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The Internationalization of Service Firms from Emerging Economies: An Internalization Perspective

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How can service firms internationalize in the absence of significant resources and capabilities prior to internationalization? This question is important, because internalization theory has dismissed the possibility of internationalization without firm-specific advantages (FSAs) or country-specific advantages (CSAs). This conceptual study argues that resource-scarce service firms undertake FDI to access intangible resources abroad, which are then used to develop FSAs in these firms' *domestic* market. We call this novel service internationalization strategy *domestic market-seeking internationalization* (DMSI). We embed DMSI within a comprehensive internalization theory-based framework that derives testable propositions. The framework extends internalization theory by explaining generic service internationalization strategies through leveraging different types of domestic and foreign-originated FSAs. In addition, this study provides recommendations for practicing managers who face the dilemma of increasing competitive pressures to take their firm international under severe resource constraints, a challenge typical to many emerging economy firms.

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Introduction

How can service firms from emerging economies expand abroad without superior resources and capabilities prior to internationalization? In fact, the FSA/CSA framework (Rugman and Verbeke, 2008) explains why firms internationalize when either firm-specific advantages (FSAs); i.e., "knowledge bundles that can take the form of intangible assets, learning capabilities and even privileged relationships with outside actors" (Rugman and Verbeke, 2003, p. 127), or country-specific advantages (CSAs); i.e., production factors, such as competitive wages, costs of capital or land and natural resources (Rugman, 2005; Rugman and Verbeke, 1992) are strong. However, this does not explain internationalization when FSAs and CSAs are both weak or absent, a situation commonly ignored in the current literature (Rugman et al., 2011, pp. 766–8). The underlying problem is that weak FSAs are the rule rather than the exception in regard to the internationalization of service firms from emerging economies.

In disagreement with Rugman (2010), prior research has argued that emerging market firms seek access, frequently by mergers and acquisitions (M&A), to strategic assets (e.g., brands and operational and R&D resources), mainly in developed economies (Luo and Tung, 2007; Mathews, 2006; Yamakawa et al., 2013). However, this does not explain the internationalization of service firms without the means to implement expensive M&A strategies. While the internationalization of manufacturing MNCs from emerging economies has been explained by CSAs, such as low labor costs or an abundance of natural resources (Ramamurti, 2009; Rugman, 2010), we have yet to provide a theoretical explanation for the success of service firms from emerging markets that lack notable CSAs.

Seeking to address this gap in internalization theory, we draw on three streams of research: the theory of competence building in multinational enterprises (Rugman and Verbeke, 2001); research on internationalization strategies of emerging market multinationals (EMMs) (Cuervo-Cazurra, 2012) and research on the internationalization of service firms (e.g., Boddewyn et al., 1986; Rugman, 1981; Williams, 1997), due to the choice of service firms as the research subject. This combination is particular relevant in addressing simultaneously weak FSAs and CSAs.

To illustrate our propositions, we will focus on Multinational Banks (MNBs) from emerging economies for the following reasons: First, MNBs from emerging economies in particular suffer from weak or even absent FSAs, because proprietary knowledge and thus competitive advantages are difficult to protect (Guillén and Tschoegl, 2000). In contrast to manufacturing industries, customary emerging market CSAs, such as lower wages or abundance of natural resources, are irrelevant for retail or corporate banking when venturing abroad, given the specific characteristics of services, such as intangibility, inseparability, perishability or complexity (Villar et al., 2012). Furthermore, banks from emerging markets often suffer from country-specific disadvantages, such as higher cost of capital and institutional voids (Khanna et al., 2005). Therefore, MNBs from

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emerging economies generally cannot draw on either FSAs or CSAs to internationalize. This situation makes MNBs an ideal case for examining and illustrating internationalization when FSAs and CSAs are both weak or absent, which is the theoretical gap still remaining after Rugman and Verbeke (2008).

On this basis, we make the following contributions to scholarly and practitioner literature: First, by explaining how service firms from emerging economies can internationalize despite their lack of FSAs and CSAs, we propose a novel internationalization strategy that establishes an international presence to develop FSAs in the *domestic* market. Such FSAs are embedded in new client relationships, established as a consequence of international network development. We conceptualize this strategy as *domestic market-seeking internationalization* (DMSI), which contrasts with the widely known (*foreign*) market-seeking internationalization (Dunning, 2000). The internationalization discourse seems to have suffered from an optimistic bias towards accelerated expansion abroad (Mathews, 2006), and this bias could explain why DMSI has been overlooked up to this point.

Second, we extend internalization theory and fill the low FSA/low CSA gap in Rugman's framework (Rugman, 2010) by explaining how and under what conditions internationalization is possible in the absence of FSAs and CSAs. Accordingly, we argue that internationalization occurs when service firms access and internalize intangible FSAs located abroad, transfer them to their home market to win over domestic clients whose future international competitiveness can be strengthened by the services derived from the transferred FSAs. Thus, service firms prepare the ground for already known internationalization strategies, such as the follow-the-client strategy.

Third, by illustrating our propositions with anecdotal examples and prior research on financial services, this study indirectly addresses important gaps in understanding as highlighted by leading research on financial service internationalization. In particular, the internationalization of banks from emerging economies constitutes a growing, albeit incipient and rarely addressed phenomenon, possibly because "internationalization in financial services has lagged behind that of manufacturing" (Grant and Venzin, 2009, p. 562). Several studies have pointed to gaps in understanding, such as "little consensus" for "the appropriate strategy to be followed", "diverse performance outcomes" of financial service internationalization or the "absence of cost economics of cross-border integration" (Parada et al., 2009, p. 672). Petrou (2009, p. 628) calls for particular research on this subject as "to what extent, and in which markets, multinational banks (MNBs) would be best advised to internationalize." These above-mentioned gaps in understanding motivate our study and demonstrate why we need a comprehensive framework that seeks to explain major financial service internationalization strategies. Our framework complements an important recent study that addresses the importance of international knowledge creation and transfer in service internationalization (Dunford et al., 2010) by integrating several service internationalization strategies in a single overreaching framework. Finally, our conceptual framework can assist practitioners systematically develop service internationalization strategies based on an assessment of service firms' FSAs; therefore, our framework also constitutes an important contribution to managerial practice.

Internalization and strategic choices

Internalization theory has its roots in transaction cost economics (Coase, 1937; Williamson, 1971) and assumes markets are imperfect and may even fail in important intermediate products, such as information and knowledge (Rugman, 1981). The transfer of information and knowledge through markets often suffers from market failure, because once a piece of information is known to the buyer, there is no longer a need to pay for it (Arrow, 1973). This is also known as an information paradox, and implies that the incentive to organize information and knowledge transfers within an internal market is high (Buckley and Casson, 1976). Information is considered a critical intermediate product for many service industries. Accordingly, service firms internationalize to internalize information flows across borders (Boddewyn et al., 1986; Rugman, 1981). Hence, internalization in service industries is likely to reduce transaction costs, lower customer risks and assist in exploiting existing market-making and data analysis skills across borders (Boddewyn et al., 1986).

An additional reason for internalization in the service industries lies in the fact that knowledge embedded in services is difficult, if not impossible, to protect (Guillén and Tschoegl, 2000). Even if knowledge was protectable, weak institutional environments in some emerging and developing countries may further reduce the chances that an internationalizing firm can appropriate the gains from information and knowledge development (Acemoglu et al., 2005). For these reasons, the ownership and control of foreign assets are important for protecting firm-specific knowledge and for avoiding its dissipation to competitors.

Intangibles, such as information and knowledge-based resources and capabilities, constitute FSAs. CSAs, in turn, refer to production factors; e.g., competitive wages, costs of capital or land and natural resources (Rugman, 2005; Rugman and Verbeke, 1992). Within an emerging market perspective, these CSAs are likely to be irrelevant as even the cost of capital and transaction costs tend to be relatively high compared to those in more advanced economies (Khanna et al., 2005). Moreover, conceivable CSAs can be "endogenized" and thus transformed into new FSAs (Rugman and Verbeke, 2001). We therefore concentrate on FSAs.

FSAs can be location or non-location bound (Rugman and Verbeke, 1992, 2001). Non-location-bound firm-specific advantages (NLB FSAs) are intermediate products, such as product, process or client-specific information and knowledge, brands, marketing or credit analysis knowledge that can be transferred across borders easily and at low cost. Location-bound firm-specific advantages (LB FSAs) "benefit a company only in a particular location (or set of locations), and lead to benefits of national responsiveness" (Rugman and Verbeke, 2001, p. 241). Strong relationships with local key stakeholders, such as local

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		FSA abroad	
		NLB (transferrable)	**LB** (difficult and costly to transfer)
Home-grown FSA	**LB** (difficult and costly to transfer)	1.1 Domestic market seeking (proactive) 1 *Low foreign market presence* 1.2 Follow-the-leader (reactive)	2.1 Risk diversification (proactive) 3 *Medium-high foreign market presence* 2.2 Follow-the-leader (reactive)
	NLB (transferrable)	3.1 Ethnic Banking (proactive) 2 *Low-medium foreign market presence* 3.2 Follow-the-client (reactive)	4.1 Foreign market seeking (proactive) 4 *High foreign market presence* 4.2 Mutual forbearance (reactive)

Figure 1. A conceptual framework of service internationalization strategies

clients, suppliers, complementary industries or privileged access to local government entities, are examples of LB FSAs. However, firms can convert their LB FSAs into NB FSAs provided they make significant adaptations and are able to translate tacit into explicit knowledge (Kogut and Zander, 1993).

The internationalization literature has argued that multinationals from emerging economies (EM MNEs) frequently do not possess significant resources and capabilities prior to internationalization, which is why many EM MNEs tend to internationalize to access and absorb resources and capabilities from their host countries (Luo and Tung, 2007; Mathews, 2006). Consequently, both LB FSAs and NLB FSAs can be located domestically or abroad. By combining the location and the FSA dimensions, we obtain the following matrix (Figure 1).

The matrix shows four generic strategic choices (①, ②, ③ and ④ in Figure 1) that result from the combinations of LB FSA and NLB FSA of domestic and foreign origin. As we will explain in the following sections, the resulting strategic choices differ as regards to the extent of foreign market presence; i.e., the size of investment, customer base and revenues in foreign markets. The extent of foreign market presence is high when service firms have developed a large customer network, which entails high investments and revenues. Accordingly, the four strategic choices align along a continuum from low to high foreign market presence.

Thus, the above-mentioned concepts, LB FSAs and NLB FSA, as well as the strategic choices regarding the extent of foreign market presence, correspond to independent and dependent variables in formal models. Service firms' strategic choices are further influenced by competitive dynamics, which would represent a moderator variable in a formal model. Grant and Venzin (2009, p. 561) have distinguished "opportunism and imitation" as "key drivers of cross-border expansion." In line with Wilson (1980), we therefore complement the matrix by explicitly distinguishing between proactive and reactive strategic choices. Whereas a *proactive* strategic choice implies first-mover behaviour ahead of industry peers, *reactive* strategies mean firms respond to strategic movements in the industry. Consequently, the four generic strategic choice patterns can be broken down into eight service firm internationalization strategies (see Figure 1).

Based on the NLB/LB FSA framework, we explain why firms opt for different internationalization strategies. We use anecdotal examples from the multinational banking industry to illustrate strategic choices (see Appendix 1 for a methodological summary). Most emphasis is placed on the first strategic choice given its novelty, and less emphasis is placed on the remaining strategic choices, as they are extensions of the first argument.

Leveraging firm-specific advantages at home and abroad

Low extent of foreign market presence

Our first proposition argues that service firms without home-grown NLB FSAs are likely to develop a low foreign market presence, which they use primarily to strengthen their LB FSAs located in their domestic market. The reasons follow from internalization theory and the characteristics of service industries. First, in contrast with large-scale investments in foreign plants undertaken by the manufacturing industries, service industries do not necessarily require high investments for setting

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up their branch offices abroad. Second, service firms without NLB FSAs transferrable to foreign markets are less likely to successfully compete with other service firms in foreign markets (Dunning, 1988; Hymer, 1976; Rugman and Verbeke, 2008). Therefore, service firms derive new NLB FSAs from their limited foreign presence to leverage competitiveness at home.

Such NLB FSAs derived from an international presence arise because the internalization of markets, particularly in emerging economies, is an important approach to bridge wide-spread institutional voids, such as the lack of information and specialized market intermediaries (Dhanaraj and Khanna, 2012; Khanna and Palepu, 2000). Establishing a foreign presence implies that critical information and knowledge transferred between foreign and domestic locations remain exclusive to the firm and are less likely to disseminate to competitors (Rugman, 1981). Thus, internalization allows service firms to create NLB FSAs and to differentiate themselves from competitors that solely practice market-based exchange; e.g., by transacting with corresponding foreign partners. In addition, by setting up several branch offices abroad and interconnecting them within a network, service firms will be able to transfer information and knowledge between distant network nodes, and consequently leverage cross-selling opportunities and other synergies among foreign locations (Brock, 2012). In sum, by establishing a low foreign market presence, service firms can access NLB FSAs located abroad and transfer them back home where they can add to their existing domestic LB FSAs.

As the following examples from the financial service industry suggest, NLB FSAs accessed abroad can have different facets, such as international sourcing of financial, reputational, informational or knowledge resources. Specifically, by being present in key world financial centres, MNBs can build their reputation vis-à-vis their lenders, obtain information on financing opportunities and consequently improve their position to raise capital at lower interest rates abroad (Aliber, 1976; Jones, 1993; Nigh et al., 1986; Tschoegl, 1987). This assertion is particularly relevant for banks from emerging economies that often face lower reputation (Petrou, 2007), possibly due to the “liability of emergingness” (Madhok and Keyhani, 2012), and higher costs of capital (interest rates) than in advanced economies.

To illustrate this strategy and its underlying theoretical arguments, interviews with former executives of Banco Real, a Brazilian bank sold in 1998 to ABN-AMRO, indicate that by “running an agency in Frankfurt, foreign partner banks noticed how the bank was working. The resulting credibility facilitated obtaining credit lines which headquarters at home could then use for pre-export financing.” In addition, by having an international presence, these MNBs can augment their reputation vis-à-vis their domestic clients; e.g., by advertising the strength of their international network to their domestic clients.[1]

Moreover, through their international presence, MNBs can leverage their privileged access to international market information (e.g., foreign exporters or importers, foreign market barriers and foreign exchange) to offer trade or investment intermediation services to domestic clients. The former CEO of Banco Real illustrates this type of intangible asset (NLB FSAs) as follows: “Our branch office in London knew the aeronautics market very well, so we financed many Embraer planes, and we financed the firms abroad that bought Embraer planes as well. Well, this means that being there abroad created a business opportunity that a corresponding bank did not [offer].” This implies that Banco Real internalized specific information on the aeronautics market obtained through its office in London, and made this information available to its corporate client Embraer at home. That the emphasis of the DMSI strategy relies on existing and even more on future domestic clients cannot be stressed enough, as a former Colombian Banco Real executive notes: “[Banco Real] started to have a very prominent position which permitted it to offer its clients in Brazil many advantages, because it already had all the contacts and knew intimately certain things regarding possible services, alternatives, etc., which were not easy to be known by a bank which operated only locally.”

While Banco Real has opted for a proactive first mover strategy,[2] other service firms may be obliged to follow the example of their domestic competitors to remain competitive. This is called a “follow-the-leader”-strategy, also characterized as “oligopolistic reaction”, and essentially based on game theory (Aliber, 1976; Fieleke, 1977; Hellman, 1994; Mutinelli and Piscitello, 2001; Rugman, 1981; Terpstra and Yu, 1988). Oligopolistic reaction means that competitors in the same industry in the same country (region) of origin tend to follow the first mover to make investments abroad with minimum delay (Flowers, 1976; Knickerbocker, 1973).

The follow-the-leader strategy is motivated by the intention to defend the domestic market by creating synergies between domestic and foreign operations. In other words, the strategy seeks to combine LB FSAs at home with NLB FSAs accessed abroad, such as valuable information, financial and reputational resources or new capabilities (Knickerbocker, 1973). As an exclusively domestically operating player may not be able access such intangibles, it comes under pressure to internationalize, as well, to compensate for the resulting potential competitive disadvantages (Aydin et al., 1984; Terpstra and Yu, 1988). Prior research has identified market commonality and a limited number of competitors as preconditions for oligopolistic reaction. Market commonality implies that rivals’ markets are overlapping within a well-defined industry with homogeneous (i.e., undifferentiated) products. The industry is characterized by an oligopolistic structure with at least three, but no

[1] “The Real Group has a commercial bank with agencies all over Brazil. And in the United States, Colombia, Paraguay, Uruguay, Mexico, Panama, Nassau, Curaçao and Grand Cayman. (. . .) An international department for commercial operations abroad. (. . .) Open a bank account in Banco Real. This is the first step to take advantage of its strength.” (Brasil Financeiro 1976–77, 35).

[2] “When all were looking inside the country, the bank [Banco Real] opened up abroad (. . .) envisioning things in an anticipating manner (. . .) the sixth largest private business group [. . .] being present today all over Brazil and in more than 15 countries, decided to extend itself abroad when everybody was only looking to the domestic market. (. . .) But Banco Real has the advantage of being a pioneer.” (Emphasis by the authors, Gazeta Mercantil Balanço Anual, 30 September 1981, 5(5), 39, São Paulo).

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more than 10–12 competitors roughly similar in size; under these conditions, firms are neither completely independent nor is mutual cooperation likely (Terpstra and Yu, 1988; Yu and Ito, 1988).

That several Brazilian private banks followed Banco Real abroad only a few years later, suggests anecdotal evidence for oligopolistic reaction. For instance, only two years after Banco Real's market entry, Itaú established its first foreign branches in Argentina in 1979. Its second major competitor, Bradesco, initiated its international expansion in the beginning of the 1980s when it opened branch offices in New York, Cayman and London, most likely to gain comparable access to financial, reputational and informational resources. Tschoegl (2002a) reports similar evidence for U.S. subsidiaries of foreign banks.

Therefore, we conclude that service firms without homegrown NLB FSAs can access NLB FSAs from abroad through low foreign presence and can use these NLB FSAs to improve their competitive position in their domestic markets. Service firms can achieve this either proactively, as first movers, by implementing a DMSI strategy, or reactively, by trying to access resources from abroad to avoid falling behind their domestic competitors.

Proposition 1. Service firms without homegrown NLB FSA are likely to develop a low foreign market presence in order to access NLB FSAs abroad, which they use to strengthen their LB FSAs located in their domestic market. Specifically, service firms are likely to adopt a proactive Domestic Market-Seeking Internationalization strategy if they precede their competitors or a reactive follow-the-leader strategy if they follow their competitors.

Low-medium extent of foreign market presence

The second proposition argues that service firms can increase the extent of their foreign market presence once they translate part of their homegrown LB FSAs into NLB FSAs, transfer them abroad, and combine them with NLB FSAs accessed through their foreign branch offices. Homegrown NLB FSAs extend to intangibles, such as information and knowledge about the firm's domestic market, their reputation and brand image, and, principally, their domestic client relationships. As follows from the previous section, part of these intangibles, especially reputation and relationships with domestic clients, may have been developed through DMSI or follow-the-leader strategies. If these intangibles are then transferred abroad, they will be more appealing to niche markets, at least initially; i.e., foreign-based clients interested in doing business in the service firm's home market. Accordingly, the homegrown reputation transferred abroad will be recognized by clients in this niche market. Brand recognition and identification is particularly likely when service firms seek to lure over ethnic clients; i.e., businesses run by home country nationals. This niche strategy explains why the transfer of these NLB FSAs will only lead to a low-medium foreign market presence.

Similar to the internalization advantages mentioned in the previous section, by establishing their own foreign branches, service firms will reduce the likelihood that valuable information and knowledge on the home market unintentionally reaches competitors. Likewise, internalization assures higher control over reputational or informational assets, thus avoiding that they become damaged, distorted or illegitimately misused by independent intermediaries. Analogous to a feedback loop, by transferring NLB FSAs originated abroad to its home base, the service firm can make adaptations to its brand, reputational, information and knowledge-based homegrown NLB FSAs before they are transferred abroad to make sure they adequately fit their foreign market niche. This is why this strategic choice relies on a combination of NLB FSAs originated in two different locations: at home and abroad.

Drawing once more on prior research and anecdotal evidence from the financial services industry to illustrate this strategy, MNBs can implement a proactive ethnic banking or a reactive follow-the-client strategy (Sabi, 1988; Tschoegl, 1987). In ethnic banking, domestic banks proactively transfer their home-grown brand reputation, a NLB FSA, to their host countries to target mainly migrant workers or business communities composed of home country nationals (Tschoegl, 1987). These communities will likely recognize the home country brand and become clients as the MNB can connect them with their relatives and business partners in their home country. Through ethnic banking, the MNB internalizes the new (ethnic) client relationship developed abroad (an NLB FSA) and links it to home country-specific information and knowledge (an NLB FSA).

For instance, several Singapore-based banks, themselves owned by ethnic Chinese, have internationalized to target ethnic Chinese in other Asian countries (Tschoegl, 2002b). ICICI, a major bank from India that behaved proactively compared to its domestic competitors, has targeted ethnic Indians in the Middle East, home of many Indian migrant workers. ICICI has offered competitive remittance services for money transfers to migrant workers' families in India. In addition to remittances, ICICI offered the Indian Diaspora India-linked banking products in investment and even real estate (Khanna and Nanda, 2005). In the Americas, Banco do Brasil has recently acquired Eurobank, aiming at attracting Brazilian and Hispanic U.S. residents and businesses. Eurobank was selected as it already has employees who speak Spanish and Portuguese, as well as having branches in places with high concentrations of residents of Brazilian origin.[3] These anecdotal examples suggest that through their low- to medium-sized foreign retail networks, MNBs target a specific ethnic clientele using NLB FSAs embedded in their national brands and intermediate products, such as knowledge of their ethnic clienteles' needs and culture.

[3] BB vai investir US$ 25 milhões nos Estados Unidos em 3 anos, Folha de São Paulo, 25/04/2011; available at http://www1.folha.uol.com.br/mercado/906949-bb-vai-investir-us-25-milhoes-nos-estados-unidos-em-3-anos.shtml, accessed in June 2013.

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In contrast, the reactive follow-the-client strategy supposes that domestic client relationships, which can initially be categorized as LB FSAs, are transformed into NLB FSAs by accompanying an internationalizing client abroad (Majkgård and Sharma, 1998). Thus, the service firm internalizes the relationship with its client and avoids client-specific information and knowledge being appropriated by competitors (Rugman, 1981). Conversely, once having established a branch abroad, the service firm obtains information and knowledge of its internationalized clients (e.g., on customer preferences, on foreign-market relationships, and on foreign exchange needs), NLB FSAs, which the service firm can then transfer back home to better serve its clients' domestic operations. If service firms did not follow their clients abroad, foreign competitors could begin to serve these clients, eventually enter the focal firm's domestic market and jeopardize its future market share and profitability.

The follow-the-client or defensive expansion strategy has been widely tracked in the literature (Abdelzaher, 2012; Majkgård and Sharma, 1998). Whereas evidence on service firms from developed countries is plentiful (Álvarez-Gil et al., 2003; Hultman and Randolph McGee, 1989; Li, 1994; Li and Guisinger, 1992; Mutinelli and Piscitello, 2001; Nigh et al., 1986; Qian and Delios, 2008; Sabi, 1988), examples from emerging economies are rare. This is most likely because clients to be followed abroad are also rare in emerging economies (Ramamurti, 2009). This observation is consistent with our argument from the previous section that DMSI is important for developing domestic clients first, which are later in a position to expand internationally.

Proposition 2. Service firms that combine homegrown NLB FSAs with NLB FSAs accessed abroad are likely to develop a low-medium foreign market presence. Specifically, service firms are likely to adopt a proactive ethnic client seeking strategy if they precede their competitors or a reactive follow-the-(domestic) client strategy.

Medium-high extent of foreign market presence

Service firms from emerging economies may not be able to internationalize by developing NLB FSAs that can be transferred from their home country to their foreign markets, as they lack transferrable competitive advantages (Cuervo-Cazurra et al., 2007; Luo and Tung, 2007; Mathews, 2006). Nevertheless, these firms can still internationalize by acquiring foreign service firms that possess LB FSAs in their respective home country (Khan et al., 2011). Although the domestic and foreign LB FSAs remain initially unrelated, the income streams obtained abroad can be combined to diversify market risk (Rugman, 1981).

As long as these income streams are weakly or negatively correlated, a risk diversification effect is likely (Kim et al., 1993). International diversification, a proactive strategy to diversify income streams, has also been observed in service industries (Berger and DeYoung, 2001; Capar and Kotabe, 2003). However, the LB FSAs acquired abroad need to be sufficiently large to compensate for an eventual domestic market downturn. Therefore, depending on the size of the acquisition targets, the extent of foreign market presence can become medium to high.

Drawing again on prior research and anecdotal examples from the financial service industry, Rugman (1981) has delivered evidence for the claim that MNBs show higher and more stable earnings as measured by the standard deviations of earnings, most likely due to risk diversification. Similarly, a study on internationalizing South African banks has shown that 8% of the respondents indicated "risk diversification" as an important motivation for foreign expansion (Luiz and Charalambous, 2009, p. 331). A prominent anecdotal example is South Africa-based Standard Bank's acquisition of Bank Boston's assets in Argentina in 2007, developing its Argentine presence into a full-service bank operation.[4] In emerging markets, risk diversification is particularly important given smaller and unstable market environments (Contractor et al., 2007).

Oligopolistic reaction is a reactive strategy that can be implemented when service firms imitate their domestic competitors by acquiring firms abroad (an LB FSA) without initially transferring NLB FSAs across countries. By imitating and following their competitors abroad, service firms primarily manage the benefits of additional income streams and financial risk diversification. Thus, these service firms intend to avoid that their risk-adjusted returns fall significantly behind their competitors' returns.

Proposition 3. Service firms without NLB FSAs that acquire LB FSAs abroad are likely to develop a medium-high foreign market presence. Specifically, service firms are likely to adopt a proactive risk diversification strategy if they precede their competitors or a reactive oligopolistic reaction strategy if they follow their competitors.

High extent of foreign market presence

Whereas the previous sections have explained under what conditions service firms establish a low-medium foreign market presence, this section inquires why the combination between NLB FSAs transferred from home with LB FSAs abroad (Rugman and Verbeke, 2003) most likely results in a high foreign market presence. The short answer is, these FSA combinations are more likely to help overcome the liability of foreignness (Campbell and Verbeke, 1994; Chan and Wong, 1999; Eden and Miller, 2004; Fieleke, 1977; Hymer, 1976; Mutinelli and Piscitello, 2001).

[4] Standard Bank Group: Historical Overview. 2009. Available at http://www.standardbank.com/SB-Historical-Overview-6th-ed-2009.pdf, accessed in May 2013.

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NLB FSAs are based on the specific characteristics of information-intensive service industries. Information-intensive services create value by collecting, manipulating, interpreting and transmitting data (Lovelock and Yip, 1996). Hence, NLB FSAs in these industries depend on personnel possessing superior skills in collecting, manipulating and interpreting data, networks of clients and data providers, the information and knowledge stored in these networks, as well as differentiated products based on these data.

As opposed to the third strategy (see Figure 1), which excludes the international transfer of NLB FSAs, the competitiveness of the service firm is likely increased in its foreign market by combining such homegrown NLB FSAs with LB FSAs abroad. Higher competitiveness may translate into a stronger client base in its foreign market (an LB FSA), and increase the extent of the internationalizing service firm's foreign market presence. By internalizing transactions with other foreign branches, the control over proprietary knowledge increases, which may make it harder for competitors to access strategic knowledge. Therefore, a virtuous cycle may emerge, as the combination of NLB FSA and LB FSA continuously contributes to rent generation, deepening the foreign market presence (Rugman and Verbeke, 2001). Thus emerges the foreign market-seeking strategy (Ramasamy and Yeung, 2010), which constitutes the opposite of DMSI (see Figure 1).

Drawing again on anecdotal examples from the financial services industry, Banco Santander, for instance, had developed NLB FSAs in the form of managerial and technological capabilities, new products such as lottery-linked bank accounts, innovative concepts in the form of mini-branches in alternative channels such as supermarkets or gas stations as well as credit risk assessment expertise before it entered Latin American markets (Guillén and Tschoegl, 2000; Parada et al., 2009). After having consolidated a leading position in Spain and having grown in Europe, Santander envisaged a leadership position in Latin America. Through the acquisition of Latin American banks (e.g., Banespa and Banco Real in Brazil), Santander expanded its foreign large-scale branch networks and absorbed LB FSAs in Latin American countries, which were then infused by Santander's advanced managerial practices and technology. By combining NLB FSAs from Spain with LB FSAs in Latin America, "the Spanish banks believed that they could introduce efficiencies" in their acquired operations (Guillén and Tschoegl, 2000, 80).

Likewise, the strategic moves of several Spanish banks in Latin America illustrate mutual forbearance, because Santander, Banco Bilbao Viscaya (BBV) and BCH matched each other's entries in different Latin American markets and therefore created an arrangement of tacit collusion (Guillén and Tschoegl, 2000). Not surprisingly, these strategies have not yet been observed for MNBs originated in emerging economies, given their considerably weaker FSAs and CSAs. Accordingly, we propose that service firms can significantly increase their foreign market presence if they combine NLB FSAs with foreign LB FSAs:

Proposition 4. Service firms that combine NLB FSAs and LB FSAs at home and abroad are likely to develop a high foreign market presence. Specifically, service firms are likely to adopt a proactive foreign market-seeking strategy if they precede their competitors, or a reactive mutual forbearance strategy if they follow their competitors.

Discussion

Implications for managerial practice

Following the rationale set out in Figure 1, this study contributes to managerial practice by guiding executives of service firms on how they can expand internationally while their internal resources and capabilities are weak. Likewise, our study advises why internationalizing under these conditions can be a productive competitive strategy: to pre-empt or catch-up with competitors by differentiating product and service portfolio through an international presence.

Initially, service firms from emerging economies lacking country and firm-specific competitive advantages should build up a limited presence abroad to obtain more competitive access to financial resources and to intangibles such as information on international markets or reputational benefits derived from their foreign footprint. By shopping around for financial resources on the global market place, they will be able to offer more competitive financing to their domestic clients than their purely domestically operating competitors. In addition, they will be able to support their clients' internationalization process by providing them with information and knowledge on foreign trade and investment opportunities obtained from partners, clients and government agencies abroad. Specifically, by advertising their foreign presence to their domestic clients, highlighting their international branch network in main financial centres, service firms can raise their reputations. Similarly, service firms can differentiate their reputations vis-à-vis their domestic clients by inviting business journalists to report on their international presence.

By leveraging these resources and capabilities, the embryonic multinational service firm increases its customer base at home, raises its revenue, and thus unleashes a virtuous cycle that provides it with knowledge and financial resources to further expand abroad; e.g., by targeting foreign market niches, such as ethnic clients and internationalizing domestic firms. A crucial side effect of this strategy consists of the accumulation of deeper foreign market knowledge, by directly interacting with foreign stakeholders in the course of expanding foreign investments and income. Additional market niches and eventually a large-scale foreign branch network may follow suit. Nevertheless, the practical value of our framework lies in its ability to help practicing managers in assessing their strategic internationalization choices.

One straightforward approach to applying the framework involves listing all existing and required resources and capabilities. Once listed, they can be categorized according to their location (domestic versus foreign) and to their nature (location

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bound, non-location bound). Based on this categorization, the practitioner can establish the service firm's position within the framework (①, ②, ③ and ④ in Figure 1). Depending on the service firm's position vis-à-vis its main competitors, the practitioner can establish which of the eight service internationalization strategies applies (Figure 1). Subsequently, practitioners need to define their service firm's intended future strategic position in the framework, given the firm's existing and required resources and capabilities.

Implications for theory

This study makes three contributions to scholarly literature. First, it fills the gap in the theory of competence building in multinational enterprises by explaining how and why financial service firms from emerging economies may nevertheless internationalize when they lack FSAs and CSAs. Whereas the FSA/CSA framework suggests an internationalization strategy is not possible when FSAs and CSAs are weak or absent (Rugman and Verbeke, 2008), our conceptual framework suggests otherwise for the service industry. Accordingly, we extend internalization theory by explaining how different FSA combinations from different locations likely result in different service internationalization choices.

Second, we expand conceptual work on the internationalization of multinational corporations from emerging economies (EM MNCs) (Cuervo-Cazurra, 2012) to service firms by adding an alternative internationalization strategy (DMSI). Whereas Rugman's internalization theoretical approach claims that EM MNCs need to rely at least on CSAs (Rugman, 2010), the accelerated internationalization approach claims that resource-scarce EM MNCs acquire their resources and capabilities abroad, mainly by mergers and acquisitions (Luo and Tung, 2007; Mathews, 2006). This study advocates a way in between these two extremes, by demonstrating that firms without significant CSAs or FSAs can still internationalize incrementally if they obtain financial and intangible resources from their limited international presence first to subsequently strengthen their domestic market position. In our framework (Figure 1), quadrant ④ is in line with mainstream arguments (Dunning, 1988; Rugman, 1981), and quadrant ③ corresponds to the accelerated internationalization strategy (Luo and Tung, 2007), which unveils the combination of the two strategies in quadrants ① and ② as a (so far) widely disregarded pathway to a higher foreign market presence ④. This is particularly important, as the use of intangibles from abroad to improve domestic competitiveness has only recently been acknowledged, albeit for firms with very different characteristics than those examined in this study (Yamakawa et al., 2013). By implication, the internationalization of service firms can easily deviate from the patterns observed and theorized for the manufacturing industries, which is why service firms deserve our particular attention.

Third, we extend the literature on the internationalization of financial service firms itself by addressing an important gap of understanding with high practical relevance as identified by (Petrou, 2009, p. 628): "to what extent, and in which markets, MNBs would be best advised to internationalize to ensure an optimal mix of national and foreign assets." Our answer is that the extent of foreign market presence depends on the service firm's configuration of LB FSAs and NLB FSAs in its home and host markets. Grounded in these theoretical building blocks, we developed a comprehensive internalization theory-based framework that integrates and helps to compare and contrast several service internationalization strategies. By arguing that each strategy is contingent on different LB and NLB FSA combinations, this framework mitigates the lack of consensus on the "appropriate strategy to follow", and on how MNBs can capitalize on cross-border integration (Parada et al., 2009, p. 672). Accordingly, our study emphasizes that the benefits of cross-border integration vary according to the LB FSAs and NLB FSAs configuration.

Future research might advance financial service internationalization literature by empirically testing the model contained in our internalization theory-based framework. Specifically, home and destination country LB FSAs and NLB FSAs represent independent variables that can predict different degrees of foreign market presence or strategic internationalization choices.

While we use several illustrative examples from financial services, we believe our insights are relevant beyond financial services as they can be applied to other intangible intensive internationalizing service industries, such as international logistics, insurance, advertising or management consulting. Accordingly, logistics or consulting firms without strong home-grown NLB FSAs or country-specific excellence in logistics or knowledge generation (a CSA) may equally connect their domestic clients to international markets before they deepen their firm's foreign presence. Given the resource scarcity in many emerging economies, our theoretical claims are likely more frequently observable in emerging economic contexts. Nevertheless, we believe that our propositions are also applicable to service firms from developed economies.

Conclusion

The key message of this conceptual study is that service firms can successfully internationalize in the absence of FSAs and CSAs. This addresses key problems faced by internationalizing service firms, especially from emerging economies, such as the lack of proprietary resources and capabilities strong enough to conquer international markets, the difficulty to protect intangibles and the impacts of home country-specific disadvantages. By introducing domestic market-seeking internationalization as a strategy alternative and thus extending internalization theory, this study's insights have the potential to noticeably change the scholarly and practitioner conversations on service internationalization.

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Appendix 1. Methodological details on in-depth empirical background study

On studying Banco Real, the researchers noted that the motives of a bank's internationalization could not be satisfactorily explained by the existing international business theory. This gave rise to an in-depth study of Banco Real's internationalization history and the collection of anecdotal examples on contrasting internationalization strategies of other multinational banks from (mainly) emerging economies. Although the in-depth study has merely served to illustrate our theoretical reasoning and propositions, to establish the study on a solid foundation, different qualitative and quantitative data sources were used to triangulate perspectives, data and methods:

- Fully transcribed interviews with seven high-ranking former Banco Real executives who were responsible for the internationalization strategy and its implementation, and who had former assignments in Africa, Europe, and North and South America. These executives covered the years from the beginning of Banco Real's internationalization (early 1970s) through the period when the outcomes of internationalization were measurable (from the late 1970s through the 1990s) and up to its sell-off to ABN Amro (1998). Notably, these executives were insiders who held top positions in the bank's internationalization process.
- To cover the bank's business environment, written statements were exchanged with four high-ranking former employees of competitor banks and government institutions such as Bamerindus, Banco Econômico, Banco Excel, Banco Mercantil, the Brazilian Central Bank, the Brazilian Finance and Economics Ministry.
- (The discourse of Banco Real's marketing advertisements published in Brazilian major financial market newspapers and magazines over ten years from 1973–1982, covering the most active internationalization phase, was analyzed.
- Printed financial market newspaper and magazine reports written by outside observers were studied.
- Data from Banco Real's annual reports with information on international presence were used.

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