

Determinant Factors in the Internationalization of Knowledge-Intensive Services in a Peripheral Area

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Received 26 February 2014; revised 23 March 2014; accepted 21 April 2014

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Abstract

The objective of this study is to learn some of the determinant factors in the internationalization of knowledge-intensive services in a peripheral zone in accordance with the Eclectic Paradigm [1] [2]. The study will focus on Andalusia in Southern Spain. In the Andalusian region, there are no official data on internationalized companies. We have therefore conducted a survey of 256 service internationalized companies within the region. The results show that the ownership or specific advantages considered by the businesses themselves is the quality of service, training of employees, leadership and management ability, innovation, technology and the image that customers have of the company. Regarding the advantages of locating abroad that are believed to be the most important, those companies that engage in foreign investment highlight customer' follow-up and look for new customers. As well, they greatly value those factors related to the destination market: size, growth and access to the market as well as other markets.

Keywords

Services, Exports, Foreign Direct Investment, Ownership Advantages and Location Advantages

1. Introduction

One of the most evident facts in developed societies is the consolidation of service economies. With the passage of time, especially during the second half of the twentieth century, agriculture and manufacturing have been losing importance in terms of the composition of employment and in value added in favor of the tertiary sector. Economic growth has coincided with the process of outsourcing of economies, thus this structural change has been coupled with a growing interdependence between all productive activities.

In recent years, the service sector has experienced a boost due to certain factors such as the emergence of new technologies of information and communication (ICT) or the process of deregulation in some industries, and these have led to increased national and international competition and have encouraged the creation of companies in this sector. In addition, the strategies of some companies to outsource/off-shore tertiary activities have encouraged the development of business services and the internationalization of same. Thus, both production and consumption in advanced economies have been transferred from physical goods to services and, in particular, to those services related to information, converting this sector into a key driver for building competitiveness, employment and economic growth.

The service industry has become an important area of research in recent years. There are at least four reasons for the interest in this sector. Firstly, services account for an increasing share of output and employment in developed economies. Secondly, cross-border services are a key factor in reducing or even eliminating current account deficits in these economies. Thirdly, the business of providing services has grown dramatically in recent years within the general trend of economic globalization, making higher economic growth possible in those countries and regions that are participating in it. Finally, insufficient knowledge about the internationalization of the service sector justifies its study.

Among the various services, knowledge-intensive services (KIS), meaning those activities requiring a substantial base of human and technological capital, are increasingly regarded as crucial to the development of regional innovation systems [3] and to boost regional economic growth in industrialized countries. Along these lines, KIS act as users, creators and propagators of innovations, both technological and non-technological, playing a major role in the creation and dissemination of organizational, institutional and social knowledge, and generating positive externalities through the transfer and creation of useful innovations for other economic agents [4] [5]. Thus, the most recent theoretical and empirical analyses being carried out at an international level show that the various forms of feedback that result from knowledge-intensive services are among the causes of internationalization.

Some recent studies have shown how innovation rates are significantly higher in countries where there exists a wide range of advanced services compared to production. Furthermore, although it is possible to argue that technological advances like the Internet can help make up for deficiencies between regions, the fact is that, in most cases, international trade in advanced services is difficult given the need for face to face contact for the transmission of knowledge, and thus one of the most important ways that advanced services may be internationalized is by foreign direct investment.

Despite finding ourselves immersed in a global economy, innovation is in many ways an essentially regional phenomenon where services, especially those known as knowledge-intensive services, have acquired a central role through their ability to transmit knowledge, especially of the tacit type.

Given this context, this paper will try to understand the determinant factors in the internationalization of knowledge-intensive services in a peripheral region, Southern Spain. The paper is organized as follows: After this introduction, the second section will review the literature with regards to the internationalization of services, which has served as the basis for the empirical study, and the case of knowledge-intensive services will be alluded to. The third section is devoted to the methodology used, which is based on a survey of internationalized firms, and the fourth to the empirical study and results. The paper ends with some conclusions.

The chosen territory is Andalusia, a peripheral region located in Southern Spain. This area is characterized by a total population of 8,424,102 inhabitants as in 1 January 2011, representing 17.85 percent of the Spanish population. The level of GDP per capita in 2010 was 75.5 percent of the Spanish average, the second lowest of the 17 regions in the country [6]. However, expenditure on research and development compared to the regional GDP was 1.20 percent, the fourth highest after Madrid, the Basque Country and Catalonia. Regarding the process of internationalization, exports account for 10.05 percent of the Spanish total, while Andalusia's contribution to Spain's total foreign investment only amounts to 2.43 percent of the total, according to information from the Ministry of the Economy and Competitiveness [7] [8].

2. Theoretical Contributions

The purpose of this section is to measure to what extent knowledge-intensive Andalusian companies have conducted their internationalization process according to the Eclectic Theory proposed by Dunning [1] [2].

The traditional forms of internationalization of the company are: exports, direct investment and licensing of

production to foreign firms. Dunning considers that for a company to become internationalized through these pathways it must meet certain conditions, which are presented in **Table 1**.

The firm must possess ownership advantages—from now on also known as specific advantages or competitive advantages—over its competitors in the foreign country and even with respect to its domestic competitors. These advantages are associated with the company’s intangible assets such as advanced technology, economies of scale, improved knowledge of marketing techniques and distribution... In order for the advantages to have an influence, they must remain exclusively in the company for a long enough period of time.

The company must have internalization advantages in order to be able to internationalize through exports or foreign direct investment. The first condition is not sufficient but it is necessary that the company has the desire and the capacity to internalize the particular advantage. This will be beneficial to the extent that it reduces market transaction costs.

If the company decides to invest in a particular country, it must offer location advantages over the country of origin. These advantages are not only associated with the costs and the availability of factors of production or the market, but also the particularities of the institutional system established in the country receiving the investment (tax system, labor regulations, degree of trade restriction, supranational integration areas, etc.).

These advantages are configured as the “OLI Paradigm” which links the decision to invest abroad to the characteristics of the company, the sector involved and the country that receives the investment. Each one of the concepts integrated into the “OLI Paradigm” includes different proposed theories about the causes that motivate foreign direct investment: 1) Specific or ownership advantages: Theory of industrial organization [9]-[15]; 2) Advantages of internalization: Theory of transaction costs [16]-[29]; 3) Advantages of location: Theory of location [30]-[37].

These theoretical and empirical studies have been fundamentally focused on industry, while those studies looking at the tertiary sector have been rather scarce. However, in recent decades, with the rise of trade in services, studies on the sector have begun proliferating [38]-[43], although the total number of studies is still limited. This justifies the continuing development of research on this sector in order to get a better understanding of the internationalization of services and, especially, knowledge-intensive services.

According to [44] and [45], the Eclectic Theory [1] may be applicable to service companies. However, other researchers question such applicability [46] [47] and claim the need to develop new theories specifically for the internationalization of services [48]. Thus, there other recent approaches that are applicable to the services sector and, in particular, to knowledge-intensive services, which we refer to below. *The network model of internationalization* suggests that this transnational process is a function of relationships of the company with its business and social network [49]. They consider that the involvement of businesses in networks of cooperation provides access to resources, information, customers and ideas for products or services that turn out to be more important for the internationalization process than their specific advantages. For its part, *The knowledge-based theory of the firm* is based on the nature of the skills and knowledge of the company and suggests that the transfer of these across borders is more efficiently performed by wholly owned subsidiaries, arguing that companies are more efficient in said transfers than markets [50]. The focus of *International Entrepreneurship* seeks to explain the internationalization of companies that are born global or become international at a time close to their inception [51] and in which the entrepreneurs, their characteristics, personal goals and experience have a crucial impact on the development of the company. Finally, the *Theory of resources and capabilities* shows how competitive advantages are generated by a set of key resources of the company [52]-[54] and is based on the assumption that there exists a heterogeneity among companies that can lead to them having different results (see [55]).

Table 1. Choice of the form of internationalization.

		Advantages		
		Ownership advantages	Internalization advantages	Location advantages
Ways to internationalize	Foreign investment	YES	YES	YES
	Exports	YES	YES	NO
	Licencing	YES	NO	NO

Source: Dunning, J.H. (1988, p. 28).

In this paper, based on the OLI Paradigm of Dunning [1], we try to learn about some of the advantages of ownership and of location for knowledge-intensive companies located in a peripheral region (Andalusia, Spain), without making reference to the advantages of internalization. Some of the specific advantages are shown in the **Table 2** and some of the advantages of location are specified in the **Table 3**.

Finally, it should be made clear that the economic literature has established services as activities different from goods, and that they have been characterized as being intangible, perishable, and their consumption usually occurs simultaneously with their production [56] etc. This last feature has tempered the ability to internationalize these activities to the extent that their production and consumption tend to occur not only at the same time, but also at the same place. In this way, the inseparability between producer and consumer has justified, traditionally, the existence of foreign direct investment as a method of international expansion of services in light of the impossibility of their being used for export. Thus, *a priori*, the form of internationalization of services is intimately linked to their own nature. Along these lines, there have been numerous studies that have tried to show the characteristics of different services and then tried to relate them with the forms of international supply [44] [57]-[66]. Recently, however, the emergence of new information technologies has allowed for the separation of the process of production and the consumption of services, which has encouraged exports in many of the activities in this sector that previously required the installation of an overseas branch.

3. Methodology

The methodology used to learn some of the advantages of ownership and location of knowledge-intensive companies in Southern Spain is a survey of 256 service companies which carry out operations of internationalization (See **Appendix**). This survey is part of a wider one in which tourism enterprises have also been studied as a contraposition to the former by the type of traditional services that the latter represent.

3.1. The Study Population

The sample universe consists of Andalusian companies included within the branches of activity of the National Classification of Economic Activities (CNAE) 2009 shown below, according to the classification of Eurostat. We wish to highlight that we have removed financial services from this classification, given the regional level of the companies under study and the fact that Spanish financial companies are mostly based outside of Andalusia. We feel that their inclusion could distort the results of the analysis when making comparative studies at a national level. Therefore, we have considered the following knowledge-intensive activities:

Knowledge-intensive high-tech services: Telecommunications (61); Programming, consulting and other activities related to computer science (62); Research and development (72).

Table 2. Chart of ownership advantages.

Size
Intangible assets
• Technology
• Innovation
• Brand
• Human Capital
• Image
• Organizational methods
Financing
Competitiveness
• Prices
• Productivity
• Production costs
• Quality

Source: The Authors.

Table 3. Location advantages of foreign direct investment.

Cultural and historical context

- Language
- Quality of life in the country
- Corporate culture
- Historical relations between countries
- Social awareness of the host country before the appearance of foreign investors

Availability of resources (basic and advanced)

- Availability of physical resources
 - Raw materials
 - Geographical location
 - Size of the country
 - Climate
 - Coastal
 - Natural sites
- Availability of labor
- Infrastructure
- Technological resources

Market characteristics

- Market size
- Growth of market
- Market access

Economic and political system

- Economic stability
- Political stability

Economic policy

- Trade barriers
- Exchange rates
- Integration of supranational economic areas
- Fiscal policy
- Labor market
 - Labor costs
 - Qualifications of workers
 - Productivity

Source: The Authors.

Knowledge-intensive market services: Maritime transport and inland waterway (50); Air transport (51); Real estate (68); Rental and leasing activities (77); Legal and Accounting services (69); Head office activities; management consultancy (70); Architectural and engineering; technical testing and analysis (71); Advertising and market research (73); Other professional activities, scientific and technical (74); Employment-related activities (78); Security and investigation activities (80); Office administrative activities and other ancillary business activities (82); Information Services (63).

Other knowledge-intensive services: Education (85); Health activities (86); Motion picture, video and television, sound recording and music publishing (59); Programming and broadcasting activities for radio and television (60); Creative, artistic and entertainment activities (90); Libraries, archives, museums and other cultural activities (91).

3.2. Areas of the Survey

- Population area: Internationalized companies corresponding to the branches of activity for the aforementioned industries.
- Territorial or geographical area: Internationalized companies who perform their productive work in Andalusia.
- Time frame: The survey was conducted in the months of April, May, June and July 2011.

3.3. Units of Inquiry

The set of units forming the sample are Andalusian internationalized firms of the branches of interest previously defined. To identify companies that meet the requirements of the sample selection, and to make the selection, various databases were used such as ICEX (-Instituto Español de Comercio Exterior-Spanish Institute for Foreign Trade) [67], Extenda (Agencia Andaluza de Promoción Exterior-External Trade Promotion Agency of Andalusia) [68], and the databases of the Chambers of Commerce [69], eInforma [70] and Axesor [71].

The companies that appear in these databases are there for having carried out some internationalization activity. The companies are broken down by branches of activity, also providing information about location: name, address, telephone number, contact person, etc.

3.4. Sampling Method

A stratified sampling is performed with proportional allocation, taking two strata, one for knowledge-intensive companies and the other for the tourism industry (codes 55, 56 and 79).

3.5. Sample Selection

The selection of the sample of internationalized firms is made by means of a stratification process from which the final sample size is determined. Stratification divides the population into subgroups or strata whose elements are homogeneous with each other, in order to carry out separate selections in each of them. Its purpose is to control the representativeness of the sample and determine, based on the stratum, the number of sampling units in each of them.

3.6. Sample Size and Sampling Methods

In order to carry out field work on service internationalized companies in Andalusia, it is necessary to extract a sample from the population universe of companies. According to the data of INE (based on the Central Directory of Companies—Directorio Central de Empresas—(DIRCE), [72] in Andalusia in the year 2010, there were a total of 173,434 companies distributed as follows by activity (See **Table 4**).

The official sources do not publish data on the number of internationalized companies in Andalusia in the branches of interest. To determine the sample size, the level of dispersion of the responses must be specified. Since the exact percentage of companies engaged in foreign activities is unknown, we assume the most unfavorable dispersion, that in which P and Q are equal to 0.5, *i.e.* the variance is maximized. This does not imply a large increase in the sample size and is the most utilized option in practice. A sample size of 386 is estimated, with a confidence level of 95 percent and a maximum permissible error of 0.05, distributed by proportional allocation. The sample used is a stratified random sampling, where the size of the strata is (See **Table 5**):

For the selection of the sample a random strata method was employed. Within each stratum, a number is assigned to each firm. By generating random numbers, the companies to be surveyed are selected. In the cases in which it was impossible to make contact with the selected companies, either due to a lack of response or the refusal to participate, other random numbers were generated and so on until the sample size was reached.

Table 4. Target population.

Companies by code number CNAE-2009 in Andalusia in 2010	Number of companies
50 Maritime and inland waterways	50
51 Air transportation	22
55 Accommodation services	2956
56 Food and beverage services	45,233
59 Motion picture, video and television program production, sound recording and music publishing activities	708
60 Programming and broadcasting on radio and television	389
61 Telecommunications	588
62 Computer programming, consultancy and other activities related to computers	1925
63 Information Services	586
68 Real estate activities	16,251
69 Legal and accounting	25,997
70 Activities of head offices, activities of business management consulting	1498
71 Architectural and engineering; technical testing and analysis	19,620
72 Scientific research and development	2525
73 Advertising and market research	3705
74 Other professional, scientific and technical activities	4709
77 Rental activities	4425
78 Employment-related activities	427
79 Activities of travel agencies, tour operators, tour operator reservation service and related activities	2005
80 Security and investigation activities	452
82 Office administrative, office and ancillary firms	8364
85 Education	10,748
86 Health activities	17,274
90 Creative, arts and entertainment	2676
91 Libraries, archives, museums and other cultural activities	301
Total	173,434

Source: The Authors.

Table 5. Strata sizes (number of companies).

Tourist internationalized companies	130
Remainder of the internationalized companies	256
Total	386

The sample sizes of the strata range are between 90% and 95% confidence. Maximum permissible errors of less than 8%

Source: The Authors.

3.7. Description of the Survey

The questionnaire is divided into eight blocks of information: Block 1: General information about the company; Block 2: International markets; Block 3: Competitive advantages; Block 4: Location advantages; Block 5: Barriers; Block 6: Assistance; Block 7: New technologies; Block 8: Innovation.

The main objective of analysis in our study is to learn the determinant factors in the internationalization process, which are centered in Blocks 3 and 4 of the survey and the general aspects of the internationalization process in Blocks 1 and 2.

3.8. Fieldwork

Data collection was carried out by scheduling meetings with entrepreneurs, management personnel or those in charge of their export departments. A survey team distributed in the Andalusian territory was used. They were responsible for scheduling meetings with the representatives of the target companies for a later visit in which the project was presented and the survey carried out.

4. Results

4.1. Internationalized Knowledge-Intensive Services Companies by Area of Activity

The internationalization process that the tertiary sector of the regional economy is involved in exhibits an unequal participation depending on the type of product offered on the international market (**Table 6**). First, we highlight Knowledge-intensive market services, which account for more than 60 percent of the companies analyzed. Among these are businesses linked to the technical services of architecture and engineering, which have a higher inclusion rate with a total share of 12.5 percent. In the same category, but with a somewhat lower relative weight, are those that provide consulting and business management services, which total more than 26 entities or 10.2 percent. Other representative activities included in this aggregate are real estate and other professional, scientific and technical activities, with a share of 7.8 and 9.8 percent, respectively. However, a lower weight is observed for those more capital intensive activities such as air transport (1.2 percent), and for other simpler ones such as office activities, auxiliary businesses and those related with employment.

In the category of other knowledge-intensive services, there are 65 companies out of the total number of respondents, representing 25.4 percent. In this group, those that produce educational services are in the majority with more than 30, having a share of 12.1 percent. These organizations offer a wide range of training products ranging from teaching Spanish to the completion of a Master in business management or emergency assistance. In most cases, the products are offered through a platform located in some Andalusian province which the foreign consumer accesses, acquiring the knowledge and achieving the training online. Among those Andalusian other knowledge-intensive services companies are also included those that produce film, video and television programming, sound recording and music publishing activities and those dedicated to programming and broadcasting of radio and television. Together, they account for 9.8 percent of the total.

Companies that offer more sophisticated knowledge-intensive services requiring a high level of human capital, account for 14.1 percent of the total, representing 36 respondents. Among these, equal prominence is observed for those involved in the field of telecommunications, which produce integrated communications systems, and those that focus on development of programming, consulting and other activities related to computer science. In turn, those that offer services of research and development only represent 3.9 percent.

4.2. Mode of Internationalization of Businesses

The internationalization of services, according to [73], is natural part of the evolutionary development of an open market economy. As we have previously shown, the methods of internationalization of service firms are strongly determined by their very nature and characteristics.

The main channel through which firms providing knowledge-intensive services are internationalized (**Table 7**) is via exports, with 21.5 percent of the cases giving a very high importance to exports and 19.1 percent a high importance. By contrast, the other channels such as licensing, joint ventures, franchises... are given no importance in more than 85 percent of cases. In turn, foreign branches are considered to have no significance for 85.5 percent of businesses.

Table 6. Distribution of KIS internationalised companies (CNAE-2009).

CNAE	Frequency	Percentage (%)
Telecommunications (61)	13	5.1
Programming, consulting and other computer science related (62)	13	5.1
Research and development (72)	10	3.9
Knowledge-intensive high-tech services	36	14.1
Sea transport and inland waterways (50)	7	2.7
Air Transport (51)	3	1.2
Real estate (68)	20	7.8
Rental and leasing activities (77)	6	2.3
Legal, accounting (69)	13	5.1
Activities of head office, management consultancy (70)	26	10.2
Architectural and engineering, technical testing and analysis (71)	32	12.5
Advertising and market research (73)	6	2.3
Other professional, scientific and technical (74)	25	9.8
Employment-related activities (78)	2	0.8
Security and investigation activities (80)	9	3.5
Office administrative, office and other ancillary enterprises (82)	2	0.8
Information services (63)	4	1.6
Knowledge-intensive market services	155	60.6
Education (85)	31	12.1
Health activities (86)	2	0.8
Motion picture, video and television program production, sound recording and music publishing (59)	14	5.5
Programming and broadcasting radio and television (60)	1	0.4
Creative, artistic and entertainment (90)	11	4.3
Libraries, archives, museums and other cultural activities (91)	6	2.3
Other Knowledge intensive-services	65	25.4
Total	256	

Source: The Authors.

Out of the total number of firms, only 12.1 percent have at least one overseas office, *i.e.* 31 companies, while the remaining 87.9 percent, representing 225 firms, have not been internationalized through foreign direct investment. The main countries where branches are located are in EU-15 countries (38.9 percent), Latin America (16.7 percent), other nearby markets (North Africa, 13.9 percent). Countries from the expanded EU-27 have been targeted to a lesser extent, as well as Asia and other developing countries.

4.3. Determinants in the Process of Internationalization

4.3.1. Ownership Advantages

The results of the survey show that Andalusian KIS companies generally consider the company's competitive advantages over its competitors in foreign markets to be of great importance in carrying out its process of internationalization (see [Table 8](#)). With regard to those aspects relating to the company's own assets, training is con-

Table 7. Methods of internationalization (%).

	No value	Low	Medium	High	Very high	Group of countries	%
Exports	12.9	21.9	24.6	19.1	21.5	EU-15	48.9
						EU-27	7.6
						Rest of Europe	2.2
						Near markets	13
						Developing countries	5.8
						Asia	4.0
						Latin America	18.4
Licencing	86.3	3.5	3.1	3.5	3.5	EU-15	37.1
						Developing countries	5.7
						Near markets	20
						Asia	5.7
						Latin America	28.6
						Others	2.9
Overseas branches	85.5	1.6	2.7	4.3	5.5	EU-15	38.9
						EU-27	11.1
						Near markets	13.9
						Developing countries	5.6
						Asia	8.3
						Latin America	16.7
Participation in a foreign company	89.5	2.7	1.6	2.3	3.9	EU-15	55.6
						Near markets	25.9
						Asia	3.7
						Latin America	11.1
						Others	3.7
Joint ventures	90.2	1.6	1.6	1.6	5.1	EU-15	44
						Near markets	28
						Asia	4
						Latin America	20
						Others	4
Bidding	87.1	2.3	2.3	2.7	5.5	EU-15	30.3
						EU-27	3
						Near markets	33.3
						Developing countries	3
						Latin America	27.3
						Others	3
Franchises	95.7	1.6	1.2	1.2	0.4	EU-15	45.5
						Asia	9.1
						Latin America	36.1
Others	60.2	1.2	2	3.1	2.3	Others	9.1
						EU-15	72.7
						Near markets	4.5
						Latin America	18.2
						Others	4.5

Source: The Authors.

Table 8. Ownership advantages (%).

	No value	Low	Medium	High	Very high
1. The company's own assets					
● Technology	5.1	7.4	30.1	38.3	19.1
● Innovation	3.9	4.7	23	44.9	23.4
● Leadership and management capacity	4.7	3.9	21.9	45.7	23.8
● Training	5.1	2.3	10.2	46.5	35.9
● Company size	10.5	13.3	50.8	19.9	5.5
2. Large financial capacity	9.8	18.4	53.1	14.5	4.3
3. Higher levels of competitiveness					
● Productivity	5.9	2.7	18.0	53.5	19.9
● Price competition	7.8	5.9	25.8	42.6	18
● Production costs	7.4	9.8	43.8	27.0	12.1
● Quality of service	2.3	0.4	5.1	42.2	50
4. Market positioning					
● Market share	6.3	5.9	25.4	48.0	14.5
● Image	3.5	2.3	8.2	38.3	47.7
5. Other	16	2	4.3	3.9	26.2

Source: The Authors.

sidered to be the most relevant, as this factor has been listed as having a high or very high importance by 82.4 percent of businesses. This is followed by leadership and management capacity (69.5 percent), innovation (68.3 percent) and technology (57.4 percent). On the contrary, the size of the company is not considered a key factor for accessing foreign markets.

With regards to higher levels of competitiveness against its competitors in the destination country, the idea that the quality of services is the most valued feature is given a very high or high importance by 92.2 percent of respondents. Following this is high productivity with 73.4 percent of cases and competitive pricing with 60.6 percent. However, the percentage of companies that consider lower production costs to be relevant is much lower.

With respect to market positioning, a high or very high relevance is assigned to image by 86 percent of companies, while market share is seen as important by 62.5 percent.

Therefore, we can say that the competitive advantages of Andalusian companies are based on the qualifications of the worker (blue collar and white collar), innovation, and technology, all of which enable higher levels of productivity and, therefore, higher quality and better prices. The importance of these advantages will also vary as a function of the destination country. For example, we think that in the case of the countries of the EU-15, having a higher level of development than ours, with higher costs, the competitive advantage is based more on price, while in the case of less developed areas such as North Africa and Latin America, the competitive advantage is based more on the superiority of the service.

In short, according to the opinion of businesses, the most valued competitive advantages would be the quality of service they offer and the professional training of employees, the latter of which is closely linked to the former, as well as to the image that clients have of the company.

4.3.2. Location Advantages

Companies that invest abroad consider a large number of factors related to the location and characteristics of the host country as determinant in their decision to situate themselves in another country (see [Table 9](#)). However, those factors related to characteristics of the market are considered to be very important (high and very high)

Table 9. Location advantages (%).

	No value	Low	Medium	High	Very high
1. Availability of resources					
● Low cost of labor	19.4	32.3	22.6	22.6	3.2
● Access to qualified personnel	12.9	32	38.7	32.3	12.9
● Infrastructure	16.1	12.9	35.5	22.6	12.9
● Technology resources	12.9	16.1	29.0	29.0	12.9
2. Market Characteristics					
● Market Size	6.5	6.5	19.4	48.4	19.4
● Market Growth	3.2	6.5	12.9	45.2	32.3
● Access to the domestic market	6.5	6.5	16.1	61.3	9.7
● Form of access to other foreign markets	6.5	3.2	22.6	48.4	19.4
3. Institutional factors					
● Favorable sector legislation	3.2	19.4	35.5	32.3	9.7
● Tax Incentives	16.1	22.6	38.7	16.1	6.5
4. Cultural Context					
● Quality of life of the country	22.6	25.8	9.7	35.5	6.5
● Corporate culture	19.4	19.4	19.4	29.0	12.9
● Language	16.1	16.1	16.1	32.3	19.4
5. Other					
● Absence of strong local companies	6.5	25.8	16.1	32.3	19.4
● Proximity to customers	3.2	3.2	12.9	54.8	25.8
● Proximity to suppliers	22.6	19.4	19.4	32.3	6.5
● Proximity to the university or research centers	51.6	12.9	22.6	9.7	3.2
● Proximity to clusters	41.9	9.7	32.3	16.1	-
● Monitoring the client	6.5	-	9.7	64.5	19.4

Source: The Authors.

which is consistent with what has been shown in many studies (see [74]). Specifically, market growth in 77.5 percent of cases, market size and access to the domestic market by 67.8 percent and 71 percent of respondents, respectively, and the form of access to other foreign markets by 67.8 percent. Thus, we can say that these service companies are fundamentally, as noted by Dunning [75] market seeking. As well, other factors stand out such as customer follow-up (83.9 percent) and proximity to customers (80.6 percent) and constitute the main reasons for these companies to invest abroad. This is logical because the service sector requires proximity to its customers to a greater extent than that of manufacturing, since many service businesses require the simultaneous production and consumption of the service, and thus the logic in locating the producer and the consumer in the same place, a fact that justifies the companies in these cases opting for foreign direct investment rather than exports.

Among the factors related to the cultural context are included the language, which is given a high or very high importance in 51.7 percent of cases, the quality of life in the country by 42 percent of respondents, and the corporate culture by 41.9 percent. However, at the other end of the spectrum, a large number of companies give a zero or low importance to these factors with 32.2, 48.4 and 38.8 percent, respectively. Therefore, we cannot conclude that these factors are decisive in the decision to locate abroad for these types of businesses.

For its part, within the institutional factors, favorable legislation for the sector is an important factor for 42 percent of companies. This is logical because the main destination for this investment is the service sector in other EU countries and, in particular, the professional services sector, which are closely linked to many knowledge-intensive services and are governed by a different law in each country and treated differently from the provisions of the country of origin. The liberalization of the service sector in the EU and its greatest exponent, the Services Directive (Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market, Official Journal L 376/36 of 27.12.2006) [76] tries to solve these problems and provides a general legal framework which favors the exercise of freedom of establishment for service providers as well as the free movement of services, while at the same time ensuring a high level of quality for services.

Finally, it must be pointed out that these businesses, being knowledge-intensive, do not consider it important to be located close to universities or research centers, nor close to clusters. In the first case 64.5 percent consider it of no or low importance, and in the second case 51.6 percent do so.

5. Conclusions

The internationalization of knowledge intensive services in Andalusia has materialized mainly through exports, relegating to the background the opening of branch offices abroad, in line with what happens in this process in the whole regional economy. Meanwhile, other more recent forms of internationalization such as joint ventures, franchising... are virtually out of the picture. Thus we can say that this process is still in its infancy and that in the coming years it should tend to become more advanced. The major destinations of these companies are fundamentally the EU-15 followed by Latin America, then North Africa and finally Asia.

Within the knowledge intensive services, there exists a large concentration of industries in certain branches of activity in terms of participation in the process of internationalization. Five of the twenty-two branches considered represent over 50 percent of companies, the most important technical services being architectural and engineering; testing and technical analysis services, education, head office activities; activities of management consultancy, other professional, scientific and technical services, and real estate. With the exception of education, the rest are business services and some of which are construction-related companies, a sector in Spain and the region that is highly specialized and has great competitive advantages. Also, the economic crisis has forced many companies to look for new markets abroad.

With respect to the factors which have affected the process of internationalization, the companies report as most important in terms of the competitive advantages that they possess: the quality of service which they offer and the image that customers have of the company, training for employees (which is closely linked to the previous advantage), leadership and management ability, innovation, technology. These results are logical given the characteristics that these activities demonstrate. As well, higher productivity compared to their competitors and competitive pricing are highly valued by them. However, they do not consider company size or production costs to be important competitive advantages. We can therefore say that the competitive advantages of Andalusian companies in knowledge intensive services are based on professional and managerial skill, innovation and technology, which encourage productivity gains, and thus higher quality and better prices.

Companies in knowledge-intensive services that invest abroad value the ability to monitor their customers and customer proximity as the most important location factors. They also consider as particularly relevant the factors relating to the target market. Thus, growth, access to the domestic and other foreign market and market size are considered very important by them. This was expected given that most industrial companies investing abroad are likely seeking efficiency in order to sell in other countries, but in the case of services, the necessary proximity between the supplier and the consumer of the service makes the market a key factor in the strategy of internationalization. Thus, the allocation of resources and especially the low cost of labor does not seem to be a determining factor for these companies. In addition, factors related to the cultural context and the institutional factors are not valued so greatly. In short, we can say that these knowledge-intensive service companies are seeking markets more than resources and, with respect to the latter, are seeking more advanced rather than basic resources, which is consistent given the nature of this type of activity.

6. Discussion

In brief, it can be said that although the level of internationalization of companies in knowledge-intensive services in this peripheral area is low based on the number of internationalized companies, those that have already begun

the process, although incipient, seem to be exploiting correctly the specific advantages that they have, and those companies investing abroad, although in relatively small numbers, can continue to consolidating this process of accessing other countries to make full use of the advantages of location relating to the market.

This paper contributes to the literature about internationalization of services, in particular, about Knowledge Intensive-Services in several ways. Firstly, we identify the international entry mode of these types of firms. Secondly, we indicate some ownership advantages of internationalized firms (export and FDI) and location advantages according to the opinion of foreign investors. Thirdly, we have conducted an original large database of internationalized Knowledge Intensive-Services.

In this context, our paper provides some interesting findings to help entrepreneurs in relation to decision making of the process of internationalization and to the policy makers to establish corporate policy measures that contribute to improving the context in which firms have to develop their expansion in other countries.

Finally, we must make it clear that an extension of this research could be to extrapolate this work to different countries so that the differences that may exist between them can be seen. Similarly, another study could consist in analyzing the sequence of the internationalization of these activities and determine whether the different pathways, such as exports or foreign investment, are complementary, alternative or independent. Likewise, we can study if these firms have followed a gradual process [77] or have carried out a rapid internationalization according to Born Global New Theories [51]. This would allow us to different features between both types of internationalization processes and their consequences.

Acknowledgements

Authors acknowledge the financial support from the EXTENDA (Trade Promotion Agency of Andalucia), Spain.

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Appendix

BLOCK 1: General information about the firm

1. Sector (CNAE 2009)
2. In which year was the firm created?
3. The firm is a part of a group?
 Yes No (go to question 5)
4. If the firm is a part of a group. Is the firm a headquarter of a subsidiary?
 A headquarter. In which country is the subsidiary/(ies) located?
 If is located in Spain. In which region is it?
 A subsidiary. In which country is the headquarter located?
 If is located in Spain. In which region is it?
5. How many employees does the firm have?
 Between 1 - 9 workers
 Between 10 - 49 workers
 Between 50 - 250 workers
 More than 250 workers

BLOCK 2: International Markets

6. What is the importance of the following way of internationalization?

	No value	Low	Medium	High	Very High	Group of countries
1. Direct sale from Andalucía to customer in other countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Foreign customers coming to Andalucía	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Subsidiary in a foreign country in the firm provide its services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Moving staff to other countries to provide services in these countries.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

7. What is the importance of the following channels on the international sales of the firm?

	No value	Low	Medium	High	Very High	Group of countries
1.Exports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.Licencing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3.Overseas branches in other countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4.Participation of a foreign company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5.Joint ventures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6.Bidding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7.Franchisess	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8.Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

8. Reason for the presence in foreign countries.

	No value	Low	Medium	High	Very High
Saturation of the domestic market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Satisfying orders from foreign customer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Taking advantages of available resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Taking advantages of a lower level of competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Diversify markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Do you carry out Export activities regularly of its services?

- Yes. Since when?
 No

10. Total Turnover:

- Less than 2 milion euros
 Between 2 and 10 million euros
 Between 10 and 50 million euros
 More than 50 million euros

11. What is the percentage of the firms sales destined to other countries?

12. To whom does the firm sell its services in foreign countries?

- Final consumer
 Other firms: Agriculture Industry Construction Services

13. Does the firm carry out imports from other countries?

- Yes No (go to question 14)

If so:

13.1 What services?

<i>cnae</i>	<i>Sector name</i>
-------------	--------------------

13.2 Who is the seller?

- A third firm
- A firm of the group
- Headquarter
- Subsidiary

13.3 Since when?

13.4 From which countries?

BLOCK 3: Competitive advantages

14. What is the importance of the following characteristics of the firm as competitive advantages in relation to the competitors in the host country?

	No value	Low	Medium	High	Very High
a) The firm's own assets					
- Technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Innovation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Leadership and management capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Firm size	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Larger financial capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Higher levels of competitiveness					
- Productivity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Price competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Production costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Quality of service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Market positioning					
- Market share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Image	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

BLOCK 4: Location advantages

15. Does the firm have subsidiaries in foreign countries?

- Yes
- No (go to Block 5)

15.1. In which country is the headquarter?

16. What is the importance of the following characteristics of the host country as determinant factors in the decision to sell or/and produce the service in this country (subsidiary)?

	No value	Low	Medium	High	Very High	
a) Availability of resources						
-	Low cost of labor	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Access to qualified personnel	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Infrastructures	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Technology resources	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
b) Market characteristics						
-	Market size	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Market Growth	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Access to the domestic market	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Form of Access to other foreign markets	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
c) Institutional factors						
-	Favorable sector legislation	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Tax incentives	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
d) Cultural context						
-	Q uality of life of the country	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	C orporate culture	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Language	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
e) Other						
-	Absence of “strong “ local firms	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Proximity to customer	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Proximity to suppliers	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Proximity to universities or research centers	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Proximity to clusters	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>
-	Monitoring of the client	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>	... <input type="checkbox"/>

17. Cost of the investment in the foreign country

- Less than 2 millions euros
- Between 2 and 10 million euros
- Between 10 y 15 million euros
- More than 15 million euros

18. When did the firm locate in a foreign country?

19. The foreign subsidiary...

- Produces services
- Sells services
- Produces and sells services