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FOREIGN MARKET ENTRY MODE CHOICE IN SERVICE FIRMS: A BUSINESS MODEL PERSPECTIVE

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Abstract

The topic of foreign market entry in service sector could benefit from a more granular approach, since the business model (BM) employed varies greatly across different types of services. It is argued that this in turn would affect the internationalization strategy to be employed in each service case. In this paper, services are classified along three dimensions (*inseparability*, *capital intensity*, *degree of customization*), and propositions are developed regarding the right foreign market entry mode for each of the eight service variations. The propositions are grounded in business model and general strategic management theories, since it is argued that service firms design their activity systems in host countries via tradeoffs between adjustment costs and transaction costs involved. As the service classification defines the nature of these costs for the focal firm, previous findings regarding the choice of foreign market entry mode reflects BM designs to optimize such costs. The scientific value of this paper is the introduction of the business model concept as a new perspective for research on decision making in service firm internationalization.

Keywords: Business Model, Foreign Market Entry, Service Marketing, Internationalization

HİZMET FİRMALARINDA YABANCI PAZARLARA GİRİŞ STRATEJİLERİ: BİR İŞ MODELİ PERSPEKTİFİ

Öz

Hizmet firmalarının yabancı pazarlara girişi konusu, iş modellerinin verilen hizmetin türüne bağlı olarak önemli ölçüde farklılaşması sebebiyle, detaylı şekilde incelenmesi faydalı olabilecek bir konudur. Bu çalışmanın yola çıktığı sava göre, bir hizmet firmasının uyguladığı iş modeli uluslararasılaşma stratejisini önemli ölçüde etkileyecektir. Bu doğrultuda; bu çalışmada hizmetler üç boyutta sınıflandırılmış ve her bir hizmet varyasyonu için doğru pazara giriş stratejisi hakkında öneriler sunulmuştur. Sunulan öneriler iş modeli ve genel stratejik yönetim teorileriyle temellendirilmiştir, zira hizmet firmalarının aktivite sistemlerini tasarlarken ayarlama maliyetleri ve işlem maliyetleri arasındaki ödünleşmeden yola çıktıkları görüşü öne sürülmektedir. Hizmet firmalarının yukarıda bahsedilen üç hizmet boyutu doğrultusundaki sınıflandırması bu maliyetleri bu tip firmalar için ana hatlarıyla belirlerken, literatürdeki bulgular bu tip firmaların pazara giriş stratejilerini seçerken bu maliyetleri optimize edecek doğrultuda karar aldıkları iddiasını desteklemektedir. Bu çalışmanın bilimsel değeri, hizmet firmalarının uluslararasılaşması konusuna iş modeli perspektifinden yaklaşarak spesifik öneriler getirilmesi ve bu sayede bu alandaki yeni araştırmalara yön göstermesi olarak düşünülebilir.

Anahtar Kelimeler: İş Modeli, Yabancı Pazarlara Giriş, Hizmet Pazarlaması, Uluslararasılaşma

1. INTRODUCTION

The share of services in international trade increases every year due to drivers such as globalization and advances in information technology. According to recent data, international trade in services accounts for 7% of the world GDP (UNCTAD[1], 2019). In line with this trend, scholars have been exploring the characteristics of international trade in services with growing interest over the past two decades.

One of the major decisions in international trade is foreign market entry, as choosing the right mode of entry in a foreign market is crucial for success in that market (Benito & Welch, 1994). This is true for product as well as service marketing, since the level of risk and uncertainty involved is usually high in both cases (Ekeledo& Sivakumar, 1998). Therefore, there has been an increasing amount of research on service firm internationalization in line with the recent scholarly interest in international service trade.

The purpose of this paper is to build on the literature on service firm internationalization by suggesting an evaluation of services from business model perspective. With a business model view on service firms, this paper aims to cover all aspects (e.g. organizational, operational, financial) relevant for service value proposition, and explain how and why certain variables(e.g. capital intensity) may restrict the availability of foreign market entry options for service firms.

The contribution of this study to the service firm internationalization literature is twofold. First, it is among the first studies to include three dimensions to classify services in single analysis on foreign market entry mode choice. Second, this study is among the first to bring a business model perspective to service marketing, grounding the analysis in adjustment cost and transaction cost theories. Although transaction cost economics is frequently referred in the literature to account for the internationalization behavior of services, this study is the first to consider adjustment costs as comprehensively defined by Bigelow et al. (2019).

The rest of the paper is structured as follows. The next section deals with literature review and provides the conceptual basis for the model. The subsequent section introduces the model and the related propositions. Finally, the last section concludes the paper.

2. LITERATURE REVIEW AND CONCEPTUAL DEVELOPMENT

2.1. Classification of Services

Scholars in the field of internationalization have started exploring foreign market entry in service sector with the question of whether service firms differ significantly from their manufacturing counterparts regarding foreign market entry (Erramilli, 1990). Regarding the internationalization characteristics of the two, a major initial distinction was made between product and service firms via the classification of hard and soft services (Ekeledo& Sivakumar, 1998). The authors define hard services *as vehicle-based and object-based services*, while they define soft services as *contact-based and asset-based services* (Ekeledo& Sivakumar, 1998). For hard services, service production could be separated from consumption, as in advertising and

1 United Nations Conference on Trade and Development

equipment leasing (Sanchez-Peinado et al., 2007). On the other hand, for soft services, it is impossible to separate production from consumption, as in restaurants and hospitals (Sanchez-Peinado et al., 2007).

Despite being highly instrumental in classifying services, the hard vs. soft distinction is far from sufficient in explaining the variation in service business models, since inseparability is only one of the elements which characterize services. For instance, despite both being soft in nature, hotel chains and management consultancies differ significantly in their value propositions and their underlying value creation mechanisms. Therefore, the rest of the distinguishing factors of services, namely intangibility, perishability, and heterogeneity (of the service experiences) should also be taken into consideration to develop a model for foreign market entry mode choice.

In order to explain the aforementioned variation in service business models further, scholars have introduced variables such as *capital intensity* and *degree of customization* (Pla-Barber et al., 2010). *Capital intensity* addresses the variation within services regarding the investment required (e.g. in physical assets) to start operating, differentiating hotel chains from management consultancies via addressing the differences in the degrees of intangibility and perishability of these services (Pla-Barber et al., 2010). On the other hand, *degree of customization* would help reflect the learning relationship between firm and its customers, as firms accumulate unique knowledge and thereby develop tailored services to their customers (Pla-Barber et al., 2010). In practice, degree of customization could differentiate hotel chains from private banks. Although both being soft services with high capital intensity, private banking requires considerably higher customization due to variation in the level of financial sophistication among clients, requiring relationship managers to be employed at local branches.

The relevance of this classification for foreign market entry is its exhaustiveness in covering different types of services, e.g. from private banking to plumbing. Furthermore, all three criteria (inseparability, capital intensity, degree of customization) reflect the variation in underlying business model elements for these services to a considerable extent.

The question of why the differences in business models play a role in foreign market entry mode choice is addressed with the related theory in the following sub-section.

2.2. Business Models

The business model concept provides a holistic perspective on how business is conducted, with an emphasis on value creation for all business model participants (Zott &Amit, 2010). Furthermore, the architecture of value creation, delivery, and capture mechanisms is what a business model describes (Teece, 2010).

As Zott & Amit (2013) argue, the business model is a new level and unit of analysis. The relevance of the business model construct in our case is that it grounds the aforementioned classification of services in theory. Since there are many similarities across service industries regarding the business models employed, analyzing the business model structures enables the generalization of findings beyond what is possible in industry-level studies. For instance, since value creation in both hotels and restaurant chains requires investment in property and training of staff for standardized service, grouping the two types of services under one business model typology enables the generalization of findings at this level. On the other hand, some aspects internal to service firms are only valid at the strategic level, such as top management international experience (Herrmann & Datta, 2006). These aspects are also found to be significant in foreign market entry mode choice (Herrmann & Datta, 2006); however, they represent a higher (strategic) level of analysis compared to the business model. Although interactions between strategic and BM levels would be an interesting avenue for research, this topic is out of the scope of this paper.

In their paper, Zott & Amit (2009) introduce an *activity system* perspective to business model design. As the authors suggest, business models are in essence a system of activities spanning firm boundaries and going beyond the focal firm (Zott & Amit, 2009). Therefore, in configuring a system of activities, the focal firm makes a set of design choices, which in turn reflect the key characteristics of the business model (Zott & Amit, 2009). To further clarify the design choices that firms have to make, the authors introduce three *design elements* which define the architecture of an activity system: *content, structure,* and *governance* (Zott & Amit, 2009).

Activity system content is defined as the selection the activities to be performed as part of the business model (Zott & Amit, 2009). For instance; for airline businesses, procurement and maintenance of aircraft, selection of travel routes, and establishing ground operations all define the content of activities to be performed as part of the business model. On the other hand, *activity system structure* defines the linkages among these activities (Zott & Amit, 2009). In the airline example, the content of ground operations to be performed depends on the type of aircraft used, and airports in the travel route. The activity system structure defines the linkages among these interrelated set of activities. Finally, *activity system governance* touches on *who* performs the activities (Zott & Amit, 2009). In airline industry, while aircraft is supplied by specialist manufacturers, ground operations and maintenance are also usually provided by different parties. Depending on aspects such as resources and scale economies, the focal airline operator may choose to outsource activities such as these, while performing the core activities in the customer value proposition on its own.

The relevance of activity system perspective for foreign market entry mode choice is that mode choice implies a set of design choices for the underlying activity system. For instance, when a firm chooses licensing in foreign market entry, it might sacrifice the control of major aspects of service provision in favor of low-cost entry, while retaining the rights on the service script to be employed. Given the above definitions of each design element, the main element to be considered for foreign market entry mode choice is *activity system governance*. Drawing from Zott & Amit (2009), it is the element that defines the role of each stakeholder for host country BM activities. On the other hand, for the sake of simplicity, *content* and *structure* elements are assumed to be identical to the original (home country) BM in this analysis. Although there are studies that also incorporate changes in these two elements during service firm internationalization (e.g. McQuillan & Sharkey Scott, 2015); since this paper focuses on a specific internationalization topic (foreign market entry mode choice), it would benefit from simplification, leading to more clear conclusions. All in all, a *replication logic* (Volberda et al., 2015) is assumed for content and structure.

Before the introduction of the model; to further provide the theoretical grounds for the design of the governance element, two types of strategic costs rooted in economics, which are argued to be the main considerations in design tradeoffs, must be visited: *adjustment cost* and *transaction cost*.

2.3. Strategic Costs

Despite having strong roots in economics even before being utilized in the strategic management literature, the concepts of adjustment cost and transaction cost have been used only recently in business model-related research settings (e.g. Argyres et al., 2019; Bigelow et al., 2019). Nowadays, these two concepts are being considered under new light by strategic management researchers, and thus are taking on more comprehensive definitions than originally suggested in economics (Argyres et al., 2019). For the purpose of this paper, the definition of each concept, and subsequently, their relevance to this paper are presented in this sub-section.

According to transaction cost economics, as the sophistication of resources increases, the optimum form of governance for the exchanges of these resources shifts from markets to hierarchies (Williamson, 1996). Although more hierarchy means higher cost for an organization, costs related to not choosing the right governance mode for the exchange of these sophisticated resources are even higher (Argyres et al., 2009). In other words; outsourcing such sophisticated resources/assets leads to higher transaction costs, since increased uncertainty in the availability of the resource out of control leads to higher prices for the focal firm (Argres et al., 2009).

On the other hand, adjustment cost refers to any costs (e.g. economic and organizational) related to repositioning a firm (Bigelow et al., 2019). In their literature review, Bigelow et al. (2019) present adjustment costs mentioned in the strategy literature as costs related (but not limited) to *imitating capabilities, resources and assets; accessing human capital and managerial expertise; acquiring and absorbing knowledge; overcoming lock-in from old knowledge; overcoming sunk costs or prior and credible commitments; investing in asset specificity; overcoming mobility barriers and time lags* and *time compression diseconomies*.

Given the definitions of transaction cost and adjustment cost, for any given firm, opting for high-control modes (e.g. Greenfield FDI) would naturally imply increased adjustment costs and decreased transaction costs. Since host country activities are governed by the focal firm, resources utilized to perform the BM activities come at lower transaction costs due to full control (Pla-Barber et al., 2010). On the other hand, investment in such resources in an uncharted territory (host country) means that the focal firm would incur increased adjustment costs, even in the case of replication of the home country BM, since adaptation to local dynamics is still required. On the flipside, opting for low-control modes (e.g. licensing) would imply increased transaction costs, since governance of a major part of the host country BM will be external to the focal firm hierarchy (Williamson, 1996; Pla-Barber et al., 2010). On the other hand, adjustment costs will naturally be lower in this case, since investment in the required resources and capabilities will not be undertaken by the focal firm in this BM design.

The relevance of adjustment and transaction costs for service firm internationalization lies not only in the strategic cost implications of foreign market entry mode choice, but also concerning the strategic cost differentials implied by the varied nature of the existing BMs of service firms as discussed earlier. The classifications (inseparability, capital intensity, degree of customization) imply different transaction and adjustment cost profiles for each class of BMs. Therefore, the main argument which the model and propositions will be based is that *existing strategic cost profiles inform the market entry mode choice*, for the purpose of arriving at the optimal levels of tradeoff between adjustment and transaction costs incurred during foreign market entry.

2.4. Literature Wrap-Up: Foreign Market Entry Mode Choice in Services

Hard vs. Soft Services

Due to the manufacturing-like nature of hard services, initial studies have found no difference between manufacturing and hard service firms (e.g. architectural services) regarding foreign market entry behavior (e.g. Ekeledo& Sivakumar, 1998). On the other hand, for soft services (e.g. hotels), direct entry modes (e.g. Greenfield FDI or franchising) were found to be suitable as they enable the production and consumption to occur simultaneously in the host country (Ekeledo & Sivakumar, 1998).

From the strategic costs point of view, soft services imply higher transaction costs in the case of low control modes compared to hard services, due to the heterogeneity involved in the provision of this type of services (Pla-Barber et al., 2011). As the value proposition builds around customer contact, the resources and capabilities deployed to reduce heterogeneity hold a pivotal role, implying transaction costs (Erramilli, 1990). As a result, Erramilli (1990) argues that while export is an option for hard services (low control mode), options for soft services firms are limited to contractual entry, licensing/franchising and FDI; which represent medium- to full-control modes.

Regarding the role of adjustment costs in the foreign market entry mode choice of hard vs. soft services; since the options for soft services are limited to mid- to full- control modes as mentioned above due to transaction cost considerations, adjustment costs would be expected to have limited role in entry mode choice. On the other hand, as a wider range of options is available for hard services (Erramilli, 1990), if adjustment costs such as *investing in asset specificity* and *overcoming mobility barriers*(Bigelow et al., 2019) exist, these costs would be expected to lead service firms to choose low control modes.

Capital Intensity

Capital intensity is another distinguishing factor in services. It implies the level of financial commitment (usually through investment in fixed assets) required to fulfill the value proposition of the focal service firm (Pla-Barber et al., 2010). According to Pla-Barber et al. (2010), higher capital intensity increases the risk involved in entering a foreign market, as a full control mode requires considerable investment in the host country. Furthermore, Erramilli & Rao (1993) argue that capital intensity represents fixed investment, escalating resource commitments and costs of integration.

From business model perspective, the fixed investment required in services with high capital intensity is related to the fulfillment of value proposition regarding the *tangibles* element of this type of services. As

Carman (1990) argues, tangibles (tangible elements of a service such as amenities in a hotel) are a major component of perceived service quality. This is especially the case for services such as lodging, where tangibles are a very important part of the value proposition (Akbaba, 2006).

Since investment in fixed assets is inevitable for the provision of services with high capital intensity, the risks related to investing in foreign territory should be mitigated. Building on the concept of *activity systems* (Zott & Amit, 2009); decoupling the activities related to foreign market entry, most service firms apply low- to medium-control modes such as export and franchising in entering foreign markets.

As the literature evidence suggests, *adjustment cost* is the primary distinguishing factor in choosing the foreign market entry mode in service firms with high vs. low capital intensity, as investment in capital and resource commitments mentioned by Erramilli & Rao (1993) are classified as adjustment cost by Bigelow et al. (2019). On the other hand, transaction cost is not commonly referred in the literature as a distinguishing factor for choice for this service classification.

Degree of Customization

Customization refers to a learning relationship between firms and their customers through the direct firm response to customer preferences and needs over time (Pla-Barber et al., 2010). Furthermore, the customization of services helps firms develop specialized assets (Ekeledo& Sivakumar, 2004). These specialized assets reflect competitive advantage for service firms, since these assets are also hard to imitate (Teece, 2010). Fladmoe-Lindquist & Jacque (1995) give brand names and other reputation-specific assets as specialized assets, and argue that contractual modes such as franchising are not suitable for foreign market entry by firms with such assets. In line with these arguments, tacitness of know-how is given as a factor that increases the likelihood of selection of a full-control mode (Sanchez-Peinado et al., 2007).

For highly customized services, transaction cost is the main cost concern that leads service firms to opt for full-control modes (Erramilli & Rao, 1993). On the other hand, given the difficulty of acquisition/accumulation of specialized assets mentioned by Fladmoe-Lindquist & Jacque (1995), adjustment cost to adapt to host country characteristics could also be considered to some extent.

3. RESEARCH PROPOSITIONS

In the light of the literature provided above, the research question is formulated as follows:

How do inseparability, capital intensity, and degree customization characteristics of services inform foreign market entry mode choice in service firms?

The research propositions to address the research question is illustrated in Table 1. The subsequent sections provide the reasoning behind the propositions. Although there are many other determinants of market entry mode such as strategic-level variables (e.g. top management team composition as mentioned by Herrmann & Datta (2006)), the following propositions are made assuming all other factors are constant across the eight service typologies specified. Therefore, the propositions are put forward in relative terms.

Inseparability	Capital Intensity	Degree of Cust.	Example	Mode of Foreign Market Entry
Hard Service	Low	Low	Basic Software-as-a-Service (SaaS)	Low Ctrl. Mode (e.g. direct/indirect export)
Hard Service	Low	High	Architectural Services	Medium Ctrl. Mode (e.g. licensing, minority JV)
Hard Service	High	Low	Logistics	Low Ctrl. Mode (e.g. direct/indirect export)
Hard Service	High	High	Servitized Manufacturing	Medium Ctrl. Mode (e.g. JV)
Soft Service	Low	Low	In-Home Care	Med-High Ctrl. Mode (e.g. majority JV)
Soft Service	Low	High	Management Consulting	High Ctrl. Mode (e.g. majority JV, greenfield FDI)
Soft Service	High	Low	Hotel Chains, Restaurants	Low-Med Ctrl. Mode (e.g. licensing, franchising)
Soft Service	High	High	Private Banks, Hospitals	Med-High Ctrl. Mode (e.g. majority JV)

Table 1. The Propositions

3.1. Hard Service, Low Capital Intensity, Low Degree of Customization

This combination represents services that are produced separately from consumption, that do not require fixed investments to operate, and that have limited customization. Most software services and especially software-as-a-service firms represent this category. For instance, a web-based accounting platform does not require any physical presence of service personnel to aid in consumption, since the software had been configured beforehand according to the generic bookkeeping & invoicing needs of clients. Second, the main cost item in such services is selection and retention of capable software engineers, with the business model requiring little fixed investment in servers & cloud services. Third, the degree of customization is low, since such web-based platforms usually have little specialist attention to particular needs of clients, and since they usually offer a generic service at a low price by keeping the costs of marketing, sales & customization low.

As the example illustrates, transactions costs are expected to be lower in this type of services due to 1-hard service nature (Pla-Barber et al., 2011), and 2-low degree of customization (Erramilli & Rao, 1993). As this alleviates the need for full control in the governance of host country operations (Pla-Barber et al., 2010), it is plausible to argue that this type of service firms are more likely to opt for low control modes such as direct/indirect export. Therefore:

Proposition #1. Hard services firms with low capital intensity and a low degree of customization are more likely to opt for low control modes in foreign market entry.

As low capital intensity would imply lower adjustment cost of establishing presence in the host market (Erramilli & Rao, 1993; Bigelow et al. 2019), this type of firms could also consider higher control modes such as licensing when additional services to customize the service can be offered by host country partners. For instance, SAP works with local partners in host markets for customization of its general purpose enterprise resource planning (ERP) modules. However, customized ERP service would fall into the next service category.

3.2. Hard Service, Low Capital Intensity, High Degree of Customization

In this business model classification, low capital intensity and high degree of customization would urge for higher control modes, due to low adjustment cost and high transaction cost (Erramilli & Rao, 1993). On the other hand, the service being hard in nature enables production remotely form customers. This scenario would be the case for most architectural services. Although this type of firms would benefit from direct customer contact, joint venture with a local partner with market knowledge would probably be the most suitable mode of entry. A similar collaboration is applied by SAP as mentioned, this time via licensing agreements with local solution providers. Therefore:

Proposition #2. Hard services firms with low capital intensity and a high degree of customization are more likely to opt for medium control modes in foreign market entry.

3.3. Hard Service, High Capital Intensity, Low Degree of Customization

A typical example for this classification would be international logistics, where companies usually have little presence in host markets, making contractual agreements with host market counterparts to undertake local delivery. For this service classification, both low transaction costs due to separability& low degree of customization, and high adjustment costs due to high capital intensity would urge service firms to opt for low control modes such as direct/indirect export or contractual agreements. Therefore:

Proposition #3. Hard services firms with high capital intensity and a low degree of customization are more likely to opt for low control modes in foreign market entry.

3.4. Hard Service, High Capital Intensity, High Degree of Customization

In addition to the major role of tangibles which are produced separately from consumption, and high capital intensity involved in the production of these tangibles, the services provided to customers by this type of firms are also highly customized. These characteristics highly reflect the service-dominant logic of marketing in many product firms (Vargo & Lusch, 2007). While this is the business model that would raise the highest doubt in whether this type of firms should actually be categorized as service firms, it is the service-dominant nature of the value offering enables this categorization.

An example for this type of firms would be manufacturing firms which have undergone service transformation, such as Atlas Copco (Visnjic et al., 2018). This type of engineering companies undertake various service-related activities for their products operating on client site (Visnjic et al., 2018). Although the high degree of customization implies transaction costs, the separable nature of service production from consumption would allow for export of the tangibles, while wholly-owned subsidiaries can be established in host countries for customer service. With a hybrid mode such as this, adjustment costs related to capital investment can be reduced while ensuring lower transaction costs achieved via direct customer contact.

Proposition #4. Hard services firms with high capital intensity and a high degree of customization are more likely to opt for medium or hybrid control modes in foreign market entry.

3.5. Soft Service, Low Capital Intensity, Low Degree of Customization

This type of soft services requires little capital to start operation, and do not demand much customization on the services offered. Although this type of firms with neither fixed assets nor market-related capabilities (due to customization) is rare in the international arena, some forms of event management companies could be exemplified (e.g. Cheng & Sundell, 2011).

In addition to the transaction cost aspect involved in soft services, modest adjustment costs due to low capital intensity would encourage this type of firms to consider high control modes for foreign market entry. On the other hand, low level of customization would reduce the need for full control, enabling partnerships such as joint venture with local counterparts. Therefore:

Proposition #5. Soft services firms with low capital intensity and a low degree of customization are more likely to opt for medium to high control modes in foreign market entry.

3.6. Soft Service, Low Capital Intensity, High Degree of Customization

This type of services requires direct contact with customers during service delivery, they do not require investment in fixed assets, and the service provided is highly customized. A typical example for this business model is management consulting firms. While on the one hand, scope economies and brand recognition are the main drivers of internationalization for this type of firms, the high knowledge-intensity and requirements for deep client knowledge imply liability of foreignness (Jensen & Petersen, 2014).

As previously mentioned, the transaction cost implications of soft services with high degree of customization, coupled with low adjustment costs involved in high-control modes for service firms with low capital intensity, strongly suggest a full control foreign market entry mode (e.g. greenfield FDI or acquisition) for this type of firms. Therefore:

Proposition #6. Soft services firms with low capital intensity and a high degree of customization are more likely to opt for full control modes in foreign market entry.

3.7. Soft Service, High Capital Intensity, Low Degree of Customization

Hotels and restaurants are characterized by this this classification. As fixed asset requirements (high capital intensity) increase the adjustment costs involved in entering foreign markets, a low degree of customization implies lower transaction costs. Especially via standardization tools such as service scripts, it is easy for this type of firms to mitigate the risks involved via franchising (Pla-Barber et al., 2011).

A typical example for soft service firms with high capital intensity and low degree of customization is Starbucks. While the company has a strong brand name, its business model can easily be replicated. Therefore, the company works with local partners, such as Shaya Group in the case of entry into Middle Eastern markets. Thus:

Proposition #7. Soft services firms with high capital intensity and low degree of customization are more likely to opt for medium control modes in foreign market entry.

3.8. Soft Service, High Capital Intensity, High Degree of Customization

Another variation of retail-like soft services with high capital intensity, this type of services require the attention of service providers to specific client needs. As in the case of management consulting, the service would be conducted by highly trained professionals, being a source of transaction costs. On the other hand, this type of services differs from their low-capital-intensity counterparts with significant investment in fixed assets such as branches and facilities, thus implying high adjustment costs. Typical examples for firms that employ this business model are private banking firms and hospitals. While the service in private banks is highly customized according to the sophistication of customers, serving these customers require retail branches in areas populated with affluent customer base. Regarding hospitals, specialist doctors also provide a highly customized service to patients case by case, using the advanced facilities (e.g. operating room) and equipment provided.

Due to high customization needs, this business model requires a higher-control mode compared with the previous classification. Thus:

Proposition 8. Soft services firms with high capital intensity and high degree of customization are more likely to opt for medium to high control modes in foreign market entry.

4. DISCUSSION AND CONCLUSION

The purpose of this study was to leverage the emerging theory on business models and related strategic management concepts to explain foreign market entry mode choice in services. It illustrates that adjustment and transaction costs play a pivotal role in providing the theoretical grounds for how different service classifications inform foreign market entry mode choices. Furthermore, this study is among the first of its kind to incorporate all three dimensions (inseparability, capital intensity, degree of customization) in a single model. However, given the granularity of the three-dimension classification, assumptions had to be made during model formulation to avoid further complexity.

While the model assumptions help draw a clear picture of the proposed relationships, they also account for the main limitations of this study. First, the *all other factors being equal* assumption isolates the study from the real world, diminishing the practical applicability of the model. Future studies might incorporate variables from other levels and disciplines to draw a more clear picture of foreign market mode choice for service firms. Second, service classifications are not limited to the three dimensions presented in this paper. More dimensions would add further granularity of the model; however, it may not be practical in empirical terms in terms of sample size requirements dictated by each variable introduced. Third, each dimension is assumed to have a binary nature (e.g. low vs. high) rather than operating on a continuum, making it difficult to account for nuances in practice, which may alter decision making in foreign market entry mode choice. Precisely for this reason, it was difficult to find real world examples from the service sector for some of the theoretical deductions on how a certain service classification should inform foreign market entry behavior. Fourth, the weight of each dimension in foreign market entry mode choice will likely vary in empirical designs, since some dimensions (e.g. degree of customization) may have higher explanatory power than others.

In addition to the above considerations, future studies should take online services and digital transformation of service firms into account. The strategic cost implications of digital services, and their implications for decision making would be a fruitful avenue for future research.

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