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## How Creative Professional Service Firms Internationalize: a business model portfolio approach

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# **How Creative Professional Service Firms Internationalize: a business model portfolio approach**

## **ABSTRACT**

Traditional theory of firm internationalization assumes all firms are homogenous in their approach to managing uncertainties and implementing business strategies when internationalizing. A business model portfolio approach articulates a more complex process and suggests that firms adopt a portfolio of business models to balance uncertainties. Combining these two perspectives, this multiple case study research design explores how creative professional service firms (creative PSFs) internationalize. Creative PSFs such as architects are embedded in their local cultures, operating at the intersection of business and art. Our study reveals the complexities of creative PSF internationalization, showing that in contrast to existing explanations, multiple combinations of business models are adopted to manage uncertainty. We use these novel insights to develop a business model portfolio approach to understanding the internationalization process. This research paper brings relevant and important contributions to both the international business and business model literature.

## **How Creative Professional Service Firms Internationalize: a business model portfolio approach**

### **INTRODUCTION**

Creative Professional Service Firms (PSFs) exist at the crossroads between art, business and technology. The owners and the talent within these firms through their education and a philosophical belief in their profession can hold deviating positions regarding the meaning of the service they provide to clients and the words they use to describe it. For example, the Pritzker Prize winning artist and architect Richard Meier when interviewed suggests that “Architecture is the greatest of the arts [yet] there’s lots of buildings that have nothing to do with architecture. They have to do with economics”(Meier, 2008). This example highlights the contrary approaches of creative PSFs, whereby some may be more artistically oriented and creative while others may be more efficiency oriented specializing in service replication(Canavan et al., 2013). In the case of architecture firms the service offering may span between the design of a great museum recognized globally as much for it’s artistic merit as for the ancient artefacts that it houses or alternatively the efficient design and building supervision of commercial office blocks that fulfil unmet needs in local markets. The words of Richard Meier could be ascribed to the words of an artist but these words dismiss the commercial spectrum of architecture firms that are also engaged in business and technology processes.

How creative PSFs organize and structure their activities influenced by their professional identity creates particular considerations when internationalizing. International business (IB) theory suggests that the mainly path dependent firm internationalization process involves a process of learning which influences resource commitment to new markets (Johanson and Vahlne, 2009) and explains a homogenous approach adopted by firms to overcome and manage uncertainty associated with internationalization (Andersen, 1993).

Conversely, the business model literature which defines how the firm profitably creates and delivers value to customers (Teece, 2010) suggests that business model portfolios help to balance uncertainties for the firm (Sabatier et al., 2010) suggesting possible heterogeneity within processes adopted by firms. Linking both IB process theory and the business model approach, we suggest that creative PSFs may demonstrate multiple internationalization paths influenced by whether their value chain is positioned to deliver services with high levels of artistic novelty or service replication.

IB process theory provides a generic ‘incremental framework’ (Johanson and Vahlne, 2009, Johanson and Vahlne, 1977) to explain the internationalization process for firms. Although recently revisited to reflect the more globalized environment and to bring more coherence with other international process explanations (Knight and Cavusgil, 1996, Oviatt and McDougall, 1994), the incremental framework has proved to be the dominant model adopted by researchers investigating how firms internationalize. Exploring the research question; **how do creative PSFs internationalize?** presents a challenge for IB scholars however because firstly it assumes a homogenous internationalization path within an investigation, whether relating to a firm, an industry, or a sector. However, the dichotomy between art and business suggests there may be more than one internationalization path in the sector. Secondly, existing frameworks fail to explain how particular uncertainties relating to the creative PSF’s distinctive client interaction process (Amabile, 1988, Gummesson, 1981) and its locally embedded service characteristics (Faulconbridge, 2008, Faulconbridge and Muzio, 2012, Jeffcut and Pratt, 2002) influence the process. The internationalization process for the creative PSF therefore contains two particular challenges that lack explanation in the existing IB literature and this study aims to respond to this problem.

To address these two research gaps our study brings the business model conversation to IB, combining a business model portfolio approach (Baden Fuller and Mangematin, 2013,

Sabatier et al., 2010, Teece, 2010) with IB process insights. Combining the business model approach with IB process theory enables us to articulate the complexity within the process and provide for richer theorizing potential. We designed a qualitative study exploring the internationalization process across ten creative PSFs, selecting architecture firms as our context.

Five business model configurations for internationalizing creative PSFs are identified in our findings facilitating two major theoretical contributions. Firstly, we identify the business model portfolios that creative PSFs use to internationalize, providing valuable insights into IB process theory relating to the creative PSF context. Secondly, a framework is developed from the findings to show how international uncertainty for creative PSFs can be counterintuitive to traditional explanations within IB. We also contribute important insights for managers.

The next section presents our review of the literature relating to business models and internationalization. This is followed by a section detailing the chosen methodology. We then present our findings and discussion, illustrating the framework developed from the data.

## **LITERATURE REVIEW**

This section details the extensive literature review undertaken. A review of studies within the field of IB adopting business model ideas is followed by detail of how the business model conversation has evolved and a review of the limited literature on PSF internationalisation.

### **A Business Model Perspective to Internationalization**

We adopt the business model approach in this study as a cognitive approach to explain how creative PSFs internationalize. This approach assists with visualization of the process (Arend, 2013) and enables a meaningful map of possibilities to be created (Baden Fuller and

Mangematin, 2013) to provide richer insights into a heterogeneous and complex phenomenon. Despite its growing importance to practitioners and more rigorous academic scrutiny, the business model approach has not yet gained the level of traction among IB scholars compared to other fields. Our extensive review of the literature reveals that very few studies that have combined a business model approach to provide insight into international business research problems.

More often the ‘business model’ term is loosely used to describe an activity or event within a firm, for example that business models may be restrictive when internationalizing (Barkema and Drogendijk, 2007) or that firms may change their home country business models when internationalizing (Cantwell et al., 2010). Often representation of business models in IB relates to abstract observations to define multi-national firms (Cameron, 2011, Rugman and Verbeke, 2004), for example the ‘Wal-Mart’ or ‘Macquarie Bank’ business models. Recognition of the business model can also be found in the literature more analytically at a systemic level such as emerging market models (London and Hart, 2004, Luk et al., 2008, Peng et al., 2008, Ricart et al., 2004) or an industry level for example the global ‘fast fashion’ industry business model (Runfola and Simone, 2013). At a firm level, business model elements have been described interchangeably with strategy, notably relating to Ikea (Jonsson and Foss, 2011) and also business models that firms use for exiting markets (Coucke and Sleuwaegen, 2008).

Closer to the interpretation in this study, business models as an approach to address IB research problems has gained traction within international journals relating to new ventures, in particular technology based new ventures (Breuer, 2013, Trimi and Berbegal-Mirabent, 2012, Waldner et al., 2013). While these may provide enhanced and interesting insight to international new venture theory (Oviatt and McDougall, 1994) or the technology driven born global explanation (Knight and Cavusgil, 1996), interpretations based on new ventures are

unsuitable for explaining events across established firms within the heterogeneous creative PSF segment.

Despite an extensive review of the literature we identified only one other study that explains the internationalization process adopting a business model approach (Sainio et al., 2011). Rather than recognizing the portfolio of business models that exists in the firm (Sabatier et al., 2010), this study adopts an activity system perspective (Zott and Amit, 2010) mapping the internationalization process using a combination of international entrepreneurship theory and the business model approach (Sainio et al., 2011). This exploration concentrates on the upstream and downstream activities of the value chain to show how value formation and exchange influence the process. However, even this study contributes little to the research gaps identified because the approach taken is unsuited to explaining multiple interrelated internationalization paths within a firm or across a sector.

While there is very limited insight contributed to IB process theory from the business model approach, this does not suggest that IB scholars are neglectful of the benefits. There is recognition of the value of business models in the field (Cantwell et al., 2010, Di Gregorio et al., 2009, Zahra, 2005) and also numerous calls for more insights to be developed to inform IB scholars (Ghemawat, 2003, Jonsson and Foss, 2011, Peng et al., 2008).

### **The Business Model Approach**

While more insights are called for in within IB, the business model approach has received somewhat of a revival from its origins in the late 1990's when the concept was vaguely defined and suffered from a problem of having a grey area between the boundaries of strategy and business models (Magretta, 2002). More recent research has augmented the need to understand business models as a set of activities aimed at both addressing customer needs and converting that to revenue earning for the firm. Teece (Teece, 2010) suggests that a business

model defines how the enterprise creates and delivers value to customers, and then converts payments received to profits.

Bringing the business model portfolio approach to explain the internationalization process concerns firstly, how a firm's portfolio of business models evolves or crosses over institutional and cultural boundaries and secondly, how the health of the firm's overall portfolio of business models is sustained. Business models are concerned with value creation and value capturing (Teece, 2010b). They are also concerned with strategic choices or value sensing connected to value creation and value capture (Shafer et al., 2005) as well as the interdependencies (Sanchez and Ricart, 2010) that different models may have to reinforce or detract from each other. Firms manage portfolios of business models to develop market value and revenue streams and to balance uncertainties (Sabatier et al., 2010). These uncertainties can morph over time (Teece, 2010) as changing markets, technologies and legal structures facilitate. IB process theory is also mainly concerned with how firms manage the uncertainty (Ghoshal, 1987) as firms are dealing with multiple environmental, industry and internal uncertainties in the process that themselves are dynamic reinforcing our intuition that the business model portfolio approach has great potential for explaining IB problems.

Recently business model scholars have made efforts to consolidate advances in the field (Arend, 2013, Baden Fuller and Mangematin, 2013) and move the agenda forward. One interesting outcome is the development of a cognitive framework, separable from the underlying context (Baden Fuller and Mangematin, 2013). This can be applied across firms or groups of firms, or for defining portfolios of business models within the firm. This important advance based on customer identification, value proposition, monetization and governance is derived from the literature and allows for greatly improved comparative and theorizing capabilities. The new framework enables us to explore how creative PSFs internationalize through a business model portfolio approach capturing the true complexity of



the process while providing a richness to insights gained. Adopting the business model approach can also importantly strengthen insight on managerial implications.

### **Creative Professional Service Firm Internationalization; a dichotomy**

The business model approach adopted for this study is helpful because of the unusual and complex context that we are exploring. The creative PSF sector of professional services encompasses firms that have the unique characteristics of the PSF comprising high knowledge intensity, low capital intensity and a professionalized workforce (Von Nordenflycht, 2010) and also the cultural embeddedness of services recognized within creative industries (Jeffcut and Pratt, 2002). International trade in creative PSFs is of enormous importance to both emerging and mature markets (EU, 2012, UNCTAD, 2010) yet the need for distinct scholarly attention is only recently recognized (Abdelzaher, 2012, Abecassis-Moedas et al., 2012). The creative PSF shares the characteristics, opportunities and challenges of other PSFs, but critically, individuals including the founding partners of these firms are both artists and professionals at the same time.

Grounded in traditional frameworks, most current research either highlights the role of entrepreneurship (Deprey, 2012, Benson et al., 2009) in the propensity to take risks (Knight and Cavusgil, 1996, Oviatt and McDougall, 1994), or alternatively adds insight on learning and knowledge transfer (Faulconbridge, 2006, Hitt et al., 2006a, Kennel and Batenburg, 2012, Reihlen and Apel, 2007) and the critical importance of relationships (Freeman et al., 2007, Amonini et al., 2010) within the process in order explain how to reduce uncertainty aligned to the incremental framework (Johanson and Vahlne, 1977, Johanson and Vahlne, 2009). IB scholars have largely ignored the vital importance of reputation in the process although this is long identified in the PSF literature as critical to internationalization (Cooper et al., 2000, Grosse, 2000, Hitt et al., 2006a, Lu et al., 2012) due to the locally embedded

nature of the sector with strongly rooted institutional traditions (Faulconbridge, 2008), the high knowledge intensity of the PSFs services (Von Nordenflycht, 2010), and a distinctive and generally task orientated client interaction process (Gummesson, 1981). Reputation in this study is defined as being known (for something) (Lange et al., 2011).

The complexity of knowledge transfer across international boundaries is heightened further in creative PSFs due to the culturally embedded (Jeffcut, 2009) nature of the services delivered by creative industries. In addition, the inwardly focussed characteristics of creative activity (Tardif and Sternberg, 1988) compounds the challenges facing firms. Creativity involves the interaction between a person's thoughts and the socio-cultural environment. At the organizational level it requires an inwardly cohesive approach between the individual, the team level and the organizational level which all interact (Csikszentimalyi, 1990) in the internal environment to facilitate complex knowledge sharing.

The creative PSF therefore is dealing with the dual and conflicting requirement to interact with clients and interact internally to deliver a service. This is a difficult balance when dealing with physical distance in internationalization.

While a few studies have addressed the internationalization process of PSFs in general, or focus on specific industries, multiple knowledge gaps remain when explaining how creative PSFs internationalize. Firstly, studies on internationalization and typographical groupings (Throsby, 2001, Von Nordenflycht, 2010) suggest PSFs are homogenous with common characteristics across industries. This is not the case for creative PSFs in reality however (Canavan et al., 2013) where a dichotomy exists influencing whether a creative PSF strategizes based on artistic competencies or product portfolio competencies. Secondly, studies neglect the importance of extrinsic cues such as network dependent reputation (Lin et al., 2009, Podolny, 1993) in the process (La et al., 2009) because of the locally embedded characteristics of the service requiring local knowhow (Brock and Alon, 2009) and

distinctive client interaction process involved in delivering services requiring expert and complex knowledge that is difficult for ‘non experts’ to evaluate (Gross and Kieser, 2006).

In our study we adopt the business model approach to explore internationalization within the creative PSF sector. Combining the business model approach with IB process theory helps to address particular complexities of the creative PSF providing potentially richer theoretical insights into IB that help to explain research gaps in the field.

## **METHODOLOGY**

Having detailed the literature on business models and the internationalization process we now describe how the research was conducted. As our extensive review of the literature reveals, how creative PSFs internationalize is an under researched phenomenon yet traditional theory lacks clarity when explaining the process. We therefore determined that a qualitative exploratory investigation was required involving a multiple case study research design.

### **Research Setting and Context**

As critical resources tend to vary by industry (Dess and Lumpkin, 2005) a single-industry sample in which to conduct the research was desirable for conducting cross case comparison. The research setting comprised Irish architecture firms with international experience. Architecture is a classic professional service (Von Nordenflycht, 2010) and a functional creative industry (UNCTAD, 2010). Other creative professional service sectors include advertising, fashion design, media production, graphic design and software development (UNCTAD, 2010, Von Nordenflycht, 2010). A commonly agreed definition on the role of the architect is to design buildings and advise on their construction (Makstutis, 2010). However,

as with other professions, the scope and responsibilities of the architect may vary across different institutional, legal and cultural barriers (Bridgestock, 2011, Burrage and Torstendahl, 1990, Faulconbridge, 2009, Faulconbridge and Muzio, 2012).

A drive to internationalize the Irish architecture industry began as far back as 1999 in response to the small size of the domestic market (PWC/BMG, 1999), while globally, the internationalization of the architecture industry has been driven by technological advancements, mutual practice agreements and global outsourcing and offshoring.

### **Data Collection and Research Design**

Our data collection involved two stages, a preliminary stage and a main stage, identified as the familiarization stage and systemization stages (Turner and Rindova, 2012). We commenced the familiarization stage by gathering firm level, industry level, economy level and other archival sources of data available in the public domain relating to the Irish architecture sector. From this data a report on the architecture industry in Ireland was completed to assess the viability of the sector as a research setting as well as the potential to select diverse case firms for our research. We then conducted seven open ended semi structured interviews with a broadly sampled set of industry informants.

Based on observations in the familiarization stage, we developed a research design to facilitate robust and transferable theoretical insights. Given that few systematic studies relating to the internationalization of PSFs exist and these are concentrated heavily on large multinational accounting and legal firms (Von Nordenflycht, 2010) rather than creative PSFs which are additionally culturally embedded (Jeffcut, 2009), we designed this research to be explorative, descriptive and theory generating. A multiple case study research design was particularly suited to the nature of this research (Eisenhardt, 1989, Welch et al., 2010, Yin,

1994), allowing for the development of a holistic and in-depth understanding of complex phenomena (Eisenhardt, 1989, Yin, 2003) and the development of more robust practitioner contributions.

Our design adopted three units of analysis, the firm, the internationalization event and the business model. Having defined the study's population a diverse sample was created (Santos and Eisenhardt, 2009). Because informants during the familiarization phase research identified peer firms as either 'commercial' or 'design' firms, we determined that ten organizations for in-depth analysis were needed to compare and replicate findings across firms. To counteract the possibility of investigator, source, and respondent bias (Jick, 1979) we adopted three data sources: 1) face to face recorded semi structured interviews with founders, senior directors and architects primarily focussed on the internationalization process; 2) review of archival material and 3) face to face recorded external stakeholder informant interviews providing the "outsider perspective for a reality check" (Santos and Eisenhardt, 2009).

To safeguard their anonymity and confidentiality, we assigned code names to our ten case firms based on the Greek alphabet between Alpha and Lambda. We identified only the region of internationalization which comprised Western Europe (WE), Central and Eastern Europe (CEE), America (AM), Middle East and North Africa (MENA), and Other Asia and Africa (AA) and assigned consecutive numbers to each country described. This coded data provided the starting point for analysing the interplay between where firms engaged in international business and how they did it. A summary of our data is illustrated in Table 1 below.

**Insert Table 1 about here**

Our case firms were all established as partnerships or limited companies with family members or founding partners still involved in key roles. Each of Alpha, Gamma, Epsilon and Kappa

had more than 200 staff up until the global economic crisis and between 2007 and 2009 were forced to significantly downsize while Delta and Zeta had between 50 and 100 staff. This in part explains the amount of internationalization experience our case firms demonstrated relative to their current size. Beta, Theta, Iota, and Lambda were more selective in their growth strategy and intentionally never employed more than 35 people.

### **Data Analysis**

To unbundle the processes of internationalization through a business model approach, involving processes and mechanisms for identifying clients, identifying value proposition, monetizing, and governing, the data analysis advanced through multiple steps and was conducted in an iterative fashion, travelling back and forth between the primary and secondary data, emerging observations, and existing literature (Locke, 2001). From the interviews we performed a *first order analysis* to capture informant's understandings of each process. Our data analysis process commenced during the familiarization phase with broad level coding and then refinement of coding for each case followed by cross case comparison to identify consistent patterns and themes (Eisenhardt & Graebner, 2007).

Once the empirical observations were refined we undertook a *second order analysis* to move findings to a theoretical level (Gioia and Chittipeddi, 1991) travelling back and forth between our data, emerging insights, and existing theory (Eisenhardt, 1989, Gioia and Chittipeddi, 1991). We adapted business model dimensions from the existing literature (Baden Fuller and Mangematin, 2013) to explain the process. These comprised identifying customers, proposing solutions, monetizing opportunities and governing structures. Combining this business model approach with IB explanations of internationalization within a network market (Johanson and Vahlne, 2009) assisted in gaining understanding of the scope of reputation in terms of who knows (Lange et al., 2011) and to the boundaries of business

model value chains. Table 2 presents the evolution of our findings from first order categories found in our data to second order codes that provide insight relating to the internationalization process.

**Insert Table 2 about here**

From this we formed our aggregate dimensions which identified five groups of business models used by creative PSFs to internationalize as detailed in Table 3. This enabled us to develop our framework explaining international uncertainty for creative PSFs illustrated in Figure 1.

**Insert Table 3 about here**

## **FINDINGS**

Our findings highlight the diversity of process combinations within the creative PSF business model portfolio theoretically categorized into five business model types; business model replication, business model extension, gateway business models, client following and hybrid business models. How business models help manage uncertainty in internationalization is evidenced through the interplay between how customers are identified within a reputation dependent network market and the need to replicate the firms value chain. This enables us to create a framework for creative PSF internationalization illustrated in Figure 1.

### **Business Model Replication**

**Insert Table 4 about here**

This approach involves the replication by case firms of their value chain into targeted relevant networks that are mainly located in a single country or region (see Table 4 for representative data across firms). Firms may enter these markets as virtual ‘unknowns’ but with the

capability of addressing customer needs because they are ‘early movers’ into the market or because they provide a more efficient solution. Business model replication may be an incremental process whereby gateway business models may be adopted to gain recognition and build reputation in advance of establishing a local presence. Within this internationalization process profits are extracted from each market and a decentralized governance structure is required to compete directly on ‘on the ground’.

*Identifying customers.* As the reputation dependent network is local, case firms must invest in seeking out new customers in each new market. While potential customers can be identified through mechanisms such as desktop research and utilising other public sources for market researching, our findings suggest that customers seeking replicated services require “visibility but also personal contact itself” (Zeta #3). Creating visibility and personal contact is a challenge for the firms when entering new markets and often an introducer will be used. Clients that seek ‘replicated’ architectural services are looking for a service that is either not available through local firms or that can be addressed more efficiently by international firms. We found four main client groups that our case firms are identifying: international clients active in less developed markets; potential clients in mature markets but one where the particular expertise of the case firm is very limited locally; potential clients in mature markets that are looking for low cost services; and local clients in less mature markets seeking the services of an ‘international architect’ for both efficiency and status reasons. Common across all potential client groups is a demand for visibility and presence locally hence the need to replicate the value chain in each market.

We find that from our case firms six firms provide evidence of value chain replication that facilitates the replication of services internationally. In addition Delta is in a more exploratory phase of internationalization but suggests that this is part of their plan and “unless you open an office there you would not stand a chance” (Delta #2). Beta, Theta and Lambda provide no evidence of addressing client needs for service replication.



## **Business Model Extension**

### **Insert Table 5 about here**

Certain of our case firms evidence an internationalization process whereby they “target projects” (Beta #1) rather than places or relationship networks. Differences between the home market and foreign markets have less of a distinction for these firms. One firm even describes their country of origin as “purely coincidence” (Theta #2) highlighting the point that the firm could exist in another location and still deliver the same service. This internationalization process addresses the needs of clients looking for a prestigious and unique service appreciated by the wider public. Artistic competence is developed through a centralized structure while the firm’s reputation is globally regarded both within professional circles and with the wider public providing access to profit opportunities globally. Owing to the degree of novelty within their service, they are frequently the recipients of internationally recognised awards and they attract widespread professional and general media attention. While our findings suggest that all of our firms engage on occasion in services that allow them to “showcase [their] skills as designers” (Gamma #2) and maintain professional recognition, we find that for Beta, Theta and Lambda their dominant value chain extends globally.

*Identifying customers.* As the case firm’s reputation is global, our firms can attract globally. Case firms identify customers normally by scanning public databases or they may get invited into competitions or be invited to build on the back of their global reputation. Because it is global, this market may be intensely competitive whereby the most prestigious building projects can attract hundreds of competition entrants through an open competition format. Our case firms describe criteria for selecting projects possibly based on “what [they] are good at [so that they] are able to get noticed among the crowd and be recognised by competition panels” (Theta #4). There may also be financial considerations in the selection of

competition entries such as the fee structure or the costs involved in accessing a location. It may be a “prestigious or interesting site, or just building, or something that hasn’t been done before” (Beta #3). Reputation earned through existing buildings and awards is particularly important for gaining access to restricted competitions and competition shortlists as well as invitations to participate, which are usually more preferable projects for the case firms to be involved in.

### **Gateway Business Model**

#### **Insert Table 6 about here**

We identify through our mapping of the business models across each firm that where clients are requiring the replication of case firm services internationally, our case firms may not immediately be in a position to address those needs. This may be because they have no reputation in the relevant network and clients therefore have no signal about quality to trust the case firm, or it may be because the case firms are unwilling to commit sufficient resources on the ground to replicate their value chain because they have not gained sufficient market knowledge. We find evidence of firms using ‘gateway’ business models to facilitate entry into international networks (Table 6). These are either market based or service based.

***Based on market.*** Some clients, in particular those based in less mature markets, may want an ‘international architect’ and thus a “portfolio of international credibility” (Gamma #1) is critical for case firms to demonstrate. One interesting insight from our findings is the status accorded to experience in specific locations in terms of enhancing the ability to win business. London was of particular importance and numerous firms use London not only as a source of direct business opportunity, but also as a “showcase of our skills as designers” (Gamma #2).

*Based on service.* Similarly, firms often engage in a ‘top down’ approach whereby they start by offering earlier phase work such as masterplanning and feasibility studies which are internationally transferrable and have the potential to facilitate early entry into building projects. At the same time they can be delivered from a centralized governance structure, thus lower resource intensive.

*Identifying customers.* Gateway services target two groups of customers. Firstly, the direct beneficiaries of the service in each local market and secondly, potential clients in other local networks seeking reputation signals about quality from services delivered in high status locations such as London.

#### **Client Following**

##### **Insert Table 7 about here**

Following a client to an international market is as expected a common catalyst for internationalization among our case firms and requires that firms replicate their value chain in each new market to deliver services ‘on the ground’ (Table 7). This is often the case where key clients in the home market are engaging in business internationally and request the services of their architect to follow them, but it is also evident in international markets where relationships are formed for example in the case of Epsilon "basically it was a big international client from [CEE-6] that caused our entry into [CEE-8]" (Epsilon #1).

*Identifying customers.* Our case firms are addressing unfulfilled needs from existing customers whereby they have an already established reputation within the limited client global or international network. Clients have a need for their case firms to follow them internationally either because they need someone “to hold their hand and say this is what we are trying to achieve and maybe the local architects don’t know where they are coming from” (Alpha #1) or possibly because the customers of the client are from their country of origin and the case firm can deliver “what people expect” (Alpha #1). Case firms perceive value from

client following for two reasons. Firstly, it is an opportunity to grow an existing client relationship and extend profit internationally but also the case firm can use the opportunity as “the anchor [in the international market] because otherwise it would have been quite a big step for the [case firm] to actually set up an office and go into a location cold like that” (Epsilon #3).

### **Hybrid Business Model**

**Insert Table 8 about here.**

The final combination of internationalization processes are described as a hybrid between business model replication and business model extension (Table 8). The Hybrid Business Model relates to case firms active in specialised global markets. They provide a replicable service but to new and existing customers within a global network. We found that Kappa and Epsilon adopt this business model to deliver complex technical projects on a global scale. While not delivering artistic high profile services across each project, their skills at delivery are rare and “there are very few companies .... that have the capacity to do this” (Kappa #2). These firms may need to reinvent their value chain in each market to deliver buildings but only on a project specific basis.

*Identifying customers.* This business model meets unmet needs from existing customers or addresses new needs from new customers, all of whom are known to the case firms. Opportunities are through “word of mouth, track record and go and talk to the right people” (Kappa #2). Customers require a firm that can understand things from their background, “that can speak their language” (Kappa #2). These clients can be very much influenced by each other and case firms have a global niche market reputation across the network. For Epsilon their opportunities relate to building specialised sports facilities across various international locations whereby following the completion of a project in [AM-3], “ we

are being told now that the president of the [sporting association] wants to show what [AM-3] are doing as an example to other .. clubs [globally] that are wondering what can be done” (Epsilon #3).

The following section highlights the exciting new insights emanating from our findings that make important theoretical contributions to both international business and business model portfolio literature by explaining gaps in our understanding of how creative PSFs internationalize.

## **DISCUSSION**

This study develops our understanding of how creative PSFs internationalize by exploring through the identification of business models the internationalization processes of architecture firms. We now discuss our findings in relation to the two theoretical gaps set out earlier in this paper, namely identifying the heterogeneous paths of creative PSF internationalization and identifying how particular uncertainties relating to the creative PSFs distinctive client interaction process and its locally embedded service characteristics influence the process (Figure 1). Our findings add important theoretical insights both to international business theory and the business model literature.

### **Exploring Heterogeneity in the Internationalization Process**

Contrary to traditional explanations suggesting a homogenous approach to internationalization, the business model approach to our study adds to IB theory by showing how creative PSFs adopt multiple groups of internationalization processes both within firms themselves and within the sector that are often path dependent. While our initial intuition expected that the dichotomy in the creative PSF (Canavan et al., 2013) depending on whether the firm displays more artistic or portfolio replication competencies may influence different

dominant internationalization paths, our findings demonstrate that internationalization is surprisingly even more complex than we initially expected reflected in the interplay of the five business models identified (Table 9).

We found that business models are adopted dependent on either the existing reputation of the firm in terms of what it is known for (Lange et al., 2011) which influences how the firm identifies customers in a network market (Johanson and Vahlne, 2009) or the desired governing structure required to deliver a service whether involving replication of the value chain in each market or extension of a centralized value chain.

This novel design of adopting a business model portfolio approach to explaining the internationalization process of the creative PSF demonstrates that firms can follow elements of the traditional path dependent process of learning influencing commitment within a network market (Johanson and Vahlne, 2009) described in the incremental framework. This is particularly evident where firms adopt a gateway model providing services into an international market as a way of establishing reputation without the need for costly replication of the value chain until uncertainties are adequately addressed and suitable opportunities arise. However because the services of the creative PSF are culturally and institutionally embedded (Faulconbridge, 2008, Faulconbridge and Muzio, 2012, Jeffcut, 2009), services possible through this model are highly restricted to early conceptual and design work. Importantly, creative PSFs ultimately need to demonstrate local knowhow (Brock and Alon, 2009) and specialized connections (Segal-Horn and Dean, 2007) when working in local network environments. Firms that have replication competencies need to be on the ground and visible to their clients developing their reputation locally.

Correspondingly where a firm has a global reputation it is focussing mainly on specific projects rather than individual markets. If a good global reputation is established architecture firms for example get invited into closed and restricted competition processes that

prioritize artistic and design competencies above efficient project delivery. They are also able to align with other high status global consultants that create new opportunities. Our study shows that the ability of the firm to create novel solutions is supported by centralized resources and competencies at the organizational level with interaction mostly within the internal environment (Csikszentmalyi, 1990). Appealingly this internationalization process has features of the born global phenomenon (Knight and Cavusgil, 1996) whereby firms have little distinction between doing business domestically or globally. They don't need to re-invent their value chain. We show however that a distinguishing feature of creative PSFs is that the service is locally embedded (Faulconbridge, 2008) and internationalization is not dedicated and rapid (McKinsey&Co, 1993) or facilitated by new technology (Knight and Cavusgil, 1996). In essence internationalization is not the 'culture free' knowledge intensive service that born global describes nor driven by experience and pre-existing relationships that new venture theory describes (Oviatt and McDougall, 1994). We demonstrate that the internationalization processes defined by business model extension is about the global certification of art which is 'culture laden' and IB process theory is unclear about explaining this fundamental feature of creative PSF internationalisation.

For the creative PSF however, interestingly the business model portfolio is even more complex. We show that some firms have multiple specialisms which may also include competing in globalised niche markets based on a network dependent (Lin et al., 2009, Podolny, 1993) reputation. This could be for example designing specialized pharmaceutical buildings that are highly technical although have a low level of artistic novelty. This internationalization process is defined by the hybrid business model which combines the project based nature of the service similar to business model extension with the focus on delivering an efficient service similar to business model replication.

Another common internationalization pattern is client following. It is well recognized in the literature that firms often follow clients to international markets (Freeman et al., 2006) and this can be defined as another form of hybrid business model. The firm is commonly required to replicate its value chain locally but on a project basis to deliver services to an existing client. The creative PSF's reputation is certified within the key client network globally rather than the targeted geographic market.

### **International Uncertainty in the Business Model Portfolio**

International risk is normally considered in the context of overcoming uncertainties (Johanson and Vahlne, 2009) and decision making (Andersen, 1993). Business model portfolios help to balance uncertainties (Sabatier et al., 2010). Through our novel approach of combining insights relating to IB processes and business model portfolios we are able to contribute new insight into understanding uncertainty in business model portfolios relating to the internationalization process (Figure 1). Surprisingly we are also able to provide an important insight into IB relating to uncertainties in the internationalisation process connected to reputation dependent sectors. IB suggests that uncertainty in internationalization is mainly associated with being a network outsider (Johanson and Vahlne, 2009) or the potential for the loss of resources committed to markets. However, in reputation dependent sectors such as creative PSFs the network dictates 'who knows?' if quality is not delivered. Our study demonstrates differences between 'who knows?' within the business models. Interestingly as reputation is network dependent, firms that internationalize by business model replication need to manage their reputation within multiple local networks. Despite the need to decentralize governance creating greater resource commitment associated with value chain replication, reputation uncertainty is relatively low when compared to firms internationalizing through business model extension.



Relating to business model extension, our findings show that firms active in a global network are never network ‘outsiders’ and do not need to adapt to each new market and commit resources associated with reinventing the value chain, however if they do not deliver on quality everybody knows. This insight relating to network reputation is counterintuitive compared to traditional insights relating to uncertainty in the IB process and is important and very relevant to understanding creative PSF internationalization given that it is a reputation dependent sector.

**Insert Figure 1 about here**

## **MANAGERIAL IMPLICATIONS**

While our research may trigger issues for managers outside of the PSF sector, this study has direct implications for creative PSFs facing firm internationalization in a growingly complex and volatile international environment. It encourages managers to adopt business model thinking into their strategy making processes. The study shows that focussing only on the uncertainty associated with outsidership from a relevant network or the potential for the loss of resources is not sufficient for creative PSFs. It also shows that managers also need to consider the risks of delocalisation as well as localisation not only relating to resources but also reputation.

## **LIMITATIONS**

Limitations relate to the usual caveats applying to case study research in a specific context and conceptual generalisation through our proposed model. Replication of findings in other contexts could be studied to improve transferability across different sectors and contexts.

## **CONCLUSION**

Building on international business theory through a business model approach, our study provides key insights into how creative PSFs internationalize which complements and detail our existing knowledge. Our exploration of an unusual and heterogeneous context and our framework identifying business models for creative PSF internationalization represents a significant step towards understanding research gaps in the field. We also extend insight on business models, in particular the literature on business model portfolios by adopting the approach to explain the internationalization process and its associated uncertainties.

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**Table 1: Description of Sample Firms and Case Data**

	<b>Years since establishment</b>	<b>Employee Nos.</b>	<b>Peer Identity</b>	<b>International Locations</b>	<b>Internal Informants</b>
Alpha	30+	50+	Commercial	8 (AA-2; AM-1; CEE-3; MENA-1; WE-1)	5
Beta	30+	25+	Design	4 (AM-1; WE-3)	3
Gamma	20+	100+	Commercial	22 (5-AA; 2-AM; 6- CEE; 8-MENA; 1- WE)	3
Delta	10+	25+	Commercial	3 (MENA-2; WE-1)	2
Epsilon	30+	20+	Design	18 (AA-3; AM-3; CEE-7; WE-5)	4
Kappa	100+	100+	Commercial	13 (AA-3; CEE-2; MENA-3; WE-5)	4
Zeta	100+	50+	Commercial	12 (AA-3; CEE-2; MENA-5; WE-2)	3
Theta	20+	25+	Design	10 (AA-2; AM-1; MENA-3; WE-4)	4
Iota	10+	20+	Design	4 (MENA-1; WE-3)	3
Lambda	30+	15+	Design	5 (AM-1; WE -5)	4

**Table 2: Progression of Theme Building**

Empirical Observations	Second Order Codes
Desktop researching of market. Visiting 'on the ground'. Using introducers.	Identifying new customers in each market.
Scanning public databases. Invitations from professional sources.	Identifying new customers globally.
Invitations from client.	Identifying unsatisfied needs from existing customers.
Competing with solutions based on efficiency. Competing with solutions based on low cost. Competing with solutions based on 'international expertise'.	Proposing locally valued solutions.
Competing with novel solutions.	Proposing solutions that enhance global status of client.
Developing efficient solution.	Developing international solution.
Decentralizing teams.	Decentralizing governance.
Centralizing teams.	Centralizing governance.
Decentralizing project specific teams.	Hybrid governance.
Managing revenue from multiple networks.	Localizing monetization opportunities.
Managing single revenue stream.	International monetization opportunities.
Managing revenue from global network.	Global monetization opportunities.



**Table 3: Data Structure**

Second Order Codes	Aggregate Dimensions
Identifying new customers or unsatisfied needs in each market. Proposing locally valued solutions. Localizing monetization opportunities. Decentralizing governance.	Business Model Replication
Identifying new customers globally. Proposing globally valued solutions. Global monetization opportunities. Centralizing governance.	Business Model Extension
Identifying new customers in each market. Proposing locally valued solutions. Localizing monetization opportunities. Centralizing governance.	Gateway Business Model
Identifying unsatisfied needs from existing customers. Developing international solution. Internationalizing monetization opportunities. Hybrid governance.	Client Following
Identifying new customers or unsatisfied needs within specialised global network. Proposing solution valued by specialised global network. Globalizing monetization opportunities. Hybrid governance.	Hybrid Business Model

Dimension	Illustrative Quotations
Identifying new customers or unsatisfied needs in each market	"[Iota is focussing on] looking out for new work internationally and building the partnership with [international alliance group] (Iota #3)
Proposing locally valued solutions	"its all international work in the sense that we can use an international, American or [home country] approach to projects" (Kappa #2)
Localizing monetization opportunities	"I've always perceived that the work you have done kind of determines the work you are going to get." (Iota #2)
Decentralizing governance	"there were people over there on the ground, they had set up an office" (Gamma #2)

Table 5 Illustrative Evidence: Business Model Extension	
Dimension	Illustrative Quotations
Identifying new customers globally	“Generally what happens is that ...one of our administrators here she would get a mailshot and she would trawl through a number of different sites” (Theta #1)
Proposing globally valued solutions	“it very much reflects what their client believes their market is ... you see them in all the James Bond movies” (Epsilon #2)
Global monetization opportunities	“Reputation comes from the building and the building comes from the reputation.... Well I suppose the reputation comes first and then people take an interest in the building.” (Beta #3)
Centralizing governance	“Everything is run from this office.” (Lambda #1)

Table 6 Illustrative Evidence: Gateway Business Model	
Dimension	Illustrative Quotations
Identifying new customers in each market	“We do a lot of peer reviews, say like we say that your project isn’t efficient enough you could do it better” (Gamma #1)
Proposing locally valued solutions	“we came in as retail designer consultants” (Delta #2)
Localizing monetization opportunities	“Well [Directors] are part of the concept design. But most of the design is realised over here. But again, I would think that at some stage it has to come that [WE-1] does its own work in [WE-1] and then gets assistance from here. (Alpha #3)
Centralizing governance	“I would not always recommend not travelling somewhere but it’s a long way away. But [masterplanning] travels very well internationally” (Gamma #1)

Table 7 Illustrative Evidence: Client Following	
Dimension	Illustrative Quotations
Identifying unsatisfied needs from existing customers.	“we were following [home country] clients” (Epsilon #1)
Developing international solution	“[the client] had an architect in [CEE-8] and they wanted to bring in someone who understood the way they worked and could help to bring all that together” (Epsilon #3)
Internationalizing monetization opportunities	“the owner [of the building in AM-9] is a friend of mine and we have known each other for years and I do a lot of things for him and his family” (Lambda #1)
Hybrid governance	“[the client] felt that we needed a presence over there and actually we set up a branch office” (Zeta #2)

Table 8 Illustrative Evidence: Hybrid Business Model (Niche Global)	
Dimension	Illustrative Quotations
Identifying new customers or unsatisfied needs within specialised global network.	“even now there are very few companies in [WE-28] who have the capacity to do this, so therefore [the client] will recommend you to somebody else because [they] know this stuff is good. So I got another potential project in the [WE-30]” (Kappa #2)
Proposing solution valued by specialised global network.	“it’s sort of a romantic thing .... That got a lot of publicity, and anecdotally we are being told now that the president of the [sporting organization] wants to show [the building] as an example to other [sporting organization’s internationally] that are wondering what can be done” (Epsilon #2)
Globalizing monetization Opportunities.	“there is one real rule for reputation. You are as good as your last job....we now have several clients as we were seen to be doing a good job for the first one.” (Kappa #1)
Hybrid governance.	“sometimes you need to see people, but generally we can use technology to do that” (Epsilon #4)

**Table 9: Business Model Portfolio Comparison**

	Customer Identification	Value Proposition	Monetization	Governance
Business Model Extension	Existing Network	Extension/Novelty	Global	No Change
Business Model Replication	New Network Market (Adaptation Required)	Replication/Efficiency	Local	Reinvent value chain
Gateway Business Model	New Network Market (Adaptation Required)	Replication/Efficiency	Local	No Change
Client Following	Existing Network	Replication or Novelty	Global	Reinvent value chain
Hybrid Business Model	Existing Network	Replication/Efficiency	Global	No Change

**Figure 1: Business Model Portfolio and Risk for Internationalizing Creative PSFs**

