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DETERMINANTS OF SUCCESSFUL INTERNATIONAL EXPANSION OF PROFESSIONAL SERVICE FIRMS: A CASE STUDY OF ARABIAN FIRMS

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Abstract: This study looks at drivers of internationalisation and the important location decision factors contributed to the selection of a beneficial country for international expansion. One in-depth and information-rich case study of the Arabian premium international professional service firms was purposively undertaken. The results show that both firm and location-specific factors, firm's competitive advantage, company's management attitudes and profit growth were the main drivers of internationalisation. Further, the study reveals that the pre-development of country qualitative and quantitative location factors was elemental to attain profitable foreign country choice. Accordingly, these findings have significant theoretical and practical implications to the internationalisation and foreign market entry of professional service firms.

Keywords: Internationalisation, foreign market selection, Arabian international service firms, case study.

INTRODUCTION

International business (IB) and the internationalisation activity of firms have received growing research attention among scholars during the last decade due to the significant contribution of these movements to the economic and social development in both home and host countries (Akbar & McBride 2004; Calle Pardo 2001; Jansen & Stokman 2004).

According to the 'eclectic paradigm of international production' proposed by Dunning (1980, 1988), firms which decide to internationalise their business activities confront a very critical, challenging and strategic decision which relates to deciding about the foreign country for their international operations. Consequently, once the country has been selected, firms have to choose the most appropriate entry strategy for that selected foreign market such as exporting, franchising, licensing, joint venture and wholly owned subsidiary (Buckley & Casson 1998; Edwards & Buckley 1998; Hill, Hwang & Kim 1990). Moreover, a conceptual strategic decision-

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making model for international market selection (IMS) suggested by Al Qur'an and Dickie (2005) considered the phase of developing suitable location decision factors as an important phase of the IMS process and thus undertaking successful international expansion.

Unquestionably, service sector plays a significant role in the recent global economy and it is considered the principal facet of the developed nations' economy (Patterson & Cicic, 1995). The remarkable growth of the service sector in the global economy has established a significant and vital need for empirical research on international marketing of service firms (Javalgi, Griffith & White, 2003). Notwithstanding the importance of the service firms in both domestic and international markets, little research was conducted to examine the internationalisation process of service firms (Blomstermo, Sharma & Sallis, 2006; Javalgi, Griffith & White, 2003). Furthermore, research into the location decision of international firms has extensively examined locational determinants of international manufacturing firms (e.g. Bhatnagar, Jayaram & Phua, 2003; Boddewyn & Brewer 1994; Edwards & Buckley 1998; Edwards & Muthaly 1999; Glaister & Tatoglu 1998; Kim & Hwang 1992; Terpstra & Yu 1988; Yang, Delios & Zhou 2002). However, little attention was given to service firms in general and professional services in particular (e.g. Al Qur'an, 2009; Miller & Parkhe 1998).

In essence, the internationalisation activity of Arabian firms is relatively a recent phenomenon and has attracted very little concern from scholars. Therefore, as an attempt to fill this evident shortcoming in IB literature, one in-depth and information-rich case study of Saudi leading international professional service firms was undertaken to explore and analyse the internationalisation process and foreign market entry. More specifically, the study aims at investigating two important issues: first, drivers of internationalisation; and second the important location decision factors contributed to the selection of a beneficial country for international service operations.

The paper begins with a review of past research on the internationalisation process and locational determinants of international firms. Next, the methodological framework and data collection and analysis techniques are explained. Consequently, a discussion of the empirical findings of the case organisation presented. Finally, the study's conclusion, implications and limitations are outlined.

LITERATURE REVIEW

Theories of internationalisation

Internationalisation refers to the process through which a firm shifts its business operations from the local market to foreign markets (Buckley & Casson 1998). The literature on the internationalisation process of firm can generally be categorized under two main approaches; the economic approach and the behavioural approach (Andersson 2000).

The economic approach has its roots in economics and it primarily assumes that firms are likely rational in their choice of foreign investments and that the decision-maker has access to perfect and complete information (Andersson, 2000; Buckley, Devinney & Louviere, 2007). According to this school of thought, the choice of country for foreign investment is a premeditated decision and motivated and led by the principal goal of profitability, thus firms select the most profitable locations (Buckley, Devinney & Louviere, 2007). The behavioural approach focuses on the influence of international experience of the firm on the speed and direction of succeeding internationalisation. An important aspect in this school is the important role of organisational knowledge in the internationalisation process (Clercq, Sapienza & Crijns, 2005). The approach considers individual learning and top managers as important aspects in understanding international behaviour of firms (Andersson, 2000).

The most known theories adopt the economic approach are Dunning's eclectic theory (Dunning's 1980, 1988), the International Product Life Cycle Model (Vernon's 1966) and the Transaction Cost Approach (Coase, 1937; Johanson & Mattsson, 1987). Models that follow the behavioural approach are Ahroni's Decision Making Model (Aharoni 1966), the Uppsala Model (Johanson & Wiedersheim-Paul 1975, 2004; Johanson & Vahlne, 1977) and the Innovation-Related Internationalization Models (e.g. Cavusgil, 1980; Reid, 1981)

For instance, eclectic theory proposed by Dunning (1980, 1988) underlines the importance of firm and location-specific factors to explain international operations. Dunning states that specific organisational skills or technologies allow a firm a competitive advantage in the marketplace. He also indicates that country-specific factors are also essential to successful international operations. He argues that the characteristics of the selected foreign country influence significantly the firm's international efforts. Vernon's International Product Life Cycle Model (Vernon, 1966) considers the internationalisation process to be a systematic, incremental, and predictable chain where the type of entry into foreign markets depends on the life stage of the products passing through the phase of introduction, growth and maturity. The roots of the Transaction Cost Approach go back to Ronald Coase (1937) who argued that due to the transaction costs of foreign market activities, it is more efficient for a firm to engage in a local market rather than enter foreign ones. A high extent of transaction cost give rise to a preference for internalizing the transaction (Johanson & Mattsson, 1987). Firms therefore prefer to produce offshore if they recognize that the decrease in transaction costs will be greater than the cost of organizing such activities internally. Otherwise, foreign markets will be supplied by exports, licensed sales, or some other type of foreign market entry.

Aharoni's Decision-Making Model (Aharoni, 1966) described the foreign investment decision as a multifaceted social process that is influenced by social relations within and outside the firm. Generally, in the first international operation decision, the firm often has had export experience, but has no experience in the field of foreign investment. It has no clear standard decision procedures to deal with that decision. As a result, the firm will gain from its experience when foreign investment decision processes needed to be carried out.

The Uppsala Model is perhaps the most cited model of internationalisation process. Johanson and Wiedersheim-Paul (1975) found that firms decided to internationalise their business activities go through distinct steps; starting from no exports to exports, to independent representatives (agents), to the establishment of sales subsidiaries and, finally, to the establishment of owned or joint production facilities. In their view, the flow of information between the firm and the market are critical in the internationalisation process and they significantly underlined the concept of 'psychic distance' which determines the location choice of international manufacturing firms. Psychic distance was defined as the costs of obtaining significant information about business conditions in other countries, the perception of risk and uncertainty involved in international operations and the resources required to access foreign networks. The model asserts that the costs expended in overcoming 'psychic distance' decrease over time due to the experience achieved by the firm. Therefore, firms often first enter neighbouring markets because of their historical familiarity, and then expand to other foreign markets.

Afterwards, models of innovation-related internationalisation were developed on the basis of the Uppsala model. Among the best known models are from Cavusgil (1980) and Reid (1981). These models focus on the learning chain in relation to adopting an innovation and thus the internationalisation decision is considered an innovation for the firm. They state that the decision-maker's attitude, experience, motivation, and expectations are main determinants in firms engaging in foreign market entry (Reid, 1981) and therefore the entry into exporting is considered to be traced to an innovator inside the firm.

International Location Decision Factors

IB literature has focused extensively on determinants or location factors of international manufacturing firms (e.g Bhatnagar, Jayaram & Phua, 2003; Boddewyn & Brewer 1994; Edwards & Buckley 1998; Edwards & Muthaly 1999; Glaister & Tatoglu 1998; Kim & Hwang 1992; Terpstra & Yu 1988; Yang, Delios & Zhou 2002; McManus et. al, 2005). Nonetheless, location factors of international service firms were slightly underlined in the literature (e.g. Al Qur'an, 2009; Miller & Parkhe 1998).

In essence, the location factors of international firms can be categorized under quantitative and qualitative factors. The quantitative factors are concerned with the cost of operating in a foreign country; fixed and variable costs such as cost of living, costs of setting up the foreign operation, utilities costs, labour and other related costs. Whereas, the qualitative factors included non-cost issues such as cultural, political, economic development, legal, climatic, geographic issues, in addition to foreign investment attractiveness and barriers and economic conditions of the country.

For instance, Nonaka (1994) found that the innovative capability of the host country was the most important factor for attracting foreign manufacturing subsidiaries. Kim and Hwang (1992) affirmed that some MNCs might establish subsidiaries abroad to check the cash flow of potential global competitors. Terpstra & Yu (1988) found that the size and growth of markets are important determinants of foreign investment. Boddewyn & Brewer (1994) addressed the significant influence of the government taxation and industry regulations on the locational decisions of international firms. Bhatnagar and his associates conducted a cross-national study comparing the plant location factors between Singapore and Malaysia (Bhatnagar, Jayaram & Phua, 2003). They found that infrastructure, suppliers and markets have significant impact upon the plant location decision in both countries. William (1980) identified some country specific factors which influence the international location decision, viz., market size and growth, tariff and non-tariff barriers to trade, input costs, geographic proximity and legal, political and economic conditions. Porcano (1993) examined twenty one factors affecting the American, British, French, German, and Japanese firms' location decisions. He concluded the factors that directly affect their ability to produce and sell a quality product were highly rated, such as product demand, labour quality and supply and the host country economy.

In the service context, Al Qur'an (2009) found that it was crucial for Western Australian internationalising service firms to establish a variety of quantitative and qualitative location decision factors in order to select a beneficial foreign country. The quantitative factors focused on the cost of operating in a foreign country: Whereas, the qualitative factors included cultural, political and economic development, legal, climatic and geographic issues, foreign investment attractiveness and economic conditions. Miller and Parkhe (1998) found that flexible and attractive host country regulations enhanced the internationalisation of international banks.

RESEARCH DESIGN AND METHODOLOGY

Choice of Research Method

The internationalisation decision is a very strategic one which is carried out by senior managers of the organisations, therefore, the interpretive paradigm (phenomenology) was adopted in the current exploratory research to enable the researcher to 'get inside' the decision-makers' minds and seeing this internationalisation process from their point of view (Hassard, 1993) and experiences (Smith & Heshusius, 1986; Yeung, 1995).

The case study strategy was employed in this study. According to (Yin 2003, p.13) a case study as a research approach or method is "an empirical inquiry that investigates a contemporary phenomenon with its real-life context, especially when the boundaries between phenomenon and context not clearly evident".

Case study may be exploratory, descriptive or explanatory (Yin 2003). Accordingly, the category of the selected case studies for the current research is exploratory according to Yin's typology as the research adopted the inductive approach in an attempt to add and develop new aspects of the existing theory in the area of internationalisation and foreign market entry.

In general, the case study strategy was adopted in the present investigation due to the close connection of this strategy with philosophical assumptions and foundations of the selected interpretive paradigm and because it represents one of the primary research methods for studies adopting interpretivism (Perry, 1994). Moreover, the exploratory nature of this research required the use of the case study method as it offers an opportunity for in-depth exploration and results in rich understanding about the research issue (Rowley, 2002). Furthermore, according to Yin (2003, p.2) "the case study strategy allows investigators to retain the holistic and meaningful characteristics of real-life events - such as individuals life cycles, organizational and managerial processes, ...". As a result, the author aimed in this study to obtain real and in-depth information from decision-makers of the selected organisations to gain a rich understanding of the drivers of the internationalisation decision as well as foreign market selection. Hence, testing predetermined propositions or hypotheses as in the case of a deductive approach was not the subject of his research. Moreover, the case study method is a solid ground for the theory building approach which is very suitable for new areas of research wherein little is known (Eisenhardt 1989) or for refining the existing theory and proposing new directions for further research (Stake 1994). Finally, it is extremely useful and highly recommended to use the case study research strategy in investigating many vital issues in international business research, such as foreign market entry processes (Ghauri & Firth 2009).

Case Study Design and Cases Selection

As indicated by Yin (2003) the case study design represents the research plan that guides the process of data collection, analysis and interpretation. Four types of case study designs were proposed by Yin (2003): (a) single case (holistic), (b) single case (embedded), (c) multiple case (holistic) and (d) multiple case (embedded). Initially, the single case design implies the deployment of one case study and it is holistic when it involves simply one unit of analysis or the case itself ;whereas, it is embedded if it integrates more complex subunits of analysis (Yin 2003). In contrast, multiple case design refers to conducting several case studies or experiments and, it can be holistic if it entails several holistic cases in which each holistic case consists of only one unit of analysis. However, the embedded multiple case design contains a number of embedded cases wherein each embedded case includes multiple units of analysis.

The single case (embedded) design (Yin 2003) was chosen because two important internationalisation and foreign market selection decisions were in detail investigated. Experienced researchers have established common agreement which suggest strongly that the selection of case studies should be made based on 'theoretical sampling' and not based on 'random sampling' as is the case with survey research (Eisenhardt 1989; Glaser & Strauss 1967; Patton 2002; Stake 1994). According to Glaser & Strauss (1967 p.45) theoretical sampling is "the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges". Patton (2002) introduced the concept of 'purposeful sampling' which was adopted in the current study. He suggested that case studies should be selected from among potential cases which are information-rich and provide the researcher with deep understanding about the research issue.

The procedures of case selection began in January 2009 and it involved gathering data about the top leading Arabian and Saudi companies from the department of commerce and trade in Saudi Arabia. Unfortunately, we could not find a precise list which includes the Saudi international firms. Therefore, initially, we looked at the websites of the top listed companies to determine whether they have international operations or not. We found that extremely small number of the Arabian and Saudi professional service firms has international operations. The selected company was an information-rich, accessible, proximal, large, leading and well-established Saudi international construction and engineering service firm which established various offshore service operations.

Data Collection Method and Procedures

In exploring the processes of international businesses, as the subject matter of this study, the qualitative personal interview is the most useful method offering strength and richness to the collected data through entering the mindsets of the top executives and gaining access to their international experiences (Yeung 1995). Therefore, the data was mainly collected via in-depth personal interviews, follow-up telephone interviews, a questionnaire instrument, documents review when available, field notes and internet sources.

Initial telephone calls were made with the selected case company, which agreed to participate in the study, to explain to the company's executive the purpose of study and the issues that will be covered during the interview sessions. Then a date and venue were determined to conduct the interview and that required the researcher to fly to Dubai. The interviews were conducted at two sessions in May, 2009 in the premises of the Saudi company in Dubai. The president of the Dubai firm was in-depth interviewed as he was the most knowledgeable decision-maker and senior executive involved in the two strategic decisions relating to the internationalisation process (Birnbaum 1985; Papadakis Lioukas & Chambers 1998). All the interviews were recorded during the interview sessions using high quality recording devices. The interview questions were open-ended and designed to explore the drivers of the internationalisation decision and the location decision factors influencing the foreign country choice. The questionnaire instrument was designed to obtain information about the company background and to confirm the interview responses.

Data Analysis Method and Procedures

At the outset, the researcher listened carefully to the tape interviews more than once time in order to capture the key ideas and themes linked to the main research questions. The field notes which taken during the site visits to the participating firm were very valuable and necessary in assisting the researcher in preliminary identification for the anticipated main themes about the internationalisation process story.

Within-case analysis was utilised in the current research (Creswell, 1998; Eisenhardt, 1989; Yin, 2003). Within-case analysis entails analysing the collected qualitative and quantitative data of each case study independently after which the researcher concludes the findings about the research issues for the individual case. Accordingly, we developed a detailed description or report for the selected single case study. The developed case study report described and organised all information and details relevant to the case company. Seeing that, an assurance as to the confidentiality of the interviewees' responses and identities during the data collection and analysis processes was given to the informant by the researcher, all the names indicated to individuals or organisations were removed from the report. The data analysis method employed in analysing the interview data was based on the descriptions written by Miles and Huberman (1984;1994) which imply data reduction, data display and conclusion drawing and verification.

Case Description

The selected single case study is a large, leading and well-established Saudi international professional service firm that engaged in providing world-class engineering and constructions services to the Saudi and the Middle East market. The company is a key member of a large Group of companies which established diverse business activities in Saudi Arabia and the Middle East. The Group commenced operations in Saudi Arabia 60 years ago in the business and transport sectors with a large transportation fleet that covered a wide network in the region. The Group established new companies in the fields of construction, operations, maintenance, healthcare, medical equipment, hospital supplies and commerce. From the establishment, the emphasis of the Group has been on quality, efficiency, customer satisfaction, and long term planning. The current annual turnover of the Group in excess of US$ 377 million and it has over 7,000 employees worldwide.

The Engineering and Constructions Company is a dynamic and expanding construction organisation which was established in 1975. The company is classified among the top three construction companies in Saudi Arabia and one of the largest and most reputable in the Middle East. It has over 3500 employees, significant construction plant and equipment resources, strong financial capabilities and 3 decades of sustained successful construction track record. In its 28-year history of considerable progress, the Engineering and Constructions Company has made significant achievements in the construction industry. Finally, the company has expanded its services internationally as it established service operations and working relationships for construction business in Qatar, UAE, Bahrain and Lebanon.

FINDINGS AND DISCUSSION

Drivers of Internationalisation

From the first time that the Saudi company was established in 1975, it had a strong ambition and vision to have offshore business activities, especially in the Arab region. Furthermore, being a large and first-rate company with massive resources, as a competitive advantage, had motivated the company to effectively capitalize on any market opportunity may emerge in the Middle East region. In 2003, the company decided to take the advantage of some attractive business opportunities appeared in the neighbouring countries, namely, in Bahrain, UAE and Qatar. The company's internationalisation strategy was to enter close foreign markets in order to maintain control over its business operations in that country and facilitate the mobility and relocation of their human resources, machinery and equipments. The unrestricted movement of the company's workforce and equipments (know-how knowledge) was an elemental concern when entering any foreign market. As stated by the company's executive:

> *'We had the ambition from the beginning to be international company; we had all the required resources and skills to achieve this ambition ... we were also looking for new business opportunity to expand our business...also the market in UAE and Qatar was attractive for use and we wanted to take advantage of the business opportunities available in these foreign markets".*

In conclusion, the firm-specific factors with regards to firm size and competitive advantage were found the main drivers of the internationalisation decision of the Saudi service firm. The firm was a large and unique one with immense financial and human resources and that enabled it to successfully internationalise its service activities. These massive resources reduced dramatically the risks associated with the internationalisation process. This outcome agrees with the resource theory addressed in the earlier literature (e.g. Aaby and Slater 1989; Ali and Camp 1993). Furthermore, the firm's competitive advantage in terms of unique resources, distinctive skills and know-how knowledge allowed it to exploit these advantages in the local and foreign market and hence realise greater profits. This result came also in line with the previous manufacturing research (e.g. Dunning 1980, 1988) and service research (e.g. Miller and Parkhe 1998) which highlighted the importance and positive impact of firm's competitive advantage on international expansion.

Additionally, the location-specific factors in terms of market characteristics are other decisive driving factors of internationalisation. The characteristics of potential foreign markets, relating to host government regulations, local content requirements, capital flow and ownership restrictions and requirements on technology transfer, found to have direct impact on company's management attitudes towards operating internationally. As showed earlier, it was elemental for the Saudi firm to have full control over its foreign operation as well as the mobility and transfer of its technology and skilled manpower. This outcome validates the earlier work on firms' internationalisation (Dunning 1980; Miller and Parkhe 1998: Yang Leone and Alden, 1992).

The company's management attitudes are another important factor in impelling and determining the internationalisation of a firm. As stated earlier, the Saudi firm had a strong ambition and vision to be an international firm especially in the Arab region. That attitude has positively influenced its performance in the foreign markets. This result supports the earlier research on manufacturing firms (e.g. Aaby and Slater 1989) and service firms (e.g. White *et al.* 1999).

Finally, the profit growth derived by an attractive market opportunity was found an important driver of the internationalisation activity of the Saudi service firm and that confirmed the recent research by Evans, et al. (2008).

Country Selection Factors

It was necessary for the Saudi company when it decided to internationalise its business activities in 2003 to establish appropriate location decision factors so as to assist them in selecting the most beneficial foreign country for their international operations. These country location factors were compatible with the drivers of the internationalisation and its type of business as construction and engineering services and that confirms the earlier model by (Al Qur'an, 2009).

In essence, the identified location factors included a variety of quantitative and qualitative factors and were used by the management team in evaluating the prospective foreign countries. The quantitative factors concerned with the cost of operating in a foreign country; such as the costs of raw materials and natural resources and other related costs. Whereas, the qualitative location factors included infrastructure, political, economic stability, legal and geographic issues, foreign investment attractiveness, etc.) As declared by the company's executive:

> *It was important for use to have our business in a close country which can allow us for easy mobility of our workforce and equipments ... we want to target big markets that offer use big projects, we were not interested in small projects... political stability was important for us as well as the country investment policies.*
>
> *I was also important for use to find an experienced local partner that help us in establishing our business and understand the country regulations ... we were looking for a country and city with well-developed infrastructure ...*

Table.1 shows the attributes of the most important location factors which were considered in the internationalisation and foreign market selection processes undertaken by the Saudi company.

Table 1 Country selection factors

Location Factors
-Developed infrastructure
- Country tax policies
-Access to market and neighbouring markets
-Political and economic stability
-Availability and the costs raw materials and natural resources
-Availability of local partner
-Attractive foreign investment policies.
-Geographical proximity to Saudi Arabia
-Size of the local construction market
-Growth of market.
-Tariff and non-tariff barriers to trade
-Attractive environment regulations.

The findings relating to the location factors agrees to high extent with the past line of research locational determinants of international firms (e.g. Al Qur'an, 2009, Bhatnagar, Jayaram & Phua, 2003; Boddewyn & Brewer 1994; Edwards & Buckley 1998; Johanson & Vahlne 1977; Yang, Delios & Zhou 2002). The findings show also that the foreign country and the local partner selection was undertaken simultaneously. This conclusion was not addressed in the existing body of knowledge; hence bringing new light into the literature on the foreign market entry strategy in IB.

CONCLUSION, IMPLICATIONS AND LIMITATIONS

The purpose of this study was to analyse the internationalisation process of Arabian professional service firms in an attempt to obtain a rich understanding of how can services firms effectively enter foreign markets. The results demonstrate that both firm and location-specific factors, firm's competitive advantage, firm's management attitudes and profit growth were the main drivers of internationalisation. Furthermore, the study reveals that the pre-development of country qualitative and quantitative location factors was elemental to attain profitable foreign country choice. Finally, the study concluded that two types of location factors were the identified; primary and secondary, and they were in agreement with the drivers of the internationalisation decision, the type of business, the firm's overall business strategy.

The study's empirical outcomes contribute, to a large extent, to theory by providing important value to research on the internationalisation of and foreign market entry of Arabian firms as well as foreign direct investment decision-making. In practice, the results have important implications to Arabian business managers by improving their foreign investment decision-making processes.

It is unarguable that any empirical research has some limitations which need to be acknowledged. Initially, seeing that the current research employed the case study strategy, the most distinct problem associated with this approach is that of generalisation (Esienhardt, 1989; Yin, 2003). The research has a limited geographical and industry focus as it focused on Saudi service firms, and, accordingly, it is likely that the findings do not apply similarly to other international organisations in other countries. Although, this limitation provides a good platform for future research.

Another limitation relates to 'interviewee response bias' and 'retrospective bias' as the decisions investigated occurred some time in the past, which may result in not all the information has being recalled correctly by the informants. However, in organisational strategy research, as was the case with the current research, 'the best trace of the completed process remains in the minds of those peoples who carried it out' (Mintzberg et al., 1976, p.248). In addition, the questionnaire was designed following the interview session to validate the interviewee's responses and the available secondary data were utilised to confirm the interview statements.

BIOGRAPHY

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