Globalization of Services: Some Implications for Theory and Practice

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In international business literature, services are a relatively speaking neglected area of research. In the last decade, however, the importance of services in the economy has been recognized more and more. A reason for this is the growing international trade in services. The opening of a global market in services and the increasing importance of foreign direct investments have further highlighted the importance of services. The service industry is today an important and growing sector in the global economy. Service industries are becoming acknowledged as international growth leaders, both in their supportive role to manufacturing firms and in their own right. However, there is still little knowledge about service industries in the global market.

Globalization of Services – Some Implications for Theory and Practice by Yair Aharoni and Lilach Nachum, is a recent book that in a very good way addresses the important issue of service firms in the global market. The book is a compilation of fifteen papers edited by Yair Aharoni and Lilach Nachum. All chapters are written by well-known authors in the field of service firms in the international market. The authors represent eight countries, namely Finland, France, Israel, Norway, Singapore, Switzerland, UK, and USA.

The book is divided in three parts, the globalization of service industries (Chapter 23), theory (Chapter 4-10) and case studies (Chapter 11-15). Aharoni provides the introduction (Chapter 1).

A special strength is a combination of theoretical and empirical studies as well as quantitative and qualitative methods. The book deals with a common research problem in the field: the differences between services and goods in the international market. Foreign direct investments, franchising, alliances and the role of the World Trade Organization are examples of themes discussed in the book. A variety of service branches are represented: professional business services, accounting, music, aircraft maintenance, airline, delivery services and hotels.

Today’s existing research on service firms can be divided into two groups. Researchers belonging to the first group suggest that there are relevant differences between services and goods. The arguments of this group are mainly based on service characteristics and on Porter’s theory of competitive advantage (Erramilli, 1991). The second group of researchers state that these service characteristics are of minor importance. They also state that there is no need for a special international business theory for service firms; the existing ones can be accommodated through simple modifications. They view services and goods as a combination of hard and soft parts in the solution offered to the customer in the international market. These researchers assume that managers in service firms face more or less the same problems in the international market as the managers in manufacturing firms (Boddewyn, Habrich and Perry, 1986). A general problem is lack of internationalization knowledge, business knowledge and institutional knowledge (Eriksson, Johanson,
The differences between manufacturing and services are discussed in the book. There is a whole array of implicit and explicit differences mentioned in the chapters of the book. For instance, Nachum (Chapter 4) argues that professional services can be treated within existing theories. In line with several researchers she suggests that there are many similarities between services and goods. On the other hand, Löwendahl (Chapter 7) views service firms as unique, and she emphasizes the differences between services and goods and even the differences between service firms and knowledge intensive firms. Aharoni’s contribution (Chapter 6) deals with the role of reputation in professional business services. He argues that the client often uses size or age or the list of reference clients to assess service quality, services are of the nature of credence because clients cannot judge the quality of a service even after consumption. Aharoni also argues that the reputation of professional business services may be based on the availability of certain professionals, and that the major challenge is to shift the relationship from the level of an individual professional to the reputation of the firm. A firm succeeding in this would have a major competitive advantage.

Mallampally and Zimny (Chapter 2) and Honeck (Chapter 3) points out the driving force of foreign direct investment in services and the role of the World Trade Organization. In chapter 5 Cooper, Rose, Greenwood and Hinings describe the importance of the big Six Accounting firms. The authors discuss structures and management processes. Kretschmer, Baden-Fuller, Klimis and Wallis (Chapter 8) presents interesting results about the creation of value in the music industry and intellectual property rights. In chapter 9 by Fladmoe-Lindqvist collective learning in the context of franchising is discussed. The author presents several interesting ideas about network theory and franchising. Grosse (Chapter 10) develop the later discussion by focusing on knowledge creation as a competitive advantage in service firms. Chapter 11 written by Seng and Enderwick, and chapter 12 by Sieristö analyse the global competition in aircraft maintenance and international alliances in the airline industry. Another case study is presented in chapter 13 authored by Kostecki, DHL World Wide Express and its just-in-time delivery services across customs borders in Central and Eastern Europe. Contractor and Kundu (Chapter 14) examine the globalization of hotel services. Their findings indicate that alliance-based foreign market entry modes account for the large majority of international hotel chain operations. One important general conclusion is that contractual relationships can effectively substitute for equity ownership (Majkgård and Sharma, 1998). In the last chapter (chapter 14) Segal-Horn analyse a French hotel’s core competencies. The author uses the resource-based view within strategic management theory. She concludes that shared knowledge is important in the core competence management.

A shortcoming in the book is lack of the view that see the offering of a firm as a combination of services and goods which leads to a greater abstract level without losing touch with the concrete level (Normann and Ramirez, 1993; Blomstermo and Sharma, 2001). That there is no need for a special internationalization theory for service firms, the existing ones can be accommodated through simple modifications.

There is a little bit of everything for everyone in this fine book. It represents a balance between theoretical and practical experience foci. It provides several implications for international service operations and for policies of institutions and governments. There is a lot to like in this book for almost every researcher or practitioner in the discipline. Further more, because of the power that services represent today, well-read scholars and managers alike would benefit from the broad range of thinking represented by the authors contributing to the various chapters. It is less useful for teaching purposes, because it assumes a mature appreciation of the current debate about services vs. goods.

Overall, Globalization of Services sets the stage for future research in the field. The findings reported in this book are very insightful and are easy to read.

References


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