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Internationalization of Service Business

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Abstract

Service operations are a vital part of the Finnish equipment manufacturers' business. They support machine sales and generate a considerable part of the revenue. Companies are looking for growth opportunities in the foreign markets, which usually requires resources. The reason for growing can be the saturation of the existing market areas or willingness to increase turnover. Need for service has increased along with the quality requirements. In addition, technology has increased the requirements for proficient service. Internationalization also brings other kinds of challenges for which the companies need to be prepared.

The purpose of the study was to determine what the biggest challenges for Finnish companies are when establishing a service organization in a foreign country and how to overcome those challenges.

The theoretical framework was created around the elements that were relevant to the topic. It gave a good foundation for the creation of the interview questions. The empirical research was implemented by using the qualitative approach. Five experts were interviewed, and they were selected based on their long experience in international operations in different Finnish companies.

According to the results, the main challenges for a service organization are cultural differences, lack of experience and skills, regulations and laws, product specifications and pricing. Those challenges can be overcome with a good strategy and proper preparation. With a good entering strategy, a company can expand more easily, learn and use the process in the next entering projects. The author's recommendation for further research are right path selection in market entry, how to get people committed to the company and strategy for spare parts stocks.

Miscellaneous

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Kuvailulehti

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Tiivistelmä

Palveluliiketoiminta on tärkeä osa suomalaisen laitevalmistajan liiketoimintaa. Se tukee uusien laitteiden myyntiä ja tuottaa ison osan yrityksien liikevaihdosta. Yritykset pyrkivät laajentamaan markkinoitaan uusiin maihin, mikä vaatii paljon resursseja. Syy kasvuhalukkuudelle voi olla nykyisten markkinoiden saturaatio tai halu kasvattaa yrityksen liikevaihtoa. Palveluliiketoiminta on kasvanut laatuvaatimuksien vuoksi. Tämän lisäksi teknologian kehityksen mukana tuomat erityisosaamisvaatimukset lisäävät huollon merkitystä. Kansainvälistyminen tuo myös muita haasteita, mihin yrityksen tulee valmistautua.

Tutkimuksen tarkoituksena oli selvittää, että mitkä ovat suomalaisten laitevalmistajien suurimmat haasteet palveluliiketoiminnan perustamisessa toiseen maahan ja miten haasteet ylitetään.

Tutkimuksen teoreettinen viitekehys on rakennettu tutkimuksen kannalta tärkeiden aiheiden ympärille. Se antoi myös järkevän perustan haastattelukysymyksien laadintaan. Empiirinen tutkimus toteutettiin kvalitatiivisena tutkimuksena, jossa viittä eri yrityksissä toimivaa asiantuntijaa haastateltiin. Haastateltavat työskentelevät kaikki suomalaisissa kansainvälisissä yrityksissä palveluliiketoiminnan parissa.

Tutkimuksen tulokset osoittivat, että suurimmat haasteet tulevat kulttuurillisista haasteista, riittävän osaamisen sekä kokemuksen puutteesta, laeista ja säädöksistä, sekä tuoteinformaation puutteista ja epämääräisestä tuotehinnoittelusta. Nämä haasteet voidaan ylittää järkevän strategian ja hyvän valmistautumisen avulla. Lisätutkimuksena voitaisiin tutkia miten määritellään oikea markkinastrategia, miten saadaan työntekijät sitoutumaan yritykseen ja varaosavarastojen toimintastrategia tapausyrityksessä.

Avainsanat ([subjects]) Palveluliiketoiminta, kansainvälistyminen, haasteet, vientikauppa

Muut tiedot

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1   Introduction

1.1   Background

The importance of industrial services has grown evenly for a longer time. It is a natural growth resulting from the growth of the number of machines. Hence manufacturing companies are trying to obtain the best performance out of their machines. They are expected to produce well in three shifts around the year without unexpected breakdowns. Technology today has made it possible that on-site factory engineer do not have to do very much when a machine stops. By remote connections it is possible to obtain information regarding the problem and arrange the needed spare parts with a service engineer on site. In an ideal situation, the problem is solved from another side of the world remotely.

Wherever selling a machine, the customer asks questions such as, "What if something happens". Sooner or later comes the day when the service engineer is required to be on site. However, service is not only a negative aspect that someone needs to take care of. It is a profitable business when the number of the machines becomes sufficiently big. The customer is willing to pay for a service engineer who keeps their machines in good shape, which enables the customer to focus on their core business.

When entering a new market, the essential part of the process is to have products to maintain. Market entry is dependent on the machine sales, and they are challenging without maintenance services in the target country. Correspondingly, the maintenance services have no work without any sold machines.

Finland is a small country and the market is generally relatively small especially for companies manufacturing different machines for the industries. The market might be saturated, and there are no growth opportunities. Some companies might be satisfied with their workload and stay alive with their current capacity. However, some companies have no other opportunities than to try to expand their markets into foreign countries in order to grow. A machine manufacturer is required to have maintenance services in the target country. These service can be outsourced or

implemented by the distributors' service team. There are different ways to organize the service in the target country, and this is addressed in the later parts of this work.

1.2   Motivation of the research

Manyika et.al. (2012) describes the manufacturing industry as a growing industry which has a promising future. Developing economies will continue their growth which means that during the next 15 years, 1,8 billion people will rise in to the consuming class. Due to this fact the global consumption growth will increase significantly.

The Federation of Finnish Technology Industries describes the growth direction of the GDP to be the south and the east, especially the growth of China will be high. In addition urbanization phenomenon moves people from the rural areas to the cities when they are expecting to get a work, earn a better salary and achieve better living conditions. European countries are in good situation and the future seems to be good. A technology will change in the future which requires more skilled people and the reasons are for instance following, the intelligence of the machine increases, alternative energy solution capture the current ones, additive manufacturing becomes more common. The manufacturing generally becomes more effective and intelligent which decreases the amount of traditional handwork. (Finnish Metal and Engineering Vision 2025, 2014)

According to the Confederation of Finnish Industries the foreign trade is very important for Finland. When the companies become more international the amount of foreign trade inside the corporation increase. The importance of the foreign trade has increased during the recent years, which has emphasized during the changes of economic. A total amount of the export has increased four times bigger, when comparing the years 1990 and 2008 (Elinkeinoelämän keskusliitto, 2017). Technology industry of Finland points out, that the Technology industry is the most important export industry in Finland being over 50% of all the Finnish exports and employing almost 125 000 people. The manufactured products are for instance cruisers, engines to the power plants, paper machines and agricultural machines (Technology Industries of Finland, 2017).

Common thought in Finland has been that the global manufacturing industry is moving towards the developing economies, where the labor- and manufacturing costs are lower. Alternatively the advanced economies are focused to deliver high quality products. It is a fact that the industries are different and therefore they cannot be generalized. In certain industries the manufacturing location is more important than in other industry. For instance character of the metal industry is rather regional as the products are commonly delivered to the near areas, whereas electronics industry is clearly global industry and the products will be delivered everywhere. (Nikinmaa 2014, 3)

Generally can be stated, that when the population grows and the consuming class becomes bigger, the world requires more advanced technology to respond to the market demand. This phenomenon automatically brings a situation where the manufacturers will consider expansion in the new market areas.

1.3   Research questions

In order to reach a better understanding of the challenges when bringing service operations to a new country, two research questions were formed, and they are as follows:

- What are the main challenges when establishing a service organization in a new country?

- How to overcome those challenges?

The research will divide the answers to the research questions according to the theoretical framework. The aim of the research is to find clear challenges from all the elements of the theoretical framework and conduct the answers together.

1.4   Structure of the Thesis

The first chapter of the research is the Introduction that is followed by the chapter Literature review, which describes a theoretical basis of the research. The third chapter deals with the methodology of the research. The section describes the research approach, the research context, how the data was collected and analyzed

and verification of the findings. The chapter four concentrates on the results of the study, and they are classified based on the theoretical framework. The fifth chapter consists of the discussion related to the study. A subchapter 5.1 brings the answers to the research questions. In addition, the limitations of the study and recommendations for the further research are discussed.

2 Literature review

This chapter gives a theoretical foundation to the research and it is built around the theoretical framework which is presented in subchapter 2.8.

2.1 What is good service?

"The customer is the foundation of the business and keeps it in existence. "

(Cook 2008, 1)

It is very difficult to define what the term 'service' really means. To some people very good service means the only acceptable service. The customer's experience is determined by several different factors which are normally based on their earlier experiences of corresponding services. In addition, emotional factors have a major influence on assessing the quality of services. Feeling of trust, personal satisfaction, relaxed feeling are only a few factors that make the customer feel more satisfied. (Parker 2012, 7)

It is a fact that we all have an opinion of good customer service, and the number of opinions is approximately the same as number of people giving their opinions. When asking for opinions, it is clear that the same points often emerge. Good customer service is personal, effective and fast. The persons giving customer service are friendly and professional. They want to understand and listen to their customer. (Questback 2017)

Service is an important sector in international trade, and it is growing very fast. Service generally requires contacting the customer and having highly customized products. The service provider needs to be able to adapt to the local culture and understand that service is often not tangible. (Winsted & Patterson 1998, 390).

Viladas (2011, 22) gives four characteristics of what service is. At first he mentions that service is intangible. In practice, it means that there are no goods changing ownership. The second characteristic is that service is inseparable. The production and consumption of the service happen at the same time. For instance, telephone operators cannot perform their work before they are called. The third characteristic is perishability, which means that service cannot be stored somewhere and used when it is needed. For instance, a dinner served today cannot be served on the next day as lunch. The food itself might still be eatable, but the service is lost. This gives challenges to the service providers' resource management when the work load is not always regular. The last characteristic is variability. All the service delivery events are different and consist of different factors, such as time, environment and people providing the service.

Very often the customers' need is a signal for a service operation. There is a need to understand what kind of service they expect and how to manage the customer. The customers are usually the only ones who decide how well their expectations were met. The managers of the service operations need to make sure that the service delivery will respect the customers' expectations in order to ensure customer satisfaction.

One should also ask what customer satisfaction really is. Customer satisfaction is a result of the customers' assessment of how the well service delivery respected their expectations. If the customers' experience of the service delivery matched with their expectations, they should be satisfied. If the customers' experience of the delivered service is more than they expected, they should be more than satisfied. If the level of the delivered service is less than the customers' expectations, the customers will not be satisfied. (Johnston & Clark 2001, 77-78)

When trying to give good service to a customer it is very important to keep in mind what was promised and what was not promised. It is better to promise less and then surprise the customer with a better performance. A figure 1 below describes a situation in which the customer's expectations are high at the beginning and the service is of low quality. Thus, customer regards it as poor service. On the other hand when the customer's expectations are low and the service is high quality, the customer will regard it as excellent service. (Cook 2008, 17)
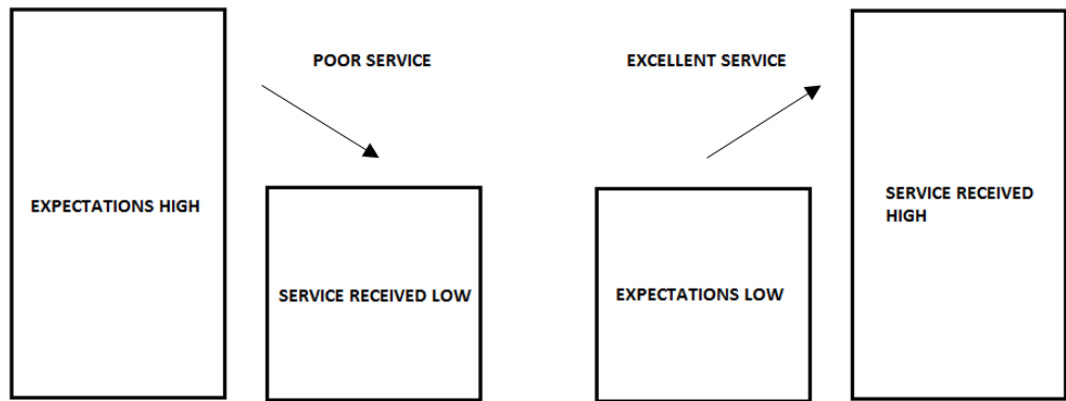
Figure 1. Exceeding expectations

(ibid., 17)

According the Johnston and Graham (2001, 73) it is possible to strengthen the customer relationship by making customer contact more often, by giving more than expected, or by deepening the business and social relationships. Most of the industries have intense competition, which forces the companies to try harder. The customers have more solutions to select, which increases their knowledge and requirement level. The service provider needs to be aware of the customers' business and their expectations. Thus, customer orientation becomes an important strategic aspect for the companies. Customer intimacy is a term which means that the customers' current needs are met as well as that the customers' latent needs are highlighted. This kind of operation requires close customer relationships and good understanding of their business. It gives service companies opportunities to serve their customers better and generate more turnover. Customer intimacy invests strongly in long-term relationships with the customers and not only in calculating short-term revenue and expenses.

Value creation is a process which brings benefit to the service providers and their customers at the same time. The idea is to create value for the customer's business but not at any price. It is important to keep in mind that there is no sense in driving service a provider's business down by giving service free of charge. Otherwise, the business becomes unprofitable, which in long term drives the business down. A satisfied customer does not automatically not mean that it generates profit for the service provider's. There is a need to have the same direction with the customer in process development. Customer orientation will only work if that has become an

operation philosophy for the service provider. It is important to think about both parties and not only produce something beneficial for the customer. (Helander, Kujala, Lainema & Pennanen 2013, 29-31)

Value operations can be divided in two categories. The first one is direct value operations and the second indirect value operations. Direct value operations, such as profit, sales volume and certainty can be measured easily. For instance, profit can be measured based on how much a certain service case or product has generated profit. Indirect value operations are also measurable. They are, for instance, innovations, markets and information enquiries. Innovation may be created in cooperation the customer, when the customer's production created a need for a certain product. Innovations can be measured by counting the number of innovations coming from the customer in a year. An information enquiry means that the service provider may obtain beneficial information about its competitors from the customer. Those value operations describe the service provider. It is important to think what kind of value operations are important to a certain customer and offer them these from especially from the customer's perspective. (ibid., 35)

Grönroos (2007, 107) describes service quality with seven criteria which are presented below. Those criteria can be used for managerial principles. It is good to take into account than in some industries other criteria are more important than in some others. The price of the service cannot be clear in the quality context, but it has a relation to the quality expectations of the customer.

The customers are not willing to buy a service that they feel is overpriced. The price may of course create expectations and the customer may think that a higher price will mean a better quality of the service.

1. Professionalism and Skills. The customers need to have a feeling that the service provider has all the skills, resources and knowledge in a way that the problems will be solved effectively. (outcome-related criteria)
2. Attitudes and Behavior. The customers feel that the service provider really takes care of them and is willing to solve their problems. The service provider is friendly to the customer. (Process-related criteria)

3. Accessibility and Flexibility. The location of the service provider is good and the operating hours make the customers' life easier. The operating system and resources are made to serve the customers in the most effective way. (process related-criteria)

4. Reliability and Trustworthiness. The customers feel that they can trust the service provider and its personnel. They can be sure that they will receive good service whatever happens. The service provider will keep their promises and do their best to retain the customers' trust in them. (process-related criteria)

5. Service recovery. It is important that the customers can rely on the professionalism of the service and make sure that the service provider will take care of them. The service provider actively tries to find an acceptable solution. (process-related criteria)

6. Servicescape. The customer will receive a good experience from the visit in the service. The environment is physically in a good shape. (process-related criteria)

7. Reputation and Credibility. The service pricing needs to be in accordance with the level of service and the value is shared with the customer. The customer feels that the service is professional.

According to the Teboul, (2006, 86) there are two factors that define the level of customer satisfaction, and they are expectations and perception. When the perception of the service meets the customers' expectations, the customers will be satisfied. There are three factors that service providers need to consider in order to make their customers satisfied. They need to maximize value, shape expectations and influence perception
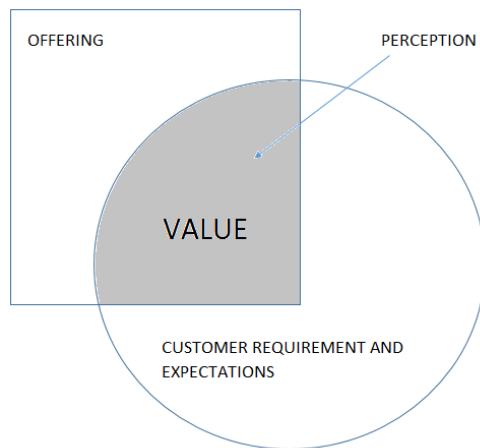
Figure 2. Maximizing the amount of value

Teboul (2006, 86)

2.2 Service as a business

Service business is one of the elements in the theoretical framework, which is described in section 2.8

> "A service is a support for customers' individual processes in a way that facilitates their value creation, and this support is enabled when knowledge and skills are used on resources." (Grönroos 2015, 2)

The main target in the service business is to create additional value to the customer, which, as a result, brings value to the service provider. When a company is willing to be a service provider, it will offer physical products, information, services or a combination of these products to its customers. (ibid. 2)

The service business has been seen as an essential part of the growth opportunities in technology companies. Growth requires a different way of thinking. Manufacturing companies are often product oriented. Today the approach should be more customer oriented. It is important how the service company looks from its own point of view. The view should be rather abstract and focused on value creation networks than on physical factories and offices. Changing the way of thinking is not sufficient in itself. There is a need to make a fundamental evaluation of the revenue and business model. Manufacturing companies very often create additional services in addition to the physical products, based on which which the customers may think

that the services are included in the product price. It might be challenging to charge money for these. A foundation of service is to think how it will generate revenue. Typical services can be installation services, consultancy services, spare part services and different maintenance services. The question is how all that can be turned into a service business. (Hyötyläinen 2007, 14)

It is important to aware of the installed base in the target area, which means how many products are sold and installed in the target area. This information can be used when gaining the competitive advantage of service business. (Perminova-Harikoski et. al. 2015, 7)

Grönroos et.al. (2007, 92-95) provide seven ideas for how the product lifecycle model can be turned into business and they are presented in figure 3.
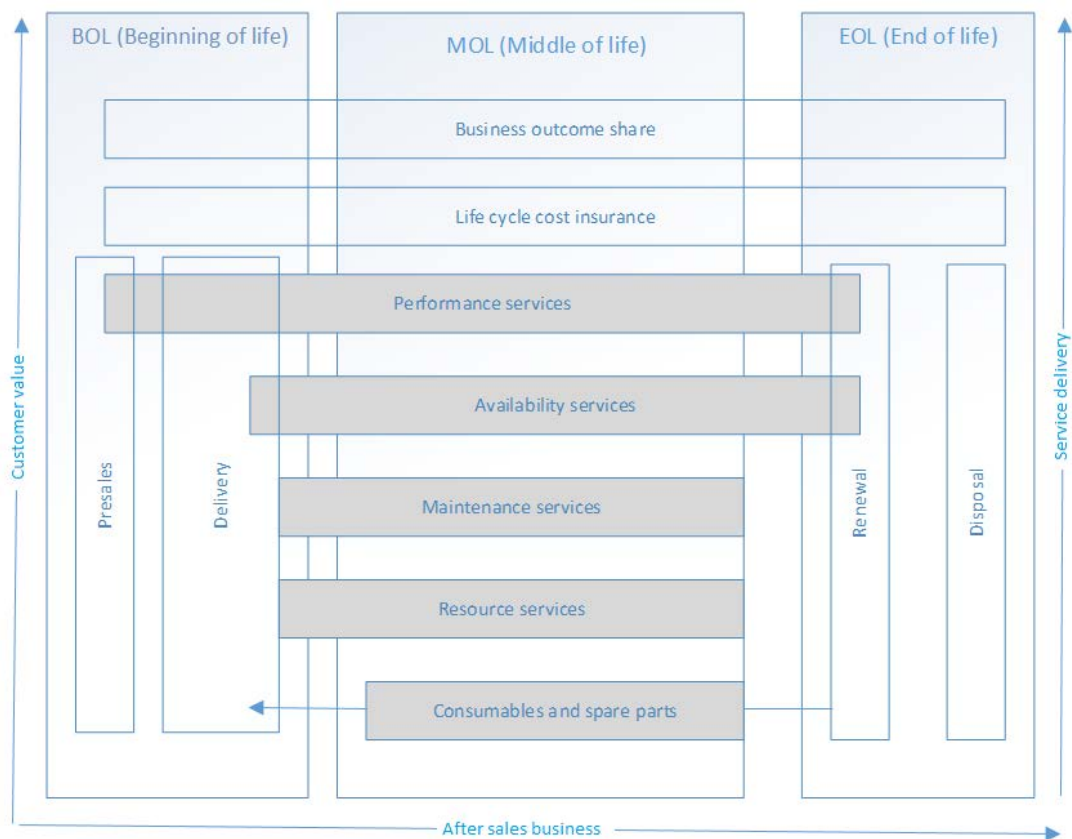

Figure 3. Service levels for life cycle model

1. Consumables and Spare parts. The customer's value creation is based on the needs of the customers. The service provider needs to respond to those needs. They consist of needs for spare parts, small modular components, consumable components, options, accessories and software updates.

2. Resource services provide training and consultation services for the customer by request, in addition to the services under the first item. Those services are technical support, special OEM components, tailored components, product or user training, call center services and modifications.

3. Maintenance services are packaged and fixed cost services. They include preventive maintenance, corrective maintenance, spare parts and the logistic services related them and product improvement services. The customer can buy those services partly or outsource them completely to the service provider.

4. Availability services provide a certain availability level to the machine. The availability can be determined to be for instance 95%. Agreed sanctions will be imposed when the production down-time is too long at a certain time. The objective is to minimize production down-time caused by the problem. It demands a great deal from the service provider. At first, the service provider needs to have access to measuring system, arrange preventive maintenance and follow the condition of the machine so that all the upcoming problems can be observed at an early stage. There is a need to use advanced technology such as remote diagnosis, fault diagnosis program and remote operations.

5. Performance services provide a certain and secure performance level for the production. It can be measured, for instance, in terms of an agreed production volume at a certain time. With such a service it is possible to provide different service level agreements, capacity based services, process and performance training, as well as intelligent services and technologies.

6. Life cycle cost insurance means that the customer will have agreed costs for the whole life cycle. Such a service can also be called a leasing service, where the customer pays a fixed monthly fee. Financing for the investment is implemented with an external financing company. The benefit for the

customers is that they know the costs of a machine and that the service provider participates in risk management.

7. The business outcome share means that the service provider is inside the customers' business taking a bigger responsibility for the customers' value chain. Both parties have a common direction: earning and losing. On a practical level this means that the customers outsource their core business. Life cycle profit is the sales argument to the customer. The customer is buying solutions, benefits and advantages.

45 % of the turnover in the KONE Corporation came from modernizations and the service business in 2015. The trend in the service turnover has been increasing. According to Pekka Kemppainen, the foundation of the business model in KONE is the product lifecycle operation. In practice it means that KONE takes care of new product sales and maintenance operations during the lifecycle and modernization services. The service business consists of different services which are tailored according to the customers' requirements. Potential failures can be avoided with preventive maintenance. (Promaint, 2015)

2.3 Maintenance service classification

Maintenance services are classified based on the customers' needs. Customers may have their own service department which performs all the maintenances. The maintenances can be also outsourced or be a combination of them. Rekola & Haapio (2009, 28) have determined the classification in following way.

1. The customer has an internal department to perform all the maintenances
2. The customer performs the maintenances with a support from the equipment manufacturer
3. The customer has outsourced the maintenance to the random service provider which can be implemented with the several service providers
4. The maintenance is performed completely by the equipment manufacturer
5. The maintenance is performed by the equipment manufacturer with a local service providers' support

6. The maintenance is outsourced to the local service company
7. The maintenance is outsourced to the other service providers

For the equipment manufacturer it is the best option, if that the maintenances are performed by using its own service department. Customers may see it in different way, considering that the local service provider is rather familiar with the local culture and equipment. The usage of a local service provider may cause problems with the equipment warranty if the components are not purchased from the original equipment manufacturer. The local service provider may also do changes to the equipment that the manufacturer is not aware of.

2.4   Service concepts

There is a big difference between the manufactured services and goods. However, service sector itself can be classified in four different sections based on tangibility and location. Table 1 describes how the service sectors are classified. The services described in the cell 1 are purely services without any sold goods such as consulting and finance. These services are not depending on their location as they can be performed remotely without continuous presence. Other services are described in the cell 2. They require a continuous presence without having concrete goods on sale. They are, for instance project management or engineering on-site. In that case the service is highly customized and professional, based on customers' requirements. Very often those long-term projects would be easier to manage from a permanent local office. Cell 3 describes a service which contains the physical goods. Those services are highly standardized services, and can be exported in a more traditional way. Usually those services are conducted by smaller companies, which are willing to export for example in order to look for opportunities to grow, to gather better profitability or because of saturated home market. Typical methods for the distribution are agency arrangement, franchising or direct representation. The companies in the cell 4 are in high interaction with their customers, having a good knowledge of the customers' core processes. Typical characteristic is that the company gives more added value to the customer on top of the physical goods.

Those companies are highly customized involved in the customers' projects and they even follow the customers in the international markets. Very often those companies have good understanding of the international markets and effective distribution channels. (Winsted & Patterson 1998, 381)

Table 1. Organizational profile of international firm

(Winsted & Patterson 1998, 381)

	Degree of face-to-face contact	
Degree of tangibility Low		High
Low **Pure Services**	**Cell 1** *Location-Free Professional Services* Typical firms: Executive recruitment, Market research, Environmental science consulting, Transportation, Finance and Insurance, Information technology, Product design service.	**Cell 2** *Location-Bound Customized Projects* Typical firms: Project management, Engineering consulting, Management consulting, Human Resource Development consulting, Larger market research firms, Legal services.
Services Bundled with Goods **High**	**Cell 3** *Standardized Service Packages* Typical firms: Software development, Installation/testing of new hardware/equipment, Distance education courses, Compact disks.	**Cell 4** *Valued-Added Customized Services* Typical Firms: On-site training, Serviced offices, Facilities management, Accommodation services, Catering, Software training and support.

2.5   Internationalization of services

This chapter is connected to the entering strategy part from the theoretical framework. Globalization phenomenon of the service industry is obvious and it is possible to see a trend going on. Information and communication technology (ICT) makes the service business easier, by improving the service companies' service and support operations. ICT brings new opportunities to the service businesses, so that the faster market evolution can be carried out. However, globalization of the service business has shown a higher demand of the service quality with the global service

agreements, which require uniform service delivery everywhere around the world. (Moerkens, 2000)

According to Moerkens (2000), a traditional characteristic for service is being unique and regional service to the customers. Such needs are disappearing in most of the cases when customers no longer want to deal with the local service providers. Customers are looking for uniformity in the service and support delivery. Very often customers are willing to negotiate a contract, in order to cover all of their locations in the different countries. To the service provider it brings uniformity in pricing across the regional territories. Service providers need to give similar value propositions despite of the country in order to keep the customers. Global service organizations require several key functions that need to be taken into account. Those key functions are described in the figure 4.

GLOBAL FUNCTIONS

Business Development
Product Management
Training
Logistics

REGIONAL FUNCTIONS

Business development
Field Service
Customer support

REGIONAL FUNCTIONS

Business development
Field Service
Customer support

REGIONAL FUNCTIONS

Business development
Field Service
Customer support

REGIONAL FUNCTIONS

Business development
Field Service
Customer support

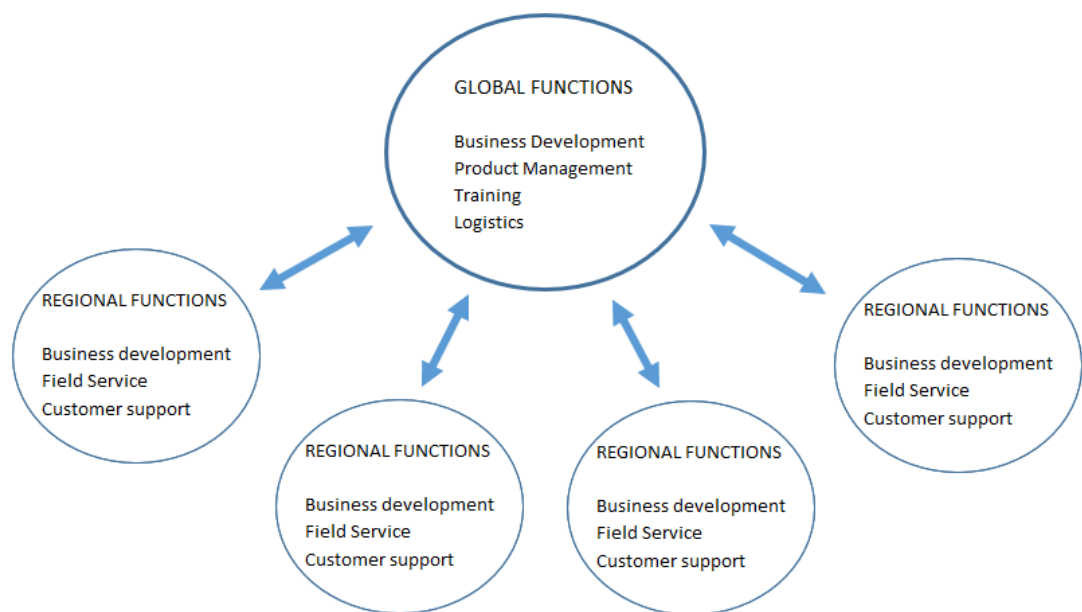Figure 4. Structure of the global organization

(Moerkens, 2000)

The size and level of the internationalization matters when entering in the new country. In the beginning of the process the establishment of the sales and service operations are important. In the larger companies need consider what operations are needed (Shaping the future of Finnish machine machinery, metals, and electronics. 2016, 40)

When building a service in a new country, one of the most important factors is the location, where the facility should be located and how many facilities are required. (Young, 2010. 222)

Moerkens (2000) describes the organizational functions in two levels, which are regional and local functions. The sales to larger multinational customers are conducted in global level, since they often have several locations. A trend is to centralize the similar functions into the regional level, however, it is challenging to confirm what functions require local presence.

> "Marketing means starting with customer needs to focus the firm's resources on these needs to serve them a profit. Profit, profit growth and cash flow are normally the objectives of the firm, not just sales." (Bradley 1995, 6)
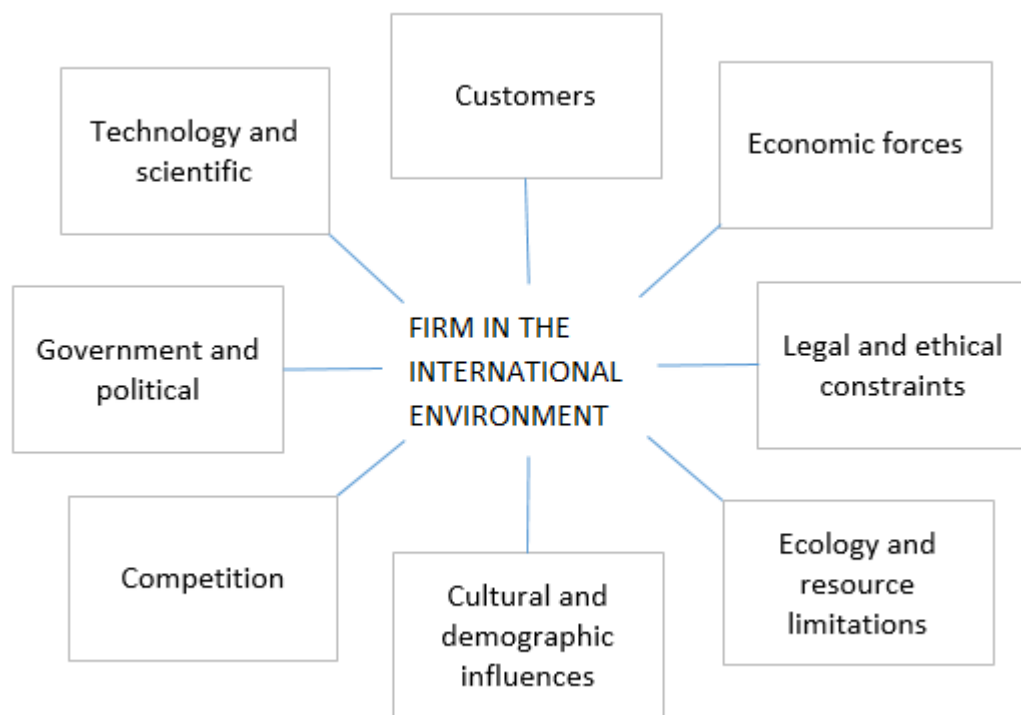
Figure 5. The international marketing environment

(ibid., 7)

International marketing environment is a complex compilation of the different macro forces. The marketing environment is not important, however important is, how the company can survive in the market. Company needs to develop a competitive strategy in order to succeed in the international markets. The strategy may be simple

when staying in the home markets, however it is good to develop a multidimensional strategy, in order to enter the international markets. (ibid., 7)

Generally the international strategy for services has been seen as more risky for the service companies than to the companies manufacturing tangible products. That is caused by the reason that the production facilities are part of the services delivered and they have better control of the resources and the processes. (Grönroos 1999, 291)

Grönroos (1999) identifies three general ways for a service company to enter foreign markets. These are client-following mode, market-seeking mode and electronic marketing mode. It is recommended that the company would choose the market entry mode by following existing customers, when they are going abroad or by checking the new markets actively. Technology today provides effective tools for the product information to be shared everywhere. Probably the decision to internationalize is not made the company, but it may happen when a customer finds the product information from the internet and send an inquiry.

According to Grönroos (1999, 293), the service needs to be very well accessible when accessing the foreign markets. Hereafter the local service offering needs to be developed. Internationalization process of a service company can be classified in five different strategies which are explained in the following way. *Direct export* is becoming more common in industrial markets where the serviced equipment are more expensive and maintenances require higher knowledge. Very often the service is performed immediately and there is no time for step-by-step learning. The service company establishes their own service company in the target country.

System export is a common effort by two or several companies, where the special know-how from each company will bring added value together. The companies bring additional value to each other's businesses. For instance, a service company can support product exporting company or another service company. The system export can be used, for instance when a company delivers their products to a foreign country. The company needs to find local services such as security, distribution, cleaning, engineering, security or other services. The system export gives the service

company a great opportunity in their market expansion to the foreign countries, and it is a common way in service exporting.

If the service company founds an own service organization in the target country, the entering strategy is called *Direct entry.* The company can manage the direct entry by having a simple sales office, however the service organization is required to work immediately, which is challenging as there is no time to practice. It is possible that the local government will see the foreign service company from foreign country as a risk to the local service providers. Sometimes it is easier to enter the the new market by starting cooperation with a local operator who operates in the same market. This increase the awareness of the products in a new environment. A challenge is to keep committed people in the company, which may affect the customer trust. (ibid. 294)

When a company wants to have permanent operations in a new market and is not willing to own the company completely or partly, it is possible to end up with the *indirect entry* model. The company can use consultancy services to find a good partner locally and then make a licensing agreement with them. The local partner often obtains exclusive rights to the service or product, which gives them more space to operate. That model combined with the franchising is generally used in lodging and restaurant services. The local company will obtain exclusive rights to the marketing concept and they are able to duplicate the business in several other locations in the target country. The company entering the new market achieves an opportunity to grow the business with a professional local partner and the local partner can grow with the new concept. Indirect entry is not risky when considering all the international strategies, but the control of the foreign partners is smaller. (ibid., 294)

Distributor agreement often gives exclusive rights to the local operator which means that they are the only one selling the manufacturers' products in the target area. Distributor buys the product and sells it to its own customers with the certain margin. The difference between the distributor and agent agreements is that agent does not own the product but receives the sales commission based on the agreement. The exclusive rights are used when a manufacturer wants to protect their innovations from competitors. (Auvinen, 2012)

The exclusivity is beneficial to the manufacturer and will encourage the distributor to make investments as there are no other companies distributing the same products. (Fondia, 2015)

The electronic marketing is a strategy in internationalization where the service company becomes accessible via electronic technology. Today it is possible to use internet when selling products and services effectively. The company receives useful information on how the customers behave and what they are interested in. It is easy to arrange the payment and the delivery by using a web shop. The benefit in electronic marketing is that the company is not bound to any location. The interest towards the products may rise everywhere around the world, however the language barriers and illiteracy can be challenging to the service on-site. (Grönroos 1999, 295)

A globalization and interconnected world make companies consider expanding their sales to expand in the foreign markets, which gives them opportunity to achieve new, even more profitable market areas. Other reasons to go to foreign markets are, for instance to improve the company competitiveness, to create new product ideas, to develop manufacturing processes and to achieve the latest technology. Nevertheless, the company needs to be well prepared for the internationalization to become successful. (Hollensen 2007, 5)

The main reason for going to foreign markets is to generate more profit however, there are other reasons as well. The domestic market might be limited and therefore the business cannot be grown. The company probably has overproduction or the product is seasonal, which causes the irregularities in the production. The reason for internationalization may be a foreign company willing to buy a product, which begins the export process. (Hollensen, 42)

2.6   Personnel

This chapter contains information for theoretical framework elements resources, experience and skills. Business is about team work, and to be successful a company is required to be surrounded with talented people. Professional service is team work where the parties may be in the other sides of the world, having the same goals and common way to operate.

According the Haksever (et. al. 2000, 220), human resource planning means that the company has the right amount and right kind of employees in the right places and at the right time. At the beginning of the recruitment process there is need to create a job description, which can be then shared in newspapers, professional organization lists and with employment agencies or headhunters. The employee selection is very important phase, which needs to be taken seriously. When the employees are taken care of, they will take care of the customers. The selection of the employees has clear criteria, which correspond to the open position. The recruitment moment is important as there is need to uncover all the abilities and skills of the candidate. When searching a person to the service organization, the person should be oriented in customer service and sales work, which requires proper level of motivation.

In order to change employee's behavior for a certain position or to upgrade his performance level, it is required to arrange training. It is important to determine what kind of knowledge is needed. According to Silver (2015), there are different methods and materials to help companies to equip their employees and to ensure that the employees can perform their work better. There are five different training techniques which can be used and they are following. First technique is traditional *Classroom Training* where the trainer uses, for instance, power point presentation, shows videos or tells the stories. It is used in larger companies when training personnel. The trainer and employees are in interaction where the feedback can be given immediately. In addition, employees can share ideas to the others and their results can be compared. Second training technique is called *Interactive Training.* It activates the employees for instance with group discussion, which is known as an effective learning method. The group discussion produces a positive interaction between the employees and the trainer. A brainstorming is also used as well as demonstrations. The interactive training technique uses several other learning tools such as quizzes, summaries and case studies. By using those techniques participants will interact and learn more. The third technique is called *Hands-on Training.* It is a practical training method where, for instance a coaching is one way to practice. It is effective and less formal than earlier techniques. Fourth training technique is called *Computer-based Training*, where the employee independently learns by practicing in a suitable time. It is an effective learning method, however the human interaction is

low. The practices offer text, animation, video and audio. Fifth learning technique is called *E-learning or Online-based Training* technique. Companies are using it commonly and usage is increasing evenly, as the internet is available nearly everywhere and the employee can practice whenever they want.

2.7 Culture

This subchapter is connected to the culture element in the theoretical framework. According to Moran (et al. 2014, 10), a global person thinks that the country he lives in is not the best at everything, and all the other people would like to be like him. A global person is aware of different cultures and understands the differences between the cultures. A global person is aware of matters that happen around the world and is able to work with people from other nations, despite that they look different, talk differently or make things in a different way. Culture describes the way how people do things.

By working in a cross-cultural environment peoples' minds will be broaden to other cultures, and they the people accept differences. It helps to understand the impact of the own culture and decreases the impression of the culture shock, increasing the cultural experience. In addition it will increase the professionality and the effectiveness of the organization. (ibid., 25)

Binder (2009) points out, that the amount of innovations will increase when working in a multinational team, because of different views and opinions. Team leader in a multinational working group needs to be ready for challenges coming from the communication, organizational differences, languages, time-zones and co-operation. In global operations there are at least 25 areas that need to be taken into account and they are presented in the figure 6.
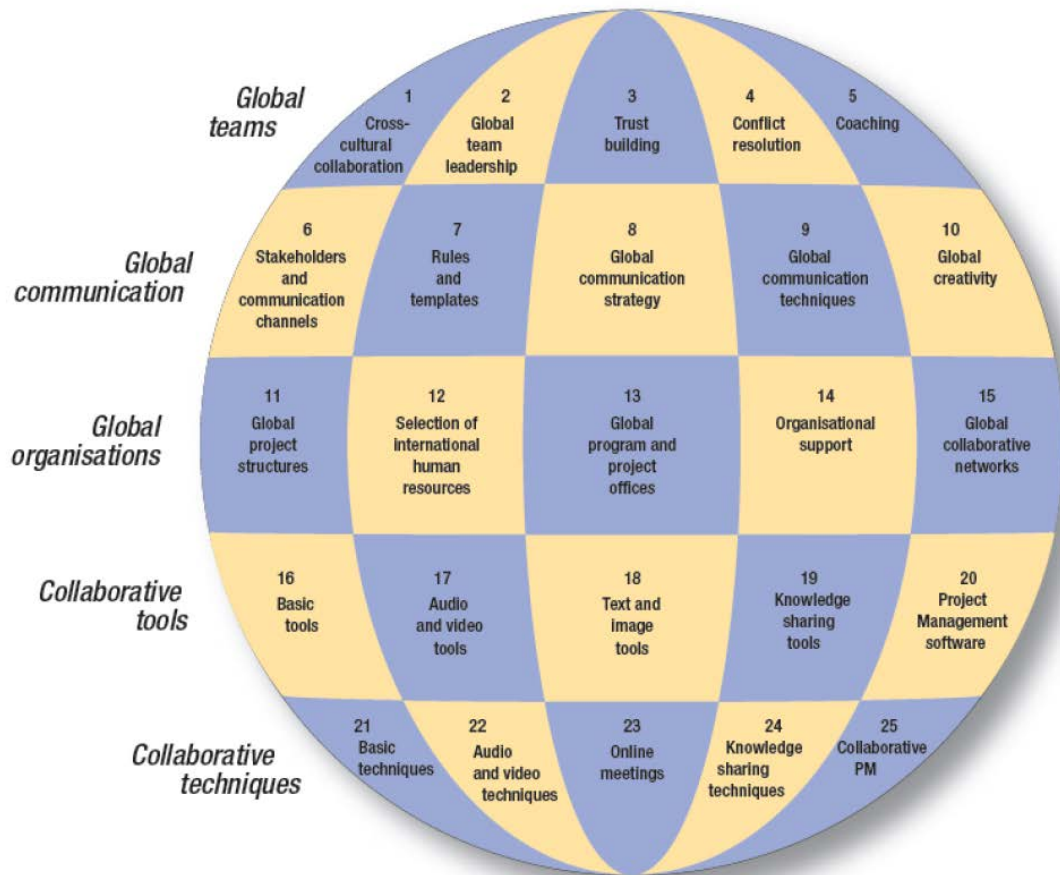
Figure 6. Important areas in global operations

(ibid., 8)

2.8 Theoretical framework

The research is built around the theoretical framework, which gives the frame to the literature review and the results. The theoretical framework describes the essential elements of the research and relationships between them, and consists of two important matters; what is already known about the research and the methodology which guides the research. (Tuomi & Sarajärvi 2002, 18)

Building an operational service unit in a foreign country is a complex process. It requires time and effort. It is important to choose the right entering strategy for the company. Cultural aspects need to be considered when dealing with people. At the first stages the service business needs to be in mind, so that the business can be turned to profitable faster. With the regulations and laws it is recommended to use a professional service in order to avoid mistakes.

A theoretical framework in the thesis is built around the figure 7 which is created by the author. The figure describes important elements of internationalization process of a service company. Internationalization process has several other elements as well that could to be taken into account. In this research we are focusing on the factors which the author sees as the most obvious and important from service point of view. The structure of the questions and the results chapter is based on the theoretical framework.

Figure 7. Theoretical framework

3 Methodology

The methodology Chapter deals with the research approach and context. Moreover, the methods of data collection, data analysis and verification of the findings are described.

3.1 Research approach

The research approach in this study was qualitative because the purpose of the study was to create deep understanding of the research problem and because the study could not be implemented by using quantitative methods. The expertise of the interviewees was in an important role in the study. According to Kananen (2014, 22) qualitative research tries to create a better understanding of an issue instead of changing or developing something. In this study, the researcher was an external person and all the interviewees came from different companies. Graham (2010, 10)

states that the qualitative research method mainly focuses on evidence. It is something that people tell the researcher and what they are doing. Based on that, it is possible to create issues and explanations for our questions. All the evidence that the researcher finds has value, and it needs to be carefully analyzed in order to be certain that it is trustworthy. According to Kananen (2014, 16-18) the qualitative research method is used when the phenomenon is not known and there is no theory, which would explain the phenomenon. The researcher tries to form a clear understanding of it by means of qualitative research.

Qualitative research is not conducted for the purpose of generalizing, which is what quantitative research is for. In quantitative research, both the phenomenon and theory are known. It is very important that the researcher is able to create the right questions for the interviewees. The questions shall not be detailed or otherwise otherwise the research would be quantitative. The questions need to be open-ended so that the interviewees can give broad and comprehensive answers in their own words. Qualitative research provides an opportunity to obtain a clear and deep understanding of the phenomenon. Qualitative research is based on words and sentences, whereas the quantitative research is based on figures.

3.2   Research context

The study focused on the challenges of Finnish companies in the industrial manufacturing field and especially on their service organizations when entering a new country. When it comes to the complexity of the machines, more special expertise is required for performing all the maintenances. It is clear that the challenges are different in different industries and in companies of different sizes. It is also important, which country or continent is in focus. Some companies manufacture products that are easier to maintain, and the basic principles are already known on some level, when another company will require highly skilled personnel and new technology. Generally, it can be stated that the interviewees were all from companies manufacturing or selling advanced technology. They all had international operations in several continents and experience of market entry in a new country.

3.3   Data Collection

The data collection in this study was implemented by using semi-structured interviews with persons from different companies. The interviews were conducted with five persons from different companies. They were all working in the executive or managerial level. All the companies are originally Finnish companies. The reason why they were selected was that they all had experience of international operations and especially from the service point of view. A crucial point in the selection was also that all those companies manufacture or at least sell advanced technology globally. The interviewees were conducted between the 17th March and the 31st March in 2017. Two interviews were conducted face to face, but because of long distance between the interviewees and the researcher, three interviews were conducted by phone. The language used in the interviews was Finnish as it was the native language of the researcher and interviewees. A list of the questions was sent to the interviewees in advance by email.

The interviews were all recorded by mobile phone in order to obtain all the details from the answers for the analysis. Eskola and Suoranta (1998, 65) point out that recorded information can be used only when it has been agreed together with the interviewee. It is recommendable to use it as a normal and natural procedure without giving any minor attention to that. The interviewer could, for instance mention about the recorder while doing something else. However, it is still required to gain permission from the interviewee to use a recorder. According to Kananen (2014, 85), writing a memo during the interview will break natural interaction, and the researcher needs to work hard in order to write all the information down. Attention during the interview should be on the discussion instead of the writing process. That may also guide the attention of the interviewee to the writing process. The interview should be as natural situation as possible.

The collected data is divided in primary and secondary data. Secondary data is existing material which can be used in its current form, for instance historical research, which is based on the past time. It can be documentation from the past, such as statistics, books, letters or videos. Primary data then consists of surveys, interviews and observations. (ibid., 90) A list of the questions (Appendix 1) was built

around the theoretical framework presented in chapter 2.8. The list of the questions is divided in themes. The background of the interviewees is clarified in Table 2.

Table 2. Background of the interviews

Background of the interviewees				
Person	Position of person	Industry	Amount of years in business	Interview
P1	Director, Service Business Unit	Machinery and equipment manufacturing	22	face to face on 17th March 2017
P2	Business development manager	Machinery and equipment manufacturing	21	face to face on 21th March 2017
P3	Service Director	Machinery and equipment manufacturing	29	by phone on 23th March 2017
P4	Director, Service products	Machinery and equipment manufacturing	34	by phone on 29th March 2017
P5	General Manager, Field services	Machinery and equipment manufacturing	7	by phone on 30th March 2017

3.4   Data Analysis

Collected data needs to be analyzed soon after the interview in order to secure that the amount of the information is increasing. During the data analyzing process there may raise new questions which can be presented to the interviewees in the further interviews. (Kananen 2014, 76)

According to Sarajärvi and Tuomi (2002, 94), it is important to select strictly limited phenomenon and then discover it carefully. All other interesting points from the data need to be ignored and moved in to the other researches.

There are several ways to make a data analysis. In qualitative research, the data collection and the analysis will be done alternately. Kananen (2014, 99-100), presents one way to analyze the data, which was used in this research. The phases consist of different phases, and they are described in the figure 6. At the first phase the researcher is collecting data from different sources. Sourcing methods are observing, theme interviews, documentation and audio visual recorders. The second phase is to convert the data in the same form, for instance recorded interview in a text form. The third phase is to evaluate the collected data. The text will be summarized in a form in which it can be sorted based on the subject, which is called a coding phase. Fourth phase is classifying phase where the data is sorted based on the codes. The codes used in this research are presented in the table 3. At this phase it is important

to keep in mind the research problem and the research questions. After the analyzing process there comes the new data collection, which brings more information or answers to the questions. A list of the questions may also change during the data collection.
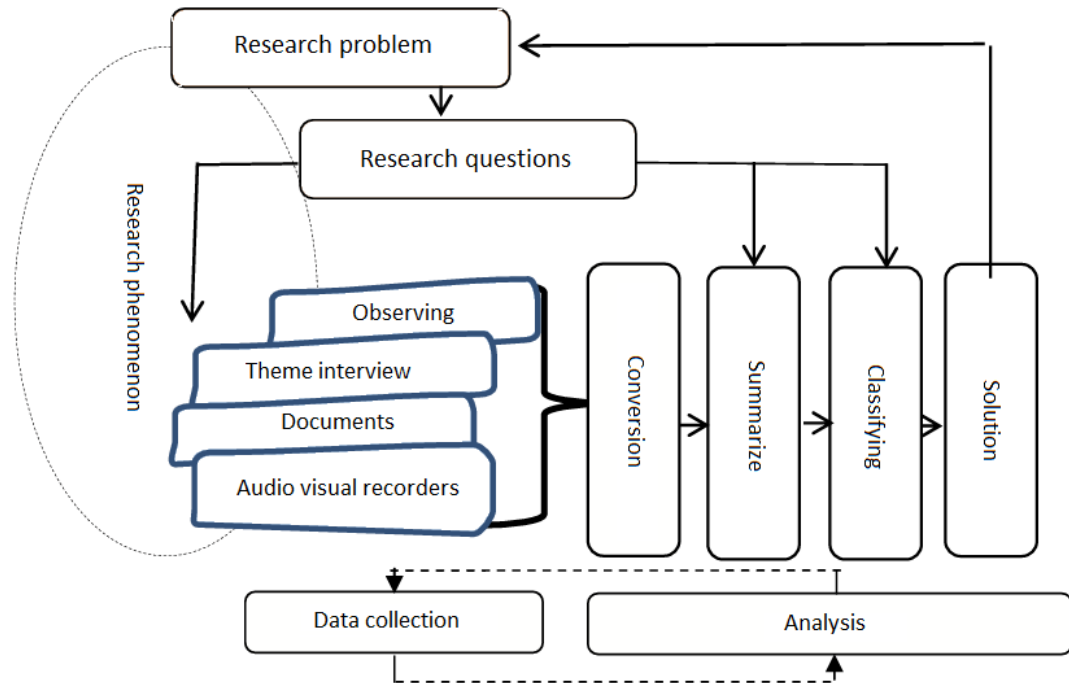
Figure 8. Phases of the research process in qualitative research

Kananen (2014, 99)

In the analyzing phase all the data was collected in an excel file and classified based on codes presented in the table 3. Codes are coming directly from the theoretical framework, which describes the important elements of the research. After the classification, all the data related to the same elements can be collected together, which finally helps to understand the wholeness. During the classification phase the research questions will be taken into account in order to find the answers. Appendix 2 shows a sample page of the analyzing table.

Table 3. List of codes

Code	Explanation
C1	Regulations and laws
C2	Culture
C3	Service Business
C4	Entering strategy
C5	Service and support
C6	Experience and skills
C7	Contracts

3.5 Verification of findings

Kananen (2014, 145), points out, that the results of the research need to be reliable. There is no transparent guide on how to ensure reliability of the evaluation. The author needs to rely on a certain source and make decisions based on that, which increases the importance of the arguments. Reliability describes the stability of the results and validity then confirms that the things were researched. The stability means that when repeating the research it will bring the same results.

The author needs to evaluate, whether does his own abstractness and interpretation correspond with the interviewees' ones. Eskola J. & Suoranta J. (1998, 151)

According to Hirsjärvi and Hurme (2001, 185-186), the interview situation is always different. Therefore we cannot assume that the answers and results would always be the same when repeating the interview. The research analysis becomes in a big role in qualitative research, as the similar methods as in quantitative research are not in use. The results of the interviews are the result from cooperation between the interviewee and the author.

There are different methods to prove that the results are reliable. The simplest method is to give the written text to the interviewee, who gives feedback on whether the author has understood the answers correctly. Kananen (2014, 151). Yin (2009, 45) points out that the researcher should follow the same procedures as the previous researcher used with the same topic, and reach the same results by making the similar research. In that way the author can ensure the objectivity of the research and make sure that there are no errors.

The author has prepared the interviewee selection keeping in mind that all of the interviewees have experience of the internationalization process. All the interviewees are working for different companies, which gives wider perspective to the results. As mentioned earlier, interviews were all recorded which increases the accuracy of the results.

4 Results

The results of the empirical study are presented in this chapter. Results are divided based on the essential elements in theoretical framework presented in chapter 2.6. The list of the questions was built up around the theoretical framework and finally it was possible to see which elements got a bigger role compared to the others. The aim of the research is to identify the main challenges when establishing a service organization in a new country and how to overcome those challenges. Interview questions are presented at the end of the research, in Appendix 1.

4.1 Regulations and laws

The regulationas and laws are important elements in internationalization process. When looking at it closer, we discuss about taxation, emlopyee rights and protection, labor legislation, travelling restrictions, relationship between employee and employer. According to the interviewees, the meaning of the regulations and laws will even increase in the future, which means that working will become more complicated.

In Finland the regulations are generally relative clear and the information is available conviniently. The European Union makes moving between the countries inside the Union easy, however the situation becomes more complicated when the company needs to hire personnel. It is recommended to use advisory services in advance, in order to get information. For instance termination of employment contract can be done through co-operation negotiations process. A termination of the emlployment contract is very difficult in certain countries and commonly the process requires assistance from a lawyer. There are differences between companies selling services or companies selling only products as the company providing the services needs to

hire more personnel. Before the recruitment process begins, it is smart to study regulations and laws. Alternatively the company can select an international advisory service, which can prepare a comprehensive information package for them. Based on that it is easier to evaluate what needs to be taken into account in the target country.

Mainly regulations and laws were seen as money and time consuming, which needs to be taken into account in the pricing aspect. Custom procedures may require even own personnel which increases the costs. It is important to be aware of regulations regarding safety, and who covers the responsibility if something happens.

Before starting the business in the target country, it is recommended to determine the real labor costs. In certain countries companies need to pay income tax in the target country even when their employees pay it in the home country. In practise it means that the tax payment is done twice, which decreases the profit if the company does not pay attention to that. In certain Asian countries foreign companies need to hire the same amount of local people as they bring from a foreign country.

Labor legislations may have differences between countries and it is recommended to be aware of them. Working safety is one of the most important things and it needs to be taken seriously. It may become very expensive if something happens. Company needs to understand how the mechanism works in the target country and how the legislation affects the operations. Generally it can be recommended to be aware of what is allowed and what is not. In addition the company needs to understand its responsibilities.

4.2 Culture

The culture, interaction and customer expectations are different between people from different nations, which affects the everyday business. Very often Finnish people think that people in a foreign country are similar or think in the same way, which is wrong. Finnish people are generally unsuspecting and trust other people. In addition they are willing to believe, that the people in the foreign country want to work as effectively as they can.

Cultural differences can also be seen on operational level of the customers. Typical European service provider makes what was agreed and performs his work well. If the customer gives an order for extra work, he makes the work and the customer receives an invoice for that. In certain Asian countries the customer may expect the service provider to perform all the extra work without charging them. The importance of the customer satisfaction becomes more important when being in Asia, which means that the service provider needs to work harder in order to keep their customer satisfied.

Generally the customer is willing to pay more for the manufacturers' own service organization if they keep sufficient spare parts stock and certain level of response time. The importance rises, when the distance from the main warehouse is longer.

The customers in western countries the understand the meaning of a maintenance contract very well, such as what the preventive maintenance is and why the unit needs to be maintained in certain time. The importance of the preventive maintenance has grown during the past decade, however there are still differences between countries.

There are differences also in who is able to sign a contract in a company. Manager level person in Finnish company is able to write a signature to the maintenance contract whereas in the Unites States a contract easily generates tension bringing court and lawyers to the customers mind. Generally the content of the maintenance contract can be agreed, however the customer is not willing to sign a traditional contract which includes unclear law text and may include hidden information.

The service business is a business between the people and very often a service engineer is the only person visiting at the customer. Therefore it is important to secure, that the engineer has the right attitude towards the work and ability to listen and understand the customer. It is good to accept differences accept and that things may not happen in the same way as in the home country. An effective way to understand the customer and their culture better is to learn their language. Local people will be more open and give more of themselves when talking in their own language.

In business between companies the culture is not so critical, as today the international business works in the western way of doing business. People working in a global environment are used to that, where as in business between a company and a customer, the importance of the culture and marketing methods grows.

4.3   Service Business

The service business is supportive operations to the new product sales. When a company has their own product to take care of, it gives an image that the manufacturer wants to invest into the market and is interested in its customers. The service is valuable business itself and brings more than a half of the turnover for many international companies.

All the service cannot be valued only by money as it gives a considerable additional value to the new machine sales. The own service in the target country should be seen as an investment instead of a cost. Own service organization has its costs, however the company needs to be committed in the investment for a certain period. The investment will most probably not generate profit during the first year, however there needs to be created a clear strategy for how the result of the business can be turned from negative to positive. When the customers' machine is very important to the customers' process, they value the manufacturers' own service much higher. The further away the customer is from the factory the more important it is to have an own service organization.

It can be challenging to start the operations in the new country if there have been no actions before. In order to start the sales, there should be a service available and vice versa it is challenging to start a service without machines to serve. In such a situation it might be easier to select different entering model, for instance search a local distributor, who starts the sales to its existing or potential customers. The distributor may have the products from another manufacturer to sell and to serve. In such a situation service engineers' work load can be covered by other issues.

One of the most important things is to create a clear service products and pricing model, which helps the company to adapt them in to another country. If the service products and the pricing are indeterminate, it is difficult to sell them as the customer

does not get a clear view of what they are going to buy. Probably the service concept works in the home country, whereas in the foreign markets it does not meet the market requirements. The service products and the level of the quality should be similar everywhere around the world.

In order to start the service business, the service company needs to be anxious to serve the customer better than the competitor. The service company needs to bring more value to the customers' processes than the competitor brings. At the beginning the customer wants to test how the new service provider operates without making a long service contract. The service ordering has to be easy to the customer, for instance the internet service, where the customer can see free resources.

All the interviewees explained of importance about the maintenance contract. The maintenance contract is a tool which improves a customer commitment and increases a communication between the service provider and the customer.

The maintenance contract itself does not bring value to the customer, however the people in the service organization are the most important part and they create the service. A right time to sell the maintenance contract is to present it right after the machine has been delivered, when the service manager can start relationship with the customer. The sales person should not sell the maintenance contract together with the machine itself as it is too easily used as a way to get the machine sold to the customer. The maintenance contract is also a promise of ability to deliver the service to the customer, which requires service company to fill the requirements. The service company can benefit from the maintenance contract as it makes the work load more stable and brings more work in to the company.

The spare parts business is determined as a part of the service business, which may generate considerable profit, which is not so easy by regular service work. Therefore non-original spare parts are available everywhere, which are very often cheaper than the manufacturers' spare parts, however they may be also be worse quality. The service company needs to be able to make fast spare parts deliveries and maintain sufficient spare parts stock in the target country. The spare parts price inquiries need to be handled very fast.

In the service business there are always competitors trying to obtain the same market, which might be challenging for a new player in the market. The local competitor may have lower cost structure, consequently they are able to provide the customer with lower price. The situation is challenging but can be solved by offering something that the competitor cannot offer to the customer. The special services are for instance operations that require certain knowledge, tools or working license. The price of the special services can also be higher. In addition high quality and effectivity are presumption in order to gain customers' trust. However, the company needs to earn profit from the service products, otherwise the business will not last long.

4.4   Entering strategy

When entering a new market, the company needs to be well prepared. There needs to be a strategy and certain steps to follow. A length of the strategy should be from three to five years, where the company needs to be aware of costs and ready to make investments.

At the beginning, the company should make a decision on what is the market entering mode. There are several ways to manage it, for instance establishing an own subsidiary or branch office. Alternatively it is possible to find a local distributor or make a joint venture. Common way is to start with the distributor and when the installed base has grown, establish the own organization. There are several factors that influence the market entry mode, for instance products, markets and the market potential. Regardless of the entering mode, all the parties (product manufacturer, distributor and customer) need to earn money, otherwise the business will not last long.

A distributor is a good solution in market entry when the motivation is on the right level. There is need to consider if the distributor is interested in growing and investing in the business, since when the business grows it requires investments. In which way can the distributor be motivated to operate in a proper way? The distributor should be taught to operate in the way that the company wants. They need to sell certain products with the known price, otherwise the distributor will

create his own way to operate. A distributor has different financial factors than in own subsidiary, which means that they will think of business more selfishly.

When the amount of the machines in the country is high, it is considerable to have the own organization, whereas with a small amount of the machines in the country, the distributor is the right choice. Location of the company is crucial, which can be determined based on the following factors; location of the customers, service engineers, airport and logistic center. The distance between the customers might be long in a big country, which generates challenges as the travelling takes a long time.

Interviewees were asked how to start the service business effectively and turn the result positive soon. The company needs to create a roadmap and a checklist, which to follow. It is a process where the earlier experiences from the internationalization need to be used, without struggling every time.

Regardless of the entering strategy the company should create a way for operation in the new location. The headquarter needs to require certain reports and keep tight control over the distributor or subsidiary. It is recommended to enter one country at a time, as the internationalization process requires resources from the headquarter. The entry process in each country will increase the knowledge of the process.

4.5   Experience and skills

In a new country it is a challenge to achieve the necessary competence in order to get operations started. Commonly the machines are complicated and require special skills and knowledge. It takes a certain time before the local engineers have experience and idea where to start the problem solving. Such skills cannot be learned in training sessions. Nevertheless there are several things that the machine manufacturer can do to give a sufficient support to the service engineers.

In certain countries it is challenging to get service engineers committed to the company, as the problem is, that when the engineer has gained experience and carried out training sessions, they resign and leave to the competitor. Therefore it is important to consider how the committed people can be improved in the company.

The company should create a training strategy which defines what operations will be taught and what instructed. The instruction means detailed documentation with clear pictures and step by step guiding. Instructive material can be a well demonstrating video or an animation. The common language in the corporation shall be English, which means that all the supportive material is published in English. That needs to be taken into account when recruiting people, that they need to be able to understand English in sufficient level.

The company needs to consider how the different situations can be solved and what kind of situations the new organization will face during the coming years. The service engineer should maintain his knowledge regarding the new technology, which requires regular training sessions and interest towards technology. In selection of the service engineer, a common mistake is to hire a service engineer who is expected to have a high level of knowledge and the service company assumes that he can work with technical support.

The interviewees explained how a sufficient level of knowledge can be organized in the target country. The service company needs to build up a training program for the people working in the different positions. The employee needs to perform a certificate for certain operations in theoretical and practical level. Otherwise he has no rights to perform the operation. Such a system will help the service company to maintain a competence table and even use the resources in other location if needed.

When the company starts to build the service strategy in a new country, it is recommended to consider an existing machine base and what kind of machines could be delivered in the near future. Based on that, the sufficient training program can be created. Common way to increase knowledge is to send an experienced specialist on site, who starts working with the local personnel and goes through practical training with them, which improves the customer satisfaction.

A crucial moment is when the new service engineer makes the first visit to the customer and the professional impression should be made. After the relationship is created with the customer it is easier to cooperate. The relationship building between the customer, service engineer and the machine starts in the best case from the installation. The service engineer participates in the installation and customer

training and assists the customer with starting the production. After that it is easier to continue the cooperation with the customer. A well performed, professional service will automatically bring new service orders for the service company, thus without professionality the service business will not last long.

Some service operations require high knowledge but they will be performed rarely, for instance once in a year. It is a challenge to maintain the knowledge to be able to perform the work. The service engineer may forget crucial points from the operation which is risky and may increase the costs. In that situation is reasonable to organize more experienced engineer from another country.

4.6   Resources

The service is a business between people and it is important to find an employee with the right attitude. Common challenges to solve are how to keep talented personnel in the company and how to achieve sufficient knowledge. If the service operations are controlled from another country, it is important to know the people. In the new service organization the service manager is a very important person, who needs to have a technical understanding of the machines, to be able to help the service engineers. The technical knowledge is also important, when there is a need to make quotations to the customers. The factory needs to give training also for the service manager, so that he understands how to make quotations to the customer and how the things work in the country. The service manager needs to be able to communicate to the factory and to the customer, as well as work as a link between the factory and the service organization. The service manager needs to create the atmosphere inside the company so that the employees are satisfied to work. The service manager needs to maintain the relationship with the customer by having continuous contact with them.

The service engineers have to be open for new information and eager to solve the problems. Service engineers' work is customer service and therefore they also need to understand the basic principles of it, where the right attitude is important. The service work requires flexibility and the service engineers need to be able to evaluate the situation and make the decisions based on that.

A recruitment process is an expensive project and the company needs to be ready for investments, as the service work requires for instance such costs as tools, service van and some spare parts. In addition the company needs to be aware of local salary level and be ready to pay competitive salary.

4.7   Contracts

At the starting point the service company needs to make different contracts, for instance with employees, rental agreements and distributor agreement. It is recommended to use financial advisory services to assist if the company has no own personnel specialized in that.

The contract should always serve its purposes, without making harm to the business partners. The more complicated the contract is, the more difficult it is to get the business partner to sign it. The contract should be clear, so that it is understandable without a lawyer, since if the contract is too complicated, something essential may be lost among the text. The meaning of the contract is to agree a common way to operate between the parties. While preparing the contract, the company should consider what happens if someday the cooperation ends. In these days the cooperation with the partner works well, but the situation may change for instance when the key people change in one of the companies, bringing their own opinions and requirements with them.

The contract should be well prepared, as after the signature writing it is difficult to change it. The parties should never make any oral agreements or assumptions. The products and the pricing need to be agreed, as it might be dangerous if the distributor makes the pricing unfavorable to the machine manufacturer. The distributor may determine the product prices way too high, therefore customers are not interested in buying them. With all the service partners it is important to agree on the spare parts pricing model and make sure that only OEM (Original Equipment Manufacturer) spare parts, bought from the manufacturer are used. Non-original spare parts may have worse quality, shorter lifetime and unfavorable warranty terms.

The company should generally determine what documentations are available for different parties, since if the cooperation will be terminated it might be injurious to the spare business.

5 Discussion

The research reached the goals that were placed and found the answers to the research questions. The research produced valuable information for the company which is looking for growth possibilities in another country.

5.1 Answering the research questions

Research questions in this study were following:

- What are the main challenges when establishing a service organization in a new country?

- How to go over those challenges?

Service is a large word and can be used for different meanings. In this context, term "service" was focused on Finnish industrial manufacturing companies delivering complex products to other countries. Interviewees all have a long experience from the industry and international operations. In addition, all of them had experience in building an organization in a foreign country on a sufficient level. Interviewees all have a clear understanding of the process and what kind of challenges are commonly related to internationalization. About the verification of the research point of view can be mentioned that answers to the questions were generally similar in all interviews. It is an evidence for us that the results are reliable and reasonable. Interview questions were built up based on the theoretical framework. The idea was to explore the phenomenon from different angles, which gave good results in the end.

Regulations and laws

From the regulations and laws point of view it is a challenge when the company is not clearly aware of them in the target country. Labor legislation and taxation may cause additional costs, which decreases the margin. The risk management needs to be taken seriously, since if something happens to the employee by accident, it may become expensive. The company needs to know the risks and what they are responsible for.

The best advice from all the interviewees was to investigate the information in advance. It is important to start working at an early stage in order to collect information about the target country. There are international advisory services available which can prepare information about the target country.

Resources

From resources point of view the challenges are such as how to hire talented people to the company and how to get them committed for a long relationship.

The person hired in the company should have sufficient basic qualifications for the position and ability and desire to learn. In addition talented people can be hired by using the recruitment services or headhunters. Commitment is not similar in all countries. Commitment can be improved by appreciating the person and his work or by giving more responsibilities. The employee needs to reach a competitive salary level and have a feeling of certainty.

Experience and skills

The aim is to offer excellent services to the customers, however the sufficient quality level is not easy to reach during the first years, as the products are complex and require different special skills. Positive service brings automatically more work orders for the services. Experience comes when working several years with certain products. The company needs to notice what knowledge is required in order to perform certain work well. They need to investigate what the installed base in the target area is, and use that information when building a training strategy. There needs to be a clear view about what information will be learned in the training sessions and what will be instructed. A well experienced senior service engineer brings information to the

younger engineers in practice. That kind of information cannot be gathered anywhere else. Nowadays technology brings new tools for sharing information. In addition all the necessary technical data needs to be available in all circumstances, and the factory needs to organize technical support to the service engineers. The better the supportive material is, the less technical support is needed.

Entering strategy

Entering the new market is a challenging project. It costs money and the company needs to be committed to it during the whole project. The main challenge related to the entry was clearly that the company does not understand how challenging and long the process is. The company does not invest enough money in the process and tries to survive with too small team. A solution to the challenge is to create a clear strategy for five years and have realistic expectations for the growth. It is important to make a budget and be aware of coming costs. The company needs to arrange sufficient resources to support the new team.

Culture

Cultural challenges were how to understand the customer and the local culture. Very often people create an assumption that things happen in the same way as in the home country or in other countries. In addition one assumption is that the operations will run independently in way too short time. The Finnish people are easily too unsuspecting and do not understand the mechanism of local markets, which is a challenge. The companies should reserve sufficient time for market expansion and investigate how the market really works in advance. It requires time and patience to get the personnel trained to their work. Learning the local language will help people to understand the local culture, which is important for expatriates. It is important to meet the customer and understand what they want. It is challenging to learn about a culture without being in the country.

Service business

In service business products are often intangible. If the products are not clearly determined it is really difficult to sell them and get the customer to understand what is available. Pricing can be challenging especially with a distributor, if the pricing

model is not clearly agreed. Distributor is probably trying to make too high profit and it can be destructive for the service business. The distributor may also use non-original spare parts, which affect the quality and customer satisfaction. It is very important to create a clear service products with simple pricing model. It is possible to sell special services such as measuring, adjusting and seasonal inspections it is possible to make business, however they needs to be clearly determined. Same product model should be available in every country, since the customers have production in several counties or continents.

5.2   Managerial implications

From the managerial point of view some important elements can be determined. Generally the key advice for managers can be that there is never a place for assumptions. Instead of that it is important to find out information in advance. International financial advisory services provide valuable information package about every country and how the major problems and obstacles can be crossed. Such a service definitely has a certain price but it is smart to consider it as an investment which comes back with savings later on.

5.3   Limitations of the research

It can be seen that the research had clear objectives and finally the goals were reached. Two factors can be seen as limitations for the research. There was no previous research done about that specific topic which could be compared with the results, which means that the validity of the research cannot be confirmed in that way. After all it can be stated that the research stayed on a relative general level. Internationalization is a large topic and it would provide many other research ideas as well.

5.4   Suggestion for future research

The service internationalization from the industrial manufacturing point of view has not been a popular research topic. As a single topic it is large and could bring lots of great ideas for further research. The service internationalization can be divided in

several individual areas based on the theoretical framework, based on which the interesting research topics could be gathered.

As a result, this research found out that it is challenging to hire talented people in the company and then commit them to a long relationsship. Therefore the first future research suggestion is to investigate, what the tools and methods are to commit talented people to the company. Cultural perspective in the research could be taken into account. The research could compare differences between Finnish and Chinese employees, and it would bring a cultural aspect to the research.

Another suggestion would be related to the company entering strategy. There are different entering paths to follow, for instance an own subsidiary or a branch office, distributor or a joint venture with a local company. The service can also be outsourced to a local company. The research would investigate how to choose the right path for market entry, based on what the factors company will choose a certain entry model.

The third research suggestion is to create a strategy for case company's spare parts operations. In order to run profitable service business, the service company needs to have different sizes of spare part stocks in reasonable distance from the customer. The value and the fixed costs coming from the spare parts stock should not rise too high, but still it is required that the company is able to deliver spare parts in a suffient time. This suggestion would only work for one case company.

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Appendices

Appendix 1. Questionnaire for interviewees

1. Name of interviewee and company

2. Position of interviewee

3. Amount of working years within the business

4. In which industry company is working for

5. Do you have an experience of establishing sales or service organization in a foreign country

6. What are the biggest challenges for Finnish companies when establishing a service business unit in a new country?

7. How to over those challenges?

8. Service business require skills and experience about machineries. In which way it can be arranged that sufficient level can be offered?

9. How we can make sure that the customer would use a new service and the service organization would start to work in effective way?

10. What are the factors which define when company needs to establish an own organization or find suitable partner?

11. What are the most important factors when establishing a service organization?

12. How important is it to the company to have an own service company in a target country?

13. How the local laws and regulations are affecting to the process?

14. What kind of cultural challenges you have faced when entering in a new country?

15. What kind of customer expectation differences you see in different countries?

16. What are the faults that company usually does when entering in a new country?

Appendix 2. Sample table of data analysis

Interview	Answer	Data	Element
1	6	Create a strage for knowledge. What to teach and what to instruct	Regulations and laws
1	6	Evaluate existing machine base and sales potential for coming years.	Service and support
1	14	Determine what to sell and for what price	Resources
2	9	Unit manager is the most impoortant person at starting phase. Technical-, sales-, managerial skills reqiured	Service and support
2	9	Location is very important. Airport, spare parts stock and technicians.	Entering strategy
3	14	Importance of local language is high	Culture
3	16	Understand how things work in the market. Do not assume.	Service and support
4	13	Productimization to the service products, proper pricing	Regulations and laws
4	8	Well planned training for service engineers	Service and support
5	5	Understand the working environment and legislation in target country	Regulations and laws
5	16	Most important thing is working safety	Culture