Internationalizing Service Businesses

Key Themes

- How do service businesses internationalize?
- Localized services that cannot be directly exported
- Trading services
- Types of cross-border provision of services including soft and hard services and the four modes of service internationalization
- Services are heterogeneous and this means that different service sub-sectors require very different business models and internationalization strategies
- Globalization, the division of labour and global value chains
- International business theory and emerging markets
- Outsourcing and offshoring
- The platform economy, the cloud and service internationalization
- Born-global service firms
- Regulating and liberalizing service trade

Until the 1990s academics and policymakers classified service businesses as local establishments providing locally produced or co-created service solutions. Service businesses are still predominantly small, local firms, but the internationalization of services has become an important aspect of the evolving global economy. Most of the literature on service internationalization, export strategies, foreign direct investment (FDI) and international marketing has focused predominantly on manufacturing (Daniels 1993; Bryson and Daniels. 2015). Much of this literature has highlighted the importance of size, age, ownership and sales on understanding the internationalization of manufacturing activities. Nevertheless, the internationalization of services is very different to that of manufacturing. The characteristics of a service business, including size and age, do not explain why some service firms engage in international business and others remain local businesses (Javalgi et al. 1998). Research on the internationalization of service businesses is still relatively underdeveloped. It is still possible to argue that international business theory, including research on Global Value Chains (GVC), Global Production Networks (GPN) (Coe and Yeung 2015) and the eclectic paradigm or OLI (Dunning 2000), has not yet adequately developed a conceptual framework for understanding the internationalization of services.

Innovations in logistics (see Chap. 11) and financial services have been at the centre of internationalization. One of these service innovations was the establishment of the Society for Worldwide Interbank Communications (SWIFT). SWIFT emerged as a European project to try to prevent an American bank monopolizing the market for the exchange of financial information. An American bank had introduced a proprietary

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system and was trying to force this on the global financial system. In response, SWIFT was established in Brussels in 1975 as a global cooperative between 270 banks in 15 countries. Today, the SWIFT network enables over 11,000 financial institutions, in more than 200 countries, to send and receive information about financial transactions in a secure, standardized and reliable environment. On average, over 32 million messages are sent via SWIFT daily.

Reading service businesses involves understanding the contributions that they make to internationalization. Services businesses play two roles in the on-going development of global economic activity. First, they are internationalizing in their own right by FDI, mergers and acquisitions (M&A) and by developing approaches to service delivery to meet the needs of clients in many different locations. This reflects different forms of direct internationalization in which services are locally produced and consumed or exported or indirect internationalization in which services are embedded and exported within physical goods and within other services (see Chap. 12). Second, service businesses provide the supporting service infrastructure to support trade and FDI in goods, raw materials and in the provision of other services (see Chap. 12). On the one hand, they play a critical role in the movement of goods, people, information and knowledge flows and most importantly money. This role includes the provision of financial and logistics services that are critical supporting services that underpin the development of the international economy and of the on-going fragmentation of GVC/GPN (see Chap. 11). On the other hand, a growing proportion of trade in services is embedded in material goods. This includes the provision of digital content including software, legal services but also financial packages designed to support consumption (see Chap. 12). The role services play in supporting the internationalization of other economic activities represents a form of indirect internationalization in which services contribute to countries’ or regions’ wider framework conditions. This is an important point. The internationalization of a national economy is partly related to the presence of concentrations of business and professional service (BPS) firms. Services are at the centre of the evolving global economy or, as we argued in Chap. 1, act as a lubricant or a critical catalyst; without services, there would be no international trade or any type of internationalization.

This chapter explores the internationalization of services focusing on direct internationalization via FDI, exports and the movement of service providers and consumers. The contribution services make to indirect internationalization through their encapsulation in manufactured goods is explored in Chap. 12.

10.1 Localized Services

Services can be divided between those that can be traded over distances and those that can only be provided locally. The latter are localized services that cannot be exported. Localized services have to be produced and consumed in the place and at the time of their production. Providers of such services must be located close to demand as the nature of the service output prevents consumption and production from being undertaken in different places. Thus, dining out, attending a concert or cinema, cleaning services, cosmetic and beauty services and medical interventions must be consumed where they are produced. Such services cannot be stored. Localized services can be delivered in other countries through FDI, strategic partnerships with local providers or by the temporary or permanent migration of service providers or consumers.

Four factors have been identified to explain why some services must be locally produced and consumed. First, some services are considered to be intangible as they include the creation of experiences, performances, interpretations, knowledge-intensive expertise and symbolic, experiential and tacit knowledge. The provision of intangibles, often culturally inflected language-based interactions, is particularly challenging over distances. Second, many services are delivered through a co-creation process with consumers. This reflects some of the classic definitions of services. Thus, to Gershuny, ‘at the moment of
acquisition by the consumer. A good is a thing whereas a service is a state or activity or sensation’ (1978, p. 56). This definition highlights a close synergistic relationship between service producers and consumers. Third, some services are perishable. Unlike manufactured goods, they cannot be stored to cope with variations in demand and supply. Demand for services might be predictable and well-known in domestic markets, but completely unpredictable in foreign markets. Cultural norms, including lifestyle differences, make it much harder to predict and manage variations in demand and supply. Fourth, the provision of service is considered to be too heterogeneous. By this it was assumed that the demand and supply of service provision varied from location to location, from service employee to service employee and from moment to moment (Winsted and Patterson 1998; Javalgi and Martin 2007). This heterogeneity includes services that are based on the production and consumption of experiences via dyadic encounters but also services that have been industrialized. A dyad describes the interaction between two people, the smallest possible social group. Unpredictable variations in service delivery would undermine the consumer’s service experience. This is especially the case for service delivery systems that are heavily reliant on face-to-face encounters between service providers and customers. The development of an international service business would intensify these problems. Differences in employee and consumer cultures, including expectations, and in the ways in which people engage in dyadic encounters complicate the internationalization of services.

The impacts of these four characteristics on service internationalization are further complicated by sector-specific processes. These characteristics require the development of appropriate operational and management strategies by service providers. Nevertheless, service internationalization occurs, and firms have developed appropriate strategies that have transformed local service firms into international businesses. It is these processes of internationalization that are explored in this chapter.

10.2 Trading Services

There is an important distinction to be made between the internationalization of service businesses and international trade in services. These two processes are connected. On the one hand, there is a developing academic debate on the internationalization of services that can be traced back to the early work of Clairemonte and Cavanagh (1984) on services and transnational corporations. This article began to explore some of the international business dimensions of the emergence of service businesses. The literature on GVC and GPN (Yeung 2018, p. 102) has focused predominantly on the internationalization or globalization of manufacturing production. This is unfortunate as this approach has ignored the emergence and growth of international service businesses (Enderwick 1989), but also the complex interdependencies that exist between manufacturing and services (see Chap. 12). There is no question that the literature on international business and strategy needs to increasingly focus on understanding the differences that the provision of services makes to firms that are engaging in international transactions.

On the other hand, there is a well-developed literature on the emergence of service trade. This takes two forms. First, during the 1990s academic research began to identify that business and professional services were not just locally produced and consumed, but that intra- and inter-regional trade was an increasingly important aspect of their business operations. This realization led to the appreciation of the role BPS firms played in contributing to regional exports. Second, during the 1980s academic and policy research began to identify and explore trade and the internationalization of services (Krommenacker 1984; Feketekuty 1988).

Services were ignored until the 1980s in policy debates on trade and in international trade negotiations. There are many reasons for this neglect including the preoccupation with manufacturing firms, jobs, exports and FDI. Part of this preoccupation can be traced back to the identification of a positive correlation between
the share of employment in manufacturing and income per capita across countries. This relationship encouraged policymakers to define developed economies as industrialized economies. In these accounts, ‘manufacturing … was “good”, that is, associated with higher living standards. A related notion is that manufacturing jobs are “good jobs” whereas service jobs are low-skill, low-paying, “burger-flipper” jobs’ (Jensen 2011, p. 12). The perception that manufacturing jobs are better than service jobs influenced policy and media debates. There is an added complication in that the comparative neglect of services is also explained by problems with data availability that also reflects the heterogeneity and complexity of the service sector.

Identifying and measuring service transactions is extremely challenging, and this is especially the case with the emergence of platform-based businesses. This difficulty is reflected in the ongoing debate regarding the taxation of American technology companies including Facebook, Amazon, Apple, Netflix and Google (now owned by Alphabet). These firms are collectively known as the FAANGs and, in some accounts, as the ‘Faang-tastic five’ (Fletcher 2018). For governments it has become difficult to identify the relationship between the location of a transaction and where and how this should be taxed. Amazon UK, for example, accounts for UK sales and profits through a company based in Luxembourg.

The emergence of companies providing services using online platforms is an excellent example of the ways in which technological innovation is altering the ways in which services are provided (see Chap. 4). This represents a form of disruptive innovation that has transformed operational delivery of some services (see Chap. 3). It must be noted, however, that a platform-based business requires local investment. This includes the localization of the platform into a foreign language, including local payment systems, and the provision of related and supporting infrastructure, for example, service centres, warehousing and logistics.

10.3 Soft Versus Hard Services and Cross-Border Service Delivery

There are many different types of services—from complex high-value-added services based on the co-creation of knowledge to one-to-one face-to-face encounters in retailing or tourism. Services are heterogeneous, but so too are manufactured goods—from the fabrication of cars to chocolate, or from satellites to magnetic resonance imaging scanners. In some accounts, service businesses that have internationalized are classified into two types (Erramilli 1990). On the one hand, there are hard services in which service providers do not have to be co-located with consumers. This separation can involve the application of information and telecommunication technologies (ICTs) to the service delivery process. Hard services include the provision of architectural design, educational services, music and financial products. On the other hand, there are soft services in which service co-creation occurs at the same time and in the same place. These are services that include not only face-to-face delivery systems, but also the application of local services to material goods. Such services require a significant local presence or local representation. Soft services include restaurants, hotels and health care. There is some research that argues that there are very few significant differences between the foreign market entry modes of hard services and manufacturing (Ekeledo and Sivakumar 1998).

This simple classification between hard and soft services is an interesting approach to understanding service internationalization, but this is too much of a simplification. In addition, process and technological innovations have challenged this approach. Higher education services can be provided from afar using a distant-learning approach that is supported by an online interactive teaching platform. Alternatively, a provider can engage in FDI and establish a campus in another country and recruit local employees. There is another way to provide higher education. A provider of higher education services can enter into a strategic partnership with a local provider. In the latter case, the
local host provider will undertake day-to-day administration related to service delivery including the provision of teaching space, library facilities and hospitality services. In this case, however, teaching is provided by flying faculty who are full-time employees of the home university. Programmes are structured to enable effective, but intensive local delivery. There are two points to make here. First, some universities use all three modes of educational provision. In this case, these types of educational services are both hard and soft. The University of Birmingham, UK, is an excellent example. It has a campus based in Dubai that is staffed by both local staff and flying faculty. This is a hybrid mode of service provision. In addition, it delivers programmes via distance learning and has a strategic partnership with the Singapore Institute of Management (SIM). SIM provides local administrative support and the space required to host teaching programmes, but the teaching is provided by flying faculty. Second, these different forms of service provision will come with different types of service experience. The University of Birmingham Dubai campus provides a complete Birmingham experience in a building that projects the brand of the university. While, in Singapore, the relationship between the student and the University of Birmingham is with the programme, the academics, or flying faculty, and not with the building or campus. The building or campus projects SIM’s identity rather than that of the University of Birmingham.

The internationalization of service businesses is a complex process. For manufacturing, internationalization involves trade, FDI, outsourcing production to third parties located in another country and strategic alliances. These different approaches to internationalization also apply to services. The special characteristics of services create alternative ways for them to internationalize. Like manufacturing, the internationalization of services is driven by two motivations. On the one hand, service businesses may adopt a resource or asset seeking approach. In these cases, firms will develop international operations to access some benefits that are available from offshoring. This includes accessing highly skilled staff or low-skilled labour inputs. An excellent example is the establishment of a call or data-processing centre in another country that is intended to reduce the cost of service provision to the home market. In this case, a firm is trying to blend the advantages that come from these different locations to increase the efficiency of service delivery. This is part of a process of cost arbitrage in which companies are attracted by lower labour and other costs combined with the advantages of closer proximity to new and existing customers in or near to the countries where they have established an offshored service facility.

On the other hand, service businesses may follow a market-based approach. In this instance, the primary rationale behind the development of international business is a search to enter new markets and to provide services in a different geographic setting. These two approaches are not mutually exclusive. Thus, a call centre may be established to assist clients in the firm’s home market but will also service clients located in other places. Both approaches may be driven by the same business objective—risk reduction, contingency planning and impacts on profitability, including cost reductions or additional sources of revenue. In this scenario, a service business develops a dispersed client base to provide some protection from national recessionary cycles or as one response against future global pandemics. Alternatively, operational delivery is dispersed across different locations to enhance continuity of provision. Both strategies would impact on profitability and these impacts might be positive as well as altering the balance between operational delivery and risk.

The internationalization of service business has many drivers. Internationalization could be intended to reduce costs, to provide services to a foreign market, to develop 24-hour 7 days a week provision, to reduce exposure to country risks or to access skilled labour.
Many classifications have been developed for grouping different methods of cross-border service delivery (Sampson and Snape 1985; UNCTAD 1983; Vandermerwe and Chadwick 1989; Edvardsson et al. 1993; Roberts 1998; Ball et al. 2008). The most influential classification of modes of cross-border service delivery is that detailed in Article I of the General Agreement on Trade in Services (GATS) which identifies four modes of cross-border service supply (United Nations 2002, p. 1) (Table 10.1).

Three of these modes are concerned primarily with service transactions between residents and non-residents. Mode 1 involves the provision of services that require no direct contact with customers, but procedures must be developed to overcome cultural barriers that exist between countries. This includes remote delivery via online platforms, but also offshored call centres. Recently, there has been a particular interest in Mode 3, whereby enterprises supply services internationally through the activities of foreign affiliates (Bryson et al. 2004). For services, this ‘method of serving foreign markets is particularly important because it is often the only method that permits the close and continuing contact between service providers and their customers necessary to compete effectively with indigenous firms’ (UN 2002, 54). This type of service FDI represents captive offshoring or offshoring without outsourcing. Trade in services must address cultural differences between countries that restricts the ability of service providers to export standardized services. Modes 3 and 4 enable service providers to localize services to take into consideration local cultures and client expectations. Modes 1, 3 and 4 involve what is commonly termed ‘service offshoring’ or more correctly ‘service global sourcing’.

Mode 3 accounts for the majority of service internationalization given the importance of local service delivery through the establishment of a commercial presence. Mode 1 is next in order of importance and much of this is accounted for by the provision of digital content including services that are enabled through ICT. This is followed by the movement of consumers (Mode 2), and, in particular, all types of tourists, including those seeking leisure-, educational- or medical-related services.

Different countries are more involved with different modes of service internationalization. Thus, for South Asian countries Modes 1 and 4 are particularly important. For India, the export of information technology (IT) and information technology enabled services (ITES), including call centres and data processing centres, is especially important. ITES provided from India reflect the application of IT to deliver impersonal or non-facing services to consumers over long distances. In addition, for South Asian countries, Mode 4 is important and this involves the movement of natural persons across borders to provide services to consumers. This can take two forms. First, there is a small number of skilled temporary migrants providing highly skilled service inputs. Second, there is a much larger flow of migrants involved in the provision of less-skilled intensive services, for example, domestic worker, home help, maid, and cook.

Table 10.1 Four modes of cross-border service supply

| Mode   | Type                          | Characteristic                                                                 |
|--------|-------------------------------|-------------------------------------------------------------------------------|
| Mode 1 | Cross-border supply           | Occurs when suppliers of services in one country supply services to consumers in another country without either supplier or consumer moving into the territory of the other. |
| Mode 2 | Consumption abroad            | The process by which a consumer resident in one country moves to another country to obtain a service. |
| Mode 3 | Commercial presence           | Occurs when enterprises in an economy supply services internationally through the activities of foreign affiliates. |
| Mode 4 | Presence of natural persons   | The process by which an individual moves temporarily to the consumer’s country to provide a service, whether on his or her own behalf or on behalf of his or her employer. |

Source: Authors’ own
cleaning services and construction. This latter type could be classified as temporary migration, or a form of indirect service internationalization, based on migrants seeking employment in other countries.

Services are heterogeneous and this means that different service sub-sectors require very different business models and internationalization strategies. Even within the same firm different approaches to internationalization will have developed that include exports, FDI and employee or consumer movements. Within a service subsector individual firms will adopt different internationalization strategies, and these will reflect factors including firm size and the experience and ambitions of the senior management team. In an interesting analysis Roberts (2015) identifies some of the service-sub-sector differences in common mechanisms for cross-border delivery. This highlights important differences between consumer services that require a physical presence, for example, hotels and restaurants and business and professional services that can be delivered through strategic partnerships, the development of informal networks, FDI and also provider and consumer movements (Table 10.2).

For advanced business and professional services internationalization can include FDI, M&A and the development of strategic partnerships. In a study of design consultancy firms, Abecassis-Moedas et al. (2012) explore 11 firms which had significant international activities ranging from 10 to 75% of revenue. Only two firms had established a foreign office to be close to clients. This reflects a fixed capital investment. The other firms based their international client activities on investments in human and organizational capital. Three types of internationalization strategy were identified. First is a group of firms that are classified as star-based design creative knowledge-intensive business services (KIBS) which do not require foreign offices. The competitive advantage of these firms is based on the reputation and individual creativity of a star designer. International transactions occur through either exports or third parties. The second group of design consultancies were process-based creative KIBS that have developed a formalized design process based on exports. Third, there were a group of glocality-based creative KIBS which adopt a hybrid approach to internationalization based on investments in physical and organizational capital. These firms develop direct relationships with clients located in foreign countries through the establishment of local offices and applying creative processes developed in their home location.

In the hotel industry the different entry modes adopted by a firm are based on the degree of control required over the foreign operation (Contractor and Kundu 1998). There are four control aspects that need to be considered:
(a) Daily operations
(b) The building and the physical asset
(c) Organizational routines and the tacit elements of the business model
(d) Codified assets including the brand and reservation system

The responsibility for controlling these different elements depends on the internationalization mode adopted by a firm. There are three alternative strategies. First, direct investment or FDI in which the international hotel chain has complete control over all four control aspects. Second, direct investment but with some shared control. Exclusive control may be only about the codified assets with control over other aspects shared with a local partner. Third, forms that do not involve capital investment and these include franchising and management contracts. In the case of a franchise, the international chain does not manage the local hotel as the local owner controls daily operations and the physical asset (Pla-Barber et al. 2011).

10.5 Emerging Markets and the Theory of Multinational Enterprises

Firms based in emerging markets, the BRIC and VISTA countries of Brazil, Russia, India, China, Vietnam, Indonesia, South Africa, Turkey and Argentina, as well as Mexico and Thailand, have developed into transnational firms that are competing with firms from developed market econo-
Table 10.2  Typical forms of services internationalization by sector and mode

| Service sector                      | Modes                                      | Typical form of internationalization                                                                 |
|-------------------------------------|--------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Retailing                           | Mode 1: Cross-border supply  
Mode 2: Consumption aboard  
Mode 3: Commercial presence | Franchising, mergers and acquisitions, FDI, movement of consumers for retail consumption. Development of localized e-commerce platforms with related infrastructure. |
| Hotels & restaurants                | Mode 3: Commercial presence                | FDI, mergers and acquisitions, management contracts, franchising and hotel consortia, platforms and the sharing economy |
| Telecommunications                  | Mode 3: Commercial presence                | FDI, mergers and acquisitions                                                                        |
| Transport services                  | Mode 3: Commercial presence                | FDI in the form of mergers and acquisitions as well as strategic alliances                            |
| Media & entertainment industries    | Mode 1: Cross-border supply  
Mode 3: Commercial presence | Trade and FDI, in the form of mergers and acquisitions                                               |
| Education                           | Mode 1: Cross-border supply  
Mode 2: Consumption aboard  
Mode 3: Commercial presence  
Mode 4: Presence of natural persons | Trade occurs through the movement of students and teachers as well as through correspondence courses and increasingly through the Internet. Franchising, joint ventures and wholly owned campuses are increasingly common in higher education |
| Utilities including water, gas & electricity | Mode 3: Commercial presence | FDI through mergers and acquisitions                                                               |
| Healthcare                          | Mode 2: Consumption aboard  
Mode 3: Commercial presence  
Mode 4: Presence of natural persons | Movement of patients, e.g. healthcare tourism but also a growing number of cross-border mergers and acquisitions |
The existing theory that has been developed to explain the emergence of international business has been based on the analysis of predominantly manufacturing firms located in developed market economies. This theory comes with a number of assumptions reflecting the processes and patterns of internationalization adopted or developed by firms located in developed market economies. There are problems in applying this theory to understanding the emergence of international firms in emerging economies.

The eclectic paradigm is the approach that most scholars of international business apply to understanding internationalization. This approach was developed by John Dunning based on the identification of ownership advantages (O), location advantages (L) and internalization advantages (I) held by firms (Dunning 1988, 2001; Dunning and Lundan 2008). The emphasis is on understanding the internationalization of multinational enterprises by FDI compared to firms that engage in exports, product licensing or franchising. The primary assumption is that firms will engage in FDI when they possess ownership, locational and internalization advantages.

The first condition is that a firm must have ownership-specific advantages, or firm-specific advantages (FSAs) that can be applied to a foreign location. Some of these advantages should ideally be inimitable including intellectual property rights, registered designs, brands, reputation and social networks (Dunning 1988). By themselves, ownership-specific advantages are insufficient to explain a firm’s decision to engage in FDI.

The first condition must also be combined with the second condition which is the existence of locational advantages which encourage a firm to locate production there compared to an alternative location. Locational advantages, or country-specific advantages (CSAs), include a country’s endowment of national resources, labour, market size, tariff and non-tariff barriers, institutions, regulations and investment incentives and disincentives. There must be some CSAs that a firm can only acquire through direct investment.

The third condition assumes that a firm may have well-developed FSAs and the target country possesses attractive CSAs, but a firm might still only negotiate licensing agreements or establish a franchise network. Thus, the argument is that another factor must be combined with FSAs and CSAs that explains why a firm would undertake FDI. Here it is important to be aware of the added costs and difficulties related to FDI including cultural, political, language and communication difficulties. The third condition is that a multinational firm must be more efficient than other firms through using their own employees to realize the value of FSAs and CSAs compared to selling or renting its FSAs to independent foreign firms. Dunning labels this an ‘internationalization advantage’ that emerges from market imperfections.

The OLI model differentiates between O advantages or FSAs that are firm specific and L or CSAs advantages that are country specific. To
Hennart (2012, p. 170) ‘while FSAs are proprietary to firms, CSAs are properties of a given country (its natural resources, market size, labor costs, etc.’). This is an important distinction. The assumption is that CSAs are ‘specific to a particular location ... but available to all firms’ (Dunning and Lundan 2008, p. 96). This is very much an assumption as an American company will have unequal access to CSAs based in China compared to Chinese firms and a Chinese firm operating in America will have unequal access to American CSAs.

It is important to note three points about the OLI. First, this theory is the dominant approach used by scholars of international business to explain internationalization. The theory has been used as the foundations to develop an on-going and complex conceptual debate on international business. This is very different to the GVC or GPN debate. The OLI debate is focused on understanding why international firms emerge and why firms undertake investments in foreign countries. Both the GVC and GPN focus not on understanding the emergence of international business but on the governance, management and dynamics of global value chains or production networks (Coe and Yeung 2015; Vanchan et al. 2018; Yeung and Coe 2015; Bryson et al. 2020). These are thus very different approaches; they are complementary rather than alternative accounts of internationalization.

Second, the focus of research on the OLI and on GVC/GPN has been dominated by studies of manufacturing rather than service firms. Thus, both approaches are not that well suited as explanations for the emergence or governance of some types of cross-border service delivery. It can perhaps explain the emergence of service FDI but needs to focus more on the special characteristics of services including the co-creation and localization of service experiences in different cultural settings.

Third, the OLI is very much a theory developed to explore the internationalization of firms based in developed rather than emerging market economies (Dunning 2006). The emphasis placed on a firm having a combination of strengths in FSAs, CSAs and internal advantages is perhaps more of a reflection of the emergence of international business from locations within developed market economies rather than from within emerging economies.

In 2012, Hennart developed a modification to the OLI on the understanding that the existing model:

is not suited to explain the emergence of EMMs [Emerging Market Multinational] because of its dichotomy between firm-specific advantages (FSAs), which are supposed to allow firms to invest abroad, and country specific advantages or CSAs, which are properties of the target country and which determine from which location the FSA-exploiting firm will serve the target country. (Hennart 2012, p. 183)

The difficulty is the assumption in the OLI that CSAs are accessible to all firms—local and foreign—on the same terms. This is not the case and Hennart argues that these CSAs, or complementary local resources, can rarely be sold. These are place-based or country-based intangibles that are reflected in the relationships between a firm and its home location. Thus, local firms will have a better understanding than foreign firms of local consumers, local officials and politicians and local circumstances. He notes that a firm like Lenovo began as a distributor and that in this role developed a proprietary distribution network that was unavailable to foreign competitors. In this account, EMMs enjoy privileged access to CSAs including better access to local decision-makers.

The OLI assumes that transnational firms emerge based on positions of strength across all dimensions of the OLI. Nevertheless, many firms located in emerging market economies have comparatively weak firm-specific advantages compared to competitors from developed market economies but have access to distinct local CSAs in their home country. A firm does not require strong FSAs to internationalize, but instead must be able to take ‘title to the profits that arise from bundling its own inputs with those of local owners in a host market, in other words when it makes these local owners its employees’ (Hennart 2012, p. 184). Firms located in emerging economies are able to enter foreign markets by acquiring FSAs created by foreign firms through M&A and stra-
tegic partnerships. They are able to bundle the benefits that come from their location in an emerging economy and the CSAs that come from this location with the acquisition and/or control of complementary firm-specific advantages.

This process of bundling advantages, including FSAs, to engage in international business is a well-known aspect of internationalization. Here it is important to make two points. First, firms in emerging markets have a history of using international expansion as a springboard to acquire strategic resources (Luo and Tung 2007). An excellent example is Lenovo’s acquisition of IBM’s laptop division. This enables these firms to acquire FSAs that they would perhaps have difficulty in creating given the existence of extant firms in the marketplace. Second, one of the problems with international business theory, and the on-going development of the OLI, is fragmentation of theory development by country, sector and academic discipline. This is unfortunate. Thus, Hennart’s argument can be perhaps equally applied to some firms in locations in developed market economies. Thus, some of these ‘advantaged’ firms are relatively disadvantaged in terms of their FSAs but are able to use CSAs to develop bundles of complementary resources through M&A and the development of strategic partnerships.

The difficulty is that international business theory has a poor understanding of geography. The assumption is that all places within a country will have similar access to CSAs. This assumption is reflected in the terminology used in the international business literature. The focus of the OLI is on multinational firms or firms that have many different activities located in many different countries. An alternative term is transnational firms or firms that have activities in locations in many different nations and there are some interactions between these facilities or activities. Both these terms reflect a national focus or a nation-to-nation approach to understanding international business. This is unfortunate as international firms develop relationship between places—towns, cities, localities—within national economies. Each of these places provides a firm with differential access to that country’s country-specific advantages. Given this difficulty, international business is better described using the term translocal firm. A translocal firm develops and explores business opportunities in many different places. Different places within the same national economy will provide the firm with different forms of advantage and disadvantage. This is to highlight the importance of intra-country place-based differentials.

10.6 Outsourcing, Offshoring and Captive Offshoring: Service Business and the Internationalization of Intrafirm Transactions

One of the primary decisions made by a firm involves strategic and operational decisions regarding tasks involved in the production of goods and services. This includes three key decisions—who will undertake the task, where will the task be undertaken and how will it be undertaken. A key issue is the decision to undertake a task in-house or to outsource it to another firm. Outsourcing involves the purchasing of intermediate inputs from other firms. This may become offshore outsourcing when the tasks are undertaken by another company abroad (see Chap. 8). This represents a traditional offshore outsourcing model that may be driven by cost differentials. Alternatively, a company may offshore a task to another country, but the task remains within the firm. In this instance, offshoring does not have to involve outsourcing. This type of outsourcing is known as a captive-site model as a firm creates its own foreign subsidiary to provide tasks within a service GVC. The foreign subsidiary includes employees from the firm’s home and host location. Captive offshoring provides a firm with the financial benefits of offshoring but avoids problems related to control, quality and security that can be associated with outsourcing. A captive approach can be combined with outsourced service providers to develop a blended approach to service or task delivery.

The different types of outsourcing and offshoring models are associated with different
challenges and benefits (Table 10.3). Outsourcing a task to a third party implies that the task can be codified and standardized. The providers must undertake the task to meet the requirements of the contract including service quality. Captive offshoring requires a firm to develop and manage FDI in another jurisdiction. This includes identifying sites, negotiating with policymakers and politicians, obtaining the required business licences and then hiring, training and managing people. These two alternative approaches reflect a distinction that must be made between coordinating and controlling the procurement of tasks from abroad via contractual relationships with third-party firms versus direct ownership and control. Both types of internationalization will take time. Offshore outsourcing requires the identification and development of a relationship with third-party providers whilst captive offshoring requires substantial management time combined with capital investment.

There is an alternative strategy. This is the collaborative or partnership model in which a firm employs an external service provider to assist in the establishment of an offshore service centre. There are three types of collaborative model that combine features of the captive approach with the offshore outsourcing model. These are as follows:

1. **Build-operate-transfer (BOT) model.** A third party is employed to develop and initially operate the offshore centre, but eventually the ownership and management of the centre is transferred to the client firm.

2. **Assisted captive model.** A third party assists the company with the development of a foreign service centre, but the centre is developed and managed by the client firm.

3. **Joint venture.** A service centre is created as a joint venture between a firm and a third-party provider.

These different approaches reflect the needs of a particular firm including timing, speed, experience and the types of task involved. A key issue is scale or the size of the task that a firm wants to offshore. A provider of outsourced services will have the fixed-cost infrastructure to deliver tasks efficiently. In this case, entering into a contractual relationship with a business process offshoring provider would reduce costs. Captive offshoring should only occur when a firm requires a critical mass of tasks that more than offsets the costs of establishing and managing an offshore captive centre. The management of a GVC is a dynamic process (Bryson et al. 2020). A firm will eventually alter the geography of tasks. This might involve ending a contract with a third-party provider of business process offshoring or closing a captive centre. Closing a captive centre will result in closure costs, including redundancy payments, and writing off some of the initial capital investment.

The difference between outsourcing that is offshored versus captive offshoring is about different types of risk (Bryson et al. 2020).

| Service Demand/service supply | Supplied from one or many sites | Supplier not fixed in space |
|-------------------------------|--------------------------------|---------------------------|
| **Consumed from one or a many sites** | **Local consumption or offshoring:** Either local provision for services that require face-to-face interaction or standardized services can be provided by cross-border trade facilitated by ICT | **Foreign trade:** Services provided by the movement of the provider to the client either directly or through internal or external third-party networks. This may be a form of offshoring |
| **Consumer not fixed in space** | **Specialist suppliers with mobile consumers:** Consumers travel to service providers—for example, capital-intensive services including public services (health and education); high street retailing and specialist business services providers where the client visits the provider | **Service supplier and provider are mobile:** A rare form, perhaps the best examples are educational services and the management of trade exhibitions and conferences, but even here third-party fixed capital investment determines the location of the activity |

Source: Authors’ own

### Table 10.3 Factors contributing to the offshoring of services activities

| Service Demand/service supply | Supplied from one or many sites | Supplier not fixed in space |
|-------------------------------|--------------------------------|---------------------------|
| **Consumed from one or a many sites** | **Local consumption or offshoring:** Either local provision for services that require face-to-face interaction or standardized services can be provided by cross-border trade facilitated by ICT | **Foreign trade:** Services provided by the movement of the provider to the client either directly or through internal or external third-party networks. This may be a form of offshoring |
| **Consumer not fixed in space** | **Specialist suppliers with mobile consumers:** Consumers travel to service providers—for example, capital-intensive services including public services (health and education); high street retailing and specialist business services providers where the client visits the provider | **Service supplier and provider are mobile:** A rare form, perhaps the best examples are educational services and the management of trade exhibitions and conferences, but even here third-party fixed capital investment determines the location of the activity |

Source: Authors’ own

Challenges and benefits (Table 10.3). Outsourcing a task to a third party implies that the task can be codified and standardized. The providers must undertake the task to meet the requirements of the contract including service quality. Captive offshoring requires a firm to develop and manage FDI in another jurisdiction. This includes identifying sites, negotiating with policymakers and politicians, obtaining the required business licences and then hiring, training and managing people. These two alternative approaches reflect a distinction that must be made between coordinating and controlling the procurement of tasks from abroad via contractual relationships with third-party firms versus direct ownership and control. Both types of internationalization will take time. Offshore outsourcing requires the identification and development of a relationship with third-party providers whilst captive offshoring requires substantial management time combined with capital investment. There is an alternative strategy. This is the collaborative or partnership model in which a firm employs an external service provider to assist in the establishment of an offshore service centre. There are three types of collaborative model that combine features of the captive approach with the offshore outsourcing model. These are as follows:

1. **Build-operate-transfer (BOT) model.** A third party is employed to develop and initially operate the offshore centre, but eventually the ownership and management of the centre is transferred to the client firm.

2. **Assisted captive model.** A third party assists the company with the development of a foreign service centre, but the centre is developed and managed by the client firm.

3. **Joint venture.** A service centre is created as a joint venture between a firm and a third-party provider.

These different approaches reflect the needs of a particular firm including timing, speed, experience and the types of task involved. A key issue is scale or the size of the task that a firm wants to offshore. A provider of outsourced services will have the fixed-cost infrastructure to deliver tasks efficiently. In this case, entering into a contractual relationship with a business process offshoring provider would reduce costs. Captive offshoring should only occur when a firm requires a critical mass of tasks that more than offsets the costs of establishing and managing an offshore captive centre. The management of a GVC is a dynamic process (Bryson et al. 2020). A firm will eventually alter the geography of tasks. This might involve ending a contract with a third-party provider of business process offshoring or closing a captive centre. Closing a captive centre will result in closure costs, including redundancy payments, and writing off some of the initial capital investment.

The difference between outsourcing that is offshored versus captive offshoring is about different types of risk (Bryson et al. 2020).
Identifying the right provider of business process offshore services is difficult and significant management time will be required to ensure service quality is maintained. Captive offshoring comes with increased risks related to project development and initiation while outsourcing offshoring exposes a firm to risks related to a third-party undertaking tasks. These risks include service quality, but also data security issues.

Companies engaging in service offshoring benefit from the application of technology to access time-zone advantages. This enables service tasks to be delivered 24 hours a day without incurring overtime costs. Tasks can be transferred between time zones using a follow-the-sun approach. At the same time, a captive centre can provide services back to the firm’s home market but can also provide services to clients located in the foreign country. This reflects a blended strategy in which a firm seeks to combine the benefits of a resource or asset-based approach with a market-based strategy. This type of approach balances cost and profit versus risk and is one approach that needs to be adopted to enhance resilience as one response to post-Covid-19 planning (Bryson et al. 2020).

Service outsourcing and offshoring comes with additional costs that need to be included in the outsourcing offshoring decision. These costs reflect the additional costs of performing business tasks in a foreign country. The firm must invest time and effort in understanding how to work with foreign firms, officials, governments and a different legal system. There will also be the costs of managing operations from afar including communication costs. These additional costs can be considered as either the fixed costs of offshoring or a combination of capital and ongoing revenue costs or alternatively ‘as a “leakage” in the profit flow of the offshored business’ (Kikuchi and Long 2010). This concept of leakage needs to be treated with care. Offshoring should be treated as both a cost and revenue creating activity. As a cost, the types of service tasks that are offshored may not be directly related to revenue creation, for example, dealing with customer complaints and enquiries or supporting services that are not in themselves revenue generating. Nevertheless, all firms must explore the tensions between the additional costs of outsourcing and offshoring versus revenue generation related to risk.

The geographical distance in a service offshoring relationship can be explored by considering transport costs and non-transport costs. Transport costs include communication costs and any travel required between the two locations. Non-transport costs include cultural and linguistic differences, informational and communication barriers and tariff and non-tariff barriers. Some non-transport costs include expenditure on developing and maintaining social and business networks. The strength of these networks might reduce the overall cost by reducing information and cultural barriers (Kandilov and Grennes 2012).

Global sourcing does not have to entail the supply of services from a great distance, but may involve ‘near-shoring’ or the relocation or provision of services over a short distance and often from a location on the same continental landmass (Bryson 2007). The development of service offshoring reflects an escalation in the complexity of service production systems. Services can now be supplied onshore, near-shore and offshore and in any combination:

- Backyard/Onshore/Home nation—provides advantages of cultural understanding and nearness to the market.
- Offshore/Far Nation—cost advantages, but cultural problems that can undermine client customer relationships.
- Near-shore/Near Nation—capture cost advantages but retain close geographic relationship and greater cultural awareness of the target customer market.

Presented in this manner these may appear as simple alternatives but in many instances firms have developed ‘blended delivery systems’ that capitalize on the place-based advantages of coupling or blending activities located in a variety of different locations: home—near—far. Blended delivery systems are being introduced extremely rapidly by American, British and Indian service
providers. An example to explore is Sutherland Global Services, a private company.

Sutherland Global Services, an American provider of business process outsourcing (BPO), was established in 1986 in New York to provide onshore services to American clients (Bryson 2007). For 14 years this company only provided onshore services, but in 2000 it established a nearshore facility in Canada and in 2002 an offshore facility in India. The company has implemented a blended delivery system enabling it to combine different country competitive advantages based on cost, access to labour, language skills and markets. During 2006, Sutherland established a facility in Mexico to provide services to Spanish-speaking clients. Similarly, Infosys, one of the largest Indian providers of BPO, opened its first overseas office in 1987 and since then has developed a blended delivery system with facilities located in key markets including England (Table 10.4).

A blended shore offshoring strategy provides a firm with multiple advantages including:
1. Comparative advantage—leverage the advantages of multiple locations
2. Geographic time and especially 24/7 service provision
3. Reduction of exposure to country risk
4. Development of new markets/enhanced market exposure
5. Able to dynamically route calls to the next available agent/centre
6. Able to balance needs over time

Table 10.4 The evolving geographies of two offshoring providers: Infosys (India) and Sutherland Global Services (New York)

| Year   | Infosys (India) | Sutherland Global Services (US) |
|--------|----------------|---------------------------------|
| 1981   | Established India |                                   |
| 1986   | Established in Rochester New York, as a provider of Business Process Outsourcing (BPO). Founder—former Xerox Corp. executive | Established in New York to provide onshore services to American clients |
| 1987   | First international office (US) |                                   |
| 1995   | Development centres targeted at export market established across India |                                   |
| 1996   | First European Office, Milton Keynes, UK |                                   |
| 1997   | Office established, Toronto, Canada |                                   |
| 1999   | Offices established in Germany, Sweden, Belgium and Australia. Two developments opened in the US |                                   |
| 2000   | Offices established in France, Hong Kong. Global Development centres established in Canada, UK and US (3) | Offshore operations commerce: Sault Ste. Marie, Canada (1100 agents) |
| 2001   | Offices opened in UEA and Argentina. Development centre established in Japan |                                   |
| 2002   | Offices opened in Netherlands, Singapore and Switzerland | Facilities opened in Chennai and Bombay (India) (no. of employees doubled to more than 3000 in six months). |
| 2003   | Subsidiaries established (Infosys China and Infosys Australia). Acquisition of Expert Information Services, Australia |                                   |
| 2004   | Annual Revenue of $1 billion |                                   |

(continued)
that can be relocated will be supplied to consumers by blending onshore and offshore delivery systems to maximize the benefits that accrue from each of these delivery models. Every company will have to develop its own blend of onshore/nearshore/offshore activity. In some cases, retaining everything onshore may become a marketing advantage associated with quality rather than the cost of service provision. The issue really concerns cost versus the advantages, or alternative non-cost-based advantages, that are associated with local provision; for example, local accents, knowledge, place-based advantages including shared everyday experiences of consumers and service providers and a detailed lived experience of local cultures (Bryson et al. 2020). Offshoring services have been facilitated by developments in ICT including intra-firm knowledge management platforms. These developments in ICT, including the emergence of a platform economy, are transforming service internationalization and it is to this that we now turn our attention.

### 10.7 The Platform Economy, the Cloud and Service Internationalization

A digital economy has emerged and continues to evolve based on the development of digitally enabled business models (see Chaps. 3 and 4). Companies like Airbnb, Alibaba, Amazon, Etsy, Facebook, Google, Salesforce, Uber, DiDi and

| Year    | Event                                                                 | Remarks                                                                                                                                 |
|---------|----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 2005    | Expansion in China planned, additional 6000 employees over next 5 years. New centres at Shanghai and Hangzhou | Two new operation centres established in India New Canadian Centre. Philippines facility opened (Manila) London subsidiary established |
| 2006    | Hyderabad expansion involving 550 acres and to create 25,000 software jobs over ten years | Facility opened in Kerala, India (expects to hire 3000) Searching for sites in Mexico/Central America/Caribbean for clients with Spanish-speaking customers |
| 2009    | Acquisition of McCamish Systems, US. First development centre in Brazil. First office in New Zealand | Opens centre in Alexandria, Egypt                                                                                                                                                                     |
| 2010    |                                                                                     | Recruited 1200 US employees Facility in General Santos City, Philippines, 200 employees                                                                                                                                 |
| 2011    |                                                                                     | Office established in Milwaukee, US as the firm’s 18 office in the US Investment of $50 m in the Philippines, 8000 people in a world-class Integrated Technology and BPO Campus. BPO centre in Louisiana—600 employees |
| 2012    |                                                                                     | New branch office in Sydney, Australia. New Centre in the Netherlands Acquisition of BPO arm of Apollo Health Street Ltd. New BPO centre, Pereira, Colombia                                                                 |
| 2013    |                                                                                     | Hiring 2100 in the US Expands partnership with Microsoft and announces partnership with Huawei to provide Cloud, Big Data and Communication Solutions Expansion in Bulgaria                                                                 |
| 2014    |                                                                                     | (continued)                                                                                                                                 |

Source: Authors’ own
WeChat have created online structures providing a range of services. Digital platforms enable three forms of trade (Lund and Manyika 2016). First, a platform may facilitate pure digital exchanges, for example, the export of software and managed services including the provision of digital storage in the cloud. Second, digital platforms increase the effectiveness and efficiency of the physical flow of goods and this includes logistics platforms facilitating the cross-border movement of goods. Third, digital platforms promote transnational production, exchange and consumption including platforms that are used to coordinate global supply chains.

The development and application of platforms to economic activity has increased the speed of development of the global economy; platforms have led to an acceleration in globalization (Kenney and Zysman 2016, 2020). Compared to physical manufacturing and the international expansion of the import and export of goods, digital platforms have been proliferating globally with limited resistance, regulation and control because of disparate governmental policies and regulations (Cunningham and Craig 2016). The global reach of platforms is far in excess of anything achieved by firms selling goods; Netflix has over 80 million subscribers in 190 countries, while Facebook has 1.7 billion users or more than half of the global adult population (Cunningham and Craig 2016).

Cloud computing is the delivery of on-demand digitally enabled services including the provision of applications, storage and processing power over the Internet and on a pay-as-you-go basis or via a time-limited contract. The American National Institute of Standards and Technology defined cloud computing as:

- a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction. In addition, the NIST definition introduces the supporting concepts of three cloud service models, five essential characteristics, and four types of cloud deployments. In total, the NIST Cloud Computing Definition is composed of 14 interrelated terms and their associated definitions. (Simmon 2018, p. 2)

These five essential characteristics are: on-demand self-service, broad network access, resource pooling, rapid elasticity and measured service. Cloud-based services can be provided privately, publicly, by a community or by some hybrid of private, public and community.

Consumers, including companies, no longer need to own computing infrastructure, including data centres, but can pay for infrastructure access from a cloud service provider. Cloud computing provides the essential infrastructure for the provision of digitally enabled services. This includes consumer services like Gmail and using the cloud to automatically back up photographs taken with a smartphone. It also includes services that enable firms to host all data in the cloud and to run all applications via a cloud-based interface. Netflix’s video streaming service, for example, is a cloud-based computing service.

Three types of cloud computing service business models have emerged. First are Infrastructure-as-a-Service (IaaS) business models in which consumers access computing infrastructure for a fee. This type of business model enables firms to develop new services, but without the requirement to invest in data centres or in the skills required to run computing infrastructure. Second is a Platform-as-a-Service (PaaS) business model in which a cloud-based provider enables access for a fee to digital storage, networking and services as well as the tools and software to build and manage applications. Third are Software-as-a-Service (SaaS) business models or the delivery of applications-as-a-service. In this case, consumers access software that is held in the cloud to undertake different types of activity. The type of hardware, and the operating systems used to provide this software, is unimportant for the consumer and the key aspect is the ability to access required software-enabled services.

For cloud computing the location from which the service is provided, including the location of the hardware, is largely irrelevant for the consumer. Thus, cloud computing transforms how digital content is provided and how computing is undertaken, and it is much less about the geography of where this content is held and the location of the data centres. Nevertheless, for the cloud
geography does matter in many different ways, but it has a very different role to play compared to the other ways of providing services. Three points need to be considered. First, there is the location of the service in relation to climate zones. A data centre produces a lot of heat as it consumes much energy. The geography of data centres partly reflects not only the location of the cables that link data centres with the Internet, but also the ability to reduce the need for air conditioning by locating data centres in cooler environments. Data centres owned by, for example, Amazon, Facebook, Google, Apple and Microsoft are major energy consumers and heat generators. In 2019, the state of Virginia, USA, was the location for over 100 large data centres and is known as ‘data centre alley’. Virginia plays an important role in the global geography of data centres. Data centre providers are experimenting with innovations intended to reduce the carbon footprint of their centres. This includes Microsoft’s decision to locate a centre that is submerged in the North Sea and Facebook’s investment in a data centre located on the edge of the Arctic Circle in Finland.

Second, consumers accessing services provided from a data centre located far away experience a latency problem, or a delay in data transfer, following the instruction to initiate a transfer. To avoid this problem, cloud-based services must be provided relatively locally.

Third, the actual geographic location of data has become a geopolitical problem revolving around debates and concerns with data sovereignty. This is a major concern for the European Commission and for European firms and increasingly for the US government. The key issue is where data is processed, stored and its safety. Thus, the European Commission is concerned that European data hosted on servers located in an American-based data centre could be accessed by the US government. The large providers of cloud-based services have been developing regional networks of data centres to ensure that data can be hosted regionally rather than within a different national jurisdiction. Cybersecurity is an important factor behind where data is hosted globally. Thus, to reduce and control data security risks it is important for companies and governments to consider the location of the data centres which host their data.

10.8 Born-Global Service Firms

The literature on international business placed considerable emphasis on international business as an incremental approach. In this analysis, a local business had to develop successful processes and goods locally before internationalizing (Johanson and Vahlne 1977). In other words, it had to develop firm-specific advantages. Nevertheless, there are many different approaches to developing an international business and this includes the emergence of International New Ventures (INV) or ‘born-global firms’. There is no agreed definition of born-global firms but these are firms that follow a born-global pathway which typically includes commencing international operations from inception (Oviatt and McDougall 1994), planning products/goods, structures, systems and finances on a global basis (Luostarinen and Gabrielsson 2006), integrating resources in multiple countries to create outputs (Harveston et al. 2000) and developing different goods and operations and global marketing strategies (Gabrielsson et al. 2008). Born-global firms rapidly become international businesses (Rennie 1993).

The emergence of born-global firms can be explained by five interrelated factors. First are facilitating factors including developments in the Internet, but also on-going globalization. Both encourage entrepreneurs to think globally or internationally rather than locally. Second, there are sector-specific factors with some sub-sectors increasingly operating internationally rather than locally. Government intervention might also be encouraging the development of a global rather than local attitude to business. Third, there are entrepreneurship-specific factors including the experience of doing business in other countries and entrepreneurs who have a global rather than local or national mindset. Fourth, there are firm-specific factors including resources, capabilities and the ownership of inimitable resources. Fifth
are network-specific aspects including the social networks of the founders.

The emergence of born-global firms has been explored by Gabrielsson and Gabrielsson (2013) through the development of a conceptual framework that argues that a born-global firm goes through four phases:

1. Introductory phase
2. Commercialization and foreign entries phase
3. Rapid growth and foreign expansion phase
4. Rationalization and foreign maturity phase

They applied this approach to explore the emergence of companies providing software services. IBS Software Service Ltd. (IBS) is a leading provider of new-generation IT solutions that was founded in 1997. IBS products manage mission-critical operations for major airlines, airports, oil and gas companies, seaports and tour operators worldwide. The company operates from 12 business centres in North America, Europe, Asia-Pacific, Middle East and Africa. The firm’s introductory phase (1997–1999) commenced with operations in Trivandrum, India in 1997. The initial product involved maintaining, repairing and overhauling software. In 1997, the company began operating in Europe and in 1998 began providing software services in the Middle East. In 1999, IBS experienced a cash flow problem and had to seek external funding. The commercialization and foreign entries phase (2000–2002) included the firm’s first joint venture partnership and also the establishment of operations in the US and Australia. At the end of this phase, the company diversified into providing logistics services for the oil and gas industry. The rapid growth and foreign expansion phase (2003–2008) included the firm’s first global acquisition in 2003 and the development of a flight management solution targeted at the operational needs of scheduled and charter airlines. These products were used globally by 12 airlines operating in Europe, Asia-Pacific, North America, Middle East and Africa. In 2008, IBS became a Microsoft gold certified partner. The rationalization and foreign maturity phase (2009–) involved IBS focusing on network expansion and innovation. This included new strategic alliances. The company has grown extremely rapidly and employs over 2000 in its 12 business centres.

10.9 General Agreement on Trade in Services (GATS)

International trade involves the movement of goods, services and people across national borders. This involves interrelationships between different national jurisdictions. After World War II the coordination of government policies was embodied in a number of international institutions, including the World Trade Organization (WTO), International Monetary Fund (IMF) and the World Bank. These institutions have promoted and encouraged globalization. The emphasis has been on removing or reducing tariff and non-tariff barriers that inhibit trade in goods and raw materials. In 1947 the General Agreement on Tariffs and Trade (GATT) was established as an international agreement intended to reduce barriers to trade and to maximize the benefits that come from the free flow of goods. This became part of the WTO in 1995.

The WTO was formed as an outcome of the Uruguay GATT round of negotiations (1986–1993). The Uruguay round was the eighth round of multilateral trade negotiations (MTNs) conducted under the framework of the GATT, and included 123 countries as contracting parties. This round led to the creation of the WTO. The various rounds of GATT negotiations have made an important contribution to liberalizing trade in manufactured goods since 1947. By the 1980s, countries with advantages in service delivery, like the US, were trying to persuade the WTO, and its members, to include services in the GATT process (Roberts 2015). One important outcome of the GATT Uruguay round of negotiations was the establishment of the General Agreement in Trade in Services (GATS) which was implemented in January 1995. GATS cover all services with two exceptions: (1) services provided in the exercise of governmental authority and (2) the air transport sector including air traffic rights and all
services directly related to the exercise of traffic rights.

The inclusion of services into the GATT, with the creation of GATS, highlighted the difficulties of including services in trade negotiations. For goods it is a comparatively simple task to track the movement of physical goods as they cross national boundaries. This is much harder for services and especially for services that are provided remotely using the Internet. New technologies have allowed the consumption of some services to be decoupled from the location of providers. This makes it difficult to tax these types of decoupled services. In addition, the intangibility of services makes it difficult to specify in a trade agreement what is provided and to what standards. For services, non-tariff barriers operate to reduce international trade and these include regulations regarding the right to practice and the requirement for local accreditations including professional qualifications.

The Organisation for Economic Cooperation and Development (OECD 2001, p. 23) provides an interesting example of non-tariff barriers and the ways in which they reduce or inhibit trade in architectural services in one unnamed country. In this country, a commercial presence is required in the country for the cross-border supply (Mode 1) of architectural services. In terms of Mode 3 the amount of foreign investment must be over a minimum threshold and there are restrictions on the value of some contracts and also on compulsory sub-contracting. The temporary relocation of executives, senior managers or specialists (Mode 3) is limited to three years. This can be extended but also limited to 90 days depending on their function. Other measures in place include annual licences that may be expensive to obtain with a time-consuming application process. All this illustrates some of the complexities of trying to liberalize the cross-border supply of services.

10.10 Wrapping Up

The service sector is a large and growing contributor to international trade and to internationalization. The cross-border provision of services varies by service sub-sector and product. The intangible nature of many services makes it difficult to include services in trade negotiations. A key problem is in agreeing what is being traded and in deciding on appropriate standards.

There are many similarities between trade in some services and trade in manufactured goods. These similarities include those services that can be exported or delivered via FDI. Nevertheless, there are important differences, and these are centred around the intangibility of service products. Some services must be co-created by an interaction between a co-located service provider and a consumer. These services can be traded across borders via FDI or the temporary relocation of either the service provider or consumer. The relationship between value and risk in the configuration of a firm’s international business activities has become an important issue given the impacts of Covid-19 on the organization of global value chains.

A key issue to explore is the interaction between technological innovation and the development of new service products and processes. The Internet, combined with the cloud, has enabled new service processes, operations and business models to develop that use online platforms to deliver services. This is reconfiguring capitalism by developing new services, but also disrupting existing forms of provision (see Chap. 4). This is an ongoing process. The Internet has also facilitated the development of born-global firms. There is an acceleration in product and service innovation occurring as firms explore the application of existing technological innovations to conventional products.

Learning Outcomes

- There is an important distinction to be made between localized services and services which can be traded.
- There are four modes of service internationalization: cross-border supply, consumption
abroad, commercial presence, presence of natural persons.

- Different service sub-sectors internationalize using different combinations of modes.
- A key issue for service businesses is the decision to undertake a task in-house or to outsource it to another firm.
- Service firms have developed ‘blended delivery systems’ that capitalize on the place-based advantages of coupling or blending activities located in a variety of different locations: home—near—far.
- The development and application of platforms to economic activity has increased the speed of development of the global economy; platforms have led to an acceleration in globalization.
- There are many different approaches to developing an international business and this includes ‘born-global firms’.
- The intangibility of services makes it difficult to specify in trade agreements what is provided and to what standards.

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- [https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services](https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services)
- [https://data.worldbank.org/indicator/BG.GSR.NFSV.GD.ZS](https://data.worldbank.org/indicator/BG.GSR.NFSV.GD.ZS)