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Global Service Innovation: A Case Study of Ajisen Ramen*

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Abstract

This study aimed to investigate the mechanism by which service companies transfer their services overseas and create new value while interacting with local characteristics. A narrative analysis method was used in a case study of Ajisen Ramen, a Japanese service company that created a Japanese-style ramen restaurant, which experienced rapid growth in China. This study analyzed the restaurant as global service innovation and constructed a causal mechanism to explain the resulting rapid growth. In the pre-entry stage, the tangible value source core service facilitated its successful overseas transfer. In the post-entry stage, value source core service standardization and value sharing were interrelated and locally accepted factors. Knowledge of the local characteristics influenced the local storefront format that allowed contact with local customers. This local front format made it possible to offer local customers new value. The global service innovation mechanism developed through this study reflects a causal diagram that correlated the theoretical concepts of these events.

Keywords: Service Firm, Internationalization, Global Service Innovation, Value Source Core Service

JEL Classification Codes: F23, M16, M391

1. Introduction

Since the 1990s, policies that deregulated service companies in different countries allowed them to actively internationalize in the same manner as manufacturing companies. Earlier only manufacturing companies were allowed to go international, however, the service sector deregulation has led to changes in market dynamics. Previous research on service company internationalization investigated factors specific to service companies, which differed from manufacturing companies' internationalization factors. However, this research was limited to the pre-entry stage in the internationalization process; few studies have

examined the post-entry stage after service companies entered the country. Therefore, service company internationalization research is incomplete. This study extended the research scope from pre-entry factors to post-entry factors relevant to the period after service companies transfer their services to new countries.

Given the wide variety of service industries, services are difficult to define, and researchers have used subtly different and diverse definitions. However, there is a common understanding that services are value-creating activities (Kondo, 2010). Services that involve an activity are often provided by people and are intangible; additionally, service production and consumption occur simultaneously. These characteristics make it difficult for service companies to expand overseas, for example, because they have no physical form and cannot be exported. The service industry is an industry that produces value is that primarily intangible such as customer service, management, advice, knowledge, design, data, and experiences.

Services are value-creating activities that meet people's needs in the context of a country's social, economic, and cultural environment. Therefore, services and their delivery processes are inseparably linked to a country's social, economic, and cultural background. That is, they have high local characteristics. Transferring services abroad is like moving a factory to a country that is a poor fit because of its different social, economic, and cultural conditions.

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To instill their services in the countries in which they operate, service companies must understand local characteristic reactions, connect with local characteristics and needs, and transform their services accordingly.

This study focused on the overseas transfer of services and the resulting service enterprise internationalization by analyzing the case of Ajisen Ramen. Developed by Shigemitsu Sangyo Co., Ltd., Ajisen Ramen is a general ramen specialty store in Japan that offers a single item, ramen, as its main menu.

Ajisen Ramen implemented their first overseas expansion to Taiwan in 1994, but it failed. In 1998 they expanded to Hong Kong and then to mainland China, and have since achieved great success, with the number of stores in China far exceeding the number of stores in Japan. The success is attributed to establishing a new store format, a Japanese-style ramen restaurant in China that differs from its Japanese store format. The purpose of this study was to clarify the processes that led to establishing the new Ajisen Ramen store format in China and the mechanism underlying its transformation.

2. Literature Review

2.1. Research on Internationalizing Service Companies' Processes

Market research that targets the service industry has focused on extracting service characteristics and identifying what services offer. Elucidating the unique management issues arising from service companies' characteristics, such as intangibility, simultaneous production and consumption, heterogeneity, and extinction, has established unique research areas that differ from product research (Berry, 1980; Bateson, 1979; Blois, 1974; Rathmell, 1966; Lovelock, 1981). After that, many studies on the service quality model and service innovation have been conducted (Fujikawa & Carl, 2006; Lee, 2017; Lestari & Laode, 2018; Parasurman et al., 1988). Similarly, internationalizing service firms create unique issues (Dahringer, 1991; Nicoulaud, 1986). Consequently, research efforts have focused on identifying the unique internationalization factors that distinguish service companies' internationalization process from manufacturing companies' internationalization process.

The first factor involves the motives for overseas expansion in the internationalization process. The client-following factor is the most distinguishing factor in service companies' entry motivation because it is rarely seen in manufacturing (Bell 1995; Erramilli 1990; O'Farrell et al., 1996; Patterson et al., 1999; Weinstein, 1977). For example, Bell (1995) stated that service companies who have expanded overseas, identified requests from existing customers, inquiries from overseas, and unsolicited orders

as motivating factors for overseas expansion. Besides, Fernandez and Fernandez (2001) reported that service companies follow existing overseas customers to secure a competitive advantage. However, studies have also shown that companies expanded overseas by following a shift in market-seeking that targets local customers (Li & Guisinger, 1992).

The next process involves selecting a market to enter. Previous researched showed that motivational factors influence service company market selection. For example, Bell (1995) found that customer locations and potential niche markets have a more significant impact on service companies' choice of entry country than the psychological and geographic factors commonly used by manufacturing companies. Thus, network partners' existence and existing customers' locations influence the entry country choice (Bell, 1995; Coviello & Martin, 1999). Conversely, other studies have attempted to adapt manufacturing companies' internationalization theories to service firms (Boddewyn et al., 1986; Terpstra & Yu, 1988); however, industry type often influenced manufacturing companies' selection of the entry country. There is no general agreement on this because a variety of factors influence comparisons between manufacturing and service internationalization.

Finally, previous research examined how companies enter new countries (Agarwal & Ramaswami, 1992; Cicic et al., 1999; Ekeledo & Sivakumar, 1998; Erramilli, 1990; Erramilli & Rao, 1993; Choi & Kim, 2020; Peinado & Barber, 2007). Erramilli (1990) focused on the service industry's different characteristics and divided them into "hard service" and "soft service." Hard services provided a visible physical form of service that can be directly exported overseas. For example, software and design services can be exported as entry modes because the production stage and consumption stage are separated, as in the case of manufactured products. In contrast, soft services cannot be visibly embodied because production and consumption occur simultaneously. For example, service companies provide healthcare, fast food, etc., directly to customers where it is simultaneously consumed, so overseas entry mode expansion requires franchising and direct foreign investment.

Vandermerwe and Chadwick (1991) categorized service industries into six groups within two dimensions: the relative involvement of goods and the degree of consumer/producer interaction. Traditionally, each grouped service industry has its entry methods, such as export, franchising, and direct investment, which are determined by its service characteristics. However, the authors pointed out that advances in information technology have shortened the time and space distances, making it possible to strategically select and implement various entry modes in addition to the traditional entry modes.

2.2. Existing Research Limitations and Positioning

Clearly, the existing studies are important to our understanding of the service internationalization phenomenon. They focused on motivation, market selection, and entry mode research during the entry stage; that is, the decision-making process for why, where, and how to expand overseas (Mukoyama, 1996). However, this research is limited to the pre-entry stage in the internationalization process. Theoretical research has not sufficiently examined service companies' advanced internationalization.

The gap between theory and reality in service enterprise internationalization is large, and theoretical development is still in the early stages. Bridging the gap between theory and reality requires developing an original theory of service firms' internationalization. To take the next step in theoretical development, research on service firms must extend its scope to investigate the post-entry stage.

It is necessary to consider what service firms internationalize, the unique problems service firms face after entering new markets, and how to overcome those problems. This study developed an original theory by examining the dynamics of service firms' overseas service transfer activities from the stage before entry to after entry.

3. Research Methods and Materials

3.1. Narrative Analysis Methodology

This study employed a narrative analysis methodology, which captures how an event results from a case analysis target (Tamura, 2016). The event results in this study included important business achievements, such as success, failure, and rapid sales of new products. Narrative analysis refers to a cluster of analytic methods for interpreting texts or visual data that have a story form. The narrative analysis examines events up to the resulting event, where the event is a theoretical concept composed of the material incidents. Incidents are things that happen from time to time in the real world of business that are arranged in the order they occurred and are not interrelated. Knowledge of the incident's occurrence is limited to people's perceptual experience, and each incident has no meaning to management. It is recognized as one event by comprehensively understanding and interpreting related cases. The narrative analysis employs theoretical concepts to translate incidents into events. In that sense, events are a theoretical concept.

In the narrative analysis, an event is a unit of analysis because it allows exploration of management dynamics. In statistical analysis, movement is captured by a particular set of variables. When a specific point in time or location changes management dynamics, new variables appear, and previously influential variables no longer have an effect.

Conversely, events constitute an integrated concept of events by combining incidents that occurred in different spaces and times in business results. Thus, the narrative analysis explores the logic from the beginning to the end of a story, repeating this conceptual manipulation of events. This logic is constructed as a causal diagram in which one causative event results in the other.

While historical analysis investigates time-series events described individually and concretely by proper nouns, narrative analysis analyzes events in a single case while generalizing them with theoretical concepts as much as possible. As long as management dynamics appear as single case dynamics, narrative analysis can be empirically grasped and theorized.

3.2. Case Analysis Method

The purpose of this study was to identify how Ajisen Ramen built a new local store format encompassing a Japanese-style ramen restaurant in China. The Japanese-style ramen restaurant's event is the endpoint of the story analysis and is called the "service global innovation" for three reasons. First, Ajisen Ramen offered a new value that had never been seen in China by building a Japanese-style ramen restaurant. Second, the Japanese-style ramen restaurant became a standard store format in China, which significantly contributed to the Ajisen Ramen chain's rapid growth. Third, the spread of Ajisen Ramen's Japanese-style tonkotsu ramen played a pioneering role in expanding Japanese ramen chain stores based on tonkotsu soup in China (Fujioka, 2017).

Since its inception, Ajisen Ramen has made significant headway into the Chinese market, especially in the metropolis of Shanghai, where it has numerous locations. The opening of Ajisen Ramen's first store in Shanghai was significant for the China expansion because the first store in Shanghai became a standard restaurant type that facilitated Ajisen Ramen's rapid growth in China. This study assigned the first Shanghai store as the endpoint of the service global innovation story analysis. The study started with the result of establishing a Japanese-style ramen restaurant and retroactively explored the events that led up to it. The study referred to the causal mechanism between events leading up to the resulting event as the "service global innovation mechanism."

Global service innovation is influenced by the overseas transfer of service companies' service activities, which begins with the services offered in the home country and mechanisms for transferring them to the entry country. To implement service global innovation in the entry country, it is necessary to adapt and transform not only the company's innovation but also the reaction of the different social, economic, and cultural market characteristics of the new country. Service companies' "service overseas transfer

activity” can influence global service innovation. The global service innovation mechanism is clarified by analyzing the events in Ajisen Ramen’s service transfer activities.

The data was collected through semi-structured interviews conducted with the president of the Japanese headquarters and local representatives of Ajisen Ramen in Hong Kong and Shanghai. The interview included open-ended questions about the overseas transfer of services in the first expansion into Taiwan and then into Hong Kong and Shanghai. We sought various information sources, which is a merit of case studies, and ensured that the facts were correct by reviewing related books (Shigemitsu, 2010), newspaper articles, research materials, etc. Using triangulation (Yin, 1994), we avoided misinterpreting the observed actions’ and interactions’ meaning within the study’s specific context.

3.3. Case Study

3.3.1. Ajisen Ramen as a Specialty Store

Ajisen Ramen was first established in 1968 in Kumamoto Prefecture, located in Kyushu, Japan. Tonkotsu ramen based on pork bone soup is typical of the Kyushu area, and the Ajisen Ramen chain stores are centered on tonkotsu ramen. Japanese ramen shops develop original flavored ramen to differentiate them from other shops, and customers visit specific ramen shops in search of their original taste. Original ramen is the only main dish served in these shops, which offered side menus limited to fried rice and dumplings. Therefore, they are called ramen specialty stores.

Ajisen Ramen’s original ramen was established by developing a chain shortly after the opening of the first store, in response to the taste’s reputation. However, when they had opened about ten stores, each store’s taste varied, as such, this was a fatal event that caused business performance to deteriorate. The Ajisen Ramen founder, who specialized in chemistry, worked for two years to re-establish the original taste at all stores.

After that, the company developed a full-scale chain, and as of 2020, had 74 stores in Japan, most in Kyushu. Since expanding overseas for the first time in 1994, it has developed 711 stores in China and 74 stores in 14 other countries. The number of overseas stores far exceeds the number of domestic stores, demonstrating that Ajisen Ramen achieved great success overseas.

3.3.2. Taiwan Expansion Failure

Ajisen Ramen’s first attempt to expand overseas was in Taiwan. In 1994, the first overseas store was opened in Taipei, triggered by a Taiwanese noodle manufacturer’s news of the store. The first Taipei store seemed to be doing well, but a few months later, fewer customers were visiting the store. Ajisen Ramen Japan describes the cause as follows.

There is a basic taste base. It is a good balance of oil, umami, and salt. For example, if the salt is lowered or the oil is removed, the balance of taste is lost. The balance of taste, that is, the taste is made up of several things. If you change the things that make up the taste, it will not be delicious. In Taiwan, “What? This taste,” Ajisen, is not delicious because the taste has collapsed. That is what happened.

Local partners modified the noodle firmness to fit the Taiwanese preference for soft noodles and the soup taste was slightly changed to suit Taiwanese taste preference (Shigemitsu, 2010). As a result, the balance of taste was lost, and the ramen was no longer delicious. Although the service expanded to 12 stores throughout Taiwan, the company withdrew from Taiwan in 1998.

3.3.3. Hong Kong Expansion

A turning point came in 1995 while the company was still struggling in Taiwan. A Hong Kong entrepreneur contacted Ajisen Ramen about developing shops in Hong Kong. Based on the lessons learned from the Taiwan failure, Ajisen Ramen adhered to the policy of making its own pork bone soup, seasonings, and noodles so that the Hong Kong product tasted exactly the same as the Japanese product. Raw noodles could not be sent directly from Japan to Hong Kong, so another local partner produced noodles in Shenzhen, China, with noodle-making machines and ingredients sent from Japan. This secured the traditional pork bone soup, seasonings, and noodle taste, allowing the Hong Kong stores to offer the original taste of Ajisen Ramen. Regarding securing the taste and stores, Ajisen Ramen stated:

The Japanese side has not said anything about the operation of the store. As long as the store has tonkotsu ramen, even if the store is entirely different from Japan, there is no problem if Hong Kong’s people receive Ajisen Ramen. Acceptance is proof that customers value Ajisen Ramen in the area.

Ajisen Ramen preserved the original ramen’s taste and adapted the stores to the local situation. Tonkotsu ramen, based on pork bone soup made by ramen chefs, was accepted as Japanese-style ramen not found in China. Soy sauce ramen is the most popular ramen in Japan and soy sauce ramen also exists in China and has a familiar taste. Therefore, tonkotsu ramen was recognized as new ramen that was accepted in Guangzhou, the southern region of China, largely because of Paitan, a soup made from chicken and cooked for a long time. In China, Paitan has long been recognized as a healthy luxury product (Fujioka, 2017).

After securing Ajisen Ramen’s original taste, store building began in earnest. Ajisen Ramen chose a prime location in downtown Hong Kong as its first Hong Kong store. Although the rent was high, the area was small.

Therefore, increasing the turnover rate to secure profits was the main issue. However, the solution to this problem was possible to some extent because of circumstances unique to Hong Kong. Regarding this, Ajisen Ramen stated:

In Hong Kong, the rent is high. Besides, because it is difficult to get a large place, we have to make the kitchen as small as possible and increase the number of seats. To do so, we have to increase the number of seats. However, the size of the table is small in Hong Kong. In Japan, the width of one person is about 55 to 60 cm, but in Hong Kong, it is only 50 cm. It is only 1 m for a two-person table. However, it is natural for Hong Kong people to eat in a small space.

In this way, creating a store suitable for the Hong Kong market was completed, and the first Hong Kong store opened in 1996. The interior of the first store was devised to appeal to Japan's image and the menu was almost the same as the Japanese ramen specialty store centered on tonkotsu ramen.

While the first Hong Kong store proceeded smoothly, the second, which opened in July 1997, had a significant menu change. Instead of ramen as the sole main menu item, as in Japanese ramen stores, other Japanese dishes, such as tempura and sashimi, were added at the request of locals. Ajisen Ramen stated:

Customers who visit the store pay a service charge and demand a certain amount of value from the store, rather than finishing the meal immediately. Customers eat in groups rather than eating staple foods and side dishes alone. From at least two people. When I go to a restaurant, the number of people who eat alone has increased recently, but they usually go to the food court as a group, even for lunch. 4 or 5 people together. We have increased the side dish menu from this cultural background. I did not do it in Japan. Therefore, I decided to increase the number of Japanese side dishes rather than Chinese food. So, we added grilled fish, fried food, salad, etc., to the menu.

Ajisen Ramen also made different varieties of ramen available, adding toppings that their Hong Kong patrons liked. Also, increasing the number of side menus was influenced by food culture and had a positive economic effect on the shop side as well. Ajisen Ramen stated:

Hong Kong customers often ordered a few side menus in addition to ramen. As a result, the Hong Kong store's ramen price was set at HK \$30 as initially planned, but because we added the side menu, customers have ordered 2–3 side menus that cost HK \$20–30. The average customer price has increased 2–3 times (Shigemitsu, 2010, p. 102).

As a Japanese ramen restaurant, selling only ramen is not profitable in Hong Kong, given the high rents and small

stores. Therefore, they created a business model suitable for the local area by responding to Hong Kong's economic and cultural conditions.

3.3.4. Mainland China Expansion

As Ajisen Ramen gradually moved into the Hong Kong axis, it began to expand into mainland China. A local partner from China who operated a noodle factory in Shenzhen and supplied noodles to Ajisen Ramen in Hong Kong had expanded into mainland China. Because they were close to the noodle factory and could easily receive support from Hong Kong Ajisen Ramen, they first opened a store in Shenzhen. In 1998, two years after entering Hong Kong, the first store was opened in Shenzhen, mainland China. Similar to Hong Kong, the first store was located in a prime location in the center of Shenzhen, where traffic was conspicuous. Since the first store did well, Ajisen Ramen gradually increased the number of stores and opened stores in the suburbs. However, although Shenzhen was a region of remarkable economic development at that time, income and consumption styles still differed between the suburbs and the central city area. Ajisen Ramen from overseas was not readily accepted in the suburbs, so store development in Shenzhen did not increase as expected.

Ajisen Ramen then decided to speed up store development using Shanghai as a base for full-scale business development in mainland China. The location of the first store in Shanghai was a four-story property on the second-most crowded street in Shanghai. As usual, the strategy was to place the store in the city center. The available space in Shanghai was remarkable compared to Hong Kong and Japan, in that, it had space for 100 seats on the first and second floors. In responding to the intentions of the local partner, Ajisen Ramen stated:

Large restaurants are more prosperous in China. Small restaurants are not profitable, and people do not come to them because they think the food is not delicious (Shigemitsu, 2010).

In Hong Kong, it was common to eat in a small space, but people in mainland China had a different perception, so it became a big store. The signboard and interior of the store were also changed to red letters on a black background and a black interior because Chinese people felt that was more luxurious and high status. However, a picture of sumo wrestling and a picture of old ramen and Japanese food was displayed on the wall to create a Japanese atmosphere.

Many single customers visit ramen shops in Japan, so there are counter seats where customers can sit side by side. Since the number of single customers was gradually increasing in big cities such as Shanghai, they developed a

table where a single customer could sit based on group seats. Ajisen Ramen stated:

Some places have counter seats, but customers do not like it very much. Neither Chinese nor Hong Kong people sit at counter seats. This is why one big table is devised. There is a large horizontal table, and one guest can sit, and it is possible for two people, well face-to-face, four people, six people, and so on. If ten people come, they can sit down so that the application will work.

Ajisen Ramen's first Shanghai store was opened in 2000 and was so successful that there was a customer line, so the warehouse on the third floor was renovated to make it even larger. Later Ajisen Ramen stores in China were even larger, with 200–300 seats.

Regarding store employee's customer service level, Ajisen Ramen stated:

I think the essence of service is to catch quickly and provide what customers want. I think there is an excess of what customers do not need. From a Japanese point of view, when Japanese customers now enter a store in China, it is said that the service is not good enough. It is a Japanese feeling. However, when Chinese customers come to Ajisen Ramen in China and want the same service as in Japan, they do not want it at all. If employees take orders, always wipe the table, bring tea, and pour out the tea, Chinese customers do not want to go any further. We are not able to provide the services that Japanese customers want, but Chinese customers do not want such high service. That is why we do not need high-level service. Japan is now too polite. No matter where you go, the service is excellent.

In this way, a store format different from Hong Kong was developed for mainland China, where stores were transformed into a Chinese-style ramen restaurant that offers store design, original ramen, a variety of Japanese cuisine, and a level of service tailored to China's economic and cultural context. This Chinese-style ramen restaurant was reborn as a distinctly new value from a Japanese ramen specialty store that offered only original flavored ramen. There was no Chinese ramen restaurant in Japan, and it was accepted as a completely new restaurant in China. This first Shanghai store was established as a standard Chinese ramen restaurant, and Ajisen Ramen immediately began to expand nationwide.

4. Results and Discussion

4.1. Value Source Core Service Tangibility

Ajisen Ramen expanded its original pork bone soup, seasonings, and noodles overseas using the elements

that determined the original Ajisen Ramen taste and also differentiated it from competing stores. The company guaranteed the high-quality taste that was developed over many years by the founder, a ramen craftsman. Ajisen Ramen is a type of ramen specialty store that mainly offers original ramen. Japanese customers eat ramen like fast food at the ramen specialty store and leave the store immediately.

Usually, at a ramen store, a chef, or ramen craftsman receives an order from a customer and makes ramen as a service activity. Ajisen Ramen produced and made tangible the chef's activities at the factory. By providing stores with the tonkotsu soup, seasonings, and noodles produced in advance at the factory, only a small amount of processing was needed at the store, which allowed stores to provide tonkotsu ramen with a stable original taste. This facilitated the development of chain stores in Japan. This study referred to services that create value provided by the company, such as Ajisen Ramen's original pork bone soup, seasonings, and noodle making activities, as "value source core services". Embedding that in the physical form of the value source core, service is called "tangibilization of value source core service."

The concept of value source core service includes company-specific characteristics because it differentiates from other companies and service quality. This value source core service is different from the core service referred to in conventional service marketing theory. Core services are responsible for the core functions of their service products (Kondo, 2010). For example, an airline's core service safely transports people from airport to airport on time. Transport is the core service that customers are willing to pay for and consume. This core service concept does not have the characteristics of specific company differentiation and service quality.

Tangible "value source core services" facilitate the transfer of discriminatory and quality services to the company. In other words, as Emilli (1990) asserted, hard services are easier to transfer overseas. Besides, tangible "value source core services" allow the development of chain stores in entry countries. However, there are problems associated with transferring "value source core services". After transferring "value source core services" to a new country, the issue of interacting with the area's local characteristics remains.

4.2. Share Value of Value Source Core Service

Ajisen Ramen's first overseas expansion was in Taiwan, where it brought Japan's original pork bone soup, seasonings, and noodles to the Taiwanese people. However, the local partner in Taiwan modified the taste to suit Taiwanese preferences. This is referred to as localization of the taste. However, localization destroyed the original taste and Ajisen

Ramen quality was lost. In other words, the characteristics of the value source core service were lost, and the value provided by Ajisen Ramen decreased, leading to poor performance in Taiwan and eventual failure.

In the Hong Kong expansion, Ajisen Ramen's value source core service from Japan was standardized. However, whether Hong Kong customers would accept standardization of "value source core services" was unknown. The original Ajisen Ramen was accepted because of the pork bone soup. Chinese people have an image of pork bone soup as a healthy and high-class dish, and value source core service was accepted in China in a different sense from its acceptance in Japan. Under the local food culture's consumption context, the new value was added by changing the relationship between the "value source core services" brought in from overseas and the local consumers. By changing the relationship between the value source core service and the customer, the value source core service shared the value of the new country's customers. By responding in this way to the value sharing reaction from local consumers, Ajisen Ramen's value source core service in Hong Kong and China was accepted.

However, although the value of pork bone ramen was shared in China, it was still accepted as a Japanese dish. Ramen already existed in China, but its flavor was based on soy sauce. Although Ajisen Ramen's product was the same ramen, it differed from the typical Chinese soy sauce ramen, so it was accepted as Japanese-style ramen. While sharing value with Chinese consumers, the "value source core services" still had Japanese-style characteristics. It was positioned as new ramen that had never existed in China. For the "value source core services" to be accepted as a new value in the new country, it is necessary to share value with the local people. This will allow it to be accepted as a new value by retaining the home country's characteristics.

4.3. Front Format Creation Through Local Knowledge

The "value source core service" was an output from the back format as a system that creates value for customers. In the case of Ajisen Ramen, the back format is the activity style related to the production of pork bone soup, seasonings, and noodles at the factory and its overseas transfer. To provide Ajisen Ramen's tonkotsu ramen locally, a store that serves as a point of contact with local customers is required. This store is the front format that has contact with customers. A service company's front format is an activity style, such as service content, physical environment, and service level. It is a place to interact and provide value to customers through these modes of activity. Therefore, the front format is also a customer selection factor.

The first factor is service content. It is necessary to revise the service content to consider the new country's local characteristics. Local customers visiting Ajisen Ramen's first Hong Kong store, which had almost the same front format as a Japanese-style ramen specialty store, wanted a new service menu because they tended to order and share dishes as a group, so they sought dishes other than tonkotsu ramen. Since tonkotsu ramen was accepted as Japanese-style ramen, Ajisen Ramen added Japanese dishes as a side menu; this was easier because offering additional Japanese dishes did not require much ability. They also increased the variety of ramen menus by merely adding toppings for the original tonkotsu ramen.

The next factor is the physical environment. The store was set up in a conspicuous place with much traffic because locals tended to choose stores in downtown areas. In mainland China, Ajisen Ramen developed large stores because the local people believe the taste is delicious when the large stores are thriving. The location and store size reflect the context of local consumption styles that influence store selection. Conversely, in Hong Kong, it is natural for people to eat at a small table, so, Ajisen Ramen narrowed the table size and increased the number of tables. In both China and Hong Kong, the store design was changed to meet local people's expectations. However, since Ajisen Ramen offers Japanese-style ramen and dishes, it also has a Japanese-style interior, which provides the cultural value attached to the "value source core services" home country characteristics.

The final factor is the service level. Ajisen Ramen adjusted the service level to match the level required by the local Chinese people. In Japan, they provided a high level of service to meet the service level required by the Japanese, but the Chinese did not require the same service level. Providing a higher service level than is required does not necessarily enhance the local people's store selection. In this way, each element of the front format is reconstructed according to local cultural and social characteristics. Constructing a new front format led to creating new local value. This study referred to knowledge of the local cultural, social, and economic contexts that influenced reconstruction of the front format as "local knowledge." Reconstructing the front format by incorporating "local knowledge" created new value and improved store efficiency to secure profits under local environmental conditions. In the case of Ajisen Ramen, acquiring local knowledge, such as menu expansion, table size, store size, service level, etc., and fusing it with the front format facilitated store selection, securing customers, and setting unit price per customer. Acquiring local knowledge and fusing it with the front format solves problems that arise when opening stores in new countries.

4.4. Global Service Innovation Mechanism

Figure 1 summarizes the above discussions and conceptualizes the global service innovation mechanisms. In the pre-entry stage, the “value source core service” developed in the home country has the characteristics of the firm’s discriminatory advantage and the quality of the core services. Therefore, the most important factor in transferring services overseas is the company-specific “value source core service”. The transfer is an intangible activity. Embedding the “value source core service” in a tangible factor facilitates physically transferring a service overseas.

In the post-entry stage, tangible company-specific “value source core services” played a role; however, localizing “value source core services” after entry can reduce the discriminatory advantages and service quality. Therefore, it is necessary to standardize the “value source core services” in the back format of the new country. Next, standardized “value source core services” need to be accepted by local customers. This is facilitated by sharing value as a new value by changing the relationship between the “value source core service” and the local customer through interacting with local customers in the front format.

Although the “value source core service” shares value with local customers, it retains the home country’s characteristics. The “value source core service” creates cultural value and influences the Japanese interior of the front format, which, faced by the consumer market, is also influenced by local cultural, economic, and social characteristics. New front formats are created by acquiring local knowledge about customer needs, considering the physical environment, and adjusting service levels to meet local characteristics. Local knowledge improves store efficiency and solves problems created by the local market environment. In this way, a new local front format can create new value in the entry countries, making global service innovation feasible.

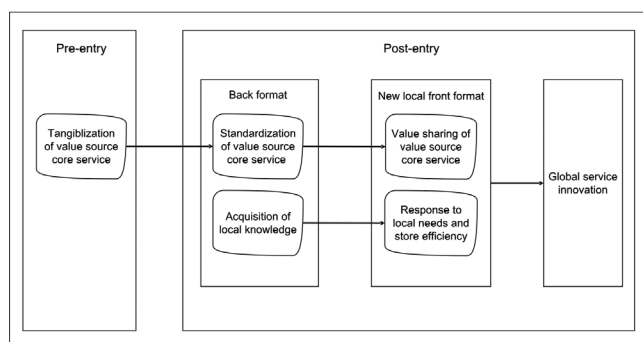


Figure 1: Global Service Innovation Mechanism

5. Conclusions

This study clarified the service global innovation mechanism through a narrative analysis of Ajisen Ramen, a Japanese restaurant service company.

5.1. Theoretical Implications

The study has three theoretical implications. The first highlights the possibility of overseas transfer of services - an “intangible activity”. Service marketing theory holds that services are physically intangible activities, making it difficult to move them overseas. Therefore, previous internationalization research does not address the issue of overseas services transfer. The findings suggest that services can be transferred overseas by embedding them in physical objects. It is essential to render “value source core services” tangible to facilitate overseas transfer because the “value source core service” is a company-specific concept that has a discriminatory advantage alongside the quality of the core service.

Second, this study’s findings suggest that a home country’s standardized services may be accepted locally. In international marketing theory, which contains long-standing discussions on standardization and adaptation, the aspect of adaptation alone has been emphasized as a method of responding to local needs. However, suppose the relationship between the standardized “value source core service”, which has a discriminatory advantage in the home country, and the local customer can be changed, this would make it possible to share value with local customers without adapting. For instance, the general Japanese tonkotsu ramen could be transformed into service through the characteristics of healthy and high-class Japanese-style ramen, as in the case of Ajisen Ramen. In this case, it would be accepted without modifying the “value source core service”. Value sharing of “value source core services” can occur naturally in the context of local characteristics or can be implemented through corporate marketing communication activities.

Third, the results suggest the possibility of creating new value through transferring services overseas. Internationalization research has not focused on the aspect of new value creation in service expansion countries. One exception is reverse innovation (Govindarajan & Trimble, 2012). Ajisen Ramen added new service content to meet new needs, rather than simply transferring the “value source core service” from the home country to overseas. Besides, Ajisen Ramen created a new local front format by fusing with local characteristics, which provided the knowledge needed to create the front format and influence new value creation. In international marketing theory, local characteristics are often regarded as a negative factor to be overcome, but this study

highlights the positive side as new knowledge. The creation of new value is what Schumpeter (1934) called innovation through the new combination.

5.2. Practical Implications

The study findings have two practical implications. First, localizing services does not necessarily meet local customers' needs. Localization of "value source core services" can decrease the company's discriminatory advantage and core services quality. Local customers may also accept foreign "value source core services" as a new value in the local context. It may also be accepted as a new value when the service company changes its relationship with the local customer in the context of the "value source core service", allowing a service to be accepted locally without modifying the "value source core service".

Second, service companies need to effectively use local characteristics when they internationalize. When building a store in a new country, it is necessary to link it to local characteristics. This requires understanding the local characteristics' context, to allow the new store format to fuse into the home country values with local knowledge to secure profits in the local environment. Furthermore, the new local store format will lead to new value proposals. When internationalizing, service companies need to recognize and utilize the new country's local characteristics as new knowledge, rather than as an obstacle to internationalization.

5.3. Limitations and Future Research

This study constructed a global service innovation mechanism theory by employing the narrative analysis of a single case for theory development. Since it analyzed a single specific case, the results may not be generalizable to cases in general.

However, unlike individual and concrete historical analysis, this study captured the narrative analysis events while generalizing them with theoretical concepts as much as possible. Future studies should confirm whether the global service innovation mechanism exists in other service industries and expand its application scope. This can be accomplished through accumulating theoretical verification-type narrative analyses and examining generalization.

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