Determinants of the International Performance of Services
A Conceptual Model

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Summary

Countless determinants of export success that are supposed to help managers reduce the failure rates of export ventures have been identified. Despite this abundance of studies, however, little is known about the determinants of the internationalization success of services. In this paper, based on prior studies focusing primarily on manufactured goods and the key characteristics distinguishing services from goods, a comprehensive conceptual model for the successful internationalization of services is developed.

Key words: Services, export performance, internationalization, success factors
Introduction

The issue of export and internationalization is well discussed in the marketing literature. We find hundreds of articles and several ground-breaking meta-analyses (Aaby and Slater 1989; Zou and Stan 1998) in the leading marketing journals that deal with the problem of factors determining export performance. Countless determinants of export success have been identified, which are supposed to help managers reduce the failure rates of export ventures.

Despite this abundance of studies little is known about the determinants leading to the success of internationalization of services (La et al. 2005). This research gap has two origins:

First, most of the studies analyzing export performance issues focus on manufacturing firms (Cavusgil and Zou 1994; Chelariu et al. 2006). This scarcity of explicit research dealing with the internationalization of services may be explained by the fact that some researchers believe that the knowledge gained from these studies may be simply transferred to service firms (Boddewyn et al. 1986). Due to the key characteristics distinguishing services from manufactured goods, however, there are convincing arguments that the success of internationalization of services is different (Coviello et al. 1998; Coviello and Martin 1999; La et al. 2005).

Second, studies that explicitly take into account the distinguished features of services and argue that different determinants are applicable for services are either (1) only conceptual (Grönroos 1999; Vandermerwe and Chadwick 1989), (2) are not based on broad empirical applications but rather on case studies (Coviello and Martin 1999; Styles et al. 2005), (3) do not explicitly take into account factors that distinguish services from manufactured products (Cicic et al. 2002), or (4) focus only on success factors that are particular for services but do not transfer the known success factors of studies for manufacturing firms that are equally important for services (La et al. 2005). Therefore, there seems to be a lack of research focusing on the successful internationalization of service firms. Given the shift from products towards services in a lot of industries (Sawhney 2006; Vargo and Lusch 2004) this is somewhat surprising. Further research in the area of the performance of internationalization of services is therefore needed.

This paper aims to close this research gap by laying the groundwork for an empirical analysis of the determinants of the internationalization success of services. A comprehensive conceptual framework is presented following Morgan’s et al. (2004) suggestion that research on export performance should be more theoretically substantiated to make it possible to
“integrate findings from different studies into a coherent body of knowledge” (p. 90). As such, the structure conduct performance paradigm, the resource-based view as well as the relational paradigm are integrated in our model. The knowledge gained from prior research analyzing success factors for the export of manufactured goods, as well as possible antecedents to the success of internationalization of services are incorporated in the framework, taking into account their distinguishing features.

The structure of the paper is arranged as follows. In the following section, the key differences between services and manufactured goods are characterized. Then, the theories used for explaining success factors to the internationalization of firms are presented. Against this background, in the third part of the paper, a conceptual model is proposed delineating factors that affect the success of the internationalization of service firms. First, a basic framework is developed based on theories applied in prior studies. Then we break down these general factors into key components representing the measurable factors that influence the success of the internationalization of service firms. Finally, the paper concludes with a brief discussion on directions for future research.

Theoretical Background

Marketing Services vs. Goods

The fact that marketing services is rather distinct from marketing manufactured products is well acknowledged in the marketing literature (Lovelock and Wirtz 2004; Zeithaml et al. 2006). The key differences relate to four areas.

First of all, services are associated with a high degree of intangibility, i.e. they cannot be touched, seen, felt or tasted (Berry 1980; Shostack 1977; Zeithaml 1981). Consequently, services tend to be relatively high in experience and credence properties, i.e. customers cannot evaluate the quality of the service prior to experiencing it, if at all (Darby and Karni 1973; Nelson 1970). Resulting from intangibility are two accessory characteristics of services: perishability, i.e. services cannot be stored, and the simultaneity of production and consumption, i.e. in general, services are produced and consumed at the same time (Zeithaml et al. 2006). Consequently, the customer usually participates in the service delivery by providing an external factor (Vargo and Lusch 2004). This may be a person, an object, a right or information (Kleinaltenkamp 2005). Both, the intangibility and the customer integration are a challenge for marketers as they make it difficult to ensure a consistent service quality
across time, organizations and people. This heterogeneity of services has its origin in the varying ability and the willingness of the employees to perform the services as well as the volatile quality of the customer integration.

From an international perspective, particularly the intangibility and the inseparability with an inevitable integration of the customer have several consequences that need to be considered when delineating determinants of the success of internationalization (La et al. 2005).

Theories used for explaining internationalization success

In terms of the success of internationalization of firms, an abundance of definitions can be found (e.g. Axinn 1988; Cavusgil and Zou 1994; Cooper and Kleinschmidt 1985). In general, they refer to the export performance of a firm. This term may be misleading, however. Export is just one market entry strategy, which does not apply to all services due to the key characteristics of services (Ekeledo and Sivakumar 1998). As such, we refer to the broader concept of internationalization success when referring to export performance or the success of an export venture.

Furthermore, we adopt the view of Zou et al. (1998), who consider the success of internationalization of one product and one export market. Accordingly, the success of internationalization of services includes three dimensions: financial and strategic performance and the satisfaction of the firm with the export venture.

Three theories form the building block for the examination of export performance. Traditionally, the structure conduct performance (SCP) paradigm and the resource-based view were used as theoretical perspectives applied in the export performance literature (Morgan et al. 2004). In recent years, relating to the increasing importance of relationship marketing, researchers also referred to the relational paradigm when examining the antecedents of exporters (La et al. 2005).

The dominant theoretical approach to explain export performance is the SCP paradigm (Morgan et al. 2004). Researchers who adopt this point of view suggest that export performance is the outcome of the structural characteristics of the firm’s market on the one hand and the strategic behaviour of the firm determined by the firm’s characteristics and capabilities, on the other hand (Aaby and Slater 1989; Katsikeas et al. 2006; Robertson and Chetty 2000; Zou and Stan 1998). A lot of researchers (e.g. Calantone et al. 2006; O'Cass and Julian 2003) base their research on the model of Cavusgil and Zou (1994) that emphasizes
export marketing strategy in addition to firm characteristics as the only variables exerting direct influence on export success while the internal and external factors merely influence export performance indirectly through export marketing strategy.

Another important approach adopted in the export performance literature is the resource-based view (Collis 1991; Dhanaraj and Beamish 2003; Fay 1996; López Rodriguez and Garcia Rodriguez 2005). The idea of the resource-based view (RBV) of the firm is often attributed to Penrose (1959). Wernerfelt (1984) established the term and Barney (1991) finally presented the comprehensive concept discussed today. In the focus of the RBV are the internal resources of a firm that are valuable, rare, imperfectly imitable, and non-substitutable as the source of competitive advantages (Barney 1991). A firm gains competitive advantages, if it is in possession of superior resources or is able to use these resources better than competitors. Differences in export performance may therefore be attributed to firms’ heterogeneity especially with regard to their resources (Fahy and Smithee 1999). Resources may be viewed as the raw materials available to the firm’s export venture as well as the capabilities that determine the organizational processes by which these resources are transformed into market offerings (Morgan et al. 2004). From this theoretical perspective, export success depends on the unique resources disregarding the exporting firm’s external factors. Evidence for the explanatory power of the resource-based view for the success of internationalization is provided by several studies (Morgan et al. 2004; Piercy et al. 1998; Wolff and Pett 2000). The SCP paradigm and the RBV are often seen as incongruent. However, as Morgan et al. (2004) show, they may be combined to an integrative theory with a strong explanatory power.

A more recent approach to explain export performance is the relational perspective. With an increasing importance of buyer-seller relationships and the relational paradigm in the marketing literature (Dwyer et al. 1987; Payne et al. 1995; Sheth and Parvatiyar 1995), representatives of this perspective argue that relationships with distributors and customers in the export market play a crucial role for a firm’s export success (Lages et al. 2005; Leonidou et al. 2002; Styles and Ambler 1994). The relational perspective is to be understood as a complementary perspective to the RBV. While the latter focuses on internal resources, the resources embedded in interfirm relationships are the unit of analysis in the relational view (Dyer and Singh 1998). Morgan et al. (2004) include relational elements in their understanding of the RBV referring to the capabilities to build relationships. They therefore challenge the relational paradigm as an independent theoretical perspective to examine export
performance. However, two arguments are in favour of discussing the relational paradigm as independent. First, a relationship is always dyadic. The interfirm resources cannot be a source of competitive advantage if the partner is not cooperating regardless of a firm’s relationship building capabilities. Second, compared to other antecedents of export success, a relationship seems to have too severe consequences as to be treated as only one dimension of a firm’s capabilities. For example, academic and practically oriented research suggest that having relationships or not does have implications on the decision making process and the information considered relevant for internationalization (Lau 2005; Wolff and Pett 2000). Although few studies explicitly take this theory into account to examine export performance (Piercy et al. 1998; Wolff and Pett 2000) it seems to be essential in the services context due to the outstanding role of relationships for services marketing (Berry 1995).

Developing a Model for the Internationalization Success of Service Firms

A Basic Framework

With the help of the theories described above a general framework for the successful internationalization of services can be developed.

Our model is based on one of the most popular frameworks in the export performance literature – the Cavusgil and Zou (1994) model established on the SCP paradigm. This framework includes three general factors influencing export performance: firm characteristics, characteristics of the target market and export marketing strategy. Following the SCP, the characteristics of the export market (characterized by industry and country specific factors) as well as firm characteristics and competencies, influence the export performance indirectly through the export marketing strategy. The export marketing strategy is then a key determinant of export performance. In addition, with regard to the RBV, the characteristics and capabilities of a firm have a direct effect on export performance (Morgan et al. 2004).

Furthermore, in the services context the relationship between provider and customer plays an important role in the internationalization process. Due to the personal interaction, a strong cooperation between service provider and customer is necessary for a successful service delivery (Czepiel 1990). By using effective communication and thereby creating trust and commitment, a relationship between service provider and customer can evolve. That helps to reduce the customer uncertainty, which is caused by the experience and credence qualities of services. As such, we assume that the strength of the relationships a service firm has with its
foreign customers positively influences the success of internationalization. The relationships themselves, however, are influenced by the firm’s characteristics.

The key determinants and their relationships in our conceptual model are constituted in figure 1.

![Figure 1: A basic model of factors influencing the internationalization success of service firms](image)

The more general factors described above are characterized by several dimensions, which can be classified as success factors. They should be in the focus of an empirical study. With regard to the successful internationalization of services we might expect that there are success drivers (1) that are equally important to physical goods and services, or (2) that either differ in degree (stronger vs. weaker effects), or have absolutely no relevance for manufactured goods.

*Export Marketing Strategy*

Cavusgil and Zou (1994) define export marketing strategy as “the means by which a firm responds to the interplay of internal and external forces to meet the objectives of the export venture”. In the literature relating to the export performance of manufactured goods, several factors are discussed that fall in the range of export marketing strategy and may also play an important role for the successful internationalization of service firms.

A first success factor falling into this category is the strategic planning of the marketing mix (Aaby and Slater 1989). The more accurate the strategic planning, the more successful an
export venture will be. This is particularly important for the internationalization of service firms, which are usually small and medium sized and strategic planning is often neglected.

A second important aspect influencing the export performance of manufacturers seems to be the extent to which the marketing mix is adapted to the characteristics of the export market (Cavusgil and Zou 1994; Zou and Andrus 1997). Studies show that the degree of adaptation depends on both environmental and firm characteristics (Akaah 1991; Cavusgil and Kirpalani 1993; Jain 1989). This is in line with our model. We expect that the adaptation of the four P’s has a positive influence on the successful internationalization of service firms, with the adaptation of the service and the communication being particularly important. The origin of our argumentation lies in the fact that services need to comply with customer needs, which differ between countries.

Furthermore, the intangibility of services often makes it impossible for the customers to gain experiences with, try out or inspect the service before the purchase. This causes clients to have difficulties to conduct a quality evaluation (Zeithaml 1981). Consequently, they use information surrogates including tangible cues, reputation of a provider or a brand, country of origin, word-of-mouth or past experience to get an idea of the service quality (Lovelock 2001). This uncertainty prior to the purchase causes a high perceived risk in comparison to tangible goods, especially across cultural borders (Patterson 2004) resulting in an outstanding role of communication.

A third and fourth factor representing export marketing strategy in studies focusing on manufactured goods relates to the product’s uniqueness and quality compared to the competitors in the market (Aaby and Slater 1989). We expect both factors to be equally important for services.

Furthermore, we argue that as a fifth success factor for services the quality control positively influences the internationalization success. The intangibility and customer integration characteristics of services make it difficult to ensure homogeneous service quality across time, organizations and people. This “heterogeneity of services” (Zeithaml et al. 2006) has its origin in the varying ability and the willingness of employees to perform services, as well as in the volatile quality of the customer integration process. Therefore, the quality of the service can differ from one producer to another, from one customer to another or even from day to day. Due to this fact it is difficult for service firms to deliver a consistent service quality. We
assume that the better a service firm is able to ensure a consistent quality, the more successful it will be with its export venture.

As services are often individualized, we believe another success factor is of a great importance: preparing and delivering services in a customer satisfaction driven way. Customer satisfaction is a means to reduce the perceived risks, which are associated with the problems of service evaluation, as well as to establish a long-term relationship. Therefore, service delivery should take into account customer-individual expectations and needs. Thus, we anticipate a positive relationship between a service delivery driven by customer satisfaction and export performance. As such, it is important to persuade and help employees to perform in the expected way and get heavily involved in manufacturing and delivering the service (La et al. 2005). To facilitate marketing and customer orientation throughout the whole organization and to support employees, the management can initiate formal steps to educate employees about the guidelines concerning the contact with clients and the path breaking marketing responsibility that applies to everyone in the organization.

Additionally, because of the simultaneity of production and consumption of services, customers usually take part in the service delivery by providing an external factor. Unfortunately, the ability and willingness to participate in the service delivery varies among customers and among cultures what in turn may influence the success of a service export venture. A service provider may adapt its service delivery accordingly. Therefore we propose a positive relationship between the adaptation to the customer’s willingness and the ability to integrate in service production and the internationalization success (Fließ 1996).

Finally, another important aspect discussed with regard to the international marketing strategy is the choice of entry mode (Erramilli and Rao 1990). The intangibility and perishability of services makes it difficult to choose an adequate market entry mode. For instance, if the service holds a high degree of intangibility and even a high degree of customization, it is advisable for the provider to choose a local presence. If, in contrast, the service has a low degree of intangibility and does not need to be customized, the provider should select direct or indirect exporting. Accordingly, we expect the market entry mode to be a factor influencing the successful internationalization of a service export venture.
Firm Characteristics and Competencies

Regarding firm characteristics and competencies, a literature review suggests a lot of factors that positively influence export marketing strategy and export performance. A significant success factor identified in previous studies is a firm’s capability to internationalize including the export experience of a firm (Cadogan et al. 2002) and its experience with the product (Majocchi et al. 2005; Stewart and McAuley 1999). We expect this factor to be equally important in the services context.

Furthermore, the export marketing strategy, as well as the export performance are positively affected by the export commitment (Cavusgil and Zou 1994) and the capabilities of the management, especially the education (Gourlay and Seaton 2004; Robertson and Chetty 2000) and the international experience of the management (Axinn and MatthysSENS 2001)). Aaby and Slater (1989, p. 17) pointed out that the management “dispositions, (mis)perceptions, awareness, and attitudes are dependable determinants of export performance”. In general, a strong commitment of the management to the export venture leads to higher financial and human resources dedicated to the export activities, in turn leading to a better export performance. Additionally, international experience and education of the management enables the firm to establish and implement an appropriate marketing strategy.

To successfully market its products on foreign markets, a firm also depends on qualified and competent export staff. In addition to the professional skills, foreign language proficiency and cultural affinity are relevant capabilities of the export staff. As a direct consequence of the intimate contact to the customer, the cultural awareness and sensitivity to deal with foreign clients plays an important role (Dahringer 1991). Effective sales training programs, sales aides and other means seem to play an important role in qualifying employees (Berry and Parasuraman 1992). Additionally, the customization of services generally requires the ability to deal with situational adaptation, discretion and extensive judgement during the delivery of services (Patterson and Cicic 1995).

Although there is only little support for the impact of formal market research on export performance in the literature (Styles and Ambler 1994), we assume that there is an indirect influence of market research utilization on internationalization success. Because of potential differences between the home and the export market, it is important for a firm to know and understand its conditions and the consumer needs. Consequently, the use of market research
allows for making informed strategic decisions with respect to the characteristics of the export market.

This is particularly important for service firms as they cannot gain gradual experiences like manufacturing firms with e.g. beginning with exporting. Rather, they are forced to deal directly with overseas customers, which implies a certain extent of face-to-face-contact between customer and service providers to deliver a service (Nicoulaud 1989). Consequently, compared to providers of manufactured goods, they require a more comprehensive knowledge of business and cultural behavior and capabilities to deal with the language, state characteristic conventions or with specific governmental policies and procedures (Keegan 1999).

Second, services necessitate a continuous identification of current and even future customer needs and wants, and the ability to include and implement these needs to provide appropriate services (Anderson et al. 1994). That means service exporting firms need to generate a deep understanding of foreign customer needs and consequently, require a higher extent of market information and quick responsiveness.

Finally, export coordination is suggested as a key determinant of a successful export venture (Cadogan et al. 2002). On the one hand, it refers to the intrafunctional coordination within the export department. On the other hand, the coordination of the export department and the other departments within the firm is also accounted for. Well working export coordination has proved to have a positive impact on export performance (Cadogan et al. 2002). Marketers of services depend even more heavily on the cooperation and the support of other members of staff within the organization as marketers of manufactured goods do (Berry 1987). Cadogan et al. (2002, p. 618) pointed out that a “firm’s export coordination efforts are characterized by high levels of intra-organizational communication and inter- and intra-functional cooperation”. Therefore, all locally placed staff in the overseas market as well as staff in the company’s home country is forced to work together to deliver the service.

**Characteristics of the Export Market**

The characteristics of an export market include the characteristics of the country the firm is exporting to, like economic, legal and cultural similarities to the home market and the competitive environment, especially technology intensity and intensity of competition. The literature reports that marketing strategy is strongly influenced by these characteristics.
Differences in economic, legal and cultural conditions between the home and the export market positively affect the marketing strategy adaptation (Katsikeas et al. 2006). While the intensity of competition is also positively related to marketing strategy adaptation (Cavusgil et al. 1993), technology intensity has a negative impact on marketing strategy adaptation (Katsikeas et al. 2006). We expect these factors to be equally important for services.

Figure 2 depicts the success factors identified to influence the successful internationalization of service firms.

**Figure 2: An operational model of the determinants of service firm’s export success**

**Conclusions and Directions for Future Research**

Services become more and more important for the economy. However, there is a lack of comprehensive research concerning the internationalization of service firms. In this paper, we have presented a theoretic framework of determinants of internationalization success based on three theoretic perspectives. Compared to existing studies on manufacturing firms, our contribution is to integrate the relational perspective, which seems to play an important role in the services context.

Then, we have allocated measurable success factors to the more general factors derived from theory. We integrated findings from existing empirical studies on manufacturing firms as well
as determinants of internationalization success we derived from the key characteristics distinguishing services from manufactured goods.

We aim to test this framework with an empirical study. As research object we chose industrial firms for which services are particularly important. In our study we focus on an export venture in a particular export market. This is a favourable approach instead of using a whole firm as the unit of analyses as a lot of other studies do. The model depicted should be tested with a structural equation model.
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