

# Exporting construction professional services in a global service economy

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*Globalisation has prompted increasing numbers of construction professional services (CPS) firms to internationalise and export their services. The driver has been twofold; firstly to increase turnover/profits and secondly, to minimise the risk of a reliance on working in a single domestic market which has a fluctuating demand. Secondly, where firms have outgrown their domestic market, and in order to expand, they must export overseas. There has been little research into the way CPS firms operate overseas, yet construction represents approximately 10% of global GDP; this means that understanding CPS firms is important.*

*This paper investigates how CPS firms internationalise and the drivers that impact their decisions and operations overseas. A survey was undertaken and interviews conducted that showed CPS firms are project driven, investing heavily in the process of seeking work/bidding for projects, and are very focused on delivering projects with minimum risk. Increasing foreign ownership, changing procurement approaches and more consolidation of CPS firms in the global marketplace present a changing business landscape.*

*The research develops a framework of tangible and intangible factors, such as competencies, business organisation culture, leadership and reputation in order to better understand how CPS firms export their services. Whilst all CPS firms share the same framework of factors, the resulting synergies are different not only for each firm but also for each project. The knowledge-intensive and project-based nature of CPS firms presents a challenge in understanding the way they operate in the global service economy.*

## 1. Introduction

Services are a vital part of economies around the world, making up 63.4% (2009 est.) of world GDP (CIA, 2010). Yet, according to Bryson & Daniels (1998), there are “almost as many classifications as there are analysts” and a lack of a comprehensive service taxonomy hinders the proper understanding of the size, scope, and economic and social impact of services. Clegg (1993, p. 85) refers to the classification of service firms as “an uncertain science”. This is still true today due to the intangible nature of services.

The status of services in economics has developed over the last two centuries, from the dismissive view of Smith (1776), Ricardo (1817) and Marx (1863), to recognition by researchers more recently that traditional manufacturing is no longer the key economic agent in a post-industrial society (Beyers, 1985), and that services industries are gaining importance.

In the 1930s and 1940s, Fisher (1939), Clark (1940) and Fourastié (1949)(1949) developed theories to explain the growth in services. They saw the shift to services as part of economic development (Schettkat and Yocarini, 2003, p. 7). Fisher applied the term 'tertiary' to service industries, while Clark further divided this sector into construction and craft activities (Camacho et al., 2005). Clark's definition is a closer match to the view of scholars today on which sectors should be included in the tertiary sector - namely, transport and communication, commerce and finance, professional workers and those engaged in public administration, entertainment and sport, personal and domestic service. These headings are a close match to those used in most national statistics today.

Clegg (1993, p. 86-87) suggests there are three types of services, this is reinforced by the classifications used in national and international statistics:

- Final (or consumer) services, e.g. hairdressing, tourism
- Non-commercial final consumer services (government/social services)
- Producers' (intermediate or business) services (within this distributive services are sometimes classified separately)

This research focuses on the third type, namely construction professional services.

## **2. Construction Professional Services (CPS) firms**

Construction professional services (CPS) firms, like other service firms, differ from manufacturing firms because of the intangibility of the services offered, their location specificity and their reliance on knowledge as a knowledge intensive business service (KIBS). Knowledge Intensive Business Services (KIBS) concentrate on their inputs of technology, human capital and the skills (Styles et al., 2005). Bettencourt et al.'s (2002, p. 100) definition of KIBS is:

“Enterprises whose primary value-added activities consist of the accumulation, creation, or dissemination of knowledge for the purpose of developing a customized service or product solution to satisfy the client's needs.”

This includes the words customisation and solutions, both highly applicable to CPS. Construction projects are characterised by their uniqueness. Buildings and infrastructure are fixed commodities and projects are designed and built for local environments, they are not transportable. There is a high level of customisation by CPS firms because of this uniqueness. Whilst there has been a growth in off-site prefabrication/ standardisation, the fact remains that every construction is site specific and purpose-built and so customer interaction is very important.

A CPS fits the general definition of a service (an activity, deed or process and iteration), but is distinguished by its customisation and customer interaction. The word professional is used not only because the architectural, engineering and surveying services sold are professional, but also to distinguish between professional services and construction services. CPS firms, like all other professional service firms, have to balance their business and professional needs/priorities. They need to attract sufficient fee income to survive (Hoxley *et al.*, 2007, p.4).

The distinction between a service and a professional service is rooted in the past. A professional is regarded as highly skilled, knowledgeable, impartial, and motivated by the desire for excellence, integrity and the public good. They are not motivated by financial gain, but more by professional gain and peer recognition. A professional is qualified by meeting the standards set by their professional body. However, in the modern world, whilst retaining the term 'professional service', CPS firms are categorised as a business service and come under the International Standard Industrial Classification (ISIC) 71 - Architectural and engineering activities: technical testing and analysis. Maister (1993) categorises different professional service firms into strong-idea firms, strong service firms and strong delivery firms, each offering a different type of service to the client – from innovative, to customer-focused/involved to product focused (rather than service focused), respectively. CPS firms not only differ in their service ethos, they also differ in their business outlook. For example many architectural firms have a practice-based rather than business-based mentality. Others have adopted a more corporate model with associated hierarchies of management, roles and decision making.

Therefore, whilst CPS firms differ from manufacturing firms, they also differ from each other in terms of strategy and service delivery.

### **3. Research aim**

This research seeks to understand the impact of globalization on the export of construction professional services (CPS) and the resilience of CPS firms working internationally. The paper will focus on three issues:

1. The changing business environment in which CPS firms operate
2. The main ways in which CPS firms internationalise
3. The main drivers influencing CPS firms' overseas operations

The output of the research is a framework to help understand the way CPS firms operate.

### **4. Theoretical underpinnings**

This research is underpinned by the theories of the firm, especially those by Porter (competitive advantage), Barry and Penrose (resource-based view), Dunning (OLI)

and Teece (dynamic capabilities). The theories have sought to explain the way firms operate at home and overseas and the drivers and strategies involved. Many of the theories are based on manufacturing firms, rather than the service sector, with little research into construction services. Whilst Porter (1990) focuses on the structure of, and the forces at play within the industry and the home and overseas markets, the resource-based view theorises that a firm's strategy is based on the resources and competencies of the firm (Segal-Horn, 2000, p. 320). However, as Fahy (2002, p. 62) points out, these resources exist within an environment that must take into account national, institutional and industry structures. The resources include physical and intangible skills and are vital in the explanation of the performance of the firm (Penrose, 1959, Barney, 1991, Peteraf, 1993). Barney (1991) highlights the importance of the resources to 1) create value and 2) not being easily imitable.

Much of the literature has highlighted the differences between goods and services and, whilst those differences exist, there has been increased debate about the blurring of the boundaries between the two, with many goods being bundled with a service element (Fahy, 1996, p. 24, Andersen and Corley, 2003, p. 9, Fisher and Gapp, 2008, p. 2). This reflects the effects of globalisation and greater competition with enterprises seeking to prolong/strengthen the link with their customer and extending the value chain of their product.

Clegg (1993, p. 91) suggests that services are similar to goods in two aspects of trade theory: comparative advantage, and; barriers to trade. The reliance of CPS firms on high quality professional employees, determines their production location and so their competitive advantage. The barriers to trade experienced by these firms include the non-recognition/acceptance of overseas professional qualifications or protectionism of indigenous firms. The OECD is measuring the level of these barriers with their Services Trade Restrictiveness Indices (STRI) through pilot studies in the business services, construction and telecoms sectors. The STRI will highlight those areas that need further trade liberalization and for benchmarking best practices (OECD, 2009, p. 4). Weighting within the STRI is achieved according to a panel of experts, who place the heaviest weighting (40%) on the category: restriction on foreign ownership. This weighting was mirrored in the opinions sought for this research. The second category, restrictions on the movement of people, was a bigger problem for those firms with a commercial presence overseas.

For CPS firms, the issue of building standards and codes of practice is very important, these vary from country to country. Detailed knowledge of a country's codes and standards can be a comparative advantage. Joint ventures and/or alliances with foreign partners are a common way of minimising/evading the restrictions mentioned above.

#### **4.1. Services research**

Figure 1 shows a timeline of services research. Whilst there was a focus on definition and classification at the beginning of the timeline, towards the end there is a move towards research into services marketing and internationalisation, including the effects of globalisation and competitive advantage. The internationalisation of service firms became much more important with the changes in trade agreements and the reduction of barriers following the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1993 (Radulovich, 2008, p. 11-12). GATT was the first multi-

lateral agreement to include international trade in services. It reduced the barriers to trade in services for developed and developing economies (Javalgi and White, 2002, p. 564). In 1995, the WTO, formerly GATT, formulated the GATS (General Agreement on Trade in Services) Treaty, which sets out the different modes of trade for services. The new agreement reflected the growing importance of world trade in services - 20% of world trade and 60% of world production (UN, 2010, p. 9).

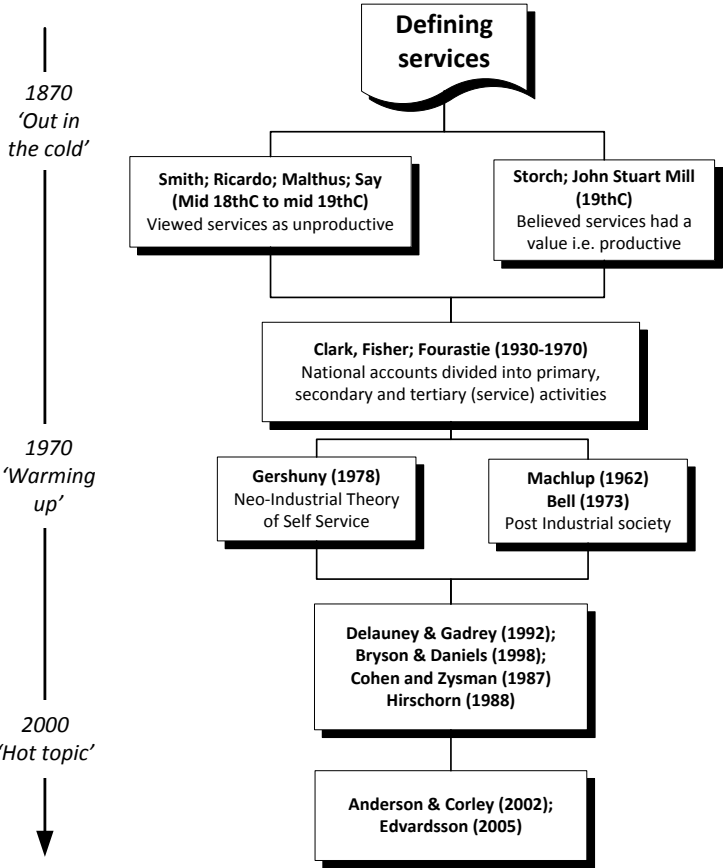


Fig. 1: A timeline of economic theories on service

## 5. Changing business environment for CPS firms

There are three main changes in the business environment in which CPS firms operate:

1. Consolidation of companies in the sector with both horizontal and vertical integration. Major international CPS firms now have 20,000 plus staff, whereas in 2000, no firm was larger than 15,000 employees.
2. The changing geography of ownership of service organisations, with increasing foreign control of domestic companies; in-service transactions, establishing affili-

ates abroad is a common way to achieve close contact with consumer in the host country.

3. The new forms of procurement such as build-operate-transfer that have changed the emphasis from production to service with service firms engaging in more at-risk ventures,

A survey was conducted through interviews and a roundtable discussion involving major UK CPS firms. The survey highlighted key characteristics of CPS trade overseas. These related to: how the overseas offices operated; how, and if, the fee income was repatriated to the UK office, and; the factors that influence financial decisions on overseas work. These characteristics are best explained through an example of a professional service firm working overseas – see Table 1.

<b>Firm X</b>	
Services offered	Project management, cost management, building surveying
No. of employees	8,154 (agency staff increase this figure from project to project)
No. and location of branch offices	40 offices in Europe, Middle East, Asia, Australasia and N and S America
Turnover	£450 million
Overseas turnover (as % of total)	52%
Relationship between HQ and the overseas offices	Centralised, with overseas offices having local autonomy in fee structure and human resources.
How the fee income from the overseas offices accounted for	Most of the overseas offices remit the surplus fee income to the HQ, others keep the income to grow the business. All decisions on the destination of the fee income take into account the effect of taxation both domestically and overseas.
Corporate strategy	To grow the business in specialised geographic and sector areas. Profitability (profit margin) targets are set at 8% of revenue and return on capital employed (ROCE) is set at 21%

Table 1: Example of an international CPS firm

In the example above there are a number of points that need some explanation/discussion. The service offered: project management, cost management and building surveying span a wide range of disciplines and expertise, yet they all come under one ISIC code – 74 – which does not reflect the broad range of services offered by CPS firms. The staff figure of 8,154 is an average over one year; agency staff can significantly increase this figure when they are brought in on a project-based arrangement. Outsourcing work in this way reduces the fixed wage bill and so reduces overheads for the firm. The example is a firm that is centralised, many firms operate with a laissez-faire attitude to their overseas offices, giving them far more freedom to secure, price and deliver work. The amount and way in which profits are remitted to the HQ will differ across firms, according to both internal and external financial pressures such as taxation. Firm strategy will dictate as to whether the CPS firm chooses to regionalise or specialise in certain markets.

All CPS firms are project-driven rather than product driven. Because projects are tangible in nature, geographic and sectoral markets have a huge influence on the strategy of CPS firms. The strategy is to think long-term but deliver short term. This

means chasing immediate opportunities in the hope that they will lead to long-term growth.

Globalisation has led to increasing foreign ownership with mergers and acquisitions. Many of the major CPS companies have overseas shareholders and Board members, creating complex global financial and business links. Of the top 20 consulting engineers (registered in the UK) in the New Civil Engineer's 2009 Top Consultants file, 5 are overseas firms (NCE, 2009). This contrasts with none in 1995. Foreign ownership complicates the collection of statistics, particularly where money is remitted back to the parent company. The international competitiveness of a firm has become increasingly important with globalisation, the rapid change in information and communication technologies and the rise of the transnational organisation (Smit, 2010, p. 107, Knight and Cavusgil, 2004, p. 125).

Evolving procurement strategies add complexity to CPS exports. Public-Private partnerships, build-operate-transfer (BOT) and design and build all involve several organisations and a high degree of sub-contracting, which can involve a large number of small firms. The knowledge-intensive nature of the sector and the advances in ICT, mean that small consultants are able to operate internationally.

Joint ventures and strategic alliances are a major strategy for many companies, for global effectiveness. Outsourcing and offshoring has become increasingly popular as enterprises concentrate on their core competencies and use other agents to provide business services. Examples of this are CAD design offices located in developing countries such as China, Pakistan, and India. The office undertakes the design work using CAD systems located anywhere in the world; the driver is the lower cost of production with lower wage costs and overheads. These contribute to further complexities in data collection as the parent company may aggregate the project income as it is remitted by the overseas office. Their accounts reflect the work of the head office and, if applicable, their overseas office(s) if they are set up as a 'legal entity'.

## **6. How CPS firms internationalise**

The internationalisation that occurs in the service sector is dissimilar to that experienced in the manufacturing sector (Davis et al., 1993, p. 104). Whilst manufacturers go beyond their national borders to seek their customers, globalisation has brought about a greater economic freedom with customers crossing borders (virtually or literally) to buy a service. This means that reputation and international branding is particularly important. In an international market, a good reputation will not only attract multinational companies seeking service providers that they know, rather than an untried company in the host country, but also reputation can travel across borders (either geographically close or with a short psychic distance i.e. cultural distance) and create opportunities (Davis et al., 1993, p. 113).

For a manufacturing firm internationalisation means the opportunity to seek the lowest cost production base, but selling the same product(s) (sic). For services firms, such as CPS firms, internationalisation opens up a global market, within which they can operate locally, maintaining the 'parent' name/reputation. The establishment of a local office not only establishes the brand locally but also avoids any trade barriers

put in place for foreign firms. Firms internationalise for various reasons. Some firms will follow their clients overseas, others have outgrown their domestic market.

The modes of entry for a construction-related organisation are:

- Overseas office and grow organically working for local or international clients
- Merger
- Acquisition, with a major or minor stake in an overseas business
- Joint venture with a local enterprise for a local market, or with an international construction enterprise entering a market
- Strategic partnership with an enterprise that might be differently positioned in the value chain, for example a construction enterprise having an alliance with a design consultancy or a facilities management enterprise
- Licensing, franchising, technology transfer
- Sole venture subsidiary

Ghoshal (1987, p. 427) identified the sources of potential advantage for manufacturing firms wishing to expand internationally: 1) National differences; 2) scale economies, and; 3) scope economies. He suggested that these would have to be integrated with the firm's strategic objectives, classified under three headings: 1) achieving efficiency; 2) managing risks, and; 3) developing learning capabilities in order to innovate and adapt. Segal-Horn (1998, p. 390) suggested that although scale and scope economies could be applied to service firms, the scope for these depended on the sector. For example, news agencies have a high potential for both scale and scope economies; hairdressing has a low potential for both scale and scope. She placed professional service firms quite high along the scope economies scale but low on the scale economies axis.

Two of the scope economies identified for PSFs - shared client and project databases; and shared teams of expertise, are particularly relevant for CPS firms operating internationally. Mergers and acquisitions are one way of increasing the economies of scope. National differences, identified by Ghoshal (1987, p. 427) are represented by the culture and reputation of a CPS firm. The reputation a CPS firm can allow it to leverage higher revenues from other services they may offer. The UK export figures show the success of CPS firms' internationalisation. Figure 2 shows the growth of exports of architectural, engineering, surveying and other technical services, which have shown an overall increase between 1991 and 2008. Acquisitions as a form of internationalisation and growth overseas are common for CPS firms. For example Atkins, one of the UK's top consultants and 29th in ENR's Top 200 International Design Firms listing, made 28 acquisitions between 1995 and 2010. Jacobs (7th in the UK top consultants and 7th on the ENR listing) made 22 acquisitions between 1987 and 2010. Acquisitions are sometimes made to allow the parent firm to diversify, for example, the purchase of the firm Byways and Highways by Hydrock achieved the aim of broadening Hydrock's portfolio and client base. The client base is important, as many CPS firms are client led with the client being the main reason for the firm initially going overseas (Winch, 2008, p. 2). Welch (2004, p. 3) states that, as a firm develops, it moves from client led to market-seeking strategies.



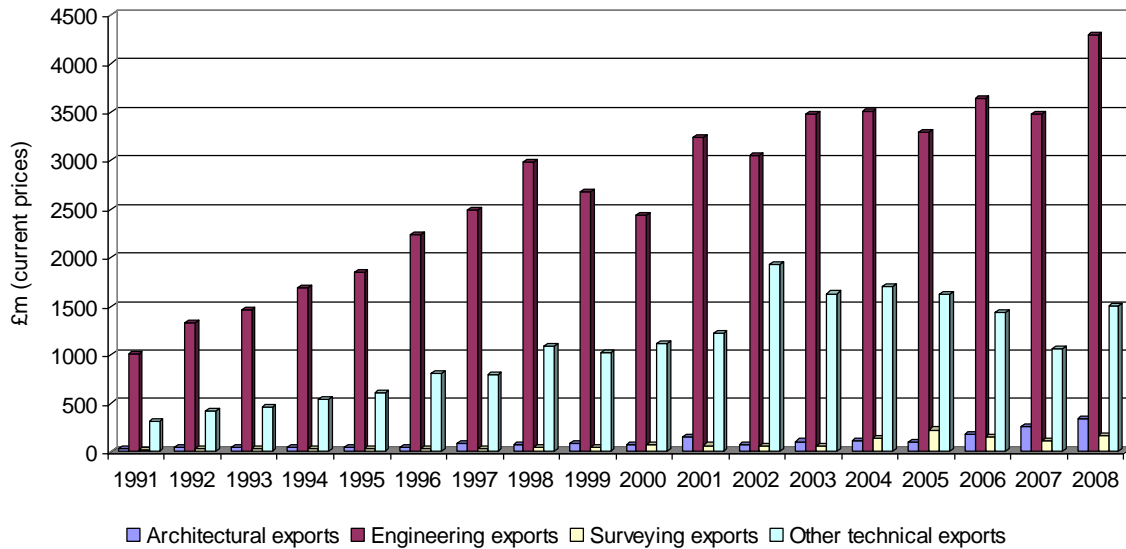


Fig. 2: UK AES exports 1991-2008

Another way to internationalise, particularly for an SME, is to 'export' key personnel on a fixed term basis (Coviello and Martin, 1999, p. 53). Project-based alliances – joint ventures – not only spread the risk of working overseas, but sometimes it is the only mode of entry to a particular country that requires the involvement of a local partner with an overseas provider.

Finally, informal and formal networks/relationships are very important to a sector where reputation and brand are crucial. CPS firms sell a promise, not a good off the shelf. Reputation (either in terms of country of origin or the firm itself, or both) is a key factor in the face of buyer uncertainty. Branding and reputation have two purposes, one, to market a firm's services/expertise, the other to attract highly skilled personnel either from other CPS firms or from the work marketplace.

## 7. The main drivers influencing CPS firms' overseas operations

Once the decision to internationalise has been made and the market research undertaken, firms need to develop appropriate strategies and organise themselves to deliver services overseas. Sampson and Snape (1985) categorised international trade in services under four categories and these have formed the basis of those used by the WTO and its General Agreement on Trade in Services (GATS) (Hufbauer and Warren, 1999). The WTO categories, and examples, are shown in Table 2. CPS firms that have internationalised through an overseas office fall into Mode 3

<b>Mode 1: Cross-border</b>	A user in country A receives services from abroad through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.
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<b>Mode 2: Consumption abroad</b>	Nationals of A have moved abroad as tourists, students, or patients to consume the respective services.
<b>Mode 3: Commercial presence</b>	The service is provided within A by a locally-established affiliate, subsidiary, or representative office of a foreign- owned and -controlled company (bank, hotel group, construction company, etc.).
<b>Mode 4: Movement of natural persons</b>	A foreign national provides a service within A as an independent supplier (e.g., consultant, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company).

Source:(WTO, 2010)

Table 2: WTO modes of trade

The main drivers are:

### 1. Globalisation and its influence in changing markets

Globalisation is a significant driver as it has brought increased competition with advances in information and communication technologies (I&CT), „shrinking“ the world. I&CT advances have meant that methods of delivery have widened with the ability to send complex drawings electronically; marketing methods have changed with the ease of communicating with a very large customer base/market, and; working around the clock is possible with overseas offices/communication links spanning time zones.

### 2. Risk

Risk is an important driver of any business and operating through joint ventures allows the risk to be shared. Using third parties for some of the specialist work is another way of spreading the risk, particularly important for a project-based industry where maintaining a large 'in-house' capability would not be viable.

### 3. Availability of capital

Any expansion overseas requires capital. The amount of capital a firm is prepared to invest in a market is influenced by the extent of risk and the return. Investment in a high-risk country in Africa, such as Angola, must ultimately require higher returns because of the risk of not getting paid by the client and corruption.

### 4. Human resources

CPS firms are totally reliant upon human capital. Hence, the availability and balancing of skills will be a key driver influencing internationalisation.

## 8. The framework

The literature review produced a categorisation the main factors for creating the framework to understand CPS firms, which was validated by the survey and interviews. They are:

1. Finance
2. Competencies/human capital/skills
3. Ownership
4. Intraorganisation co-ordination
5. Locational representation
6. Business organisation culture

These factors are present in the organisation of every CPS firm but they have different 'values'. To use the analogy of a Rubik cube – every firm (cube) has the same six faces in the six different colours, but the way the cube is rotated, mixing up the colours corresponds to the different strategies of the firms and the variety of ways they respond to global, local and business drivers.

Bartlett and Ghoshal (1998, p. 75), in their seminal work 'Managing across borders', looked at transnational manufacturing enterprises. They suggest three main organisational characteristics:

1. Configuration of assets and capabilities
2. Role of overseas operations
3. Development and diffusion of knowledge.

As these relate better to manufacturing than services they have not be used as framework factors per se. Characteristics 1 and 2 are reflected in the finance, and competencies factors identified above. Characteristic No. 2 is found within the intra-organisation and the locational representation factors. Competencies and business organisation culture sit within the third characteristic - Development and diffusion of knowledge.

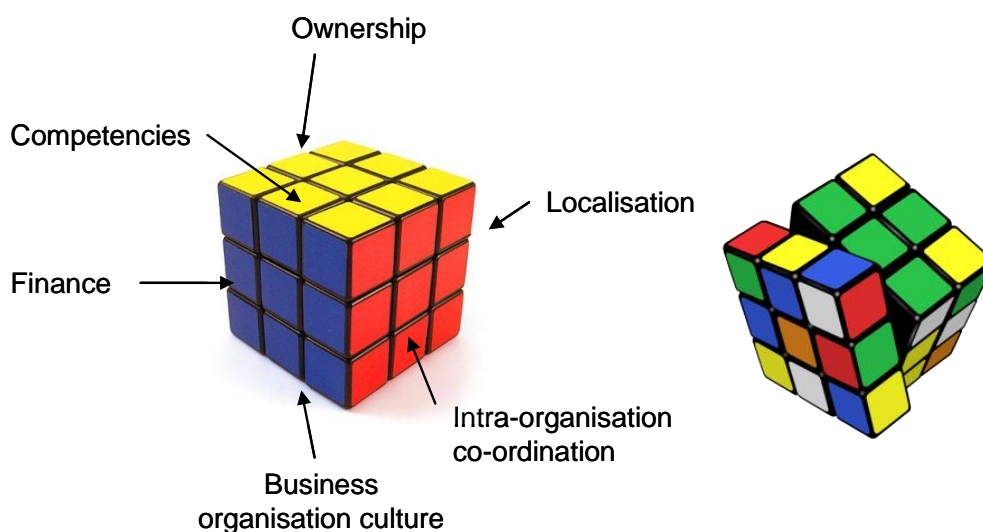


Fig. 3: The CPS firm cube

## **8.1. Finance**

Finance is the most common measure of a company's success. However, the 'bottom line' figure does not represent the company as a whole, its strategic direction, its management and its leadership are part of that equation. A number of financial measures can be used – turnover per employee; market capitalisation, and; overseas turnover.

## **8.2. Intra-organisation co-ordination**

There are a number of differences in the way in which CPS firms internationalise. Most demonstrate a firm commitment to a country or a region by setting up a branch office. The number of these offices is a measure of the CPS firm's reach and internationalisation. The level of commitment overseas is evident from the number of overseas employees. In order to be able to compare the figures, ignoring size of company, a metric of overseas turnover per overseas employee is used. The overseas offices are managed in a variety of ways, from being ethnocentric (centralised control) to geocentric (decentralised control).

Perlmutter's (1969) management philosophy identified the different ways in which companies working overseas 'manage' their branch offices. He used the terms ethnocentric, polycentric, regiocentric and geocentric. These terms relate to the modern interpretation of international firms interpreted by Bartlett and Ghoshal, Porter and Dunning (amongst many others) as being international, multinational, transnational and global. These classifications of multinational enterprises (MNEs) mostly related to manufacturing firms.

## **8.3. Competencies/human capital/skills**

CPS firms provide solutions to their clients and this service is based upon and underpinned by the competencies of the firms' greatest asset, their human capital. The business covers a number of different disciplines/specialisms, which are delivered in a wide range of countries and/or regions. Within these disciplines are the services provided. For example, a firm's core competency may be in water, but its specialisms will be more defined, such as clean water, wastewater and drainage, and water treatment. The business units relate to a firm's competencies and range across the construction disciplines, from civil engineering to heavy engineering to design and planning. The term 'business units', may be called "areas of expertise", "core competencies" and so on by different companies.

Services are the activities within the business units. They are the 'solutions' offered to the client and cover a wide range, both in the way they are delivered and the part they play in the wider project. Individual services/skills/technologies in a firm may be imitable, but it is the complex integration and co-ordination of the skills that form the company's core competencies, they are the collective learning of an organisation" (Prahalad and Hamel, 1998, p. 221-224).

## **8.4. Ownership**

Although profit remains an overriding ambition for successful companies, public companies (whose shares are quoted on a stock exchange) have a commitment to deliver what the shareholders want. They are 'governed' by a Board of Directors that is answerable to the shareholders. Private companies operate differently, they are much more influenced by their owners, whether that is several individuals or the employees/partners. Professional partnerships are common in architectural firms where there is limited liability. Whilst corporate governance is embedded in statutory corporate requirements, the impact on private companies is different. Corporate regulations place demands on public companies to be transparent, issue quarterly financial reports and declare share warnings where appropriate.

## **8.5. Locational representation**

Globalisation has stimulated the need to internationalise and “go global”. Bartlett & Ghoshal's (1998) Integration-Responsiveness framework shows the way in which MNEs develop to become global, putting emphasis on integration into the global marketplace and being responsive to local needs. CPS firms that localise place great emphasis on the local issues and needs, placing as much power in the hands of the overseas office to develop opportunities. A CPS firm that wants to globalise tends to retain firm central control and aims to 'sell' the brand name on a global basis. The nemesis of this strategy is to become what Ohmae (1987) called a “company without a country”. Being glocalised is a mixture of the above two. The aim here is for the CPS firm to maintain a global reputation but have the ability to react to local issues and opportunities. The control is more centralised than the localised option but less than the globalised option.

## **8.6. Business organisation culture**

The risk attitude of a firm can be understood by looking at its strategy, specifically the way in which the firm grows, either organically, by merging or by being more assertive through acquisition. The leadership style of the CEO has a huge impact on a firm and will dictate the strategy. The culture of the country in which an overseas office is based has a substantial effect on operations. This is more noticeable when the psychic (cultural) distance is greater, Hofstede's (1980) cultural index can be used to assess the home country's index. A company's ownership may have changed due to a take-over, merger or acquisition. This change will not only alter the size and range of services of the company but also its culture, if say, an overseas firm had acquired the company. Attitude to ethical standards and corruption is an important part of business organisation culture.

## **8.7. Inter-relationships in the cube framework**

The 'heart' of the cube, the interlocking mechanism (see Figure 4) is made up of intangible factors unique to each firm that revolve around people-centred assets. Itami and Roehl (1987, p.14) suggest that 'people are accumulators and producers of invisible assets'; this can be taken further to include companies. Caves (1996) con-

cludes that a firm's motivation for internationalisation is 'largely determined by its intangible resources'. Based on the literature (Delgado-Gómez et al., 2004, p. 479) and the surveys, six main intangible/invisible assets were identified that relate well to CPS firms:

- Reputation/brand
- Tacit knowledge
- People/process synergies
- Innovative capacity and abilities with knowledge absorption
- Organisation and managerial skills
- Experience

It is the synergy of the visible and invisible factors that dictate the approach to internationalisation and makes each CPS firm unique.

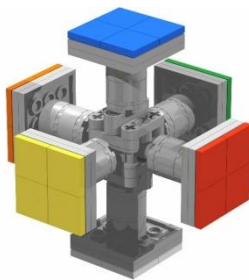


Fig. 4: The interlocking mechanism

Each face (key factor) of the cube is made up of 9 cubes, whose faces represent the key issues. Each of the 27 cubes is a smaller replica of the whole cube, representing the interdependency of the issues and factors. A firm's strategy is not based on one factor alone, but all six of the factors, creating different issues. For example, the decision to enter a particular market or bid for a project will rely on the mix of the six factors at any one time.

Large, medium and small firms have different strategies. The Consultants File 2010 (NCE, 2010) surveyed across the sector to find out the different strategies adopted by firms to counter the credit crunch. Whilst 83% reallocated staff, only 22% of smaller firms adopted this strategy. 71% of small firms lowered fees and/or reduced margins, compared with 47% of large firms. This reflects the flexibility of smaller firms and the level of their overheads.

## 9. Discussion

This paper has revealed the characteristics of service firms and, in particular, CPS firms. There is a great deal of research into the export of manufacturing goods and

the way manufacturing firms internationalise. This is evidenced by the wealth of literature on multinational enterprises (MNEs). Very little research has been undertaken into the processes and characteristics of CPS firms. CPS firms are professional service firms and, although they all sell knowledge-intensive services, the way they operate overseas can vary greatly. The framework developed in this research helps to classify the key factors of the firms, the combination of which makes every CPS firm different. The Rubik cube analogy explains the inter-relationship between each of the factors and how the key issues within those factors will change not only according to the firm but also project-by-project.

Globalisation has led to more complex projects and their procurement, increased competition and a global finance and labour market. It is within this environment that CPS firms export their services. Overseas professional services offices are very different from overseas manufacturing operations. The project-based nature of the CPS means that there are few opportunities for economies of scale, reputation is key to ensure sustainability of the business.

## **10. Conclusion**

Whilst the research into services has increased and developed with the importance of services to any economy, theories on the organisation and internationalisation of CPS firms are much fewer. The project-based nature of the firms means they do not always “conform“ to the services model and the knowledge intensive nature of CPS firms also makes it difficult to create any sort of typology.

The intangibility of services and the knowledge intensive nature of CPS firms means that globalisation has had a substantial impact. The increasing mobility of labour has increased competition for professional staff, even in an economic downturn. Electronic communication and payments have opened up the competitive playing field with clients being able to access businesses worldwide. The way in which CPS firms market their services has changed and become increasingly important for their competitiveness.

The consolidation in the sector with vertical and horizontal integration will increase. Unlike the accounting profession, where there is a source of work resulting from legislation with the requirement for audited accounts, and the legal profession where lawyers are required to argue a case in the courts, CPS firms have no such guarantee of work. New methods of procurement and new technologies have changed project delivery, for example, with the integration of design and production into a single package.

Although all CPS firms come under just two classifications in national/international statistics (ISIC 71 and 74), their strategies, organisation and mix of services and competencies are very different. Even where there are similarities, it is the combination of factors that can be very different.

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