



Turning the Spotlight on Service Multinationals: New Theoretical Insights and Empirical Evidence☆



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ABSTRACT

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1. Introduction

Anyone harboring some interest in world economy recognizes the importance of service sector. Although manufacturing remains the backbone of trade and commerce, the importance of services has continued to grow over time. It is fair to say that the emergence of the service sector in the world economy is a hallmark of the second half of the twentieth century. Academicians, practitioners and policy makers witnessed escalating importance of the service sector in the past five decades. Interestingly, contribution of the service sector in the economic development has been a notable attribute of both developed and developing countries.

To analyze contribution of services we focused on five developed countries and five developing countries and culled data since 1970s from the World Bank. Based on Kundu (1994), we used 3 measures viz., employment in services as percentage of total employment, service exports to total exports, and services as a percentage of gross domestic product (GDP). Tables 1 and 2 highlight our findings.

We observe in Table 1 that employment in services has increased over the decades with the USA leading the way and closely followed by the UK. The average value ranges from 56.07% (Japan, 1980s) to 81.20% (USA, 2010–'14). In services internationalization as measured by service exports as a percentage of total exports, the UK leads the way followed by the USA. The average value ranges from 16.46% (Germany, 2000–'10) to 40.27% (UK, 2010–'14). The contribution of the service sector to gross domestic product has increased in the past decades. Here the USA leads the way averaging more than 75% since the 1990s. For Germany the average is less than 70% all along.

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Table 1

Contribution of services in select developed countries.

Source: Worldbank.org.

	Country	Variable	1970s	1980s	1990s	2000–'10	2010–'14
Developed countries	USA	Services employment (%)	–	68.32	72.70	77.30	81.20
		Services export (%)	–	–	–	31.35	34.89
		Services (% of GDP)	–	–	75.12	77.07	77.99
	UK	Services employment (%)	–	63.48	69.12	75.73	78.93
		Services export (%)	–	–	–	37.72	40.27
		Services (% of GDP)	–	–	69.24	75.67	78.77
	Germany	Services employment (%)	–	–	60.26	66.82	70.10
		Services export (%)	–	–	–	16.46	17.01
		Services (% of GDP)	–	–	65.89	69.52	68.72
	France	Services employment (%)	–	60.57	67.38	71.82	74.63
		Services export (%)	–	–	–	23.69	34.52
		Services (% of GDP)	62.18	67.60	72.37	76.32	78.41
	Japan	Services employment (%)	–	56.07	60.10	65.99	69.70
		Services export (%)	–	–	–	16.84	17.99
		Services (% of GDP)	54.72	59.18	63.89	70.25	72.39
	Canada	Services employment (%)	–	68.99	73.69	75.27	–
		Services export (%)	–	–	–	16.49	20.19
		Services (% of GDP)	–	–	–	69.36	70.79

Note: Each cell contains average of all available yearly data.

Table 2 suggests that for developing countries employment in services has increased over the decades with Brazil and South Africa leading the way. The average value ranges from 15.88% (China, 1980s) to 62.70% (Brazil, 2010–'14). In services internationalization, India leads the way (43.84% in 2010–'14) followed by Turkey (30.05% in 2010–'14). The numbers for Brazil, Russia and South Africa are relatively lower but exhibit similarity amongst themselves. In contribution of services to GDP, South Africa and Brazil are ahead of the other countries. The average value ranges from 23.17% (China, 1970s) to 68.55% (South Africa, 2010–'14). Based on the above, one can conclude that services have become an important economic activity in both developed and developing countries. But contribution of services in general has been more in the developed countries than in the developing countries.

2. Service multinationals

Growing importance of services resulted in the formation of a new breed of multinational companies, service multinationals (SMNCs), that produce and deliver value-creating services across national borders. Between 1990–1992 and 2010–2012, global inward FDI flow in services grew almost 905% (from 97.04 to 975.55 billion U.S. dollars) compared to 491% in manufacturing (52.25 to 308.70 billion U.S. dollars) during the same time-period (UNCTAD, 2014). Success stories of SMNCs in diverse industries such as banking, hotels, airlines, and information technology from different parts of the world have caught the attention of the IB community. Surprisingly SMNC scholarship has not kept pace with the unprecedented growth of services and SMNCs over the years. More than a

Table 2

Contribution of services in select developing countries.

Source: Worldbank.org.

	Country	Variable	1970s	1980s	1990s	2000–'10	2010–'14
Developing countries	Brazil	Services employment (%)	–	49.52	54.58	58.90	62.70
		Services export (%)	–	–	–	16.24	23.48
		Services (% of GDP)	47.98	45.01	60.49	65.90	67.90
	Russia	Services employment (%)	–	–	50.66	60.08	–
		Services export (%)	–	–	–	14.29	18.62
		Services (% of GDP)	–	32.97	49.65	58.90	59.66
	India	Services employment (%)	–	–	23.70	24.60	27.35
		Services export (%)	–	–	–	39.42	43.84
		Services (% of GDP)	39.16	42.77	46.54	52.95	55.71
	China	Services employment (%)	–	15.88	23.22	30.70	35.15
		Services export (%)	–	–	–	11.39	10.88
		Services (% of GDP)	23.17	26.27	34.11	41.11	44.34
	S. Africa	Services employment (%)	–	–	–	63.89	62.30
		Services export (%)	–	–	–	17.30	19.78
		Services (% of GDP)	52.33	50.77	60.91	65.16	68.55
	Turkey	Services employment (%)	–	47.23	34.26	45.23	49.97
		Services export (%)	–	–	–	26.93	30.05
		Services (% of GDP)	41.01	49.74	51.79	61.17	63.67

Note: Each cell contains average of all available yearly data.

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