Service Providers: Able to go global but unwilling?

What an Australian study reveals about the attitudes/perceptions that motivate a service firm's initial decision to export.

Personnel, for which there are few standards of quality, are integral to providing services, which can make service exports less tangible and less controllable an enterprise than manufactured goods. However, by nature, services can rapidly be deployed across borders at low costs.

Services already represent 60% of GNP in industrialized nations and 25-30% of world trade and have the potential to contribute even more to the global economic order. For example, Singapore exports 69% of total services production while the U.S. exports only 5%.

A survey of 347 Australian service firms, split evenly between exporters and comparable non-exporters, may provide a clue. Senior executives answered questions on barriers to exporting, perceptions of benefits and risks, competitive environment, firm capabilities, and managerial characteristics and the degree of importance associated with each.

What differentiated exporters and non-exporters (besides know-how)?

1. Key managers with experience abroad
2. High levels of R&D and employee count
3. The perceived benefit of exporting
4. Commitment to invest in entry costs
5. Competitive intensity abroad
6. Exportability of service
What did not matter?

1. Key managers speaking a foreign language
2. Capability in promoting the service
3. Service quality, cost advantage, uniqueness
4. Protectionism in the target country
5. Domestic competitive environment
6. Risks and profitability

- Knowledge of an additional risk will not likely alter a decision to export but knowledge of one less benefit may result in lack of motivation. This means the more market research, the better.
- Knowledge of foreign markets is not enough in itself, experience abroad from trade shows or missions is crucial.
- The characteristics of the service provided or of regulations concerning it in the target market as well as its potential profitability may be more relevant in the long-term. Initially, the decision to export is dependent on a willingness to invest in entry costs.
- Although domestic market competition may seem like an incentive to export, this doesn’t especially distinguish the exporters from the non-exporters. Exporters come from diverse economic conditions. Surprisingly, non-exporters see competition in a target market as less of a hindrance than their exporting counterparts, who see this as a major hindrance. This differs from trends in non-service industries.

Exporters spend on average nearly 50% more on R&D (as a percentage of sales)!

“The motivation for internationalization came from the owners strong belief that their future lay in South-East Asian markets,” wrote one firm.