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## International orientation and strategies of service companies in foreign markets

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## INTERNATIONAL ORIENTATION AND STRATEGIES OF SERVICE COMPANIES IN FOREIGN MARKETS

### Summary

The author elaborates on specification of international services turnover and on challenges for service companies whose ambition is entering foreign markets. The writer shows also motives of internationalization of service enterprises, on the basis of literature sources, variants of marketing orientations and marketing strategies in a foreign market corresponding to them. Moreover, main forms of Polish service companies' presence in an international market have been described.

**Keywords:** services, service companies, foreign markets, marketing orientations, service marketing strategies

### Introduction

The subject of this article refers to a more and more visible presence of service companies in foreign markets. This phenomenon is connected with a choice of an international orientation concerning their operation, and also a marketing strategy accepted within its range. Literature of this subject includes, first of all, knowledge useful for manufacturers operating in an international sphere, relatively little is mentioned about specification of services in trade exchange and about service enterprises activity in an international market. In order to fill this gap, the most important theoretical achievements, within the scope of an orientation and marketing strategies of services in foreign markets, have been analyzed and specific areas of their application have been indicated.

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The source of information is national and foreign literature and also research results done by the author in this hardly recognizable area.<sup>2</sup>

### Services in international turnover

As for research on services turnover from an international perspective, it turns out that it has been underestimated for many years. Researchers took interest in international exchange of services and attempts of its aggregation are dated to the second part of the 80s in the 20<sup>th</sup> century. Among authors who have drawn up proposals of services specification exchanged internationally are: A. Koekkoeka (1987), G.P. Sampson and R.H. Snape (1985), F. Breuss (1990) as well as T. Clark, D. Rajaratnam and T. Smith (1996). Proposed criteria of services division in international turnover and practical examples are specified in the table 2.5.

Table 1

Classification of services from an international perspective

Criteria of service division	Types of services and practical examples
Possibility of distinguishing services according to international statistics (A. Koekkoeka – 1987)	<ul style="list-style-type: none"> <li>– independent services (e.g. transport, international tourism, port, postal),</li> <li>– dependent services (services as a part of international contracts).</li> </ul>
Place of providing services (G.P. Sampson and R.H. Snape – 1985)	<ul style="list-style-type: none"> <li>– independent services, without migration: service providers, service recipients and production factors (e.g. services for households),</li> <li>– services requiring migration of production factors (e.g. insurance services),</li> <li>– services requiring migration of a service recipient to a service provider (e.g. construction, healthcare),</li> <li>– services requiring migration of production factors and a service recipient (tourist, gastronomic for foreign tourists).</li> </ul>
Complementarity degree in relation to trade and to directions of production factors flow (F. Breuss – 1990)	<ul style="list-style-type: none"> <li>– services being a direct subject of international turnover and complementary in relation to trade, so called intrinsic, e.g. transport, insurance and reinsurance,</li> <li>– services provided at international flows of service providers and complementary in relation to trade, oriented at demand (e.g. telecommunication, banking),</li> <li>– services provided at international flows of service recipients and complementary in relation to trade, determined by supply (e.g. tourist, healthcare, outside a country),</li> <li>– services provided at international flows of service providers and service recipients, so called unrelated in space (e.g. charter flights, musical concerts).</li> </ul>

<sup>2</sup> In the article the writer has used her own research published in: M. Pluta-Olearnik, *Marketing przedsiębiorstw usługowych w procesie internacjonalizacji*, PWE, Warszawa 2013.

Depending on who or what crosses a border (T. Clark, D. Rajaratnaman, T. Smith – 1996)	<ul style="list-style-type: none"> <li>– contact services (<i>contact based</i>), provided at international flows of people , e.g. consulting, archeological, managerial,</li> <li>– services provided by means of electromagnetic signals (vehicle-based) – e.g. musical, film,</li> <li>– services provided at international flows of assets (asset based) – e.g. direct investments of banks, hotels,</li> <li>– services provided at international flows of objects (object based) –e.g. computer software, appliances repair abroad.</li> </ul>
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Source: the study with a use of: J. Misala, *Międzynarodowa wymiana usług w świetle teorii*, in: *Globalizacja usług. Outsourcing, offshoring i shared services centers*, ed. A. Szymaniak, Wyd. Akademickie i Profesjonalne, in cooperation with Deloitte, Warszawa 2008, p. 16; T. Clark, D. Rajaratnaman, T. Smith, *Toward a theory of international services*, „Journal of International Marketing” 1996, Vol. 4, No. 2, p. 9–28.

A breakthrough for international services trade turned out to be long – time negotiations resulted in establishing GATS (General Agreement on Trade in Services) in 1994, regulating services turnover (the agreement has been created within WTO – World Trade Organization). In the accepted classification, four typical types of services supply have been distinguished, using the criterion of mutual location and relations between a service provider and a service recipient:

- a) cross border services supply (cross border supply) – takes place when a service provider and a service recipient reside in different countries, and a distance to provide a service is irrelevant (e.g. a service can cross a border by means of the Internet or a phone),
- b) services consumption abroad (consumption abroad) – means that consumers have guaranteed possibilities of purchasing and/or consuming services outside their own country,
- c) commercial presence of a service company on a territory of a country where a service is to be supplied (commercial presence) – means a possibility of services performance outside a country by establishing and/or expanding foreign subsidiaries or a representative of own service company,
- d) movement of natural persons in order to supply a service (presence of natural persons) – it is a possibility of periodic migration of people (workers, self-employed people) abroad to provide services there.

The purpose of GATS agreement was to establish clear rules in international trade of services, that can lead to an increase in international exchange of services, equal treatment of all participants of trade, a provision of a better access to markets for trade partners by successive liberalization of service turnover. The subject of GATS legal system are services called commercial.

One of the most important European legal acts within a scope of service supply is the Services Directive.<sup>3</sup> It applies to services supplied by service providers established in a Member State. In accordance with the Directive, a service provider is any natural person who is a national of a Member State or any legal person engaged in service activity in one of 27 countries in the EU, using the freedom of establishment or the free movement of services.

The Service Directive defines a notion of services very widely, including activity connected with most regulated jobs, craftsmen services, services for companies, commercial activity, tourist services, entertainment services, construction services, services of installation and maintenance equipment, IT services, hotel and catering services, training and education services, lease and rent services, services concerning real estate.

Current tendencies of internationalization of services trade are influenced by two important mega-factors: IT technologies development, information and telecommunications technology (ICT) and an increase in importance of services connected with business servicing of enterprises in foreign markets.

### **Internationalization motives of service enterprises**

The overriding motive of companies' internationalization is searching for sources of profit growth by management, and so called groups of reactive and proactive motives show companies activity, striving to achieve their goals. Reactive motives of internationalization indicate more a strategy of following clients in international markets, whereas proactive motives refer to searching new markets of operating abroad. In the latter case, management of a company has a vital role, initiates company markets development and implements such strategy actively, e.g. commits itself to meetings with clients and partners, supports commercial visits of its representatives abroad. An important proactive element is the fact that a company has competitive competences, attracting foreign clients (including specific knowledge and personnel qualifications), and also technological advantage over foreign competitors.

On the other hand, reactive motives of a company internationalization, resulting from following a client, are a popular strategy of companies serving big international corporations (e.g. within the scope of financial or IT services). Service enterprises establish subsidiaries or departments in countries where

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<sup>3</sup> Directive 2006/123/EC of The European Parliament and of The Council of 12 December 2006 on services in the internal market, in: *Świadczenie usług w Unii Europejskiej*, PARP, Warszawa 2010.

their clients operate. In Poland, in accordance with this rule, foreign banks have opened their branches (e.g. Toyota Bank) as well as lorries servicing companies (e.g. Volvo). Reactive internationalization can be, for instance competitors' presence in international markets and a saturated internal market, hindering business development, or a little psychological distance of a target market, encouraging to offer services, similar to these in a domestic market. Unused company capacity in a domestic market may induce to search for new foreign markets, geographically closer, especially those neighboring.

From a synthetic perspective of the author G.S. Yip, a company inclination towards internationalization and globalization depends on a combination of the following factors:<sup>4</sup>

- a) market (including appearance of global clients, or consumers styles becoming alike),
- b) costly (including a scale of benefits, recent advances in technology),
- c) competitive (increase in a level of world trade turnover, global and strategic alliances),
- d) governmental (including cutting tariffs, privatization),
- e) additional (e.g. revolutionary information and communication solutions).

Another example describing internationalization motives of service companies is a proposal made by H. Kasper, P. Helsdingen, M. Gabbott, who have distinguished the following groups of motives<sup>5</sup>:

- a) company management ambitions and its support for internationalization,
- b) knowledge and skills acquired in a company,
- c) domestic market limitations,
- d) market opportunities,
- e) finance, risk, costs and benefits.

The authors mentioned above, draw attention to the reasons which in service companies' activity are very often proposed. Ambitions of management in such companies are among the most important motives of internationalization. Personal commitment, knowledge of foreign cultures and resourceful management operations, including new technologies and innovative ideas, support a process of their internationalization.

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<sup>4</sup> G.S. Yip, *Strategia globalna*, PWE, Warszawa 2004, p. 43–45.

<sup>5</sup> H. Kasper, P. Helsdingen, M. Gabbott, *Services marketing management. A strategic perspective*, John Wiley & Sons Ltd, Chichester, England 2006, p. 279–281.

Another factor can be distinguished knowledge and skills acquired in a company related to, for instance, management procedures, service quality, marketing activity orientation, database storage which may be used in a foreign market as an element of competitive advantage.

Next essential motive of internationalization are fears, risks to domestic market. Decrease in demand, saturation in a service market and strong competition force companies to search alternative methods of development. These can be known (described by Ansoff) strategies of action in a domestic market (e.g. new product development, product diversification), or decisions taken to expand operations in foreign markets.

Market opportunities are situations when service companies follow their customers and go into orbit of international activities (it is already mentioned reactive motive), or use local authorities' orders, customers or other companies.

The last group of motives links with finance, risk, costs and anticipated profit. In service activity, we deal with a long payback period and therefore more risk. Exchange rate fluctuations are also impediments, because their prices are relatively not much flexible. Investing in a foreign market, companies hire external workers who need to be trained and to adapt to work in new cultural conditions.

In a microeconomic scale, the homogeneous and specified theory of service enterprises internationalization does not exist. Therefore, it is important to refer to literature models and search for examples of service companies entering foreign markets. We need to remember that a company decision about entering foreign markets results from an interaction of several elaborated earlier groups of motives, which in practice are mutually related and dependent.

### **International orientation in a strategy of service companies**

In literature, it is emphasized that company marketing strategies in foreign markets are influenced by an accepted orientation of action in foreign markets. In table 2, most important features of service enterprises marketing have been described in relation to a specific marketing orientation of a company.

Table 2

Characteristics of services in companies strategy and an international orientation of a service company

Type of strategy of services marketing	Characteristics of marketing strategies in a service company
Ethnocentric orientation	
Strategy of domestic market (national)	<ul style="list-style-type: none"> <li>– a foreign market is treated as a secondary in relation to a domestic market,</li> <li>– internationalization is possible by delegating a service provider abroad (engineering services, transportation, medical), or provide services online (intermediary services, advertising, information technology),</li> <li>– marketing mix programs, procedures similar to these in a domestic market.</li> <li>– service recipients' needs considered as similar to a domestic market (although some sociocultural difference may occur),</li> <li>– adjusting a service by a provider in an indispensable range to a service recipient, minimization of a service adaptation,</li> <li>– standardized online services (e.g. business, such as data processing).</li> </ul>
Polycentric orientation	
Strategy of multinational marketing	<ul style="list-style-type: none"> <li>– availability of services in place where demand is (a host market),</li> <li>– each foreign market treated independently as specific,</li> <li>– service recipients' needs and demands considered differently in foreign markets,</li> <li>– marketing mix programs individualization, procedures adaptation,</li> <li>– adaptation of an offer concerning services, a brand, communication, forms of customer service to a host market needs.</li> </ul>
Regiocentric orientation	
Strategy of intraregional marketing	<ul style="list-style-type: none"> <li>– a region treated as relatively homogeneous (e.g. EU countries),</li> <li>– similarity of consumers' attitudes and behavior in a region,</li> <li>– marketing mix programs standardization is predominant, standardization of procedures (banking, legal and advertising services),</li> <li>– adjustment of services forced by legal regulations, barriers in a foreign market.</li> </ul>
Strategy of interregional marketing	<ul style="list-style-type: none"> <li>– particular regions (e.g. in Europe) treated as heterogenic regions,</li> <li>– differentiation of an attitude and behavior of service recipients</li> <li>– individualization of marketing mix and procedures (tourist, gastronomy and medical services)</li> <li>– employment of local personnel (managers, service contractors).</li> </ul>
Geocentric orientation	
Strategy of global marketing	<ul style="list-style-type: none"> <li>– a global market treated as a potential market for operations,</li> <li>– a highly integrated marketing strategy (decisions are taken in company headquarters in a country of origin),</li> <li>– standardization of marketing mix program and procedures is predominant (chains of cafes, fast food restaurants, telecommunication services, business services based on ICT technology: information, accounting, financial).</li> </ul>

Transregional orientation	
Strategy of transregional marketing	<ul style="list-style-type: none"> <li>– noticing submarkets and recipients' segments of a transregional character,</li> <li>– marketing mix programs and procedures taking into account (in a controlled range) submarkets specification,</li> <li>– selective standardization of marketing mix – individualization is possible in some range (business services e.g. auditing, management and specialist services, e.g. architectural, medical).</li> </ul>

Source: elaborated on: E. Duliniec, *Marketing międzynarodowy*, PWE, Warszawa 2009, p. 27–29; P. Pietrasieński, *Międzynarodowe strategie marketingowe*, PWE, 2005, p. 61–63; P.R. Cateora, J.L. Graham, *International Marketing*, McGraw Hill-Irwin, New York 2007, p. 355–360.

In relation to services – by comparison with material goods – their globalization potential assessment is more complicated. Numerous, foreign services posts using an identical logo of a brand, are not an indicator of a transnational or global strategy. In practice, service companies use strategies of multinational marketing more often, which results from conditioning of services globalization potential, especially an object of their effect, according to which appear:

- a) contact services, whose object are people – physical presence of a service provider in a foreign market is required, taking into account possible forms of such presence,
- b) services whose object are material items, owned by service recipients – some of these services are connected with physical location of a service provider, but some of them can be supplied remotely,
- c) services based on information, affecting human mental powers or non-material resources of recipients – having the greatest globalization potential, because thanks to ICT technology development, they can be provided over a distance.

Some factors concerning demand, costs, technology, law and competition decide about globalization potential of a particular services group (and service sectors typical for it)<sup>6</sup>. Currently, especially technological factors decide about globalization of numerous service sectors. It is becoming possible due to decomposition of a chain of added value, and to development of offshore services. Transnational corporations, offering mainly business services, have significant contribution to this process.

<sup>6</sup> Ch. Lovelock, G.S. Yip, *Developing Global Strategies for Service Business*, „California Management Review” 1996, Vol. 38, No. 2.

### Selection of a foreign target market of services

In a process of a selection of a foreign target market for a service company, we can distinguish four stages:

- a) identification of strategic targets for a service company,
- b) marketing analysis of a foreign target market,
- c) analysis of infrastructure resources,
- d) type of interaction between a service provider and a recipient in a foreign market.

Table 3 contains model questions accompanied decisions of company management on selecting a foreign services market.

Table 3

Basic information concerning a selection of a strategy in a foreign market

Selection criteria of a market entry	Model information useful for making a decision
Identification of strategic targets of a service company	<ol style="list-style-type: none"> <li>1. What benefits can a company offer its potential clients in a foreign market?</li> <li>2. How will it affect company goals?</li> <li>3. What is a level of services quality in this market?</li> <li>4. What level of offered services clients expect?</li> <li>5. What action would a company have to take to achieve a quality level of services required by foreign customers?</li> </ol>
Marketing analysis of a foreign target market	<ol style="list-style-type: none"> <li>1. What is potential of a host market?</li> <li>2. What is a level of competition and market division?</li> <li>3. What is a current level of prices and profit and is growth possible?</li> <li>4. What is a level of psychological distance from a foreign market perspective (cultural, economic and psychological distance)?</li> </ol>
Analysis of an infrastructure level and of market entry conditions	<ol style="list-style-type: none"> <li>1. What is a level of material infrastructure, economic and technological supply in a foreign market of services (advanced or backward)?</li> <li>2. What are legally binding tariffs and regulations of a host market? To what extent are they binding on companies entering a market?</li> <li>3. What is a risk level (economic and political)?</li> </ol>
A type of interactions between a service provider and a service recipient in a foreign market	<ol style="list-style-type: none"> <li>1. Can a service provider, operating in a domestic market of services, be also present (physically) in a foreign market?</li> <li>2. In what way and to what extent offered services may be adjusted to foreign market expectations?</li> <li>3. Is it possible to have long-term business relationships in a foreign market?</li> </ol>

Source: in the study the following positions have been used: H. Kasper, P. Helsdingen, M. Gabbott, *Services marketing management. A strategic perspective*, John Wiley & Sons Ltd, Chichester, England 2006, p. 290.

As a result of strategic analyses, connected with company entering and operating in a foreign market, it is a decision concerning a selection of a develop-

ment strategy and an accompanied organizational and legal form. Results of conducted empirical research indicate that the most often selected forms of service activity in a foreign market, mainly because of its characteristics, are so called contract forms including: licensing, franchising and methods based on cooperation, such as joint venture and strategic alliances. All these mentioned forms of activity in foreign markets are elaborated below.

Table 4

The most frequent forms of service enterprise activity – international market

Services in a foreign market	Characteristic of a solution and its effects	Possible strategies of development (matrix service-market)
Licensing	It is a contract transaction. A company giving a license (a license giver) offers specified, within the provisions of an agreement, resources to a foreign subject (a license recipient). These resources may contain: trademarks, technology, patents. It is capital-free form, which lets penetrate foreign markets easily. Sometimes it is an only way of entering a foreign market. There is higher risk to a license recipient. License fees are a source of a profit.	<ul style="list-style-type: none"> <li>– market expansion.</li> <li>– a new service (in a host market).</li> <li>– diversification of markets (entering foreign markets).</li> </ul>
Franchising	An agreement in which a company – franchisor gives a franchisee specified entitlements to do businesses in compliance with its concept including: a brand, a trademark, technological know-how, methods of running a business, commercial and technical support. It is a low capital form of entering and operating in a foreign market, relying on good knowledge of a market by a franchisee. This party pays a portion of its profits to a franchisor.	<ul style="list-style-type: none"> <li>– market expansion</li> <li>– a new service (in a host market).</li> <li>– diversification of markets (entering foreign markets).</li> </ul>
Joint venture	A joint venture agreement means that a company entering a foreign market invests its capital and material resources, sharing them with a local partner. Advantages of this business activity are, among others, reduction of the risk exposure to all parties involved, control over company activity in a host market, using experience, resources and business relationships of a local partner.	<ul style="list-style-type: none"> <li>– market expansion.</li> <li>– a new service (in a host market).</li> <li>– diversification of markets (entering foreign markets).</li> </ul>
Strategic alliances	An arrangement between two or more companies in order to achieve a common, strategic goal, e.g. enhancing a position of participant in a global market. The advantages are: sharing costs of new products and technologies development, joining costs of key marketing resources (trademarks, trade channels). Risk is divided between partners of an arrangement, profits are shared. The arrangement does not have a permanent character (it is possible to terminate an alliance).	<ul style="list-style-type: none"> <li>– a new service (innovation)</li> <li>– market expansion (in a world/ global market)</li> </ul>

Source: elaborated on: P. Pietrasiński, *Międzynarodowe strategie...*, p. 35–40; E. Duliniec, *Marketing międzynarodowy...*, p. 117–129; J. Rymarczyk, *Biznes międzynarodowy*, PWE, 2012, p. 288–293, 296–302.

An internationalization form of a company indicates connections with a transferability degree of resources. Depending on what sources of a possible competitive advantage are in a foreign market, concrete solutions are chosen. If a concept of service activity transferability is taken into account, forms of licensing and franchising are selected. However, better control over investments have companies operating directly in foreign markets (subsidiaries, acquisitions), or companies opting for joint venture and for strategic alliances.

### **Conclusion**

The role of services in an economy is often undervalued and has difficulty being analyzed from aspects of economic statistics and of economic awareness of some politicians. Services have been underestimated in an international context for many years. Taking interest in problems of trade services appeared not a long time ago, in the 80s in the 20th century, and international trade meant, until these times, mainly trade of material goods. Research development on internationalization motives of service enterprises and their marketing strategies in an international market of services, is a promising and future area of research, considering dynamics of services development in the European and global economy in the 21 century.

## **ORIENTACJA MIĘDZYNARODOWA I STRATEGIE PRZEDSIĘBIORSTW USŁUGOWYCH NA RYNKACH ZAGRANICZNYCH**

### **Streszczenie**

Autorka omawia specyfikę międzynarodowego obrotu usługami oraz wyzwania płynące dla przedsiębiorstw usługowych mających ambicje wejścia na rynki zagraniczne. W oparciu o źródła literaturowe wskazuje motywy internacjonalizacji przedsiębiorstw usługowych, warianty orientacji marketingowych oraz odpowiadające im strategie marketingu na rynku zagranicznym usług. Ponadto omówiono główne formy obecności polskich przedsiębiorstw usługowych na rynku międzynarodowym.

**Słowa kluczowe:** usługi, rynki zagraniczne, orientacje marketingowe, strategie marketingowe

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