

The role of service embeddedness in the internationalisation process of manufacturing firms

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Abstract

Over the last decade the growth of service firms, and their internationalisation, has attracted considerable attention from researchers, with a special focus on characteristics that distinguish services from goods. However, as the composition of a firm's product can contain both good and service elements, this paper argues that it is somewhat misleading to categorise a product simply as either a 'good' or a 'service'. Manufactured goods often contain client-related services embedded in them. Further, the nature of these embedded services may vary with respect to their degree of separability of production and consumption. Based on several case studies of Australian manufacturing subsidiaries in the UK, this paper examines the impact of inseparable embedded services on a firm's entry-mode choice. It reveals that the extent and nature of embedded services have a considerable impact on a firm's choice of foreign entry mode. The research findings are likely to contribute to the existing marketing and internationalisation literature.

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1. Introduction

Early research into the internationalisation process of firms primarily focused on manufacturing firms producing tangible goods (Buckley, Pass, & Prescott, 1992; Clark & Rajaratnam, 1999; Grönroos, 1999; Lovelock, 1999). Subsequently, scholars considered the internationalisation process of service firms, focusing on unique service characteristics (Bell, 1995; Bryson, 2001; Cicic, Patterson, & Shoham, 1999; Patterson, Ruyter, & Wetzels, 1999). In particular, the extent or degree of separability of production and consumption has been highlighted as a key difference between a service and a good and an essential determinant of how services can be delivered to customers in domestic and overseas markets (Erramilli & Rao, 1993; Lovelock & Yip, 1996; Roberts, 1999). However, considerable care is needed to define goods and services. According to Daniels (2000), Dunning (1989), Giarini (1994) and Grönroos (1999) there are few examples 'pure' goods or

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services in existence. They argue, rather than relying on simple categorisations of goods and services, it is more realistic to consider ‘products’ containing combinations of good and service elements. From this perspective, ‘product packages’ or ‘offerings’ are the terms used to describe the combination of the good and service-related elements that ‘manufacturers’ tend to offer to their clients. For example, some goods require customised design before they are produced, and may be supported by services such as installation, commissioning, guarantees and post-sales service. A product package containing a tangible good embedded with inseparable services may require the firm to interact directly with its customers. Previous studies have recognised the impact of separability or simultaneity of production and consumption of services on the choice of a firm’s foreign entry mode. However, they primarily have looked at this issue from a service firm perspective (Cardone-Riportella & Cazorla-Papis, 2001; Clark & Rajaratnam, 1999; Grönroos, 1999; Lovelock, 1999). From a manufacturing firm perspective, this paper seeks to address how the separability of embedded services affects the firm’s choice of foreign entry mode.

In order to investigate this issue and to allow a more sophisticated understanding of how service embeddedness influences the firm internationalisation process, this research adopts a qualitative approach and examines 18 Australian manufacturing subsidiaries operating in the UK. The research is likely to deepen the understanding of product composition, and its impact on internationalisation strategy by examining how the degree of separability of services embedded in manufactured goods influences the *modus operandi* chosen by the firm to enter international markets.

2. Service embeddedness and firm internationalisation: an overview

Researchers have defined a service as an ‘experience’ or ‘action’ that brings about a change in a person or a good (Daniels, 2000; Giarini, 1994; Roberts, 1999; Stare, 2002). Characteristics such as intangibility, inseparability, variability and perishability have been used to make a distinction between services and goods (Berry, 1984; Eiglier, Langeard, Lovelock, Bateson, & Young, 1977; Gabbott & Hogg, 1994; Grönroos, 1999; Ruyter, Birgelen, & Wetzels, 1998). Inseparability of production and consumption has been given particular emphasis as a point of difference (Erramilli & Rao, 1993; Grönroos, 1999; Grubal, 1987). Unlike the separable production and consumption associated with a good, a high degree of human interaction is often required between the provider and the user for a service to be delivered successfully.

Although there is an acknowledgement that goods and services have different characteristics, some researchers question whether simple distinctions should be made between goods and services and whether they are mutually exclusive product categories (Bowen, Siehl, & Schneider, 1989; Sanchez-Peinado & Pla-Barber, 2006; Shostack, 1977; Vargo & Lusch, 2004; Wyckham, Fitzroy, & Mandry, 1975). These researchers explain that goods and services may, at times, display similar characteristics. For example, some services do not require interactions to be successfully delivered to clients. These services can be embodied in a physical format, such as a computer disk or a consultant’s report, and delivered to clients for their ultimate use. Like a good, these separable services can be firstly produced and later consumed. Services can, therefore, be divided into separable and inseparable categories (Erramilli & Rao, 1993; Stare, 2002).

The idea, therefore, of a broader understanding of ‘goods’ and ‘services’ is relevant, as manufacturing firms often embed their goods with service elements (Anderson & Narus, 1995; Grönroos, 1990; Lovelock & Yip, 1996). For example, in order to remedy defects or to increase the lifespan of a good, a firm may perform post-purchase services. Such service helps to ensure the optimum use of the product and maximises customer satisfaction (Porter, 1985; Robinson, Clarke-Hill, & Clarkson, 2002; Stabell & Fjeldstad, 1998; Walter & Lancaster, 2000). According to Aharoni, (2000), Giarini, (1994), Levitt (1972), and Lichtenthal and Long (1998) the more complex the good the higher the service component.

Embedded services may be responsible for extending the value of a good beyond that of its tangible features. Dunning (1989) links the concept of these services directly to a firm’s achievement and maintenance of competitive advantage, implying that their value adding nature contributes to the firm’s ownership advantage. This perspective is also emphasised by Grönroos (1999, p. 293):

What we see today is that a growing number of manufacturing businesses have to vitalise the service elements of their offerings or add new services to goods-based offerings in order to stay competitive.

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