

INTERNATIONAL MARKETING PEDAGOGY IN THE AGE OF SERVICE DOMINANT LOGIC: UNDERMINED BY RESEARCH AND EXTANT LITERATURE?

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ABSTRACT

The significance of the service sector globally, by national GDP contribution and employment, and its growing prominence in world trade, would seem to make marketing services internationally an attractive academic research topic, reflected in pedagogical sources. However it remains neglected despite studies that have alerted academe to a fundamental research deficiency impacting marketing pedagogy. The objective of this study is to determine which manufacturing-based principles apply to outbound people-processing service exporting, using depth interviews of experienced executives of a single service classification. Results suggest that many may not apply, and unknown how they would apply to other service classifications.

BACKGROUND

The growth and significance of the service sector in the world economy now more than 70% of OECD aggregate GDP and employment (OECD 2008) in developed countries, and increasing in developing countries as well. The service sector constitutes 25% of world trade, 50% of foreign direct investment (FDI) and growing faster than international trade in manufactured products (Wilson et al 2008). Thereby it seems logical that marketing services internationally would be an attractive academic research topic. Yet, perusal of international business (IB) literature reveals published research and pedagogical texts that remain mired in manufacturing experience. A review of more than 70 JIBS articles pertinent to this research from 1970-2110 in *The Journal of International Business Studies* (JIBS), deemed the most influential of international business journals (Griffith, Cavusgil, Xu 2008) revealed scant attention to services. Why is this the case? It isn't for failure to alert the academic community to the need for research on the topic (Knight 1999). Little has changed since, as the global marketing of services continues to be under researched (Fisk et al, 2008; Javalgi and White, 2002) with consequent impact on international marketing pedagogy.

MANUFACTURING AND SERVICES LITERATURE

There is need for marketing to change its lexicon. According to Vargo and Lusch (2007b, p. 30), the logic and vocabulary of mainstream marketing theory were "...developed for another time and a somewhat different and limited purpose..." which today are "...confining, if not inappropriate." The characteristics of intangibility, inseparability, heterogeneity, and perishability (Parasuraman, Zeithaml, and Berry 1985) rationalize services marketing being different from marketing physical products (goods). Grönroos (1982) and Lovelock (1983) further opined internationalizing services decision-making to be significantly different from manufacturing-based (goods) firms, making unlikely general transfer of marketing experiences from manufacturing to services. White et al (1999), McLaughlin and Fitzsimmons (1996) and Clark et al (1996) found scarce "mainstream academic marketing" literature (Shankar, 2009) that systematically and empirically investigated the phenomenon. However Boddewyn et al (1986) had stated that with limited exception, "no special FDI-MNE theories for international service firms are necessary." Although Blomstermo et al (2007) and Terpstra (1987) proposed that hard services, e.g. packaged software, R&D services, architectural services, etc. could be exported in the manner of manufactured goods, Erramilli (1989) described soft services, e.g. health care, hospitality, management consulting, etc., that cannot be exported in this way. Various international marketing studies include a mix of such "hard" and "soft" services, thus involving more than one service classification (Javalgi et al, 2003; Eriksson et al, 2000; White et al, 1999; Erramilli and D'Souza, 1995; Erramilli and Rao, 1993, etc.). Failing to treat research "in context," too often such academics have erred by including services that are not comparable, resulting in findings that conflict with other studies. There is strong evidence from such conflicting results, e.g. Blomstermo et al (2006), that accurately defining globalization practices by service classification is essential to develop a meaningful marketing framework for service businesses.

However it also reminds us of a caution expressed by Vernon (1966) that “In an area as complex and “imperfect” as international trade...one ought not anticipate that any hypothesis will have more than a limited explanatory power.” Research must be fundamentally transformed (Vargo and Lusch, 2007a) and classification specific (Lovelock and Yip 1996) to develop appropriate marketing concepts, theory and constructs (Knight, 1999), closing the academic deficit, and that existing between academic and practitioner communities (Baker, 2010).

A most notable classification schema (Lovelock and Yip, 1996) identified people-processing, possession-processing, mental stimulus, or information-processing services. Among them, inseparability is central to people-processing services, wherein customers and providers are present together in the “service factory” (Chase and Garvin, 1989) for the service to be provided and experienced. Such services are directed at customers’ bodies, requiring their presence during the service process, as portrayed in the Servuction system (Eiglier and Langeard, 1987), e.g. dental services, personal transportation, hotel & restaurant services, fitness centers, hair salons, etc.. These contact-based services (Clark et al, 1996) can’t be manufactured in one country, boxed and shipped to international markets. Contrary to exporting options available to manufacturers, Fisk et al (2008) claim there are only two options for such services: inbound exporting (customers engage the service domestically, e.g., inbound tourism) or outbound exporting (locating the service in export markets).

PEDAGOGICAL MARKETING LITERATURE

Lee and Hubona (2009) would be likely to suggest that both marketing literature overall and for international services marketing have been guilty of the “fallacy of affirming the consequent” (p. 237) – familiarity with certain fundamental principles – being based on long established manufacturing experience. Few marketing texts integrate service marketing effectively and remain stubbornly focused on manufacturing business experience and examples. Only Armstrong and Kotler (2011) and Kotler and Armstrong (2010) treat services formatively, in chapters devoted to “product, services and brands,” although little attention is directed to services thereafter, i.e. in chapters devoted to pricing, international marketing, etc.. More commonly services marketing content is superficial (Levens, 2010; Mullins et al, 2008; Perreault et al, 2008) or found in a chapter late in the text (Winer and Dhar, 2011; Grewal and Levy,

2010; Marshall and Johnston, 2010; Solomon et al, 2009; Peter and Donnelly, 2007).

Being virtually alone in detailing strategy and implementation differences in multinational enterprises (MNE) or large-scale enterprises (LSE) from that of small and medium enterprises (SME), Hollensen (2007) may represent the most comprehensive text treatment of services in international marketing. Czinkota and Ronkainen (2007) substantively address services in a global context, albeit in a chapter late in the text; otherwise attention to marketing services internationally tends to be superficial (Keegan & Green, 2011; Kotabe and Helsen, 2010; Johansson, 2009; Gillespie et al, 2007) or lacking (Albaum and Duerr, 2008).

RESEARCH METHODOLOGY

Exploratory theory-building case studies are considered appropriate where the existing knowledge base is poor and available literatures can provide no conceptual framework or hypotheses of note (Yin, 1994), or where limited previous academic research and theory development exist (Perry, 1998), e.g. international services marketing. Case research seeks to investigate a contemporary, dynamic phenomena and its emerging body of knowledge (Yin, 1994; Eisenhardt, 1991, 1989) using interviews, observation and other sources of empirical data (Eisenhardt, 1989; Perry, 1998) to address “how” and “why” questions (Perry, 2001). Theory emerges from “patterns of relationships within and across cases and their underlying logical arguments” (Eisenhardt and Graebner, 2007, p. 25). Four to twelve cases are generally deemed sufficient for most case research purposes (Eisenhardt, 1989; Hedges, 1985) given a chosen unit of analysis appropriate to the research undertaken, e.g. knowledgeable business executives.

This classification-specific research of people-processing services companies having engaged or now engaging in outbound exporting, involved in-depth personal/telephone interviews with executives most knowledgeable for foreign market entry/operations decisions, including CEO/CMOs, using a semi-structured questionnaire in both Ireland and the USA; narrative responses were recorded and later transcribed for analysis. Centralized business decision-making in the service industries represented unavoidably results in a small sample size. Consistent with Eisenhardt (1989) and Hedges (1985) the study included six Irish and six U. S. businesses, including well-recognized international hotel chains, independent hoteliers, limited food service companies, and wholesaler/retailers to

address three key management issues experienced by practitioners: (1) motivations and barriers to exporting; (2) choice of market(s); and (3) market entry mode. The study is unique in being the first to concentrate on a single service classification in more than one country, providing a starting point to more accurately understand the differences between the extant literature and the experiences of senior managers engaged in outbound exporting of people-processing services.

FINDINGS AND CONCLUSIONS

Motivations and barriers to internationalizing (exporting) cited in extant IB literature are numerous. Study respondents cited CEO drive as the foremost factor influencing decisions to internationalize (export), consistent with Dahringer (1991), Czinkota and Johnston (1981), Wiedersheim-Paul et al (1978), and Weinstein (1977). Opportunity was also identified as important, consistent with Winsted and Patterson (1998), Reid (1983), Bilkey (1978), and Johanson and Vahlne (1977). Respondents rejected home market competitive intensity as a primary motivation, contrary to assertions of Alexander and Lockwood (1996). Although competition abroad was recognized as a constant, contrary to Madhok (1996), competitive forces were not dominant in their foreign market choice decisions, as motivation or barrier. A key finding was a dismissive if not arrogant view of host-country competitors; their attitude is best summarized by one executive who said “the competition is there to be beaten and that’s what we do.”

Responses about factors considered export barriers were more explicit and many of those suggested in the extant literature were either rejected or considered of little significance, e.g. lack of experience (Vernon, 1966) or knowledge (Bilkey, 1978, Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), psychic distance (Zimmerman, 1999; Johanson and Wiedersheim-Paul, 1975), Ownership, Location, Internalization (OLI) advantages (Dunning, 1998), insufficient finances (Bilkey, 1978) etc.. Respondents didn’t consider lack of experience to be a barrier to internationalize – they were confident in their inherent culture and capabilities to overcome any concerns to proceed. One respondent said, “we didn’t have any experience at the outset, but that wasn’t going to stop us.”

As described in IB literature (e.g. Dunning, 1998; Reid, 1981; Kotabe and Helsen, 2010; Cateora et al, 2009), study respondents agreed that market selection to be crucial. Numerous issues have been identified for selecting markets, e.g. market

similarity, size and growth, competition, price levels, etc.. Market size was agreed by respondents as very important or important, as had been suggested by Erramilli (1991), Davidson (1980), Johanson and Wiedersheim-Paul (1975). However contrary to assertions of psychic distance being principal among determinants (Erramilli, 1991; Dunning, 1988; Papadopoulos and Denis, 1988; Reid, 1981; Davidson, 1980; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975; Wiedersheim-Paul, Welch, and Olson, 1975), respondent market choices agreed with Sharma and Johanson’s (1987) assertion that psychic distance does not play role in international entry of service firms. Respondents found some of the suggested market selection criteria important, e.g. market size (Javalgi et al 2003; Dunning and Kundu, 1995) and market growth. However, since people processing services exporting involves establishing the Servuction system in the chosen market, operations issues must be assessed as well. Various respondents told us of locations that were attractive from a marketing perspective, but rejected for operational reasons, e.g. lack of suitable locations/premises, local management/staff, operating regularity, laws and regulations, etc. A market is only attractive for such people processing services if both market and operations issues are positive.

Few texts suggest market selection methodologies, e.g. Albaum et al (2008); Hollensen (2007), as proposed by Papadopoulos and Denis (1988), etc.. However respondents rejected use of structured country selection methodologies, instead describing country selection as “opportunistic,” as posited by Papadopoulos and Denis (1988). Although none had a formal market selection process such as a written rating checklist, most respondents had very clear ideas on what constituted an attractive market.

Erramilli (1991) declared mode of entry decisions to be crucial. Internationalization of firms has been widely described as a process of trial and error, gradual process, in which learning about opportunities and problems that exist abroad is important (Vernon, 1966) and learning based models supported by Erramilli and Rao (1993, 1990), Johanson and Vahlne (1977), Johanson and Wiedersheim-Paul (1975), Wiedersheim-Paul, Welch, and Olson (1975). By such studies, businesses are believed to inexpensively try passive market entry options such as trading companies or domestic based agents, and if the results are favorable, move to more extensive and costly forms of market development. International marketing texts

commonly address potential market entry methods from such indirect to direct hierarchical modes.

Virtually all respondents had difficulty understanding the aforementioned gradual market entry, e.g. the Uppsala model; only two considered them to be relevant in some degree to their companies. Since people-processing services involves locating the Servuction system in export markets (Fisk, et al 2008), they are capital intensive and risky, unsuited to a gradual entry process; they require more commitment at the outset than for manufacturers, e.g. to establish a new hotel. One executive put it succinctly: "it's all or nothing for us, and so an expensive and risky decision," echoing Ekeledo and Sivakumar (2003).

Market entry choices for people-processing services engaged in outbound exporting are thereby limited to: (1) Foreign Direct Investment, (2) Franchising, (3) Acquisition / Merger, or (4) Strategic Alliances, e.g. joint venture, management services contracts, etc..

Consistent with gradual market entry models evolving to ownership positions, and Transaction Cost Analysis (TCA) advocates, Erramilli (1991) proposed that as a company gains international experience, desire for control via ownership is also increased. Anderson and Gatignon (1986) share this view, observing that "the more experienced firm is confident, assertive, desirous of control, and willing to take risks to get it," i.e. by adopting ownership modes of entry such as FDI (Agarwal and Ramaswami. 1992; Gatignon and Anderson, 1988; Reid, 1983; Davidson, 1982, 1980; Dunning, 1980; Weinstein, 1977). However most respondents in this study adopted modes of entry other than outright ownership, i.e. FDI.

Study results indicate that many of the accepted principles and theory associated with "exporting," either do not apply to outbound people-processing services, or only in degree. Respondents expressed a need for more inclusive insights that reflect the

substantial differences between existing literature and their services experiences. While some of the motivations and barriers to exporting identified in extant literature are found to also apply to the people-processing service industries in this study, others do not. Major differences are indicated in both market selection and mode of entry. It is clear that transformational thinking is needed in services globalization research and pedagogy.

PEDAGOGICAL IMPLICATIONS

Our research identifies the need to more accurately portray the motivations and barriers to exporting, as well as issues concerning market selection and mode of entry decisions, i.e., in pedagogy, and to develop methodologies beneficial to managers in making decisions appropriate to their service businesses. Absent IB/IM literature to address the various differences such as those reflected in this study, what are those that teach international marketing and related courses to do? Remaining current in the discipline is commonly expected for tenure and promotion purposes, thereby it is imperative for teachers as scholars to investigate and apply extant services literature to enhance pedagogy. While more extensive services internationalization research is needed, however extant services literature does address many of the issues of concern.

LIMITATIONS AND FUTURE RESEARCH

This study focused on one of four classifications identified by Lovelock and Yip (1996), involving three service enterprises: hoteliers, limited food service, and wholesaler/retailers. Thereby opportunity abounds to develop the body of knowledge for possession-processing, mental stimulus, and information services, as well as other countries and services enterprises involved in this research.

References available on request