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REGULATORY BARRIERS TO EXPORT OF SERVICES: A MANAGERIAL VIEW FROM POLAND-BASED EXPORT FIRMS

This study deals with the managerial perception of regulatory barriers to the export of services. Its central aim is (1) to gain insights into how managers perceive regulatory barriers to the export of services; (2) to identify the principal variables which influence the managerial perception of these barriers; and (3) to evaluate the relative importance of the various categories of such barriers. This research relates to Poland-based firms, but the lessons drawn are relevant in a broader context.

Regulatory barriers to the export of services are perceived as more important than non-regulatory external hindrances to such exports as well as more important than regulatory barriers to the export of goods. Informal barriers to the export of services (unreasonable procedures and administrative abuse) are considered to be at least as burdensome as formal barriers and their impact is particularly heavy on contract-based service exports (mobility). Companies at an advanced stage of export development perceive the impact of such an informal barrier as less harmful than formal ones, suggesting that international experience is more critical for dealing with the former.

Given that trade in services is more highly regulated than trade in goods, it is suggested that service exporters may gain a competitive edge by adopting 'world class' practices in dealing with service-export issues. It is also suggested that governments engaged in promoting exports should extend special support to inexperienced exporters of services to help them deal with international regulatory barriers.

INTRODUCTION

International trade in services has increased dramatically over the last two decades and there is a growing need for greater understanding of how managers view barriers to that trade. Trade in services, as distinguished from goods, involves not only cross-border transactions but also temporary transfers

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of personnel and establishments abroad. Consequently, service exporters must deal with a broader spectrum of regulations than do traders in goods, and the rapidity of regulatory change in the service industry increases that challenge (Bhagwati 1984; Sampson and Snape 1985). Moreover, service exporters operate in more regulated and fragmented markets than do traders in merchandise, and their competitiveness is strongly affected by the way they respond to this diversity of environments (Hoekman, Kostecki 2001).

While there is a relatively extensive economic literature on the magnitude and the effects of regulatory barriers to trade in services, the managerial dimensions of coping with such barriers are poorly understood. The management science approach inspiring this study proves useful in a number of ways. Direct accounts of the barriers' impact on business operations may shed additional light on the nature and 'real-life' significance of the multitude of complex, ambiguous, and non-transparent schemes that currently regulate services. Managers' views and perceptions are also important because they influence business decisions affecting trade. Last, but not least, trading firms (not governments) are the main beneficiaries (or victims) of international trading regimes such as the General Agreement on Trade in Services (GATS); a "users' view" of the system emerging from a behaviourist analysis should thus be of interest to policy-makers.

This study is based on an in-depth analysis of 27 companies, interviews with managers of 107 Poland-based firms, and an extensive case study of DHL operations in transition economies. The choice of Poland-based firms (national and foreign-owned) is suitable, given the study's objectives. At the time of our research, most of the firms were engaged in some form of 're-engineering', which meant that numerous managerial processes were being reconsidered and that managers were reflecting on many of the issues raised in our research (Bogacka-Kisiel et al. 1996). Operating in the changing environment of a dynamic transition economy, firms were being confronted with the threats and opportunities of rapid structural adjustment and institutional change (Kostecki 1996). Finally, most of the companies included in our sample were either newcomers to exports or were being forced to redirect their exports (away from the former Soviet block) and to confront regulatory problems in that process.

In spite of its single country focus, this study's findings are of interest in a broader international context. Indeed, regulatory barriers to the export of services are not so much dependent on the country of origin as on the mode of entry and the industry concerned or on the country of destination which imposes the regulatory measures (see below). Cross-cultural differences in the way international business managers perceive such technical issues are not likely to be significant. Finally, Poland's economy is rapidly integrating into global markets and the many lessons arising from this country's experience may be of interest to other emerging economies trying to find their footing in the trading system.

1. REVIEW OF LITERATURE

Managerial interest in the marketing of services has mushroomed over the last decade, but research on the marketing of international services is still in its infancy. There are two schools of thought concerning such research: (i) those who believe that 'specific analysis of each sector should prove more fruitful than dealing with services in general', (e.g. Boddewyn et al. 1986) and (ii) those who think the international services phenomenon should be analysed on a cross-sector basis, keeping in mind particular modes of internationalization (Grönroos 1999), the nature of the producer-client interaction (Vandermerwe, Chadwick 1989; Patterson and Cicic 1995) or the degree of intangibility (Patterson and Cicic 1995; Clark, Rajaratnam and Smith 1995). A review of the literature on the internationalization of services shows that 40 out of the 125 articles surveyed deal with the subject in a general, rather than industry-specific, manner (Knight 1999), and a cross-sector approach seemed particularly suitable for a study addressing regulatory problems. First, the main set of rules dealing with internal trade in services may well be seen as exemplified by the General Agreement on Trade in Services (GATS), where all 'Parts', with the exception of the annexes, address the issue of barriers to trade in services in general rather than in sector-specific terms. Second, while it is recognised that sector-specific regulations do exist, the main differences in the nature of export barriers are due to the mode of internationalization and the nature of the producer-client relationship rather than to the industry *per se*. Moreover, given the concentration of Poland's service exports in several main sectors with little reliance on foreign direct investments (FDIs), the risk that a generalized approach will be inappropriate is considerably reduced.

Regulatory barriers to trade in services are different from those for trade in material products. Since services are usually intangible and often non-storable, barriers are not so much border taxes as prohibitions, quantitative restrictions (QRs), and government regulations. QRs may limit the value of imports of specific services or they may restrict the number or market share of foreign service providers. Such QRs may consist of limitations on the number of firms allowed to compete for a market and on the nature of their operations. Often, this involves either a monopoly (frequently the case in air transportation or telecommunications) or an oligopolistic market structure. Government regulations relating to labour, consumer protection, prudential supervision or regulatory oversight are often discriminatory and constitute another kind of barrier to the export of services (Hoekman, Kostecki 2001).

Cross-country data on the importance of barriers to international trade in services do not exist, but there is evidence to suggest that such barriers to trade in services are considerably more significant than those for merchandise goods and that they are more pronounced (protectionist) in developing than in developed countries. The main attempts to assess the magnitude of barriers to trade in services rely on several indirect methods: 'revealed openness' studies use the pattern of bilateral trade to estimate the tariff equivalents that generate the difference between observed and predicted trade flows. Using a gravity-model regression and 'free trade' benchmarks, François (1999) estimates that average trade-in-services barriers are mostly higher than the average tariff applied to manufactured goods. Openness indicators have also been constructed for modes of export supply (especially FDIs), using qualitative assessments of the extent to which actual policies raise the costs of entry and of post-entry operations (Findlay and Warren 2000). A study by Claessens and Glaessner (1998) shows that many countries in Asia maintain restrictive policies towards the entry of foreign service providers. A similar approach used by Warren (1999) for telecommunications services shows that developing countries on average have more pronounced restrictions than advanced economies.

The 'services-mark-up' approach considers variations in the magnitude of the relative profitability of service activities across countries, using financial data reported by companies listed on the stock exchange. The variations in profitability suggest that margins for services are 10 to 15 points higher than those in manufacturing and that they tend to be significantly higher in developing than in developed countries (Hoekman 2000). Dee and Hanslow (2000) use a general equilibrium approach to evaluate the effects of openness in telecom and banking services and distinguish between entry and operating restrictions. According to their estimates, barriers to establishment (entry via FDI) are generally much higher than restrictions on the ongoing operations of foreign affiliates.

Extensive overviews of empirical work quantifying barriers to trade in services and their effects are provided by Findlay and Warren (2000) and Stern (2001). There is also a growing literature which uses rules of thumb to identify whether an 'acceptable' degree of competition exists in a given service market. For example, air routes with fewer than three operating companies are likely to result in a less intensive level of competition (Hoekman, Kostecki 2001).

If we are to understand how service firms operate internationally, we need to have some grasp of how communication between the manager and the firm's business environment takes place: how information flows from one to the other and how the two interact. The managerial choice in export markets is determined at least partly by the manager's evaluation of hindrances to exports and of expected gains. In that context, perceptions will be central to the evaluation process.

By managerial perception of the hindrances to exporting we mean the process by which a manager receives, selects, and interprets information about export barriers. Managerial perception of regulatory barriers, which is the research issue of this paper, has been considered by several studies with respect to merchandise trade. A model of managerial perception of export barriers has been developed and tested by Leonidou (1995), and a good overview of other behaviourist research in the area may be found in Leonidou (1994). Rugman, Verbeke (1991) suggest a conceptual framework for integrating business strategy with trade policy and a series of papers by Rugman (1996) deal with the issue, with special reference to multinational enterprises.

Hindrances to exporting may be classified into barriers internal to the firm (resources constraints, limited know-how or ill-conceived strategies) and external barriers (regulatory barriers, hindrances resulting from a competitive threat or a non-competitive market structure and macro-economics conditions). Several studies shed some light on the relative importance of regulatory barriers, compared to other hindrances to exporting, in merchandise trade. Rabino (1980) analyzes SMEs operating in the United Kingdom and concludes that paperwork and dealing with regulatory measures are, respectively, impediments number one and number three to exporting. Kedia and Chhodar (1986), examining exporting SMEs in Texas (United States), rate 'government regulations' among the four most important managerial concerns in exports. A study by Leonidou (1994), focused on exporting SMEs and some multinational corporations (MNCs) in western Europe, places 'foreign regulations and rules' among the four leading impediments to exports. A study by a United Nations organization (International Trade Centre) surveying enterprises in least developed countries, suggests that 'non-supportive government policies' and 'access to markets and bureaucracy' are among the three main managerial concerns in exporting (ITC 1997). A consultancy report on hindrances to exports among a range of western MNCs operating in central and eastern Europe determines that 'problems with customs clearances' is the leading concern in exports (Kanarek and Singer 1997). A study of small and medium-sized enterprises in Poland (SMEs) suggests that regulatory barriers are among the top export impediments identified by managers (Kostecki et al. 1996). A series of case studies of export firms based in developing and transition economies shows that regulatory issues are on the forefront of managerial concerns in exports (Kostecki 2001).

Perception of barriers to exports is influenced by a number of characteristics concerning the firm, its manager, its mode of market entry, its type of service and the country of exportation. Empirical studies referring to merchandise trade suggest that regulatory barriers are perceived as particularly intensive and severe by domestically oriented firms and passive exporters (Sharkey et al. 1989). A study by Ghauri and Kumar (1989) suggests that such barriers are perceived as more intensive and strict by smaller firms. Regulatory barriers are also seen as particularly irksome by firms at the pre-involvement or initial stage of internationalization (Bilkey and Tesar 1977; Cavusgil and Nevin 1981), and by firms exhibiting risk aversion (Leonidou 1994). As the internationalization of services tends to be more complex and more beset by informal barriers than trade in goods, the suggested relationships are more likely to hold.

Studies referring to merchandise trade suggest that managerial concerns with regulatory measures are influenced by the mode of entry into export markets (Erramilli 1990; Erramilli, Rao 1993). The relative importance of alternative modes of entry varies across service industries, reflecting the managerial choices made under constraints of technological feasibility and policy restrictions. US statistics (the only official statistics available on sales of foreign affiliates), show that transport is the only sector in which cross-border trade is unambiguously more important than commercial presence (Hoekman, Kostecki 2001). Commercial presence thus dominates the cross-border marketing of services. In advanced countries, which are the major players in the world trade in services, most of the 'action' revolves around FDIs, where the temporary entry of service providers is of almost trivial quantitative importance. Such is, however, not the case in the emerging economies, where the temporary entry of personnel and cross-border transactions weighs heavily. As suggested by Clark, Rajaratnam, and Smith (1995), contract-based services are particularly affected by mobility barriers (impediments to the free passage of people across international boundaries), including such things as visas, work permits, social security requirements, etc.

There is strong evidence arising from the trade in goods indicating that managerial concerns about exports are influenced by the stage of the firm's internationalization. As discussed below, the issue is likely to be particularly significant for services, because there is a larger scope of modes of exports than in the trade of manufactured products, ranging from invisible on-line exports or exports of services that people 'carry in themselves' to services actually produced in the foreign market. The incremental model that Cavusgil and Nevin (1980) proposed for export development in industrial firms is, therefore, adopted and tested by us for the case of services.

A study by Patterson and Cicic (1995) suggests that barriers/hindrances to exports of services are likely to vary across service categories. The claim is further substantiated by more empirical research by Winsted and Patterson; their study offers a detailed account of sector-specific barriers facing exports by US-based engineering consultancies. There is no doubt that such sector-specific barriers may often play a critical role and may call for a single sector focus in the analysis. However, such a vision does not necessarily contradict the claim that barriers to the export of services may be analysed in a global manner that is occasionally supplemented by sector-specific comments when the need arises.

Finally, empirical studies referring to trade in goods suggest that regulatory barriers are perceived as particularly intensive and strict by less educated managers and managers with limited international experience (Madsen 1989). Managers' education and international experience are also potentially important variables in the case of services.

2. THEORETICAL BACKGROUND AND HYPOTHESES

The focus of this study is on the managerial perception of regulatory barriers. Regulatory barriers to exports of services are defined as any government-imposed restrictions, charges or procedures applying to business operations that put a foreign service provider at a disadvantage compared to a domestic provider. The barriers considered in this study are not only those forms of hindrances which are explicitly stipulated by law but also various informal barriers resulting from the decisions of authorities in export markets.

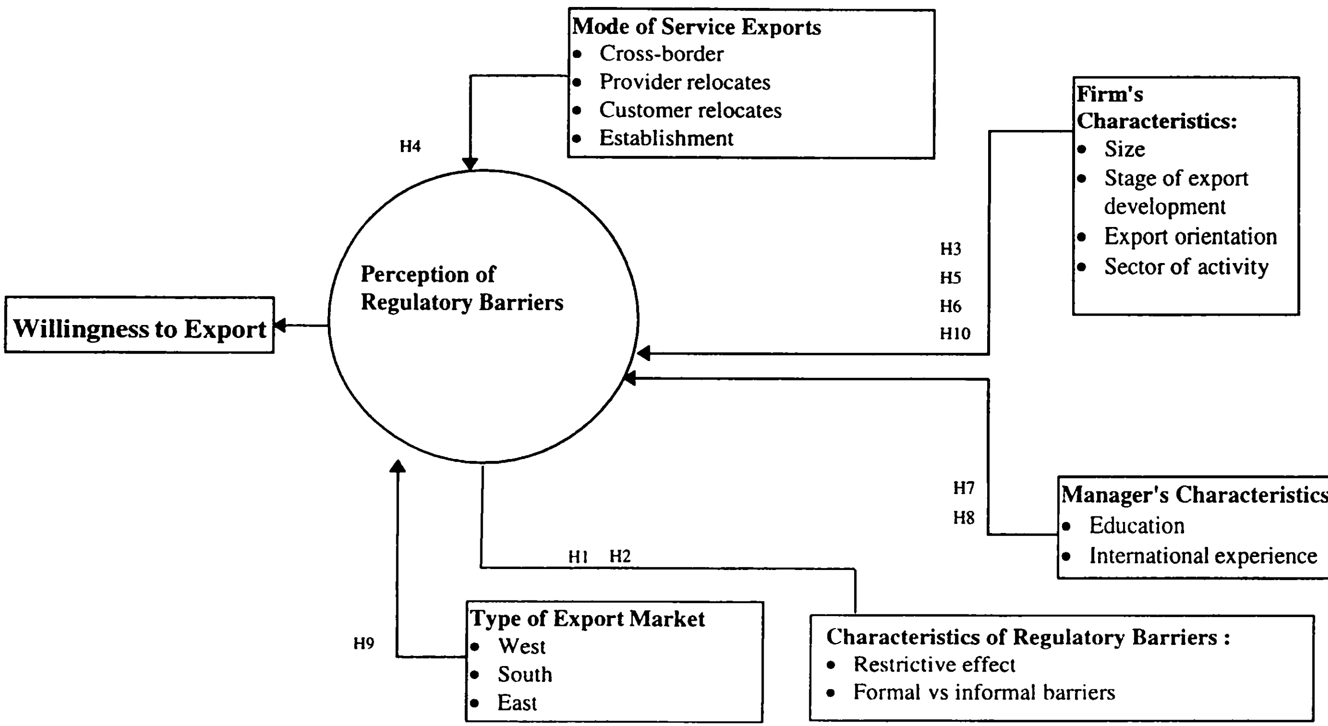
Two dimensions of the manager's perception are emphasized in our model: the nature of regulatory barriers and the perceived degree of their restrictive effect on exports. The objective of the model is to relate those dimensions to the explanatory variables listed in Figure 1 and discussed below.

The first aim of our empirical research is to assess where regulatory barriers rank among other hindrances to export trade and to evaluate the relative impact of formal and informal barriers on the export of services. Therefore,

H1: *Managers consider regulatory barriers the main hindrance to the export of services.*

Figure 1

MANAGERIAL VIEW OF REGULATORY BARRIERS
Path Diagram



Comparisons will be made between the perceived restrictive effect of regulatory barriers and that of other hindrances to exports such as (a) obstacles internal to the firm (lack of resources and know-how and inappropriate strategies), and (b) non-regulatory hindrances external to the firm (macro-economic conditions, non-competitive market structures or a high degree of competition in an export market).

H2: *Managers perceive informal barriers to the export of service to be just as restrictive as formal barriers.*

It is assumed in our model that a company's willingness to export is influenced by its managers' perception of regulatory barriers in export markets, in particular with respect to such dimensions as the restrictive effect and nature of those barriers. The managerial perception of regulatory barriers is, in turn, assumed to depend on five groups of variables:

- Type of export market (since markets differ in terms of the magnitude of regulatory measures);
- Mode of service exports (cross-border transactions, exports requiring the provider's relocation, exports requiring the customer's relocation, and exports generated through establishment abroad, i.e. FDIs);
- Export firm's characteristics, with special attention being paid to the firm's size, its stage of export development (international experience), its degree of export orientation (i.e. share of exports in total sales), and its main sector of activity;
- Managers' characteristics, such as education and international experience;
- Restrictive effect and nature of the regulatory barriers concerned (formal vs. informal barriers).

As discussed above, empirical studies on merchandise trade suggest that regulatory barriers are perceived as particularly intensive and strict by smaller firms. It seems that size is even more critical in the case of services, since the service sector tends to be more strictly regulated than the industrial sector, and the regulation in question tends to be more complex, ambiguous, and less transparent than for the trade in goods. Dealing with such regulatory issues will thus require substantially investing in the collection and analysis of data, in meeting regulatory standards or in public relations efforts to deal with the regulatory challenge. Returns on such investments will tend to be lower for smaller exporters, meaning that regulatory problems will be perceived as more burdensome by the management. Consequently, the firm's size and the share of exports in its total sales might be significant factors influencing the managerial perception of regulatory barriers. Therefore,

H3: *The perception of regulatory barriers to the export of services will depend on the size of the firm.*

H4: *The perception of regulatory barriers to the export of services will depend on the share of exports in the firm's total sales.*

The modes of entry are more diversified for service exporters than for manufacturing firms and that situation influences managerial concerns (Kostecki 1999). For example, providers engaging in cross-border transactions 'on line' will be mainly concerned with regulations limiting access to telecom networks abroad or with foreign exchange restrictions. Passport and visa regulations or standards applying to the transportation of equipment and staff will affect service exporters relying on the temporary relocation of customers (i.e. tourism). Companies exporting services through the temporary relocation of personnel abroad (construction, business consulting or transportation) frequently cite problems with work permits, certification of professional skills, and service standards (Gosh 1997). Finally, service firms maintaining subsidiaries abroad are affected by regulations governing foreign direct investments (FDIs), employment, transfer of personnel, and fiscal matters. Depending on the mode of entry, a service firm will also be exposed to varying degrees of informal barriers to trade, since there is more widespread harassment in certain spheres of regulation (e.g. work permits when different levels of government administration are involved) than in others. Therefore,

H5: *The relative importance of the various categories of regulatory barriers to the export of services will depend on the mode of market entry.*

The theoretical framework suggested by Cavusgil and Nevin (1980) identifies several stages in the export development of an industrial firm. Their approach inspires our analysis of service exports. As long as a firm is selling solely in the home market, it has little interest in foreign rules and procedures. A more active posture emerges when it begins to perceive exports as an attractive option and experiments with it. At this second stage, the firm tends to engage in a systematic analysis of foreign regulations and commits resources to related areas of market research and training. Finally, at the stage of committed involvement in exports, the firm maintains a continued interest in the foreign regulatory environment. Important differences in response may be dictated at that stage by the exporter's size (small as opposed to large), with larger firms having a greater propensity to maintain a structured and formalized process of information gathering, strategic analysis, and public relations aimed at obtaining a favourable regulatory status abroad. Therefore,

H6: *The perception of regulatory barriers to the export of services will be affected by the firm's stage of export development.*

The manager's level of education is an important aspect of his/her perception. Certain tradable services, such as banking, insurance, health services, construction, engineering or financial reporting, are characterized by a particularly complex set of regulatory arrangements, partly due to the complexities of the service's value chain and to the demands of consumer protection (Graham 1998). Two main managerial characteristics, education and international experience, were included in our model. Therefore,

H7: *The perception of regulatory barriers to the export of services will be affected by the manager's experience in international markets.*

H8: *The perception of regulatory barriers to the export of services will be affected by the manager's level of education.*

Our preliminary interviews suggested that the managerial perception of regulatory barriers could vary depending on the direction of exports. Indeed, certain countries were labelled as 'difficult' to do business with or 'corrupt' or 'excessively bureaucratic'. To account for the differences in trade regulations and administrative culture, the model tested distinguishes three directions of exports (i) West (developed country markets), (ii) East (transformation economies) and (iii) South (developing country markets). Therefore,

H9: *The perception of regulatory barriers to the export of services will depend on the direction of the firm's exports.*

Finally, the problem of sector-specific regulation has to be incorporated into our model to take cross-industry differences into account. It is thus suggested in our study that the leading regulatory concerns in the export of services will depend on the type of services exported, i.e. on the firm's sector of activity. Therefore,

H10: *The manager's rating of regulatory concerns in export markets will depend on the category of the exported services.*

3. METHODOLOGY AND RESEARCH DESIGN

Our empirical research was composed of two stages, and the approach differed depending on the stage involved. At the first stage (diagnostic research), a series of in-depth interviews were conducted to identify the major problem areas as perceived by the service exporters over the 1997–99 period. The 27 firms identified for the in-depth interviews were selected from a population of large and small enterprises. A variety of sub-sectors were included in our studies: road transportation, courier, construction and environmental services, tourism, travel, consulting, entertainment, distribution, and trading (Appendix 1). This allowed us to control environmental variations, while our focus on a number of geographical areas enabled us to control variations due to regional characteristics.

3.1. The Qualitative Research Methodology

In-depth interviews proved to be a useful tool for developing and testing the model and designing our case-study research. The research team was encouraged to emphasize lateral thinking and insights rather then the mechanical sorting of ideas. To assure objectivity, the procedures suggested by Yin (1989) and Eisenhardt (1989) were followed, and replication techniques and multiple investigators were involved. The managers interviewed were selected from Poland's leading service industries and companies active in exports. This was done so that the findings would cover the major export sectors and sub-sectors as classified in the General Agreement on Trade in Services (GATS). We always tried to go into companies with a progressively more and more defined focus. The initial formulation of the research question was considered as tentative and it was allowed to shift considerably as our qualitative research progressed. The initial design of our theory-building research was inspired by academic literature on managerial perceptions of barriers to exports, as developed by Rugman and Verbeke (1991), Leonidou (1994) and Kostecki and Nowakowski (1996 and 1999).

The team of three researchers conducting the in-depth interviews began by collecting reports on actual regulatory incidents and regulations that caused managers' concerns in exports. The data were then analysed to reveal broader patterns. The patterns were allowed to emerge from the data rather than produced by imposing an *a priori* theory. The data enabled us to develop a systematic classification of major regulatory concerns (using the Ishikawa framework), to gain insights into the regulatory problems, and to evaluate the relative importance of the various regulatory concerns. The qualitative results usefully supplemented the data collected through questionnaires and case studies at the second stage of the project, and guided us in the formulation of our quantitative research.

ANALYSIS OF IN-DEPTH INTERVIEWS

The term 'regulatory concern' can refer to a diversity of issues and situations. Consequently, the first step in our research was to determine the appropriate unit of analysis, and we opted for a distinction between two types of concerns: (i) concerns related to formal barriers and (ii) concerns related to informal barriers. The following are insights taken from our interviews to illustrate why:

"If you are efficient and gain market shares, your competitors and authorities in export markets will find ways to harass you through an abusive application of rules and procedures." (Manager of a construction company exporting to the EU market).

"Many procedural requirements affecting our international operations are irrational or even illegal but we have to comply with them if we wish to do business." (Manager of an international courier company operating world-wide).

"The burden of testing and certification requirements combined with an ambiguous and changing legislation and red tape is so great, that for a relatively small firm such as ours, it makes little sense to enter the CIS market."(Owner of a company supplying medical testing services).

The emphasis of this research is on protectionist measures, i.e. measures which imply a degree of *de iure* or *de facto* discrimination against a foreign supplier as compared with a domestic provider. This covers not only openly protectionist barriers such as quotas or restrictions on work permits but also unnecessary differences in standards, procedural requirements, etc. By 'formal barriers' are understood restrictions specified in legal texts and administered in a way that is reasonably expected in the normal course of trade. 'Informal barriers' cover those hindrances, which are not clearly defined by the relevant legal texts but become apparent in the relationship between an exporter and the authorities in the export market (Kostecki 2001). (By authorities we mean any level of government – central, regional or local). Informal barriers tend to be non-transparent, arbitrary, and frequently illegal. They are difficult to detect and often twist the very sense of the formal regulatory commitments in international arrangements such as the General Agreement on Trade in Services (GATS) or regional and bilateral trade treaties.

3.2. Methodology Used to Analyse Regulatory Concerns

At the preliminary stage of our qualitative research we opted for a semi-structured interview protocol. The purpose was to make sure that, at the initial stage, no important issues would be 'lost' due to the rigidity of the interview protocol. As the interviews proceeded and we learned more about the issue, the structure of our protocol was reinforced (Kvale 1996). The managers were asked to describe their most important regulatory concerns during the two years preceding the interview. The importance (gravity) of the concerns was evaluated in terms of the additional costs to the company or the lost business opportunities in exports. While referring to informal barriers the managers were requested to indicate specific regulatory incidents in which they were involved in export markets, rather then to present their global evaluation of particular regulatory practices. By regulatory incident was meant a conflict situation involving an exporter and foreign authorities. The reports on regulatory incidents were accusatory, i.e. they were based on the managers' accounts without being checked with the foreign authorities concerned. Whenever a fault or negligence on the part of an exporter (i.e. failure to comply with the law or mismanagement of regulatory issues) was apparent during the interview, the incidents were not included in our database. The critical incident technique (CIT) helped us identify and code the regulatory concerns (Bitner, Booms, and Tetreault 1990; Kelley, Hoffman, and Davis 1993; Keaveney 1995). Using a typology developed by the authors, two judges were charged with the task of coding the 98 regulatory practices that caused managerial concerns, and the 119 regulatory incidents reported in the transcripts of the in-depth interviews. After having completed the coding task, the two judges compared their decisions and resolved disagreements by discussion.

The list of regulatory concerns indicates that many of the instruments used to limit trade in services are domestic regulations over and above the customs procedures typical for merchandise trade. These domestic regulations establish limitations on the service concept; lay down conditions of market access; affect the employment and temporary transfer of employees; influence payment and pricing strategies; and determine the conditions under which service providers may invest and establish their business in foreign markets. Table 1 presents a synopsis illustrating the nature and diversity of regulatory barriers to exports of services.

The largest portion of regulatory concerns refers to market access (37% of the sample of 98 regulatory practices that were objects of managerial concerns and the 119 regulatory incidents reported); this is followed by regulations on labour (20%), issues referring to investment and establishment (17%), service concept (14%), and pricing and payments (12%). The weight of establishment-related issues is low, since only one in five of the exporters interviewed maintains establishments abroad, as compared with the one-in-two ratio for the other OECD countries. This situation is typical for emerging economies whose integration into the world trading system is the challenge of the decades to come. Mobility barriers are the main problem areas for the providers relying on the temporary transfer of employees to markets in the developed countries (West), whereas market access is more important in the case of exports to transition and developing economies (East and South).

Table 1

Managerial concerns with regulatory barriers to the export of services: an overview

Type and Frequency (%) of Concerns	Leading Examples of Concerns
Service concept (14%), i.e. issues related to certification of services: their content, quality, and equipment used.	The diversity of technical standards (West), 'obsolete' standards discouraging the use of modern technologies (East), exaggerated testing requirements and artificially high fees for related services (East and West), inadequate protection of intellectual property rights especially in the area of franchising (East) and excessive registration fees for intellectual property (West).
Market access issues (37%), i.e. restricted terms of business conduct, prohibitions and sales quotas.	Bureaucratic demands concerning visa and customs formalities (West), domestic monopolies (air transportation and railways) and related international arrangements limiting competition (Shipping Conferences, YATA), discriminatory treatment with respect to market access (East and West), unfair competition on the part of 'grey market' providers (East), limited access to public tenders (West) and harassment by officials and red tape (East).
Mobility-related issues (20%), i.e. conditions of employment, restrictions on labour mobility, work permits, certification of education and professional experience.	Limitations and rapidly changing regulations concerning work permits for temporary movement of employees (West); high administrative fees for such permits (West); delays in the permits' delivery; overly strict application of health and social security rules and minimum salary requirements for foreign workers (West); differences in tax laws applying to foreign service firms in EU were said to discourage competition and foreign companies claim their employees were harassed by local tax authorities; difficulties in the recognition of qualifications for specialized employees (West); unjustified harassment by customs officials and police (West); and obligations or informal pressures to hire local staff (West).
Pricing and payments (12%), i.e. limits on price competition, rules on banking and finance.	Limitations on banking and finance (East and South); foreign exchange rules often appeared arbitrary and bureaucratic and bank transfers were, for no evident reason, too complex and delayed (East and South): service exporters faced obstruction or lack of assistance from foreign authorities in getting paid.
Investment and establishment (17%), i.e. discriminatory treatment of foreign investments, stricter regulation of foreign establishments or limitations on the repatriation of profits.	Restrictions on establishment (East); restrictions on work permits and on purchase of real estate (West); security of investment (East); limitations on the repatriation of profits (East, South); harassment by fiscal authorities (Russia) and rapidly changing fiscal legislation not published on time (East); unclear ownership status (East); lack of appropriate legislation and unreasonable delays in litigation (East).

Note: Figures in brackets (column 1) indicate the frequency of regulatory concerns. East refers to the transition economies, West to the OECD area, and South to developing economies. Source: 27 in-depth interviews with Poland-based service exporters which made it possible to identify the 98 regulatory practices of concern to managers and the 119 regulatory incidents on which the percentages are based.

Source: Authors' own

More than half of the regulatory concerns are classified as informal barriers - a result which is largely confirmed by the quantitative study, as discussed below (Table 3). This finding implies that, from the 'users' perspective, the multilateral trading system for services based on the WTO and its General Agreement on Trade in Services (GATS) is not perceived as sufficiently transparent or rule-based. It is thus important to identify the forces which motivate such 'grey protectionism' in service trade. As shown in Table 2, three major motives could be identified: 'official harassment', 'private harassment', and red tape.

Table 2

Typology of informal barriers to exports

Barriers associated with	Description of the motivation to maintain the barrier
Official harassment	Implementation of policy objectives through an abusive application of a regulatory measure
Private harassment	Abusive application of regulatory measures motivated by a desire for personal gain or some other form of abuse of power on the part of a government employee
Red tape	Inefficient public administration with no apparent objective

Source: based on 27 in-depth interviews which made it possible to identify 217 specific regulatory concerns of managers.

Official harassment signifies abusive or illegal regulatory practices undertaken by the authorities with some policy objective in mind. Regulatory schemes for services tend to involve a larger number of agencies and levels of government than in merchandise trade. Indeed, most protectionist measures for goods are implemented through border controls conducted by customs, whereas trade in services is of concern to a large number of ministries and government agencies (Kostecki 2001). This increases the risk of inter-agency conflicts and red tape that will favour public harassment. Moreover, the entry of foreign service providers is also discouraged by excessive bureaucratic requirements as well as the delays or arbitrary decisions that result from such structures. At times, official harassment takes the form of delays in the delivery of work permits and excessive administrative fees. Three managers independently cited the delays imposed by German regional authorities (Länder) attempting to reduce local unemployment by limiting the temporary transfer of foreign personnel allowed for by the German federal government under international arrangements. The following statement by a manager of a construction firm is representative of that practice:

Work permits are, at times, granted in such a way that the constructor is unable to co-ordinate the progress of his work with the availability of [a] specialized labour force.

Masons have no permits when bricklaying is scheduled, but they are granted permits when electricians are needed,[for] whom, in turn, permits are delayed.

In other cases, problems arise because a newcomer is not a part of the interest group in a position to influence the local authorities. One of the managers of a business services firm specializing in computer services describes the limitations imposed on her firm's representatives abroad, in the following way:

We were clearly harassed by the local authorities in southern France and, being a small business firm, were unable to do much about it. Until one of our clients advised us to talk to our French bank. We [had] assisted that bank in the development of their business in Poland and had good contacts in the bank's Paris headquarters. The bank helped us a lot in dealing with the local administration and obtained for us the necessary permits.

Harassment is 'private' when it is motivated by personal gain or some other form of abuse of power on the part of a government employee. Obviously, to draw the line between harassment and non-harassment or between private and public harassment required that we put a lot of effort into our questioning and analysis. In two cases analysed in this project, customs officials delayed a passage of service equipment, hoping to obtain a 'facilitation fee' from the service exporter (a contractor in the area of port facilities and shipyards). In another case, a service firm was forced to hire a public relations agent and to finance scholarships and vacation trips for the family member of a high-ranking civil servant who was at the root of an arbitrary decision handed down by foreign tax authorities. The following quote from our interviews with service providers illustrates private harassment.

Russian fiscal authorities intervened with great brutality and we often feel that the pressure is put on us in the hope of personal gain.

A manager of a company offering engineering services, purchased (environmental protection) notes under public contracts:

We were close to a deal on an important construction project in one of the Swiss cantons but a significant donation to a local football club was informally required from us.

Red tape may be due to 'regulatory unreasonableness', lack of flexibility, refusal of individual inspectors to take personal responsibility or inefficiency in public service jobs. Such inefficiency may be encouraged by the stereotypical views of the administrator ('all businessmen are crooks'); the culture of the inspection agency ('customs procedures should protect the officer rather than benefit the business'); or the lack of appropriate selection, training, and control. One of the managers makes the following comment:

Our supplies may be delayed because rubber stamps on documents are in the wrong page corner or they are claimed not to be pressed hard enough or because the documents had been signed in black rather than blue ink (the latter colour is viewed as an indication that a document was an original). Our basic approach at the operational level is to follow the rules and procedures, however crazy they may be, otherwise no package will ever get anywhere.

Regulatory unreasonableness' is well illustrated by certain certification and testing requirements in the Commonwealth of Independent States (CIS) countries:

In Russia, numerous technical academic institutes, which had seen their state funding reduced, were desperately looking for new sources of revenue and lobbied their authorities for more testing requirements and certification rights. Consequently, standardized products and equipment recognised world-wide had to be submitted to complex tests and certification with fees asked for such services being grossly exaggerated. (A Warsaw-based expert of an engineering firm operating in the CIS countries).

It was not always easy to determine whether the barriers cited applied only to foreign firms or to all service providers. Such inquires were not always conclusive as to the discriminatory nature of the measures. Nevertheless, the insights offered point to what managers see as barriers to exports as such, and are of interest in the context of this study (Kostecki, Nowakowski 1999).

Although the distinction between official and private harassment and red tape is far from being clear-cut (especially as the three often co-exist), for more than half of the informal barriers identified by our in-depth interviews the dominant feature was official harassment; for about one third the impediment could be traced back to red tape; and the remaining share exhibited various forms of private harassment including corruption, 'facilitation fees,' and patronage. While advanced countries were not immune to bribery, inefficient administration, and influence peddling, our interviews indicate that private harassment or red tape appears relatively more frequently in transition and developing economies.

It could be observed that the informal barriers were rarely challenged by small and medium-sized enterprises (SMEs). The managers argued that limited resources, perceived high risk of failure, and fears of reprisals on the part of the authorities discouraged SMEs from taking any action. In one case, a manager claimed to be unable to gain the support of his ministry, which allegedly favoured high policy objectives (negotiations with the EU) over granting diplomatic protection to a small national firm.

4. ANALYSIS OF QUESTIONNAIRE DATA AND CASE STUDIES

To conduct our statistical analysis, we purposefully selected diverse organizations from a population of service exporters. Therefore, our sample is not random but reflects the use of a quota system based on sub-sectors' share in exports; the firm's size and dependence on exports, direction of trade, and public versus private ownership (Box 3). This section reports the quantitative and additional qualitative results of questionnaire-based, face-to-face interviews with managers of 107 firms, as well as the relevant findings of our case studies. The guidelines for face-to-face interviews (questionnaires) are presented in Appendix 2.

4.1. The Sample

The sample comprises firms that provide business services (31 firms, including computer and financial reporting services); construction and maintenance services (29); distribution and trading (22); transportation, tourism, and courier services (20); other services related to financial products (13); and services (7). Among the firms in our sample, 54% declare they rely mainly on cross-border supplies, 28% on temporary entry into foreign markets, and only 18% on long-term commercial presence abroad. Conventional wisdom holds that establishment abroad is likely to be the dominant mode of supply for many services exported by advanced countries, and it is estimated to be in the range of 50% for the United States (World Bank 1995; Shelp 1981). When asked about their export zones, 59% of the firms in our survey reported developed countries as their major export zone, while 37% declared transition economies, and just over 4% said they targeted developing countries. Those figures approach the available estimates concerning the geographic distribution of Poland's service exports (Mongialo 1998). The parametric tests of significance show differences in the direction of exports between the service industries. The construction firms export mainly to the West; the trading firms export mainly to the East, while business services providers export equally to both areas. The significance tests show that the share of exports in total sales is not dependent on sectors, with the exception of transportation firms for which the share is twice as high as the average. We also paid attention to the size of the enterprises analysed. Among the firms included in the sample, the smallest has two employees and the largest 11, 000 employees. The average size of the firms is 412 employees, with a median at 85. The export dependence within our sample varies between 1% and 100%. Its average is close to 41%, with a very high standard deviation (30.3%). The median is 30%, indicating that, for half of the entities considered, exports account for less than 30% of sales, while for the other half, exports constitute more than 30% of total sales.

The relationship hypothesized in the conceptual framework is analysed using a series of t-tests, analysis of variance (ANOVA), several supplementary tests, and descriptive statistics. Levene's test for equality of variances (standard deviations (D1(X) = D2(X)) is used to determine the appropriate method of t-test computation. Only the main and statistically significant results are extensively presented below.

Regulatory barriers are more important and strict than non-regulatory external barriers (H 1).

Hypothesis 1 is confirmed only with respect to non-regulatory external barriers. Regulatory barriers are rated by managers as the most important hindrances to the export of services (Table 3), and there is little diversification between service industries. (The last observation is at variance with the results reported by Patterson and Civic (1995) whose data were captured in Australia and this may explain the differences we found with the Poland sample). The regulatory barriers are seen as more intense and strict than the non-regulatory external barriers resulting from competitive threat, macro-economic conditions or non-competitive market structures (Table 3). However, the score between regulatory barriers and internal barriers (3.46 Vs 3.33) is non-significant and it cannot be concluded that regulatory barriers are of greater importance than internal barriers. During our research concerning internal barriers we were aware of the possible bias on variables such as 'inappropriate strategy' or 'limited know-how,' since managers might underestimate them so as not to put the blame on themselves. Particular care was thus taken during the interviews to reduce that bias by an appropriate questioning technique (e.g. by introducing the issue with the comment "it is known that inappropriate strategy is frequently the reason for business failure"). No bias could be observed with respect to external hindrances, or even hindrances internal to the firm such as 'scarce resources of the firm' or 'limited know-how'.

Comparisons with similar studies on merchandise trade show that managers see regulatory hindrances to most service exports as more strict and intense than regulatory barriers to trade in manufactured products (Kostecki, Nowakowski, Walkowicz 1996; Rabina 1980; Leonidou 1994; Kedia, Chhador 1986). Such results corroborate a series of estimates by François (1999) and Hoekman (2000) which suggest that regulatory barriers tend to be more restrictive for trade in services than for trade in goods. The regulatory barriers are considered to be particularly strict and intense for firms relying on the mobility of personnel (e.g. construction firms) and least strict and intense for exporters of services related to products other than transportation. This result is at variance with the economic estimates by Findlay and Warren (2000), Claessens and Glaessner (1998), and Dee and Hanslow (2000) which suggest that barriers to establishment (FDIs) tend to be higher than the restrictions on other modes of service exports. The plausible reason is that Polish service providers rely very little on establishment abroad as a mode of exports.

The above results suggest that service firms wishing to internationalize should develop appropriate know-how and organizational structures to deal with regulatory issues. A case study of one of the leading service exporters in our sample (DHL Poland) illustrates how the company developed an effective in-house system of export information on regulation, and invested in regulatory know-how to gain a competitive advantage in exports. The full text of the case study is available elsewhere and only a brief excerpt is presented in Box 4.

4.2. Dealing with Regulatory Problems at DHL

"Few service companies are more dependent on proper management of its relations with the customs authorities than international express carriers. At DHL, both front stage and backstage teams must work together to ensure that parcels get through customs controls on time. An appropriate corporate organization is essential to deal with that task. DHL has a local customs service department in every major country. An international customs service department at the headquarters in Brussels heads those local departments. The mission of every local department is to get the cargo through customs at the right time, bypassing whatever obstacles are standing in the way. (....) The local departments [implement] the company's proactive and reactive strategies vis-à-vis the customs or trade control authorities, and are responsible for daily reports, providing detailed information about current problems with customs. Those reports are distributed to other DHL units world-wide via the international headquarters in Brussels. (...) DHL management is well aware of the fact that a personalized approach to customs may be highly important in certain countries. (...) Public relations work is performed by the DHL customs service departments both at a grass roots level (customs officials) and on a macro level of national, regional and international bodies. At the grass roots level it is important to forge a lasting relationship of confidence and trust with the customs authorities. Companies that have a good reputation for honesty and employees' integrity generally do better at customs. A lasting relationship with local customs is also built on the understanding that it is hardly possible in any country to implement perfectly all the customs rules and regulations to the letter. A full application of the regulation in force would shut down all trade, as happens when customs officials 'work to rule' in order to manifest their dissatisfaction"(Kostecki 2000).

A manager of a firm executing anti-corrosion work in one of the least developed countries described in the following way his deputy's style in dealing with local authorities:

He is perfectly familiar with the regulations, procedures, and decision-making process of the government. He knows the people in the office and has their trust and support. When a director in a given Ministry agrees to deliver an import licence, my deputy goes to the director's secretary, asks for the official letterhead, types the necessary instructions himself, has it signed by the responsible people and brings it himself to the customs officials concerned. He actually behaves as a member of the country's government administration because he is aware that the administration, poorly equipped and short of staff, is under constant pressure and unable to cope with the excessive administrative duties.

Table 3

Hindrances to export of services: average score and percentages of attributions

Hindrances to exports	Not very important				Very important	Average score
	1	2	3	4	5	1–5
Regulatory barriers	14.9%	12.9%	17.8%	20.8%	33.7%	3.46
Barriers internal to the firm (e.g. limited resources)	8.9%	19.8%	19.8%	31.7%	19.8%	3.33
Unfavourable markets (e.g. competitive environment or weak demand)	39.6%	11.5%	19.8%	15.6%	13.5%	3.11

Source: 107 face-to-face interviews

Overall, market access is the most frequent regulatory concern, with little diversification between service industries. Managers in the firms exporting mainly to the West are significantly more concerned about labour-related issues (mobility). The emphasis on labour-related concerns is partly due to exporters' reliance on relocating labour in their service exports to the West, where labour markets are highly protected. There is some indication (statistically not significant) that exporters maintaining a long-term commercial presence abroad (subsidiary or partnership) are more affected by regulatory barriers (both formal and informal) than other exporters. Such observation corroborates our hypothesis (H5) that regulatory concerns intensify and widen their range as service exporters increasingly rely on establishment abroad.

Informal barriers are just as important as formal barriers (H2).

Statistical results corroborate the qualitative evidence pointing to the fact that informal barriers interfere at least as much with trade in services as do formal barriers (rating 3.0 on the 1-5 scale for both types of barriers in Table 4). Informal barriers are perceived as particularly restrictive and intense by managers in services relying on a temporary transfer of personnel abroad, services such as construction, certain business services, and transportation. Exporters of financial services see such barriers as least important. These results are consistent with the observation that financial capital (to which financial services are closely related) circulates more freely than labour or equipment and that the world transport industry and service exports based on labour transfers are poor examples of competitive commerce. Indeed, international roads, shipping and airways are cluttered with protectionist obstacles, bilateral deals, and a web of unnecessary rules. To put it in the words of a manager of the Polish State Railways: " International arrangements in the area of rail services and limited competition in certain European markets have considerably restricted our ability to compete on prices...."

Table 4

Formal versus informal barriers: average score and percentages of attributions

Type of barriers	Not important				Very important	Average score
	1	2	3	4	5	1–5
Formal barriers	5.9%	9.49%	30.6%	47.1	7.1%	3.0
Informal barriers	7.1%	14.3%	32.9%	32.9%	12.9%	3.0

Source: 107 face-to-face interviews

Moreover, as in other industries, protectionism in transport and tourism is often hidden in other regulations on safety, technical standards or national security. At times, professional lobbies are able to limit market access without any clear legal basis. For example, two managers noted that in the 1996-98 period, Italy introduced special visa requirements for the drivers of buses from Poland, even though the tourists they transported needed no visa. Access to certain museums in Italy was also refused to those Polish travel agencies who did not want to hire local guides (guides who couldn't even speak Polish and would therefore require interpreters).

Overall, the statistical results show again that market-access issues are rated as more important than labour-related regulations or restrictions on foreign direct investments (Table 3). The modest role of establishment among Poland's service exporters has a clear influence on that ranking.

The perception of regulatory barriers and the size of the firm (H 3)

As compared to large firms, smaller firms perceive regulatory barriers as slightly more strict and intense, but the results of our t-test are not statistically significant for all the firms considered. Note, however, that most of the large firms in our sample are state-owned or recently privatized, former state-owned units, whereas smaller firms are predominantly companies created *ex nihilo* and characterized by a strong entrepreneurial culture. It is most probable that the latter characteristics compensate for the impact of size on the perception of barriers to trade. (See below).

Regulatory barriers are perceived as more strict by firms with a lower share of exports in their total sales (H 4)

Hypothesis 4 is globally rejected. However, the proposition is confirmed for the exporters selling to the West (rejection of the null hypothesis). Service firms with exports accounting for more than 50% of their sales seem to be more successful in dealing with formal and informal barriers in export markets. The ANOVA test suggests that the significance of the relationship might be stronger for formal barriers than for informal barriers, but the results are not statistically significant.

The proposition that regulatory barriers are perceived as stricter and more intense as the share of exports declines is not confirmed for exporters providing services to transition economies. In-depth interviews suggest that service providers who focus their business development strategy on Russia and Ukraine are strongly disappointed by the slow progress of the regulatory change in that area and see regulatory matters as the major problem. Such an attitude might provide a plausible explanation of the above results.

It is interesting to note that the importance of informal barriers, as perceived by managers exporting to transition economies, increases for firms with a smaller share of exports in total sales. These results suggest that firms which 'specialize' in transition economy markets learn to successfully deal with their informal barriers, or *vice versa* (see also below). To put it in the words of one of the managers: "We are in [the people business]. We have our contacts in the ministries in Moscow and Kiev and can get things done better than our competitors who don't understand the realities of administration in the area".

Perception of regulatory barriers, mode of entry and the firm's stage of export development (H 5 and H 6)

The suggestion (H6) that regulatory barriers to exports of services are perceived as less restrictive and severe by firms at an advanced stage of export development is confirmed for informal barriers (Table 5), but the differences are only significant at the .058 level. A one-way analysis of variance (ANOVA) is used to test the above relationship. An independent sample test (Table 6) also confirms that hypothesis for the informal barriers. For formal barriers, both tests lack statistical significance.

Table 5

Perception of informal barriers and the firm's stage of export development: one-way analysis of variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6.743	2	3.372	2.974	.058
Within Groups	75.957	67	1.134		
Total	82.700	69			

Table 6

Perception of informal barriers and the firm's stage of export development: independent samples test

	T-test for Equality of Means						
						95% Confidence Interval of the Mean	
	t	df	Sig. (2-tailed)	Mean difference	Std. Error Difference	Lower	Upper
Equal variance assumed	2.510	30.0	.018	.9098	.3624	.1696	1.6500
Equal variance not assumed	*2.467*	*25.980*	*.021*	*.9098*	*.3688*	*.1517*	1.6679

Source: Authors' own

The above results corroborate the suggestions emerging from the DHL case study: that a lasting relationship of confidence and trust between the exporter and the authorities is particularly important for problem-solving arising in connection with informal regulatory practices.

Hypothesis 5 concerning the relationship between the mode of entry and managerial concerns could not be confirmed. There is a statistically significant difference between construction firms and other service exporters with respect to modes of export, with the construction firms relying heavily on the temporary transfer of employees abroad. Statistical significance tests also confirm that labour-related regulatory barriers are of much more concern to construction firms than to trading or transportation enterprises. Regulatory barriers related to establishment are equally important for all service industries with the exception of transportation.

Manager's level of education and level of experience in international markets (H 7 and H 8)

The t-tests suggests that there is little difference in the perception of barriers by managers with an average and above-average level of education and that the manager's experience has no impact on the perception of regulatory barriers. Note, however, that our data are particularly poor because no meaningful distinction can be reasonably made between technical education and business education, as the latter did not truly exist in Poland prior to the nineties. Moreover, the concept of 'experience in business' is not free of ambiguity in Poland. A Marriott Hotel manager in Warsaw rightly noted that: "no experience may be better than experience acquired under the old system." Our interviews also confirm an 'intelligentsia' bias in Central Europe, which might have influenced our results. To put it in the words of a Polish-Canadian businessman in charge of an international business consulting firm in Poland:

> It is difficult in our region to explain to a fellow having a PhD in Philosophy that he might be insufficiently qualified to run a gasoline station. Many of our intellectuals assume that they are well-educated and consequently can run any business without a need for professional management training.

The perception of regulatory barriers and the direction of exports (H 9)

The threat of regulatory measures is higher for firms strongly dependent on exports to the East; however, the suggestion that the direction of exports has any impact on managerial perception of regulatory barriers could not be confirmed for our data as a whole. It is again shown that for the firms dependent on exports to the West, the perceived threat of regulatory barriers decreases with the increase of export share in total sales. In that area, managerial concerns focused largely on labour-related regulations and technical requirements, whereas in other areas they often referred to market access, fiscal and foreign exchange regulations, and incidents caused by unclear or inappropriate legislation. Such differences in the pattern of regulatory concerns in the East, West, and South do persist even when the differences in export structure and modes of entry are taken into account.

The perception of regulatory barriers and service category (H 10)

Regulatory barriers are perceived as most strict and intensive by firms in the construction industry, whereas transportation enterprises or firms providing product-related services perceive those barriers as least strict. Market-access barriers are important for all sectors, and there is not much differentiation in the perception of such measures. Both formal and informal barriers are of concern to exporters in all industries. However, exporters of business services and product-related services are more concerned by formal barriers than by informal ones.

CONCLUSIONS

Most services are distinguished from products in the internationalization process by intensive customer contacts, extensive customization requirements, cultural adaptation, and a lower degree of tangibility. This article suggests that another important aspect affecting the globalization of services is the nature of regulatory barriers confronting the internationalization process and the corporate response to that regulator challenge.

Regulatory barriers to exports of services are perceived by managers as more important than other external hindrances to service exports, hindrances such as non-competitive market structures, a high degree of competition in exports or unfavourable macro-economic conditions. Comparisons with similar studies on merchandise trade show that regulatory hindrances to most service exports are seen by managers as more strict and intense than regulatory barriers to trade in goods. This finding corroborates several economic studies which suggest that, on average, barriers to trade tend to be higher for services than for goods.

Poland is a country at an intermediary level of economic development and it is, therefore, hardly surprising that market access and mobility barriers, rather than barriers to FDIs, are the most prominent among managerial concerns. This study also confirms the results of a study by Clark, Rajarantnam, and Smith (1995) that contract-based services are particularly affected by mobility barriers.

Both the qualitative and statistical results show that informal barriers to exports of services (unreasonable procedures and administrative abuse) are at least as bothersome as formal barriers. Their impact is particularly severe with respect to contract-based services (mobility) and least important for financial services. In the advanced economies, the informal barriers are mainly perceived as a result of 'official harassment' whereas red tape and private harassment are relatively more frequent in transition and developing economies.

There is evidence to suggest that a more positive managerial attitude towards informal barriers goes hand in hand with the company's strong reliance on transition economies (East) as export markets. Informal barriers to exports of services are also perceived as less restrictive and harsh by firms at an advanced stage of export development. However, the hypothesis is not accepted for the case of formal barriers. A plausible explanation might be that international experience is more critical for dealing with informal export barriers than with formal ones.

There is little difference in the perception of regulatory barriers based on the manager's level of education, and the manager's international experience seems to have no impact at all on that perception. Consequently, our study does not corroborate the results of several studies based on merchandise trade. However, it might be a plausible explanation that Poland's data are not suitable for conducting the above test.

As a whole, the direction of exports had no impact on the managerial perception of regulatory barriers, though the threat of regulatory barriers was of greater concern for firms strongly dependent on exports to transition economies (East). There were slight differences in the perceived degree of the restrictive effects of barriers, depending on the service sector concerned.

The above findings have several implications for managers of service firms and for the business community engaged in the service trade:

• Given the critical role of regulation in the service trade, companies should re-think and possibly re-engineer everything – from corporate structure and process to information networks and public relations strategies – in order to cope with the regulatory environment. 'Better than last year' might not be enough, since there is evidence to suggest that certain practices are universally better than others in helping firms operate efficiently and effectively in complex regulatory environments. As illustrated by our qualitative analysis, the best practices in the management of regulatory issues may facilitate operations in a difficult environment and turn impediments into a competitive advantage world-wide. More research is needed on how to achieve outstanding performance on this score.

• The importance of informal barriers implies that strategies of business-government relations favouring a pro-active and relational approach might be more important for services than for trade in goods. As shown above, many of the informal barriers are motivated by hidden policy objectives largely inspired by pressures from interest groups or conflicts between government departments and levels of government. Successful service exporters tend to adjust to the specifics of the local business regimes and enter into alliances with local players in export markets to gain an advantageous regulatory status.

• The weight of regulation and particularly the high incidence of informal barriers creates a particular brand of problems for inexperienced exporters in the process of internationalization. The issue is particularly critical for many service firms located in emerging economies. Export promotion to assist such firms in solving their regulatory problems in exports may be a condition *sine qua non* for success in global service markets.

• Periodic surveys of a representative group of service exporters – and a country index of 'grey area' barriers based on such surveys – might help the assault on informal barriers in such forums as the WTO or regional trading arrangements. Business associations and large companies could also put in place more effective strategies to influence regulatory practices through existing channels for government-business consultation on trade policy matters and through international negotiations on the trade in services.

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APPENDIX 1

SERVICE EXPORTERS INCLUDED IN THE CASE STUDIES

The Firm and Its Size	Major Activities in Foreign Markets
1. Mostostal (Zabrze) Ltd., capital: $ 14 m.	Engineering and construction services in the EU and Middle East
2. Dekop Ltd., 65 employees	Engineering services, particularly in Germany
3. Budimex Ltd., Poland's largest construction firm	Construction services
4. SPS Sosnowiec, 450 employees	Maintenance and construction services
5. Elektromontaz–Export Ltd., turnover. $ 54 m.	Trading and consulting company marketing electric installations
6. Romada, Capital: $ 30 m., 2000 employees	Transportation and organization of tourist tours abroad
7. Kopex Ltd, turnover: $ 200 m.	Trading and consulting in technical areas
8. Beton Stal, capital: $ 0.3 m., 110 employees	Installation of steel structures and concrete structures
9. Juventur (Walbrzych) Ltd., turnover: $ 2.2 m.	Travel agency and tour operator
10. State Rails (Silesia), second largest in Europe	Railway transportation
11. Exbud, turnover: $ 80 m.	Construction services
12. Prochem, turnover: $18.5 m.	Development and design of chemical complexes
13. Stal–Art Ltd., turnover: $ 2.5 m., 6 employees	Forwarding services for steel industry
14. Centrozap Ltd., turnover: $ 260 m.	International trade services and technical services
15. PKS no. 1, 129 employees	Truck transport services
16. Softkom Ltd, turnover: $ 4 m., 110 employees	Design and development of sport facilities
17. DHL (Poland), 300 employees	Rapid postal services
18. Eurotrans Co., turnover: $ 0.4 m., 8 employees	Forwarding services
19. Lot cargo Co., 65 employees	Transportation of high–value and perishable goods.
20. Termoizolacja Holding Ltd., 782 employees	Insulation and anti–corrosion works
21. Promus Ltd, 1200 employees	Design and assembly of technological complexes
22. Espebepe Holding, capital: $ 35 m.	Technical services relating to port facilities and shipyards
23. Elektrobudowa, Poland's leading company	Construction services in the energy sector
24. Mostostal (Warsaw) Ltd., large firm	Development of complex projects, requiring high technical skills
25. Weglokoks, leading exporter of coal	Trade facilitation and logistics for coal exports
26. Capricorn Agency, 2 employees	Organization of cultural events and music courses abroad and in Poland
27. The National Philharmonic Orchestra (Warsaw)	Concert tours abroad and in Poland

Note: Company data refer to 1996

APPENDIX 2

Guidelines for the face–to–face interviews

About your firm: 1. What services are exported by your firm? 2. What is the percentage of exports in the firm's total sales? 3. What are the predominant modes of your exports (start by explaining the concepts): (i) cross border supplies (e.g. 'on–line' services), (ii) employees temporarily enter a foreign country, (iii) long–term commercial presence abroad (subsidiary or partnership)? 4. What is your major export zone: (i) West (developed countries), (ii) East (former COMECON), (iii) South (developing countries)? 5. What is the number of employees in your firm? 6. What is your firm's stage of involvement in international operations? (Begin by explaining the concepts): (i) experimental , (ii) active, (iii) committed. 7. What is the level of education of your firm's managers dealing with exports: (i) below average (compared to your competitors in international markets), (ii) average, (iii) above average? 8. What is the level of your managers' experience in international markets: (i) below average (compared to your competitors in international markets), (ii) average, (iii) above average? 9. How would you describe your firm's aversion to risk: (i) below average (compared to your competitors in international markets), (ii) average, (iii) above average?

Your problems in the export of services: 10. How important are the various barriers to exports? (Rank on a scale from 5 – very important to 1 – not important. Where appropriate – see question 4 – evaluate point (1) and (2) with respect to various markets): (i) regulatory barriers (regulations or administrative procedures abroad), (ii) difficult market (intensive competition, discrimination against foreigners, economic distance, etc.), (iii) limited resources of the firm (capital, managerial experience, production capacity). 11. Give two specific examples of regulatory barriers limiting your exports of services. (Where appropriate – see question 4 – ask for 2 examples concerning each major export zone). 12. What regulatory export barriers [interfere most with] your exports? (Indicate the [interference] effect for every point below on a scale from 1 – not important to 5 – very important. Where appropriate, evaluate separately for the West, the East, and the South): (i) limited market access (discrimination against foreign providers, restricted terms of business conduct, prohibitions, sales quotas, rigorous regulation of foreign establishment, domestic monopoly), (ii) restrictions on labour mobility (work permits, conditions of employment or recognition of professional expertise), (iii) restrictions on foreign direct investments (e.g. obligation to have local partners, restrictions on number of suppliers, value of transactions, number of employees, type of establishment). 13. Are the most [obstructive] export barriers predominantly: (i) formal in nature (i.e. specified in the laws and regulations), (ii) informal in nature (e.g. bureaucratic procedures or harassment that are apparent only when the firm is involved in exports)? (Where appropriate, evaluate separately for the West, the East, and the South). 14. Would the removal of the aforementioned regulatory barriers affect your exports: (i) very substantially, (ii) substantially, (iii) moderately, (iv) not at all?

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