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2/2011

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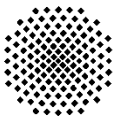

Universität Stuttgart

Betriebswirtschaftliches Institut
Abteilung I - Forschungs-, Entwicklungs- und Innovationsmanagement

ISSN 2193-2301

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Abstract

Location is a neglected factor within international scientific research in spite of its increasing importance in corporate practice. Selection of severely flawed or completely unsuitable sites can lead to partly or complete withdrawal from country markets, closure of subsidiaries and financial losses. Quality and efficiency of site selection are very important for internationalization success, but still surprisingly undistinguished in recent literature. Within this paper, requirements for site evaluation and selection are derived. A systematic site selection methodology capable of increasing effectiveness, decision quality and efficiency in service firms is developed.

Porter's national diamond approach is combined with resource-based theory of the firm and dynamic capabilities reasoning to explain the usage of site selection criteria. Transaction costs theory and agency theoretical reasoning are used to account for specific requirements of site selection. Thus, a stepwise site selection methodology is derived from theory and is implemented, further developed and evaluated in two actions research-based case studies. Using publicly available data, explicit definition, weighting of indicators, systematic data mining and evaluation considerably increases decision transparency in site selection and reduces time expenditure. In both case studies, effectiveness and efficiency increased due to utilizing the proposed site selection methodology.

Keywords

Foreign Direct Investment, Globalisation, International management, Internationalization, Market research, Professional service firms

1. Introduction

The propensity of foreign direct investment (FDI) in services is far more distinctive than in manufacturing (for data see German Bundesbank, 2009; Riedl, 2008; for a literature overview see Seggie and Griffith, 2008). FDI enables service firms to be "closer to their markets" (Erramilli and D' Souza, 1995), involves the establishment of subsidiaries abroad (Zaheer and Manrakhan, 2001) and triggers an increase in international site selection processes. The process of site selection is strategically very important for an international or would-be international firm (Dunning, 2009). Dunning sees location as a neglected factor within the analysis of multinational enterprises (MNE), stating that MNE tend to seek "locations which offer the best economic and institutional facilities for their core competencies to be efficiently utilized" (Dunning, 2009, p. 9). This should be characterized by augmenting efficiency of the actual site selection processes.

Considering the increasing importance of lead markets (Beise, 2001; Beise and Rennings, 2005), site selection (understood as subsequent selection of country and business location) is very important for international companies (Zaheer and Manrakhan, 2001) and for internationalization research (Buckley, 2002). The application of a systematic, conceptual and methodical site selection process entails several challenges, as sources of competitive advantage differ among branches and industries (Porter, 1990) and site advantages and their importance differ across firms (Nachum and Wymbs, 2005).

Recent literature on site selection concentrates on the analysis of interesting but partial viewpoints: Geisler Asmussen et al. (2009), Seggie and Griffith (2008), Galan et al. (2007), Nachum and Wymbs, (2005), Tahir and Larimo (2004), Henisz and Macher (2004), Zhou et al. (2002) and Zaheer and Manrakhan (2001), for example, describe different sources of a firm's competitive advantages and their specific impact on site selection, Purda (2008) analyses firm-level risks in site selection and Meyer (2001) concentrates on market imperfections in site selection, whereas Flores and Aguilera (2007) study de-location patterns.

In spite of this extensive covering in recent literature, several important aspects remain undistinguished (Ramamurti, 2004). Especially, the actual site selection process and its roll-out are still unclear (Hätönen, 2009; Dunning, 2009). Furthermore, the interplay between a nation's and a firm's competitive advantages are mostly neglected in recent studies. The authors try to close this research gap by proposing a structured, holistic and applicable site selection process derived from theory and backed up by two exemplary action-research based (Baskerville, 1999) case studies. Furthermore, the site selection processes implementation, evaluation and implications for practice and further research are analysed, arguing from the nation's as well as the firm's perspective.

2. Theoretical background

Apart from market seeking and strategic asset seeking, efficiency seeking is one of the traditional motivations for site selection (Zaheer and Manrakhan, 2001). In the following, site selection is critically scrutinized from the viewpoint of prevalent international and strategic

management theory. First, site selection criteria are derived from theory and site selection is based on country, market and resource-based theories. Then, requirements of an efficient site selection process are developed on a theoretical basis and an ideal site selection process is explained, considering transactions and dependencies between the actors involved.

2.1.Criteria for site selection

Theoretically derived criteria for site selection are developed. Porter's *national diamond approach* concentrates on important resources of a country to specify a nation's competitive advantage. The nation's so-called "factor endowment" contains human, physical, knowledge and capital resources as well as infrastructure. Firms use these criteria to evaluate and select concurring sites. The endowment with human resources is seen as one of the critical points in site selection (Porter, 1990), especially for a service company. Therefore, the service provider must be able to predict the probable efficiency of human resources abroad (Sanchez *et al.*, 1996).

Seen from a *resource-based perspective*, important resources of a firm on its way to securing a sustainable competitive advantage are human, physical, and organizational capital (Barney, 1991), technology, financial resources and reputation (Grant, 1991), trust and corporate culture (Itami and Roehl, 1987). Each statement concerning a competitive advantage of a firm embodies three questions: "Availability of the resources within the new market?", "Possibility to generate competitive advantage by transferring resources to the new market?" and "Competitive advantage over whom?" (Kay, 1993).

Transferring a sustainable competitive advantage to a foreign market by the way of FDI and the set-up of a subsidiary (Hymer, 1976; Buckley, 2002) presupposes the availability of the same resource categories at the national as well as at the international site ("resource matching process" according to Seggie and Griffith, 2008). The transfer should be impregnable rather than merely transitory (Kay, 1993). The most important resource category in this respect is human capital as service companies strongly depend on service capabilities and knowledge of their employees (Graf and Mudambi, 2005; Seggie and Griffith, 2008). Competent sales experts can relate to demanding customers (market environment), technical competence is needed to reap research synergies with nearby universities (technical environment) and skilled procurement specialists enable to take advantage of suppliers in a specific region (supply environment) (Geisler Asmussen *et al.*, 2009). Due to globalization and strong cost pressure through multinational customer firms, the question of production and human resource costs (staff as the main production factor in service companies) has become an important issue in the services sector, but must not be used as the only decision factor (Bunyaratavej *et al.*, 2007). Nevertheless, from a resource-based perspective, sufficiency of human capital at the new site is the main site selection criterion for a service company.

It is possible and necessary to evaluate a country's resource endowment from a *dynamic capabilities perspective*, considering the dynamic capabilities of firms. A firm's dynamic capabilities can be defined as „... the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments"(Teece *et al.*, 1997). These are superordinate abilities defining the capability of a firm to adapt its resources and skills to changing environmental conditions (Foss, 1997; Teece *et al.*, 1997) in the context of international expansion. Therefore, the evaluation of a potential site has to pay heed to site-specific factors enabling a firm's subsidiary to be flexible and

innovative. Site-specific constraints have to be considered as well. Most important is the interplay between site-specific and firm-specific factors. Site-specific factors could, for example, be flexibility of employment law and the existence and enforcement of intellectual property rights concerning the protection of new ideas. Firm-specific factors could be, for example, the training and motivation of service personnel or research assistants, who could be recruited at the respective site.

The analysis must not stop at the status quo. A dynamic analysis of new foreign sites is needed. The service provider should be able to anticipate the dynamics of environmental developments in a potential site (Kay, 1993). The interaction between present and future site-specific and firm-specific factors determines a firm's dynamic capability to react flexibly to environmental changes and to adapt faster than relevant competitors.

2.2. Specific requirements of the site selection process

In the following, theoretically derived requirements of an efficient decision-making process concerning the actual selection of a new international site in the services industry are listed. Efficiency has to be respected even in the actual decision-making process of site selection. Accepting the general logic of a site selection process, the question arises how the process should be elaborated in order to meet the efficiency requirements derived from theory.

Transaction cost theory and the minimization of transaction costs within the site selection process should also be discussed (Contractor, 2007). The efficient eliciting of a foreign market's sales potential and the specificity of the needed resources requires a thorough analysis of relevant markets, including their factor conditions (Porter, 1990). A minimal transaction costs solution can be achieved by minimizing the time and costs that the employees responsible for information gathering spend on data collection, which, in turn, requires an efficient and structured research and use of the required data. Make-or-buy decisions concerning activities and data within the actual decision process can be explained with the transaction cost theory. An important parameter determining the amount of transaction costs is specificity (Burr, 2004). Thus, it is possible to purchase information that is less firm-specific and endowed with secured validity, whereas firm-specific data or data whose actual information content is inadequately secured due to statistical shortcomings and comparability problems has to be sourced by the service companies themselves (hierarchical self-creation at high specificity). From a transaction cost perspective, it is not advisable to subject all countries worldwide to an extensive site selection analysis. Transaction costs can be reduced by utilising a stepwise selection process, including decision filters. Such decision filters reduce the number of alternative sites and eliminate obviously unappealing sites at an early stage. This decreases time and costs of the decision process and increases decision quality through the extensive analysis of promising sites.

Last but not least, *agency theory* states that clearly defined objective criteria (e.g. a clearly defined weighting for individual criteria, scalable decision criteria, unequivocal scales) render a decision support process verifiable and limit the scope of moral hazard for the decision-preparer and the decision-maker (e.g. pursuit of personal interests in site selection). Transparent decision processes tend to limit moral hazard activities of single stakeholders (who, for example, try to enforce the selection of a specific site for personal motives) in site selection processes.

Internal and external information sourcing causes costs. The value of additional information needs to be compared with the acquisition costs of that specific information. On the one hand, the goal of the firm is to minimize the costs of information collection; on the other hand, it is part of the firm's objectives to base site selection and the ensuing FDI decision on valid and sound data. The apparent goal is to overcome this contradiction in the most elegant way.

2.3. Systematics of site selection processes

A foreign country's strengths and weaknesses should be "conceptualized and operationalised in a multidimensional way" (Geisler Asmussen *et al*., 2009, p. 54). Only a clearly structured and transparent site selection process can be a basis for a well-founded site selection. Methodical support is offered through checklists (Kutschker and Schmid, 2004), elimination by aspects (Tversky, 2004), and scoring models (Woratschek and Pastowski, 2004).

The *checklist method* represents a one-phase market selection model. The creation of a checklist containing information about country markets is required. Only the factors relevant for a specific service firm are considered for site selection. No formalized stepwise selection process is implemented, but negative and positive assessment signs are utilized in evaluation. Checklists are neither objective nor free of overlapping, but can nevertheless be valuable in site selection because of their easy and quick way to eliminate alternatives. However, a decision process based on checklist methods alone is not recommended (Kutschker and Schmid, 2004).

Elimination by aspects is comparable to the checklist method. Only the factors are not grouped together unweighted but follow a strict ranking (Tversky, 2004). For every single factor, a threshold value is generated. If this is not met, the respective country does not pass into the next level of site selection. The failure to fulfill one single criterion leads to the elimination of the country excluding it from further consideration and analysis.

However, the large number of potential sites has to be limited to a smaller amount of acceptable sites to be investigated in further analysis. S*coring models* simplify handling complex and insecure decision situations. They are easily acceptable and highly transparent, cost efficient and part of point-based evaluation models. Selection factors (other than within the checklist method) are assessed individually and form a firm-specific ranking. In contrast to the elimination-by-aspects method, higher values in one selection category can, to a certain degree, make up for lower values in another category. The main advantage and the reason for the broad use of country ratings based on scoring models is this systematic and well-structured methodological selection process (Woratschek and Pastowski, 2004). Furthermore, scoring models allow for the incorporation of both quantitative and qualitative data in site selection.

3. Development of site selection methodology

The decision to expand internationally is far-reaching for industrial and services companies alike. Thorough background research of different internationalization factors such as general infrastructural

conditions, political situation, security, living standards, macro- and microeconomic prerequisites, ICT-infrastructure, labour pool and incentives provided by the government is inevitable (Hätönen, 2009; Graf and Mudambi, 2005; Bunjaratavej *et al*, 2007; Zaheer and Manrakhan, 2001; Shaver and Flyer, 2000; Buckley and Casson, 1998; Dunning, 1993). Such a thorough and widespread background research takes a lot of time to conduct and results in a vast and normally quite unstructured information overflow. Without a clear structuring of the generated information, it is difficult to reach a substantial and well-based decision.

Moreover, the success of a firm depends strongly on the firm-specificity of site selection within the internationalization process (Nachum and Wymbs, 2005). As site selection takes time and is dynamic in nature, a site selection process is needed which is as clearly structured, as open to scrutiny, and as understandable as possible to guarantee a maximum of transparency. The described site selection methodology was developed in order to structure and facilitate this complicated process. It offers a highly visual overview of all information collected and allows clustering and weighting of information according to its firm-specific importance.

In literature, the economic rationality of a site selection process consisting of several steps is not disputed (Woratschek and Pastowski, 2004), but the number and sequence of steps, the methods used to evaluate them and the criteria of judgement and estimation of the aforementioned evaluation differ considerably. Either way, the amount of data necessary to conduct a stepwise selection is minimal in comparison to a complete global site selection analysis in which all potential sites worldwide are thoroughly analysed.

The site selection methodology as exhibited in Figure 1 is process-oriented and consists of five steps: At first, country preselection (step 1) follows a variation of the elimination by aspects approach based on the checklist method. Then, workshop-based preparation and clarification of relevant market assessment indicators (step 2) form the basis of the actual site selection process, whereas the sales (step 3) and procurement market assessment (step 4) work on the results of these first steps in order to reach a presentation of market assessment results and final site selection, following a variation of the scoring model approach. Step 5 provides the result of the site selection process and visualizes the final decision matrix.

Using the structured site selection process does not replace managerial decisions but supports them by visualizing the ongoing tendencies and firm-specific challenges in a country and integrating them in one single matrix. In comparison to the usage of checklist methods, elimination by aspects or scoring models alone, our proposed site selection methodology offers more reliable results as all three decision methods are combined and all relevant firm-specific and site-specific data are considered.

During *country preselection* (the first step of the proposed site selection methodology), highly aggregated and publicly available selection criteria are utilized. The adequate choice of these criteria (e.g. firm specificity and relevancy) determines the outcome of country preselection (Mühlbacher *et al*, 1999) and guarantees that no suitable sites are filtered out accidentally. As both the selection and evaluation of filter criteria are based on subjective assessment, subjectivity is the major flaw in checklist and elimination by aspect-based site selection. The application of such basic filtering methods is therefore recommended on the country preselection level only.

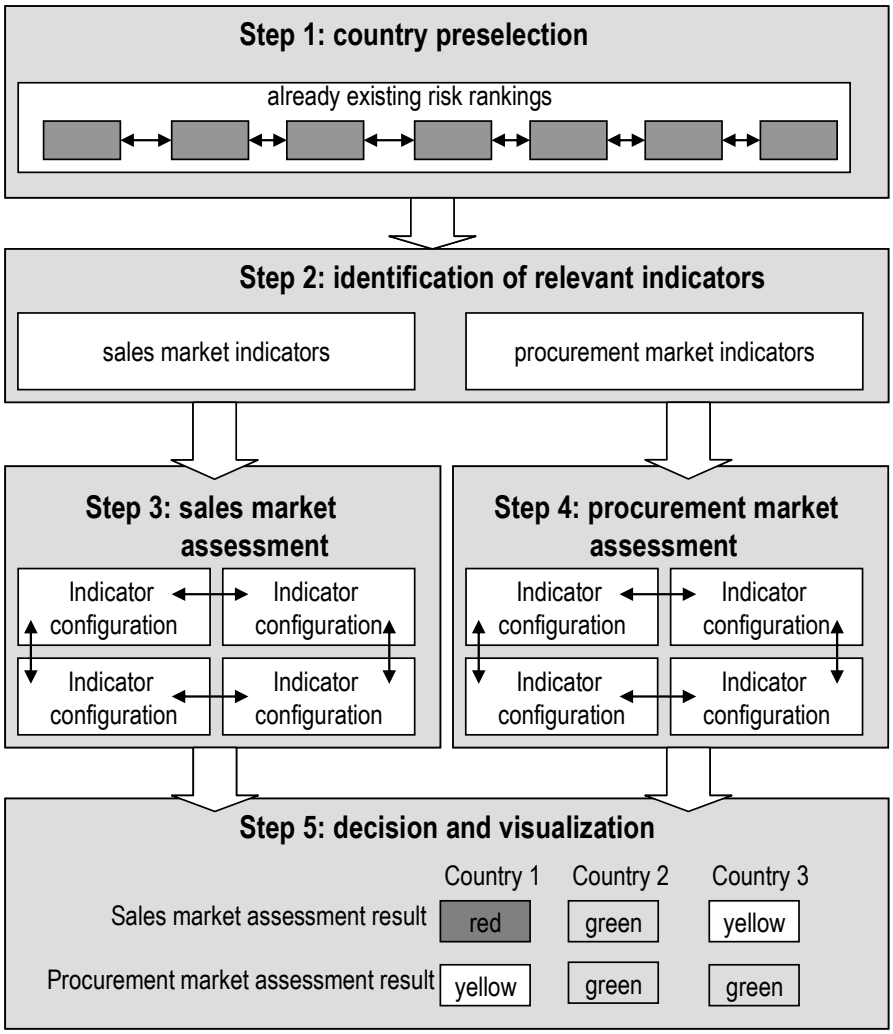

Figure 1

Nevertheless, a firm planning to take its business abroad faces the need to identify existing country risks (Erramilli and D' Souza, 1995) in order to estimate whether the expected gains are in an appropriate relation to the risks involved in an FDI decision. Thus, the estimation of the country-specific risk situation is of special importance when a choice has to be made between several international sites (Gatignon and Anderson, 1988). Such global risk estimation is reached by evaluating different risk categories. High importance is assigned to the documentation and analysis of economic, political and financial risks (Schneider and Frey, 1985; Riedl, 2008; Purda, 2008). During country preselection, the usage of already existing risk rankings (e. g. Euromoney Index, BERI Index, Coface Risk Index) is feasible. Combining several approved risk rankings secures a broad and well-founded decision basis. The weighted partial assessments of various risk categories can be added up to an overall index score and country preselection can be supported by defining a necessary minimum number of index score points as major decision rule.

In our methodology, the results of country preselection are all visualized via so-called traffic lights (see figure 1). The implications of the traffic light matrix are quite clear: red indicates that the analyzed country suffers from severe shortcomings within the analyzed field and can - at the moment of analysis - not be recommended to establish a foreign branch there. Yellow points out that the country in question is prone to certain manageable shortcomings, which do not make it unsuitable to

expand to, but render it more complicated at the moment of analysis. Green shows the respective country's suitability for internationalization in the analyzed field.

The addition of incremental markets increases managerial transaction costs and can lead to information overload. Therefore, countries characterized by high risk are excluded from further analysis. The exclusion of inadequate sites leads to a decrease in the number of countries for further analysis (Contractor, 2007; Hitt *et al.*, 1997; Hoskisson and Turk, 1990). Main aim of the traffic-light based country preselection is to draw a so-called bottom line. A first risk appraisal enables stakeholders to decide whether the country in question will remain within the set of countries (result above bottom line) and will be further assessed. Otherwise, the respective country will be ruled out completely due to economic, political, firm-specific or overall risk perception (result below bottom line).

The workshop-based *preparation and clarification of relevant market assessment indicators* (second step of the site selection methodology) focuses on the actual process of indicator selection and evaluation and is characterized by its large scope and high degree of detail (Contractor, 2007; Hitt *et al.*, 1997; Hoskisson and Turk, 1990). Reducing inherent uncertainty is a necessary prerequisite for finding the most promising site. Therefore, reliable site distinction criteria (indicators) are needed. Several quantitative and qualitative indicators of firm-specific and site-specific nature have to be considered. The quality requirement for such a precise data collection based on relevant indicators is very high. (Mühlbacher *et al*, 1999).

In literature, different „diamond configurations" (suitable indicator configurations) are derived from a country's supply, market, and technical environment (Geisler Asmussen *et al.*, 2009, p. 45). Relevant factors for such configurations, which have to be considered during the site selection process, are, for example, procurement, sales market, production, cost and finance.

Procurement-oriented factors include securing, diversification and expansion of the supply base of material production factors. Furthermore, procurement-oriented factors also refer to the intensified cooperation and concordance between firms and their most important suppliers by means of information technology and geographical proximity as the importance of geographical clusters of firms, suppliers and customers for the firm's competition potential in international markets is increasing (Porter, 1991). And last but not least, the aforementioned human resources procurement (Geisler Asmussen *et al.*, 2009; Graf and Mudambi, 2005; Seggie and Griffith, 2008; Porter, 1990) has to be supported by relevant indicators.

Sales market oriented factors include information about market entry barriers, market growth, and market size. Data on market entry barriers can be obtained, for example, from reports on commerce restrictions or changes in currency exchange rates (e.g. Eurostat, Transparency International). Relevant for the assessment of market growth are reports on the growth potential of foreign markets (e.g. Eurostat, Germany Trade and Invest (gtai), World Economic Forum). Market size is important as the sales propensity of services is higher in a market featuring already well-developed service activities (Riedl, 2008).

Also important seem financial factors such as the existence of federal programs funding FDI and tax relieves. Generally, financial factors are seen as arbitrage effects and are usually not crucial for the actual FDI decision (Hummel, 1997). Cost-oriented factors are to be mentioned as well (Zaheer, 1995).

In assessing a specific site, the identification of relevant site selection factors is as important as the determination of their importance with regard to the firm's goals. Notably, practitioners sometimes tend to be too focused on labor costs as main rationale for site selection (Bunyaratavej *et al.*, 2007). Comparing several possible sites in different indicator configurations allows for a better presentation of their different factor characteristics and the selection of the best site after a direct comparison of all known advantages and disadvantages.

Within our site selection methodology, several country specifics are evaluated and contrasted: core of the assessment are sales and the procurement market. In addition, finance-oriented, production-based and cost-oriented indicators are subsumed within the named assessments. Both site-specific and firm-specific angles are considered. Pending on the stakeholders' qualifications and availability, either one workshop with both sales and procurement stakeholders or one workshop with the sales stakeholder and one workshop with the procurement stakeholder are conducted. Either way, it is necessary to integrate all responsible stakeholders into the preparation and clarification process in order to find the most important factors in both fields of analysis.

Then, the actual *sales and procurement market assessment* (third and fourth step of site selection methodology) can either be executed consecutively or at the same time. Either way, the processes of sales and procurement market assessment mainly comprise of data mining and are very much alike. Therefore, both steps are explained within the following section. The quality requirement for such a precise data analysis is high. (Mühlbacher *et al.*, 1999).

As all relevant sales and procurement market indicators have been selected within step two, the actual analysis of the sales and procurement market can begin in step three and four. The first task of sales and procurement market assessment is the collection of publicly available data. Publicly available data are, for example, data available via internet or in books and journals concerning the indicators defined in step two. These data have then to be integrated into the sales and procurement market matrix. This integration and the ensuing weighting are called sales and procurement market assessment.

The most important part of step three and four is the weighting of the different indicator configurations. Therefore, another workshop is needed. The responsible sales and procurement market stakeholders, who have beforehand agreed upon the choice of relevant indicators and their clustering, should now start to weight the different indicator configurations according to their firm-specific importance. This is a crucial part of site selection as the results of the decision matrix vary considerably pending on the allocation of different weights. If all weights have been distributed, the presentation of market assessment results can be prepared.

The *presentation of market assessment results and the ensuing site decision* (fifth step of the site selection methodology) focuses on the actual process of selection and evaluation (Contractor, 2007; Hitt *et al.*, 1997; Hoskisson and Turk, 1990). For the final pending of the assessment results the initial internationalization intention of the firm is crucial. If it is intended to produce services for internationally active business customers who are rather cost-sensitive, the procurement market assessment may be the dominant decision category. If it is intended to produce services for the local business customer, the sales market perspective may be the determining decision category. The usage of the site selection process does not replace but supports the managerial decision.

4. Validation of site selection methodology by case studies

The described site selection methodology was utilised successfully in two case studies in the service industry: M-ALPHA and M-GAMMA.

4.1. Market assessment and site selection within the case study M-ALPHA

The M-ALPHA company is a German provider of call center services. In the past, the firm's international site selection process was rather unstructured and characterized by subjective decision-making based on gut feeling and managerial word-of-mouth recommendation on the suitability of potential sites. Documentation was poor and therefore, learning effects from former decisions were practically non-existent.

In this context, two managers of M-ALPHA and the authors worked together in the described workshop-based site selection process. Goal of the utilized action research approach (Baskerville, 1999) was to facilitate the finding and weighting of indicators concerning specific countries in order to identify the Middle and Eastern European Country (MEEC) most suited to open up a foreign subsidiary of the firm. The site selection process should serve both sales as well as procurement requirements of M-ALPHA in particular and should create a valid, systematic and easy-to-handle decision matrix for site selection in general.

In the sales market analysis, economic perspective (macroeconomic background information), politics and jurisdiction (political and legal location specifics), market potential (specific sales market factors) and ICT infrastructure were analysed. In the procurement market analysis, the information technology branch shows specific challenges such as the availability of human resources, facilities, IT hardware and IT software. As human resources were identified as especially important to a service firm (confirming Porter, 1990; Graf and Mudambi, 2005; Seggie and Griffith, 2008 and Geisler Asmussen *et al*, 2009) in the information technology sector, the field of human resources procurement was specially highlighted by defining decision categories: costs of labor, productivity and flexibility of labor, the country's soft skills and technical skills. Based on these categories, indicator configurations and indicators were chosen and information on the MEECs was collected and documented with the site selection matrix. The firm-specific weighting of indicator configurations resulted in a clearly visualized decision matrix, showing the MEEC most suited to open a new subsidiary.

Evaluation showed that by using the developed firm-specific site selection methodology, the process of information collection was sped up by 500% and the time needed for gathering data shrunk from five days to one day due to the use of publicly available data (decrease in transaction costs). Furthermore, transparency and traceability of the site selection process increased dramatically (decrease in agency costs). Documentation standards improved as all data concerning site selection was further on documented within the site selection matrix.

All in all, the site selection process is in frequent use within the firm and several site selection decisions have profited vastly from the methodological, systematic and well-documented approach: for example, the wish of one chief executive officer to internationalize to Madagascar was avoided by objectively analysing the site potential of the respective country with the site selection process and afterwards explaining the clearly visible unsuitability of the country to the chief executive officer.

4.2. Market Assessment and site selection within the case study M-GAMMA

M-GAMMA is one of the leading providers of aerial photography and precise geospatial information for Germany. In the past, no site selection method was utilized due to the fact that the firm had only one foreign subsidiary situated in Poland in direct proximity to the German border. As customers demanded further internationalization, site selection became an important issue.

In this case study, the founder and chief executive officer of the firm decided over the country preselection himself and selected three countries which seemed suitable to him. Hence, the detailed country analysis for these three countries started right away. The goal was to identify the country most suitable for the set-up of a new service production branch. The respective chief executive officer had one of these three countries particularly in mind, but encouraged the authors to recommend the country the site selection process would turn out, notwithstanding his preferences. The workshop-based selection of categories, indicator configurations and indicators was carried out in two separate workshops. The sales market workshop was conducted by one author in cooperation with two relevant stakeholders in the sales market field. The procurement market workshop was conducted by one author in cooperation with the chief executive officer and one employee who is responsible for the procurement market field. The workshop participants also agreed on the selection of the human resources procurement market as the most important and therefore relevant procurement field of analysis within the procurement market analysis itself.

Based on these categories, indicator configurations and indicators were chosen, and information on the three countries was collected and documented within the site selection tool. The firm-specific weighting of indicator configurations resulted in a decision matrix showing all three analysed countries clearly indicating towards one of the analyzed countries. Most interestingly, the country highlighted by the usage of the site selection methodology was not the same country preferred by the chief executive officer at first. Pending on the decision support provided by the site selection process and documentation, the chief executive officer revised his former preference and accepted the presented reasons for the country now chosen.

All in all, the chief executive officer was impressed by the simplification potential of the site selection methodology and intends to use the presented methodology if site selection will become an issue again in the future.

5. Discussion of case study results

In order to fully exploit the support potential of the site selection process and its benefits for the structuring and systematization of the decision, we recommend conducting the complete site selection process including country preselection, preparation and clarification of market assessment indicators, sales and procurement market assessment and presentation of results as already described in detail. Nevertheless, the approach is flexible and can be adapted to firm-specific needs and different dispositive factors, as was the case with M-GAMMA. So, dynamic capabilities and the interplay between site-specific and firm-specific factors are taken into consideration. However, the following options for adaptations of the approach should be considered as well:

The *application of the country preselection* is recommended but not inevitable. In case the firm has already decided upon the suitability of a manageable number of countries, the country preselection can be skipped. Then, the analysis can start directly with the workshop-based preparation and clarification of relevant market assessment indicators. But beforehand, the skipping of the country preselection should be reflected upon. In some cases, the gut feeling of the stakeholders in what concerns the suitability of some country or another can be misleading, as could be seen in the M-ALPHA case study. In these cases, skipping the country preselection can lead to a high amount of time invested in data research (high transaction costs) during the specific market assessments resulting in dissatisfactory findings and, at worst, in not being able to identify a suitable country at all because of accidental exclusion of potentially promising sites.

The *duration of the workshop-based preparation and clarification of relevant market assessment indicators* depends on different factors. It is difficult to exactly specify the duration of the preliminary search for relevant indicators. The duration of the workshop depends on the specific knowledge of the stakeholders taking part. In case of highly informed stakeholders, it can be sufficient to conduct one workshop of two hours duration, after which all relevant indicators in both sales and procurement market have become clear. The workshop should in all cases be extended until all relevant indicators have been pointed out, as it is very important to really include all relevant firm-specific indicators in the analysis. It is also possible to conduct one workshop to get an overview of all possible indicators, integrate them into the site selection tool and then conduct a second workshop to clarify the really important and relevant indicators and decide upon their individual weighting within the site selection process.

The *number and function of participants of the workshop-based preparation and clarification of relevant market assessment indicators* are variable as well. At least two stakeholders (namely the sales and the procurement market stakeholder) apart from the moderator are needed to conduct the workshop-based preparation and clarification of relevant market assessment indicators. It can also be advisable to integrate others into the workshop-setting, for example the stakeholder for the internationalization of the firm or the key account manager of the relevant business customer's key account, if the rationale for the expansion is customer-driven. In short, the relevant decision makers should be assembled within the process in order to integrate all relevant viewpoints into the decision matrix.

Aligned to firm-specific preferences, *sales and procurement market assessment can be executed either concurrently or subsequently*. In the rare case where a subsidiary is intended to serve solely for sales purposes, the procurement market assessment can be neglected and in case of a unique procurement motive, the sales market assessment can be disregarded. In order to achieve a better data basis for the actual site selection, we strongly recommend conducting both assessment categories. Nevertheless, it is possible to conduct only one of the two assessments.

6. Conclusion

The importance of our research can be seen in the practical as well as the theoretical domain. Doh and Pearce II (2003) argue that additional research in the field of location decisions providing "practical implications for […] business is critically important" (Doh and Pearce II, 2003, p. 74). Our site

selection methodology can be seen as an answer to this call, as the *practical implications* of our findings are manifold. We showed that the implementation of the systematic, process-oriented site selection methodology changes the structure of information search and documentation within the firm. Through learning effects, this systematisation of one process (namely the site selection process) might also lead to a positive change of information search and documentation in other processes as well (e.g. the material procurement process, the human resources procurement process). The usage of the systematic site selection methodology does not only facilitate one sort of managerial decision process (namely the site selection process) but might also lead to the facilitation of other managerial decision processes (e.g. human resources procurement process). Furthermore, we showed that the use of clearly defined, objective decision criteria significantly reduces agency costs. Also, the content of the structured data base (plenty of relevant data concerning firm-specific and site-specific indicator configurations) can be reused for all future site selection processes. As the source of all relevant information is documented, regular updates of the data base can be executed in a reasonable timeframe. The process of finding relevant indicators within the workshop-based setting confronts the relevant stakeholders with the need to think about relevancy and weight of indicators. This thought process leads to a better understanding of internationalization relevant indicators and to their systematisation and clustering in indicator configurations and helps to reduce the influence of gut feeling on the outcome of the decision process. Although our site selection methodology has so far been executed within the service industry only, an execution within the industrial sector seems feasible as well.

Furthermore, we validated the *theoretical basis* of site selection by integrating recommendations of Porters national diamond approach, the resource-based view of the firm and the dynamic capabilities approach within our methodology and finding them suitable in corporate practice. Site selection process research was enriched with transaction costs and agency costs argumentation. We integrated criteria for site selection within the actual site selection process and connected site and firm-specific factors relevant for the generation of competitive advantage within our site selection methodology. In this way, our methodology enables stakeholders to evaluate and select potential foreign sites in an objective, efficient and effective way. All in all, our methodology increases the rationality of site selection in service firms.

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Herausgeber / edited by

Wolfgang Burr

Betriebswirtschaftliches Institut der Universität Stuttgart
Lehrstuhl für ABWL, Forschungs-, Entwicklungs- und Innovationsmanagement

Keplerstrasse 17
70174 Stuttgart

Erscheinungsort

Stuttgart, Deutschland