CANADA - UNITED STATES TRADE CENTER OCCASIONAL PAPER NO. 18
Sharmistha Bagchi-Sen, Series Editor

THE EVOLUTION OF SERVICE MULTINATIONALS: AN ANALYSIS OF ACCOUNTING AND ADVERTISING FIRMS

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May, 1997

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Introduction and purpose

During the past two decades, theoretical and empirical research concerning multinational enterprises have greatly contributed to the understanding of the dynamics and complexity of international business in manufacturing. However, research in the services sector has not paralleled its manufacturing counterpart despite the extraordinary growth in service multinationals and FDI in service industries between 1980 and 1990 (Dicken, 1992). In 1975, manufacturing was the dominant sector for FDI in the industrialized, developed, and developing countries. However, the trend reversed between mid 1970s and mid 1980s with the share of FDI in the service sector exceeding the share of FDI in manufacturing in most industrially advanced and newly industrializing countries (UNCTC 1988). Such expansion occurred despite existing barriers to trade and investment, for example, regulations regarding reciprocity in professional services, from governments and professional associations (Noyelle, 1990). The impediments to globalization of services arise from the heterogeneity of the service rendered, the international diversity in the rules for granting licenses to practice, the unlimited liability of the partners/owners of certain professional business services such as law and auditing firms, government or professional association induced restrictions on the use of a firm's name, restrictions on transborder data flow, government regulations limiting the tradeability or access to markets in certain professional services sectors, differences in professional standards in various countries, and numerous other barriers. So the critical issues to be examined are: what are the conditioning, motivating, and controlling factors influencing service firms to overcome these impediments in the international market? One of the conditioning factors in the internationalization process is the ability of the firm to recognize that it has a product or a service that conforms closely to the structure of demand from other countries. Motivating factors originate from ownership-specific characteristics such as the organizational set up, resources, and the interest of the decisionmaker. The controlling factors are bi-lateral trade agreements and other international agreements affecting patterns of international business. This paper reviews recent research which explores the current state of knowledge regarding the characteristics and operations of service multinationals such as the determinants of internationalization, entry modes, and strategies of product and market diversification. It should be noted that most examples are taken from producer service firms with specific emphasis upon accounting and advertising services. The international competitiveness of service firms in the triad region is at the core of most discussion with an interest in analyzing the competitive positioning of the Japanese firms vis a vis the American and West European firms in professional and business services (Enderwick 1990). This paper is organized into five sections: the definition of services and the determinants of growth in producer services in the industrially advanced nations; theoretical explanations of international investments in services; empirical research on the determinants of internationalization, entry mode, and business strategies of service firms; industry-specific examples of competitiveness such as in accounting and advertising; and implications for future research.

Determinants of growth in producer services

Services are categorized into private (marketed) and public (non-marketed) sectors (Enderwick, 1989). The private service sector concentrates upon the ownership and the profit motive of the business operation while the public sector is nonprofit oriented. The internationalization process of the service sector mostly entails the marketed services. The marketed services sector is usually categorized as consumer or final-demand services, and producer or intermediate services. However, these two categories are not necessarily mutually exclusive, for example, finance, insurance, and real estate (FIRE) services satisfy both intermediate and final demand. Professional and business services such as, accounting, advertising, and marketing are also examples of services simultaneously serving intermediate and final markets.

The determinants of growth in producer services in an advanced industrial nation like the United States include changes in industrial organization, changes in household structure, growth in income, income elasticity of demand, and labor productivity in services. Changes in industrial organization or organizational complexity has increased the need for producer services to facilitate the expansion of businesses, large and small, in the global marketplace. Empirical support is found in both the U.S. and the OECD countries regarding the size and rate of growth of nonproduction workers within manufacturing firms (Feketekuty, 1988; Francois, 1990). The demand for direct labor (manufacturing) increases with the scale of production, but at a decreasing rate. However, the demand for indirect labor (producer services) increases at an increasing rate as the firm expands its degree of specialization by responding to an increasing demand for differentiated products from a rise in per-capita income levels. In turn, the ratio of indirect to direct labor rises resulting in an increased division of labor and complex intraorganizational setup.

The organizational complexity resulting from changes in the production process is not the sole reason for this growth in service labor. One of the other factors is subcontracting of indirect production activities by corporations to independent service firms instead of relying on in-house service departments (Piore, 1986; Noyelle and Stanback, 1984). This process is referred to as externalization and/or unbundling. The unbundling of indirect production activities has grown because of several reasons including reduction of overhead costs by the producing firm, the need for specialized knowledge in particular indirect production activities, and the need for flexibility during economic downturns. During economic slowdowns, a firm can easily disengage a subcontracted producer service firm than an in-house department. Moreover, independent service firms often offer the most efficient choice. Traditionally, this externalization process and the resulting growth of producer service complex in urban regions have been attributed to the direct linkage between manufacturing and producer service firms. However, a growing body of evidence suggests that this growth is also dependent upon the linkages between the producer service firms and other service industries (Beyers et al., 1985a, 1985b; Goe and Shanahan, 1988; Goe, 1990). Current research estimates indicate that more than 50 percent of the output from service industries is sold to other service industries (Dicken, 1992). Thus, "producer service industries are evolving into basic industries as the development of their markets is extending beyond the urban regions in which they are located" (Goe, 1990, p. 331).

Other demand and supply side factors are also responsible for the growth of producer services in the economy (Porter, 1990; Coffey and Bailey, 1991 & 1992; Beyers and Lindahl, 1994). The demand side factors include increasing differentiation of goods and services, emphasis on "how" diverse goods and services are being produced, the complex international and national business environment, government intervention and regulation, the growing internal complexity of the firm, cost considerations, flexibility, risk reduction, and the need for specialized expertise. The supply side factors have been associated with advances in telecommunication, information and computer technology, and the capability of producer service firms to recognize business opportunities, changing buyer needs, changes in government regulations, and input costs. The producer service firms have taken advantage of these opportunities by specializing in one or a range of service(s). For example, the Certified Public Accounting (CPA) firms provide only accounting services or both accounting and management consulting services. In this process, the availability of skilled professionals have been of critical importance. In addressing the growth in legal services, architectural/engineering services, and management consulting firms, the individual entrepreneurs' desire to start their own businesses for gaining more independence and control has often been more important than externalization by other firms.

In sum, the analysis of the growth in producer services suggest that they have developed their markets beyond their dependence on manufacturing. Market expansion has been local versus nonlocal

(Beyers et al., 1985A; Keil and Mack, 1986; Gillis, 1987; Groshen, 1987; Austrian and Zlatoper, 1988). The nonlocal markets are not always within national boundaries (Goe, 1990). Such an expansion beyond the national boundaries is the focus of this paper.

Internationalization of producer services

The internationalization of producer service firms arose out of client-following activities rather than strategies relating to market expansion or market diversification (risk diversification). For example, accounting firms in the U.K. started to follow their major clients overseas in the late 1800s and the U.S. service firms started to follow their manufacturing clients in the 1950s and the 1960s at the advent of U.S. direct investment abroad (USDIA). However, growing pressure from domestic competition, domestic market saturation, and advancements in telecommunications and information technology influenced these U.S. firms to seek newer markets beyond their existing U.S. clientele. In turn, such global expansion of service companies further invigorated the growth of international business in all sectors in the foreign market (Kaynak, 1989, Dicken, 1992).

Current patterns of international activities by service firms show that foreign direct investment continues to be a major mode of entry. Foreign direct investment is defined as the transfer of ownership or equity overseas with some "control" over that transfer from the home country (Aharoni, 1971; Behrman, 1974). However, other forms of entry such as licensing, franchising, joint ventures, consortia, and management contracts are becoming prevalent. In addition, services can be offered through cross-border trade by electronic means or through transient movements of skilled professionals (Aharoni, 1993, Beaverstock, 1991). Such conventional and unconventional forms of multinational activities necessitate an examination of the applicability of the existing FDI-MNE (Foreign Direct Investment-Multinational Enterprise) theories in understanding the internationalization process of service firms.

Theoretical background: explanations of international business in services

FDI-MNE theories were derived from various attempts to explain why business enterprises invest in other countries, instead of trading in goods and services (Hymer, 1960; Vernon, 1966; Kindleberger, 1969; Caves, 1971; Buckley and Casson, 1976; Dunning, 1977, 1979; Rugman, 1981; Giddy and Young, 1982). These theorists recognized a number of key elements in explaining the growth of MNEs, such as firm- and ownership-specific advantages, location-specific advantages, and internalization advantages (referred hereafter as the OLI model).

Firm- and ownership-specific advantages - In an imperfect market, the monopolistic/ oligopolistic structure of an industry offers special advantages to a few large firms in factors such as patented technology, unpatented secret know-how, large capital requirements, economies of large scale of production, and expertise in differentiating products. These unique assets developed by the firm are required for competing successfully with indigenous firms in unfamiliar foreign environments to offset the inherent disadvantages arising from cultural, legal, institutional and linguistic differences, lack of knowledge of local market conditions, and the increased costs of communications and misunderstandings (Hymer, 1960; Kindleberger, 1969). In this context, the large firm(s) is(are) an agent(s) of market power and collusion, investing to create barriers to entry for smaller firms. Moreover, these industry leaders are very sensitive to the competitive decisions of the others and tend to follow the leaders in their respective industries to the foreign markets to protect market share and minimize risks.

Internalization advantages - The firm- and ownership-specific advantages fail to provide answers to the question of "why" firms choose the FDI avenue to internationalize rather than exporting or licensing. The concept of internalization offers solution to this dilemma. The concept states that a firm will assume coordinating activities itself by producing in the foreign country when it is the more efficient choice than using the market through exporting or licensing (Buckley and Casson, 1976; Rugman, 1981; Caves, 1982). The activities, such as marketing, R & D, training of labor, and knowledge and expertise are responsible for the flow of intermediate product which is the focus of this approach rather than the final product. The intermediate product markets are difficult to organize because of their complexities and imperfections. Firms, therefore, tend to create internal markets under common ownership and control to bypass these imperfections. It is often more cost-efficient to create internal markets for the transfer of knowledge-based advantages rather than operate through external markets, such as through licensing with a host country firm. The firms not only need to have specific advantages over others, but must have the desire and the ability to internalize these advantages in the foreign location. In relation to this concept, Rugman (1981) noted the importance of the need for risk minimization to stabilize earnings flow through industrial (product diversification) and geographical (in various nations) diversification.

Location-specific advantages - The aforementioned advantages provide a necessary but not a sufficient condition for FDI. To explain the FDI choice, location-specific factors in either home or host countries need to be considered (Dunning, 1977, 1979). Trade barriers and other government policies, market size, input costs, and factor productivity are among the locational variables considered by firms to judge whether a foreign instead of a domestic location is preferable leading to the decision for FDI.

Dunning (1977, 1988) proposed that no one dominant theory can completely explain the FDI choice and offered the eclectic paradigm that suggests that all three of the above advantages collectively determine the pattern, extent, and growth of MNE activities. He further suggested that "the configuration of these ownership, location, and internalisation (OLI) advantages, and the firm's response to them will vary according to *industry, country or origin*" (p.116).

Applicability to service MNEs - When applying the OLI model to service MNEs, the intangibility, perishability, inseparability, and heterogeneity aspects of this sector require special attention. Because of these unique characteristics most FDI theories that were formulated to explain manufacturing MNEs are limited in explaining the internationalization of service firms. Service MNEs differ with their counterparts in terms of size (the former being smaller) and scope of activities. In service industries, product specialization and diversification or economies of scope is more important as growth strategies than economies of scale because of the immobility of many services (Enderwick, 1989). Furthermore, the heterogeneity of the sector makes it unsuitable for applying any one principal theory, or a dominant mode of interpretation.

In an attempt to classify types of international services based upon locational mobility, Boddewyn et al. (1986) offer the following three-fold distinction: (1) foreign tradeable - services generating a product separable form the production process and can be exported internationally, such as music and movie videos and software discs; (2) location bound - services that have to be tied to the production process, such as hotel accommodations, retailing services, business and professional services, and commercial banking; (3) combination - a part of these services are tradeable, but another part is location-bound. For example, in remote data processing, the semi-processed information from the customer's terminal to the producer's mainframe is the tradeable element; however, the service is location-bound because the customer has to participate in the production process by providing and receiving information at the remote site.

Ownership-specific advantages and the service MNE - For service MNEs, intangible advantages, such as consumer perceptions of high quality through brand-image, the capability of managing global distribution and marketing networks, economies of scope or specialization due mainly to size offer similar incentives as "hard" technology does to typical manufacturing MNEs (Rugman, 1981). In addition, experience in the home market is a major source of firm-specific advantages. Product specialization and a distinct corporate identity become valuable assets in some service industries requiring supplier-client confidentiality, such as in accounting, consultancy, and banking. Commonly, the largest service firms gain "a better access to quality inputs than their competitors"

(Aharoni, 1993, p. 91) because of their size and established reputation. The "Big Six" accounting and auditing firms, and the large advertising and public relations companies provide perfect examples of the global dominance of a few large multinationals within these sectors.

Location-specific advantages and the service MNE - In terms of location advantages, the main factors influencing the service MNEs' decision between domestic (exporting) versus foreign-owned production are the transportability of the type of service (i.e., the degree of location-boundedness); agglomeration economies provided by available infrastructure in commercial, financial, legal, educational, transport, and telecommunications; the size and character of the market; regulation of markets; host government incentives for inward FDI; the location of human (skilled labor) and physical assets (Bagchi-Sen, 1995). The importance of these determinants depends upon the specific service sector. For example, the need for on-the-spot contact to a diversified clientele, a liberal regulatory environment, the availability of indigenous skilled labor, accessibility to international capital and communication networks, and oligopolistic interaction with major competitors from the home country are among the major location variables influencing the decisions of commercial banks, insurance companies, accountancy firms, and advertising firms (Dunning, 1988). These services are therefore more concentrated in developed economies. In developing countries, a higher proportion of investment in trade and distribution, building and construction, public utilities, tourism, and some basic financial services is noted (Riddle, 1986). MNEs in tourist-related activities dominate the service sectors in island economies, while the newly industrialized economies are becoming major international financial and business centers because of their improved infrastructure, growth in sophisticated consumer demand, and a more liberalized attitude toward inward FDI (Dunning, 1988). "Therefore, international services encounter no special problems in terms of the locational requirements of FDI/MNE theory, except in the case of location-bound services" (Boddewyn et al., 1986, p.54).

Internalization advantages and the service MNE - As in the case of manufacturing MNEs, risk diversification through avoidance of search and negotiating costs, reduction of buyer uncertainty about the nature and the quality of technological inputs, avoidance of government tariffs, or nontariff barriers are among the factors influencing the internalization decision by service MNEs. For certain services, a local presence in a host country is a prerequisite to internalization, and exporting is not a feasible alternative. However, these factors as offered by the conventional theories cannot explain the significance of non-R&D intensive and nonequity service MNEs (for example, joint ventures and management contracts) in today's global environment.

To explain the success of non-R&D intensive service MNEs (such as international banking, hotels and retail trade), the traditional internalization approach needs to be extended to include buyer uncertainty as a transaction cost (Caves, 1982). Because of perishability and location-boundedness, the quality of these services can be assured to international buyers through integration of backward and forward channels (international hotel chains and their reservation systems for example). Likewise, these benefits of common governance encourage FDI for services complementing goods production, wholesale trade, and product servicing.

In information-sensitive industries, such as advertising and marketing research, the confidentiality of customer information is better protected through internally organized channels rather than market channels, such as licensing. The multinational advertising firms internationalize by acquiring majority ownership in local firms more often than through joint ventures or minority ownership or nonequity (for example, management contracts) modes (Advertising Age, 1992a). The majority ownership mode best achieves maximum efficiency of production and protects the quality over advertising copy (hence the customer goodwill).

To understand MNE involvement in nonequity ventures in professional services, the following need to be considered (Aharoni, 1993): professional business services, such as legal and accountancy, are skill-intensive; these firms mainly consist of a large number of skilled professionals who are recognized for their expertise by providing licenses to practice by either national units or professional guilds. However, wide international diversity exists in the licensing procedures and education requirements. In addition, the owners of some professional service firms are personally responsible for the actions of the other owners/partners. Therefore, internalization through majority or equity ownership may increase the risk of operating in a foreign market. In these situations, network coalitions (Aharoni, 1993) offer a better route for risk diversification because gaining initial experience in a foreign market through exporting is not feasible. The success of nonequity ventures, therefore, partially depends on the norms and values imposed by ethical standards of a specific profession. "The threat of expulsion from the profession or from a closed community may be enough to make all participants follow agreed rules and standards" (Aharoni, 1993, p. 127). Restrictions imposed by host governments regarding hierarchial acquisitions may also make the nonequity arrangements the only feasible alternative.

For example, in the accounting and advertising industries, the large U.S.- and U.K.-based firms internationalized more successfully than smaller firms because the firms had direct access to foreign markets through their large manufacturing clients. These service firms possess the professional expertise and financial ability to offer both high quality and standardized service at home and abroad compared to the local or uninational firms. Foreign government restrictions on professional licensing and importing foreign commercials, government insistence on local participation, avoidance of other national regulations have also encouraged the accounting and advertising firms in internalizing through FDI rather than licensing or selling information abroad. Moreover, the need for face-to-face contact with clients, adaptation to local reporting standards (in the case of accounting), local tastes and languages, and the need to be close to the mass media are some of the influential factors for locating offices in other countries rather than exporting services from home-base. The degree of transnationalization in these above industries (accounting and advertising) is clearly evidenced as follows. In 1986, the top 15 of the world's 20 largest accounting firms derived more than fifty percent of their revenues from international activities. Table 1 demonstrates similar trends in international activities in 1993 by the "Big Six" accounting firms. In the advertising sector, the top six U.S. agencies derived 30 to 55 percent of their 1986 revenues from foreign operations, while 78 percent of the total revenue was from foreign sources for the leading U.K. agency, Saatchi & Saatchi (UNCTC, 1989). By 1991, the foreign share of total revenue ranged between 51 and 69 percent for the top U.S. agencies (Table 2). For example, in 1993, Interpublic Group, one of the largest advertising firms derived 29 percent of its revenue from the emerging markets in the Pacific Rim, Latin America, and Eastern Europe. Other examples are J. Walter Thompson (the U.S. arm of WPP group) and FCB communications, both earned approximately one-fifth of their total revenue from international business (Dean Witter Reynolds, 1994). The following discussion of empirical research on the internationalization of service firms provide a discussion of factors determining international investments, the choice of entry modes, and strategies of product (service) and market diversification.

Empirical research on the determinants of international investment in services

Empirical research on the internationalization process of service firms mostly focus on banking and finance, professional and business services (Nigh et al, 1986; Terpstra and Yu, 1988; Li and Guisinger, 1992; Erramilli, 1991). Nigh et al. (1986) analyzed the role of location-specific advantages in the international branch banking activities of U.S. banks. The authors applied a combination of cross-sectional (involving thirty countries) and time-series (1976-1982) analyses. Until the time of their study, theorists had postulated that U.S. banks locate abroad to follow their clients so that they do not lose well-established clients to foreign banks or their domestic rivals already established in that country. Others have argued that favorable banking environments and market opportunities attract foreign banks to a host nation. Many believed that U.S. banks hold unique competitive advantages over their competitors because they offer unique products, extensive banking experience, skilled personnel, and other qualities. Nigh et al.'s (1986) empirical research included a large number of countries over seven years. They hypothesized that the U.S. branch banking involvement in a foreign country is positively related to U.S. business presence in that country, the local banking market opportunities in the host country, and the openness of the host country toward the establishment of new foreign bank branches, that is, banking regulations.

The results of the study indicated that U.S. business presence in a foreign country and openness of that country to establishment of new U.S. branches had significant positive effects on locating U.S. branches abroad. Local market opportunities, however, demonstrated no significant effect in this study. The results were true not only for all the countries tested, but also for each of the five subsets tested separately (i.e., developed, less-developed, European, Latin American, and Asian countries). The authors concluded that the U.S. foreign branch banking activities had been heavily dependent upon U.S. business presence in the foreign countries. Therefore, if local businesses grew faster than U.S. businesses in the host countries, the U.S. banks would lose market share in that country unless they expanded their client base to include non-U.S. related businesses. The limitation of this study lies in the fact that it lacks cross-cultural comparison of MNEs from other countries, and it deals with only one subsector of producer service industries.

Terpstra and Yu (1988) examined the determinants of foreign direct investment undertaken by the U.S. advertising agencies. Twenty large advertising agencies with at least ten percent foreign billings in 1972 and 1984 were selected. The authors found that market size, internal scale economies, the extent of international experience, and the presence of other U.S. businesses in the host economies had positive impacts on FDI inflow. Firms in oligopolistic industries tended to follow their competitors abroad. However, geographic proximity among the U.S. and the host country did not have a significant impact on the flow of FDI from the U.S. agencies. Terpstra and Yu concluded from the survey response that the client following tendency would continue, and international expansion and competition among advertising agencies would increase with increased globalization of businesses.

As an extension of this study, Li and Guisinger (1992) examined variations in the determinants of internationalization by service firms for two time periods, 1976-1980 and 1980-1986, in the triad regions of Japan, Western Europe, and the United States. The authors used 158 of the largest service multinationals in eight service industries for the first time period and 168 of the largest service multinationals in nine service industries for the second time period (UNCTC, 1988). The industries examined were in insurance, reinsurance, trading, retailing, accounting, advertising, construction, publishing, and airlines. Li and Guisinger hypothesized that foreign investment of service multinationals is positively related to the host country's market size, the level of international investment from their home country in the host market, the openness of the host country to the establishment of new foreign service subsidiaries, the international competitiveness of the service industry at home, the intensity of oligopolistic reaction (that is, follow the leader/competitor strategy) in the host country, and the growth in size of the service firms. In contrast, a negative relationship between foreign investment and cultural distance between the home and host countries was anticipated. The regression results indicated that the level of foreign investment from service multinationals was negatively related to the cultural distance between home and host countries, but was positively related to other determinants described above. The results also demonstrated that service multinationals based in the triad regions have an established presence in the triad. The motivation of these established MNEs for newer FDI appeared to have shifted from the "client-following" to the "market-seeking" rationale. Furthermore, the authors compared the results of overall and regional models for the two periods, and found that global oligopolistic reaction and openness of the host markets were the only two variables significantly influencing large service MNEs based in the triad regions.

Erramilli (1991) used survey data from 175 producer service firms to examine the effect of international experience on the selection of foreign markets and entry modes. He examined the role of international experience of the decision-maker in choosing a foreign market, and the relationship between international experience and the choice of entry mode. The service firms selected for the study ranged from accounting, advertising, banking, computer software, engineering and architecture, management consulting, to miscellaneous service sectors.

The survey results indicated that service firms chose culturally similar countries at low levels of international experience, and began moving into culturally distant markets upon building greater international experience especially through a more diversified geographic scope of experience. The results for the influence of international experience on the entry mode choice seemed to indicate a U-shaped behavior. In other words, the probability of service firms choosing full-control modes is high at low levels of experience, low at moderate levels, and high again at high levels of experience. In this case, length of experience, not scope, has a greater influence on the entry mode choice. Service firms have certain distinct advantages over manufacturing firms. For many service firms, the cost of establishing a wholly-owned subsidiary is minimal unlike manufacturing firms. Because costs and risks associated with obtaining full control is relatively low, service firms are better capable to establish fully integrated operations overseas than manufacturing firms. Entering culturally similar markets with full control may really be a deliberate attempt to overcome the risks of inexperience. However, as the culturally similar markets get saturated, service firms begin moving into culturally unfamiliar markets and select intermediary modes of entry such as partnerships and joint ventures to avoid market uncertainty. Again, as these markets are better understood with more experience, the firms tend to desire more control to reduce costs of operation.

In an attempt to explain service MNE behavior, Vandermerwe and Chadwick (1989) identified modes and strategies of service internationalization. They developed a matrix of services based upon "relative involvement of goods" and "degree of consumer/producer interaction." The internationalization potential of a service firm depends upon the interconnections between these two factors. Those services that are low on both goods involvement and degree of consumer/producer interaction possess very limited international potential. However, services offering movies on video cassettes, software on diskettes, non-interactive information technology are easily exportable because little interaction with consumers is necessary. On the other hand, hotels, air freight, shipping, and retailing sectors have high internationalization potential because interaction is relatively low, but goods that facilitate these services can be easily offered in foreign markets. However, the producer in this sector needs a foreign location to assure complete delivery. Therefore, exporting is not a choice for internationalization. Rather, licensing, management contracts, or joint ventures are the common and efficient modes of entry. In contrast, direct investment in branches, subsidiaries, or mergers and acquisitions of indigenous firms are the traditional internationalization strategies used by services where interactions between owners and managers and customers are fundamental while involvement of goods during delivery is low or non-existent. Accounting, advertising, banking, education, insurance, and teleshopping are examples of this last segment. However, the authors also mention that as corporations find new ways to deliver services with the rapid advances in technology, the traditional way of operating in either the exporting or direct investment mode would not be appropriate. In future, service companies would have to operate under a combination mode, that is, requiring more flexibility.

As an application of Vandermerwe and Chadwick's (1989) suggested modes and strategies of internationalization of services, Erramilli and Rao (1990) surveyed service firms engaged in international business in advertising and accounting, computer, engineering and architectural, management consulting R&D, banking, and certain consumer services including restaurant, hotel, and health care services to analyze the choice of entry mode by foreign investors. They categorized firms based on their entry strategy as Client-Following (CF) and/or Market-Seeking (MS). The authors found that the client-following service firms invested in greenfield or joint ventures while the market seeking firms preferred non equity ventures such as management contracts or licensing. They also postulated that the entry modes could be attributed to the degree of market knowledge even though this relationship has not been directly established in this study. Empirical evidence shows that sectoral variation exists with regards to the choice of entry modes. For example, the advertising sector reveals that the multinational advertising firms internationalize by acquiring majority ownership in local firms more often than through joint ventures or minority ownership or nonequity (for example, management contracts) modes (see Figure 1). The majority ownership mode best achieves maximum efficiency of production and protects the quality over advertising copy. The other modes could be used because of the existence of a high degree of political risk, the lack of familiarity with the host country, or where government barriers prohibit majority ownership.

Accounting firms tend to adapt different modes of overseas expansion depending upon the host country's existing barriers to entry (Daniels et al. 1989). A common international name is frequently used by many accounting conglomerates to maintain their identity, reputation, and prestige on a global basis, for example, Arthur Andersen. Many others operate under a common federation but without a common practice name. Where foreign countries have imposed barriers to preserve national sovereignty or to prevent monopolistic activities (Rossi, 1989), foreign firms have resorted to joint ventures or other business structures, such as using local correspondents/agents/representatives through firms in the host country in order to serve existing clients and seek new clients. In some instances, the host firm serves its own clients not referred to by the multinational firm, or the host firm also represents more than one international accounting firm (Daniels et al., 1989).

Some researchers have attempted to establish a positive relationship between the strategy and structure, and performance of manufacturing and service MNEs (Habib and Victor, 1991). Prior research (Grinyer et al. 1980) suggested that as product diversity increases, a firm moves from pure functional structures to multidivisional structures (Habib and Victor, 1991). Others have postulated that multinational firms follow similar strategy and structure and the better fitted (between strategy and structure) firms tend to perform better (Daniels et al., 1984).

Habib and Victor (1991) postulated that MNEs following a product diversification strategy abroad would tend to operate under a functional or a multidivisional structure by product in an international network, while MNEs expanding with a market diversification strategy would perform better under a geographical regional structure. For those desiring both product and market diversification, the authors anticipated a matrix/mixed structure for best performance results. The results of the study indicated that both service and manufacturing MNEs seemed "to match their overall organization structure with their pursued strategy" (p. 602). However, the results demonstrated that the positive relationship between the strategy-structure fit and economic performance was statistically significant only for manufacturing MNEs. No statistically significant relationship was noted between performance and strategy-structure fit for service MNEs. Maintenance of the quality of service and organizational flexibility is crucial to service MNCs. Therefore, these firms may continuously change their structure for better communication and control to provide consistent quality of services; the structure of the service MNE is not always the solution for organizational effectiveness, rather the experience of specific firms could be the key to success.

Industry-specific examples of competitiveness in international service business

Professional business firms sell their expertise, their experience, or their execution capability (Aharoni, 1993; Maister, 1986). Professional business services, therefore, are differentiated by their knowledge-intensity. Skill-intensity is also present in the form of a core of highly skilled professionals and their reputation. Professional business services also gain competitive advantage by their ability to customize their services according to specific client needs. Client-provider relationship proximity, whether physical or through telecom links is especially important because of uncertainty in quality control, contract agreements, and client behavior (Aharoni, 1993). In this section, the experience of accounting and advertising firms are briefly discussed to illustrate the process of internationalization.

A review of the source countries of the largest MNEs in professional business services reveals the dominance of U.S. firms. For example, twenty three of the world's top fifty advertising firms in 1992 were headquartered in the United States (Advertising Age, 1993). In accounting, eleven of the top twenty seven have headquarters in the United States (International Accounting Bulletin, 1992). During the past two decades, scholars have searched for the factors that have helped the U.S. gain a competitive edge against other nations in many of the producer services industries. Porter (1990) emphasized the importance of four critical "home-based" conditions that determine the success in developing international industries: factor or supply conditions, demand conditions, the existence of supplier and related industries, and the intensity of domestic rivalry/competition. These determinants are interconnected through a "national diamond" framework in a continuously dynamic environment. Government policy and chance are also parts of the "diamond" although to a lesser extent. In service industries, however, international joint ventures or multi-firm consortia has become a source of strength in risk diversification, both geographical and industrial diversification. For example, in both accounting and advertising services, mergers between U.S. and U.K. firms greatly influenced their competitive positioning. One of the major reasons for merger of European and American business in the professional and business services has been the realization that the American firms needed a presence in Europe in order to take advantage of economic integration. Furthermore, such mergers also facilitated entry to the newly deregulated markets in India, and Eastern Europe, and the emerging financial centers in the Pacific Rim.

Accounting services

Changes in government regulations have played a significant role in accounting services. The licensed Certified Public Accountant (CPA) profession in the United States, established a century ago, gained public exposure in 1933 when the Securities and Exchange Commission was established, and independent audits were required for all publicly held companies in the U.S. After World war II, the American manufacturing industry enjoyed a dramatic expansion which created a great demand for audits and CPAs. From the 1950s to the mid 1970s, traditionally, pure accounting and auditing services constituted almost all of the revenues of the accounting firms. In addition, the growth of small- and medium-sized businesses created an increased demand for accurate recordkeeping and preparation of financial statements for obtaining credit. These factors helped CPAs enjoy a period of prosperity. However, during the past two decades, rapid advancement in computer technology, market demands, and growing competition have forced the accounting firms to diversify and offer more tax planning, management consulting, and information technology services. This change has been invigorated by the elimination of many large accounts resulting from mergers and acquisitions, as well as privatization of many firms where an independent audit may not be required. In addition, beginning in the mid 1970s, the CPAs from the baby-boom generation started exiting the larger firm and created their own firms (Beauchemin, 1991). Such growing competition have put downward pressure on audit fees, and therefore, accounting firms have had to search for new markets both domestically and internationally (Noyelle, 1990).

Responding to these changes, accounting firms began generating revenues from management consulting and information technology services in the 1980s. A recent survey finds that 24 percent of new employees in CPA firms are nonaccountants in 1993 (AICPA, 1994). The same survey also reports that the proportion of new employees assigned to management consulting services increased from 15 percent in 1992 to 19 percent in 1993. Table 1 demonstrates that the traditional accounting and auditing share of revenues now ranges from 36.4 percent to 56 percent of total revenue among the "Big Six" accounting firms. Management consulting share reached as high as 47.1 percent for Arthur Andersen in 1993 along with 16.5 percent in tax planning. The latter trend in this sector indicates development within corporations of new branch components or even the evolution of independent branch operations such as the development of Andersen Consulting within Arthur Andersen.

In the international arena, despite barriers induced by governments and professional associations to trade and investment, accounting services have grown dramatically during the past two decades. As U.S. direct investment increased, large accounting firms followed their clients, and established a variety of relationships with foreign firms. Recently, researchers have noted a shift from this defensive strategy to an aggressive strategy resulting from an oversaturation of domestic markets and opportunities in the newly industrialized economies. Daniels et al. (1989) have examined the causes and the spatial outcomes of the recent increase in internationalization of accountancy conglomerates. The internationalization process is categorized into an early period (1890-1939) and a late period (1945-Present). The early period (1890-1939) was dominated entirely by the UK city-based firms who followed manufacturing firms. Price Waterhouse, Deloitte Haskins & Sells, and Touche Ross opened offices in South America and Africa in order to serve existing clients. The move to South America was to follow the London and the River Plate Banks. Subsequently, business services expanded because of railway construction companies. The accounting firms expanded into the South African market to help clients who were involved in gold mining activities. However, as early as 1900, aggressive internationalization can also be traced to Price Waterhouse opening offices in New York and Chicago and Touche Ross opening several offices in North America between 1900 and 1920.

The late period of internationalization (1945 to present) has been largely influenced by mergers (formal linking) between US and UK based firms that previously operated under the same names in both countries and between independent national firms. For example, Peats of London and Marwick Mitchell of New York merged to form Peat Marwick Mitchell in 1911. These business combinations resulted in increased market share. Furthermore, the firms shifted from a specific client orientation to a more general client orientation through their multi-plant, multinational tendencies. The largest accounting conglomerate was established by Price Waterhouse in 1945. This aggressive internationalization approach enabled the firms to reach previously unserved national markets. For example, Cooper's & Lybrand's UK-arm was serving the British Commonwealth and Europe; the US-arm was responsible to enter into South America, Mexico, Central America, Japan, and the Far East; and the Canadian arm was coordinating business in Bermuda and the Caribbean. Such mergers also increased the American influence upon the UK firms (Daniels et al., 1989).

The internationalization of US-based firms (such as Arthur Andersen and Arthur Young) began much later than the UK-based firms because US-capital did not begin moving abroad in appreciable volume until after 1918. Arthur Andersen did not have its own offices overseas before the World War II, but did business through joint ventures with national firms in foreign countries. Instead of strengthening international links between national firms, Arthur Andersen (the largest accounting firm) ended all existing agreements with other national practices in the 1950s. The desire for centralization was the key to this decision. In 1955, Arthur Andersen opened its first office overseas under its own name. The overseas growth for this company has been entirely through greenfield investments or buyouts of existing national practices, but not through joint ventures nor associations.

In examining the geographical expansion, the US, Canada, and Europe account for over two-thirds of the total number of international accounting offices. The US remains the most popular country for accountancy offices. However, the largest increase in offices occurred in Asia followed by Australia. The smaller of the accounting groups have also recently begun forming associations with established international firms, and in turn, the influence of the large accounting firms are now even more significant world-wide.

During the past decade, the accounting firms have not only diversified geographically, but have exploited the economies of scope by entering into other market segments, such as management consulting (Table 1). Intense competition in accounting and audit fees have forced these firms to diversify. The growing importance of the revenues derived from consulting services to the survival of the accounting firms is beginning to cause some friction between the management consultants and the CPA partners of the firms. The consultants are demanding higher compensation and even threatening to leave the accounting firms because they have to share the audit liability risks and actions of the other partners. The American Institute of CPAs (AICPA) has now approved the admission of non-CPA equity partners to accounting firms, although a supermajority (662/3 percent) of firm ownership must be retained by CPAs (Dennis, 1994). In some cases, consulting firms are being spun-off their auditing parents as in the case of Deloitte & Touche (Public Accounting Report, 1995).

The implication of international diversification is felt not only at the firm level but also in the international migration of skilled labor as noted in a study of U.K. based accounting firms (Beaverstock, 1990, 1991). This study examines the reasons for international movements of skilled and managerial personnel (secondments) within British and foreign chartered accountancy firms. These movements are a function of corporate strategy in optimizing labor resources because there is a worldwide shortage of chartered accountants. Beaverstock explains this new division of skilled labor as follows: as the large producer-service firms form branches or subsidiaries at the international level, a demand for personnel at all levels is created. This demand can be either filled from the local population or from a pool of highly-skilled personnel within the firm who migrate internationally to hold senior managerial positions in the new location. The study indicates that 93% of the movements occurred within the audit personnel because of the need of auditing practices across national borders. The diversity in taxation, corporate finance, and legal systems among different nations makes it inefficient for secondments in these areas.

Another significant organizational development since the early 1980s has been a proliferation of mergers not only among firms within the United States but also multinational mergers.

> ... Deloitte, Haskins & Sells and Touche Ross announced that they would merge into a new U.S. firm, Deloitte and Touche, and Ernst & Whinney and Arthur Young announced that they

> would merge into a new U.S. firm, Ernst & Young ... Deloitte's operations in Britain merged with Coopers & Lybrand, and Touche Ross remained independent. Also, DHS of the Netherlands joined Coopers & Lybrand as was the case in the United Kingdom but Touche Ross elected to join Deloitte & Touche ... In Canada, Ernst & Whinney decided to merge with KPMG Peat Marwick rather than Ernst & Young (Radebaugh and Gray, 1993, pp. 537-538).
>
> In 1990, Arthur Anderson signed an agreement for a joint venture with the largest bank in Russia and a 70 percent controlling interest as well ... When Price Waterhouse entered Czechoslovakia (now Czech and Slovakia) in 1990, it planned to "foster joint ventures with western companies, audit domestic companies' accounts, and advise companies on how to restructure themselves to adapt to the changes of a free market" (Public Acounting Report, 1990, p.6) (Radebaugh and Gray, 1993, p.540).

Advertising services

Advertising firms depict similar international growth patterns as the accounting firms. According to Advertising Age (1992b), in 1991, the world's largest U.K.-based advertising agency, the WPP Group, had 625 offices in 57 countries. Interpublic Group, the second largest U.S.-based agency operated in 82 countries. Such geographical diversification is noted among most of the large advertising agencies around the world (see Table 3). Like accounting firms, advertising agencies internationalized through client-following strategies. Numerous examples of this strategy is evident in Table 4. In the Coca-Cola example, McCann-Erickson's head-office in the U.S. handles the advertising for the soft-drink manufacturer in the U.S., while the subsidiaries of the agency in each host nation handles the respective Coca-Cola subsidiaries (Kaynak, 1989). The internationalization of advertising firms can be traced back to as early as the 1930s when J. Walter Thompson, an U.S.-agency, opened offices in the U.K., Europe, Latin America, New Zealand, and India (Moody's, 1990). However, the surge in international growth began in the late 1950s and early 1960s as multinational clients began operating in global environments.

During the 1980s, the advertising firms began facing increased competition and sluggish market growth affecting the demand for advertising spending in the advanced economies. Many smaller advertising firms were acquired by the larger firms; the small firms did not resist such acquisitions because they feared their existence in a highly competitive environment in the 1980s. For example, Backer & Spielvogel (B&S, U.S.-based) temporarily lost the Miller beer account, one of its major client, to a larger firm in Great Britain. B&S feared that the larger competitor would eventually take over the Miller account in the United States. To eliminate this threat, B&S agreed to be acquired by Saatchi & Saatchi (U.K.-based) in 1987, and as a result, regained the Miller account (Kaynak, 1989; Moody's, 1990).

Furthermore, the large agencies started joining forces through mergers, acquisitions, or joint ventures throughout the world to increase their ability to charge lower fees and offer a broader range of services, such as, advertising, marketing, promotion, media services, public relations, and management consultancy. For example, the amalgamation of BBDO, Doyle Dane Bernbach, and Needham Harper in 1985 created one of the world's largest agency, the Omnicom Group. In response to an oligopolistic reaction (i.e., to stay competitive in the world market), Saatchi & Saatchi's acqusition of Ted Bates, B&S, the Hay Group, the Rowland Company, and 17 other companies during the latter half of the 1980s enabled the conglomerate to offer public relations, human resources management consulting, and market research services under one umbrella to clients on a global basis (Moody's, 1990). During the same period, the formations of the WPP Group (Ogilvy & Maher Worldwide, J. Walter Thompson Co., and Scali, McCabe, Sloves) and the Interpublic Group (McCann-Erickson Worldwide, Lintas:Worldwide, and Lowe Group) have placed the two conglomerates in the first and second ranks, respectively (Moody's, 1990; Advertising Age, 1993). In 1993, the WPP Group derived 14.5 percent, 7.1 percent, and 14.9 percent of its revenue from market research, public relations, and specialist communications, respectively. The core service, media advertising only claimed 55.7 percent share of total revenue. The Interpublic Group offers different facets of marketing communications. In addition, this conglomerate is beginning to enter the television programming market through game shows, and assuming a leadership role in interactive marketing (Dean Witter Reynolds, 1994). These actions during the past decade have resulted in a higher concentration of global market share of integrated package of services among a handful of large conglomerates (Dicken, 1992).

The geographical spread (Table 5) of the world's top ten agencies reveals a strong pattern of diversification in North America and Europe reflecting the size of the consumer goods market in these two regions. Oligopolistic tendencies are also evident. The growing opportunities for advertising spending in the emerging markets in Asia/Pacific and South America are increasingly attracting these firms. For example, the recent increase in personal income and the rising demand for luxury goods in China have spurred several international advertising agencies' interest. DDB Needham Worldwide (part of the Omnicom Group) opened an office in Beijing. In an oligopolistic response, Grey Advertising followed just a few weeks later. Dentsu, Young & Rubicam, the joint venture, has been in China since 1986, but now is strengthening its presence by spreading beyond their Shanghai office (Wentz, 1992). The Japanese agencies demonstrate relatively insignificant geographic spread in comparison to the European and the U.S. agencies (Table 3). The success of the Japanese agencies (eleven out of the top fifty agencies are Japanese) are based on their domestic market and a lesser degree of domestic rivalry. However, the trends show interest in globalization because of the prolonged economic slump in Japan in the 1990s. As a result, research interest in understanding the competitiveness of Japanese service firms in nonbanking has come to the forefront (Enderwick, 1990; Johansson, 1990).

The international competitiveness of Japanese firms in producer services continue to be sustained in banking and finance despite political opposition in host countries toward Japanese takeovers. The Japanese firms are moderately competitive in producer services such as advertising, engineering consultancy, insurance, management consultancy, and real estate and the degree of competitiveness is low in professional services such as accountancy (Enderwick, 1990). For example, in advertising, "Dentsu's goal of deriving 20 percent of billings from overseas sources suggests that overseas expansion is the strategy of the future" (Johansson, 1990, p. 96). Dentsu's interest in establishing agencies in Western capitals and the Middle East and the appeal of the Japanese'soft sell' advertising style suggests the possibilities of Dentsu's attempt to regain its international position in the near future. However, signs of significant resource allocation are not present. Furthermore, Nissan's recent switch from Dentsu, the automaker's agency for 40 years, to Hakuhodo was based on the latter's better knowledge of the local markets where Nissan operates (Kilburn, 1992). In professional services, the lack of Japanese presence in the international market has not been analyzed in depth. Existing discussion of Japan's competitiveness in professional services suggest that cultural and linguistic barriers, the difference in professional standards, limits in ownership, restrictions over the international migration of skilled personnel, and the lack of recognition of professional degree (that is, the lack of reciprocity) have restricted their internationalization.

Implications for future research

Theorists acknowledge that the complexity of the service sector necessitates the need for an eclectic paradigm to explain the internationalization process of service firms. The results of the empirical research generalize that producer service firms have become more market-seeking endeavors rather than client-following enterprises. These empirical studies tell us very little about sectoral differentiation in terms of internationalization strategies. Examples from accounting and advertising services demonstrate that the search for new markets is not only geographical in scope but also a search for service diversification. Furthermore, geographical and service diversification in these sectors have resulted in corporate reorganization such as mergers across national boundaries to take advantage of economic integration in North America and Europe, as well as deregulation in formerly closed and protected nations. Other examples of organizational evolution include the formation of branch companies specializing in one service within a large multinational such as the formation of Arthur Andersen Consulting within Arthur Andersen. Such organizational changes especially within the global companies raise questions regarding the measurement of international trade. These global companies certainly have headquarters someplace, but instead of using gross revenue from foreign branches, the revenue generated by individual branch offices from businesses outside their country of operation would provide a better estimate of international activities. Most global companies keep records on intrafirm trade, as well as exports to and imports from other clients. Such information may or may not be obtained through firm-level surveys because of its proprietary nature. Without such data, it will continue to be difficult to understand the dynamics of international trade and business in services. Therefore, several research concerns need to be addressed: corporate reorganization within large firms and the implication on competitiveness; the relationship between large, medium, and small service firms; how the business strategies of large firms are affecting the strategies of small- and medium-sized firms; international labor flow or secondments in service firms; and the role of international business in producer services in economic development within source and host countries.

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Table 1: The Top Six Accounting Firms Ranked by 1993 Worldwide Revenue

Firm	Worldwide Revenue (in millions of U.S. $)	Year	Percentage Foreign	Percent of Total Revenue: Accounting & Audit %	Tax %	Management Consulting %	Other %	# of Offices worldwide	In Countries
Arthur Andersen	$6,017.3	1993	49%	36.4%	16.5%	47.1%	-	324	72
(AA)	$5,577.3	1992	48%	36.8%	16.9%	46.3%	-		
KPMG Peat Marwick	$6,000.0	1993	30%	NA	NA	NA	NA	837	131
(KPMG)	$6,153.0	1992	29%	52.1%	20.7%	12.4%	14.8%		
Ernst & Young	$5,839.0	1993	40%	54.0%	20.0%	18.0%	8.0%	663	118
(EY)	$5,701.0	1992	40%	54.0%	21.0%	17.0%	8.0%		
Coopers & Lybrand	$5,220.0	1993	31%	NA	NA	NA	NA	733	120
(CL)	$5,350.0	1992	29%	56.0%	16.0%	16.0%	12.0%		
Deloitte & Touche	$5,022.0	1993	41%	NA	NA	NA	NA	653	115
(DTT)	$4,820.0	1992	41%	NA	NA	NA	NA		
Price Waterhouse	$3,887.0	1993	37%	49.6%	23.1%	20.5%	7.0%	448	117
(PW)	$3,761.0	1992	29%	50.1%	23.4%	19.6%	6.9%		

Source:
Bowman's Accounting Report, April, 1994.

NA: Not Available.

Table 2: The 10 largest U.S. advertising agencies by worldwide rank

Name	1991 Worldwide Rank	1991 Number of Employees: Total	1991 Number of Employees: Percentage Foreign	Gross Billings (Millions of US$): Year	Gross Billings (Millions of US$): Total	Percentage Foreign
Interpublic Group	2			1976	1290	55
				1986	5550	54
		18577	74	1991	12101	68
Saatchi & Saatchi	3			1976	....	....
(Joint Venture)				1986	8260	....
		12970	59	1991	11663	58
Omnicom Group (a)	4			1976	....	....
				1986	5820	28
		12218	52	1991	10443	50
Young & Rubicam	6			1976	933	39
				1986	4190	43
		10324	72	1991	7840	52
Grey Advertising	8			1976	473	28
				1986	2060	42
		6597	67	1991	4437	56
Foote, Cone & Belding	10			1976	455	31
Communications				1986	2150	25
		7872	68	1991	4651	45
Leo Burnett Co.	11			1976	731	31
				1986	2060	34
		6327	62	1991	3891	48
D'Arcy Masius	12			1976	481	53
Benton & Bowles				1986	2260	42
		5928	56	1991	4509	42
Bozell, Jacobs	15			1976	288	57
Kenyon & Eckhardt				1986	125	10
		2340	32	1991	1660	23
N. W. Ayer	18			1976	221	5
				1986	901	25
		1821	62	1991	1361	58

Sources:
1991 data: Advertising Age, April 13, 1992.
1976 and 1986 data: UNCTC, Foreign Direct Investment and Transnational Corporations in Services, 1989.

(a) In 1976, Omnicom did not exist.
.... Not Available.

Table 3: The geographic spread of the world's 20 largest advertising agencies (as of 1991)

Name	Home Country	Worldwide Rank	Number of Offices	In Countries
WPP Group	U. K.	1	625	57
Interpublic Group	U. S.	2	NA	82
Saatchi & Saatchi (Joint Venture)	U. K./U. S.	3	429	51
Omnicom Group	U. S.	4	371	59
Dentsu	Japan	5	45	6
Young & Rubicam	U. S.	6	279	55
Euro RSCG	France	7	450	27
Grey Advertising	U .S.	8	183	52
Hakuhodo	Japan	9	50	13
Foote, Cone & Belding Communications	U. S.	10	174	26
Leo Burnett Co.	U. S.	11	50	48
D'Arcy Masius Benton & Bowles	U. S.	12	109	42
Publicis-FCB Communications	France	13	111	51
BDDP Worldwide	France	14	80	10
Bozell, Jacobs Kenyon & Eckhardt	U. S.	15	72	48
Tokyu Agency	Japan	16	6	1
Daiko Advertising	Japan	17	21	1
N. W. Ayer	U. S.	18	29	17
Asatsu	Japan	19	17	3
Dai-Ichi Kikaku Co.	Japan	20	20	4

Sources:
Advertising Age, April 13, 1992 and July 13, 1992.

NA - Not Available.

Table 4: Geographic spread of certain international agencies by selected clients

Name of affiliate	Home Country	Home-based Client	Serving Client in Number of Host Countries
J. Walter Thompson (WPP Group)	U.S.-arm	Eastman Kodak	37
McCann-Erickson (Interpublic Group)	U. S.	Coca-Cola	81
Saatchi & Saatchi (Joint Venture)	U. K./U. S.	British Airways	43
BBDO Worldwide (Omnicom Group)	U. S.	Pepsi-Cola	44
Dentsu	Japan	Japan Airlines	5
Hakuhodo	Japan	Konica	5
Leo Burnett Co.	U. S.	Proctor & Gamble	47
D'Arcy Masius Benton & Bowles	U. S.	Mars	33
Publicis-FCB Communications	France	L'Oreal	26
GGK International	Switzerland	Swiss Air	28

Source:
Advertising Age, July 13, 1992.

Table 5: Geographic spread of 1991 Billings of the world's 10 largest advertising agencies

Name	Home Country	Worldwide Rank	North America Billings ($ in millions)	North America %	South America Billings ($ in millions)	South America Percentage of total	Europe Billings ($ in millions)	Europe Percentage of total	Africa/Middle East Billings ($ in millions)	Africa/Middle East Percentage of total	Asia/Pacific Billings ($ in millions)	Asia/Pacific Percentage of total
WPP Group	U. K.	1	$9,277.1	56.16%	$552.8	3.35%	$5,104.4	30.90%	$187.7	1.14%	$1,396.6	8.45%
Interpublic Group	U. S.	2	4,268.5	33.33%	1,053.6	8.47%	5,483.0	44.10%	86.0	0.69%	1,542.1	12.40%
Saatchi & Saatchi (Joint Venture)	U. K./U. S.	3	5,160.7	50.29%	178.4	1.74%	4,133.0	40.28%	106.3	1.04%	683.1	6.66%
Omnicom Group	U. S.	4	5,425.8	47.91%	201.5	1.78%	4,345.5	38.37%	11.4	0.10%	1,341.3	11.84%
Dentsu	Japan	5	181.5	1.82%	-	-	-	-	-	-	9,767.6	98.18%
Young & Rubicam	U. S.	6	4,185.5	54.45%	165.9	2.16%	3,039.9	39.55%	89.5	1.16%	205.6	2.67%
Euro RSCG	France	7	1,131.7	19.03%	-	-	4,639.6	78.01%	-	-	175.9	2.96%
Grey Advertising	U .S.	8	2,148.0	44.05%	83.4	1.71%	2,263.4	46.41%	86.3	1.77%	295.6	6.06%
Hakuhodo	Japan	9	52.6	1.16%	-	-	93.5	2.06%	-	-	4,398.3	96.78%
Foote, Cone & Belding Communications	U. S.	10	2,769.0	81.72%	27.8	0.82%	379.9	11.21%	-	-	211.5	6.24%

Source:
Advertising Age, April 13, 1992.

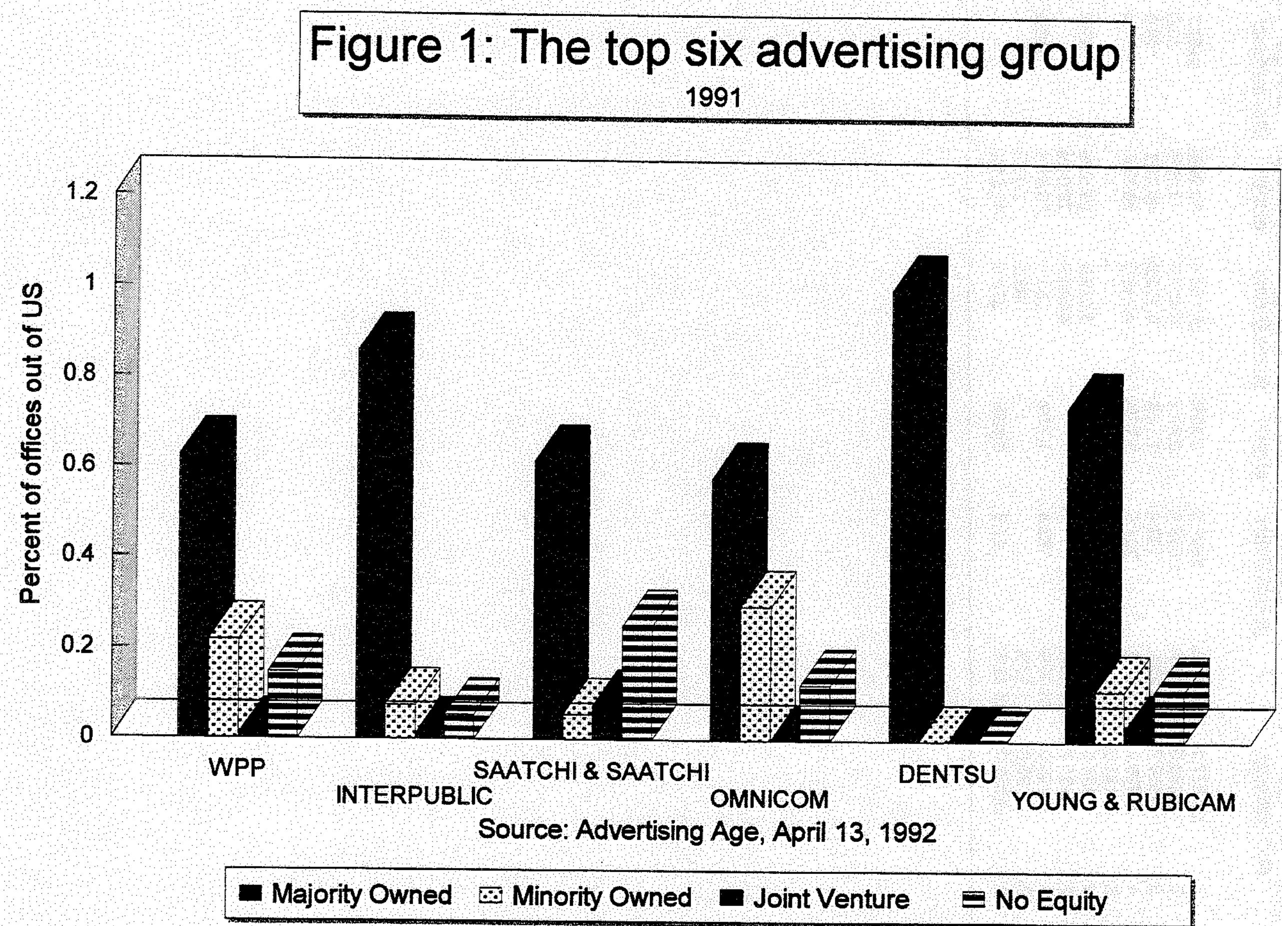

Figure 1: The top six advertising group
1991
1.2
1
0.8
0.6
0.4
0.2
0
Percent of offices out of US
WPP
INTERPUBLIC
SAATCHI & SAATCHI
OMNICOM
DENTSU
YOUNG & RUBICAM
Source: Advertising Age, April 13, 1992
Majority Owned
Minority Owned
Joint Venture
No Equity