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Abstract	
<p>The services sector has nowadays an essential role in the global economy. Services account for two thirds of world output, are an important source of employment, and lately, have also become a driver for international trade. Furthermore, the internationalizing services sector is only expected to continue to grow in significance during the next decades.</p> <p>This study discusses the internationalization of small and medium-sized (SME) soft service companies, which are characterized by their simultaneous service production and consumption. The objective of this study is to examine the strategic decisions in the internationalization process of soft service SMEs. More specifically, the study sets out to describe the internationalization process as well as to identify the internal and external factors influencing the strategic choices of target market selection and entry mode choice of soft service SMEs.</p> <p>The theoretical background of the study comprises of literature related to the concept and characteristics of service, and the strategic choices of the internationalization process. The empirical research was conducted as an extensive multiple case study. The data was collected through expert interviews from four Finnish soft service companies that had entered one or more foreign markets. Thematic analysis was applied to categorize and interpret the collected data in relation to the tentative theoretical framework and research objectives.</p> <p>This study finds that the internationalization process of soft service SMEs is influenced by a variety of factors related to the characteristics of the service, the firm, and the host market. The target market selection is conducted with a strategic touch and by weighing the market potential, country risk, availability of resources and location of network partners. The entry mode choice is required to provide a physical presence on the target market as well as sufficient control to secure the transfer of the service concept and the related capabilities and knowhow to the foreign venture. It is also influenced by the limited resources of the company and the availability of local partners, who may be helpful when entering culturally distant markets.</p> <p>The findings of the study confirm the suitability of the tentative framework to study the diverse and complex internationalization process of soft service SMEs. The framework along with its categorization of influential internal and external factors may also prove useful for managers of internationalizing service companies. Future research is required, however, to clarify the mutual relationships of the factors, to study the influence of additional factors as well as to expand the research to other types of service businesses.</p>	
Key words	service internationalization, soft service, target market, entry mode
Further information	







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Tiivistelmä

Palvelusektorilla on nykyään keskeinen merkitys maailmantaloudelle. Palvelut kattavat kaksi kolmasosaa maailman kokonaistuotannosta ja luovat valtaosan uusista työpaikoista, minkä lisäksi niistä on tullut kansainvälisen kaupan ajuri. Kansainvälistyvän palvelusektorin ennustetaan lisäksi yhä jatkavan kasvuaan tulevina vuosikymmeninä.

Tämä tutkimus käsittelee pienten ja keskiuurten (PK), niin kutsuttujen pehmeiden palveluiden kansainvälistymistä, joiden ominaispiirre on samanaikainen palvelun tuotanto ja sen kulutus. Tutkimuksen tavoitteena on kuvata pehmeiden PK-palveluyritysten kansainvälistymisprosessiin liittyviä strategisia valintoja. Tavoite jaettiin kolmeen alatavoitteeseen: kuvailla pehmeän PK-palveluyrityksen kansainvälistymisprosessin vaiheita sekä tunnistaa, mitkä tekijät vaikuttavat strategisiksi valinnoiksi määriteltyihin kohdemarkkinan ja operaatiomuodon valintaan.

Tavoitteen saavuttamiseksi tutkittiin palveluita ja niiden kansainvälistymistä, erityisesti kohdemarkkinan ja operaatiomuodon valintaa, käsittelevää kirjallisuutta. Empiirinen tutkimus toteutettiin monitapaustutkimuksena, jonka aineisto kerättiin haastattelemalla neljää suomalaista kansainvälistynyttä pehmeää palveluyritystä. Kerätyn aineiston jäsentämisessä ja tulkitsemisessä hyödynnettiin temaattista analyysiä.

Tämä tutkimus osoittaa, että pehmeiden PK-palveluyritysten kansainvälistymisprosessiin vaikuttavat lukuisat eri tekijät, jotka liittyvät palvelun luonteeseen, yritykseen ja kohdemarkkinaan. Kohdemarkkinan valinnan todetaan olevan yhteydessä yrityksen pitkän tähtäimen strategiaan, ja siihen vaikuttavat myös markkinapotentiaali ja -riski, saatavilla olevat resurssit sekä yrityksen verkoston eri toimijoiden sijainti. Operaatiomuodon tulee mahdollistaa fyysinen presenssi kohdemarkkinalla sekä riittävä kontrolli, jotta palvelukonsepti ja siihen liittyvä tietotaito saadaan siirrettyä ulkomaan yksikköön. Sen valintaan vaikuttavat lisäksi yrityksen rajalliset resurssit sekä paikallisten partnereiden saatavuus, sillä partnerit voivat olla hyödyksi kulttuurillisesti etäisille markkinoille laajentuessa.

Tutkimuslöydökset vahvistavat tutkimuksen alustavan viitekehyksen soveltuvan pehmeiden PK-palveluyritysten kansainvälistymisprosessin tutkimiseen. Viitekehyksen sisältämää strategiaan valintoihin vaikuttavien tekijöiden jaottelua voidaan hyödyntää myös yritystason päätöksenteossa. Lisätutkimus on kuitenkin tarpeen eri tekijöiden keskinäisten suhteiden selventämiseksi ja se voi laajentua koskemaan myös muun tyyppisiä palveluyrityksiä.

Asiasanat	palveluiden kansainvälistyminen, pehmeä palvelu, kohdemarkkina, operaatiomuoto
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Turun yliopisto  
University of Turku

# **STRATEGIC CHOICES OF INTERNATIONALIZING SERVICE SMES**

**Target market selection and entry mode choice of Finnish soft  
service SMEs**

Master's Thesis  
in International Business

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# 1 INTRODUCTION

## 1.1 The service economy

We live in a world in which consumers, businesses and public organizations are every day engaging in a myriad of service transactions that, most likely, not even our grandparents could have imagined. These transactions may take many shapes and forms, including business-to-consumer (B2C) services, such as retail and leisure services, or business-to-business (B2B) services like consulting, marketing and legal services. Human resources, payroll and IT are some examples of internal services, provided by people inside an organization to each other. However, nowadays some of the internal services may become B2B services when companies are, whilst pursuing operational efficiencies, opting to outsource them to a specialized subcontractor. In addition, public services (G2C, government-to-consumer) such as police, education and public health care as well as not-for-profit and voluntary services provided by non-governmental organizations like UNICEF form a part of the vast and remarkably diverse services sector. (Johnston, Clark & Shulver 2012, 5, 30–33.)

The rapid development of the services sector since the Second World War has been the outcome of several interrelated, globally occurring socioeconomic changes; increases in average life expectancy, economic affluence and welfare as well as in the amount of leisure time are some of the underlying demographic forces that have fueled the surge in service consumption (Lovelock & Wirtz 2004, 7; UNCTAD 2018, 8). On the one hand, some of the services surrounding our daily lives can still be regarded as more or less traditional, location-bound events, such as dining in a restaurant, getting a haircut at a barber or going to the movies. On the other hand, due to the recent unprecedented advancements in the field of information and communication technologies (ICT), some services previously consumed on-the-spot in the premises of the service provider may today also be purchased and consumed online (Javalgi & Martin 2007, 392; Hofer & Baba 2018, 155; Ali-Yrkkö, Kuusi, Pajarinen & Wang 2020, 4). New service innovations and concepts are constantly being developed (Jana 2007; Pajarinen, Rouvinen & Ylä-Anttila 2012) to satisfy both the currently existing needs and the ones consumers may not yet even be aware of: banks offer versatile options for handling personal banking swiftly in the web while numerous entertainment platforms connect consumers with an abundant array of music and movies. Moreover, educational services can be consumed absent of direct interplay with the teacher as signing up for guitar lessons or the latest MIT courses in online portals and learning a new language with the help of a mobile application are nowadays a reality. While on the one hand creating new businesses, the technological advancements and the following changes in consumer behavior have on the other hand

pushed some traditional service businesses to redefine their business concepts. Besides, it is likely that service industries are still catching up on the possibilities created by technological advancements and thus, the full scope of changes brought about by digitalization will be realized in the years to come (Ali-Yrkkö, Pajarinen & Rouvinen 2015, 44; Grönroos 2016, 131; WTO 2019a, 15).

All in all, it can be stated that the ubiquitous and multifaceted service offering, of which the above description is a mere simplified reflection, has truly enriched the life of the consumer of the 21<sup>st</sup> century. However, it is not only the world of consumers which has undergone tremendous changes during the past sixty decades or so. Today, many of the world's largest companies are either fully operating in service business or receive the bulk of their revenue from their service offerings while also having manufacturing operations. This is due to the phenomenon of *servitization*, which during the past decades has transformed the business models of companies in industrial markets from product-dominant to customer-centric organizations (Johnston et al. 2012, 10; Pajarinen et al. 2012, 6; UNCTAD 2018, 9). As Grönroos (1999, 292–293) suggested already at the turn of the 21<sup>st</sup> century, for manufacturers to stay competitive in the global arena, they should strive towards adopting a service logic. Indeed, instead of solely selling physical end products, various companies have opted for attracting potential customers with a comprehensive service offering and lifecycle solutions. Due to the growing proportion of service components in manufactured product offerings, the boundaries between manufactured goods and services are becoming increasingly blurred (Pla-Barber & Ghauri 2012, 1007; WTO 2019a, 45; Ali-Yrkkö et al. 2020, 4). Lately, servitization has even led to the rise of the “anything as a service” business model that encourages customers to replace purchase of assets with a flexible subscription model of a stream of services (MGI 2019, 54). Consequently, the forces of servitization add to the underlying reasons shaping the global economy into one dominated by service transactions, both from the consumer and business market perspective.

Building upon the described development in both B2C and B2B markets, it is no wonder the term *service economy* has become a commonly used phrase in public discourse by politicians, economists and academics alike to describe the current state of affairs. The term advocates the essential role of services in the global economy as they, in general, account for around two thirds of the global gross domestic product (WTO 2019a, 14; Hult, Walkowiak & Beck 2020, 363). In many developed nations, the proportion is even larger with the services sector making up over 70 percent of total production (UNCTAD 2018, 4). Furthermore, due to the labor intensiveness of many of its subsectors, the services sector plays a key role in the creation of new jobs (Johnston et al. 2012, 16; OECD 2020). According to the World Bank (2020), roughly half of the global workforce is nowadays employed in service professions and the number is even

higher in developed economies with around 70 to 80 percent of jobs taking place in services (Buckley & Majumdar 2018, 3; UNCTAD 2018, 4).

## **1.2 International trade in services**

Ranging from architecture to tourism, consultancy, logistics and finance, for example, services constitute the largest and most dynamic segment of economy in both developed and developing countries (UNCTAD 2018, 4). Besides being essential in their own right, services are nowadays important inputs into the production of most goods, thus playing a pivotal role in global value chains (Pajarinen et al. 2012, 7; WTO 2019a, 2; OECD 2020). Hence, the significance of services is not limited on a national economic level, but they have instead become a vibrant component of world economy (UNCTAD 2018, 2).

Traditionally, services have been primarily considered as locally produced solutions for domestic markets (Grönroos 1999, 290). However, advancements especially in information and transportation technologies have not only splintered production globally but made services more tradable (Javalgi & White 2002, 565; Rammal & Rose 2014; Hofer & Baba 2018, 156; UNCTAD 2018, 8). Consequently, service companies in growing numbers have been encouraged to cross national borders in order to reach new international markets, which has only been accelerated by digitalization during recent years (Ali-Yrkkö et al. 2015, 10; Buckley & Majumdar 2018, 15; Ooi & Richardson 2019, 45). In addition, the development has been supported by liberalization of trade policies and the establishment of multilateral agreements, such as the General Agreement on Trade in Services (GATS) by World Trade Organization which entered in force in 1995 (Grönroos 1999, 290; OECD 2020). These regulatory reforms have in turn increased the competitive pressure on local markets that were previously largely sheltered from foreign competition (Lith 2003; WTO 2019a, 18). The stronger competition is expected to improve the service quality, lower prices, facilitate innovation as well as broaden the range of services being offered (Ali-Yrkkö et al. 2020, 6). Furthermore, companies are accustomed to outsourcing and offshoring services abroad, thus contributing to the growth of international service trade (Hofer & Baba 2018, 156; UNCTAD 2018, 8). Consequently, service industries attract today over two-thirds of global foreign direct investment (FDI) (WTO 2019a, 14).

Building on this development, during the last three decades trade in services has been the fastest growing component of world trade (Ball, Lindsay & Rose 2008), outpacing growth in global goods trade by over 60 percent (MGI 2019, 41). For instance, between 2005 and 2017, trade in services expanded around 5.4 percent per annually (WTO 2019a, 21). In 2018, world trade in commercial services was worth US\$ 5.6 trillion (WTO 2019b, 9) but their full scope is obscured by traditional trade statistics (MGI 2019, 41). More

specifically, while traditional measures assign one fifth of total world trade to services, trade statistics in value-added terms (rather than gross exports) reveal a different picture; in fact, almost 50 per cent of world trade is in services, which reflects the importance of services as inputs into other sectors such as agriculture and manufacturing (MGI 2019, 44; WTO 2019a, 45).

Travel, transportation and other business services (including e.g. merchandising and financial, professional and technical services) form the three major sub-categories of international service trade, accounting for over 65 per cent of global services export (UNCTAD 2018, 6). However, the share of newer types of services, especially those that can be exchanged digitally, is growing substantially (OECD 2016, 70; Stephenson & Sotelo 2020). The rapidly evolving information technologies present opportunities for creating more personalized, higher quality services, and building deeper customer relationships (Ostrom, Parasuraman, Bowen, Patricio & Voss 2015, 127). Digitalization allows replicating these modern services with very little or no additional costs, thus creating economies of scale in the production (WTO 2019a, 31). Hence, digital services have become the fastest growing segment of world trade (Pajarinen et al. 2012, 20; WTO 2019b, 29) of which the globally operating online marketplaces Amazon and Alibaba, sharing economy frontrunners AirBnB and Uber, and online entertainment platforms Netflix and Spotify are only some examples. Nevertheless, digitalization does not apply similarly to all sectors since various services, such as health care or many cultural services, will continue to be produced locally. In fact, establishing commercial presence in another country is still the dominant mode of supply for trading services globally, representing almost 60 per cent of trade in services in 2017 (WTO 2019a, 21). Yet, the effects of digitalization are also visible in changing the service delivery of these types of services – online reservation systems and online appointments, which aim to improve the efficiency and availability, have quickly become the norm for many such services. (Pajarinen et al. 2012, 20–22.)

While the shift from agriculture to manufacturing took centuries, the rise of the services sector into the backbone of the global economy has occurred much more rapidly (WTO 2019a, 198). Consequently, today services are a powerful component of economic growth as they dominate in output, value added, and employment (Buckley & Majumdar 2018, 2). Nevertheless, the significance of services in international trade is not always fully appreciated as the focus remains only on the flow of goods and where the associated manufacturing jobs are created (MGI 2019, 199). However, the WTO (2019a, 199) has estimated that as a result of reduced trade costs due to technological innovation, a diminishing need for face-to-face interaction, and lowering of policy barriers to service trade, the share of services in global trade will increase by 50 per cent by 2040. Given the growing importance of the services sector in the coming decades, it is therefore worthwhile to ensure that adequate attention is paid to the topic also in academic research.

### 1.3 The services sector in Finland

When it comes to the dominance of the services sector in the economy, Finland is no exception. More than two thirds of GDP derives from services with private services accounting for 50 per cent of the total (Tuotanto ja investoinnit 2020). Moreover, nowadays the services sector employs around 70 per cent of the Finnish workforce (Pekkarinen 2017). Every other of the 100 largest companies operating in Finland is in service business and in total, there are around 200 000 service enterprises employing some 1.9 million people (Pajarinen et al. 2012, 68; Tuotanto ja investoinnit 2020). Between the years 2010–2015, turnover in service industries grew nearly 20 per cent, of which 90 per cent was generated by small and medium-sized enterprises (SMEs) (Paavonen 2016). This results from the fact that nearly all service companies (99,98 %) in Finland are SMEs employing less than 250 people (Ali-Yrkkö, Pajarinen & Rouvinen 2015, 19, 24).

In Finland, the small size of the domestic market as well as the country's openness to world trade have led to the development of an export-driven economy. Nowadays, both the total exports and imports account for nearly 40 percent of the GDP. Traditionally, Finnish exports has mainly consisted of investment goods and industrial intermediate products, and wood and paper products, machinery and metal industry have been the pillars of international trade. (Pekkarinen 2017.) During the past decades, however, the structure of Finland's exports has undergone changes as more and more services have been exported across borders. More specifically, in the 21<sup>st</sup> century, nearly 70 per cent of growth in Finnish exports has been generated by the increasing service exports (Palveluvientiraportti 2018, 15). Figure 1 presents the development of foreign trade in services quarterly in Finland from 2015 to 2019.

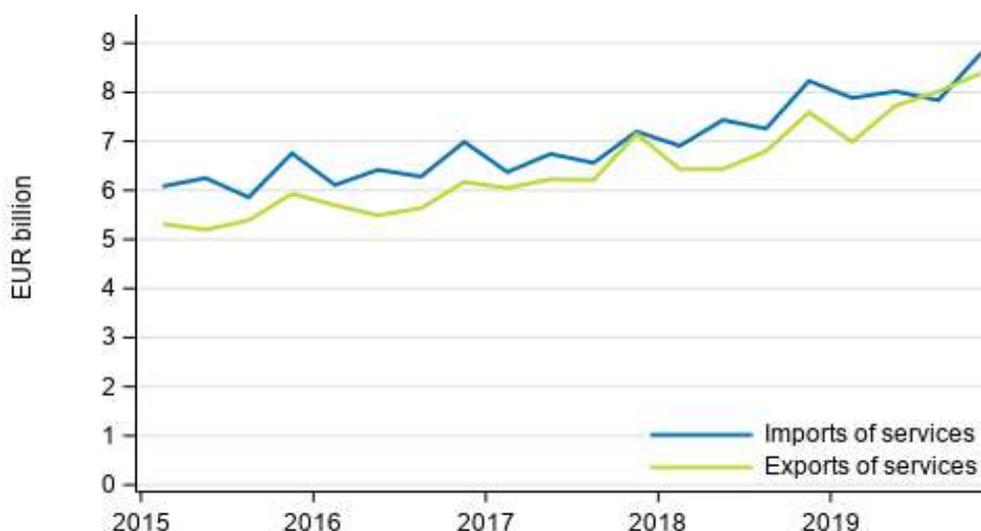


Figure 1 Imports and exports of services quarterly in Finland (Statistics Finland 2020)

Figure 1 depicts the growth trend in both the imports and exports of services in Finland since 2015. In 2019, the volume of service exports grew 14 per cent to around 31€ billion in total and thus, accounted for one third of total exports (Statistics Finland 2020). ICT services, other business services such as consulting and design, tourism and transportation services are among the largest contributors to the services exports (Palveluvientiraportti 2018, 10, 13.) However, despite the growth figures of Finnish service exports during the past decades, in 2016 only a quarter of Finnish service companies had export operations. Moreover, in Finland large enterprises account for most services exports (WTO 2019a, 38). In addition, out of the 75 per cent of service companies focusing solely on the domestic market, a mere 3 per cent had plans for internationalization (Paavonen 2016). Despite that three out of four Finnish service companies are location-dependent SMEs (Ali-Yrkkö et al. 2015), entering international markets should be a feasible way to grow the business outside the small home market. With the development of globalization, new technologies and digitalization, there lies untapped potential in the internationalization of the service sector (Palveluvientiraportti 2018, 16-17). The highly skilled workforce and technology-oriented, export-driven economy provide Finland with favorable conditions to specialize on international, high added-value service provision.

#### **1.4 Research gaps in service internationalization**

Socioeconomic changes, advancements in information technology and in government policies as well as liberalization of world trade have created new opportunities for service businesses to internationalize to foreign markets (Lovelock & Wirtz 2006, 7; Kundu & Merchant 2008, 372; Hofer & Baba 2018, 155; Ooi & Richardson 2019, 45). Thus, during the past decades trade in services has been the fastest growing segment of world trade with particularly digital services being increasingly exchanged over national borders. The growing importance of services for the global economy is evident when reading the publications and reports from intergovernmental organizations such as the UN, OECD and EU, national level officials or private consulting groups such as McKinsey & Company.

Recently, there has been increasing attention paid to the topic also in the academic literature but as many scholars have acknowledged, research on services in an international context is still limited compared with research on manufacturing sector (e.g. Javalgi, Griffith & White 2003, 186; Sanchez-Peinado, Pla-Barber & Hébert 2007, 67; Ørberg Jensen & Petersen 2014; Hofer & Baba 2018, 156). As Javalgi and White (2002, 578) aptly put it “— while service companies have more opportunities to market services globally, theories that explain, predict, and provide practical guidance to these firms are woefully underdeveloped and under researched”. Their remark seems to still hold true as

many academics argue that research effort put on the international dimension of services is not in accordance with the real-life situation in the service-dominant world (Clark & Rajaratnam 1999, 298; Pauwels & de Ruyter 2005, 2; Rammal & Rose 2014; Hofer & Baba 2018, 158). Yet, given the growing role that the services sector is expected to play for the development of the global economy, “the importance of service research and the need for service-related knowledge have never been greater” (Ostrom et al. 2015, 127).

The dynamic nature of the service economy presents a challenge for both researchers and practitioners to keep up with the changes occurring in the industry (Javalgi & Martin 2007, 391). After all, internationalization of service firms is a relatively new phenomenon (Javalgi & White 2002, 575; Rammal & Rose 2014) and it has been under academic scrutiny only over the past few decades (Knight 1999, 351; Kundu & Merchant 2008, 372). Several researchers have noted how earlier studies on internationalization of businesses have focused to a large extent on manufacturing firms and the theories have often been more or less directly applied for service context (Erramilli 1992, 264; Coviello & Martin 1999, 43; Pla-Barber & Ghauri 2012, 1007). On the one hand, research stemming from manufacturing point-of-view may offer valid theoretical substance and insights for a greater understanding of the internationalization of service firms as well (Javalgi & White 2002, 575). On the other hand, some scholars argue that services entail features which are considered to make marketing of services different and potentially more challenging than marketing of goods, especially on international markets (Erramilli 1992, 264; Javalgi & Martin 2007, 392). As Erramilli (1992, 264) has noted, a problem unique to international service industries is that several services are non-exportable. Furthermore, as the service sector is notably heterogeneous it is likely that not all service firms internationalize in a similar manner (Ball et al. 2008; Turunen & Nummela 2017, 38).

Consequently, since growth in services is expected to continue, more academic research should be guided towards filling the existing research gaps. Amongst others, the international market entry for service firms, the internationalization process and the internationalization of service SMEs have been proposed as potential research topics in the field (Coviello & Martin 1999, 45; Deprey & Lloyd-Reason 2009, 13; Rammal & Rose 2013; Ribau, Moreira & Raposo 2016, 11). Moreover, as one of the priorities for future service research, Ostrom et al. (2015) encourage more studies on understanding the role of services in a global context. This includes issues such as developing organizational designs and strategies for globalizing a firm’s service offering and customization of the offering for different cultural context (Ostrom et al. 2015, 142). In addition, knowledge regarding the antecedents of target market selection as well as the foreign market entry mode choice for service firms, particularly soft services where the service production and consumption occur simultaneously, is still deficient and largely fragmented (Majkgård & Sharma 1998, 3; Blomstermo, Sharma & Sallis 2006, 212;

Parola, Satta, Persico & Di Bella 2013, 36). More studies have also been requested on European service firms since thus far, they have been underrepresented in empirical research (Kennedy 2005, 137). Besides, as Kundu and Merchant (2008, 376) and Pla-Barber and Ghauri (2012, 1007) note, research should increasingly take into account the heterogeneity of services, which implies considerable differences between the sub-sectors in terms of patterns of geographical distribution and internationalization, for instance.

## **1.5 Problem setting and structure of the study**

Several academics have acknowledged that despite growing efforts there is still a great need for more research on the topic of internationalization of service firms. The scarcity of conceptual and empirical studies on the various aspects of service firms entering international markets prompted the outline for this study. Thus, the purpose of this study is to contribute to the limited research on internationalization of service firms by conducting a qualitative multiple case study from a novel and underresearched perspective of soft service SMEs, which is next explained in detail.

The internationalization of service firms is considered to be influenced by the nature of the service being provided (Rammal & Rose 2014). This notion serves as the main guiding principle in establishing the problem setting as it is considered essential to take the nature of the service into account. More specifically, in this thesis the classification developed by Erramilli (1990, 57) of hard and soft services is applied. The classification labels services for which the production and consumption can be decoupled as hard services whereas the ones requiring the simultaneity of production and consumption are termed soft services. The application of this classification is based on the following reasons. Firstly, previous research (e.g. Erramilli 1990; Ekeledo & Sivakumar 1998; Majkgård & Sharma 1998; Blomstermo et al. 2006; Parola et al. 2013) has repeatedly used this classification when studying the internationalization process of service firms. Thus, it is seen to provide a relevant and credible outline as well as increase the comparability of the research findings with previous research. Moreover, as noted by Ekeledo & Sivakumar (1998, 278), “the hard/soft service classification scheme meaningfully reduces the large diversity of the service sector – –“. Despite that the categorization has also received critique for over-simplifying the heterogeneous service landscape (Carneiro, da Rocha & da Silva 2008, 86; Ørberg Jensen & Petersen 2014, 559; Turunen & Nummela 2017, 28), it is nevertheless seen to provide a solid basis for this specific research. Indeed, the inseparability of the service provision and consumption for soft services and its implications in case of the foreign market entry are the focal point of this study.

In conjunction with the soft service perspective, this study focuses on small and medium-sized service companies, thus addressing another major gap prevailing in service internationalization literature; Except for a small number of studies, most research in the service sector has been confined on large service firms (Coviello & Martin 1999; Deprey & Lloyd-Reason 2009; Turunen & Nummela 2017) and contemporary research on the internationalization of service SMEs is scarce (Ribau et al. 2016, 11; Hofer & Baba 2018, 155). However, as SMEs form the majority of all service businesses and are increasingly venturing abroad, there is a need to devote more research to the international activities of small service firms (Erramilli & D'Souza 1993, 29; Ooi & Richardson 2019, 48). Moreover, since Finnish service firms are to a large extent SMEs and therefore essential for the national economy (Ali-Yrkkö et al. 2015), the research focus is well justified. There are several definitions for an SME but in this thesis, the term SME will be used in accordance with the European Commission's official common definition stated in 2003<sup>1</sup>.

The choice of focusing on service SMEs builds on the notion that for these companies, internationalization provides substantial opportunities but also bears risks and presents various challenges (Hofer & Baba 2018, 155; Ooi & Richardson 2019, 45) that larger firms are in general better capable to cope with (Javalgi et al. 2003, 194). SMEs typically operate within strict restrictions when it comes to human, financial and physical resources, managerial capabilities and experience while also often lacking the prestige and recognition compared to their global competitors (Coviello & Martin 1999, 42; Ball et al. 2008, 416; Musso & Francioni 2014, 301; Ooi & Richardson 2019, 45). Earlier literature suggests that the limited resources provide only a small margin of error to the SME (Erramilli & D'Souza 1993, 30; Hofer & Baba 2018, 158)) and therefore, the many decisions regarding the internationalization process of SMEs are just for further investigation (Coviello & Martin 1999, 42; Musso & Francioni 2014). Worth mentioning is that despite internationalization of SMEs is in its own right an important field of study, in this research the soft service dimension is the prevalent perspective. Thus, the tentative theoretical framework presented at the end of chapter 3 builds on the phenomenon of *service* internationalization instead of relying on SME internationalization literature.

Based on the identified need for more research on soft service SME internationalization, the research objective of this study is:

- ***To examine the strategic decisions in the internationalization process of soft service SMEs.***

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<sup>1</sup> An SME employs no more than 250 persons and either its annual turnover is less than 50 million euro or its balance sheet total does not exceed 43 million euro. Furthermore, a company must be considered as an individual company. (SME Definition 2003, 4.)

In this study the internationalization process refers to international market entry and development. More specifically, the focus is here on outwards internationalization activity, which considers businesses departing from their domestic market and crossing country borders while seeking new markets and opportunities. This study aims to contribute to the insufficient knowledge on the underlying strategic issues related to the internationalization of soft service SMEs. A strategic choice refers to a decision that sets the future direction of the firm in the pursuit of the firm's objectives. In this thesis, the two strategic choices under scrutiny are the *where to* and *how* dimensions of internationalization, in other words, the target market selection and entry mode choice of soft service SMEs. Hence, the objective of the study has been divided into the following three sub-objectives:

- *To describe the internationalization process of soft service SME.*
- *To identify the influential factors in the target market selection of an internationalizing soft service SME.*
- *To identify the influential factors in the entry mode choice of an internationalizing soft service SME.*

Any firm with a desire to enter foreign markets is required to make decisions on which market it seeks to expand to and the method of entering the market in question. According to Yip, Gomez Biscarri and Monti (2000, 31), target market selection and entry mode choice can be considered as the minimum requirements for success on international markets, and earlier literature suggests that these two decisions can significantly affect the firm's performance (Anderson & Gatignon 1986; Musso & Francioni 2014, 302). When considering the target market selection, both internal, company-related factors as well as external factors related to the environment have been recognized to influence the decision (Lommelen & Matthyssens 2005, 102). However, to the knowledge of the researcher their role in the context of soft service SME operating in the boundaries of scarce resources has not been previously investigated. In terms of the entry mode choice, service firms have in general several alternatives available each with their specific impact on the fashion foreign operations will be carried out (Erramilli & Rao 1990, 136; Ball et al. 2008). Thus, selecting an appropriate entry mode is considered a critical issue in international marketing strategy (Sanchez-Peinado et al. 2007, 67) as each mode implies different degrees of resource commitment, ownership and management control over the operations (Erramilli & D'Souza 1993, 31; Kennedy 2005, 121). Yet, knowledge is still partial and lacunose regarding the antecedents influencing the entry mode choice for soft services (Parola et al. 2013, 39), particularly in the context of SMEs (Hofer & Baba 2018,

158). Consequently, this study seeks to contribute to prior research by studying the influential factors behind the target market selection and entry mode choice from the soft service SME perspective.

The structure of the thesis is as follows. The introduction presents the current role of the services sector on both the global scale and for Finland's economy and outlines the purpose of the study. It is followed by chapters 2 and 3, which shift focus on the theoretical discussion to address the main themes of the thesis with the aim of providing a coherent overview on the current state of academic literature. First, in chapter 2 the concept and main characteristics of a service are thoroughly discussed, and three useful categorizations of international services are presented. Next, chapter 3 moves on to present earlier research findings on the different aspects of internationalization of services, including separate chapters on the target market selection and entry mode choice. This chapter concludes by presenting the tentative theoretical framework of this thesis, after which the discussion turns to methodological questions. In chapter 4 the research design of the thesis is explained. Moreover, the methodological choices made when conducting the study are discussed in detail while the trustworthiness of the study is also addressed. Chapter 5 is devoted to answering to the sub-objectives of the study by presenting the empirical findings collected from the qualitative case studies. Proceeding case by case, it first provides an overview on the internationalization process of the case company and discusses the nature of its service offering. This is followed by describing what factors have been identified influencing the target market selection when the company has been expanding abroad. Then, the findings regarding the influential factors in the entry mode choice are presented, after which the chapter ends with a cross-case analysis of the research findings. Finally, in chapter 6, conclusions including both the theoretical contributions and managerial implications based on the findings of the study are presented. This chapter also addresses the limitations of the study and provides suggestions for future research.

## 2 INTERNATIONAL SERVICES DEFINED

In order to approach the objectives of this study from a sound and consistent viewpoint, it is first worthwhile to familiarize oneself with the core concept of the research, namely, a service as well as to obtain knowledge on its nature in the context of the research. Hence, chapter 2 is devoted to presenting relevant earlier literature on what is essentially considered a service in academic research and what types of services exist in the field of international service business. First, chapter 2.1 discusses in detail some of the definitions provided by scholars for the term service. In addition, the characteristics of services and their relevance in the service-dominant world are covered to draw an understanding of what makes a service. Besides understanding the nature of services, acknowledging the heterogeneity prevailing among service industries allows the research to deepen more specifically on three alternative categorizations for international services. Each of these categorizations presented in chapter 2.2. contribute with their relative perspectives to paint an overall picture of what international services are today.

### 2.1 Definition and characteristics of services

While manufacturing, mining and agriculture are in general easier to describe and define due to the physical nature of their activities (Lovelock & Wirtz 2004, 9), the huge diversity of types of service businesses makes it challenging to fit them all into a neat description (McDonald & Payne 2006, 17; Grönroos 2007, 51–52). Hence, as noted by several academics, a variety of service definitions with alternative viewpoints has been suggested since the 1950s (Vargo and Lusch 2004, 325; Grönroos 2007, 52; van der Valk & Axelsson 2015, 113). Some definitions have been built on the characteristics of services while others have focused primarily on the production process (Sampson & Froehle 2006, 330).

In general, services have traditionally been defined as contradictory to manufactured goods and they still are mostly seen as what tangible goods are not (Vargo & Lusch 2004, 325; Lovelock & Gummesson 2004, 22). Considering goods and services as separate from each other has been built on the notion that there exist certain unique service-specific characteristics which set services apart from physical products (Zeithaml, Parasuraman & Berry 1985, 33; Vargo & Lusch 2004, 326; Sampson & Froehle 2006, 330; McDonald & Payne 2006, 18). The most referred to have been the so-called IHIP characteristics, namely, *intangibility*, *heterogeneity*, *inseparability* and *perishability* (Lovelock & Gummesson 2004, 23; Carneiro et al. 2008, 88; Moeller 2010, 359). These service-specific characteristics are considered to create unique hindrances for service marketing (Zeithaml et al. 1985, 33) that are often magnified in the international arena (Javalgi &

Martin 2007, 392; Hofer & Baba 2018, 159). In short, intangibility, which refers to services lacking the tactile quality of goods, is often considered the critical goods–services distinction from which all other differences emerge (Zeithaml et al. 1985, 33; Moeller 2010, 361). As Javalgi and Martin (2007, 392) point out, on international markets language barriers and other cultural differences may pose challenges for services marketers who ought to explain and promote services without being able to show them. Heterogeneity dictates that standardizing the service output is not possible due to the human involvement in the provision of services (Zeithaml et al. 1985, 34; Vargo & Lusch 2004, 328). Thus, the consistency of the service quality may vary, particularly in labor-intensive services, when the labor force and customer base become more diversified as a result of internationalization (Javalgi & Martin 2007, 392). In addition, inseparability implies that in services the producer and consumer must interact simultaneously for the service to be produced (Zeithaml et al. 1985; 33; Vargo & Lusch 2004, 329). For international services, this characteristic increases the need to establish and maintain a local presence in each market served (Javalgi & Martin 2007, 392). Finally, perishability refers to the inability to store or stockpile services due to their intangible nature (Zeithaml et al. 1985, 34). In terms of balancing supply and demand this poses a challenge which the international markets may complicate even further with cultural norms, demographics and competitive dynamics, for example (Javalgi & Martin 2007, 392). It is important to point out that few services employ outright all these characteristics (Pla-Barber & Ghauri 2012, 1007; Hofer & Baba 2018, 159) but instead, service industries are heterogeneous and differ from each other (Majkgård & Sharma 1998, 14).

From the 1980's onward, the four IHIP characteristics have appeared to be widely accepted by academic scholars and as noted by Grönroos (2000, 60) "*repeated in almost every context without any discussion of the undermining logic*". However, in recent years the applicability and validity of the IHIP characteristics has been receiving increasing critique in the academic field (Vargo & Lusch 2004; Moeller 2010, 359). Lovelock and Gummesson (2004, 32) go as far as to state that, as a paradigm, the assumption of the four IHIP characteristics making services uniquely different from goods is deeply flawed. In general, the critique on IHIP characteristics builds on two underlying reasons which are seen to water down their applicability in today's service-dominant world. Firstly, the focus of services marketing has changed from predominantly looking at personal services and low-tech, high-touch services to a much broader spectrum of heterogeneous offerings including both tangible and intangible aspects (Moeller 2010, 359). Secondly, the recent technological development has substantially altered the playing field and allowed services to overcome in varying degrees some of the challenges traditionally seen to be caused by the IHIP characteristics (Lovelock & Gummesson 2004, 31–32). Inseparability or perishability dimensions can be coped with technological communications (Moeller 2010, 359) and they do not seem to hold true anymore for some financial, entertainment

or information services, for instance (Vargo & Lusch 2004, 330). Thus, with the many exceptions to be found amongst today's service businesses, the distinction of goods and services has been deemed an outdated remnant of a manufacturing-based production perspective (Vargo & Lusch 2004, 332). However, Moeller (2010) stresses that the major shortcoming of the IHIP characteristics is that they have been assigned to services as a single entity. Instead, they should be assigned to specific stages of services production as the FTU framework in figure 2 demonstrates.

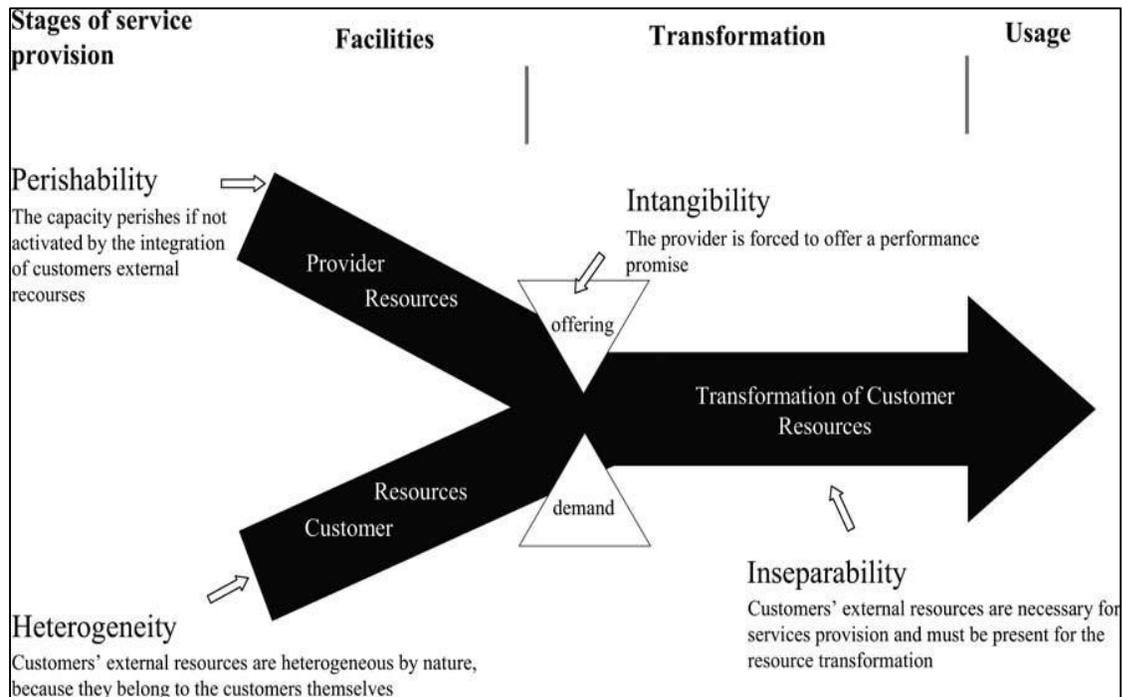


Figure 2 The FTU framework and the IHIP characteristics (Moeller 2010, 365)

The FTU framework in figure 2 consists of the three stages of service provision: facilities, transformation and usage, and two types of resources: the customer's and provider's resources. Here, these aspects are briefly introduced as they provide a valuable starting point and insight on the service provision while integrating the customer's role into the process (see Moeller 2010 for a detailed discussion). Facilities are the foundation of value creation and consist of all the provider's resources (machines, persons, know-how) required to be accessible before any service provision becomes feasible. Yet, unless there is customer demand, the facilities will remain unused. Thus, perishability is strongly linked to provider's potential capacity represented in the facilities. In addition, while the provider may in fact standardize and control certain parts of his resources, the customer's resources in the process naturally differ from customer to customer. These customer resources may take many forms such as customers themselves, their tangible belongings, their rights, nominal goods and data and information. Goods producers alone may

complete their offering without any integration of customer's resources whereas service providers are unable to purchase or acquire all necessary inputs for the service production. Since the customer's resources are always customer-specific, these are in fact subject to heterogeneity. (Moeller 2010, 360–361.)

The change or modification of customer's resources, which is the core of the service, occurs in the transformation stage. Here, it is not the customer who is always required to be present during the whole transformation process. Instead, inseparability relates to the customer's resources that are to be transformed and thus, need to be present. Furthermore, since the whole transformation process is not initiated without the integration of customer's resources, the service provider is unable to produce a terminated service offer. Consequently, the service provider may only give a promise to perform any transformation in the future and thus, it is the service offering which is intangible in nature. Finally, the transformation stage results in the customer's option to utilize the outcome and create value for them, which forms the usage stage of the service provision. (Moeller 2010, 362–366.)

The FTU framework by Moeller suggests that despite the critique the IHIP characteristics are still relevant and help to understand the service provision process, given that their point of reference is specified. The proposed model has several confluences with other researchers' concepts of services. Sampson and Froehle (2006, 334) compose a unified services theory which states that "*with service processes, the customer provides significant inputs into the production process*". The presence of these customer inputs is necessary for service provision and serves as the distinguishing factor between service and non-service processes. According to Grönroos (1998, 322), the most characteristic feature is the process nature of services: "*Services are produced in a process in which consumers and production resources interact*". Likewise, while Vargo and Lusch (2004) have dismissed the IHIP characteristics as myths, they nevertheless emphasize the essential role of activities or processes. Consequently, they define service as "*the application of specialized competences (skills and knowledge), through deeds, processes, and performances for the benefit of another entity or the entity itself*". This conceptualization serves as the basis for their service-dominant logic, which suggests that all economic exchange is fundamentally about service provision in which goods act as distribution mechanisms. (Vargo & Lusch 2004, 325-326.)

Drawing upon this discussion, it can be concluded that there is no single, all-encompassing definition for the term service among scholars. Instead, multiple propositions have been presented, each building on different aspects of either the nature of the service or the process of service delivery. The traditional separation between services and products based on the IHIP characteristics may be too simplistic as today most goods involve some service element, and most services embody some intermediate goods (Sanchez-Peinado et al. 2007, 70; Pla-Barber & Ghauri 2012, 1007). This thesis

agrees with Grönroos (2000) in stating that majority of previous research has too routinely assigned the IHIP characteristics to services without applying a critical stance on their relevance. However, as suggested by Moeller (2010), specifying the point of reference for the characteristics may still be useful to assess specific stages and dimensions of the service delivery. In addition, it is essential to acknowledge the heterogeneity within the services sector and that consequently, not all services exhibit the characteristics in the same extent (Hofer & Baba 2018, 159). Moreover, despite the blurring lines between physical products and services, along with Lovelock and Wirtz (2004) it is believed there still is an important distinction between marketing of services – where a service is a core product – and marketing goods through services. As Grönroos (2007, 53) has concluded, services and their marketing should be understood in their own right.

## 2.2 Categorizations of international services

Similarities and differences between manufacturing and service firms as well as across service industries may either be subtle (Carneiro et al. 2008, 89) or substantial, creating challenges for the generalization of research findings, for example. Due to the complexity, scale, and rapidly changing nature of the service domain (Ostrom et al. 2015, 128), several scholars have approached the internationalization process from a single service industry perspective to minimize differences resulting from the heterogeneity (Knight 1999, 351; Carneiro et al. 2008, 93; Deprey & Lloyd-Reason 2009, 4; Ørberg Jensen & Petersen 2014, 558). Specific studies have been conducted amongst others on the internationalization of financial services, advertising agencies, software firms, hospitality businesses and professional services (Majkgård & Sharma 1999, 2; Carneiro et al. 2008, 93). An alternative approach taken by many academics has been to rationalize the heterogeneity of international services in various classification efforts (Clark & Rajaratnam 1999, 299; Pauwels & de Ruyter 2005, 2; Sanchez-Peinado et al. 2007, 70). More fine-grained categorizations are argued to be necessary to understand and explain variation in the service firms' internationalization process (Sanchez-Peinado et al. 2007, 70; Carneiro et al. 2008, 89). In this paper, three service categorizations extracted from the literature are presented which serve different purposes. First, however, the definition by Lommelen and Matthyssens (2005, 97) is adopted to define an international service *“as a service that is offered in foreign markets and/or to foreign customers”*.

Based on perusal of previous classification schemes, Clark and Rajaratnam (1999) present four ideal types of international services: 1. Contact-based services which rely on people (producers or consumers) to move across borders to engage in direct transactions (e.g. consulting services, tourism). 2. Vehicle-based services, in which information crosses borders via radio, television or other facilitating vehicles (e.g. TV programs, data

transfers over the Internet). 3. Asset-based services where commercial service ideas and concepts tied to foreign direct investment enter foreign markets to establish an operating platform (e.g. banks, hospitals, hotels). 4. Object-based services where physical objects are impregnated with services and moved across borders as stored contact-based services (e.g. computer software, repairs to machinery). International contact-based services represent the “purest” services since they necessarily involve all the IHIP characteristics whereas the other types exhibit the characteristics in varying degrees. For example, vehicle-based services allow service production without the need to be physically present in the market since information is transmitted in computer transactions or satellite television broadcasts. Besides diminishing heterogeneity, the categorization provides understanding on the challenges a specific type of international service may face when entering foreign markets as these challenges depend on the nature of the service. For instance, contact-based services are prone to high mobility barriers of labor force, may struggle with balancing the supply and demand, or experience significant transaction costs in time, travel and administrations. In addition, since contact-based services rely on personal interaction, cultural differences between service producers and customers may hinder successful internationalization. (Clark & Rajaratnam 1999, 299.) The troublesome internationalization processes of multinational service companies such as Carrefour and Walmart in retailing and Disney in entertainment industry demonstrate the complexity of services moving across borders (Pauwels & de Ruyter 2005, 2).

The division of internationally traded services into two groups, hard and soft services, by Erramilli (1990) was already touched upon in chapter 1.5. This categorization approaches service internationalization primarily by separating services based on the difference in entry mode choices, which in turn results from the varying degree of inseparability in the service delivery (Erramilli 1990, 57). It is arguably one of the most widely acknowledged categorizations as ever since its presentation it has been covered in numerous research articles (e.g. Grönroos 1999; Javalgi & White 2002; Blomstermo et al. 2006; Ball et al. 2008; Carneiro et al. 2008). In addition, Ekeledo and Sivakumar (1998, 278) suggest that some of the other classifications can be translated into the hard services/soft services categorization. The categorization builds on the simultaneous nature of production and consumption, which is characteristic for many services (Erramilli 1990, 57; Turunen 2009, 58). For hard services, however, consumption may to a major extent be separated from production and thus, limited or no local presence by the service provider is required when entering new markets (Erramilli 1990, 57). Some typical examples of such services are architectural design, life insurance and software services (Majkgård & Sharma 1999, 1; Grönroos 1999, 292). Traditionally, a hard service has both a manufactured good component and a service component. Yet, as with any other type of service, the service element of the product forms the primary source of utility for the customer. (Ekeledo & Sivakumar 1999, 278.) With the recent development of ICT,

the components may not take any tangible form (e.g. a document, recordable media or a blueprint previously required), but instead depend on online platforms and cloud computing solutions, for example.

Soft services are, on the contrary, services which are produced and consumed simultaneously (Erramilli 1990, 57; Blomsterno et al. 2006, 213). Therefore, major local presence is required by the internationalizing service firm or a representative acting on its behalf (Grönroos 1999, 292). Health care, education, lodging and food services are labelled as typical soft services in which physical proximity between the service provider and consumer or the consumer's possession being serviced is necessary (Ekeledo & Sivakumar 1999, 278). In the Clark-Rajaratnam scheme, vehicle-based and object-based services represent hard services whereas contact-based and asset-based services are soft services (Ekeledo & Sivakumar 1998, 278; Kennedy 2005, 128). Soft service firms have further been divided into location-intensive and information-intensive soft services based on differences in their functionalities. Location-intensive soft services, like retailing, fast food and vehicle rentals, involve intangible actions on tangible products. In contrast, information-intensive soft services such as management consulting consist of intangible actions directly for customers. In the service provision, input information is transformed into output information and composed into information-based solutions for the customer. Regardless of the functional difference, however, both types of soft services are characterized by the inseparability of production and consumption and rely heavily on client interaction and customization. (Ball et al. 2008, 414–415.)

Resulting from the vast diversity of service businesses, the line between hard and soft services is ambiguous (Grönroos 1999, 292; Ball et al. 2008, 417). The rapid advancements in ICT constantly alter the field for service firms seeking international expansion (Ball et al. 2008, 417; Deprey, Lloyd-Reason & Ibeh 2012, 1610). Some services that previously required close, simultaneous interaction between the service provider and consumer may today be decoupled and provided online, absent of the co-location of producer and consumer. Besides, there are hard elements involved in soft services too (Ball et al. 2008, 417): the premises of a hotel or a restaurant are utmost tangible aspects of the location-intensive service as well as information embodied in tangible form for information-intensive services. Hence, there are some discrepancies among authors whether services such as engineering and design functions should be considered as hard (Erramilli 1990) or denoted as soft due to their location-bound, value-adding customized project nature (Ball et al. 2008, 417). In this thesis, soft services are approached from a broad perspective and considered to be characterized primarily by the inseparable production and consumption as well as the close interaction between the service provider and the customer, which is taking place in a certain location.

Ørberg Jensen and Petersen (2014) highlight the problem of the hard/soft service approach lumping together services that may differ in various terms such as value and

cost drivers, sources of competitive advantage, or the internationalization process. To complete the existing theories, they offer the concept of value creation logic and consider it to be a decisive factor in determining service firms' internationalization. According to their definition, a value creation logic is "*the possession of capacities and/or capabilities that in combination with a specific value proposition provides an economic rent potential*" (Ørberg Jensen & Petersen 2014, 560). They identify five value creation logics of services each with their distinctive value propositions as well as the required competences and capabilities, which are presented in table 2.

Table 1 Value creation logics of services (Ørberg Jensen & Petersen 2014, 561)

<b>Value creation logic</b>	<b>Value proposition to the customer</b>	<b>Essential capacities and capabilities</b>
<i>Analytics services</i>	Identifying clients' needs or problems and giving advice to their fulfillment/solution	Analytical skills and thorough knowledge of client preferences and routines
<i>Facility services</i>	Safeguarding, maintaining and facilitating the use of goods and properties	Expertise in recruiting, training, and motivating staff
<i>Entertainment services</i>	Giving the client experiences that are exciting, stimulating, and/or relaxing	Possession of artistic or creative talent and ability to envisage or produce new fads
<i>Logistics services</i>	Safe and timely transport or storage of goods, equipment, data, money, and persons	Capacity allowing full exploitation of scale and scope in logistics operations
<i>Network access services</i>	Giving access to networks of individuals/firms with supplemental social or economic interests	Capacity ensuring network externalities and capability of avoiding adverse selection

Service firms operating under the value proposition of analytics services are roughly the equivalent of professional services offered by law, consulting and health sector firms, for example. They aim to provide solutions to customers' unique needs and problems through the application of highly specialized competence. Facility services, such as hotels, restaurants and car rentals focus on satisfying customers' physical needs regarding, for example, food, accommodation, or exercise as well as repair and maintenance related to the customer's property and belongings. In many cases, these service encounters rely on close interaction between the service staff and customers, thus highlighting the essential role of human resource management in producing a motivated, high-quality service personnel. Theaters, sports clubs and theme parks are some examples of service firms following the value proposition of entertainment. These firms revolve

around creating memorable and stimulating experiences for the customer by relying on unique competence of the employees. Logistics services like airlines, shipping companies and mobile network operators concentrate on transportation and storage of cargo and people as well as data and money. Providing efficient operations depends on capacity utilization through scale and scope economies. Financial institutions, recruitment agencies, social media and other virtual communities are among service firms operating under the network access value creation logic; Providing customers with “*access to a network of people or companies with common social and/or economic interests*”. Finally, an important remark by the authors is that the categorization revolves around a single value proposition and overlooks the reality of most business models including several value propositions, and in fact, adopting more than one value creation logic. (Ørberg Jensen & Petersen 2014, 561–562.)

To conclude the discussion on the categorizations of international services, the first classification by Clark and Rajaratnam (1999) approaches international services based on who or what crosses the border. The second one, Erramilli’s (1990) categorization of hard and soft services, forms the foundation of this research. It is based on soft services requiring to be situated in the foreign market due to the inseparability of production and consumption, which bears important implications for the internationalizing service firm. Finally, the third categorization by Ørberg Jensen and Petersen (2014) presents a novel approach of using the concept of value creation logic to complement the other categorizations. It emphasizes the various kinds of value propositions presented to the customer and the essential capacities or capabilities required for the service provision. On the one hand, including not just one but three different categorizations serves to demonstrate the variety among the heterogeneous landscape of international services. On the other hand, it also helps the research to decrease the complexity resulting from each service firm being a unique entity. More specifically, the categorizations allow to group certain services together based on their shared characteristics (such as contact-based nature, analytics services value creation logic etc.) and study whether there are differences between these different types of international services when it comes to the strategic choices of target market selection and entry mode choice.

### **3 STRATEGIC CHOICES IN SERVICE INTERNATIONALIZATION**

Having obtained knowledge on both the nature of a service offering as well as the various types of international services, the discussion now moves on to deal with the phenomenon of services crossing country borders. Hence, chapter 3.1 begins from a broad perspective on service internationalization by presenting various research themes related to the topic. From there on, the focus will narrow down on the two strategic dimensions of internationalization that form the sub-objectives of the study. Chapters 3.2 and 3.3. review and synthesize extant contemporary literature regarding the target market selection and the entry mode choice. Finally, chapter 3.4 outlines the tentative framework of the study in a synthesis on soft service SME internationalization.

#### **3.1 Four views on service internationalization**

Historically, service businesses have been considered as local establishments, which have primarily focused on satisfying the needs of the consumers on the domestic market (Grönroos 1999; Rammal & Rose 2014; Hofer 2015, 26). While it has become obvious this no longer holds true and, in fact, service companies drive international trade, the internationalization of services is yet a relatively recent phenomenon (Javalgi & Martin 2007, 392). Hence, as was pointed out in chapter 1.4, several research gaps still exist in our knowledge regarding the internationalization of services.

In academic literature, the discussion regarding the different nature of goods and services has not only been reflected on the ways services have traditionally been defined. Instead, it has affected the research on different aspects of service internationalization as well. Much attention has been given to evaluating whether traditional, manufacturing-based internationalization theories can be applied for the service context (Grönroos 1999, 292; Javalgi et al. 2003, 186). On the one hand, some authors have claimed many of the underlying principles observed in the manufacturing sector to be suitable for the service context too, either directly or with minor adjustments (Turunen 2009, 58). As noted by Lommelen and Matthyssens (2005, 108) in their extensive literature review, most international service scholars have rather unreservedly relied on theories and concepts developed in a manufacturing context. Concepts have been borrowed and used from stages internationalization process models, transaction cost theory, the eclectic paradigm and industrial network theory, for instance (Lommelen & Matthyssens 2005, 108; Kundu & Merchant 2008, 373). The majority of research combines several frameworks since each is seen to provide only partial explanation, and then presents a custom-made empirical framework (Lommelen & Matthyssens 2005, 109). On the other hand, many

researchers have called for service-specific approaches and theories since their findings have shown the patterns of service internationalization to differ from those in manufacturing (Erramilli & Rao 1993; O'Farrell, Wood & Zheng 1998; Hofer 2015, 28). Expanding overseas may be more complex for service firms depending on the nature of the service to be delivered (Ball et al. 2008, 416; Hofer & Baba 2018, 159; Ooi & Richardson 2019, 46). Hence, while research built on manufacturing firms establishes a strong theoretical background, there is still a need to develop new theories, integrated with various theoretical constructs, to explain and predict a service firm's behavior (Javalgi & White 2002, 576). Furthermore, the heterogeneity of services implies considerable differences between sub-sectors in a range of factors (Pla-Barber & Ghauri 2012, 1007) and thus, it is presumable all service firms do not internationalize in a similar manner (Turunen & Nummela 2017, 38). Consequently, the uniqueness of the service context ought to be accounted for (Javalgi et al. 2003, 195; Kundu & Merchant 2008, 376) since the nature of the service is considered to influence the internationalization process (Vandermerwe & Chadwick 1989, 89; Javalgi & White 2002, 570; Lommelen & Matthyssens 2005, 111; Rammal & Rose 2014). The greater the intangible content, the more service internationalization is assumed to differ from traditional goods (Pla-Barber & Ghauri 2012, 1007).

In general, international service trade is not so much associated with cross-border transactions as with the transmission of processes, knowledge and techniques, or with the exchange of residents and non-residents and the transfer of workers, managers and technology. The flows of international services largely consist of people rather than goods, and the ideas and knowledge they bring with them. (Rubalcaba & Toivonen 2015, 284.) According to Pauwels and de Ruyter (2005, 3) studies on international service marketing can be divided into two groups based on the research perspective. On the one hand, studies conducted from a consumer marketing perspective focus on testing the key research questions of service marketing, such as service quality, service design and delivery and customer retention, in an international setting. On the other hand, studies from an international business perspective, including this study, address a wide variety of strategic issues related to the process of service companies entering international markets. (Pauwels & de Ruyter 2005, 3.) Based on their literature review, Lommelen and Matthyssens (2005) identify four main views on the internationalization process of service providers which are presented in figure 3.

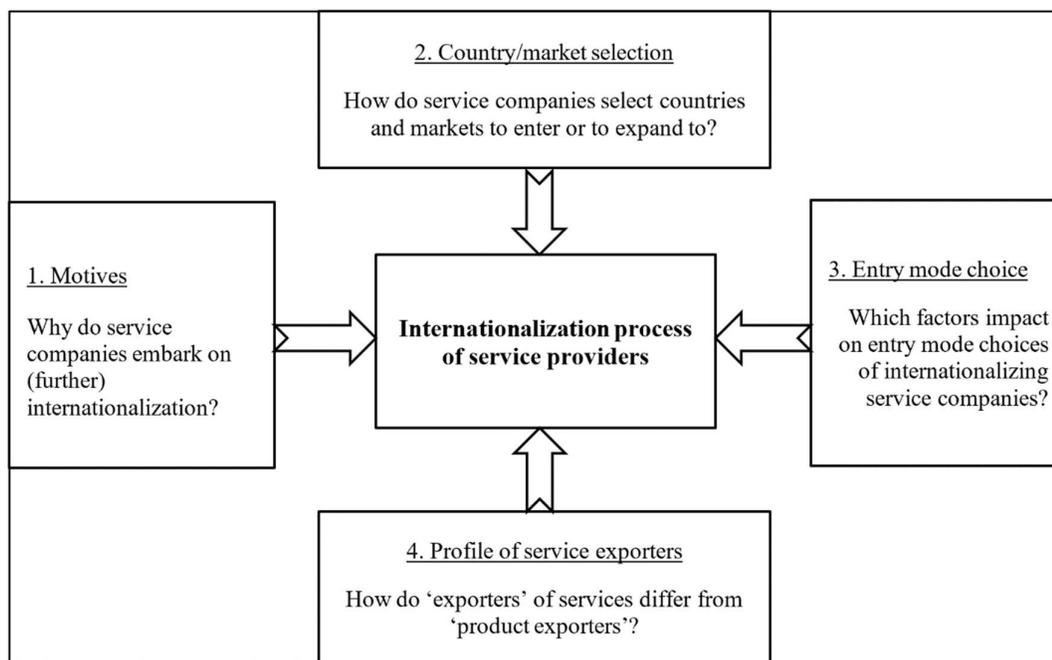


Figure 3 Four views on the internationalization process of service providers (Lommelen & Matthyssens 2005, 98)

Of the four views presented in figure 3, the country/market selection and the entry mode choice form two of the sub-objectives of the study and thus, will be discussed in their respective chapters. Touching briefly upon the first topic, most of the traditional proactive and reactive motives listed in non-service literature for establishing international operations apply in the service context as well. More specifically, besides the general impetus of “making money”, several academics have found service companies to enter new markets by reactively following their current clients or by actively seeking out new opportunities (Erramilli & Rao 1990, 141; Coviello & Martin 1999, 56; Lommelen & Matthyssens 2005, 98-102; Rubalcaba & Toivonen 2015, 279). The discussion on the two identified strategies of client-following and market-seeking internationalization is considered service-specific (Lommelen & Matthyssens 2005, 99). The strategies differ in numerous ways and bear important implications in terms of access to networks and exposure to uncertainty, for example (Majkgård & Sharma 1998, 4). While the client-follower expands to foreign markets as part of an international network and may exploit the current relationships to support the foreign market entry, the market-seeker receives little assistance from its domestic network (Erramilli & Rao 1990, 142; Majkgård & Sharma 1998, 9-10). However, the strategies are not mutually exclusive (Grönroos 1999, 292) since service firms may, for instance, deploy different strategies on different markets or begin internationalization as market-seekers but later turn to more client-following patterns of foreign market expansion (Majkgård & Sharma 1998, 24; Lommelen & Matthyssens 2005, 101). Furthermore, stimuli resulting from a small or

saturated domestic market, motivating export promotion programs or the proximity of an attractive market may encourage service firms to embark to foreign markets (Hofer 2015, 37). In terms of proactive motives, studies have recognized managerial initiative, possessing a unique product or technological competence and proactively spotting opportunities in various formal and informal networks to drive service companies abroad. In most cases, one motive alone rarely accounts for any given action but instead, a company-specific combination of factors affects the internationalization decision. (Lommelen & Matthyssens 2005, 98–102.)

An alternative way of looking at why services internationalize is through the value creation logic categorization. Firstly, on the demand side, there are three drivers of internationalization related to value propositions, which may increase customers' perception of the value of the offering: 1. brand recognition through global presence, 2. worldwide supply and distribution, and 3. worldwide connectivity. Analytics services, facility services and entertainment services benefit greatly from enhanced brand recognition and worldwide representation whereas for logistics services, offering extensive supply and distribution may provide a competitive advantage, for example. Worldwide connectivity is strongly associated with services following the value creation logic of network access as it entails network externalities – the value of the network for each customer grows as the number of other customers using it increases. Secondly, on the supply side, there are likewise three capacity and capability drivers: 1. factor costs differentials, 2. access to strategic factors, and 3. scale and scope economies, the last of which are common for all value creation logics. Offshoring certain activities has allowed for example analytics service and entertainment service firms to drive down unit costs and access pools of highly qualified labor force. Ultimately, it is the combination of value proposition and resource drivers which determines the advantages of internationalization for each value creation logic. (Ørberg Jensen & Petersen 2014, 563–565.)

The fourth view related to the internationalization process of services, namely, identifying profiles of service exporters, is not build on as strong theoretical grounds as the other topics. In fact, in their literature review Lommelen and Matthyssens only encounter three suitable articles for discussion. Moreover, the retained studies do not provide converging findings on what characteristics or capabilities differentiate service exporters from product exporters or non-exporting service companies (Lommelen & Matthyssens 2005, 107–108). However, in a broader sense, a variety of factors such as firm characteristics, management attitudes and decision-maker characteristics are assumed to influence the internationalization process (Javalgi et al. 2003). In addition, when going abroad service firms are considered to require smaller financial investments than manufacturing firms as start-up costs are lower and commonly, one office suffices compared to building a factory, for example (Deprey & Lloyd-Reason 2009, 2). However, as Erramilli and D'Souza (1993, 31) point out, there is great variation in the level of fixed

investments required to produce a service among the different service industries. All in all, due to the intertwined relationship of these factors, there are no specific profiles that would suit to describe the differences between service companies operating solely on the domestic market compared to those pursuing international coverage.

Next, the remaining two views on service internationalization, namely, the target market selection and entry mode choice will be discussed in detail. Service firms that have decided to enter new markets will be required to take a stance on the *where to* and *how* aspects of their foreign expansion. These issues will be determined by the internationalization strategy of the firm, which is here, without diving too deep into business strategy literature, defined as the plan through which the service firm intends to fulfill its objectives on servicing international markets. Thus, the internationalization strategy will answer to the subsequent questions of market selection, entry mode choice, initiation of the internationalization process and networking, for instance (Deprey & Lloyd-Reason 2009, 9). In this thesis, focus has been limited to the first two of these questions, which are addressed in the following chapters 3.2 and 3.3. As the problem setting of the study in chapter 1.5 explained, the exclusion is based on the critical role that the target market selection and entry mode choice are considered to play in terms of the service firm's international success, and on the identified research gaps in this regard.

### **3.2 Target market selection**

Encouraged by a variety of motives, once the decision to expand internationally has been taken the service firm needs to be selective on which market(s) to enter. Conducting market research is key to obtain sufficient knowledge about the potential markets, particularly for firms lacking prior international experience. Then, the gathered information should be evaluated in the context of the firm's strategy so that the firm's objectives and capabilities fit the chosen destination. (Yip et al. 2000, 14–15.) Theoretically speaking, selecting a market where long-term returns are maximized would constitute the optimal choice. In practice, however, such optimization does not occur due to real world complexity and uncertainty as well as the bounded rationality of the decision-makers. (O'Farrell Wood & Zheng 1993, 20.) As part of this study, a literature review was conducted, which reveals that studies addressing the target market selection are notably fewer in comparison to studies focusing on the entry mode choice. In other words, less attention has been paid to explain why a service firm selects a specific market than how the chosen market is entered. Nevertheless, as Lommelen and Matthyssens (2005) note in their literature review, a diverse group of both general and idiosyncratic factors have been identified to affect the target market selection. Previous service research has largely approached the topic by borrowing theoretical substance from studies on the

manufacturing sector. International marketing literature typically divides the factors affecting market selection into two broad groups: external factors related to the target market that may equally affect several firms across different sectors, and internal factors which are company-specific.

### **3.2.1 External factors influencing the target market selection**

In terms of external factors, the locational choice is assumed to be affected by the economic, political and social environment of the market (Hofer & Baba 2018, 156). Market size and economic growth, government incentives and restrictions as well as the availability of local resources in the target market are some common examples of such external factors (Lommelen & Matthyssens 2005, 102.) However, in service context there has been little and mixed empirical evidence of service firms incorporating these variables into their decision processes (Erramilli & D'Souza 1993, 30). On the one hand, in their case study on four internationalizing SMEs, Coviello and Martin (1999) conclude that neither cost/benefit analysis, government incentives and requirements, nor local infrastructures seemed to play a part in market selection. O'Farrell, Wood and Zheng (1998) receive similar results when studying the internationalization of British business-service SMEs; they find out that a variety of factors representing the country risk, including the attitude of local business community, government attitudes towards foreign firms and exchange rate stability do not tend to be very influential. Moreover, the studied internationalizing service firms do not perceive local labor costs, office rents, taxation levels or government incentives important when selecting the target market. (O'Farrell et al. 1998, 24.) On the other hand, internationalizing service multinationals in the lodging sector have been found to incorporate both general macroeconomic measures of market size as well as sector-specific demand indicators like tourism receipts into the location choice decisions (Kundu & Contractor 1999). Supportive findings have been received regarding the impact of host market openness and market size for internationalizing U.S. banks and advertising agencies (Lommelen & Matthyssens 2005, 103.) Similarly, Ooi and Richardson (2019) find that the market demand, a country's regulations and operating costs were among the main factors under consideration for internationalizing service SMEs from emerging markets.

Another factor which has often been highlighted playing a pivotal role in the target market selection is the similarity of the foreign market. Market similarity, defined as "*the similarity (particularly in language and culture) of the foreign market to the firm's current market*" (Erramilli & D'Souza 1993, 30), has been identified to codetermine the market selection (O'Farrell et al. 1998, 15). In general, firms expanding abroad are assumed to prefer culturally similar foreign markets (Erramilli 1991, 480; Hofer & Baba

2018, 157). Low cultural barriers ease the transfer of knowledge and capabilities, minimize the need to commit resources, and reduce uncertainty and risks (Erramilli & D'Souza 1993, 30; Clark & Rajaratnam 1999, 302). Due to their resource constraints, internationalizing service SMEs in particular may favor venturing into culturally similar markets. In their study, Erramilli and D'Souza (1993) find that the relationship between the firm size and its preference for culturally similar markets is conditioned by capital intensity of the industry. Under the condition of low capital requirements, the target market selection of small and larger service firms does not differ, and they are as likely to enter culturally distant markets. When the capital intensity increases, however, the differences become stronger as SMEs have a greater preference for similar markets in order to minimize the risks of foreign market expansion. (Erramilli & D'Souza 1993, 38.)

### **3.2.2 Internal factors influencing the target market selection**

While the influence of factors related to the external business environment of the target market appears ambiguous and limited, more discussion and coherence appears among research findings concerning the role of internal factors. For instance, several scholars have studied how the target market selection is influenced by the firm's network, which, for simplicity of exposition, is here considered an internal factor due to its firm-specific nature. More specifically, network partners do not solely proactively and reactively motivate service firms to internationalize. Instead, studies highlight that "*various network partners like current or potential clients, competitors and other business partners (co)determine the selection of country and/or market*" (Lommelen & Matthyssens 2005, 102). Indeed, if the internationalization effort is primarily stimulated by the desire to follow existing clients or answer to the unsolicited demand of potential clients, the locational choices are made accordingly (Coviello & Martin 1999, 53; Ooi & Richardson 2019, 51). Establishment of network relationships is considered especially important for internationalizing SMEs (Hofer & Baba 2018, 158). In their study, O'Farrell et al. (1998) find out that a vast majority of internationalizing business service SMEs make no explicit market selection decision. Instead, the SMEs primarily enter markets as a direct, ad-hoc response to an order or upon a domestic client pulling the service firm abroad. In addition, some firms enter new markets in piggyback when they act as a subcontractor to another firm, which makes the market choice decision. (O'Farrell et al. 1998.)

In their study on internationalizing client-following and market-seeking software firms, Majkgård and Sharma (1998) apply the Uppsala process model asserting that a firm's foreign market selection and entry are based on its current stock of experience. They use the concept of psychic distance to refer to factors which result from cultural differences and hinder the flow of information to and from the market. Their findings

show that the level of psychic distance is more influential for market-seekers than client-followers. More specifically, client-followers benefit greatly from the support of the existing network, which makes internationalization less risky and time-consuming regardless of the degree of psychic distance. On the contrary, market-seekers need to learn about the foreign market, its demand, clients and institutions and thus, they prefer similar markets with short psychic distance. However, it is noteworthy that both types of service firms primarily base their target market selection on the available opportunities in the market, not on reducing uncertainty caused by the psychic distance. Furthermore, here again factors such as the level of competition, political uncertainty, or invasion of the domestic market by foreign players do not influence the foreign market selection. (Majkgård & Sharma 1998, 26–31.)

While the research of Erramilli (1991) does not include the client-following versus market-seeking dichotomy as such, it nevertheless provides converging findings by studying the relationship between experience of the firm and its foreign market selection. More specifically, the findings imply that firms with low levels of experience tend to choose culturally similar markets. However, when the firm accumulates higher levels of experience it increasingly turns to venture into unfamiliar territories. (Erramilli 1991, 494.) In addition, psychic distance does not universally affect all types of services in a similar manner since there may be differences between hard and soft services; The former are considered more immune to cultural differences since they depend less on personal interaction and can be standardized with little influence by contact personnel. (Carneiro et al. 2008, 94.) For the latter, locating close to clients is necessary as soft services often provide tailor-made solutions adapted to individual customer preferences and require high levels of customer contact. Hence, contact-based soft service firms where people interact and communicate directly may be more influenced by the psychic distance between the home and the target market (Majkgård & Sharma 1998, 13; Clark & Rajaratnam 1999, 301). However, employing internationally experienced personnel with wide personal networks may help the service SME to alleviate the influence of psychic distance in the target market selection (Coviello & Martin 1999, 53).

In conclusion, previous research has recognized several, interrelated factors to influence the target market selection of an internationalizing service firm. While the impact of factors related to the external environment of the target market appears to be vague and indecisive, more converging support has been found for the role of certain internal factors. Target market choice is largely influenced by the location of current or potential network partners with whom the internationalizing service firm may be seeking improved closeness and responsiveness, for instance. In addition, the psychic distance between the home and target market, previous experience of the internationalizing firm, availability of partners as well as the capital intensity of the industry have all been found to have an impact on the target market selection.

### 3.3 Entry mode choice

A service firm that has decided to market its services internationally has to choose a specific mode of operation, an entry mode, to make its offering accessible in the selected foreign market (Grönroos 1999, 293). Defined by Root (1987, 5), an entry mode is “[A]n institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management, or other resources into a foreign country.” As both practitioners and researchers widely recognize, the entry mode choice is a critical decision in the internationalization process and if taken lightly, may jeopardize the company’s performance (Erramilli 1992, 263; Yip et al. 2000, 15; Kennedy 2005, 119; Parola et al. 2013, 35; Ooi & Richardson 2019, 45). It bears several important implications for the international operations since, for example, it defines the amount of financial resources required for expansion (Erramilli & D’Souza 1993, 31). In addition, each entry mode provides a certain level of managerial involvement or control, which refers to power over strategic and operational decisions in the firm (Majkgård & Sharma 1998, 11; Kennedy 2005, 121; Javalgi & Martin 2007, 394). Blomstermo et al. (2006, 212) stress the importance of having control over foreign market entry to ensure the supply of timely and good quality service to international clients, which in turn protects the reputation of the firm. Moreover, the degree of control provided by each entry mode is also seen to determine the risk-return tradeoff and the level of interaction between the service provider and customers (Ekeledo & Sivakumar 1998, 278; Javalgi & Martin 2007, 394; Hofer & Baba 2018, 159).

The entry mode patterns in the service sector are characterized by a considerable diversity (Lommelen & Matthyssens 2005) as technological advancements and globalization have created numerous options for expanding to the selected target market (Kennedy 2005, 120; Rubalcaba & Toivonen 2014, 279; Grönroos 2016, 131). Choosing a suitable entry mode builds primarily on two decisions: whether the service production takes place in the home country or the target market, and who should control the production (Ekeledo & Sivakumar 1998, 278; Carneiro et al. 2008, 87). Many service firms may opt to keep the production at home and export the finalized service in a transportable medium to international markets, either through direct-to-customer channels or indirectly by using external agents and distributors. Another approach is to engage in foreign production and begin producing and marketing the service in the target country. This may be done by contractual methods such as franchising and management contracts. An alternative method is foreign direct investment (FDI), which includes establishing joint ventures (also known as partnerships or affiliates in the service sector) and wholly owned operations (greenfield and subsidiaries or branch offices). (Erramilli 1992, 265; Kennedy 2005, 121; Blomstermo et al. 2006, 212.)

Table 2 presents an overview of the available entry modes which are, for the sake of clarity, divided into non-equity and equity entry modes according to common practice in entry mode literature. In addition, the most salient features of each mode in terms of the level and degree of provided control for and required resource commitment from the internationalizing service firm are included. Some authors prefer dividing the entry modes into integrated and nonintegrated modes where integration implies the extent of ownership the firm has over its export channel or foreign operations (Erramilli 1992, 265; Kennedy 2005, 121). However, since the full control entry modes are equal to the integrated entry modes and shared control to non-integrated entry modes, in this thesis the term *control* is applied in connection with the ownership related to each entry mode. Furthermore, table 2 depicts how the risk associated with each mode is considered to grow hand in hand with the resource commitment. (Erramilli 1992, 31, Blomstermo et al. 2006, 214.)

Table 2 Entry modes and their characteristics (adapted from Erramilli & D’Souza 1993, 31; Blomstermo et al. 2006, 214)

	<i>ENTRY MODE</i>	<i>CONTROL</i>		<i>COMMITMENT</i>	<i>RISK</i>
<b><i>NON-EQUITY</i></b>	Exports <i>Direct</i> <i>Indirect</i>	Full Shared	High Low	Low ↓ High	Low ↓ High
	Contractual agreements	Shared	Moderate		
<b><i>EQUITY</i></b>	Joint ventures	Shared	Moderate/High		
	Wholly owned subsidiary	Full	High		

As shown in table 2, internationalizing service firms may choose to share the control over their operations by setting up indirect export channels or by using contractual agreements. Both alternatives bear relatively low financial commitments and hence, a low degree of risk, whereas forming a joint venture usually requires investing more resources. When full control over the operations is desired, it may be achieved by engaging in direct export with low commitment and risk, or by setting up a wholly owned subsidiary. The latter demands the highest resource commitment abroad and thus, is considered to expose the firm to greater uncertainty as the risk of operating on the foreign market is notably higher than servicing the market from afar (Blomstermo et al. 2006, 214).

It is worthwhile to note that the classification in table 2 oversimplifies the entry mode pallet to some extent. For instance, the more fine-grained but nevertheless substantial differences between the different entry modes, such as the two alternative contractual agreements, are not addressed in this study in detail. Moreover, to make the research feasible, it overlooks the existence of various less resource-intensive entry modes in which a certain phase of the service delivery can be produced domestically while the finalized service is exported, embodied in an object, by exporting temporary project workers, or by electronic marketing (Ball et al. 2014; Grönroos 2016, 131). In addition, the classification in table 2 follows the traditional argument which upholds that modes requiring greater resource commitment are entailed with greater risks, and consequently firms seek more control to compensate for such a risk. However, as some scholars point out (Erramilli & Rao 1993, 34; Majkgård & Sharma 1998, 12; Pla-Barber, Villar & León Darder 2014, 622) the assumption is questionable. More specifically, there are numerous ways for service firms to exercise control without a dominant equity stake (e.g. veto rights, board representation, special management service agreements) and thus, ownership and control may often be separated (Blomsterno et al. 2006, 223; Pla-Barber et al. 2014, 622).

To overcome at least partially these shortcomings, a complementary typology for entry modes developed by Pla-Barber et al. (2014) is included in this research. Their approach seeks to reinforce the current entry mode research by analyzing the decision not only as a trade-off between the level of control and resource commitment, but also as a formula to augment firms' knowledge and resources. They consider such a more sophisticated perspective on entry mode choice particularly applicable for soft services in which high interaction with the local environment is often required to learn and transfer firm's knowledge. (Pla-Barber et al. 2014, 621.) Since the typology has not been applied in other empirical studies, the main idea is here briefly presented. It builds on the knowledge-based view of firm and thus, extends the focus of entry mode to include developing competitive advantage abroad by combining the exploitation of existing assets and the augmenting of new resources. While in their study the typology is applied for a location-intensive hotel industry, it is here considered well-suited to address the entry mode choice in the broader context of this research, namely, of soft services.

On the one hand, franchising and management contracts are labelled as low resource-augmenting modes as they allow limited learning due to weak interfaces with the local partner. These modes rely on the exploitation of existing knowledge which is transferred to be utilized on the foreign market. On the other hand, joint ventures, acquisitions and greenfield investments that employ local workforce enable broad access to the local firm's resources, and these are termed high resource-augmenting modes. The firm's resource base is augmented by exploring internal knowledge through organizational learning, as well as by accessing complementary knowledge received from the strong

interaction with the local partner. (Pla-Barber et al. 2014, 623–624.) These modes are further discussed in accordance with the factors found to play a role in the respective entry mode choice.

Previous studies on the entry mode choice in service industries have been conducted from several heterogeneous theories and approaches such as transaction cost theory, resource-based view, Dunning's OLI paradigm and behavioral theory (see Parola et al. 2013 for a comprehensive overview). While these theories provide a strong contribution to the literature, a more integrated view based on a combination of factors has been called for (Coviello & Martin 1999, 61; Sanchez-Peinado et al. 2007, 86; Parola et al. 2013, 39). As a response, this study draws on findings from a number of studies that have found the choice of a particular entry mode with its level of control, resource commitment and risk to be dependent upon a variety of factors simultaneously affecting the choice (Lommelen & Matthyssens 2005, 104). Regardless of the complexity of entry mode analysis emphasized by several academics (Erramilli & Rao 1993, 33; Parola et al. 2013, 52), the following discussion aims to address these factors in an easily understandable and coherent manner. However, as Erramilli and Rao (1993, 33) point out, the effects of various factors are often embedded in or intertwined with others and thus, caution should be applied when interpreting main effects alone. Therefore, in some cases more than one factor are discussed simultaneously as previous research has found noteworthy correlations between them. Moreover, since earlier literature presents a vast number of factors, some of which with very limited findings, a subjective selection by the researcher has been compulsory to select the ones included in this study. This selection is nevertheless strongly based on the literature as it aims to ensure the most relevant factors are included, and it is justified by the purpose of retaining the empirical study feasible. Similarly to the target market selection, the factors influencing the entry mode choice of services are divided into two broad categories, the internal and external, and presented in table 3.

Table 3 Influential factors in the entry mode choice of services

<b>Internal</b>	<b>Factors</b>
<i>Service characteristics</i>	Inseparability
	Value creation logic
	Capital intensity
	Asset specificity
<i>Firm characteristics</i>	Firm size & resources
	Client following vs. market seeking behavior
	Previous experience
<b>External</b>	<b>Factors</b>
<i>Host market characteristics</i>	Market size & potential
	Availability of partners
	Target market risk
	Cultural distance

As shown in table 3, to understand the nature and magnitude of the diverse preferences for entry modes, the internal, company-specific factors are divided into service characteristics and firm characteristics. In addition, the external factors consist of characteristics related to the host market where the expansion takes place. Despite that table 3 includes a wide variety of factors proposed in several empirical studies, previous research has found that many service companies tend to choose their entry mode in a rather opportunistic/pragmatic way (Lommelen & Matthyssens 2005, 104). Indeed, as O'Farrell et al. (1998, 24) discover, for the majority of service firms studied the entry mode choice was regarded as the obvious one, and the decision made entirely on the basis of hunch and intuition. Furthermore, only few of those firms which even considered the alternatives proceeded to carry out a systematic evaluation process of each mode. However, given the importance of entry mode choice as one of the major strategic decisions taken when entering international markets, it is here argued that particularly service SMEs would benefit from a more objective, systematic approach. For these companies, an unsuccessful entry mode choice may have tremendous negative consequences and hence, at least acknowledging the available options and conducting a crude assessment of their different implications ought to be on the agenda of any service firm seeking to prosper internationally.

### 3.3.1 *Internal factors influencing the entry mode choice*

Given that the first group of internal factors considers the nature of the service, namely, various **service characteristics** that are at the core of this research, the discussion proceeds in reverse order to the target market selection. Relying on Erramilli's (1990) classification of hard and soft services presented in chapter 2.2, the first characteristic often used to explain the entry mode choice is the degree of inseparability between the service production and consumption (e.g. Ekeledo & Sivakumar 1998; Majkgård & Sharma 1998; Blomstermo et al. 2006; Carneiro et al. 2008; Parola et al. 2013). More specifically, for hard services production may precede consumption, rendering such services separable from having a local presence on the target market (Erramilli & Rao 1990, 141; Kennedy 2005, 127). Consequently, hard services are exportable and may expand internationally by using all the entry modes available (Majkgård & Sharma 1998, 15; Javalgi et al. 2003, 187). Moreover, separable hard services that use intensive throughput technology in the service delivery are most likely to depend on low control entry modes (Kennedy 2005, 127). For these firms, internationalization may follow a gradual process of increasing involvement when more experience is gained from the foreign operations. Entering foreign markets via exporting is particularly suitable for hard service SMEs with limited resources (Majkgård & Sharma 1998, 32).

Soft services, which are characterized by high degrees of intangibility and buyer-seller interaction frequency, require simultaneous production and consumption (Blomstermo et al. 2006, 213; Parola et al. 2013, 41). Therefore, soft services must meet consumers of the target market on foreign soil from day one (Erramilli & Rao 1993, 24; Javalgi & White 2002, 571), which suggests that they may face special risks from being unable to gain experience through a more gradual internationalization process (Ekeledo & Sivakumar 1998, 280; Blomstermo et al. 2006, 123; Parola et al. 2013, 41). As a result, the selected entry mode must provide an immediate presence on the market and facilitate the required interaction, making soft services dependent solely on non-export modes such as franchising, joint ventures and FDI (Javalgi & White 2002, 570; Kennedy 2005, 128; Lommelen & Matthyssens 2005, 104). Moreover, since soft services are often customized to individual client's needs and require experiential knowledge of the target market, they are more likely to internationalize using a high-control entry mode (Kennedy 2005, 127; Blomstermo et al. 2006, 222; Carneiro et al. 2008, 93). Despite the theory providing a clear distinction for hard and soft services, earlier empirical studies have received contradictory findings. On the one hand, some researchers have found hard services and manufacturing firms to display similar entry mode behavior whereas soft services are distinctive from the two due to the simultaneity of production and consumption (Erramilli & Rao 1990, 146; Ekeledo & Sivakumar 1998, 95; Blomstermo et al. 2006, 222). On the other hand, Majkgård and Sharma (1999, 8) receive no significant differences in the entry

mode patterns between hard and soft service firms when studying aspects such as the importance of having a subsidiary or establishing local partnerships on the foreign market.

An alternative approach to consider the influence of service characteristics is through the value creation logics classification as it proposes a default entry mode for each logic. Internationalizing analytics services, which are characterized by high knowledge-intensity as well as firm- and client-specificity, are expected to rely primarily on greenfield FDI. Establishing the operations from scratch on the target market allows high control over integration of the homegrown concepts and methods underpinning the service. For facility services, the competitive edge builds mainly on brand recognition and reputation and they favor franchising in order to replicate the concept. Entertainment services may expand abroad either by project export and licensing in case of “live” events such as a Broadway show touring internationally, or by export in case of digitized entertainment like movies or computer games, for instance. Logistics services rarely have high amounts of firm-specific technology or the need to impose their own brand on foreign partners and thus, they are prone to form primarily strategic alliances to swiftly extend their global reach. Finally, network access services, in their quest to build a dominant market position, desire to rapidly extend their network and consequently, internationalize by acquiring other players on the target market. (Ørberg Jensen & Petersen 2014, 567–569.)

In addition to the service characteristics of inseparability and value creation logics, earlier research has identified the capital intensity to play a role in the entry mode choice (Lommelen & Matthyssens 2005, 106). Capital intensity is here discussed together with two firm characteristics, size and resources of the service firm, since they are often intertwined. In general, capital requirements are believed to be relatively low for many services compared to manufacturing firms (Parola et al. 2013, 41), thus enabling expansion via equity investments (Erramilli 1992, 273; Ekeledo & Sivakumar 1998, 286). However, there are certainly also capital-intensive service sectors which require sizable investments in facilities and equipment (Sanchez-Peinado et al. 2007, 77), making expansion via FDI modes costlier than for lower capital-intensity firms (Erramilli & D’Souza 1993, 32). For instance, setting up a wholly owned subsidiary by a hospital requires substantially more resources in physical facilities than by an advertisement agency for which a single office may suffice. Sanchez-Peinado et al. (2007) make a distinction between capital-intensive and knowledge-intensive service firm, the latter for which the valuable assets lie in employees’ knowledge and not in physical assets. Their findings show that the factors determining the entry mode choice for capital-intensive firm vary from those influential to the knowledge-intensive firm (Sanchez-Peinado et al. 2007, 85–86). These differences are further discussed in the following chapters. In addition, Erramilli and D’Souza (1993) suggest that capital intensity in fact conditions

the relationship between firm size and entry mode behavior. More specifically, when capital intensity is low, differences in entry mode choice between small and larger service firms are insignificant as both are equally able to commit the required resources for full-control FDI modes. On the contrary, when capital intensity increases small firms opt for FDI modes significantly less than larger firms since the limited resources and greater perceived risks make FDI modes either less attractive or simply unobtainable. (Erramilli & D'Souza 1993, 39.) This argument receives partial support from Coviello and Martin (1999, 57) who find that financial resources had no influence of the internationalization decisions of the service SMEs, presumably due to the low capital intensity of the knowledge-based sample firms.

Another service characteristic identified in earlier research to influence the entry mode choice is the asset specificity of the provided service. Services that require high levels of professional skills, specialized tacit know-how and customization for their production and delivery are characterized by a high level of asset specificity. In general, when asset specificity increases the service firm tends to favor entry modes providing high control over the operations. (Erramilli & Rao 1993, 23.) This is due to the complexity of transferring such knowledge and knowhow to local partners without it suffering a significant loss in value (Sanchez-Peinado et al. 2007, 85). Several scholars provide empirical support as this corresponds to the analytics services value logic opting for greenfield FDI (Ørberg Jensen & Petersen 2014). Likewise, knowledge-intensive services employ preferably full-ownership control modes to protect their competitive advantage (Sanchez-Peinado et al. 2007, 86). In addition, Carneiro et al. (2008, 93) suggest that location-bound customized projects as well as contact-based services and people-processing services tend to skip low control entry modes to remain in charge of the quality and brand image. In a similar vein, Etemad-Sajadi (2015, 89) confirms that the higher the degree of customization and face-to-face contact with the client, the more prone service firm is to choose a high-control entry mode. However, Erramilli and Rao (1993, 33) state that the relationship between asset specificity and control is contingent upon various moderating factors that either raise the costs of obtaining control or diminish the firm's ability to adopt full-control modes. More specifically, both low- and high-specificity service firms will aim to obtain full-control entry modes when costs are low and the ability to integrate is high. However, should the costs escalate (for example, for a capital-intensive service or due to the inseparable nature) or the ability to deploy full-control modes diminish (for example, due to decreasing firm size), low-specificity firms are increasingly willing to settle for shared-control entry modes. Under these conditions, the gained benefits from deploying a full-control mode are insufficient to justify the required resource commitment whereas sharing control also allows to share risks and utilize the resources pooled by partners. Therefore, low asset specificity firms will generally favor sharing control, and this tendency intensifies when services are inseparable or smaller in

size. High-specificity firms will in turn insist on full-control modes to ensure effective delivery of inseparable services, regardless of size, and will, “*scrounge for resources to establish integrated modes*” if need be. (Erramilli & Rao 1993, 24–25, 33.)

The second group of internal factors comprises **firm characteristics**. Firstly, previous studies have explored the relationship between the entry mode choice and firm size as well as conjointly the availability of resources. In general, larger firms are considered to have greater ability to expend resources on costlier entry modes and bear higher risks than smaller firms (Sanchez-Peinado et al. 2007, 73). SMEs might often require external assistance due to their lack of internal resources, which reduces the degree of control over their business abroad (Etemad-Sajadi 2015, 83). However, the empirical evidence has thus far remained limited and ambiguous (Erramilli & D’Souza 1993, 31). Some scholars claim that the assumption holds true and resource constraints of small firms lead to the preference for less-costly, shared-control entry modes (Lommelen & Matthyssens 2005, 106) while larger firms with remarkable financial resources favor full-control modes (Parola et al. 2013, 52; Etemad-Sajadi 2015, 89). In a similar vein, earlier research has found that for service SMEs limitations in human and financial resources may restrict the usage of high-control FDI modes despite the preference for sole ownership (Erramilli 1992, 273; Ekeledo & Sivakumar 1998, 289; Hofer 2015, 34). However, in their study on a capital-intensive soft service, namely the hotel industry, Pla-Barber et al. (2014, 630) discover that size is negatively associated to resource-augmenting modes. Hotel chains that have grown larger in size are instead more capable to exploit their know-how through resource-exploiting contracts with partners. Furthermore, some studies find no difference in entry mode patterns for small and larger service firms as both seem to have a uniform ability to establish full-control modes (Erramilli 1991; Kennedy 2005, 106). As discussed above, Erramilli & D’Souza (1993) suggest that the influence of firm size and available resources should in fact be considered within the context of capital intensity.

Secondly, several academics have analyzed variance in the entry mode choices of market-seeking and client-following service firms, which is related to the level of possessed market knowledge, but with mixed empirical results (Lommelen & Matthyssens 2005, 106). Erramilli and Rao (1990, 142) propose that service firms following current domestic clients abroad are more knowledgeable regarding the target market than firms entering to serve new foreign clients. Therefore, client-followers are found to internationalize using entry modes characterized by high levels of control and costs. Market-seeking service firms, however, perceive relatively greater levels of uncertainty and risk in foreign expansion and hence, are more inclined to scale back their resource commitment. Teaming up with local producers and sharing some control compensates for their market knowledge deficiency. (Erramilli & Rao 1990, 142-143, 147.) This is considered to create variance in the entry mode choice of soft and hard services, as the former are likely to adopt low-control modes such as franchising or

management contracts, and the latter will favor exporting (Ekeledo & Sivakumar 1998, 285). Sanchez-Peinado et al. (2007, 85) receive supportive findings as capital-intensive service firms prefer full-control modes when following current clients abroad whereas market-seeking knowledge-intensive firms tend to rely on shared-control modes. On the contrary, Majkgård and Sharma (1998, 25) find in their study that while the target market selection of internationalizing software services is based on detecting market opportunities, the chosen entry mode serves to reduce the uncertainty of the expansion. For market seeking firms, their current network of relationships provides only little assistance in internationalization efforts, which in turn increases the risks of foreign market entry. To reduce this uncertainty, market seeking firms opt to a larger extent than client followers on a high control entry mode and establish foreign presence via acquisitions or greenfield investment, for instance (Majkgård & Sharma 1998, 28). Thus, their findings do not support the claim that client followers would be more willing to commit resources in equity ventures compared to market seekers.

In addition to firm size and the market seeking versus client seeking behavior, the level of previous international experience has been considered to influence the entry mode choice (Kennedy 2005, 131; Etemad-Sajadi 2015, 83). This factor is partly related to the above discussion on internationalizing market seekers versus client followers as the network relationships affect the experience of the firm. In general, service firms with low levels of experience are assumed to struggle with managing their foreign operations, thus making the use of shared, non-equity modes more probable (Ekeledo & Sivakumar 1998, 286; Kennedy 2005, 131). Conversely, firms with more experience are considered to favor full control, equity-based modes (Lommelen & Matthyssens 2005, 106; Parola et al. 2013, 52). Here again, empirical research has produced mixed results as both supportive (Etemad-Sajadi 2015, 89) and non-supportive (Blomsterno et al. 2006, 222) findings have been received, thus inconsistently indicating that high levels of experience would lead to choosing high-control modes. Furthermore, Erramilli (1991) proposes a U-shaped relationship between experience and propensity for obtaining control. He postulates that during the early years of foreign market experience service firms will favor sole ownership, changing to shared control modes as they gain international experience and finally, having accumulated extensive international experience, revert to full-control modes (Erramilli 1991). This premise is considered to apply especially to soft services; Due to the prerequisite of establishing presence on the foreign market, particularly inexperienced soft service firms will adopt sole ownership, even more so on culturally similar markets. Hard services, in contrast, are expected to follow a linear pattern observed in manufacturing industry, whereby firms with low experience begin with exporting and turn to sole ownership only after having gained more experience of the market. (Ekeledo & Sivakumar 1998, 256.) However, when studying the entry mode choice of soft services between wholly owned subsidiaries and joint ventures, Parola et

al. (2013, 52) discover that increasing international experience stimulates the sample firms to utilize primarily joint ventures. In a similar vein, capital-intensive service firms with international experience tend to use shared-control modes, presumably because they are already used to negotiate with local partners unlike inexperienced firms (Sanchez-Peinado et al. 2007, 85).

To conclude the discussion on internal factors influencing the entry mode choice, earlier literature suggests that several factors may impact the choice in varying degrees. These factors are related both to the characteristics of the provided service and to the characteristics of the providing company. Moreover, as the above discussion clearly shows, the relationships are far from simple and straight-forward and consequently, empirical findings may divert from the theoretical assumptions. However, this thesis does not seek to confirm any pre-established relationship between a single factor and the entry mode choice. Instead, it hopes to obtain more knowledge on which factors are present and in what manner when soft service SMEs are making their decisions regarding the entry mode.

### ***3.3.2 External factors influencing the entry mode choice***

Next to the internal factors related to the service and firm characteristics, factors related to the external business environment in which the service firm operates are expected to affect the entry mode choice (Javalgi et al. 2003, 194; Lommelen & Matthyssens 2005, 107). However, as Kennedy (2005, 131) points out, research considering various market characteristics has been more fragmented in nature with fewer generalizable findings. The market characteristics are divided into home and target market characteristics but due to the limited number of empirical findings related to the former, this study only includes **host market characteristics**. Indeed, while empirical findings on the home market characteristics are very few, characteristics of the target market have been more extensively included in studies on entry mode choice (Lommelen & Matthyssens 2005, 107).

Firstly, the implications of economic, political and institutional factors on entry mode choice have been investigated as they may impose a certain degree of adaptation from the service firm to the target market environment (Parola et al. 2013, 45). For instance, Erramilli (1992) finds evidence that service firms which are dependent on foreign production (that is, soft services), increasingly employ entry modes entailing high resource commitment and full control when the size of the target market is large enough to support such an investment. However, hard services which are entering foreign markets via exports make their decision between shared and full export channels independent of market size. Similarly, when entering markets with high potential, service firms are

expected to commit more resources (Parola et al. 2013, 46). Ekeledo and Sivakumar (1998, 281) propose that when the target market potential is small, soft services are likely to adopt shared-control modes with low resource commitments whereas hard services will tend to export. On the contrary, Pla-Barber et al. (2014) find that resource-exploiting modes of franchising and management contracts are favored when the internationalizing soft service firm in fact enters highly potential markets. They suggest that these markets are the most appropriate for resource-exploiting modes since the exploitation of technical, organizational and commercial knowledge is made easier and adaptation costs are lower. (Pla-Barber et al. 2014, 630.) In addition to the market potential, the availability of partners plays a part on the entry mode choice; When faced with a lack of suitable partners service firms are required to rely on full-control modes (Erramilli 1992, 273) whereas markets with several reliable partners available may be entered with shared-control modes to exploit the local partner's knowledge (Parola et al. 2013, 52).

Previous studies have assumed the entry mode decision of internationalizing service firms to be influenced also by the level of target market risk (also referred to as host country risk), which reflects uncertainty about the political and economic conditions of the new operational environment (Sanchez-Peinado et al. 2007, 72). Although Kennedy (2005, 132) criticizes previous studies for overlooking the existence of various types of risks, a highly significant relationship is found between the total perceived risk and the entry mode choice. Indeed, with growing risks the strategic choice for service firms would tend to favor solutions allowing the risks to be shared with or shifted to other firms. More specifically, in highly unstable environments, soft services will consider FDI modes too risky and instead, seek physical proximity with the consumer via non-equity modes (Ekeledo & Sivakumar 1998, 282; Pla-Barber et al. 2014, 630). On the other hand, hard services may be able to service the market from distance via exporting until the political climate improves to make FDI less risky (Ekeledo & Sivakumar 1998, 282.) Similarly, Sanchez-Peinado et al. (2007) confirm that capital-intensive services seek greater control and are willing to commit more resources on markets which are both politically and economically stable. For knowledge-intensive services the stability of the market did not have a major influence on the entry mode choice, presumably due to the lower resource requirements of internationalization (Sanchez-Peinado et al. 2007, 84). Erramilli and Rao (1993) propose that the influence of country risk on entry mode choice depends on the level of the service firm's asset specificity. In their research, they discover that low asset-specificity firms will increasingly favor shared-control modes as countries become riskier since this provides flexibility to react to unpredictable changes on the market. High-specificity firms entering a volatile environment will instead continue insisting on full-control modes as it allows them to avoid the threat of partners trying to act opportunistically and renegotiate contracts to their advantage. (Erramilli & Rao 1993, 32.)

In addition to the factors related to the characteristics of the target market, several studies have investigated the influence of cultural distance on the entry mode choice. It is worthwhile to point out that while many service firms may experience the target market characteristics, such as market size, political stability or regulatory environment, in a similar manner, cultural distance is more context specific. In other words, a market may appear as one with high potential and a stable political environment to a whole group of internationalizing service firms. Yet, each firm will in turn perceive a subjective level of cultural distance resulting from their inherent differences in the home market and corporate culture as well as past experiences, for instance. Despite that cultural distance is not a characteristic of the target market per se, it is nevertheless inseparably connected to it. Consequently, following the approach of earlier research it is here included as an external factor influencing the entry mode choice.

Empirical findings regarding the impact of cultural distance have so far been contradictory (Blomsterno et al. 2006, 216). Service firms are found to adopt entry modes requiring high resource commitment when expanding into culturally similar markets (Ekeledo & Sivakumar 1998, 283; Parola et al. 2013, 51) whereas with increasing cultural distance, there is greater preference for shared-control modes (Erramilli & Rao 1993, 32). Soft services, in particular, are considered to be influenced by the level of cultural distance as they require close customer interaction and physical location on the market. Hence, they are more likely to favor franchising, management contracts or joint ventures in culturally distant foreign markets while hard services may resort to exporting (Ekeledo & Sivakumar 1998, 283). However, other scholars (Blomsterno et al. 2006, 223; Etemad-Sajadi 2015, 90) have received contradictory findings as in their studies, the service firms are more likely to choose a high control entry mode when cultural distance increases. Blomsterno et al. (2006, 223) argue that investing in countries at large cultural distance is an effort to extend the firm's knowledge base and learn about the cultural and institutional factors, and this goal is better achieved by obtaining control over the venture. Another explanation might be that these service firms are client followers who aim to provide the same level of service and nurture the relationship with their clients both at home and abroad. Hence, a high-control entry mode allows the internationalizing firm to guarantee its service quality and the transfer of capabilities and know-how while following its client to a culturally distant market (Blomsterno et al. 2006, 223; Etemad-Sajadi 2015, 90). Similarly, Pla-Barber et al. (2014, 631) find that if the cultural distance is low, accumulating international experience allows the soft service firm to shift from using resource-augmenting modes to entry with resource-exploiting modes. However, when entering culturally distant markets firms will choose high resource-augmenting modes regardless of the extent of their host country or entry mode experience. Hence, they conclude that *“independent from a firm's international experience, high cultural distance is a key determining factor in maintaining the use of high resource-augmenting*

*modes due to not only the difficulties in transferring knowledge to third parties but also the imperative need of learning from the local markets”* (Pla-Barber et al. 2014, 632).

To conclude, while there has been a growing stream of research on the influence of external factors on the entry mode choice, the current knowledge is still fragmented and with few generalizable findings (Kennedy 2005, 131). This may result from the notion that the influence of environmental factors is situation-specific (Erramilli 1992, 274) and the effects are often embedded or intertwined with others (Erramilli & Rao 1993, 33). In addition to academics providing inconsistent findings on one specific factor such as the influence of cultural distance, earlier research shows how two or more factors may propose contradictory courses of action. On the one hand, a large, stable market has been found to offer suitable conditions for committing resources through the usage of full-control modes (Erramilli 1992; Parola et al. 2013). On the other hand, on such a highly developed market there may well be plentiful of potential partners which would advocate for internationalization with shared-control modes (Pla-Barber et al. 2014). Moreover, the influence of some factors, such as the level of experience, is not solely limited to the entry mode choice but instead, it is closely intertwined with the market selection practices. For instance, service firms with low experience are found to prefer entering culturally similar markets, which in turn allows committing more resources due to the low experienced risks. (Erramilli 1991, 495). Drawing on the often complicated, controversial and confusing findings, the current study hopes to compliment the understanding on how and to what degree these various factors influence the entry mode choice of soft service SMEs.

### **3.4 Tentative framework of the study**

Acknowledged by several academics, service internationalization is too complex and broad a concept to be defined exclusively by any single, all-encompassing theoretical approach (Coviello & Martin 1999, 42; Clark & Rajaratnam 1999, 301; Javalgi & White 2002, 576). Hence, developing a theoretical framework for service internationalization presents a remarkable challenge (Turunen & Nummela 2017, 39) for which one generally accepted framework is yet to be developed. As Coviello and Martin (1999, 46) note, the phenomenon encompasses several representations which should be explored with greater coherence. Examining internationalization in an integrative manner allows to overcome the limitations inherent in focusing on a single theoretical framework, and a more holistic and relevant understanding on service internationalization may be developed (Coviello & Martin 1999, 61; Parola et al. 2013, 39). Consequently, this research builds its theoretical foundation on a wide selection of literature to examine the phenomenon of service internationalization in the context of soft service SMEs from various perspectives. This

diverse discussion serves to construct the tentative theoretical framework of the study, which is presented in figure 4.

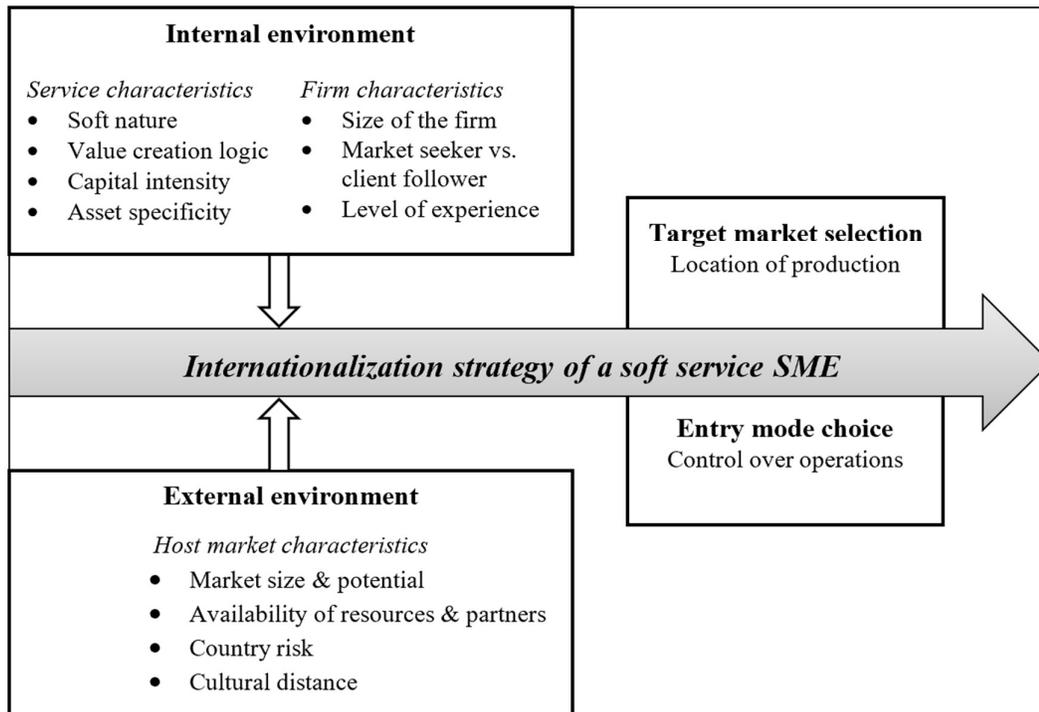


Figure 4 The tentative theoretical framework of the study

The tentative framework presented in figure 4 centers around the research focus which is on the internationalization strategy of the soft service SME. The framework is further elaborated from the framework of Ekeledo and Sivakumar (1998, 276) which only considered the entry mode choice of service firms. Here, the purpose of the study guided both research questions to be clearly incorporated not only in the theoretical discussion but also in the framework. Hence, the target market selection has been included as a separate strategic decision apart from the entry mode choice. However, these two decisions are both inseparably connected to the internationalization strategy since it is the strategy determining the market and mode in question when expanding abroad.

As shown in figure 4, the internationalization strategy and, consequently, the decisions on location of production and control over operations, are influenced by both the internal environment comprising of firm-specific factors and the external environment in which the firm operates. More specifically, in this research the factors included in the internal environment consists of service characteristics, namely, (a) the soft nature of the service, (b) the value creation logic, (c) the level of capital intensity, and (d) the level of asset specificity, while the firm characteristics are (e) the size of the firm, (f) the market seeking or client following behavior, and (g) the level of experience. In addition, the external

environment, which consists of host market characteristics, influences the internationalization strategy through factors (h) host market size and potential, (i) availability of resources and partners, (j) country risk and (k) cultural distance. Previous studies have found all these factors to impact in varying degrees the internationalization strategy of services. Hence, they are all included in the tentative framework in the context of soft service SMEs.

## **4 RESEARCH DESIGN**

This chapter is devoted to the methodological discussion and presents the research design applied in carrying out the research as well as justifies the methodological choices made during the research process. Chapter 4.1 explains why a qualitative, extensive multiple case study method has been considered appropriate for this study while chapter 4.2 outlines the case selection in detail and provides an overview of the selected case companies. In chapter 4.3, the process of collecting and analyzing data is discussed in detail and finally, chapter 4.4 addresses the aspects related to the trustworthiness of the research findings.

### **4.1 Research approach**

A key determinant of an appropriate research approach is the nature of the social phenomenon under investigation. The chosen approach also reflects the researcher's assumptions regarding the nature of knowledge (ontology) and the methods through which knowledge can be obtained (epistemology) (Eriksson & Kovalainen 2008, 12–14; Merriam 2014, 8), which in turn influences the way the research is conducted. Hence, choosing a research approach that is suited for the research purpose is among the fundamental decisions to any research (Eriksson & Kovalainen 2008, 28).

In general, the field of academic studies is dominated by two main research approaches, quantitative and qualitative, which have often been regarded as opposing to one another due to the differences in the research procedures (Eriksson & Kovalainen 2008, 4; Creswell 2009, 3). However, straightforward comparison between these two is nowadays considered inadequate due to the internal variety of both approaches since different forms of each research have their own specific features and advantages (Eriksson & Kovalainen 2008, 4). In fact, a research approach may also include elements from both, in which case it is termed mixed-methods research (Creswell 2007, 14). Consequently, instead of arguing over the superiority of one research approach over another, the choice should be based on assessing which alternative best serves in fulfilling the objective of the study and thus, provides the most relevant means to receive answers to the research questions under scrutiny (Eriksson & Kovalainen 2008, 27).

Departing from the purpose of this research, which is to understand the factors influencing the strategic decisions of internationalizing soft service firms, a qualitative approach has been selected for this study. It is considered appropriate because qualitative methods are typically applied when the aim is to study a particular topic in depth and to uncover and understand a phenomenon (Ghauri & Grønhaug 2005, 112; Merriam 2014, 14). In addition, qualitative research is often used when a subject is new and only limited

earlier research exists on that topic (Ghauri & Grønhaug 2005, 111; Creswell 2009, 18; Myers 2013, 9) or when the existing theory fails to adequately explain the phenomenon (Merriam 2014, 15). Indeed, as shown by chapter 3, the internationalization of soft services is still a relatively new phenomenon and much of the previous knowledge is yet very fragmented in nature. Hence, this research seeks to complement the existing theory through an inductive process by combining the gathered data into larger themes when working from the particular to the general (Creswell 2009, 4; Merriam 2014, 15). As Ghauri and Grønhaug (2005, 111) note, it is generally accepted that qualitative methods are most useful for such inductive and exploratory research. Furthermore, it may be difficult to achieve the objective of this study if quantitative methods were applied. As Creswell (2009, 4) explains, quantitative research is a means for testing objective theories by examining the relationships among measured variables through statistical analysis. Instead, a qualitative approach is better suited for the purpose of increasing understanding of the phenomenon under scrutiny (Ghauri & Grønhaug 2005, 31). Moreover, since this understanding is pursued by gathering firm-specific insight in its unique context and interpreting the gathered findings, this advocates for a qualitative approach (Creswell 2009, 17; Merriam 2014, 13). A qualitative approach is more suitable than quantitative to study the meanings that people involved in the internationalization process give from their respective points of views to the various factors related to the strategic decisions (Ghauri & Grønhaug 2005, 110; Eriksson & Kovalainen 2008, 81). Furthermore, qualitative methods allow the researcher to participate as the primary instrument for data collection and analysis, which is regarded as the optimal means when understanding is the goal of the research (Merriam 2014, 15).

Choosing to follow the qualitative research approach guides in turn the selection of methods and techniques most suitable for collecting and analyzing data. Among qualitative methods, there are several alternative research strategies of which the most commonly used are basic qualitative research, phenomenology, grounded theory, ethnography, narrative analysis, critical qualitative research, and case study (Merriam 2014, 22). For this study, a qualitative case study is deemed appropriate as it provides suitable means to obtain the information needed for reaching the research objective (Ghauri & Grønhaug 2005, 115).

Various definitions of case study have in common the emphasis on the production of detailed and holistic knowledge (Eriksson & Kovalainen 2008, 117) for which the researcher may gather information using a variety of data collection procedures (Yin 2003, 14; Creswell 2009, 227). According to Ghauri and Grønhaug (2005, 115), the case method is useful for theory development and testing, which applies for this research as it seeks to complement prior understanding of service internationalization. Moreover, Merriam (2014, 40) notes that delimiting the object of the study, the case, as a single bounded system is the most defining characteristic of case studies. In other words, case

studies focus on exploring the characteristics of real-life events and phenomena such as organizational and managerial processes (Yin 2003, 2) in their own unique situation, with a special context and background (Stake 2005, 12). This supports the use of case study method since soft service internationalization would be difficult to study outside its natural setting. In addition, the research purpose is to gather a thick description of the contextual conditions that influence the case firms' decisions regarding foreign market expansion. Furthermore, when taking into account that case studies are particularly useful if the researcher's control over the studied behavioral aspects is limited (Yin 2003, 7) or the concepts and variables under scrutiny are difficult to quantify (Ghauri & Grønhaug 2005, 114), this adds support for the case study method as the suitable research strategy for this research.

Conducting a qualitative case study may follow either a single-case or a multiple-case design, each with their respective advantages and disadvantages. However, Yin (2003, 52) suggests that in situations where the researcher has the choice and resources for it, multiple-case design is preferred over single-case design. The evidence from multiple cases is often considered more compelling and the overall study therefore more robust (Yin 2003, 46). Similarly, Ghauri and Grønhaug (2005, 120) argue that when a study follows an inductive approach and pursues general explanations, a multiple-case method should be followed. In such a study, the individual cases share a common characteristic or condition and are thus somehow categorically bound together as examples of the studied phenomenon (Stake 2005, 6). When conducting a multiple-case study, the interest often lies in going beyond the case and such a study is called an instrumental case study (Stake 2005, 8). Similarly, Eriksson and Kovalainen (2008, 122) use the term extensive multiple-case study, where a predefined research interest is studied by using several individual cases as instruments in the study. More specifically, an extensive case study seeks to map common patterns and properties in a chosen context for the purpose of developing or testing prior theory (Eriksson & Kovalainen 2008, 119).

Building upon the above-discussed characteristics, an extensive multiple-case design has been deemed appropriate for this research. The cases of this study share the common characteristic of soft service nature and represent the phenomenon of service internationalization. In addition, the starting point has been to acknowledge the existing gaps in theory and then pursue to test and extend this understanding based on the empirical knowledge generated from the cases. More specifically, a number of cases are studied with regard to the set of internal and external factors identified in earlier literature to explore similarities and differences in their respective internationalization processes.

## 4.2 Case selection

The selection of the units of analysis, the cases, begins regularly with cases being at least partially identified (Stake 2005, 22), which held true also for this study. Having a prior personal interest on one of the case companies guided the formation of the research topic and the company was identified as the first potential case to be included. From there on, in line with most qualitative research, non-probability sampling was applied to select the rest of the cases (Merriam 2014, 77). As Honigmann (1982) states, non-probability sampling methods are suitable when the researcher seeks to solve qualitative problems, such as discovering what occurs, the implications of what occurs, and the relationships linking occurrences. The most common form of non-probability sampling is purposeful sampling, in which the researcher wants to discover, understand and gain insight of the studied phenomenon (Merriam 2014, 77). Thus, the researcher purposefully selects information-rich cases that will best help in understanding the problem and the research questions (Creswell 2009, 178).

While there is no single rule on the correct number of cases included (Ghauri & Grønhaug 2005, 119; Eriksson & Kovalainen 2007, 124), Stake (2005, 22) proposes that the benefits of multiple-study design are best achieved with 4 to 10 cases. The tentative definition of the case is often related to the way the initial research questions have been defined (Yin 2003, 23). Indeed, based on the theoretical framework and following the criterion-based selection method (Merriam 2014, 77), the following criteria was established to find suitable cases for the study:

1. The company is a soft service company
2. The company is a Finnish SME
3. The company has already internationalized to one or more foreign markets

Apart from having one potential case company identified in advance, the search for eligible companies was done via online research such as reading news articles of Finnish service companies expanding abroad. Then, relying on the information at hand the potential case companies were evaluated based on their fit with the predetermined profile. Finding suitable case companies that would match all the criteria turned out to be challenging, however. There may be several explanations for this. It seems that in Finland much of the service internationalization has been witnessed among software services, which represent hard services and are thus distinctively different from the focus of this study. In addition, while there are also some soft service firms on international markets, many of these are among highly labor-intensive sectors and hence, notably exceed the employee limitations to be classified as SMEs. It may be questioned whether the traditional classification schemes that compare and group companies based solely on the turnover or number of employees are in fact suitable to categorize the service companies of today. Moreover, some location-intensive soft services are more actively involved in

inward internationalization, implying that international customers travel to the local premises of the service provider. Such firms, once again, fall out of the focus of this study. Furthermore, acknowledging that the phenomenon of service internationalization is relatively recent may also partly explain the scarcity of suitable case companies to date.

The criterion-based search resulted in a sample of five potential companies. While there are several alternative methods of purposeful sampling, for this research convenience sampling was applied. Hence, all the companies were contacted via email and asked to participate in the interview, and four of the contacted companies agreed. Due to confidentiality requirements by the company, one company is discussed anonymously and referred to as Company Alpha. For Company Alpha, the names of the target markets are also unspecified with the labels South East Asia and the Nordics being used. The three other case companies are Hovi Group Oy, SuperPark Ltd and Technopolis UMA Holding.

As the above-discussed criteria shows, the original idea of this research was to study the internationalization of soft service companies particularly from the viewpoint of Finnish service SMEs. However, once the data collection had been completed, it turned out that one of the selected case companies, Technopolis UMA Holding, was in fact a fully-owned subsidiary of its parent company Technopolis Ltd. Therefore, it would contradict the definition of an SME. Moreover, Superpark Ltd might due to their recent internationalization and opening of new facilities already exceed the employee limitations to be labelled as an SME. However, Stake (2005, 23) has proposed that as a general rule, a case should be selected if it is relevant to the topic, provides diversity across the context and provides good opportunities to learn about complexity and contexts. Ultimately, the cases should be bound together by a common concept or idea, although the cases may represent it in varying degrees, some modelling it and others with an incidental relationship (Stake 2005, 23). Both the afore-mentioned cases fulfill these requirements as well as share the soft nature of services and thus, have been kept included in the study. More specifically, the two cases represent soft service companies that have already managed to build a notable foothold on several foreign markets whereas the remaining other two, which are SMEs, are taking their first steps on one or two markets. Hence, this allows the study findings to possibly shed light on whether the specified factors influence differently the target market and entry mode choice in the early or later stages of the internationalization process. Moreover, it will be interesting to study, for instance, how does the role of the parent company impact the internationalization compared to companies that are pursuing it independently of such a background.

Next, to familiarize the reader with the case companies presented in table 4, a brief overview is provided on the history and business concept of each company. A more detailed description of the internationalization process of the companies will follow upon presenting the findings of the study in chapter 5.

Table 4 Case company overview

Case company	Service concept	Founded / international market entry	Current market presence (year of entry)
<i>Company Alpha</i>	Thematic B2B meeting space and event venue solutions	2012 / 2017	Finland Southeast Asia (2017) Nordic countries (2019)
<i>Hovi Group Oy</i>	Personalized senior day care center services for B2C markets	2008 / 2012	Finland Singapore (2018)
<i>SuperPark Ltd</i>	Indoor activity parks for B2C/B2B markets	2012 / 2017	Finland Hong Kong (2017) Sweden (2018) China (2018) Singapore (2018) Malaysia (2018)
<i>Technopolis UMA Holding</i>	Premium shared workspace and service solutions	2018 / 2018	Finland Sweden (2018) Denmark (2018) Norway (2018)

**Company Alpha** is a Finnish service SME built on an innovative service concept that seeks to shake up and disrupt the events industry as a whole. The company was founded to offer its B2B clients creative thematic meeting rooms coupled with on-site event consultants that offer a variety of programs, activities and catering services to make the most of any meeting. The first unit opened its doors in Helsinki in 2012 and currently, the company has two units in Helsinki's major business hub locations. Moreover, in early 2017 Company Alpha took its first steps to the international arena as they opened a unit in Southeast Asia. This was followed by expanding to the Nordic countries outside of Finland with the fourth unit being opened in summer 2019. All in all, the company has so far hosted over 7000 various B2B events and won several global awards for its revolutionizing service concept. In 2019, the estimated turnover of the company is around € 3.7 million of which the foreign unit accounts for roughly € 1.7 million so around a third of the total. For the Nordics unit, there were no figures available as it had not been opened yet at the time of the interview.

**Hovi Group Oy**, founded in 2008, is a Finnish privately held family company that specializes in healthcare business development, set-up and operations. The roots of the company go back to 1989 when the parents of the current co-founder and CEO Jussi Peltonen opened the first private care services home in Noormarkku. Today, Hovi Group operates on the domestic Finnish market with the company brand HoviKoti whereas its international operations are managed by Hovi Care Oy. In Finland, HoviKoti employs

nearly 200 people in its 6 nursing home units around the country which are run in partnerships with local entrepreneurs. The units provide a variety of health care services such as year-around housing facilities and physical and mental treatment for its customers who are elderly people, disabled people, people recovering from mental health problems and people suffering from memory disorders. Internationally the company is currently operating in Singapore where it opened its wholly owned subsidiary Hovi Care Singapore Private Limited in 2018. The annual turnover in 2018 was around € 1.5 million to which the foreign operations contributed around € 100 000.

**SuperPark Ltd**, established in 2012, is a Finnish company running a chain of all-in-one indoor activity parks. From its original single location in the Finnish town of Vuokatti, SuperPark has grown to include altogether 13 parks around the home country. In addition, after having gained increasing interest and multiple contacts from abroad, SuperPark has since 2017 been rapidly expanding abroad. Thus, by spring 2019, there are SuperParks in five different foreign markets including Hong Kong, Singapore, Kuala Lumpur in Malaysia, Suzhou in mainland China and Uppsala in Sweden, all under the international SuperPark United brand. Eventually, the company will integrate also the Finnish SuperParks to correspond with the global brand, which means mainly updating the logos and other visual cues of the facilities and marketing communication accordingly. In 2018, the annual turnover was around € 20 million with foreign operations accounting for almost half of the turnover, and their share is expected to increase in the future as the company continues its international growth. Each activity park employs around 20–50 people.

**Technopolis UMA Holding** is a fully owned subsidiary of the company Technopolis, founded in 1983 in Oulu, Finland. The parent company Technopolis calls itself “a shared workspace expert”, whose business concept builds around leasing efficient and flexible offices and co-working spaces in its business campuses. In addition to providing the workspace, the services of Technopolis cover, for instance, the design of the workplace, reception, meetings solutions, restaurants, and cleaning of the premises. In 2010, Technopolis expanded abroad and has since grown to own and run altogether 15 campuses in six countries within the Nordic and Baltic Sea region. The company employs around 230 people whereas the campuses, which measure between 40 000m<sup>2</sup> to 100 000m<sup>2</sup>, host some 1600 companies with 45 000 employees. Unlike its parent company, Technopolis UMA Holding focuses on renting properties which are significantly smaller in size than the campuses, ranging from 750m<sup>2</sup> to 3000m<sup>2</sup>. These facilities are the platform for the UMA Workspace concept, which offers B2B-customers professional shared workspace and service solutions with co-working spaces, private offices, meeting rooms and the necessary amenities all readily available. When Technopolis took its UMA concept abroad in 2018, Technopolis UMA Holding was established and incorporated as a subsidiary of the parent company. Currently, in addition

to the Finnish market there are UMA Workspaces in three Nordic countries, namely, Sweden, Denmark and Norway. Moreover, the company will continue growing its presence around the Baltics by opening new units in Estonia, Lithuania and Poland in the near future.

### **4.3 Data collection**

In qualitative case studies, data may be collected with various methods and from multiple sources of evidence (Yin 2003, 83), albeit in practice these two variables are usually intertwined and inseparable. In brief, a data method is a technique used to obtain data from a particular source whereas a source of data refers to the repository of relevant information or knowledge (Mason 2002, 51). The most commonly used methods of case study are observation, interview, coding, data management, and interpretation (Stake 2005, 29). Similarly, the typical sources of evidence include documentation, archival records, interviews, direct observation, participant-observation, and physical artifacts (Yin 2003, 85). Ultimately, the researcher's decisions regarding empirical data collection should be guided by the general purpose of the study as well as the research approach and research questions (Eriksson & Kovalainen 2008, 77).

The primary data for this study was collected through qualitative interviews, which are considered one of the most important and most common sources of case study information (Mason 2002, 62; Yin 2003, 89). Interviews were considered an efficient and practical way to collect information which is not available in published form and especially suited for studying the topic from the companies' points of view. Eriksson and Kovalainen (2008, 81–82) describe three different types of qualitative interviews: 1. structured and standardized, 2. unstructured, informal, open and narrative and 3. guided and semi-structured interviews. The interviews in this study followed the guided, semi-structured structure where the topics and issues to be discussed were outlined beforehand in an interview guide but as each interview was proceeding, there was also possibility to vary the wording and order of questions. Such a structure allowed the researcher to adapt to the conversation at hand and pose follow-up questions on emerging ideas, for instance, while the more structured parts ensured gathering of comparable information (Merriam 2014, 90).

Prior to conducting the interviews, qualitative case studies often require two levels of sampling where the researcher needs to first select the cases and then, what or whom to observe or interview within each case (Merriam 2014, 81). Indeed, once the four case companies had agreed to participate in the study, a purposeful sampling was done to find the correct person to be interviewed. Ghauri and Grønhaug (2005, 119) suggest that the right person from the point of view of the research questions may be identified with the

help of the case company by establishing contact with a key person or a highly placed manager. Hence, the focus of the study and an overview of the interview process were briefly explained in an email sent either to the CEO or a group of managers in each case company based on the contact details available online. Then, the companies internally agreed upon the eligible respondent with whom the interview arrangements were made.

Each respondent was provided with the interview guide by email prior to the interview taking place, so that they would have time to familiarize with the themes and questions in advance. The respondents reacted positively to the opportunity to prepare for the interview and some had searched for additional material that was used as secondary data. The interview guide consisted of a list of open-ended questions based on the theoretical framework introduced in chapter 3.4. The operationalization table in table 5 presents the four main themes of the interviews, which arise from the sub-objectives and background literature of this research. The interview questions are attached in Appendix 1.

Table 5 Operationalization table

<b>Research objective</b>	<b>Sub-objective</b>	<b>Theoretical background</b>	<b>Interview themes</b>
To examine the strategic decisions in the internationalization process of soft service SMEs.	To describe internationalization of soft service SME.	Chapters 2.1, 2.2 The nature of soft services	The concept of soft service The internationalization of soft service
	To identify the influential factors in the target market selection of an internationalizing soft service SME.	Chapter 3.2 The target market selection of soft services	Identifying the factors influencing the target market selection
	To identify the influential factors in the entry mode choice of an internationalizing soft service SME.	Chapter 3.3 The entry mode choice of soft services	Identifying the factors influencing the entry mode choice

The operationalization table presents the outline of the research setting and ties the theoretical background with the empirical research. Given the purpose of the study the following four themes were found essential to be discussed in the interview: 1. the soft nature of the service, 2. the internationalization process, 3. the target market selection, and 4. the entry mode choice. In Table 6, an overview of the conducted interviews is provided, which includes details regarding the interviewees and their position in the company as well as the date, duration and language used of the interview.

Table 6 Conducted interviews

Interviewee			Interview		
<i>Organization</i>	<i>Respondent</i>	<i>Position in the organization</i>	<i>Date</i>	<i>Duration</i>	<i>Language</i>
Hovi Group Oy	Jussi Peltonen	CEO of Hovi Group Oy & Hovi Care Oy	8.2.2019	90 min	Finnish
Company Alpha	Informant A	In charge of international expansion	22.2.2019	95 min	English
SuperPark Ltd	Roger Enlund	Chief Commercial Officer	25.2.2019	65 min	English
Technopolis UMA Holding	Karita Huotari	International Growth Manager	26.2.2019	80 min	Finnish

All the respondents had several years of experience within their company and had been either in a decisive role or actively involved in the internationalization process. For practical reasons, the interview with the CEO of Hovi Group, Jussi Peltonen, was arranged via Skype. The other three interviews were conducted face-to-face and took place in the premises of the respective companies, which is often recommendable as the respondents feel safe and calm in a familiar environment (Hirsijärvi and Hurme 2000, 74). In addition, despite that all the respondents are native Finnish speakers, two of the interviews were conducted in English. This was requested by one case company in order to allow the respondent to review the transcript together with other, non-Finnish speaking members of the company. In the other occasion, the interviewer and the respondent mutually agreed that it would be easier to discuss the topics and concepts in English without the need to translate them in Finnish. Moreover, in both these cases, the respondents' good command of English reduced the risk of not obtaining deep enough information, and the discussion ran effortlessly. On the other hand, when the interviews were conducted in Finnish, the discussion did not suffer from the terminology and questions being in English but instead, a rich description was obtained. With hindsight, however, conducting all the interviews in the same language could have improved the consistency and comparability of the research findings across the cases. Nevertheless, all the interviews were conducted successfully without any disturbances during the interview and there was enough time to go through the questions. Moreover, a good rapport and trust was quickly developed between the interviewer and respondent. The respondents were very open and noticeably excited to share their experiences and after the interview, gave positive feedback regarding the topic and questions asked. In addition to taking

written notes during the interview, the interviews were tape-recorded with a phone and later transcribed, which was easy given the good quality of the recordings.

In case studies, the primary data is often complemented by gathering supportive data from other sources, which makes the case more accurate, convincing and diverse (Eriksson & Kovalainen 2007, 125; Merriam 2014, 86). For this thesis, in addition to the primary data gathered via semi-structured personal interviews, secondary data such as annual reports and news articles were collected from trustworthy online sources like company webpages. In some cases, the interviewee had also beforehand looked for additional materials such as company presentations and willingly shared these with the researcher. The secondary material was mainly used to confirm historical company details and other general background information when drawing the company presentations for this study.

#### **4.4 Data analysis**

The purpose of qualitative data analysis is to understand and gain insights from the collected data (Eskola & Suoranta 1998) by systematically consolidating, reducing and interpreting it (Merriam 2014, 175). In other words, by bringing order, structure and meaning to the mass of data the researcher seeks to find answers to the research questions (Ghauri & Grønhaug 2005, 206). Since qualitative research may result in extensive amounts of data, it is essential for the researcher to be able to identify the relevant information in relation to the research question (Eskola & Suoranta 1998). In addition, unlike in quantitative research, there are no fixed rules on how to analyze qualitative data. Consequently, the analysis of case study evidence is often one of the most challenging aspects of doing case studies. (Yin 2003, 109.) There are, however, several approaches for conducting qualitative data analysis. The key distinction relates to whether the analysis departs primarily from existing theory or from the collected data. (Ghauri & Grønhaug 2005, 212.) Similarly, Tuomi and Sarajärvi (2009, 95–97) discuss three alternative methods, namely, theory-driven, theory-bound, and data-driven analysis.

For this study, a theory-driven analysis was used to analyze the collected empirical data. Theory-driven analysis often aims to test current knowledge in a new context and thus, the studied phenomenon is defined based on previous research. Consequently, the analysis of data is guided by the framework of the study that has strong links with earlier literature and is therefore well-suited to be used in this particular research. (Tuomi & Sarajärvi 2009, 97.) In a similar vein, Yin (2003, 111) states that the most preferred strategy is to follow the theoretical propositions, which led to the case study. In a multiple case study, the data analysis consists of two phases. In the first phase, within-case analysis, each individual case is analyzed separately as a comprehensive case in and of

itself. This phase is followed by cross-case analysis, which entails comparing the cases with each other to find similarities and differences across cases and in contrast to theory. (Eriksson & Kovalainen 2008, 130; Merriam 2014, 204.)

While most methodology books discuss data analysis as a separate process from data collection (Eriksson & Kovalainen 2007, 128), in this study the analysis began already in conjunction with the collection of data, as recommended by Merriam (2014, 169). The process of seeking meanings about the data is often divided into three phases, which are data reduction, data display and conclusion drawing (Ghauri & Grønhaug 2005, 206; Tuomi & Sarajärvi 2009, 101). According to Ghauri and Grønhaug (2005, 206), data reduction is the process of selecting, focusing, simplifying, abstracting and transforming the collected data. Data display, in turn, refers to an organized, compressed assembly of the information in a data matrix or figures, for instance, which then allows drawing conclusions from it (Ghauri & Grønhaug 2005, 207).

Upon carrying out data reduction, once the interviews had been conducted, they were first carefully transcribed. This facilitated the analysis of data since having the material in written form made it easier to review what had been expressed rather than listening to the interview all over again. Moreover, the transcription helped to cope with the limitations of memory, allowing a thorough examination of what had been said during the interviews. For the purpose of this study, as with most business research, it was considered sufficient to transcribe all the words that had been said so no attention was paid to the tone of voice, for instance (Eriksson & Kovalainen 2007, 85). Transcribing was followed by assembling a case record for each individual case, in which all the collected primary and secondary data was combined, stored in a word-processing program MS Word, and printed out for further analysis.

Thereafter, the written data was thoroughly read and re-read to obtain a general sense of the information (Creswell 2007, 185). Underlining was used to identify and separate the relevant parts of information from the mass of data. Following the guidelines of theory-driven approach (Tuomi & Sarajärvi 2009; Yin 2009, 112), the data was closely analyzed in relation to the theoretical framework and the research questions. Given the qualitative nature of this study, the analysis was based on the meanings expressed during the interviews, which were obtained through the interpretation of the researcher. Hence, attention was focused on certain data in terms of answering the research questions while other data was ignored. Thematic hand coding was systematically applied to identify and label the relevant parts of the interviews, which is typical for research grounded in existing theory and concepts (Eriksson & Kovalainen 2008, 128). The codes were derived from theory and used in combination with color schemes, specifying the data on different themes such as nature of service, the target market selection or entry mode choice, for instance. Along with coding, a descriptive expression to summarize the main idea was written next to each relevant piece of data.

In the next phase, after having completed the data reduction, the coded data was evaluated in detail to determine to which theme of the theoretical framework each expression belonged to. Identifying the congruent themes was simple given that the interview questions had been formed and grouped based on the theoretical framework. Table 7 presents an example of the data reduction and categorization activities.

Table 7 Data reduction and categorization

Original expression	Code	Reduced expression	Theme
<i>“One big part of why we’re known is the physical premises. Right now we’re sitting in a caravan themed room, which is a bit of a gimmick in some sense but all the actual physical walls also create a lot of PR which helps the sales.”</i>	Physical environment, nature of service → NS-Phy	Physical premises a differentiating factor	Soft nature of services
<i>“In Asia, the business potential is huge simply because of the sheer number of potential customers and their increasing affluence, too.”</i>	Market potential → TM-External	Market potential influences target market selection	Target market selection
<i>“First, you have to build a pilot on the foreign market and by establishing a wholly owned subsidiary, we could control it and transfer our know-how...”</i>	Control, asset specificity → EM-Internal	Control with WoS facilitates knowledge transfer	Entry mode choice

Table 7 illustrates three examples taken from the data analysis, where the original expression that had been identified relevant was first coded and then given a reduced expression. Finally, these expressions were organized together according to the themes of the theoretical framework. After the empirical data had been conceptualized, the last phase of analysis consisted of conclusions drawing. Stake (1985, 74) suggests that the researcher may reach meanings about the cases through direct interpretation of individual instances and through aggregation of instances until they make a representative class of the studied matter. For this study, a cross-case analysis was applied to deepen the understanding of the studied phenomenon. As Merriam (2014, 204) explains, although particular details of the specific cases may differ in cross-case analysis, the aim is to build

general explanations that would fit the individual cases. In practice, all the findings from individual cases were therefore examined and compared for identifying similarities and differences across cases.

#### 4.5 Trustworthiness of the study

The purpose of assessing the trustworthiness of the qualitative study is to convince the audience that the findings of the study are truthful and worth taking account of (Lincoln & Guba 1985, 290). To ensure trustworthiness requires that the study has been carried out with some rigor and in an ethical manner (Merriam 2014, 209). Therefore, to improve the transparency of the research, explicit evaluation criteria may be adopted, which provides the means to highlight the strengths and limitations of the research (Eriksson & Kovalainen 2007, 290). The traditionally used criteria of evaluating trustworthiness consists of internal validity, external validity, reliability and objectivity (Lincoln & Guba 1985, 290). These concepts, however, have primarily been applied with quantitative research and therefore, do not necessarily fit qualitative research projects (Eriksson & Kovalainen 2007, 290). In a similar vein, Merriam (2014, 210) notes that the assessment criteria may be different for qualitative research, where understanding is the primary rationale for investigation compared to quantitative, hypothesis-testing research. Consequently, in their seminal work Lincoln and Guba (1985) present that assessing the trustworthiness may be carried out by evaluating the *credibility*, *transferability*, *dependability* and *confirmability* of the research. These criteria have since become widely adopted within qualitative research (Merriam 2014, 211) and are applied for evaluating the trustworthiness of this study as well.

*Credibility* refers to whether the research findings are credible in matching with reality given the data presented (Lincoln & Guba 1985; Merriam 2014, 213). In other words, it indicates the extent to which the researcher has familiarized him/herself with the topic and gathered sufficient data to merit the claims made. For a study to be credible, any other researcher should be able to, on the basis of the same materials, arrive to relatively similar conclusions. (Eriksson & Kovalainen 2007, 294.) In this study, several measures were taken to enhance the credibility. Firstly, an extensive literature review was carried out and numerous research articles on theories related to service internationalization were studied to familiarize with the topic. Then, the preliminary theoretical framework of the research was comprised of various concepts and approaches that were selected from earlier literature. This implies triangulation of references has been used to increase the credibility (Creswell 2009; Eriksson & Kovalainen 2007, 293). Moreover, an operationalization table was created to denote the linkages between the theoretical framework and the empirical research findings. Next, four case interviews were conducted with key

informants who possessed real life experience of working in companies that represent the studied phenomenon. The interviews were recorded so that any other researcher could use the gathered material to carry out the research again. In addition, the collected secondary data, such as company presentations, were used in a supportive manner to confirm, specify and complement the information provided by the respondent. Moreover, at the end of the research process the written case findings were sent to the respondents for inspection, which allowed them to review whether the researcher had made any misinterpretations from the collected data. In general, all the respondents confirmed that the research findings matched the reality while two offered some minor corrections, mainly regarding the specific company details. In addition, since in qualitative research there is no unambiguous standard for adequate amount of data (Eskola & Suoranta 1998, 155), the technique of saturation was used, which means data is collected until the same ideas start to come up repeatedly (Merriam 2014, 219). However, one may question whether enough data was collected, but as explained earlier, the data collection was partly limited by the lack of suitable case companies. Nevertheless, a larger number of interviews or the inclusion of more respondents from each case company could have provided more understanding on the internationalization of soft service SMEs and consequently, increase the credibility of the study.

*Transferability* means the degree of similarity between the research in question and other research so that some form of connections can be found between the study findings and previous results (Eriksson & Kovalainen 2007, 294). Thus, it indicates the ability of transferring the research findings to other specific contexts. However, since the original inquirer cannot know the context to which transferability might later be sought, Lincoln and Guba (1985, 298) suggest that the best way to ensure this is “*to provide sufficient descriptive data to make similarity judgements possible*”. Thus, the transferability of this study was increased by providing a rich, detailed description of the informants, data collection process and data analysis, which helps the reader to understand the research process more clearly (Creswell 2009). According to Merriam (2014, 227), transferability may also be increased by carefully selecting the study sample, which was applied in this research by following certain criteria to ensure the case companies would represent the studied phenomenon. In addition, conducting a cross-case analysis is considered to add to the transferability of this study as the phenomenon is examined from various alternative viewpoints. Moreover, the transferability was also increased by the strong linkages between the theoretical framework and previous academic studies. However, the influence of the exploratory nature of this research on transferability must be acknowledged. More specifically, while this study seeks to obtain an understanding of the phenomenon, the findings of the study have to be confirmed by further research (Ghauri and Grønhaug, 2002, 48–49). Yet, when dealing with transferability issues, one

should note that every internationalization process is unique in its nature and the strategic decisions taken during it are context-specific.

*Dependability* refers to whether the results of the study are consistent and dependable with the data collected (Merriam 2014, 221). According to Eriksson and Kovalainen (2007, 294), dependability is concerned with the researcher's responsibility to offer information to the reader to indicate that the research process has been logical, traceable and documented. The dependability of this study is enhanced by the thorough step-by-step description of data collection and data analysis in chapters 4.3 and 4.4. Furthermore, recording and transcribing the conducted interviews ensures that the collected data could be analyzed again by any other researcher if needed. Nonetheless, it must be noted that conducting and then later translating two of the interviews from Finnish to English may have affected the dependability since translations are subjective by nature.

*Confirmability* is concerned with how well the findings are congruent with reality (Lincoln & Guba 1985, 290). In other words, it means providing evidence that the findings and interpretations are not merely produced by the researcher's imagination but instead, linked to the data in a manner that the reader may easily understand (Eriksson & Kovalainen 2007, 294). To increase the confirmability of this study, the research process has been described in detail along with clearly explaining the linkages from data collection and analysis to interpretation. All the concepts used in this study are based on earlier academic literature while the findings rely on the information gained through qualitative interviews that were conducted following the guidelines of academic research. Since the process was thoroughly documented, the results can be confirmed and justified afterwards, and other researchers have also the opportunity to review the data if needed. However, it should be noted that the conclusions made are based on the subjective interpretations of the collected data by the researcher. Furthermore, given that in qualitative studies the researcher acts as the primary instrument for data collection and analysis, the confirmability of this research may have been influenced by the limited experience of the researcher.

## **5 STRATEGIC CHOICES OF INTERNATIONALIZING FINNISH SOFT SERVICE SMES**

This chapter presents the findings of the multiple case study research. In chapters 5.1 – 5.4 each case is first discussed separately. They begin with an overview on the internationalization process of the company after which the findings regarding the nature of the service and the value creation logics are presented in detail. This allows to connect these theoretical elements of the study with the empirical context. From there, the discussion moves on to the target market selection and the entry mode choice and uncovers how the factors identified in earlier literature are influencing these two strategic decisions in real-case scenarios. Finally, chapter 5.5 ties the four cases together by presenting a cross-case analysis of the research findings.

### **5.1 Case Company Alpha**

#### ***5.1.1 Overview on the internationalization process***

For the first five years since its foundation in 2012, Company Alpha focused on operating on its domestic market and running the first business unit opened in Helsinki. The company began building its market presence and growing the customer base along with gaining public recognition. For instance, its innovative service concept, which revolves around offering customers various thematic meeting and conference rooms together with professional event consultation, received several industry awards. In addition, much of the media attention was directed towards the Group CEO. She has an interesting personal background as an immigrant who moved to Finland from Southeast Asia and came up with the business idea for Company Alpha while studying in Helsinki.

In 2017, following the success on the domestic market, it was time to look beyond the Finnish market and see whether the service concept could make it internationally, explains Respondent A, who is the person in charge of the international expansion of Company Alpha. Hence, Company Alpha expanded into the most competitive MICE (short for meeting, incentives, conferences and exhibitions) market in Southeast Asia by opening its first international unit in March 2017. The proof of concept soon turned out to be successful and the Southeast Asia unit became cash-flow positive within the first 6 months of operation.

The first step of internationalization was followed by strengthening the foothold on the domestic market by opening a second business unit in Helsinki in fall 2018. Furthermore, the latest international expansion of Company Alpha abroad took place in summer 2019

when the largest unit so far, the Nordics unit, was opened in the Nordic countries outside of Finland.

### **5.1.2 Nature of the service**

The core of the service offering of Company Alpha is to provide B2B customers with various corporate offsite meetings and event solutions. “*Our business is ultimately not so much about selling meetings space but solutions*”, explains Respondent A. The main products are daily delegate packages where clients come to Company Alpha’s premises for a full-day, half-day, or evening event.

The core of the solution revolves around the creative, uniquely designed thematic meeting and conference rooms that come in many shapes and sizes specifically designed for various business event purposes. For instance, the customers may organize team building days or sales meetings in the relaxed, whimsical playground room in the Helsinki unit<sup>2</sup>, have a product launch or a seminar in the Finnish birch-themed forest room in the Southeast Asia unit, or host a networking event or a shareholder meeting in the beach-themed conference room in the Nordics unit. The Helsinki units as well as the Southeast Asia unit include between 11 to 13 rooms whereas in the Nordics unit there are 22 rooms available. Each unit consists of rooms suited for both smaller and larger events. Along with the carefully crafted, elaborate interior design, the rooms come equipped with all the necessary meeting amenities (the latest audiovisual technology and Wi-Fi) and in several cases, offer customizable seating arrangements with various layouts.

For Company Alpha, the main part of the service delivery, namely, the meeting or event, takes place simultaneously with its production in the provider’s facilities, which closely links to the soft nature of the service. Likewise, given that the concept is tied to the physical elements of the service environment forming an operating platform, the service represents an asset-based service. In terms of the IHIP characteristics, since people are the key resource required for an event to be held, they are inseparable from the service delivery. Moreover, in case there are no customers it is the premises of Company Alpha that are subject to perishability. The service promise of organizing a successful meeting is also intangible in nature whereas the different customer preferences entail a high level of heterogeneity despite that Company Alpha aims to standardize parts of the service provision.

In addition to hotels and conference centers that offer meeting spaces for rent, the main competitor for Company Alpha are the customers’ own meeting facilities. Hence, the meeting rooms of Company Alpha play a key role in differentiating from the standard, more generic venues at hotels or the customer’s usual setting at home office as Respondent A explains:

*“My opinion why people buy from us is that they see the colorful photos and unique design and want to try something new and refreshing and decide to check it out. And then, they come back again because of our good service. So, for the time being we need these walls and facilities to get people interested which is the pull factor.” (Respondent A, interview 22.2.2019)*

Another essential component of the service offering, which closely relates to the high-quality service mentioned by Respondent A, is assigning a dedicated event coordinator to take care of the event on customer’s behalf. In practice, this means the customer may “hand off the hassle of organizing a meeting” and let the event coordinator handle the guests, the agenda, the catering, the room arrangement and activities, which will all be designed based on the goal of the event. Each business unit has its own kitchen in the same facilities which allows creating tailor-made catering solutions and provides flexibility to react to sudden changes. Moreover, Company Alpha has a wide catalogue of programs including coaching, speaking, wellness, group activities, or performing arts that customers may choose from to complement the occasion. The event coordination relies on the combination of experienced personnel and usage of technology in the form of an online reservation and event management system developed by Company Alpha. According to Respondent A, these options enable the company to provide a tailor-made service and thus, create a comprehensive solution to match customer preferences. Moreover, the customized, flexible service is a competitive advantage against the hotels since Company Alpha is well-suited to host especially smaller groups of under 200 people. However, simultaneously with the customizable character of the service, which is typical for soft services, standardization is pursued in order to improve the scalability, as Respondent A explains:

*“We try to standardize as much as we can for scalability when it comes to the whole buying process but then we try to give the option to add a lot of things on top, like mass customization. A lot of this customization happens on-site, which is why it is important for us we have the facilities, especially our own kitchen, that gives us flexibility to react to sudden changes in dietary requirements, for example.” (Respondent A, interview 22.2.2019)*

Another characteristic of the nature of the service is the asset specificity, which in the case of Company Alpha can be considered high. Indeed, since the service delivery encompasses 1. a unique physical environment characteristic to the company 2. a distinctive, tailored customer service and way of working depending on highly skilled

personnel and 3. high service quality requirements, there is a substantial degree of specialized, tacit know-how and expertise in the company. According to Respondent A, the company's vast experience and the expertise gathered along the way mean that it would be difficult for others to replicate the business model successfully:

*“Having hosted more than 7000 meetings, I can say we know meetings fairly well by now. Therefore, by getting early involved in the planning of the meeting we can already solve some issues and propose solutions for the customer. And so, even if I gave all the information regarding Company Alpha to someone else, they wouldn't be able to run the operations the way we do.” (Respondent A, interview 22.2.2019)*

In terms of the value creation logic, Company Alpha represents from a theoretical point of view primarily the facility services logic since it focuses on satisfying the customers' physical needs regarding meeting spaces. The reality is, however, more diverse as Respondent A also strongly emphasizes the entertainment aspect related to their service. Indeed, creating exciting and innovative meeting experiences is at the core of the service promise. In addition, since one of the key customer groups is clients who wish to minimize their own time spent on event organization, Company Alpha handles much of the logistics as well, be it catering related or management of the people flow. Moreover, occasionally there is a degree of networking involved when business partners, customers or suppliers from different events may gather in the shared premises for some post-event socializing. Finally, given that Company Alpha has obtained substantial amounts of specialized know-how and competence on arranging meetings, Respondent A suggests that possibly in the future this might be utilized in the form of professional consulting. For the time being, however, following such an analytics services value creation logic is not in the scope of the company.

### **5.1.3 Target market selection**

The initial internationalization of Company Alpha was primarily motivated by the desire to test the service concept outside the domestic market. Possibly due to the relatively young age and small size of the company (having only one unit at the time) as well as lack of international experience, the management was uncertain whether the concept could be scaled and grow internationally. Consequently, the target market selection was influenced by this decision as Respondent A explains:

*“At that time, when we started to make a profit at home, there was a lot of discussion of why does the concept work. And we also questioned if this would be scalable. So, then our very ambitious Group CEO really wanted to put the concept to the test by expanding abroad and entering the toughest meetings market out there in Southeast Asia.” (Respondent A, interview 22.2.2019)*

Indeed, in the selected Southeast Asian market the competition in the meetings and events business is fierce and it is considered one of the global capitals of the MICE market. For Company Alpha, the role of the CEO cannot be overlooked as she has built the business from scratch, and her ambitious attitude together with the vision of international expansion have driven the company forward. In addition to the competitiveness of the market providing the conditions for testing the concept, the market potential factor was also considered. Respondent A estimates the Southeast Asian market to be 10-15 times the size of Helsinki. Moreover, the expansion into Asia provided a completely different level of strategic gains in terms of international exposure and PR compared to opening a second unit in another Finnish city like Tampere or Oulu, for instance. It also helped the company to start building its international brand, which together with the achieved exposure meant that now investors and real estate owners around the world could become more interested in Company Alpha.

The expansion into Southeast Asia represented primarily market seeking internationalization. As Respondent A explains, Company Alpha’s business requires around 800 active customers, depending on the size of the unit. Consequently, the demand factor did not play a significant role. Another factor is the psychic distance, which can be considered high between Finland and the selected Southeast Asian market. However, it was mitigated by the CEO’s origin from a neighboring country of Southeast Asia as well as the extensive international experience and exposure of the rest of the staff. In addition, albeit it did not explicitly come up during the interview, the chosen target market is a stable society with high GDP and English as an official language, which might have offset some of the challenges related to high psychic distance.

Following the successful proof of concept in the Southeast Asian market, Company Alpha formulated a more detailed internationalization strategy since Respondent A points out they felt *“there is too much at stake not to do it”*. The strategy focused particularly on how the company should deal *“with the aspect of physical walls”* as it plays a major role in their internationalization process. *“Ultimately, we are a little like McDonald’s in the sense that although we are a service, the real estate plays a major role”*, Respondent A notes. Since real estate is a local business with only a few global players, this would be reflected upon the location decision of the next target market. All in all, as Respondent A explains, there were more factors influencing the second target market selection:

*“I looked at vacancy rates because usually where the rates are higher, there’s more spaces to go and people need to put their money to work. So, I had to find places where real estate owners or landlords are willing to invest. Then, we looked at the overall market data by using e.g. UNWTO data on MICE business. And the general level of GDP, because in cities with high GDP there is a lot of businesses who eventually need meeting spaces. And we also compared the ease of doing business, air connectivity and language which are obviously important too.” (Respondent A, interview 22.2.2019)*

These external factors regarding the economic state of the target market, availability of local resources in terms of suitable properties, and country risk related factors such as ease of doing business were used to make a ranking of the possible options. Then, two determinant factors narrowed down the alternatives. Firstly, while the prior expansion to Southeast Asia had been successful, it had nevertheless demonstrated challenges related to the logistics and travelling as well as operating on different time zones. Therefore, this time Company Alpha wanted to reduce the physical distance between its home market and the target market, which limited the alternatives to Europe. Secondly, given the general economic state in Europe, the Northern Europe appeared more attractive. *“South wasn’t quite there yet so we considered the situation better staying north of Switzerland whereas internationalization into Ukraine or Russia would have only raised more questions”*, Respondent A explains. In addition, Company Alpha wanted to avoid having a direct competitor who would already be familiar with and well-established on the market, which meant Paris being turned down, for instance. The same applied for London as the company saw it better to build *“broader shoulders by gaining critical mass”* before entering these competitive markets. Besides the presence of a direct competitor, Respondent A mentions the Brexit vote and the competitive real estate market discouraging the expansion into the UK.

Following this reasoning, Company Alpha decided to focus on examining the possibilities in the Nordic countries, at which point the influence of the real estate factor became eminent.

*“When we looked into the Nordics, the real estate really kicked in as Stockholm is a nightmare in that relation with low vacancy rates. So, when I made some phone calls to Stockholm and the other alternative market, they provided very different results with one half of an available property in Stockholm that didn’t even really suit us, and 30 buildings from the other.” (Respondent A, interview 22.2.2019)*

Consequently, the second target market selection was significantly influenced by the availability of local resources in terms of landlords with available properties. According to Respondent A, the business concept of Company Alpha is particularly suited for landlords with properties that have some specific issues making them difficult to rent. This applied in the case of the selected Nordics market, where the landlord was able to turn a cost-bearing space into a revenue-creating one by renting the space for Company Alpha. In addition, due to its central location, the selected target market allows Company Alpha to follow its strategy of “*owning the Nordics*” as it enables the company to also target the Swedish market. Consequently, the second market selection was not based on a hunch or the perceptions of the management, but there was a more general assessment of possibilities conducted, which, as Respondent A puts it, included some pseudo-scientific mathematics as well. Due to the aforementioned factors, the Nordics market topped the ranking despite contacts were received from Frankfurt and Amsterdam as well. “*We studied those markets too, but the Nordics market stood out. And at the end of the day, you just have to start from somewhere*”, sums up Respondent A.

#### **5.1.4 Entry mode choice**

Company Alpha entered the first target market of Southeast Asia by establishing a joint venture where it owned the majority share while the local partner, who was employed as the local unit head, held the minority share. At the time, Respondent A was not yet involved in the expansion but postulates the logic behind the choice of joint venture:

*“At that time, we were in a different situation with only one unit in Helsinki. So, upon entering the Southeast Asian market, the expansion may have required some equity, but we especially wanted someone to buy into the idea. And usually, [a joint venture] is a fairly good way to have a local partner and make sure they are invested since they have a stake as well.”*  
(Respondent A, interview 22.2.2019)

Thus, choosing a joint venture was based on the perceived necessity of having a local partner who would be deeply invested in setting up this new type of business concept on the market. Moreover, the decision may have been supported by getting capital to support the foreign market entry. Furthermore, Respondent A acknowledges the market knowledge and cultural understanding of the local partner being important in the internationalization process. According to Respondent A, Company Alpha has two ways of obtaining knowledge on the specifics of the target market. First, they conduct market

research by arranging focus group studies with a local marketing agency. Second, they recruit a unit head from whom experience and understanding of the local market and culture is required. For instance, the unit head brings the local perspective and advises whether certain interior design solutions would be culturally appropriate when the facilities are renovated according to the business concept in the preopening phase.

Upon entering the Nordics market, however, Company Alpha opted for setting up a wholly owned subsidiary because, as Respondent A puts it, “*having a joint venture had proved to be messy and complicated*”. In fact, also the Southeast Asian unit was restructured with a share-swap and turned into a wholly owned subsidiary. For Company Alpha, there were several strategic advantages of having complete control over the foreign operations. At this point, the Nordics unit would be the fourth one and since the company plans to continue its internationalization, total ownership and control eases the transfer of assets between units to support expansion elsewhere. Moreover, should Company Alpha desire to expand locally on the foreign market, the local partner might lack the capabilities for it or have contradictory visions that could complicate things:

*“At the current state we want to be able to make sure the quality responds to what we promise and is not compromised by the local partner. And if we have different interests when it comes to what to do with the brand locally, it could create conflicts. Although we are a flat organization, with control it is easier to impose things. So, right now our focus is to do these wholly owned subsidiaries”. (Respondent A, interview 22.2.2019)*

Consequently, with total ownership and control over operations, Company Alpha avoids having conflicting visions with the local partner. As Respondent A explains, in practice the risk could be that opening a second unit on the target market would lead to internal competition between the two units that do not share the same interests. This market cannibalization could in turn result in deteriorating service quality and thus, jeopardize the brand of Company Alpha.

In addition to safeguarding the interests of the company and its brand by opting for a wholly owned subsidiary, Company Alpha had now ways to achieve some of the perceived benefits of a joint venture. Namely, the local market knowledge and cultural differences were acquired by headhunting a unit head with vast experience from conducting business in the target market. Indeed, Respondent A emphasizes that the cultural nuances and preferences regarding, for instance, the meeting rooms design were still very important despite internationalizing into a geographically close country with a fairly similar culture compared to the Finnish. Moreover, given that Company Alpha has limited resources, Respondent A is responsible for minimizing the capital requirements of the expansion and the capital intensity of the business. “*When looking for tenants, the*

*real estate companies try to find businesses that they believe in and without us having any traction on that market yet, it creates a challenge*”, explains Respondent A. However, when expanding to the Nordics, Company Alpha had already sufficient traction from its Helsinki unit to prove that their business model works, they are able to pay rents on time and can turn a challenging property into a revenue-creating one. The concrete impacts of this are significant as they were able to pay a substantially lower rent guarantee. *“Once you have tens of units, you might not be that interested whether you must tie down 30 000 or 1 million in cash, but for us that’s crucial”*, Respondent A highlights.

Now, while Company Alpha has so far been relying only on the resource-augmenting entry modes of joint venture and wholly owned subsidiary, also the less capital intensive, resource-exploiting modes of franchising and management contracts have been considered. However, according to Respondent A, for the time being Company Alpha is not yet ready to utilize these two modes. The service manual is still in the development phase as the company is currently gathering all its knowhow and service standards into a designer manual.

*“Once we have all that information set, I guess we can open the discussion whether a different model would be possible. But right now, we are not yet big enough and especially when it comes to going into different markets, we have to learn what we can standardize and what can be left for the local team to implement. So, as an organization we still need to learn more [before setting up a franchise]. And obviously, it is also a matter of choice whether to franchise because then you have to give out a lot of power to the locals”*. (Respondent A, interview 22.2.2019)

Thus, in addition to accumulating more knowledge on building an internationally scalable service concept, the issue of ceding some of the control to the local partner is to be considered. Should Company Alpha desire to use franchising, the local operator would most likely be either a hospitality or a real estate company, and both alternatives would bear risks. On the one hand, passing the company-specific knowhow of the real estate side of business to a hospitality company would risk creating a potential competitor, explains Respondent A. On the other hand, with a real estate company, it could be difficult to achieve the level of desired power in the relationship given that Company Alpha would most likely be much smaller in terms of size and owned assets to the franchisee. In fact, according to Respondent A, the most lucrative mode is the management contract where the real estate owner would pay Company Alpha to run their facilities. To achieve such a position, however, would still require developing more traction. Therefore, as Respondent A summarizes, in order to utilize either franchising or management contracts in the future,

Company Alpha needs to complete the formulation of its service concept as well as gain more experience and increased traction for its business.

## **5.2 Case Hovi Group Oy**

### **5.2.1 *Overview on the internationalization process***

Hovi Group Oy took its first step on the international markets in 2012 when it opened Omena Real, a service unit in Spain, which focused on serving the local Finnish elderly people living in the area. In 2014, however, the company decided to exit the Spanish market as the operations were running at a loss. As the CEO of Hovi Group Oy Jussi Peltonen explains, there were primarily two major reasons resulting in the business not turning profitable. Firstly, the seasonal nature of the business meant that as Finnish customers spent nearly half of the year in their home country, during this time the facilities in Spain were in inefficient use and practically empty. Secondly, as the customer base was aging the need for more treatment grew and, consequently, many decided to not travel to Spain any longer. Instead, they preferred to stay in Finland to receive more intensive care. Furthermore, the company faced challenges competing with the practice of the local Finnish community providing certain care services on the black market to each other. In addition, language barriers in terms of limited knowledge of Spanish hindered the Omena Real management in dealing with the local officials, for instance. However, Peltonen sees that this experience from Spain allowed the company to avoid making the same mistakes when they decided it was time to start looking outside the European developed market.

After closing down the unit in Spain, the Ministry of Economic Affairs and Employment of Finland (the MEAE) proposed Hovi Group to internationalize into the Russian market. The sudden escalation of the Crimean crisis in 2014, however, made the company change its course as Russia became an unattractive and unstable operational environment. The next lead from the MEAE turned the company's focus to Southeast Asia, more precisely, to Singapore. Then, in 2018, after 3 years of visits and negotiations with a potential joint venture partner ended without an agreement, Hovi Group Oy decided to establish its own subsidiary Hovi Care Oy, registered in Finland. Hovi Care Oy in turn owns Hovi Care Singapore Private Limited, founded also in 2018 and registered in Singapore, which the same year opened a local senior activity center called Hovi Club. Hovi Care Oy is having negotiations in Indonesia to launch its first franchise-operated service unit in Bali but at the time of the interview, the negotiations were yet ongoing with no finalized decisions.

### 5.2.2 *Nature of the service*

When entering the Singapore market, Hovi Group had learnt from its previous unsuccessful internationalization efforts in Spain and decided to modify its approach in terms of the service concept. Hence, Hovi Group developed a new concept based on the company's strong specialized expertise stemming from its domestic operations in elderly care. As a result, the senior activity center Hovi Club primarily targets local Singaporean residents instead of Finnish customers, which was the case in Spain. In addition, Hovi Club focuses now on offering solely day-care services instead of 24/7 care, which means the service provision is not as demanding personnel- or facility-wise. As Peltonen explains, this less-resource intensive, "lighter" model is considered easier to replicate across different markets.

Hovi Club is a day-care center currently targeted at the local, higher middle-class senior citizens to whom it offers the possibility to tailor the days and activities at the center according to their individual preferences – hence, the company's service pledge "Own your life". In Singapore, such a personalized approach offering autonomy and freedom of choice to seniors is still quite unique in elderly care, explains Peltonen. In addition, with the support of strong Finnish scientific research on the field, Hovi Club has been keen to include new treatment methods such as green care and horse therapy. The company has also imported technologies from Finland to further complement its readiness to tend to its 22 elderly customers by stimulating their days with activities, therapies and various fun experiences. Hovi Care Ltd currently employs a local managing director as well as a lead nurse while the rest of service staff is rental workers.

In terms of the nature of the service, the elderly day-care business model of Hovi Club is soft and contact-based since the service is produced and consumed simultaneously with service personnel playing an essential role in the service delivery. According to Peltonen, they would not be able to produce such a service without a physical location. In fact, the locational aspect and the physical service environment serve several purposes in the Hovi Club concept. Peltonen emphasizes that having a unique service requires a physical environment tailored to it, which in its own may also turn out to be a way to stand out from the competitors or offer specialized services. In addition to emphasizing green care and elements of nature in the activities as well as locating next to a horse stable for horse therapy, the décor of the unit aims to provide a specific Nordic touch. Moreover, for Hovi Club having a physical location is a means to alleviate some challenges related to the soft nature of the service, such as the intangibility of the service offering:

*"At first, we considered an approach for home-care, but it is hard to sell a service which you cannot present to other customers, meaning you cannot take one customer to observe how the service is in another one's*

*home. That's why it has been important to have a specific hub where to build your own premises, which reflect your own unique service concept" (Peltonen, interview 8.2.2019.)*

Providing individually designed medical treatment plans, rehabilitation and nursing requires extensive amounts of professional skills, specialized know-how and customization. This in turn entails that Hovi Club represents a service with high asset specificity. However, to cope with the high asset specificity and to facilitate knowledge transfer, the service delivery is built on a standardized platform. Namely, there is a specific, pre-determined service structure that sets the standards and activities for running the daily operations. According to Peltonen, this facilitates the scaling of the concept and is one way to ensure that the superior service quality is maintained abroad. Yet, the service platform also leaves room for alterations in the rehabilitation as each customer may influence their daily program from selecting meals to choosing what kinds of activities to partake according to their own liking. Such a customer-centric, personalized elderly care service model is one of the unique selling points of Hovi Club, and the company's specialized capabilities and knowledge were one major factor driving its internationalization. According to Peltonen, the Finnish treatment methods and especially the service manual developed by Hovi Group had plenty of potential that could be tapped into outside the Finnish home market, too. The combined experience of the management personnel on the one hand in running the domestic care centers and on the other hand from previous international business background provided with resources and know-how to support the expansion.

The service concept of Hovi Club can be seen primarily to follow the value creation logic of analytics services, where the highly specialized competence regarding elderly care is applied to the benefit of each individual customer. However, the high amount of constant interaction between the customers and service staff as well as providing the physical premises for the daily activities are also essential components of the concept that relate to the facility services logic. Moreover, elements of the entertainment services logic are also clearly present such as the creation of fun, memorable experiences for the seniors via dance therapy, green care or horse therapy, for instance.

### **5.2.3 Target market selection**

The target market selection of Hovi Group was closely linked to the motivations driving the company's internationalizing process. Firstly, when the domestic Finnish market was no longer offering the desired room for growing the business, it was time to broaden the scope:

*“We have been a growth-oriented company from the beginning, but now here on the domestic market – partly because of all the on-going mess with the Sote (social welfare and health care reform), which was complicating our operations – growth wasn’t anymore possible. So, in this current operational environment we just had to look elsewhere for growth.”*  
(Peltonen, interview 8.2.2019)

Besides the stagnant growth at home, the market in Europe was already well-developed and saturated. Many of the Asian countries, however, come 10 years behind in terms of elderly care practices and have thus huge potential, explains Peltonen, who has handled the setup of the international operations from scratch. In fact, given that Hovi Group’s strategy is to continue growth in Asia, the business environment in Singapore was considered suitable to serve as a springboard for further expansion.

*“Our long-term growth goals are in China, but Singapore is the Silicon Valley of Asia where others come take influence from. And it is a small market where networking is fairly easy as well as building a presence and making a name for oneself. That would be more difficult if we had instead entered China, whereas not many countries or other stakeholders come to look for examples and pilot concepts from Malaysia, for instance.”*  
(Peltonen, interview 8.2.2019)

In addition to the strategic role as a foothold for future market expansion, entering a geographically distant market in Southeast Asia allowed Hovi Group to tap into the positive associations related to its country of origin. The Finnish origin, which in Singapore is considered exotic and a guarantee for a certain level of service, is not only reflected upon the name of Hovi Club but also affects the décor and the way of working, explains Peltonen. In general, Finns tend to have a good reputation in Singapore and the locals are well-aware of the Finnish scientific research around elderly care, which helps in brand building and standing out from the competition. Had Hovi Group decided to expand into the neighboring Sweden instead, such a differentiating factor would have been minimal given that the local competitors follow similar practices.

The selection of Singapore as the first target market was also related to the local society’s positive attitude towards developing and adopting highly advanced technological solutions into the care practices. *“We have already several innovative technological solutions included in our care practices and want to keep learning more, but here in Finland there isn’t that much discussion on the involvement of robotics, for example”*, notes Peltonen. In addition, while the factors related to country risks had been

discouraging the entry into Russia, they were less influential for Singapore. The country has a stable political environment and a highly developed society where especially the juridical infrastructure can be trusted to protect entrepreneurs, notes Peltonen. Besides, the Singapore state is keen to learn best practices from others which offers Hovi Group a chance to showcase its expertise. In addition, English being the official language favored Singapore since the company wanted to avoid facing similar language challenges than in Spain. Moreover, in comparison to the structure of the domestic market, Peltonen considers that the selling and marketing of Hovi Group's services is more straightforward in foreign markets. More specifically, in Singapore the service is sold solely to the customer, or even more so, to the closest relatives making the decision on the customer's behalf. However, in Finland, also the local municipality or city is heavily involved in the process as the ultimate sold-to party. Hence, it is easier to develop the service abroad when the company only needs to consider what the customer is willing to pay.

#### **5.2.4 Entry mode choice**

The internationalization of Hovi Group to Singapore was purely market-seeking as there was no customer base abroad pulling the company from Finland. Hovi Group participated in a few trade fairs in Asia as well as in Finland Care, a program led by the MEAE and Finpro, which organized networking trips and opened doors to local government officials. In addition, Peltonen particularly highlights the importance of the Embassy of Finland in Singapore for showcasing the company to local stakeholders.

The initial internationalization plan of Hovi Group was to utilize the company specific know-how in providing consulting services for setting up health care service units. This was turned down, however, since local customers prefer turn-key solutions, explains Peltonen. High land prices, on the other hand, meant that the capital requirements for building own nursing homes from scratch would be too high. Consequently, Hovi Group decided to look for a partner to establish a joint venture and negotiated altogether 3 years with a local real estate company, who wished to have a nursing business in their property. In the end, the negotiations foundered, however, when it came down to the question of who would own the majority share of the venture:

*“The local partner wanted to have majority of the joint venture but for us, it was obvious that Hovi Group's expertise forms the core of the operations. So, that is why we did not want to give up the majority share and it led to the negotiations ending without an agreement. And after that, we had to take the strategic decision of let's do it ourselves then and we are still on the same path.” (Peltonen, interview 8.2.2019)*

In practice, this led to Hovi Group establishing its wholly owned subsidiary Hovi Care Singapore and opening the local Hovi Club in 2018. *“It is important to enter with such a risk level that the burn rate is not too high, meaning that you can subsist the first years while building your foothold on the market”*, emphasizes Peltonen. Hence, to cope with the risks of establishing a wholly owned subsidiary, Hovi Group formulated its service concept so that they only provide day care instead of full-time care like in Spain. This meant that the size of the rental property would be significantly smaller and the duration of the lease contract shorter. Consequently, the physical facilities tied less resources and with a 2-year lease came flexibility to react to unexpected changes on the target market. All in all, Hovi Group’s market expansion was financed by the operations at home because the company did not find an investor from the target market. In the future, however, having their own physical facilities is expected to help convincing investors as Peltonen explains:

*“In hindsight, setting up [the wholly owned subsidiary] was good for us, because our premises don’t just serve as a differentiating factor from competitors but also, they signal our strong level of dedication to the local community. It is essential to be closely linked with the locals to have credibility. So, now we are in a completely different situation to negotiate with local partners since we have our own space and service organization in place and numbers to show for it.” (Peltonen, interview 8.2.2019)*

In addition to demonstrating Hovi Group’s commitment to the target market, a wholly owned subsidiary provided the desired level of control to transfer the company-specific knowledge abroad. Given that the service concept was brand-new and had not been tested yet on the international market, it was vital to control its set-up from the beginning to keep the service quality high, stresses Peltonen. When providing such a personalized service that heavily depends on human interaction, another aspect related to the service quality were the cultural differences. *“We have to pay very close attention to the cultural norms, gender issues, languages and religions: for instance, in some cultures dogs are considered dirty animals and cats might provoke aristocratic sentiments, which is why we have chosen horse therapy”*, Peltonen explains. Originally, the intention had been to gain such foreign market knowledge via the joint venture. Now, however, Hovi Group decided to bring in the critical cultural understanding by recruiting a local Singaporean CEO. This also helped the company to properly start building its foothold on the market and provided important language capabilities to support future strategic goals:

*“For the first two years, I travelled to Singapore three to four times annually, but the process did not really take off until first, we hired a*

*Finnish CEO to oversee the expansion with a permanent position in Singapore. And then, it was extremely important for us that we managed to find a local CEO who understands the market and culture and has a ready contact network. He also speaks Chinese, which was a prerequisite given our future expansion plans.” (Peltonen, interview 8.2.2019.)*

Despite that for its first international market entry Hovi Group used a resource-augmenting mode by setting up a wholly owned subsidiary, the company has plans to change course in the future. *“Our aim is to build a franchise in order to scale the concept faster because we don’t have the financial resources to set up each unit from scratch”*, explains Peltonen. Indeed, the resource-exploiting mode of franchising enables the company to expedite the internationalization process without requiring substantial financial investments. According to Peltonen, for Hovi Group’s concept the primary franchisee prospects are local medical clinics, with which negotiations are on-going in Indonesia, or real estate operators. Either way, having a local partner is considered to increase the credibility of Hovi Group’s service in the eyes of the target market customers. Moreover, a franchisee may provide important target market knowledge as well as a ready base of potential customers. Finally, the issue of control, which was necessary to secure the setting up of the pilot in Singapore, is to be determined through the franchising agreements. While Hovi Group hopes franchising will allow faster internationalization, keeping the service quality high remains a critical issue, and as Peltonen notes, *“only time will tell how well we’ll succeed in that”*.

## **5.3 Case SuperPark Ltd**

### **5.3.1 Overview on the internationalization process**

For the first five years since its foundation in 2012, SuperPark Ltd focused on growing its domestic market presence by opening new indoor activity parks in several Finnish cities like Oulu, Vantaa and Turku. Thus, by 2017, the company was running in total 11 parks in Finland at which point the growth potential at home had begun to reach its limits. At the same time, the SuperParks around the country had also attracted plenty of international tourists visiting Finland, which led to growing interest from potential international partners, explains Roger Enlund, chief commercial officer of SuperPark Ltd. According to Enlund, many were drawn by the SuperPark concept as well as fascinated by the story and values of the company. Eventually, these contacts led to the beginning of SuperPark’s internationalization when it opened the first activity park outside of

Finland under the global brand SuperPark United in Hong Kong in December 2017. The following year marked the opening of the next four units abroad as SuperPark took its concept to Uppsala, Sweden in August, Suzhou in mainland China in September, Singapore in November and Kuala Lumpur, Malaysia in December 2018. Thus, in spring 2019 the company has altogether 13 parks in Finland and 5 in international markets.

### 5.3.2 *Nature of the service*

The service concept of SuperPark's indoor activity park builds around the idea of providing people with all ages and fitness levels unique experiences of joyful play and movement in a high-quality, interactive, and safe environment. All the company's activity parks follow the same physical layout of featuring three diverse areas – Adventure Area, Game Area and Freestyle Hall – in which the visitors, or *sparkers* as SuperPark calls them, are inspired to try out a wealth of new sports and activities. Sparkers may, for example, try jumping on trampolines, learn to do tricks while skating and scooting, have fun playing various ball games or try conquering a climbing wall under the guidance of experienced staff. In addition to catering individual daily visitors, SuperPark organizes tailored events for school groups, birthday parties and companies' team building days, for instance.

Given that the service production and consumption are inseparable, requiring the presence of the customer, and the concept is tied with the physical service environment, SuperPark represents an asset-based soft service. According to Enlund, “*although SuperPark is now leveraging into digital solutions as well, we wouldn't be able to deliver the service in any other way and so, the physical aspect will always be there*”. However, the physical layout of the facilities alone does not provide a long-term competitive advantage because it is easily replicable, notes Enlund. Therefore, SuperPark seeks to build its success on creating unforgettable customer experiences in order to “*have a place in people's hearts*”, in which the physical layer is only one of the components. To achieve such a position in customers' minds – or in this case, hearts – the internationalization is carried out under the global SuperPark United brand. Here, the aim is to provide the same SuperPark experience regardless the location:

*“We want to be global because we have competitors in every market – if not now, then later – and so we want to be bigger than those in the sense of giving an exclusive global SuperPark experience no matter which park you visit. But at the same time, there are also glocal aspects, because when meeting people, you want to meet them with a local touch.” (Enlund, interview 25.2.2019)*

Consequently, by building its global SuperPark United brand, the company wants to promote its exclusive service and in so doing, stand out from its competitors. Following the primarily fixed, non-tailored platform of how to build the physical layout helps to provide a unified, yet distinctive customer experience on the international market. However, as Enlund points out, when the customer experience depends on interactions with the service staff and the sports instructors, there is still a need to adapt certain elements to the local market and the cultural environment. For instance, this influences which sports and activities are included in each park as well as whether to utilize the Finnish country of origin in marketing communications. Upon entering China, the Finnish background created positive connotations related to high-quality education as well as a clean, healthy and safe society and thus, provided an interesting, exotic aspect to be communicated. On the contrary, when expanding into Sweden, the marketing emphasized more heavily the global SuperPark United brand since the Finnish origin would not have had such a similar attraction, explains Enlund. In addition, according to Enlund, internationalization requires SuperPark to adhere to country-specific safety standards as well as to develop the operational capabilities further: *“Actually, you could say all of the operational things need to be taken to the next level when going to foreign markets”*.

In terms of the value creation logic, the service concept of SuperPark follows primarily the entertainment logic where the company aims to create unforgettable customer experiences. Moreover, given the essential role of the physical premises as the platform for the service provision and the importance of customer interactions with the park staff, the facility service value creation logic is also in this case apparent.

### **5.3.3 Target market selection**

In general, the internationalization process of SuperPark was significantly influenced by the attraction and interest it started receiving from potential partners abroad after its first few years in business. As Enlund notes, although seeing the concept turn out to be a success on the domestic market made the management realize that it could work also internationally, there was no clear strategy formulated nor market selection conducted:

*“Of course, we saw the potential this concept could have globally, and since we are a competitive firm, we wanted to see where this could lead us. So, there were no reasons why not to go abroad. But I would lie if the strategy would be crystal clear, this country next and then that etc. We have not been seeking new markets really actively ourselves. It is more*

*that there has been a lot of interest and contacts from all around the world.” (Enlund, interview 25.2.2019)*

While SuperPark does not have a rigorous strategic outline for its international growth, in practice the company follows a step-by-step process in assessing which contacts would make a solid business case to justify the expansion, explains Enlund. In the first step, the macroeconomic indicators as well as the country risk factors such as political stability of the potential target market are analyzed. In general, many societies are battling with children and youngsters leading an increasingly passive lifestyle while the environment is becoming more and more stressful. Moreover, the growing pace of urbanization means that in cities, there are fewer natural places to stay and play outside. Such development creates demand for SuperPark’s service that provides kids a place to move physically in a non-traditional way while using their own imagination and, simultaneously, reaping the benefits of exercise unnoticed. However, as Enlund explains, despite that such development occurs globally, the market potential of the specific target market needs to be high enough for the contact to lead to the second step. This includes the potential partner’s visit to Finland for preliminary discussions with the management. For a company like SuperPark, whose business relies on attracting as many customers as possible, the market potential is connected to the size of the target market. Consequently, the internationalization into Asia was closely linked with the demographics of the target markets:

*“In Asia, the business potential is huge simply because of the sheer number of potential customers and their increasing affluence, too. Moreover, according to our first signals, they find visiting SuperPark very interesting and there we can also communicate our Finnish origin, the exotic country with exceptional education, which attracts interest.” (Enlund, interview 25.2.2019)*

Thus, the internationalization of SuperPark into Asia was supported by the perceived market potential in the region. Moreover, it enabled the company to better tap into the attractive country of origin effect than if the expansion had been done into physically and culturally closer markets in Europe, for instance. In addition, similarly than for a client-following firm, the target market selection was in practice strongly influenced by the location of potential business partners. Indeed, the partners are mostly private investors who wanted to bring SuperPark into a specific market, in this case Hong Kong, Suzhou, Singapore and Kuala Lumpur.

Given that the expansion into a new market requires a big starting investment from SuperPark, the margin of error is small and making a successful locational choice

therefore essential, Enlund emphasizes. Thus, there is also another layer of the analysis, which is conducted on the local area. *“We investigate not only the country and the city we’re coming to, but also do analysis and due diligence of the place in terms of approachability and connectivity, having enough customers and the competitive situation in order to determine the potential in that specific area”*, explains Enlund. Such analysis is carried out to determine the final locational decision within the selected target market based on the proposition from the local partner.

While the target market selection in Asia was influenced by the macroeconomic factors as well as the location of the chosen business partners, according to Enlund the expansion of SuperPark into Sweden followed a different logic: *“Sweden is a special case because we could’ve gone to other countries in Europe too, but we really wanted to give Sweden a SuperPark of its own”*. In addition, the decision was related to taking up a challenge by trying to succeed in a market, where many Finnish companies have previously tended to struggle, notes Enlund. *“When going to Sweden, the project itself is easier but businesswise it might be much trickier to make it profitable than in Asia”*, Enlund explains. Yet, such a challenge was perceived as an opportunity for SuperPark to test how well its concept could compete internationally while fulfilling the management’s desire of having a unit specifically in the neighboring Swedish market.

#### **5.3.4 Entry mode choice**

The internationalization of SuperPark has thus far been carried out with the resource-augmenting entry modes of wholly owned subsidiary and joint venture. *“When expanding into Sweden, the strategy was to do it by ourselves because we didn’t see the value of having a local partner”*, Enlund explains. This may have resulted from the experience SuperPark had gained while setting up units in Finland as well as the physical and cultural proximity of the target market, which made the process manageable from home. However, according to Enlund it is unlikely SuperPark will continue using wholly owned subsidiaries in the future, but instead, *“the main strategy will be joint ventures in most countries”*. Indeed, when entering the Asian target markets, SuperPark established joint ventures with local partners, who played a significant part in the expansion:

*“There is no chance we could have been successful without a local touch provided by the partner. It starts with the way of go-to market strategy like media selection and having the right tone of voice in communication. And then, when you build up the concept, they help with e.g. recruitment. So, all in all, it is crucial for us to have a local partner there.” (Enlund, interview 25.2.2019)*

Thus, when internationalizing into Asia, the most influential factor favoring joint ventures was obtaining target market knowledge and learning about the cultural nuances from the local partner. Despite that Enlund regularly refers to the “Asian markets”, he also stresses that SuperPark recognizes there are distinctive differences between each location. Therefore, the local partner’s input was essential regarding, for instance, how to arrange the e-commerce in Hong Kong and mainland China or which social media channels to use when targeting local youngsters in Singapore or Kuala Lumpur. Moreover, particularly in China, having a local partner smoothed the process with local authorities, notes Enlund. Thus, a lot of power was in practice given to the local country organization while SuperPark focused on supporting them as well as possible. However, the majority share of the venture is owned by SuperPark, which provides control to oversee that the quality and the experience is successfully transferred to the new unit abroad.

*“We want to listen to our partners but at the same time, it is a balance of global and local decisions and keepings those issues and things in our hands, which we need to have control of. But, when you do business, at the end of the day you do it with people and in order to become successful, it is about building relationships, where controlling in a wrong way does not lead to anything good. And yet, having no control won’t either.” (Enlund, interview 25.2.2019)*

Thus, while acknowledging that some degree of control is necessary, Enlund steers away from the traditional understanding of control as imposing rules and limitations and instead, prefers to talk about building partnerships and delivering value together with the partner. For this to succeed, the selection of with whom to enter into a joint venture was not only related to the attractive business potential of the market, but ultimately, SuperPark paid a lot of attention to finding partners who embrace similar values, passion and mindset:

*“It is about the willingness to share the core values of SuperPark and the financial success is a result of following these values in everyday action. So, we see these joint ventures as partnerships where we have important partners helping to develop our concept to the next level. Through this process, we can reach a level where new markets are coming in and they get better and deeper support from our experiences”. (Enlund, interview 25.2.2019)*

Consequently, besides benefiting from the local partner's target market knowledge and network, setting up joint ventures allows SuperPark to augment its resources in terms of gathering additional experience and know-how to support further internationalization. As Enlund notes, there has already been several lessons learned, which not only streamline the possible joint ventures to come, but also allow using different entry modes in the future: *"I would say the longer we go and the more experience we have, the less risky it becomes for us to do franchising - and now we're starting to be ready for it"*. Indeed, SuperPark is currently working to build up clear service manuals to crystalize the concept that would give the franchisee company value for money and help them to start running the business. According to Enlund, franchising would allow SuperPark to move from running the daily operations into a more supportive role while making sure all the parks would still deliver the same SuperPark experience, follow its core values and maintain the service quality. Thus, while setting up the wholly owned subsidiary in Sweden was *"more of a one-time thing"*, Enlund considers joint ventures and franchising as the preferred entry modes for SuperPark in its future internationalization.

## **5.4 Case Technopolis UMA Holding**

### ***5.4.1 Overview on the internationalization process***

The internationalization of Technopolis UMA Holding has been steered from the very beginning by first being a part of Technopolis and then a subsidiary of the parent company, notes Karita Huotari, the international growth manager at Technopolis. Huotari, who has been involved in UMA Workspace from the early days of concept development, is currently in charge of growing the service platform by searching suitable premises and negotiating the rental contracts. In addition, Huotari manages the growth of the Technopolis campus network both through acquisitions as well as by finding new locations for its organic growth through greenfield projects.

Despite that the recent years have witnessed a growing trend in various kinds of shared workspaces, in 2015 the trend was still very vague and not the primary reason that urged Technopolis to come up with the new UMA Workspace concept. Instead, the development began as a response to a request from one of the customers of Technopolis, explains Huotari. A customer who had lost their office hotel space in Stockholm suggested Technopolis to enter the Swedish market, but due to the high real estate prices the usual business campus investment was now considered too challenging and unattractive. Hence, Technopolis started to develop a less capital-intensive alternative, namely, the agile co-working service concept UMA Workspace. In the beginning,

Technopolis wanted to avoid the development work being siloed since it relied on sharing resources between the different departments of the company. However, when the company decided to start taking its concept abroad, Technopolis UMA Holding was incorporated as a subsidiary of Technopolis. This was nevertheless more of a practical and technical matter as the resources of the parent company are still being used to support the international growth of Technopolis UMA Holding. Indeed, the UMA Workspaces have a key strategic role as “*miniature Technopolis campuses*” in central locations within the Nordic and Baltic Sea region, notes Huotari.

The first UMA Workspace pilot unit was opened in 2016 in the company’s domestic market in Helsinki. In spring 2017, based on the experiences gathered from the pilot, Technopolis compiled a strategy for UMA Workspace, which included the international growth goal of having 20 units by 2020. The next year 2018 marked the beginning of the concept’s internationalization as the newly incorporated Technopolis UMA Holding opened its first unit abroad in Stockholm in summer 2018. It was followed by a unit in Copenhagen in September as well as a unit in Oslo and a second one in Helsinki in December 2018. The next steps of the 20/20 -strategy will be the opening of new UMA Workspaces in Tallinn and Vilnius during summer 2019 as well as a unit in Warsaw, two more units in Stockholm and one in Espoo by the end of the year. Thus, since starting its internationalization, Technopolis UMA Holding will have grown in one and a half years to have altogether 11 units out of which eight are in foreign markets by early 2020.

#### 5.4.2 *Nature of the service*

The UMA Workspace concept draws its inspiration from today’s mobile and flexible working life and focuses on offering B2B customers of all sizes access to a network of premium co-working spaces in the central business districts of the Nordic and the Baltic Sea region. Companies may choose from various membership packages that grant access to, for instance, the open-office workstations in the communal workspace, private workrooms, event venues for trainings, meeting rooms to host visitors, or furnished private offices for longer-term solutions. In addition, the concept includes the basic cleaning, maintenance and security services, which are outsourced to third party service providers, as well as complimentary services like catering in order to provide “*a unique, seamless combination of workspace and service*” (UMA Workspace 2019). Each unit employs a community manager and a host who help customers with their daily needs and organize events and networking activities. According to Huotari, the need for personnel is limited by developing digital solutions such as the UMA Workspace App, which allows customers to book meeting rooms and catering and get 24/7 access to the workspace, for instance.

In terms of the nature of the service, UMA Workspace represents a soft service where the service production and consumption take place simultaneously, and the customer is the inseparable resource required for service provision. Moreover, UMA Workspace is an asset-based international service as the service concept is embedded into the physical facilities. *“For UMA Workspace, the physical space is a must because it’s the platform for the service, which for some customers means being the only workspace and for others, an ‘office away from office’ solution”*, emphasizes Huotari. Related to the physical space, the company is still learning what kind of properties are the most suitable for the concept: *“UMA Workspace requires at least 2000m<sup>2</sup> to run optimally, so for example our 750m<sup>2</sup> unit in Esplanadi, Helsinki is too small despite having been expanded already once”*, notes Huotari. Yet, the unit remains an important meeting point with a strategic location for visibility whereas all the international units have been set up in larger properties between 1900m<sup>2</sup> and 3000m<sup>2</sup>. When designing the service environment, Huotari highlights that the company was able to draw knowledge from the previous experience with the campuses to understand what the customer requirements are:

*“Since our customers are mostly mature companies, not start-ups, UMA Workspace focuses on productivity and efficiency because that’s what our customers expect to find here. So, we have fresh and inspiring Nordic design with functionality at heart and less elements of play and games, for instance. But then again, by offering various kinds of office spaces, we differentiate from the traditional office hotel set-up. It is all about creating a professional environment where the customer is able to focus on their work while we take care of the rest.” (Huotari, interview 26.2.2019)*

Besides the carefully designed professional and flexible workspace solutions, another key feature of UMA Workspace is the network of units with easily accessible locations in the business district of each city. According to Huotari, the aim is to provide a similar customer experience regardless of which location is visited. Therefore, the standardization of the service concept is important. *“Many of our customers have similar requirements, so we have a mass-tailored approach because we don’t have the resources or staff to cater each customer completely individually”*, Huotari explains. In practice, this means the concept is standardized as much as possible, but the community managers and hosts may fulfill minor individual customer requests as part of the daily operations. In addition, standardization facilitates the transfer of capabilities and knowledge when entering foreign markets:

*“Last year we entered two new markets, Stockholm in Sweden (although Technopolis had a campus in Gothenburg) and Copenhagen in Denmark,*

*so there is an enormous amount of information, knowledge, processes and systems that need to be transferred. So, the process must be clearly defined, and having a standardized, well-defined concept certainly makes the internationalization easier.” (Huotari, interview 26.2.2019)*

Thus, standardization is seen helpful in dealing with the high asset specificity of the UMA Workspace concept. In addition, since the concept focuses on providing solutions for customers’ needs regarding the physical work environment, it follows primarily the value creation logic of facility services. However, it also includes distinctive elements of the network value creation logics as the shared co-working spaces and organized afterwork events bring people together to form a community. Indeed, for big companies, UMA works as an extension to their main office while small companies are likely to benefit from the networking opportunities that these co-working spaces provide.

### **5.4.3 Target market selection**

The target market selection of Technopolis UMA Holding has been strongly influenced by the predominantly client-following impetus behind its internationalization. This results from the strategic role of the UMA Workspaces in enabling the parent company Technopolis to provide a more comprehensive service offering to its customers. Due to the high capital-intensity of Technopolis’ business campus concept as well as the market potential in the area, the company has thus far focused on meeting the demand in the Nordic and Baltic Sea region, explains Huotari. This strategy was also adapted for UMA Workspace:

*“Just like the UMA concept was developed to solve a customer’s need, the internationalization has happened along with customers. In today’s flexible work life, the UMAs are a central part of the Technopolis strategy: the customer does not have to go elsewhere when we can bring UMA to them. Therefore, it was natural that in terms of the geographical strategy of UMA’s expansion, we followed the one of the parent company and thus, started growing first here in the capitals of the Nordic and Baltic countries.” (Huotari, interview 26.2.2019)*

Consequently, the target market selection was influenced by the current customer network on the markets where Technopolis was already operating on. For instance, its campuses in Finland have many roaming customers travelling regularly to Stockholm who could now take advantage of the UMA Workspace. Moreover, the short distances

and good air travel connectivity in the region meant that it was easier for Technopolis' employees to travel in the region when setting up UMAs in new markets, notes Huotari based on her own experiences. Indeed, the management has had its hands full with the establishment of several units abroad during the past 18 months. *“If we would've started growing UMA totally from zero, we might have looked at more distant markets as well but so far, we haven't had time to analyze other regions more closely”*, Huotari explains. Moreover, given the importance of good location for the success of each unit, staying in a geographically familiar area where there was already an established market presence was a means to mitigate risks, adds Huotari. Therefore, the first units on each target market have been set up in central locations of the capital city, while the next ones may serve as hubs close to the airports, like in Stockholm, for instance.

Another important factor behind the target market selection was that there was still enough market potential in the Nordics and the Baltic Sea region for expansion. On the contrary, on the US market there were already several competitors whereas the major European business hubs of London, Paris and Berlin were considered less attractive due to the high rental prices. *“We saw no imperative reasons that would make it worthwhile to jump over our home region and instead, enter more distant markets”*, summarizes Huotari. Thus, on the one hand Technopolis used the UMA Workspaces to complement its service on the foreign markets where it already had campuses. On the other hand, the new less resource-intensive, agile concept was also considered well-suited to support the overall international growth of Technopolis. In practice, this meant expanding into completely new markets of Denmark and Poland to start building a foothold:

*“For Technopolis, Poland represents an important growth market where we have not yet found a suitable business campus property. But there, as well as in Copenhagen, by starting with the UMA Workspace, we can first dip our toes in the water and learn from the market. So, we can start building our local team and implement digital solutions, learn country-wise practices and processes as well as gain visibility by starting to serve the customers.” (Huotari, interview 26.2.2019)*

Consequently, for Technopolis, entering new potential markets was easier and less risky with the UMA concept compared to making a campus investment. Yet, it allowed the company to start building its market presence for the campus investments to-come as well as to learn and gather valuable knowledge on the market conditions. According to Huotari, the UMA Workspaces serve in fact also as “development labs”, where trying out new technological solutions, for instance, is easier when the scale of operations is smaller. In addition, while each of the chosen countries and markets has its own characteristics, the cultural proximity and familiarity made them appear suitable for the development of

the UMA concept: “*It’s easier to learn and tweak the concept here on markets that are close by because when you expand further, it’s better to know already what you’re really doing*”, Huotari summarizes.

#### 5.4.4 *Entry mode choice*

In addition to the selection of target markets, another essential component of the UMA Workspace 20/20 strategy was the entry mode choice for the expansion. Here again, the choices made reflect those of the parent company and consequently, UMA’s internationalization has been thus far carried out with the resource augmenting mode of wholly owned subsidiaries. The only exception is a joint venture in Tallinn, where the local partner with whom Technopolis already had a joint venture campus wanted to be part of the UMA Workspace as well. Given that Technopolis owns the majority of its business campuses, it was natural to follow the same mode when taking the UMA concept abroad, explains Huotari. The main difference lies in leasing the service platform (i.e. the physical facilities) instead of owning it, which decreases the risks of internationalization:

*“One of the key components of the UMA concept is operating in leased properties, which means lower capital requirements and more limited risks compared to buying a campus. Besides, if for some reason the UMA does not take off, the leases are shorter-term commitments, and we can rent the place to minimize losses. Although, since we rent over 20 000m<sup>2</sup> of premises, the deposits still amount to a substantial sum, but that’s when the solid financial standing of the parent company separates us from many competitors.” (Huotari, interview 26.2.2019)*

Thus, the low capital intensity of setting up new UMAs and operating in leased spaces provide flexibility and minimize risks while the financial resources of Technopolis are used to secure the fast growth pace. Moreover, the parent company’s vast experience and competence in building professional workspaces in the business campus context was also utilized for the UMA Workspace, notes Huotari. Thus, the wholly owned subsidiary was deemed the most appropriate mode as it provided full control over the transfer of internal knowledge and competence when setting up the foreign units according to the concept:

*“This mode means we have the control over operations in our own hands, which helps in duplicating the concept across different markets. And it secures the quality of the service, too. That’s why also in the joint venture*

*in Tallinn we have a majority share and the operational responsibility.”*  
*(Huotari, interview 26.2.2019)*

Hence, total control was considered necessary to deal with the high asset specificity of the service concept and to retain the service quality when expanding abroad. Moreover, the wholly owned subsidiary provided the desired conditions for developing the concept as according to Huotari, “*we are still constantly learning and becoming better and more efficient in setting up new UMAs*”. In addition, while the concept is largely standardized and mass-tailored, a certain degree of cultural awareness is required to successfully operate on each market, Huotari notes. For UMA Workspace, this was obtained by recruiting a local team as well as by getting support and market knowledge from the already established campuses on the same market. Joint ventures are less likely to happen due to the nature of the real estate business where the owner and operator of the premises are often separated, explains Huotari. However, one possibility that has been considered is a revenue-sharing mode, in which the real estate owner invests more in the transforming of the premises according to the concept in return for a share of the revenue. In addition, UMA could grow via acquisitions but “*right now it seems every player thinks they are the next WeWork and the valuations are thus very high*”. Finally, also the resource exploiting mode of franchising was considered but according to Huotari, the prerequisites were not met. In the beginning, the company did not have the required visibility and awareness to attract potential franchisees and given that the concept is still in the development phase, setting up wholly owned subsidiaries will be the chosen entry mode for the internationalization of UMA Workspace also in the near future, Huotari concludes.

## **5.5 Cross-case analysis**

### **5.5.1 Nature of the service**

Drawing upon the evidence from the individual case discussions, all the four case companies fall into Erramilli’s (1990) description of soft services for which the production and consumption of the service occurs simultaneously and cannot be decoupled. Moreover, the cases exhibit the four IHIP characteristics in different stages of their service provision. Firstly, the service offering is intangible by nature as it ultimately focuses on providing an experience to the customer, either through close, physical customer interaction in case of the elderly care services or by satisfying the customer’s needs regarding the physical space, be it a meeting room, shared workspace or indoor activity park. Hence, as suggested by Moeller (2010), unlike goods producers, these soft

service companies require the physical presence of the customer for the service delivery before the service promise may be fulfilled. The resulting heterogeneous nature of the customer base means that adhering to the local cultural aspects such as religion and language is considered critical for success on international markets, especially when coupled with a high degree of customer interaction typical for soft services (Kennedy 2005). Moreover, as Javalgi and Martin (2007, 392) have proposed, the intangible nature of the service is found to pose challenges for its marketing, which in turn highlights the importance of the physical service environment. Indeed, the physical cues drawn from the facilities provide customers with an impression of what the service constitutes as well as its quality and, by so doing, help dealing with the intangible nature of the service promise. However, in case the concept does not manage to attract customers, the owned or leased facilities remain unused and thus, the service provider's potential capacity in terms of the facilities is subject to perishability as suggested by the FTU framework (Moeller 2010).

In the classification of Clark and Rajaratnam (1999), the four case companies fall into the category of asset-based services, where the service concept is tied to the physical operational platform. This is supported by the respondents' remarks on the importance of the physical service environment: there is substantial company-specific knowledge on how to create the space according to the unique concept. The distinctive design and layout of the facilities enable the creation of exceptional customer experiences and often serve as one of the differentiating factors setting the company apart from competitors. Yet, as was acknowledged by the respondents, the competitive advantage cannot be solely based on the design of the physical service environment since it can be copied. Instead, it appears that in order to achieve long-term success on international markets, the service concept should be built on high quality and delivering outstanding customer experiences that ultimately, as one respondent puts it, allow the company to "*claim a space in customers' hearts*". Hence, while the physical facilities are an essential part of the concept, each of the case companies also possesses a great deal of company-specific knowhow and tacit knowledge related to the service delivery. Therefore, when expanding abroad, there is a need to clearly define and standardize the concept, which increases the scalability of the concept, facilitates knowledge transfer and avoids deteriorating service quality. Yet, every case company has also considered the cultural aspects of the target market and consequently, instead of internationalizing with a globally standardized concept, a mass-tailored approach is followed; a standardized platform that is modified according to the prevailing cultural norms and societal standards.

In terms of the value creation logic typology by Ørberg Jensen and Petersen (2014), Company Alpha and Technopolis UMA Holding follow primarily the facility services logic as the value proposition of their concept builds on satisfying the customers' physical needs regarding professional meeting and conference venues and co-working spaces.

Hovi Group, on the other hand, focuses on applying its highly specialized competence in elderly care to provide solutions for its customers' unique health situations, which is at the core of the analytics service logic. Finally, SuperPark operates under the entertainment logic as its indoor activity parks aim to create exciting customer experiences for the visitors. However, the case interviews confirm the notion by Ørberg Jensen and Petersen (2014) that in the real-life scenarios, companies tend to include elements from other value creation logics such as the logistics and network access logic as well.

### **5.5.2 Target market selection**

In general, the views of the respondents are converging on the importance of the target market selection as one of the key decisions of the internationalization process. In contrast to O'Farrell et al. (1998) who found that most business service SMEs do not make an explicit market selection decision, this study aligns with more recent studies (Musso & Francioni 2014; Hofer 2015) and reveals how soft service SMEs consciously prepare for their internationalization. Therefore, time and effort have been spent to evaluate different alternatives since due to the limited resources, making false assessments may turn out to be extremely harmful and costly, particularly during the early steps of international growth. Moreover, for asset-based soft services relying on a steady flow of customers, the findings of this study show that the locational decision is not taken only on the target market level. Instead, in order to be accessible and attract customers, also the local city level is often analyzed with great detail to determine the optimal location for the new unit.

This study aligns with Lommelen and Matthyssens (2005) who based on their literature review conclude that the target market selection is influenced by a combination of both external and internal factors with an interconnected relationship. However, due to the scarcity of previous research on target market selection of services, the linkages between the findings of this study and earlier research remain tentative. Nevertheless, while each case is unique and the level of influence by the factors differs, there are similarities found for both the external and internal factors' occurrence. For instance, similarly to multinational hotel chains (Kundu & Contractor 1999), one external factor that all respondents identified as influential is the market potential, which for asset-based soft services is often linked to the size of the population and the level of economic development of the target market. Hence, three of the case companies have considered particularly the Chinese and Southeast Asian markets lucrative while only one, Technopolis UMA Holding, has thus far focused solely on the geographically close Baltic Sea region. Yet, for Technopolis UMA Holding the decision was similarly justified by the unsolicited demand in the area. However, while some markets such as the US or the

European capital cities of London or Paris may also have potential, the high level of competition or the scarcity of available resources has made the case companies reluctant to expand to these markets. More specifically, the companies have shied away from these markets to avoid facing local competitors who are already well-established on the market or dealing with high rental prices due to the lack of vacant properties. Thus, in contrast to O'Farrell et al. (1998), the office rent levels are found to be an influential factor for asset-based soft services as capital is tied to the necessary physical facilities. In the selected Asian countries, however, the market conditions have been perceived favorable as there is room as well as the technological orientation for adopting new service concepts, such as for Company Alpha and Hovi Group. In addition, in the case of SuperPark, much of the interest for the concept has originated from Asia, and there has been several available partners to team up with.

Interestingly, none of the respondents expressed any concrete plans to internationalize into the Latin America, Africa or the Middle East despite these regions also having sizeable populations. Now, this may be due to the above discussed external factors of market potential, level of local competition or scarcity of resources, for instance. Another hypothetical explanation may be that the political and societal environment has at least partially made these markets appear less attractive for expansion, albeit considering such diverse regions as single entities is undoubtedly too simplistic. Yet, the empirical findings would support this notion as some of the case companies have changed their course of action due to political instability or unexpected events in the target market, such as Brexit or the annexation of Crimea. Likewise, the ease of doing business and the juridical stability of the target market came up as external factors considered when evaluating the alternatives. However, in line with earlier studies (O'Farrell et al. 1998; Coviello & Martin 1999), government incentives, taxation or exchange rates do not appear influential. Furthermore, while the bureaucracy in certain markets was recognized as a challenge, the case companies do not perceive this as a critical factor. Instead, dealing with local government officials and red tape seems to be considered as the reality of which to be aware of and cope with when expanding to such markets. Consequently, in contrast to earlier research (Erramilli 1991) suggesting that firms will favor culturally similar markets until more experience is gathered, here neither the physical nor psychic distance between the home and the target market appear to be decisive factors for the case companies. This is regardless of some respondents acknowledging that the distance creates challenges with long travel times and different time zones and entering geographically close areas could mean a smoother process with lower costs.

There are also various internal factors influencing the target market selection of the case companies. Firstly, the companies assign a strategic importance to the selection of the markets, which in some cases strongly reflects the vision of the company CEO or management. Thus, entering a specific market is not only related to the desire to serve the

market in question, but instead, it may fulfill a broader strategic purpose. For instance, Singapore has been considered a suitable market for proof-testing and developing the concept, serving as a springboard for further expansion, and establishing a showcase pilot to attract potential investors from all around the region. While such strategic purposes are company-specific, they are interconnected with the market-seeking or customer-following nature of internationalization. On the one hand, for the market-seeking case companies, the role of network partners has been limited and they have entered both physically and culturally distant markets despite having low levels of international experience. Moreover, as one respondent notes, it is easier to utilize the exotic Finnish country of origin to the company's advantage in the more distant markets. On the other hand, the customer-following Technopolis UMA Holding has intentionally selected markets that allow it to cater to the needs of its parent company's current customers. Consequently, it has internationalized to geographically close markets with relatively similar culture, which allows the building of a strong regional presence as well as provides suitable conditions to control the continuous development of the service concept. Thus, as suggested by earlier research (Lommelen & Matthyssens 2005), the target market selection of soft service companies is found to be influenced by the company network in terms of current customers, competitors and potential partners and investors, for instance. Moreover, similarly to previous studies (Coviello & Martin 1999; Ooi & Richardson 2019), the influence is particularly significant for customer-following service firms as the location of their clients naturally guides the target market selection. However, the findings contradict the assumption of the Uppsala model (Majkgård & Sharma 1998) stating that market-seeking firms would prefer markets within short psychic distance. Moreover, this study does not support the assertion of service firms internationalizing preferably into culturally similar markets until adequate experience is gathered (Erramilli 1991; Erramilli & D'Souza 1993). On the contrary, the case companies have selected both geographically and culturally distant markets even with limited experience at the outset of their internationalization.

### **5.5.3 *Entry mode choice***

In addition to the target market selection, the individual case studies depict how the entry mode choice is another critical part of the internationalization strategy of the case companies. While all the case companies have evaluated several alternatives, they have thus far only utilized the resource-augmenting entry modes of joint ventures and wholly owned subsidiaries. Based on the case analysis, the entry mode choices of the case companies have been dependent upon several interrelated external and internal factors as

proposed by earlier research (Erramilli & Rao 1993; Lommelen & Matthyssens 2005; Parola et al. 2013).

The selection of a specific target market is reflected on the entry mode choice through the external host market characteristics. Firstly, while market size and potential are not recognized as important factors when it comes to the entry mode choice, the influence of the availability of partners is more straightforward and in line with earlier research (Erramilli 1992; Parola et al. 2013). On the one hand, finding a local partner without having an international brand or reputation abroad may be difficult or the negotiations on the specifics of the joint venture burdensome without previous experience. On the other hand, as experienced by SuperPark, when contacts from potential partners are plenty, establishing a joint venture becomes a viable option. For Hovi Group, once the joint venture negotiations foundered, the lack of a partner led to the establishment of a wholly owned subsidiary. Yet, in line with Sanchez-Peinado et al. (2007), due to the stable operational environment and low target market risk perceived in Singapore making such a commitment was still considered manageable. For SuperPark, expanding with joint ventures has been essential when entering culturally distant markets as it allows access to the local partner's market knowledge and specialized competence such as language capabilities. Thus, in some cases the cultural distance is found to lead to preference for a shared-control mode as suggested by Pla-Barber et al. (2014). Besides, the partner may also help decrease the target market risks as they can handle relationships with local stakeholders such as government officials. When internationalizing to a more similar market, however, teaming up with a partner is not considered to bring enough added value and thus, the company has opted for establishing a wholly owned subsidiary in Sweden. Similarly, when building its network of co-working spaces around the Nordic and Baltic Sea region, Technopolis UMA Holding has in all markets but one preferred a wholly owned subsidiary. Owing to the extensive campus network of its parent company, it has been able to utilize the internal shared resources, experience and gathered market knowledge of the organization to be aware of the cultural differences. In addition to relying on a local partner or the internal resources of the organization to cope with cultural distance, market knowledge can be obtained by conducting market research, such as focus group studies, as well as by recruiting local management and staff as suggested by Coviello and Martin (1999).

In addition to the external factors, the entry mode choice of the case companies has been influenced by internal factors, namely, the service characteristics and firm characteristics. In terms of the service characteristics, this study confirms the relationship suggested in earlier studies (Erramilli & Rao 1993; Blomsterno et al. 2006; Parola et al. 2013) between soft services and their available entry modes; the soft nature dictates that the case companies need a physical presence on the target market from day one to reach potential customers. Hence, for these companies exporting is not possible, and the

alternatives are limited to contractual agreements, namely, franchising and management contracts, as well as joint ventures and wholly owned subsidiaries. In practice, however, the respondents perceive setting up a franchise without any previous international experience and exposure too challenging and consequently, the first unit abroad has either been a joint venture or a wholly owned subsidiary. Moreover, due to the generally high asset specificity of the services in question, the level of control related to the entry mode is considered important for managing the transfer of key competence and capabilities abroad. Hence, besides encouraging the use of wholly-owned subsidiary, the case company has retained the majority share to build up the unit according to the concept and maintain high service quality also when a joint venture is established. Consequently, the findings provide support for earlier research (Sanchez-Peinado et al. 2007; Carneiro et al. 2008; Etemad-Sajadi 2015) since high asset specificity increases the tendency to utilize entry modes providing sufficient control over the transfer of the service concept abroad. In addition, given that the concept of the case companies is closely linked to the physical facilities, the capital intensity of establishing new units can be substantial. However, some of the companies have developed their concepts specifically to rely on operating in leased places, which requires less capital and enables flexibility while still providing the benefits of total ownership and control over the operations.

One of the firm characteristics that the case companies acknowledge influencing the entry mode choice is the small size and limited resources of the service SME. In line with earlier research (Erramilli & D'Souza 1993; Hofer & Baba 2018), the findings imply that resource constraints reduce the available entry mode options for soft service SMEs. For instance, despite that Hovi Group operates its elderly care center in leased premises, opening new wholly owned subsidiaries is not considered a viable option for long-term growth due to the capital requirements. Moreover, since the company is small and has not yet built a strong market presence in the foreign market, it has struggled to find private investors to support its expansion. Sometimes the financial burden of the expansion can be shared with a joint venture partner as in the case of Company Alpha's initial market entry. On the contrary, for Technopolis UMA Holding the resources of the parent company have enabled rapid internationalization by setting up mainly wholly owned subsidiaries to several markets. For them, having total ownership and control is considered the least risky option regardless of the capital requirements.

In addition to the resources, also the experience of the case company has an impact on the entry mode choice. More specifically, the respondents agree that, in general, there is a low readiness to establish a franchise at the early stages of internationalization. Thus, as opposed to earlier research (Ekeledo & Sivakumar 1998; Kennedy 2005), the low level of experience makes non-equity, shared-control entry modes appear rather unattainable than favored over full-control modes. Instead, it is first considered necessary to build a pilot unit on the international market where the service concept can be tested, refined and

documented into a service manual. Consequently, by gathering such experience and learning from its own operations, the company may increase its capabilities to use the resource-exploiting franchising mode in the future. Indeed, the developed service manual, which includes the instructions, procedures and standards for the franchisee to implement the service, forms the essential resource to be exploited. In fact, all the four case companies are currently either planning and preparing the modal shift or have already their concept defined to begin using also franchising for their future international growth.

## 6 CONCLUSIONS

This chapter covers the conclusions of the research in three parts. Firstly, chapter 6.1 introduces the theoretical contribution and discusses how the findings of this study are in line with previous academic literature. Secondly, chapter 6.2 moves on to present the managerial implications which may serve as practical guidelines and lessons learned for other soft service SMEs in their internationalization strategy. Finally, chapter 6.3 addresses the limitations of this study as well as proposes suggestions for further research.

### 6.1 Theoretical contribution

The objective of this research was to examine the strategic decisions in the internationalization process of soft service SMEs. The objective was further divided into three sub-objectives, namely, to describe the internationalization process, and to identify the influential factors in the target market selection and the entry mode choice of internationalizing soft service SMEs. The preliminary framework of the research presented in chapter 3.4 was modified from the study of Ekeledo and Sivakumar (1998). According to the framework, the target market selection as well as the entry mode choice are inseparably connected to the internationalization strategy, which is influenced by various factors related to both the internal and external environment. This study investigated the influence of altogether 11 factors, which were divided into three groups of characteristics related to the service, the firm, and the host country. The empirical data for the multiple-case study was collected through semi-structured interviews with four Finnish soft service companies that had internationalized into one or more foreign markets.

To begin with, the findings of this study align with previous research by strongly indicating the heterogeneous, diverse nature of the service sector. Despite that all four case companies can be labelled as asset-based soft services, considerable differences remain between them in terms of different service concepts, transactions and value creation logics, for instance. Consequently, in terms of the first sub-objective, this study has illustrated how the internationalization of soft services is a complex process where companies that from a theoretical viewpoint may resemble one another, each follow their unique internationalization strategies. Hence, understanding the phenomenon on a general level as well as drawing generalizable conclusions and guidelines is challenging due to the idiosyncratic firm-specific differences.

To approach the heterogeneous service landscape, the study relied primarily on Erramilli's (1990) categorization of hard and soft services. In this relation, the findings show how the physical location and premises are still a prerequisite for certain types of

services. More specifically, while the technological development has enabled some traditionally location-bound services to decouple the service production from consumption and, consequently, disregard the premise of a physical location upon internationalization, this does not apply for all soft services. On the contrary, when service concepts include a high degree of customer-contact and physical interaction, rely on the tangible characteristics (such as decoration, equipment and amenities) and location of the service facilities, or focus on satisfying the customer's needs regarding the physical facilities, they remain difficult to decouple. Furthermore, the findings confirm the applicability of Moeller's (2010) FTU framework in using the traditional IHIP characteristics to assess the nature of the service delivery in the context of soft services. Indeed, in case the intangible service offering does not attract customers, who are themselves the heterogeneous and inseparable resource required for the service production, the provider's facilities in the broad sense of both physical premises and service personnel will be subject to perishability.

In terms of the second sub-objective, the findings of this study increase current understanding on the target market selection of soft service SMEs. In the case companies, the decision of which market(s) to enter is closely connected to the strategic aspirations of the internationalization. Thus, selecting a specific target market is not considered a one-time isolated event but instead, it is linked with the broader, long-term vision of expansion such as building a local springboard to support further growth in the market or region. Therefore, companies devote time and effort to conduct careful assessment of the alternatives, which may even involve creating rankings based on the context-specific selection criteria. In addition, when the service concept relies on attracting customers to the service provider's facilities, being easily accessible is essential and thus, much attention is paid to the locational decision within the selected target market as well.

Based on the case findings, the target market selection of the case companies is influenced by a variety of factors. In general, the factors included in the preliminary framework are found to explain well the target market selection. The findings show that, similarly to multinationals in the lodging sector (Kundu & Contractor 1999) and emerging market SMEs (Ooi & Richardson 2019), soft service SMEs consider the target market potential influential, particularly in terms of the population size and the general economic development. In addition, the perceived country risk and ease of doing business are taken into account as companies avoid expanding into politically unstable environments and instead, opt for markets with juridical stability, for instance. In contrast to O'Farrell et al. (1998), this study also suggests that the availability of resources, particularly in terms of real estate and rental price levels, can influence the target market selection for asset-based soft services due to the important role played by the physical premises.

Congruent with earlier research (Lommelen & Matthyssens 2005), the target market selection is also found to be influenced by the network partners of the internationalizing

soft service SME. Whether the internationalizing firm in question is a market-seeker or client-follower appears to condition the influence of network partners as either prohibiting or pulling entry to the market: in general, market-seekers tend to avoid entering markets with plenty of well-established local competitors whereas for the customer-follower, the location of current customers is naturally more essential. Yet, it is worth noting that besides the exception of one market-seeker intentionally selecting a highly competitive market, their preference to avoid such locations may result from being in relatively early stages of internationalization. In addition, the findings of this study contradict earlier research (Erramilli 1991; Erramilli and D'Souza 1993) by showing that the influence of market similarity and psychic distance appear rather limited in the target market selection of soft service SMEs. Instead, the companies are both able and willing to expand to geographically and culturally distant markets, even when taking the very first step of internationalization. Entering distant markets provides international exposure, helps build the brand and enables the broader use of the positive country of origin effect compared to market within close proximity, for instance. Hence, unlike previous studies suggest, neither the capital intensity, the limited resources nor the low level of experience seem to make soft service SMEs select physically close and culturally similar markets over the more distant ones. Moreover, as opposed to Majkgård and Sharma (1998), in this study the influence of psychic distance does not differ between market-seekers and client-followers. Finally, the findings support Coviello and Martin (1999, 53), who propose that psychic distance can be alleviated by employing internationally experienced personnel.

In terms of the third sub-objective, this study provides new knowledge on the entry mode choice of soft service SMEs. Firstly, the findings confirm the notion of the entry mode choice as an important strategic decision in the internationalization process (Erramilli 1992; Kennedy 2005). As the entry mode is related to the location of the service production and the level of control over operations, false decisions in this regard may jeopardize the whole foreign market expansion and, ultimately, result in market exit. Therefore, contrary to some studies suggesting service firms to conduct the entry mode choice in an opportunistic/pragmatic way without much evaluation (Coviello & Martin 1998), the findings of this study show that soft service SMEs in fact carefully consider the alternatives. Secondly, in line with previous research (Erramilli & Rao 1993; Lommelen & Matthyssens 2005), the entry mode choice of soft service SMEs is found to be influenced by a variety of both internal and external factors. Moreover, as noted by other academics (Parola et al. 2013), the embedded and intertwined influence of multiple factors complicates the entry mode analysis to some extent.

When analyzing the influence of factors related to the service characteristics, this study is in line with earlier research (Erramilli & Rao 1993; Javalgi & White 2002; Blomsterno et al. 2006) as it confirms the direct influence of the soft nature on the available entry modes. More specifically, soft service SMEs are required to establish a presence from

day one on the foreign market and thus, cannot proceed gradually by starting with exportation. This results from the inseparable nature of the local customers' physical presence as the essential resource for the service delivery. As a consequence, service SMEs with limited resources may come up with new innovative service concepts that entail lower capital requirements and serve as a lighter mode of operation for the foreign market. In addition, congruent with earlier studies (Sanchez-Peinado et al. 2007; Etemad-Sajadi 2015), under the conditions of high asset specificity and extensive face-to-face contact with the customer, an entry mode with a high degree of control is preferred to safeguard the knowledge transfer across borders and maintain high service quality. Moreover, building a service platform as well as creating a detailed service manual are ways to cope with the high asset specificity and standardize the service, which in turn increases the scalability and facilitates the replication of the concept to new markets. In addition, the findings partially support the proposition of Ørberg Jensen and Petersen (2014), who state that services following the facility service value creation logic favor franchising as the default entry mode in international markets. However, this study shows that franchising is not considered possible in the early stages of internationalization as the soft service SME must first build its capabilities to utilize this resource-exploiting mode.

In relation to the firm characteristics, the findings align with earlier research (Sanchez-Peinado et al. 2007; Parola et al. 2013; Etemad-Sajadi 2015) by suggesting that the financial resources and the client-following nature of the service firm make the use of high-control entry modes more likely. However, it is worth noting that the support remains tentative due to the limited prevalence of client-following firms in this study. Instead, more rigorous conclusions that converge with previous studies (Ekeledo & Sivakumar 1998; Lommelen & Matthyssens 2005; Kennedy 2005) can be made on the market-seeking soft service SMEs. These companies tend to search for partners and pursue shared-control modes to cope with the resource constraints and low levels of experience of operating on the foreign market. However, as this study indicates, lacking a presence on the foreign market complicates finding a local partner and thus, it can be necessary to use the full control mode of establishing a wholly owned subsidiary to enter the market. Moreover, total ownership with full control may also be preferred to avoid problems arising from the conflicting interest and optimistic behavior of the local partner.

In addition to the internal factors, the findings shed light on the influence of various external factors on the entry mode choice of soft service SMEs. While target market size and potential are found to be predominantly related to the market selection, the impact of cultural distance as well as the availability and nature of local partners is more apparent. Although soft service SMEs aim to build a standardized service platform, they also acknowledge the need to tailor some elements of the concept according to the prevailing cultural environment. Consequently, the findings converge with Pla-Barber et al. (2014) who propose that obtaining access to the local partner's knowledge is considered helpful

in dealing with the cultural distance, which favors the shared-control mode of joint venture. However, culture-specific know-how and competence can also be obtained by conducting market research and recruiting local service staff. In addition, in line with Erramilli (1992), the lack of suitable partners as well as conflicting views over the structure of the venture lead to full-control modes. Moreover, the findings show that similarly to earlier studies (Blomsterno et al. 2006; Etemad-Sajadi 2015), maintaining control over the venture is considered critical in enabling the soft service SME to transfer its concept to the foreign market. Indeed, as Ekeledo and Sivakumar (1998) suggest, the firm contributing the driving resource of the joint venture often insists on having greater control over the foreign affiliate. Furthermore, this study highlights the importance of finding partners who share the same vision for the business, which mitigates the risk of conflicting interests.

To conclude, resulting from the under-researched study context and the incorporation of novel concepts such as the value concept logic into the framework, this study provides new and more detailed knowledge on the topic of soft service internationalization. Overall, the findings demonstrate that there are several points in common with the tentative framework and the empirically collected data and thus, the framework is found to accurately explain the strategic choices of internationalizing soft service SMEs. While no additional significant factors have emerged from the case findings to complement the framework, the research purpose of exploring the influence of factors identified in earlier studies has been achieved. More specifically, based on the findings of the multiple case study, the 11 factors included in the framework are all influential in explaining the target market selection and entry mode choice of soft service SMEs and thus, the framework serves as a comprehensive starting point for further research.

## **6.2 Managerial implications**

Along with the theoretical contributions discussed above, the research provides some practical insights useful especially for managers of internationalizing soft service companies. However, given that the strategic decisions related to internationalization are context-specific, it is challenging to devise general guidelines and recommendations that would apply across the different sub-sectors of the service industry. Nevertheless, the most substantial implication of this research may well be that internationalization is not only an option reserved for large, multinational service firms with abundant resources or for hard services that may cater to the needs of international clients without leaving the home country. Instead, the findings demonstrate that soft service SMEs, which build their concept around attracting customers to their own physical facilities, do not look for growth only in the proximity of the home market. On the contrary, these companies are

capable of reaching new customers by expanding into both geographically and culturally distant markets too, even at the outset of internationalization. In addition to the above general implication, three more practical managerial recommendations can be drawn from the empirical findings of the thesis: (1) Facilitate the transfer of key competence and knowledge by standardizing certain elements of the service concept while ensuring that the local culture-specific aspects are taken into account in service delivery; (2) Invest time and effort into the target market selection and determine suitable selection criteria to narrow down the alternatives; (3) Consider the level of control provided by each entry mode in light of nature of the service as well as company goals and external market characteristics.

The findings of this study show that in order to transfer the service concept to international markets, soft service SMEs consider it useful to standardize some elements of the concept. Gathering the company-specific knowledge and know-how into a service platform and compiling a unified service manual may aid particularly in dealing with the high asset specificity and training of the local service staff. Overall, standardizing the concept facilitates its replication across borders while ensuring that the service encounter follows the pre-defined procedures and consistently leads to the desired customer experience throughout the different markets. However, as the service builds on extensive customer interaction, it is essential to be aware of the prevailing cultural and social norms of the target market and thus, the concept must also be adaptable. Adaptation of the service concept may concern the physical premises, the activities and interaction with customers, or the marketing communication, for instance. There are various measures to obtain knowledge on the culture of the target market such as establishing a joint venture with a local partner, conducting market research, and employing local managers and service staff.

Target market selection is a major component of the internationalization strategy and it influences significantly how the foreign expansion of the soft service SME will turn out. Therefore, as this study demonstrates, it is recommendable to invest adequate time and effort into conducting a careful assessment of the alternatives, or at the very least, acknowledge the major factors favoring a certain market over the others. To avoid making misjudgments and rash decisions based on false personal biases, companies may benefit from determining appropriate criteria to carry out systematic rankings that help to justify the business case behind the expansion. In addition, especially service SMEs that lack experience and have only limited company networks are recommended to use the embassy or chamber of commerce of the possible target market as the first points of contact. These actors are often able to provide useful information on the local business environment and can introduce the company to other stakeholders in the market.

Managers of soft service firms, and service firms in general, should find the framework useful in identifying specific factors to consider in the entry mode choice. The desired

level of control provided by each entry mode should be considered in light of the nature of the service as well as the company goals, such as market-seeking or client-behaving motivations, and external market characteristics. In addition, evaluating the asset-specificity and the underlying value creation logic of the service may help narrow down the alternatives. This study suggests that especially during the first steps of foreign market expansion, the most suitable entry mode is one providing a high degree of control. When building the local presence, control is necessary to facilitate the successful replication of the concept to the foreign market and it also ensures that the service quality will not deteriorate. However, once the service firm has managed to clearly define and test its service concept on the foreign market, it may also consider changing to less resource-intensive, shared-control modes, such as franchising, for future international growth.

### **6.3 Limitations and suggestions for further research**

The conclusions presented above should be considered in light of the study's limitations that influence the scope and depth of the study. Firstly, due to the lack of previous academic research, this research was predominantly exploratory in nature and thus, conducted as a qualitative multiple case study. The research objective was to explore the applicability of current knowledge on service internationalization in the yet under-researched soft service SME context. Hence, while the collected empirical data is a rich description based on the experience of four Finnish soft service SMEs, the findings form an inadequate basis for scientific generalizations. Therefore, to improve the level of generalization, quantitative research should follow to provide statistical tests and empirical results on the influence of the identified external and internal factors.

The second limitation is related to the sample of this study. While there is no agreement on the optimal sample size, it is recommendable to reproduce the study in a wider research context with a higher number of cases and more diversity in terms of the value creation logic or selection of target markets, for instance. Similarly, expanding the sample to consist of both hard and soft service firms could provide more clarity on the influence of various factors, such as having a local market presence, on the internationalization strategy. In addition, when considering the timing of the study in relation to the internationalization process, the expansion of the case companies has been taking place within the past few years. On the one hand, this can be considered to improve the respondent's recollection of recent events and thus, increase the accuracy of the empirical data. On the other hand, setting a more long-term research focus and conducting follow-up interviews would provide a more consistent picture on the internationalization process. Although this study included some tentative evidence of how the criteria for selecting target markets and choosing entry modes changes as the soft service SME continues to

build its international presence abroad, this topic merits more research. Furthermore, as this study demonstrates, soft service SMEs intend to either complement or replace the use of resource-augmenting entry modes of joint venture and wholly owned subsidiary with the resource-exploiting mode of franchising. Therefore, directing future research towards a more fine-grained analysis of the alternative entry modes as well as the methods of exercising control in contractual agreements seems worthwhile.

Admittedly also the inexperience of the researcher affected the formation of the study setting as well as the scope of discussion. More specifically, the incorporation of factors into the preliminary framework was based on the selection made by the researcher. While it relied on the conducted literature review and was not subject to personal bias, a more experienced and well-informed researcher could have produced a more explicit selection. Besides, while no additional influential factors emerged in this research, this does not suggest that the current framework inclusively explains the internationalization strategy of soft service SMEs. Thus, it is recommended to both study in more detail the influence of the current ones as well as to include new factors, such as home market characteristics, into the study setting. Although the current findings complement the understanding on the antecedents of target market selection and entry mode choice, they do not allow to create a hierarchy among the selected factors. In general, future research could aim to better account the intertwined nature, the complexity and the multi-faceted meaning of some of the investigated factors, such as country risk, the level of experience and the influence of the company network.

Regardless of the potential limitations discussed above, this study offers a reliable starting point for further research to examine the topic by increasing the number of interviews, verifying the findings quantitatively, including new factors into the theoretical framework and expanding the research to other service business sectors or geographical markets. Such measures may produce an ever more comprehensive and distinctive framework capable of explaining the influence of various factors on the internationalization strategy of soft service SMEs.

## 7 SUMMARY

The rise of the services sector into a powerhouse of global economy has been the result of several globally occurring socioeconomic changes such as increased lifespan, affluence and leisure time of consumers, the servitization of traditional manufacturer companies, technological advancements particularly in ICT, and liberalization of trade policies. Today, besides dominating world output and employment, services have become vital for global value chains and a catalyst for international trade as they expand across national borders. Yet, despite the essential role of services for the world economy, which is only expected to grow in the decades to come, research on the internationalization of services has remained limited and theory is still considered to lag behind practice.

This study set out to examine the strategic decisions in the internationalization process of services from the perspective of Finnish, small and medium-sized (SMEs) soft service companies. Soft services are characterized by their simultaneous service production and consumption while SMEs typically operate within limited resources and capabilities. These two features were considered to distinguish the internationalization process of soft service SMEs from companies that may deliver their service digitally or that are larger, well-established players on international markets. The sub-objectives of the study were to describe the internationalization process of soft service SMEs, and to identify the factors influencing the two strategic choices any firm expanding abroad is required to make, namely, the target market selection and entry mode choice. The study began by presenting multiple definitions of services and their common characteristics as well as three categorizations of international services. Then, the focus shifted to discussing in detail the internationalization process of services, which served as the foundation for the tentative framework of the study. The tentative framework proposed that the internationalization process of soft service SMEs, of which the strategic decisions of target market selection and entry mode choice are essential parts of, is influenced by various factors related to both the internal and external environment of the company. The framework included in total 11 factors identified in earlier research, which were divided to service characteristics and firm characteristics related to the internal environment and to host market characteristics related to the external environment.

For the purpose of achieving understanding on the internationalization process of soft service SMEs, the empirical research was conducted as a qualitative, extensive multiple-case study. The primary data was collected through semi-structured, one-on-one interviews with key respondents from four Finnish soft service companies that had internationalized to one or more foreign markets. The interviews were steered with the help of a themed interview guide that was based on the tentative theoretical framework. All of the interviews were tape-recorded and later transcribed, and the gathered information provided a rich description of each unique case. Following a theory-driven

thematic analysis, the collected data was closely analyzed and interpreted in relation to the theoretical framework and the research objectives.

The empirical findings of the study largely aligned with earlier research but also provided further insight and understanding about the diverse and complex internationalization process of soft service SMEs. Firstly, the results showed that soft service SMEs devoted time and effort to carefully assess the various alternatives available when selecting their target markets and entry modes. In addition, these two strategic decisions were found to be influenced by multiple internal and external factors with embedded and intertwined relationships. The target market selection was mainly based on the strategic aspirations, market potential, country risk, network partners and available resources while the influence of the geographical proximity and cultural similarity of the target market was limited. Furthermore, given that the local customer's physical presence was identified as the inseparable resource for service delivery, the soft service SMEs could not internationalize gradually by exporting. On the contrary, they were required to rely on entry modes that would allow establishing a physical presence from day one on the foreign market. Moreover, in order to transfer the service concept and the related internal capabilities and know-how abroad, and to maintain high service quality, an entry mode providing sufficient control over the foreign venture was deemed necessary. In addition, the entry mode choice was influenced by the capital intensity and limited resources of the SME as well as the availability of partners, who were considered helpful upon entering culturally distant markets.

Subsequently, the purpose of this study was achieved as the findings of the empirical research confirmed the suitability of the framework for examining the target market selection and entry mode choice in the internationalization process of soft service SMEs. Furthermore, the results provided new understanding on the topic as well as suggestions for further research that could be guided towards analyzing in detail the different entry modes, expanding the time-frame of the internationalization process, or examining the influence of additional external and internal factors, for instance. Moreover, based on the empirical findings, the study encouraged managers of other soft service companies to expand abroad by providing practical suggestions on the critical aspects of the internationalization process.

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## APPENDIX 1: INTERVIEW QUESTIONS

### Background questions

- Please introduce yourself and describe your position in company X.
- What has been your role in relation to the internationalization of the company?
- Please tell about company X and the business.

### Theme 1. Nature of the service

- Please describe what is the service offering.
- How important do you perceive co-location with the customer for successful service delivery?
- How adaptive or customizable the service is to individual customer preferences?
- Would you consider the service primarily as a contact-based / vehicle-based / asset-based / object-based service?
- From the following alternatives, which value creation logic would you say the service concept mainly follows?
  - Analytics services – Identifying customer’s needs or problems and giving solutions, e.g. consulting, health sector
  - Facility services – Safeguarding and maintaining the use of goods and properties, e.g. hotel, restaurant
  - Entertainment services – Providing customers with exciting or stimulating experiences, e.g. theater, sports club
  - Logistics services – Transport or storage of goods, equipment, data, money, persons, e.g. airline, mobile network operator
  - Network access services – Providing access to networks of individuals/firms with supplemental social or economic interests, e.g. financial institutions, social media communities

### Theme 2. The internationalization process

- Please describe the internationalization process of the company.
- What would you consider being the motives behind the internationalization?
- Was there an internationalization strategy composed prior to expanding abroad?
- If yes, what aspects did the strategy include? If no, why?
- What kind of challenges have you come across during the internationalization process?

### Theme 3. Target market selection

- Please describe how the target market(s) for the internationalization was (were) selected?

- What kind of factors would you consider influencing the decision?
- How was the external environment in terms of the political, economic or social characteristics of the target market considered?
- Did the location of current clients or network members influence the decision of which market to enter?
- What role did the market similarity and psychic distance have?
- Did the company's previous experience influence which market was selected?

#### Theme 4. Entry mode choice

- What entry mode was chosen for the international expansion?
- Did you consider alternative EMs prior to expansion?
- How did you assess the suitability of the chosen EM compared to alternatives?
- Do you plan to utilize the same entry mode in possible future expansions?
- What kind of factors would you consider influencing the decision?
- How did the following factors influence the EM choice?
  - Service characteristics: Inseparability / value creation logic / capital intensity / asset specificity
  - Firm characteristics: Firm size and available resources / Client following or market seeking behavior / previous experience
  - Host market characteristics: Target market size and potential / availability of partners / target market risk / cultural distance