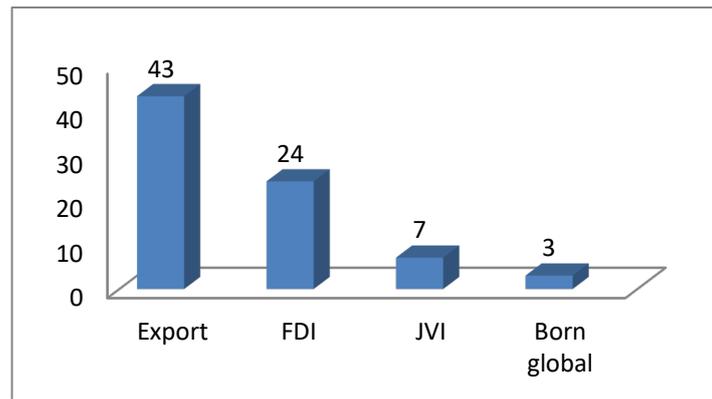


Figure 1: Mode of entry of firms according to the articles of the systematic review

The experience of offshoring administrative and technical services provides SMEs with benefits, including increased foreign sales and the ability to expand into multiple foreign markets. Interestingly, the impact of service outsourcing on SMEs' international sales is as positive or even stronger than that of captive offshoring (FDI) or manufacturing offshoring. This suggests that offshoring is a complex phenomenon, specifically the offshoring of services, which requires more attention from international business researchers and policymakers interested in international trade. In particular, manufacturing offshoring is mainly driven by cost reduction objectives. On the other hand, SMEs tend to offshore their technical and administrative services to achieve various advantages, such as resource allocation, focusing on core competencies, accessing foreign partners' resources and capabilities, enhancing customer service, and developing relationships with strategic partners.

The development of export activities stimulates the demand for services and increases the propensity to engage in international trade. Consequently, companies concentrate on enhancing their services and gaining a competitive advantage. Furthermore, the geographic origin and industry sector influence the extent to which products and services exhibit the key characteristics of intangibility, perishability, simultaneity, and heterogeneity. These characteristics are associated with the internationalization decisions of companies, with intangibility and simultaneity being particularly significant factors related to the choice of internationalization location.

Rugman and Verbeke (2008) conducted a study revealing a relative inflexibility among many service multinational enterprises (MNEs) when it comes to adapting their upstream and downstream activities or selecting activity locations based on supply considerations. While some service MNEs, such as information technology and media companies, may operate similarly to manufacturing MNEs by leveraging flexibility in their value chain, the majority of service MNEs, including retail banking, legal services, utilities, and transportation sectors, lack this adaptability.

Service enterprises face the challenge of delivering activities in close proximity to their consumers. The interdependence between upstream activities related to market entry and downstream activities focused on sales delivery enables effective adaptation to complex host environments. Consequently, the number of service MNEs that can truly be considered globally expansive in terms of sales and asset dispersion is limited. Additionally, the study highlights the varying importance of location choice among investor countries. Nationality differences stem from cultural and economic influences, leading to variations in firms' behavior when selecting their operating locations. Hofstede's research on social distance provides a valuable framework for understanding how educational delivery methods can be tailored to fit the cultural context.

Overall, these findings shed light on the inflexibility challenges faced by service MNEs and the significance of location considerations in their international operations, contributing to the literature on the internationalization of service firms.

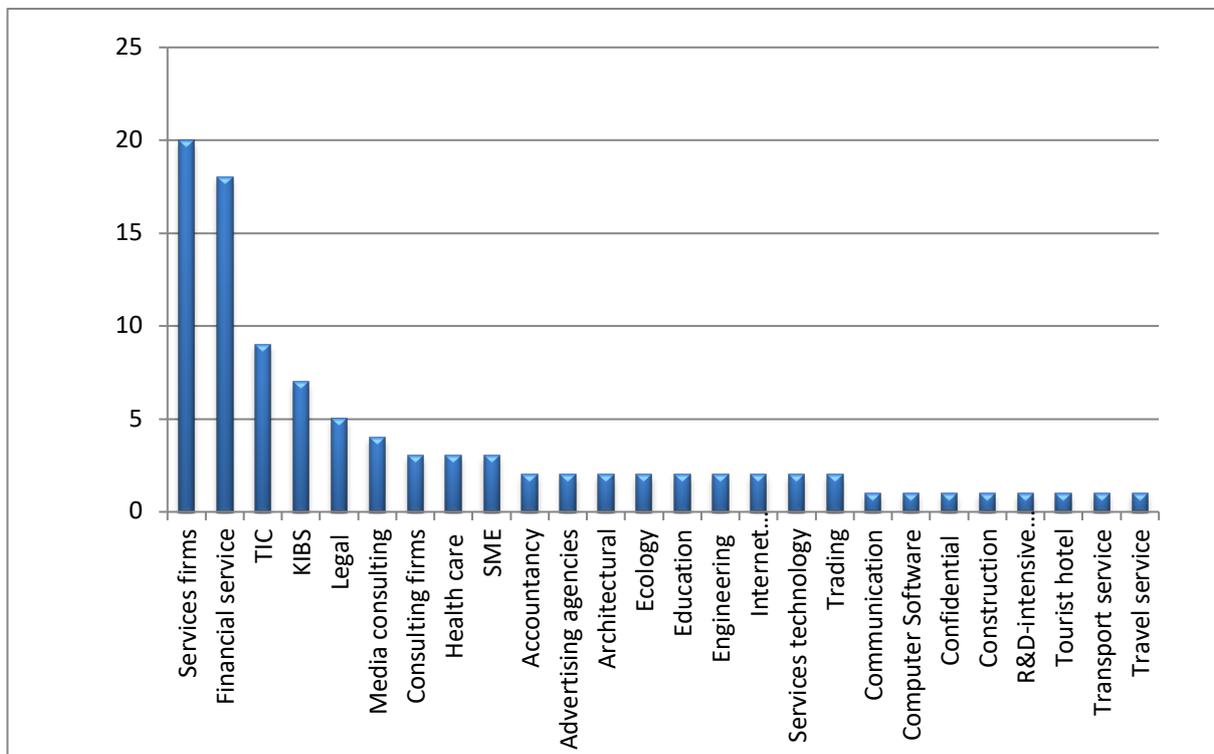


Figure 2: Sector of activity studied according to the articles of the systematic review.

Example of financial services

When studying the internationalization of non-financial enterprises and examining the relationship between trade and foreign direct investment (FDI), a common question arises. Bouquet et al., (2004) addresses this question and provides valuable insights into the topic.), it also highlights the impact of corporate heterogeneity on internationalization decisions. Recent theories on multinational corporations by Helpman et al., (2004) highlight the importance of corporate heterogeneity. As a

result, the findings demonstrate that FDI and cross-border services are complementary rather than substitutes.

The heterogeneity of banks plays a crucial role in their internationalization decisions. Profitable banks are more inclined to expand internationally, unlike smaller banks. Increased international activity also increases the likelihood of engaging in foreign direct investment (FDI) in financial services.

From a management perspective, strategic and marketing considerations are paramount. For example, Spanish banks and insurance companies have pursued entry strategies focused on acquiring or merging with local banks. This research expands upon previous empirical studies on the service industry's internationalization patterns by incorporating deregulation's impact. One case study within this research revealed a positive and significant correlation between deregulation and the internationalization process. Notably, this study uniquely focuses on the internationalization process of Spanish financial services companies in Latin America, whereas most previous research examines globalization processes of companies from other countries. Additionally, these companies operated in countries with substantial cultural and linguistic differences. The study's findings on the internationalization of five Spanish financial services companies suggest that market-seeking and customer-following strategies influence banks and insurers. This implies that these entities actively pursue new market opportunities while also catering to the needs and preferences of their existing international clientele. The results highlight the dual influence of market-driven initiatives and customer-centric approaches in shaping the internationalization decisions of these financial services firms.

The "revolution" in international finance has resulted in de-segmentation, commodification, and the transnationalization of the finance sector (Coleman and Underhill, 2012). Notably, the research findings indicate that insurers are more influenced by cultural distance than banks. Considering the need for consistent evidence demonstrating improved performance through internationalization in financial services companies, the primary objective is to comprehensively understand the causes and effects of this wave of cross-border expansion. This understanding aims to provide insights for financial services companies to enhance the formulation and implementation of their internationalization strategies.

In terms of analyzing the sources of value creation in cross-border activities, the frameworks developed by Bartlett and Ghoshal, Ghemawat, and other experts offer a valuable understanding of why certain firms excel in internationalization efforts. These frameworks also provide a structured approach for strategy development, showcasing their remarkable robustness despite the unique dynamics of the financial services sector. It is worth noting that the organizational structure of these enterprises is primarily based on conventional notions of good practice rather than rigorous organizational theory. The internationalization of these financial services enterprises should proceed

cautiously and sequentially, with a strong emphasis on experimentation, adaptation, and continuous learning. This approach becomes vital in a sector characterized by products that require exchange and entail risk-return considerations.

Three distinct characteristics of Banco Santander's international strategy have been identified, offering practical guidance to other financial services companies:

- Capacity building in the domestic market.
- Creation of growth opportunities in foreign markets through small-scale acquisitions or strategic alliances.
- Pursuing large-scale entry into foreign markets with rapid integration.

Moreover, the commitment to foreign markets should be undertaken gradually and sequentially, starting with markets that exhibit narrower cultural and/or economic distance from the home country. The paper investigates the internationalization of northern financial services firms worldwide, focusing on the studies conducted by (Ghuri et al., 2014), (Petrella, 2005), and (Grant and Venzin, 2009). Furthermore, it explores the internationalization patterns adopted by Finnish and Spanish financial services companies, banks, and insurance companies, as examined by (Cardone-Riportella and Cazorla-Papis, 2001). The study aims to determine whether these organizations are primarily influenced by "customer-following" or "market-seeking" strategies.

3.5 Barriers to Internationalization

Building on previous research, scholars in the field of international business have explored the risks associated with the process of internationalization. "The liability of foreignness" is a significant risk, involving disadvantages from cultural and regulatory unfamiliarity, limited local connections, and a lack of trust from local consumers who prefer domestic companies. Another risk is the potential leakage of proprietary knowledge through local networks, diminishing initial advantages. Failure in overseas markets can harm the firm's reputation and finances. Balancing national market responsiveness with global integration and innovation is a challenge. Achieving these capabilities leads to competitive advantages through global efficiency. However, adapting to consumer expectations, local regulations, and market competition may undermine scale and scope advantages (Morgan and Boussebaa, 2015). There are some barriers in the internationalization process, which are classified further.

3.5.1 Political and Institutional Barriers

Freeman and Sandwell (2008) emphasize regulatory barriers that can hinder the growth of professional services in host markets. This is especially true for the legal sector, where some markets restrict foreign entry. Therefore, before expanding into Asia, service companies should engage in detailed planning to assess market openness and establish a realistic timeline for success. Time is crucial, involving internal

control, strategic decision-making, interaction planning, and building reliable local contacts. Furthermore, long-term financial commitment to the host market is necessary. Governments create administrative and policy barriers to cross-border competition in knowledge-intensive business service (KIBS) industries, citing national security concerns or safeguarding telecommunications services. Additionally, governments tend to intervene in health and education sectors to uphold quality standards and regulate prices due to human rights considerations.

However, it is important to consider the impact of the General Agreement on Trade in Services (GATS) process, which may favor large firms over small ones and hinder efforts to promote international trade in business services. Simultaneously, EU directives aim to harmonize environmental standards and other legislative matters to ensure common ecological norms and facilitate foreign companies' access to services. Helleiner, (1994) suggests that the liberalization and deregulation in the 1970s primarily resulted from policy decisions and non-decisions made by the United States. However, it is important to note that the deregulation of international finance is often followed by a subsequent regulatory process, as highlighted by Ronit and Schneider, (2000) and Ronit and Schneider, (2000). Financial services policy networks in Canada and France have witnessed enhanced cohesion, mirroring global trends. Notably, international bodies like the Basel Committee on Banking Supervision have recently implemented substantial changes to capital regulations. This has led to a notable increase in political learning between public and private actors. However, it is worth noting that discussions within national policy networks often prioritize domestic policy considerations. Investors persuaded to invest in new locations often encounter unexpected administrative obstacles. If their initial experience is disappointing, they may not only refrain from returning themselves but also dissuade other potential investors from considering the opportunity.

3.5.2 Strategic barriers

Integration poses a significant hurdle to market entry and can serve as a crucial source of competitive advantages, particularly for Financial Service Providers (FSPs) in global markets. In industries characterized by high knowledge intensity and cross-border operations, the ability to provide a distinctive experience can establish a sustainable competitive advantage that lasts for several years. The complexity involved in implementing integration strategies, along with their difficulty to imitate, acts as a barrier for potential competitors seeking to enter strategically attractive markets with desirable customer segments and intense competition. His study of national regulations Arnold, (2005) emphasizes that differentiation strategies can be considered as a strategic approach in highly competitive and demanding service markets. Employing a barrier differentiation strategy involves leveraging international trade agreements, particularly the General Agreement on Trade in Services (GATS), and regulatory frameworks in the accounting sector to eliminate domestic regulations. These

regulations often act as barriers to trade and investment, including various licensing and qualification requirements applied at the national and sub-national levels.

3.5.3 Cultural barriers

Local providers possess inherent advantages over foreign competitors due to factors such as geographical proximity, language proficiency, cultural understanding, and familiarity with local legal frameworks. (Ghemawat, 2001). Companies employ various strategies to bridge the gap with customers and restore proximity to gain an advantage. Adapting the product or service offering to meet the specific demands of foreign customers helps minimize cultural and linguistic differences. However, the significant costs associated with adaptation often lead foreign firms to opt for a standardized approach. The use of national cultural variables on distance based on the work of (Hofstede, 2001) is widely employed in international management research. However, this practice overlooks compelling conceptual and methodological criticisms against Hofstede's operational definitions of national culture dimensions and their amalgamation into cultural composite distance measures ((Shenkar, 2001, McSweeney, 2002, Harzing, 2004, Bond, 2002).

A framework derived from the literature on the mono-cultural quality of service highlights key conceptual and methodological questions in this field. In an international context, two major phenomena arise:

- a) The need to establish equivalence between cultures.
- b) The identification of potential intercultural differences.

Freeman and Sandwell (2008) demonstrates that for FSPs (such as legal services, media, and finance companies) aiming to enter the Asian market, several key barriers to success exist. These include the high cost of face-to-face communication, cultural work practices, language and communication practices, and the regulatory environment. A significant obstacle is the heavy reliance on e-communication, such as email, which carries a high risk of poor communication and cultural misinterpretation, particularly due to the technical nature of the services involved. FSPs should carefully consider the time dedicated to communicating with their overseas office, customers, and suppliers. FSPS must prioritize understanding the foreign policy and regulatory barriers the government sets before entering the market, emphasizing the importance of thorough pre-planning in the Asian context.

3.6 Key Success Factors

3.6.1 Network and Market Adaptation

In healthcare marketing practices, two primary barriers identified are intangibility and heterogeneity. The study findings indicate that trust plays a crucial role from two perspectives: it is a requirement based on local culture and a necessity when offering treatment services in a complex healthcare

environment. When providing international services, these two perspectives complement each other. Networks are considered valuable in showcasing medical services to culturally distant consumers. Leveraging local knowledge networks becomes essential for successfully delivering high-value services in the international market (Ström, 2005; Bryson et al., 2020).

In their relationship-based study conducted in Thailand, Malaysia, and Vietnam, (Freeman and Sandwell, 2008) highlight the importance of investing significant time in establishing planning, internal decision-making, interaction, and participation among actors in the local market. They emphasize the need for the host company to build trustworthy relationships and make a long-term financial commitment to the host market. Establishing wholly owned subsidiaries in the target markets is preferred to facilitate this process. This entry mode signifies a long-term commitment and a physical presence backed by a network of multiple contacts in the host market. The study of Glückler (2006) reveals that social networks play a crucial role in accessing international markets and consistently influence the entry mode chosen by organizations. Through a combination of qualitative exploration and logistic regression analysis of survey data, the study suggests that the internationalization of business services can only be comprehended by considering the company's resources in conjunction with the external relational context.

The study findings indicate that reputation and the level of service risk have a significant impact on initial trust. Additionally, there is a noteworthy interaction effect, where positive effects result in higher levels of initial trust compared to situations involving a higher service risk. International service marketing should carefully leverage information to build initial trust, particularly for high-risk services. The study also introduces initial trust as a mediator, emphasizing the importance of a culturally nuanced approach in fostering stakeholder trust.

The interconnectedness of partner networks expands the range of international policy options and influences the availability and continuation of resources. However, contextual factors specific to professional services firms and developing markets, such as strategic motivations for market access and intense competitive rivalry following early entry, create an environment where firms can capitalize on their resources to gain service advantages. In Boojihawon, (2007) study on the dynamics of networks in the advertising sector, the focus goes beyond the initial arrangements of the network and internationalization. The study observes that in a dynamic context like the advertising industry, agencies and their clients have the flexibility to fluctuate, and the relationships between these entities are unpredictable and evolve over time. These relationships serve strategic purposes, as the company requires different resources at different phases of its operations. Relationships are formed and dissolved based on strategic priorities, allowing the company to adapt to changing circumstances and optimize its resource allocation. To adapt Western models to local conditions, a process of "translation" becomes

essential. This means that multinational services can achieve success from an employee perspective by creating specific practices that align with endogenous forces, such as past habits and cultural norms (Venard, 2002). By understanding and incorporating these local factors, multinational services can effectively navigate and cater to the unique needs and preferences of the target market, increasing their chances of success.

3.6.2 Attractiveness of the Market

As a second contribution, a comparison is made between different categories of services in terms of perceived risk. Additionally, it explores the effects within transition economies, which are increasingly appealing to international service providers. The varying national contexts create frameworks that enable varying degrees of flexibility for multinational companies' external management policies. Host country subsidiaries that are receptive to new economic forms and have relative weaknesses are likely to facilitate the implementation of multinational management practices. Conversely, subsidiaries in "closed" countries with well-integrated operational systems may offer less scope for introducing new practices, as these countries possess distinct organizational characteristics (Whitley, 1992). Furthermore, based on (Morgan and Boussebaa, 2015) study, international business scholars have identified two approaches to mitigate risk in internationalization. The first involves strategic choices for market entry, ranging from exports to various forms of foreign direct investment, each with its own risks and returns. The second approach is the Uppsala Internationalization Process Model, where firms expand into culturally similar countries first before venturing into more complex environments. Additionally, the "transnational solution" emphasizes achieving local responsiveness, global integration, and worldwide learning simultaneously.

3.6.3 Innovation in Internationalization

In today's dynamic business environment, innovation has emerged as a crucial factor for organizations to establish a sustainable competitive advantage. (Lu and Tseng, 2010) conducted a study on Innovative Service Operations in Taiwan, emphasizing the significance of innovation in hotel services and identifying different types of innovation among international tourism hotels. The study's findings, based on ANOVA analysis, indicate that the level of innovation activities varies due to the internal characteristics of international tourist hotels.

Information technology (IT) plays a transformative role in business services. Its advancements have several implications:

- ICT developments enhance the portability of services, particularly business services that involve information processing. This encourages cross-border service provision methods without the need for physically displacing staff and customers.

- ICT developments enable certain firms to create innovative processes, serving as a foundation for expanding their operations into international territories.
- ICT facilitates managing and coordinating geographically dispersed establishments while reducing associated costs.

Empirical research outcomes reveal that an innovative orientation expedites enterprises' internationalization process, allowing them to engage in more activities and target "hard markets." These findings should encourage small- and medium-sized service enterprise managers to leverage innovation to expand their production, services, and R&D activities in other countries. It is crucial to their success to select the appropriate entry mode for foreign markets and maintain operational control.

3.6.4 The Significance of Maintaining High-Quality Manufacturing

Maintaining a substantial level of high-quality technology manufacturing activity is crucial, accompanied by expanding various service activities such as customer support and research and development. These service activities are integral to manufacturing knowledge and contribute to overall competitiveness. Quality of service holds significant importance due to its impact on consumer perception and their interactions with other factors such as satisfaction, loyalty, and competitiveness. How consumers perceive a service and their satisfaction with it can directly influence their loyalty toward a brand or organization. This, in turn, can affect the overall competitiveness and profitability of the business. Recognizing the significance of delivering high-quality service is essential for businesses to maintain customer satisfaction, foster loyalty, and remain competitive. By prioritizing the quality of service, organizations can enhance their reputation, build strong customer relationships, and ultimately drive profitability.

3.7 Competitiveness and Performance of the Company

Di Gregorio et al., (2009) found a positive connection between SMEs outsourcing administrative and technical services and international competitiveness. Offshore outsourcing provides SMEs with various benefits, including increased sales in foreign markets and the opportunity to expand into new markets (Mohiuddin et al., 2019). Cost reduction is just one advantage; other gains include organizational learning, network access, and capabilities (Mohiuddin et al., 2013). The primary motivation for relocating services is often cost reduction. However, SMEs aim to free up resources and focus on their core competencies. This approach allows them to leverage the resources and capabilities of foreign partners to serve customers better and develop strategic relationships with them. (Fernandez, 2001) conducted a study on the performance of service multinationals in countries like Denmark, Spain,

Sweden, and the United Kingdom. The study highlighted the importance of foreign direct investment in business services compared to other services. This is primarily because business services are less easily marketable, and the multinationalization of clients drives service producers to follow their clients abroad, gaining a competitive advantage.

Many companies aspire to become multinationals, and the theory of international production explains why some companies choose to produce abroad. Owning intangible assets adds value in services since competition is based on quality rather than price. Companies with sufficient internal resources find establishing overseas subsidiaries to internalize these services advantageously. Various studies have shown different effects on performance concerning international expansion, including positive, negative, or curvilinear effects (in the form of a U or inverted U shape), indicating the impact on performance varies with increasing international expansion. Several studies have examined the relationship between internationalization and performance. Kumar and Siddharthan, (2013) found a negative relationship.

On the other hand, Buckley et al., (1984) demonstrated a positive relationship in their research on exposure grants. Additionally, there are studies suggesting a non-linear relationship between internationalization and performance, such as those by Contractor et al., (2007), Tsai, (2014), and Capar et al., (2015). Chang (2007) conducted a study on the relationship between performance and international expansion, focusing on Indian manufacturing and service firms. Their findings indicate that the internationalization pattern for Indian manufacturing firms follows a U-shaped curve, while Indian service firms experience a positive linear relationship with better performance. This suggests that negative effects are absent or not significant for service firms. Service firms can more quickly overcome and mitigate the negative impact of early internationalization compared to manufacturing firms. The study attributes this to the advancements in education in India over the past fifty years, resulting in a more qualified pool of personnel. These findings provide validation for Indian companies operating in the context of the study.

Indian companies in the service sector have the advantage of pursuing aggressive international expansion. Several factors facilitate this. Firstly, there is a reduction in initial capital requirements, making it easier for these companies to enter foreign markets. Additionally, these companies can separate their value chain across international boundaries, with core activities like software development in India. In contrast, complementary activities such as front-office consultancy and marketing are conducted in Europe and the United States.

Furthermore, compared to other sectors, government controls and interferences in online business activities are relatively lower for service firms. This allows them to operate more freely and expand

their international presence without significant regulatory obstacles. Contractor et al., (2007) have highlighted these factors in their research, showcasing the enabling conditions for Indian service companies to engage in successful international expansion. All these factors contribute to the international success of Indian service firms compared to those in the manufacturing sector. Another important factor is the diaspora effect, which has benefited Indian firms in software and knowledge-based industries. A large Indian diaspora worldwide has provided networking opportunities, market knowledge, and client access, giving Indian firms an advantage in these sectors (Kapur and Ramamurti, 2001).

An example of successful international expansion is ICICI Bank, which has effectively entered foreign markets such as Singapore, the United Arab Emirates, the United States, the United Kingdom, and Canada. The bank achieved this by following its clients of Indian origin and focusing on serving Indian companies rather than directly competing against global banks with global customers. This targeted approach has allowed Indian companies to excel in the service sector and catch up with and even surpass manufacturers.

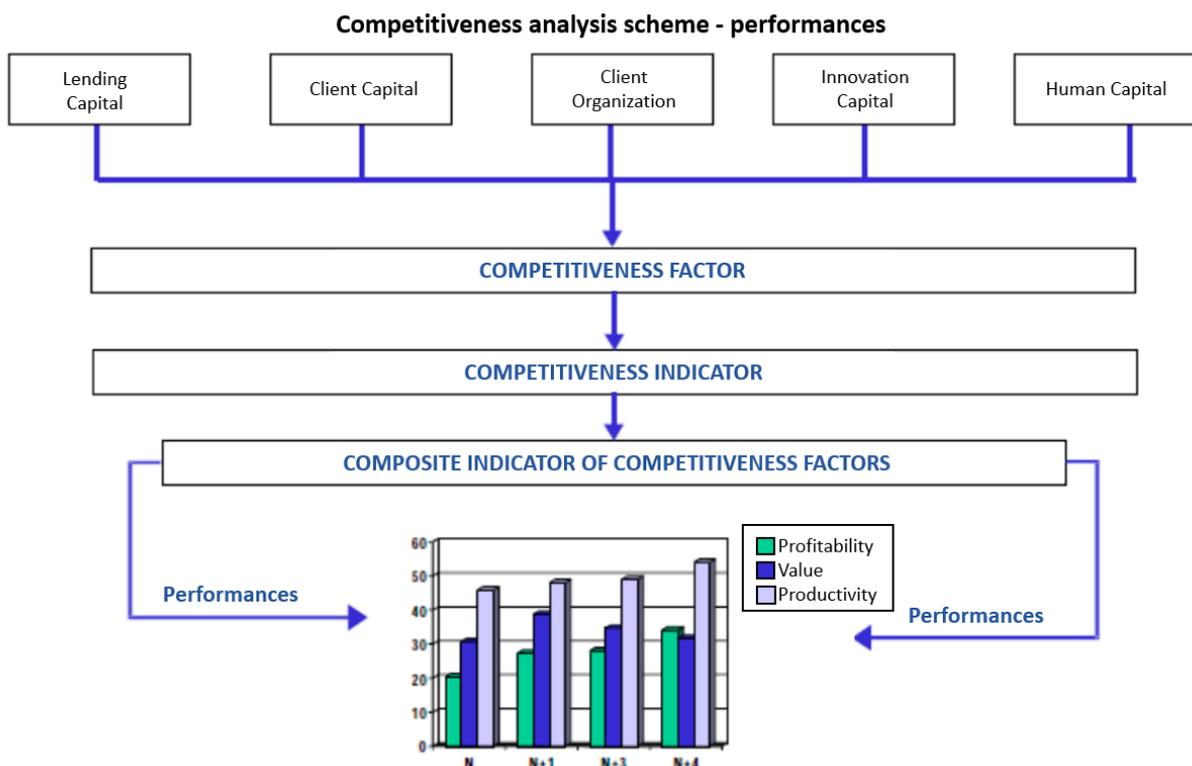


Figure 3: Source: Indicators and competitiveness factor for industry (2000)

4 - INTERNATIONALIZATION MODELS

Several models have been developed to understand the internationalization of service companies.

4.1 Stage wide model

One prominent model is the theory of stages, which advocates for a gradual internationalization process that progresses from low commitment/risk to high commitment/risk. The stages in this model include:

- No regular export activity (exports are sporadic if necessary)
- Exports are made through independent representatives.
- Creation of foreign sales subsidiaries
- Establishment of production infrastructure abroad

The rationale behind this model is to adopt a gradual strategy that minimizes investment costs and risks at each stage. Typically, companies start by exporting to geographically close markets and expand to more distant markets as they gain experience. However, some companies may need help to bypass the intermediate stages and directly pursue a global approach. Recent research has shown a discrepancy between the theory of stages and the actual practices of many companies, particularly those referred to as "born globals" that embrace a global vision from their inception.

4.2 Born Global

"Born globals" are companies that enter the market with a focus on either the global market or a niche with limited capacity in their domestic market. They begin exporting within the first five years of their existence. Approximately one in ten companies can be classified as "born globals," especially in sectors with innovative technologies aiming for rapid international progress.

4.3 Eclectic Paradigm

Another model is Dunning's eclectic paradigm, which highlights three main elements related to transaction costs. According to this model, direct investment abroad is feasible when the company possesses:

- Proprietary advantages (such as know-how, patents, and market access)
- Location advantages (including transport and production costs, tariff barriers, and non-tariff barriers)
- Benefits of internalization (such as control and reduced uncertainty)

Dunning, (1988) suggests that export internationalization is suitable when the company can achieve proprietary advantages and internalization benefits. Contractual arrangements are preferred when proprietary advantages can be obtained. To expand upon this model, Dunning revised it to

incorporate the concept of strategic alliances and underscored the growing importance of proprietary advantages.

4.4 The Uppsala Model

Johanson and Vahlne (1977) proposed the Uppsala model to address the gap in previous models that primarily explained the existence of multinational enterprises without delving into their progression from operating domestically to establishing a global presence. The Uppsala model fills this void by providing insights into internationalization. Over time, the Uppsala model has gained significant popularity and has become a widely utilized framework for studying firm internationalization (Vahlne, 2020, Almodovar and Rugman, 2015). The alternative model proposed by Håkanson and Kappen, (2017) outlines a sequential process of internationalization with distinct phases: irregular exports, regular exports, independent representatives, and local production. A notable assumption of this model is that internationalization typically commences in neighboring countries to mitigate uncertainties related to varying management practices, crops, and other factors. In the initial phase of irregular exports, companies engage in sporadic or occasional export activities, often seizing specific opportunities or responding to demand. As companies gain experience, they progress to regular exports, adopting a more consistent and structured approach to international trade. Subsequently, in the phase of independent representatives, companies establish relationships with local agents or intermediaries who facilitate market access, distribution, and sales in foreign markets. This collaborative approach helps companies navigate unfamiliar territories more effectively. Finally, the model suggests that local production becomes a strategic move for companies as they expand. Establishing physical operations, such as manufacturing facilities or subsidiaries, allows companies to serve local markets better and adapt to specific market conditions.

4.5 The Strategic Management Model

The proposed model highlights two key factors for companies considering internationalization. Firstly, companies must consider the costs of achieving the minimum efficient scale. If the minimum efficient scale is larger than the size of the domestic market, internationalization becomes necessary for the company to maintain competitiveness. This emphasizes the importance of economies of scale and the need to access larger markets through international expansion.

Secondly, firms need to be aware of market opportunities for successful differentiation. Different markets may present unique characteristics or preferences, and companies must be able to adapt and offer products or services that differentiate them from competitors. This idea is in line with the concept of competitive advantage (Porter and Millar, 1985) and the notion of market-specific

advantages mentioned by Jarillo and Martíánez (1990), and Khalid and Larimo (2012). This approach is particularly relevant for small and medium-sized enterprises (SMEs) pursuing niche strategies, as they can leverage their specialized offerings to compete effectively in specific market segments.

5. RESEARCH LIMITATIONS

Any errors in global estimations can have implications for the estimations of developing countries, as is often observed in projections (Angel et al., 2011). It is important to note that several dimensions of international services are not adequately captured in the national balance of payment statistics, which serve as the primary source of information for international trade in services (World Bank, 1997). Consequently, there is a potential for underestimation in the historical figures upon which this projection exercise is based. Furthermore, variations in data collection processes across countries can result in disparities in coverage, quality, and coherence. Consequently, any errors or omissions occurring at the national level will propagate into the aggregated data used for this study. To address these challenges, collaboration between the OECD and EUROSTAT is essential for enhancing the collection of service trade statistics among member countries (World Bank, 1997). Additionally, the IMF's implementation of a new classification for service trade, as outlined in the fifth edition of its Balance of Payments Manual (IMF, 1993), is crucial. These efforts can potentially improve the availability and accuracy of data on international trade in services in the future.

6. RESEARCH RECOMMENDATIONS FOR FUTURE STUDY

Based on the literature reviews, we can recommend that one of the important areas of future research on the internationalization of service enterprises is targeting developing and emerging markets. Some other areas are to analyze the optimal level of government support/restrictions and their timing (balancing deregulation/regulation). Examination of the role of inward internationalization and discussing the applicability of strategic alliances and/or transnational strategies in which companies from these countries are considered part of a larger international organization are some other promising areas. More specific studies on the role of regionalization trends and psychic distance would also be interesting.

Further studies could beneficially focus on the influence of variables related to the home and host country's local environments and the impact of customer characteristics on the strategic choices of service providers. Future research could analyze the nature of innovations that drive low-control entry modes and their relationship with international performance. Due to empirical evidence of incomplete global integration in the regional production of knowledge-intensive services, future work can examine each region in-depth to study the global integration of national knowledge-intensive service industries. The relationship between international economic activities, industrial production, consumption,

international linkages, and industrial exports and imports heavily influences the likelihood of knowledge-intensive service industries at the national level.

Foreign direct investment (FDI) is also likely to impact basic healthcare infrastructure and numerous healthcare systems significantly. Given the scarcity of data and research on the impact of FDI, there is a clear need for an important research agenda in this area. The scope for future research includes more in-depth analyses of host market characteristics, such as consumer sophistication and overall market development. It would also be useful to include a more thorough analysis of the performance of different operations/companies to identify optimal long-term strategies. By exploring these research avenues, future studies can provide valuable insights into the dynamics and complexities of internationalization processes in the service sector and contribute to enhancing our understanding of strategic decision-making and performance outcomes.

Several promising avenues for future research can further enhance our understanding of internationalization processes in the service sector and shed light on strategic decision-making and performance outcomes. The following areas are recommended for exploration:

-Government Support and Regulations: It is crucial to analyze the optimal level of government support and restrictions and their timing. Future studies can explore how businesses strike a balance between deregulation and regulation and the impact of government policies on internationalization strategies.

-Strategic Alliances and Transnational Strategies: Understanding the role of inward internationalization and strategic alliances is essential. Researchers can delve deeper into how companies from different countries can collaborate and become part of larger international organizations, investigating the effectiveness of these partnerships in achieving internationalization goals.

-Regionalization Trends and Psychic Distance: Exploring regionalization trends and the concept of psychic distance can provide valuable insights. Researchers can investigate how regional integration affects internationalization strategies and the challenges posed by cultural and geographical differences.

-Local Environments and Customer Firm Characteristics: Studying the influence of local environments and customer firm characteristics is important. Future research can examine how factors like institutional environments, cultural nuances, and customer preferences shape strategic choices of service providers in international markets.

-Innovations and Low-Control Entry Modes: It is beneficial to investigate the nature of innovations that drive low-control entry modes. Researchers can analyze how innovative strategies contribute to successful market entry with reduced control and their impact on international performance.

-Global Integration of Knowledge-Intensive Service Industries: Considering incomplete global integration in regional knowledge-intensive service industries, more focused studies on each region can be conducted. Researchers can examine the extent of integration, knowledge flows, and factors affecting global integration in specific regions.

-Impact of Foreign Direct Investment on Healthcare Systems: Given the scarcity of research on the impact of foreign direct investment (FDI) on healthcare systems, future studies can explore this area. Analyzing how FDI influences basic healthcare infrastructure and healthcare systems will help identify potential improvements and effective strategies.

-Host Market Characteristics and Long-Term Strategies: In-depth analyses of host market characteristics and their influence on long-term strategies are warranted. Researchers can investigate how factors such as consumer sophistication and market development impact the performance and success of international operations.

7. CONCLUSION

The findings of this study highlight several key insights regarding the internationalization of service firms:

-Limited Standardization: The study reveals that true global operations among multinational service firms are rare, and there is limited standardization across global service sectors. This suggests that service firms face unique challenges and complexities in achieving global presence and implementing global strategies.

-Regional Approach: It is observed that most multinational service firms will need to adopt a regional approach to their strategic operations. This implies that focusing on specific regional markets and tailoring strategies to local environments is crucial for success in the service sector.

-Need for New Theoretical Frameworks: The study emphasizes the importance of developing new theoretical frameworks that capture the unique dynamics and complexities of service-

based industries. This highlights the need for innovative theories that can provide a deeper understanding of internationalization processes in the service sector.

-Factors and Drivers: The research suggests that future studies should focus on exploring the specific factors and drivers that influence the internationalization processes of service firms. This includes investigating the role of regionalization, the impact of local environmental variables, and the characteristics of customer firms on the strategic choices of service providers.

The available evidence suggests that true global operations among multinational service firms are rare, and there is limited standardization across global service sectors. In the future, it is highly unlikely that a significant number of the top 500 global companies, particularly in the services sector, will achieve a genuine global presence and successfully implement global strategies. Instead, most multinational service firms will need to adopt a regional approach to their strategic operations.

To advance our understanding of internationalization in the service sector, it is imperative to develop new theoretical frameworks that capture the unique dynamics and complexities of service-based industries. Further research should focus on exploring the specific factors and drivers that influence the internationalization processes of service firms. Additionally, investigating the role of regionalization, the impact of local environmental variables, and the characteristics of customer firms on service providers' strategic choices will contribute to a more comprehensive understanding of internationalization in this sector.

In conclusion, the internationalization of service firms presents distinct challenges and complexities compared to other sectors. While global operations remain elusive for most multinational service firms, a regional approach to strategy becomes crucial. Future research efforts should delve deeper into the intricacies of service industry internationalization, fostering the development of innovative theories and exploring the various factors that shape the strategies and operations of service firms in the global marketplace. Hence, we can enhance our knowledge and provide valuable insights for practitioners and policymakers in navigating the complexities of international service operations.

The available evidence presented in this article emphasizes the rarity of true global operations among multinational service firms and the limited standardization observed across global service sectors. It is evident that achieving a genuine global presence and successfully implementing global strategies will remain challenging, particularly for the majority of the top 500 global

companies in the services sector. Instead, the adoption of a regional approach to strategic operations becomes imperative.

Moving forward, the advancement of our understanding of internationalization in the service sector necessitates the development of new theoretical frameworks that specifically capture the unique dynamics and complexities of service-based industries. Future research should concentrate on exploring the specific factors and drivers that influence the internationalization processes of service firms. Furthermore, investigating the role of regionalization, analyzing the impact of local environmental variables, and understanding the characteristics of customer firms on service providers' strategic choices will contribute significantly to a more comprehensive understanding of internationalization in this sector.

In conclusion, the internationalization of service firms presents distinct challenges and complexities compared to other sectors. While achieving global operations remains elusive for most multinational service firms, adopting a regional approach to strategy becomes crucial for sustained success. It is essential that future research efforts delve deeper into the intricacies of internationalization in the service industry, fostering the development of innovative theories that capture its unique dynamics and exploring the various factors that shape the strategies and operations of service firms in the global marketplace. By addressing these research gaps, we can enhance our knowledge and provide valuable insights for practitioners and policymakers in navigating the complexities of international service operations. This will enable service firms to make informed strategic decisions and optimize their performance outcomes in an ever-evolving global landscape.

References

- Abdelzaher, D. M. (2012). The impact of professional service firms' expansion challenges on internationalization processes and performance. *The service industries journal*, 32, 1721-1738.
- Akdere, M., Top, M. & Tekingündüz, S. (2020). Examining patient perceptions of service quality in Turkish hospitals: The SERVPERF model. *Total quality management & business excellence*, 31, 342-352.
- Almodovar, P. & Rugman, A. M. (2015). Testing the revisited Uppsala model: does insidership improve international performance? *International Marketing Review*.
- Angel, S., PARENT, J., CIVCO, D. L., BLEI, A. & POTERE, D. 2011. The dimensions of global urban expansion: Estimates and projections for all countries, 2000–2050. *Progress in Planning*, 75, 53-107.
- ARNOLD, P. J. 2005. Disciplining domestic regulation: the World Trade Organization and the market for professional services. *Accounting, Organizations and Society*, 30, 299-330.

- BAI, T., CHEN, S. & HE, X. 2019. How home-country political connections influence the internationalization of service firms. *Management International Review*, 59, 541-560.
- BEATTIE, V. & SMITH, S. J. 2013. Value creation and business models: Refocusing the intellectual capital debate. *The British Accounting Review*, 45, 243-254.
- BENLIAN, A., KOUFARIS, M. & HESS, T. 2011. Service quality in software-as-a-service: Developing the SaaS-Qual measure and examining its role in usage continuance. *Journal of management information systems*, 28, 85-126.
- BOEHE, D. M. 2016. The internationalization of service firms from emerging economies: An internalization perspective. *Long Range Planning*, 49, 559-569.
- BOKSBERGER, P. E. & MELSEN, L. 2011. Perceived value: a critical examination of definitions, concepts and measures for the service industry. *Journal of services marketing*, 25, 229-240.
- BOND, M. H. 2002. Reclaiming the individual from Hofstede's ecological analysis--a 20-year odyssey: comment on Oyserman et al.(2002).
- BOOJIHAWON, D. K. 2007. Network dynamics and the internationalisation process of small advertising agencies. *The Service Industries Journal*, 27, 809-829.
- BOUQUET, C., HEBERT, L. & DELIOS, A. 2004. Foreign expansion in service industries: Separability and human capital intensity. *Journal of Business Research*, 57, 35-46.
- BROCK, D. M. 2012. Building global capabilities: A study of globalizing professional service firms. *The Service Industries Journal*, 32, 1593-1607.
- BROCK, D. M. & ALON, I. 2009. Internationalization of professional service firms. *International Business: Research Teaching and Practice*, 3, 52-70.
- BRYSON, J. R., SUNDBO, J., FUGLSANG, L., DANIELS, P., BRYSON, J. R., SUNDBO, J., FUGLSANG, L. & DANIELS, P. 2020. Internationalizing Service Businesses. *Service Management: Theory and Practice*, 181-202.
- BUCKLEY, P. J., DUNNING, J. H. & FEARCE, R. D. 1984. An analysis of the growth and profitability of the world's largest firms 1972 to 1977. *Kyklos*, 37, 3-26.
- CAMPBELL, A. J. & VERBEKE, A. 1994. The globalization of service multinationals. *Long Range Planning*, 27, 95-102.
- CAPAR, N., CHINTA, R. & DIKEC, A. 2015. The Relationship between Internationalization and Performance: The Case of Turkish Firms. *Southern Business & Economic Journal*, 38.
- CAPAR, N. & KOTABE, M. 2003. The relationship between international diversification and performance in service firms. *Journal of international business studies*, 34, 345-355.
- CARDONE-RIPORTELLA, C. & CAZORLA-PAPIS, L. 2001. The internationalisation process of Spanish banks: a tale of two times. *International Journal of Bank Marketing*, 19, 53-68.
- CHANG, J. 2007. International expansion path, speed, product diversification and performance among emerging-market MNEs: evidence from Asia-Pacific multinational companies. *Asian Business & Management*, 6, 331-353.
- CHETTY, S. & AGNDAL, H. 2007. Social capital and its influence on changes in internationalization mode among small and medium-sized enterprises. *Journal of International Marketing*, 15, 1-29.
- CHIDLOW, A., GHAURI, P. N. & HADJIKHANI, A. 2019. Internationalization of service firms and their interactions with socio-political actors. *Management International Review*, 59, 499-514.
- CHILD, J., NG, S. H. & WONG, C. 2002. Psychic distance and internationalization: Evidence from Hong Kong firms. *International Studies of Management & Organization*, 32, 36-56.

- COLEMAN, W. D. & UNDERHILL, G. R. 2012. Globalization, regionalism and the regulation of securities markets. *Regionalism and Global Economic Integration*. Routledge.
- CONTRACTOR, F. J., KUMAR, V. & KUNDU, S. K. 2007. Nature of the relationship between international expansion and performance: The case of emerging market firms. *Journal of World Business*, 42, 401-417.
- DE CHIARA, A. & MINGUZZI, A. 2002. Success factors in SMEs' internationalization processes: An Italian investigation. *Journal of small business management*, 40, 144-153.
- DI GREGORIO, D., MUSTEEN, M. & THOMAS, D. E. 2009. Offshore outsourcing as a source of international competitiveness for SMEs. *Journal of International Business Studies*, 40, 969-988.
- DUNNING, J. H. 1988. The theory of international production. *The International Trade Journal*, 3, 21-66.
- ETEMAD, H., WRIGHT, R. W. & DANA, L. P. 2001. Symbiotic international business networks: collaboration between small and large firms. *Thunderbird International Business Review*, 43, 481-499.
- FERNANDEZ, M. T. F. 2001. Performance of business services multinationals in host countries: Contrasting different patterns of behaviour between foreign affiliates and national enterprises. *Service Industries Journal*, 21, 5-18.
- FILIPPE LAGES, L. & MONTGOMERY, D. B. 2005. The relationship between export assistance and performance improvement in Portuguese export ventures: An empirical test of the mediating role of pricing strategy adaptation. *European Journal of marketing*, 39, 755-784.
- FREEMAN, S. & SANDWELL, M. 2008. Professional service firms entering emerging markets: the role of network relationships. *Journal of Services Marketing*.
- GHAURI, P., TASAVORI, M. & ZAEFARIAN, R. 2014. Internationalisation of service firms through corporate social entrepreneurship and networking. *International marketing review*.
- GHEMAWAT, P. 2001. Distance still matters: The hard reality of Global Expansion, *Harvard Business Review*, September 2001. P. (1-12).
- GLÜCKLER, J. 2006. A relational assessment of international market entry in management consulting. *Journal of Economic Geography*, 6, 369-393.
- GÖRG, H. & HANLEY, A. 2005. Labour demand effects of international outsourcing: Evidence from plant-level data. *International Review of Economics & Finance*, 14, 365-376.
- GÖRG, H., HANLEY, A. & STROBL, E. 2004. Outsourcing, foreign ownership, exporting and productivity: An empirical investigation with plant level data. *Globalisation, productivity and technology research paper*.
- GRANT, R. M. & VENZIN, M. 2009. Strategic and organisational challenges of internationalisation in financial services. *Long range planning*, 42, 561-587.
- HÅKANSON, L. & KAPPEN, P. 2017. The 'casino model' of internationalization: An alternative Uppsala paradigm. *Journal of International Business Studies*, 48, 1103-1113.
- HARZING, A.-W. 2004. 10 Composing an International Staff. *International human resource management*, 251.
- HELLEINER, E. 1994. Freeing money: why have states been more willing to liberalize capital controls than trade barriers? *Policy Sciences*, 27, 299-318.
- HELPMAN, E., MELITZ, M. & YEAPLE, S. 2004. pExport Versus FDI with Heterogeneous Firms. *q American Economic Review*, 94 (1), 300-316. *Home: Intermediates*.

- HITT, M. A., BIERMAN, L., UHLENBRUCK, K. & SHIMIZU, K. 2006. The importance of resources in the internationalization of professional service firms: The good, the bad, and the ugly. *Academy of management journal*, 49, 1137-1157.
- HOFSTEDE, G. 2001. *Culture's consequences: Comparing values, behaviors, institutions and organizations across nations*, sage.
- Hurmelinna-Laukkanen, P., & Ritala, P. (2012). Appropriability as the driver of internationalization of service-oriented firms. *The Service Industries Journal*, 32(7), 1039-1056.
- IMF, W. 1993. Balance of payments manual.
- JARILLO, J. C. & MARTÍNEZ, J. I. 1990. Different roles for subsidiaries: The case of multinational corporations in Spain. *Strategic management journal*, 11, 501-512.
- JAVALGI, R. G. & MARTIN, C. L. 2007. Internationalization of services: identifying the building-blocks for future research. *Journal of Services marketing*, 21, 391-397.
- JENSEN, P. D. Ø. & PETERSEN, B. 2014. Value creation logics and internationalization of service firms. *International Marketing Review*.
- JOHANSON, J. & VAHLNE, J.-E. 2006. Commitment and opportunity development in the internationalization process: A note on the Uppsala internationalization process model. *Management International Review*, 46, 165-178.
- KAHIYA, E. T. 2013. Export barriers and path to internationalization: A comparison of conventional enterprises and international new ventures. *Journal of International Entrepreneurship*, 11, 3-29.
- KAPUR, D. & RAMAMURTI, R. 2001. India's emerging competitive advantage in services. *Academy of Management Perspectives*, 15, 20-32.
- KARMARKAR, U. S., KIM, K. & RHIM, H. 2015. Industrialization, productivity and the shift to services and information. *Production and Operations Management*, 24, 1675-1695.
- KHALID, S. & LARIMO, J. 2012. Firm specific advantage in developed markets dynamic capability perspective. *Management International Review*, 52, 233-250.
- KIMIAGARI, S., GABRIELSSON, P., GABRIELSSON, M. & MONTREUIL, B. 2015. Market strategy of international new ventures originating from a small and open economy. *Handbook of Research on International Entrepreneurship Strategy*. Edward Elgar Publishing.
- KUMAR, N. & SIDDHARTHAN, N. S. 2013. *Technology, market structure and internationalization: Issues and policies for developing countries*, Routledge.
- LEWIN, A. Y. & VOLBERDA, H. W. 2011. Co-evolution of global sourcing: The need to understand the underlying mechanisms of firm-decisions to offshore. *International Business Review*, 20, 241-251.
- LU, I.-Y. & TSENG, C.-J. 2010. A study of the service innovation activities of tourist hotels in Taiwan. *International Journal of Organizational Innovation*, 3, 156-172.
- MALHOTRA, N. & HININGS, C. 2010. An organizational model for understanding internationalization processes. *Journal of International Business Studies*, 41, 330-349.
- MALHOTRA, N. & MORRIS, T. 2009. Heterogeneity in professional service firms. *Journal of management studies*, 46, 895-922.
- MCSWEENEY, B. 2002. Hofstede's model of national cultural differences and their consequences: A triumph of faith-a failure of analysis. *Human relations*, 55, 89-118.
- MÉDAIL, F. & DIADEMA, K. 2009. Glacial refugia influence plant diversity patterns in the Mediterranean Basin. *Journal of biogeography*, 36, 1333-1345.

- Mohiuddin, M., Rashid, M. M., Al Azad, M. S., & Su, Z. (2019). Back-shoring or re-shoring: determinants of manufacturing offshoring from emerging to least developing countries (LDCs). *International Journal of Logistics Research and Applications*, 22(1), 78-97.
- Mohiuddin, M., & Su, Z. (2013). Offshore outsourcing of core and non-core activities and integrated firm-level performance: An empirical analysis of Québec manufacturing SMEs. *M@n@gement*, (4), 454-478.
- MORGAN, G. & BOUSSEBAA, M. 2015. Internationalization of professional service firms: Drivers, forms, and outcomes.
- MORGAN, G. & QUACK, S. 2005. Internationalization and capability development in professional service firms. *Changing capitalisms*, 277-311.
- PETRELLA, R. 2005. Globalization and internationalization: the dynamics of the emerging world order. *States against markets*. Routledge.
- PINHO, J. C. & MARTINS, L. 2010. Exporting barriers: Insights from Portuguese small-and medium-sized exporters and non-exporters. *Journal of international Entrepreneurship*, 8, 254-272.
- PLA-BARBER, J. & GHOURI, P. N. 2012. Internationalization of service industry firms: Understanding distinctive characteristics. *The Service Industries Journal*, 32, 1007-1010.
- PORTER, M. E. & MILLAR, V. E. 1985. How information gives you competitive advantage. Harvard Business Review Reprint Service.
- RADULOVICH, L., JAVALGI, R. G. & SCHERER, R. F. 2018. Intangible resources influencing the international performance of professional service SMEs in an emerging market: Evidence from India. *International Marketing Review*, 35, 113-135.
- RAMMAL, H. & ROSE, E. 2014. New perspectives on the internationalization of service firms. *International Marketing Review*.
- ROBERTS, M. J. & MURALIDHARAN, E. 2022. Internationalization of service SMEs: perspectives from Canadian SMEs internationalizing in Asia. *Global Business Review*, 23, 890-910.
- RONIT, K. & SCHNEIDER, V. 2000. *Private organisations in global politics*, Routledge London.
- RUGMAN, A. M. & VERBEKE, A. 2008. A new perspective on the regional and global strategies of multinational services firms. *Management International Review*, 48, 397-411.
- SEGAL-HORN, S. & DEAN, A. 2009. Delivering 'effortless experience' across borders: Managing internal consistency in professional service firms. *Journal of World Business*, 44, 41-50.
- SHENKAR, O. 2001. Cultural distance revisited: Towards a more rigorous conceptualization and measurement of cultural differences. *Journal of international business studies*, 32, 519-535.
- STRÖM, P. 2005. The Japanese service industry: An international comparison. *Social Science Japan Journal*, 8, 253-266.
- SUSENO, Y. & PINNINGTON, A. H. 2018. Future orientation and foreign entry mode choice in the internationalization of professional service firms. *Journal of General Management*, 43, 145-156.
- TSAI, H.-T. 2014. Moderators on international diversification of advanced emerging market firms. *Journal of Business Research*, 67, 1243-1248.
- VAHLNE, J. E. 2020. Development of the Uppsala model of internationalization process: From internationalization to evolution. *Global Strategy Journal*, 10, 239-250.
- VENARD, B. 2002. Organisational change in service multinationals: From radical change to destabilisation. *Service Industries Journal*, 22, 57-76.

- VUORIO, A., TORKKELI, L. & SAINIO, L.-M. 2020. Service innovation and internationalization in SMEs: antecedents and profitability outcomes. *Journal of International Entrepreneurship*, 18, 92-123.
- WHITLEY, R. 1992. *European business systems: Firms and markets in their national contexts*, Sage.
- XUE, Q., ZHENG, Q. & LUND, D. W. 2013. The internationalization of service firms in China: A comparative analysis with manufacturing firms. *Thunderbird International Business Review*, 55, 137-151.
- ZAIN, M. & NG, S. I. 2006. The impacts of network relationships on SMEs' internationalization process. *Thunderbird international business review*, 48, 183-205.
- ZAMBON, S. 2017. Intangibles and intellectual capital: an overview of the reporting issues and some measurement models. *The economic importance of intangible assets*, 153-183.