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GLOBAL CONSULTANCIES: DETERMINANTS OF MARKET ENTRY AND STRATEGIES FOR CONQUERING CLIENTS IN FOREIGN LOCATIONS

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ABSTRACT

Reports in the general and specialist press as well as several official estimates (e.g. UNCTAD, 1993, EU, 1989-1996) point at a rapid increase in the use and internationalisation of management consultancies. However, the application of MNE definitions, measurements and theories to this type of services is still in its infancy. Thus, this paper sets out to identify first, the main determinants of *market seeking* investments of global consultancies, they evolved over time, and its implications for the nature and scope of subsidiaries activities. These are more like miniature replicas of their parent firms than specialised units in a world wide service network. Secondly, the strategies they have used to tap successfully into foreign markets, overcoming the problems facing service providers (e.g. Holmstrom, 1985, Dunning, 1989) and the liability of operating in a foreign location. It focus on the importance of trust-creating mechanisms for the establishment of lasting relationships with clients and how they were facilitated by shared social, cultural or educational proximity between consultants and clients. It draws on in-depth interview based case studies of twelve global consultancies and their operations in the Portuguese economy. Avenues for future research are pointed out.

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INTRODUCTION

With manufacturing slipping to less than 20% of GDP and the role of services rising to more than 70% in some of the OECD countries, services are seen as playing a principal role in economies. Services FDI is an important aspect of this phenomenon. Over the past decades the total volume of services foreign direct investment (FDI hereafter) flows in the OECD area increased substantially and it surpassed manufacturing (OECD, 2000). As a result it has become a major focus of research in international business. Important contributions to the research on services FDI have been made mainly in hotels (Dunning and McQueen, 1981, Contractor and Kundu, 1998), banking (Kindleberger, 1983, Nigh, Cho and Krishnan, 1986, Jones, 1990), advertising agencies (Weinstein, 1977), professional business services and accounting (Daniels, Thrift and Leyshan, 1989).

By contrast, the increase in the management consultancy industry and its internationalisation during the post-war period and especially from the 1960s onwards (UNCTAD, 1993, EU, 1989-1996) has been largely overlooked (Kipping, 1999). The application of multinationals (MNE hereafter) definitions, measurements and theories to this type of services is still in its infancy. Thus, this paper sets out to identify first, the main determinants of FDI in consultancy and how they evolved over time in line with firm, industry and location specificity. Secondly, to identify key factors enabling a few consultancies to tap successfully into foreign markets. It draws on in-depth case studies on the penetration of 12 leading international consultancies in Portugal, where the expansion of consultancy services occurred much later than in the rest of Western Europe, but has accelerated considerably in recent decades. The paper consists of three parts. The first part looks at the determinants of consulting FDI and the nature of consultancy services, focusing on the importance of trust-creating mechanisms for the establishment of lasting relationships with clients. The second part gives an overview of the evolution of the consultancy business in the Portugal, with an emphasis on the determinants behind the penetration of foreign consultancies. The third part examines the ways in which these consultancies have gained access to potential clients and the extent to which these have (or have not) changed over time. Avenues for future research are pointed out.

THEORETICAL FOUNDATIONS

International expansion can be broadly classified into *market-seeking, efficiency seeking, resource seeking or strategic asset seeking* (Dunning, 1992). Although these motivations ought to be more explored in the context of services FDI, this paper focuses more precisely on consultancies market seeking investments, i.e. those aimed at supplying host countries domestic market. Indeed, more than for manufacturing, the internationalisation of services has been mainly led by market variables.

Many similarities can be found in the nature of consultancy and manufacturing FDI, e.g., they share similar reasons for internationalisation. Consultancies might have a comparative advantage that they ought to explore abroad, might seek to globalise their supply of services to serve the needs of their clients in foreign countries, or to promote a distinctive "international" image. The quality of their labour, their brand name, product differentiation and innovative capabilities are some of the ownership advantages commonly associated to international consultancies (Dunning, 1989). Firm-specific advantages can be further enhanced through internationalisation. High operational costs (e.g. training, R&D) for example can be also spread through size and scope, which can be achieved though international expansion.

Foreign markets can be served through different means including exporting or foreign production. The supply of consultancy is highly embodied in people for which supply to multiple locations might be achieved through the temporary international movement of consultants (Clegg, 1993). However, certain events might favour opening an office in a foreign location. In this regard, prior explanations of FDI draw extensively from transaction costs economics (Andersen and Gatignon, 1986), resource based theory (e.g. Chang, 1995), and eclectic theory (Dunning, 1992). The focus on the services MNEs and on its activities recognises a plurality of determinants of FDI and location variables attracting foreign service providers (e.g. Boddewyn, Halbrich and Perry, 1986, Dunning, 1989).

On the one hand, similarly to any other industry, consultancies market seeking investments may be undertaken to sustain, exploit or to promote new markets. International expansion can be considerably stimulated by the need to offer their globally oriented clients a presence in leading markets. Consultancies might decide to open operations abroad when market growth and/or profit potential is favourable relative to alternative methods such as exports, and these are said to be directly related to economic development and GDP growth (OECD, 2000). In this regard, consultancies FDI differ significantly from manufacturing. Host country production costs is a crucial location variable for manufacturing FDI but not for consultancies. Indeed internationalisation of manufacturing industry tends to favour low-cost producers and locations whereas internationalisation of service industries tends to favour high-cost producers and locations. Otherwise they may tap into foreign locations to benefit from uncompetitive host markets. Furthermore, large international consultancies can profit economies of specialisation of personnel and the economies of common governance arising from their ability to move people and information between different parts of the same organisation.

From a transaction costs perspective, country stability, cumulative international experience, and decline on sociocultural differences are also an important factors favouring physical presence abroad (Andersen and Gatignon, 1986). In addition, the availability of key human resources and science based activities are of crucial relevance for services in general (Boddewyn, Halbrich and Perry, 1986, Dunning, 1989) and consultancy in specific. The sitting of R&D activities and back-office support operations within consulting firms rests on an adequate supply of premises, communication facilities, and suitable trained labour. In this context, the role of government in influencing the location of management consultancy services becomes of particular significance. Easy access, fast establishment procedures, legal procedures and labour market regulation are some of the elements affecting location advantages.

Another important and increasingly important phenomenon is that anticipated behaviour of competitors also affects location decisions. Consultancies may consider necessary, as part of its image, to have foreign physical presence in the leading markets served by its competitors. As suggested by Dunning (1989, 1992) this is clearly identified in oligopolistic service sectors. Considering that over 60% of the consulting fees are concentrated in a handsome of large international consultancies oligopolistic reaction is expected. There are also agglomeration economies in being close to competitors, suppliers and customers.

In addition, factors related to the limited tradability of consulting services ought to be considered (Dunning, 1989, Sauvant, 1993). It involves high international transaction costs (for the buyer, seller or both) to allow much trade specially because it requires a face-to-face contact between buyer and seller and adapting the service to local demand. Local presence allows for on the spot contact with client, facilitates the access to information about sellers and buyers thus reducing uncertainty and transaction costs. As far as country specificity remains, local presence might be determinant to acquire knowledge on business system and country characteristics. Without familiarising with country specificity foreign consultancies are at disadvantage *vis a vis* local firms. Instead, local presence can stimulate local companies` goodwill to buy. In any case discussed above, firms with some degree of experience in the host country are even more stimulated to invest in a local office (Johanson and Vahlne, 1977, Davidson, 1980).

These arguments however do not fully explain the success of a number of consultancies in foreign markets. Their ability to introduce new products and methodologies fast are short term advantages easily copied. Consultancy-specific characteristics impact on the performance in an international environment and should also be considered. The success of foreign consultancies depends on the use of particular assertive strategies in foreign locations.

Several studies have examined the specific characteristics of service activities and how these affect their marketability (e.g. Fuchs, 1968). Management consultancy in particular is characterised by high *ex ante* uncertainty about the value of the consultancy work seller (Mitchell, 1994, Gallouj, 1997) because it is perishable and intangible (De Bandt, 1995). The international business literature also places particular weight on the problems of buyer uncertainty over the value of the output (Casson, 1982, Boddewyn, Halbrich and Perry, 1986). Most professional services have managed to reduce the uncertainty through the introduction of strict entry qualifications (Forsyth, 1992) or control institutions that provide deeper information about the quality of the product and of the service provider (Hölmstrom, 1985, Hölmstrom and Tirole, 1989). For a variety of reasons, similar efforts have only had a limited success in the consulting industry (McKenna, 1999). Most of the selling in the consulting business still remains based on the “word-of-mouth”, and on non-institutional–based trust between client and supplier (Baudry, 1994, Gallouj, 1997). In such a context, reputation becomes an intangible asset of strategic importance (Kreps and Wilson, 1982) especially for those operating in foreign locations. It can be used to assure clients about the quality of the service and its supplier. Otherwise, it is commonly accepted that trust can be developed within a long-term personal relationship context (Zucker, 1986). Indeed both buyer and seller are interested in forging such long-term relations. As the knowledge between the contractual parties increases, transaction costs of future contracts will decrease. Once established clients provide a stable source of income

However, the process buy which long-term trust based relationships are <u>initially</u> created is clearly overlooked in the context of international business, and even less for the internationalisation of consulting activities. In this regard Kipping (1999) studied the international expansion of consultancies with a focus on France, Germany and the UK as host and home countries. He suggests a kind of three-stage model to explain the expansion of American consultancies to Western Europe from the 1920s to the 1980s, highlighting that long term trust based relationships were facilitated by shared social, cultural or educational proximity between consultants and clients.

Unique or distinctive products helped consultancies to attract clients in their home countries and also to “export” to foreign locations. A positive reputation in their home countries helped to stimulate the demand for their services abroad. Multinationals both from the home and the host countries acted as “bridges” for these consultancies, providing them with initial assignments in host countries. Subsequently, the successful consultancies hired host-country individuals with excellent business, political and social connections to start-up foreign operations and also to extend their domestic client base. A further expansion was often facilitated by the –more or less– systematic “scattering” of former consultants into positions of responsibility. Successful foreign consulting firms developed long-term relationship with clients and were able to preserve their reputation in the host country. These largely depended on partners reputation and maintenance of good personal relationships with clients. All of these provided the first movers among the foreign consultancies with clear advantages which latecomers could only overcome through the acquisition of existing service providers or highly distinctive approaches.

Kipping has concentrated his analysis on the largest and most developed European countries. In the next section it is examined the penetration of international consultancies in Portugal, where the expansion of consultancy services occurred much later than in the rest of Western Europe, but has accelerated considerably in recent decades.

GLOBAL CONSULTANCIES DETERMINANTS OF FDI: THE PORTUGUESE CASE

The investigation is based on in-depth cases studies of the 12 leading foreign consultancies with operations in Portugal. Data were collected through interviews with the partners and complemented with company internal documentation, business press and others when available. Additional interviews were also conducted with 20 other consultants with vast experience in this market. Table 1. Provides a description of the case studies and their main activities. They can be broadly divided into three groupings accordingly to determinants of FDI, period of entry, initial activities and expansion into consulting services. Group 1 (ACCOUNT) is formed by top leading accountancy based firms, which are established in Portugal since the 1950s but expanded into consultancy only in late 1980s and 1990s. Group 2 (FCONS) is formed by the first “consultancy” foreign providers. They have been present since the 1960s and 1970s but their competitiveness has changed significantly in a context of increasing competition. Finally there is a third group which established local presence only in late 1980s and 1990s. Within these, Group 3.a (EXPE) were already servicing the Portuguese market from abroad. Group 3.b (NOEXPE) is formed by new entrants inexperienced in the country.

[Table 1 about here]

Like in most other European countries (Kipping, 1996 and 1997), the origins of management consultancy activities in Portugal are related to scientific management and the improvement of shopfloor efficiency. However, it occurred much later than in most Western European countries, mainly due to the backwardness of the Portuguese economy in terms of the level of development and industrial structure (Amorim, 1999). Engineering related management consultancy services in Portugal were first offered in the 1940s. They were carried out by consulting centres founded by university professors, and by the consulting department of large economic groups (Sismet, 1993). The first foreign consultancies with local presence were the international accountancies ACCOUNT. The first mover was probably F1, which established in Portugal in 1951 to satisfy the accounting needs of its clients expanding in Portugal and domestic groups with multinational operations. Despite the reduced size and market potential, country specificity in terms of accounting procedures justified local presence, and uncompetitive host market assured their profitability. The same determinants were behind the penetration of other accounting firms (Table 2)

[Table 2 about here]

The demand for pure consultancy services only picked up during the 1960s. In response to government-sponsored efforts to promote economic growth, FDI inflows and the modernisation of plants, a few large multinational diversified companies as well as a number of medium-sized firms showed an interest in scientific management, industrial engineering, corporate organisation and planning as well as human resources practices (Inácio and Weir, 1993, Silva, 1997). Since the domestic supply of consultancy services was very limited, if not to say non-existent, these Portuguese companies attracted a small number of foreign service providers, most of them from France. Among them were Paul Planus and Corte, both specialising in the improvement of efficiency and work processes on the shopfloor. But the most prominent entrants during this period were probably the FCONS, and especially the leading American consultancy F7, which specialises in human resource services. All of them had already a large number of foreign operations and followed the entry of their clients in Portugal. FCONS soon expanded to the large domestic companies assuming a leading role in the Portuguese market over the 1980s and again in the 1990s.

The American consultancies F8 and F10 also made their first appearance on the Portuguese market, carrying out reorganisation of the Portuguese conglomerates in 1969 in early 1970s, but they did not establish a permanent presence. The Portuguese market was supplied through exports in the form of temporary visits of personnel from the Madrid and London offices. The reduced size of the market and country risk justified such behaviour.

Political, economic and social changes occurring after the revolution of 1974, which brought an end to the Salazar dictatorship, deeply affected Portuguese location advantages for FDI in consulting, as well as for FDI in general (Simões, 1995). On the one hand, the domestic consultancies lost their privileged access to the market of the colonies. On the other hand and more importantly, they were not able to satisfy the needs of the large, newly nationalised firms neither of the increasing number of foreign multinationals in a context of expanding inward FDI. And neither could they supply services which addressed the consequences of economic recovery, the import of technology and labour conflicts, i.e.

consultancy focusing on industrial relations and work performance as well as industrial organisation (Cunha and Marques, 1995). Once again, this *demand push* factors created opportunities for international consulting firms. Indeed FCONS registered consecutive growth rates over the 1970s and even 1990s.

A definite and prolonged upswing of consultancy activities in Portugal occurred only from the mid-1980s onwards, when the country joined the European Communities, now the European Union. Since then, Portugal has experienced a high-level economic growth, booming FDI inflows and its industrial structure also changed significantly**.** Most of the large state-owned enterprises have since been privatised. There was an increasing internationalisation of the Portuguese economy and many large companies grew considerably and diversified their activities (Cunha and Marques, 1995). Consequently, Portuguese firms, large and SMEs were forced to look for managerial solutions to cope with the growing and more competitive markets as well as with their increasing organisational complexity. Accordingly our interviewees these led to a growing demand for management consultancy. As shown in Table 2, financial services, utilities, distribution and to a less extent a few manufacturing industries such as automobile are leading the phenomenon.

The supply side conditions also changed quite considerably. On the one hand, during the 1980s and 1990s a large number of domestic consulting firms were established. There was also an upsurge in public and semi-public institutions offering consultancy services, namely to small and medium-sized enterprises. On the other hand, there were also drastic changes in the supply from foreign service providers. One first group was made up of the consultancy departments of the large Anglo-American accountancies. ACCOUNT had been present in Portugal for decades but until the 1980s only occasionally offered consultancy services. The search for economies of scale and scope justify their expansion into the consulting business (Table 2). Their accountancy based clients provided a safe initial income stream. F6, which is a spin-off from F3, subsequently became major player, especially in the information technology area. Their penetration is reflected on the share of repeated business, i.e. 80%.They still expanding their client base and less than 50% of the their sales correspond to repeated business (Table 2). In face to increasing competition and more demanding clients, FCONS lost pace to competitors, this is discussed below. However, they have been changing their approach and refreshing their image. Their endeavours include build up a stronger international image and introduce innovative products, less emphasis on training and more emphasis on high value-added HRM consulting. This evolution however reflects worldwide developments in group strategy, which have decided for higher international integration and coordination between dispersed units. Another wave of major international service providers included the EXPE and NOEXPE. These were mainly stimulated by expectations about market expansion emerging from economic liberalisation, growth and the “wagon” of FDI inflows. EXPE were already supplying the market through exports and opened offices in Lisbon when market size reached a threshold justifying local presence. They have a small but constant base of clients, and nearly 80% of their sales are repeated business (Table 2). A final sub-group (NOEXPE) is formed by the *late comers* which did not have prior permanent assignments in Portugal but also decided for local presence, despite recognising the difficulties related to the small market size. In this case there was mainly a change in company strategy due to the trends in the consulting market. They are leading international consultancies which recognised that survival in such increasingly concentrated market implies to be where competitors are, to have global operations to serve globally oriented customers (Table 2). It is a typical *oligopolistic* behaviour, mainly of the defensive type. Their recent entry explains the low percentage of repeated business.

Some features of these subsidiaries are worth exploring. Unlike Planus etc. in the earlier period all of them offered consulting at the corporate level, including organisation and strategy or human resource management and IT. Despite their later development, and smaller scale, the Portuguese consulting affiliates appear, until now, like their parent firms in term of skill levels, the use of soft technology, physical capital intensity. They are more like miniature replicas of their parent firms than specialised units in a world wide production network, which highly contrasts to the case of manufacturing FDI in Portugal. However, certain market specificity exists due to small market size and belated development of certain industries. Furthermore, foreign subsidiaries face some barriers for development worth to reveal. These are mainly related to distortions induced by the EU incentives, and, more importantly to difficulties in recruiting appropriate labour force.

Another trend amongst all of them is the integration of the Portuguese units with the Spanish operations, being the Iberian office in most cases located in Spain. This evolution in the 1990s reflects international consultancies endeavours to capitalise on FDI, e.g. integrated governance of international units leading to avoidance of costs, simultaneously generating synergetic effects, aiming at capitalising on the heterogeneity of their mix of subsidiaries, at the same time ensuring cohesion in the firm as a whole.

In conclusion it, can be said that in comparative perspective the consultancy market in Portugal developed significantly later than in other Western European countries reflecting the much smaller size of the domestic economy, the belated emergence of modern large-scale enterprises and multinational activities. Another interesting feature of the market entry of foreign consultancies is the caution with which they proceeded in general. This might be due to the size of the market which probably did not justify a fully fledged presence in the initial stages of development. The (perceived) country risk until late 1970s and cultural differences with other European countries, might have also been a reason. Thus, in the 1960s, the French firm F6 chose to set up a partnership with Associação Comercial de Lisboa instead of entering the market on its own. It took F8 another twenty years after its initial work with CUF, before finally opening an office in Lisbon in 1989, F10 had a similar behaviour. In the meantime, they supplied the market on an ad hoc basis form the London or Madrid offices. It appears therefore that many foreign consultancies were only willing to commit themselves to the Portuguese market, once a constant income stream could be secured. This was confirmed by BCG President John Clarkeson, who stated in an interview with a Portuguese journal that his consultancy did "not want to grow explosively. We are slower than the market" (*Exame*, 1994). *Late comers* are an exception as industry developments changed the nature of FDI determinants.

The analysis also reveals that consultancies FDI in Portugal differ significantly to manufacturing FDI. The first has been clearly *domestic market led*, while manufacturing investments became increasingly *export led.* Thus, while low production costs have been determinant for manufacturing FDI, they are considered secondary for consulting FDI.

Despite their late entry, almost from the outset, foreign consultancies played a major role in supplying consultancy services. During the 1960s and 1970s, most of them were of French origin and focused on efficiency improvements. A second wave of foreign service providers entered the market in the 1980s and 1990s, offering IT consulting and advice to top management on a variety of issues. The latest estimates indicate that 6 among the ten largest management consultancies are of foreign origin, accounting for more than 50% of revenues in the leading group (DN, 1998, Amorim, 1999). It remains to be seen how the successful consultancies managed to establish long-term trust-based relationships with Portuguese firm, a task made more complicated by their foreign origin. While most have shown very assertive strategies, at least two of the cases studied faced considerable problems in this regard.

GLOBAL CONSULTANCIES STRATEGIES TO CONQUERING CLIENTS

It appears that the entry of foreign consultancies in Portugal largely resembles the three stage process analysed by Kipping for the expansion of US consulting companies to Britain and the larger Continental economies (see above). While the language and cultural barriers might have been lower for the French service providers, who entered the Portuguese market in the 1960s, they used similar methods to gain access to clients as did the other consultancies twenty years later.

In the 1960s and then again from the 1980s onwards, the majority of the initial clients of foreign consultancies were multinational enterprises (MNEs), both from their home and the host country. These early assignments not only ensured consultancies with an initial income stream, but also helped them to build–up their reputation, to learn about the "new market" and to strategically widen their contacts with the local business community. Thus, the first wave of foreign consultancies operating in Portugal during the 1960s, namely ACCOUNT and FCONS, worked mainly with the subsidiaries of foreign multinationals and the large Portuguese international groups, including for example IBM, and the conglomerates CUF and Grupo Champallimaud (Amorim, 1999). Similarly, interviews revealed that in the 1990s the new entrants also targeted the large international firms, either of Portuguese or foreign origin. One of those interviewed stated that "the most difficult is to gain a first assignment, because afterwards we will have easy access to other firms within the same group". Since some of these groups, such as Portugal Telecom, Electricidade de Portugal, Banco Português de

Investimento, are relatively large, there are cases where they account for more than 60 per cent of the turnover of a given consulting firm.

The foreign consultancies widened their client base with the help of social, corporate and political networks. On the one hand, they opened their local operations with a few individuals who had excellent contacts with the social, economic and political elite in the host country and thus could provide them with the necessary introductions. For the French firm F6 for example, the alliance with the large Portuguese association was more than a good base. Moreover, consultancies benefited from the fact that their consultants and the managers of the large client firms shared the feeling of belonging to the same elite. Most of them had attended the same schools and came from the same cultural or economic background. A prominent example is the work of F8 for CUF in the late 1960s. It seems that the decision to employ the American consultancy was made by client managers who had been studying abroad. Twenty years later F8 opened the Lisbon office with a Portuguese partner already working for the consultancy in other office, and which had been engaged in assignments in Portugal. Almost ten years later company F10 followed the same approach, but considering the difficulty in finding suitable partners it used experienced and well connected Portuguese consultants which had been working for F8. Other, e.g. F9, opt for hiring experienced Portuguese managers from large companies.

The role of these avenues for expansion becomes clearer considering the market failures due to inappropriate selection of connecting elements. The first example comes from company F7. From top leading consultancy in the 1980s (80 consultants) it totally declined with the deterioration of the credibility and reputation of its founder partner, an English expatriate. It started recovering only from mid 1990s. Its strategy included a stronger international image, and the recruitment of an experienced manager from a large multinational company with good connections. Another example comes from PA consulting, which is not included in our sample but about which was possible to gather important details. It achieved considerable penetration but it closed down in late 1980s when the founder partner was found involved in illicit operations. This event put them off of the Portuguese market until today. F12 endeavour to establish local presence was up to now unsuccessful. Accordingly to their Spanish partner, in their two attempts they were unlucky with the selection of founder partners (Table 2). They still supply the Portuguese market through temporary exchange of personnel, but have a strong willingness to establish local presence. F6 downplayed the enforcement of long-term relationships focusing on services for a vast number of clients. Despite their long presence in the market, only 35% of their sales correspond to repeated business. It was for sure a good diversification strategy enabling to maintain stable revenues even in recession periods. However, without the trust based long term relationships they had to enter if price-cutting strategies when their clients swap for cheaper competitors. They are however changing their approach, targeting higher value-added products to be explored in more profitable market segments.

Finally, like elsewhere, the foreign entrants prompted a further, and increasingly rapid expansion of the Portuguese consultancy market through the “scattering” of former consultants. In general, this occurs in at least two ways, either through spin-offs, i.e. when host country nationals complete a kind of apprenticeship at the foreign service provider and then set up their own consultancies, or when former consultants take up leading positions in domestic companies or in politics. Furthermore, consultancies also benefit from the transfer of managers across companies. Client staff moving across to another organisations tend to prefer those with whom they have had previous links.

In Portugal a large number of former consultants and managers who had intense contacts with international consultancies, for example with F8 in the late 1960s and F7 during the 1970s, have taken leading positions in the Portuguese industry and politics. For them, the fact that they had been working for large consultancies or participated in consultancy assignments on the client side became a kind of “passport” for entering large Portuguese companies. Another prominent example are the large Anglo-American accountancies that diversified into consulting in the 1980s. They were the first foreign auditing firms in Portugal and quickly gained access to many large Portuguese companies. They have relied considerably on these links to broaden their client base in Portugal.

Recently, other ways of promoting consultancy services have become more important. Most of them aim at achieving a high level of visibility in the business community. This is surprising event considering that membership in a consultancy association and professional ethics in general have excluded the use of traditional promotion and selling techniques (Kyrö, 1995). The interviews with the top consultants and a systematic analysis of the Portuguese business press over the last decade suggest that consultancies are increasingly making use of indirect marketing by publishing articles or giving interviews to the most widely diffused business periodicals. Speaking at or sponsoring business seminars as well as high-profile voluntary work for non-profit organisations also appear to be on the increase since the late 1980s. There are also some reports about “free” trials, but the evidence is too limited to conclude that they are being used in a systematic way. The consulting arms of the large international accountancies seem to go even further and are increasingly resorting to traditional promotional and marketing techniques. The sponsoring of sports or cultural events has become very popular. And Deloitte & Touche, for example, is said to mail information about its services to prospective clients. Especially F7, but also F1 and F9 have recently advertised directly on television and in the business press.

It should be noted, however, that these activities are not confined to Portugal. Most of the global accountancy and consultancy firms are actually launching world-wide advertising campaigns, quite often using the same adverts or images across the globe. Actually, they are probably used less in Portugal than in some of the larger and more developed markets. "Contingent contracts", another form of promotion which appears to have been spreading to Europe from the United States over the last few years, has also only made minor inroads in Portugal. It consists of linking the payment for the consultancy to the results achieved, for example in terms of headcount reduction (O'Shea and Madigan, 1997, Gallouj, 1997). Only one of the Portuguese consultants at F11 revealed to have used this practice. As a recent entrant, his firm probably has to use a wider range of sales techniques than the more established service providers. However, his and the general feeling in the market was that these contracts did not prove to be very efficient, because the results of consultancy interventions are usually difficult to measure.

CONCLUSION AND AVENUES FOR FUTURE RESEARCH

Thus, in a historical and comparative perspective, the Portuguese consultancy market seems to have developed considerably later than in most of Western Europe. It expanded in two waves, first during the 1960s and then again, more consistently, from the mid-1980s in conjunction with the country's membership in the European Union. The relatively low level of economic development and the slow emergence of large scale multinational enterprises appear to be the most important explanatory variables for the belated development. Considering the uncompetitive domestic market, foreign consultancies played an important role in supplying the Portuguese market, namely a number of French consultancies during the first period and then, over the last decade or so, the well known US consultancies and consulting arms of the Anglo-American accountancies. The penetration of foreign consultancies has been largely market driven. As for manufacturing (Tavares, 1999) EC membership lead to a determinant swift in foreign consultancies activities in Portugal. However, foreign entry into consultancy (and to business services in general) clearly contrast to that in manufacturing. While export-led investments based on relative costs have come to dominate manufacturing FDI the former has been essentially driven by market and GDP growth. Thus, while business services FDI have been increasing, manufacturing FDI inflows have been declining in a context of increasing production costs. In spite of this evolution, business services FDI in Portugal have been far overlooked.

Despite differences in the timing and the level of development, the foreign service providers seem to have used similar methods to establish and maintain long-term trust-based relationships with client companies, compared to the more developed consultancy markets. These included work for multinational companies, both of Portuguese and foreign origin, close connections with individuals well placed in the corporate, social and political elite as well as the “scattering” of former consultants. But at the same time, there were a number of features more specific to the Portuguese case, namely the caution with which most of the foreign consultancies entered the Portuguese market. Once again, this is explained on the size and the nature of the Portuguese economy. In recent years, Portugal appears to have become more similar to other consultancy markets, in terms of the level of activities, the predominant service providers and the –increasingly direct– marketing and sales methods used by them.

Finally, the activities of the earlier and recent entrants raise some issues which go beyond the scope of this paper and ought to be further analysed. Because of the low tradability of consultancy, and elements involved in its supply, the Portuguese consulting affiliates appear, until now, like miniature replicas of their parent firms than specialised units in a world wide production network.This is probably also the case for other service MNEs (e.g. in IT, e-commerce, banking). Indeed, traditionally, foreign service affiliates are more valuable to their countries than their manufacturing counterparts in terms of skills, soft technology, physical capital intensity (Sauvant, 1993). In this perspective services FDI should be further stimulated.

However, increased tradability of consultancy may change this situation fundamentally. Technological developments that changed the nature of services making possible a strategic international division of labour and delivery across dispersed geographical locations. Even in service industries such as consulting the initial focus on market-seeking activities is being replaced by an increasing emphasis on the efficiency seeking and strategic asset seeking arguments. Affiliates no longer need to be free-standing miniature versions, but instead they can fulfil specialised tasks within the framework of a global international consultancy and trade the results through temporary personnel exchanges. In this regard, internal knowledge management systems becomes determinant, with strong impact on the pattern and nature of each affiliate and its international involvement. There is evidence that the Portuguese affiliates are loosing space in this regard, becoming mere “outlets” to offer “products” developed elsewhere (e.g. the development centres of Andersen Consulting in Spain, Ireland, etc..). The scale, reason and consequence of this development ought to be further analysed.

In this regard, the availability of key human resources and science based activities are of crucial relevance for some activities within consultancy (e.g the sitting of R&D activities and back-office support operations within consulting firms rests on an adequate supply of premises, communication facilities, and suitable trained labour) and within services in general (Dunning, 1989, Boddewyn, Halbrich and Perry, 1986). Foreign consultancies are already referring to difficulties in recruiting specialised personnel. In this context, the role of government in influencing the location of management consultancy services becomes of particular significance. Easy access, fast establishment procedures, legal procedures and labour market regulation (e.g. concerning professional qualifications and international movement of labour) are some of the elements affecting country location advantages. This evidence calls for more attention on services FDI, which has been largely neglected by governmental policies.

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Table 1. Main characteristics of case studies and activities

	Home country	Mode of entry	Year of establishment		Main area of consultancy 1998	N. consultants in 1997/8	Consulting fees 1998 mill PTE
Group 1: Accountancy based (ACCOUNT)			**Initial**	**in consulting**			
F1	UK		1951	1985		290*	3500
F2	UK	Gf.	1965	1996	IT/ Processes	20	2400
F3	US		1969	1996		60	4200
F4	US/UK		<1980	1988		80	1772`
F5	US	Spin-off	**	1989/90		500	8000
Group 2.: First pure consultancy (FCONS)							
F6	F/sp	Alliance		1963	Training, Rec.Selec	21 (+29)**	800
F7	US	Gf.		1972	HRM	30	720`
Group 3: Strategy consulting :							
3.a With previous activity (EXPE)							
F8	US	.		1985		50	3375`
F9****	F/US	Gf.		1987	Strategy	28	2400`
F10	US			1995		20	1600`
3.b. No previous activity (NOEXPE)							
F11	US	Gf.		1997	Strategy/ IT	28	2181`
F12	F		Exporting since mid 1990s		IT		

Gf: greenfield; *Portugal and Spain ** Spin-off from accountancy firm already established, *** externals, **** recently merged with other firm,
` based on worldwide average turnover per consultant in Spain.

Table 2. Determinants of FDI and market characteristics.

	Determinants of FDI		Clients	% repeated customers	Specificity of market	Barriers for development
	Initial	In consultancy				
Group 1 ACCOUNT	Follow MNE client Legal specificity Undeveloped supply	Economies of scale and scope International presence Homogenise services worldwide First mover advantage Spin-off from previous Economies of scale & scope	F. Services >40% Ind. Distribution (30-60) Telecom Government	<50% (Except F8, 80%)	Belated development of certain industries (e.g. electric, telecom, health, pharmaceuticals, multimedia, airlines) Smaller firms No competition from domestic Belated services, e.g. ,shareholder value	Small market Price-sensitive EU funds distorted market Inadequacy between capital-real economy Recruiting experienced professionals
Group 2. FCONS		Follow MNE client Undeveloped supply	F. services Telecom Industry /distribution	35%	One step behind	Small market Competition
Group 3.a EXPE		Import substitution Follow/ access to MNE clients Market potential International image	Banking Telecom Energy	80%	Lack of competition Smaller firms Industry specificity	Small market Recruiting
Group 3.b NOEXPE		International image and follow competitors Follow/ access to MNE clients	Tourism, transports, distribution, Telecommunications Automobile	<50%	Small size Potential in health, telecom	Small market Late comer Recruiting Partner (for F12)