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

Celeste Amorim[1]
University of Reading
Economics Department, PO BOX 218
e-mail: C.M.D.Amorim@reading.ac.uk

ABSTRACT

Reports in the general and specialist press as well as several official estimates (e.g. EU, 1997) 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 foreign investments of global consultancies, and how the pattern of their activities change with industry and host country`s development process. The implications of these developments for the nature and scope of subsidiaries activities are discussed. These are still 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 "weak-ties" (Granovetter, 1973) as trust-creating mechanisms, 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. Similarly, over the past decades the total volume of services foreign direct investment (FDI hereafter) in the OECD area increased substantially and it surpassed manufacturing (OECD, 2000). As a result services internationalisation has become a central focus of research in international business (Dunning and McQueen, 1981, Kindleberger, 1983, Daniels, Thrift and Leyshan, 1989, Jones, 1992, Contractor and Kundu, 1998).

One of the service industries registering higher expansion is management consultancy (EU, 1997). Yet, its internationalisation during the post-war period and especially from the 1960s onwards remained largely overlooked. Thus, this paper sets out to identify first, the determinants for consultancy FDI from a dynamic perspective. Secondly, the 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 provides the theoretical background. The second overviews the consultancy business in the Portugal, emphasising how the dynamics in the ownership-location-internationalisation (OLI) paradigm reflects not only host country development path (Dunning, 1992) but also consultancies responses to industry evolution, being the concentration at global level the most important (Knickerbocker, 1973). The third part examines the ways consultancies have gained access to clients in the host country, and the extent to which these have (or have not) changed over time. While firm reputation has received most of the attention in the literature, this paper claims more attention to individual consultants "weak-ties" and reputation. Avenues for future research are pointed out.

THEORETICAL FOUNDATIONS

Internationalisation can be broadly classified into *market-seeking*, *resource seeking, efficiency seeking, or strategic asset seeking* (Dunning, 1992). The history of consultancy firms suggests that their internationalisation has been driven mainly by the pursuit of market opportunities (*market seeking*) than the pursuit of economic efficiencies, with *resource seeking* being relatively unimportant. Since its early days the international expansion of consultancies has been considerably stimulated by the need to service their multinational clients (Kipping, 1999). The search for efficiencies, through both economies of scale and scope appears to be growing in significance, however (Moore and Birkinshaw, 1998).

Consultancy and manufacturing FDI share many similar reasons for internationalisation. Consultancies might have a ownership (O) advantage that they ought to explore abroad. The quality of their labour, their brand name, product differentiation, access to markets, and innovative capabilities are some of the advantages commonly associated to international consultancies (Dunning, 1989). These advantages are further enhanced if explored into uncompetitive host markets. Otherwise, internationalisation itself may enhance firm-specific advantages as high operational costs (e.g. training, R&D) for example can be spread through size and scope.

These advantages can be explored through different means including exports, e.g. temporary international movement of consultants (Clegg, 1993) or foreign production. Yet, combination of internalisation and location variables might favour physical presence in a foreign location (e.g. Boddewyn, Halbrich and Perry, 1986, Andersen and Gatignon, 1986, Dunning, 1989, Dunning, 1992, Chang, 1995).

When the net transactional benefits of hierarchies are perceived to be higher, the market is internalised and efficiency of the group`s operations is increased (Casson, 1982). In this regard, 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 adaptation to local demand. Local presence allows for on the spot contact with client, facilitating the access to information about sellers and buyers thus reducing uncertainty and transaction costs. As far as country specificity remains, physical presence might be determinant to acquire knowledge on business system and country characteristics. Otherwise foreign consultancies are at disadvantage *vis a vis* local firms. Instead, local presence can stimulate local companies` goodwill to buy. Furthermore, through FDI, international consultancies can profit economies of specialisation of personnel and the economies of common governance arising from their ability to move people and knowledge between different parts of the same organisation.

The extent to which the enterprise believes that it to be better to use the O and I advantages in a foreign location depends on a number of location (L) characteristics. On the one hand, consultancies opened operations abroad when market growth and/or profit potential was favourable. As for manufacturing the need to satisfy local specificity is an important factor favouring FDI (Dunning, 1989). In these regard, accountancy and business practices, recognition of professional qualifications are paramount important. Otherwise, consulting FDI differ significantly from manufacturing in a few aspects. Host country production costs is a crucial variable for manufacturing FDI but not for consultancies. Indeed internationalisation of manufacturing tends to favour low-cost producers and locations whereas internationalisation of service industries tends to favour high-cost producers and locations. Similarly, 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 particular. Easy access, fast establishment procedures, favourable legislation and labour regulation are some of the elements affecting location advantages. There are also agglomeration economies in being close to competitors, suppliers and customers.

Country stability, cumulative international experience (Johanson and Vahlne, 1977, Davidson, 1980), and decline on sociocultural differences are also important factors favouring physical presence abroad (Andersen and Gatignon, 1986).

Another important and increasingly factor 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 Knickerbocker (1973) and Dunning (1989, 1992) this is clearly identified in oligopolistic sectors. Considering that over 60% of the consulting fees are concentrated in a handsome of large international consultancies oligopolistic reaction is expected.

The former paradigms need to be combined in order to explain consultancy FDI. Furthermore they need to be envisaged as dynamic realities if they are to accommodate industry and host country`s developments. Yet, they do not fully explain consultancies penetration in host economies. Industry-specific characteristics ought to be considered. When the ability to introduce new products and methodologies fast are short term advantages easily copied, trust based relationships are a last resort. Their own consultants “weak ties” and reputation are of paramount importance at this level.

The international business literature places particular weight on the buyer uncertainty over the value of the output (Casson, 1982, Boddewyn, Halbrich and Perry, 1986). Consultancy in particular is characterised by high *ex ante* uncertainty about the value of the consultancy work because it is perishable and intangible (Mitchell, 1994, Gallouj, 1997). Most professional services reduced the uncertainty through the introduction of entry qualifications (Forsyth, 1992) or “watch-dog” institutions (Hölmstrom, 1985). 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 reputation and "word-of-mouth", and on trust between parties (Baudry, 1994, Gallouj, 1997). In such a context firm reputation becomes a strategic intangible asset (Kreps and Wilson, 1982, Dunning, 1989) assuring clients about the quality of the service and its supplier. Otherwise, it is commonly accepted that trust can be also developed within long-term personal relationships (Zucker, 1986). However, the process by which these relationships are initially created has been clearly overlooked. In this regard Kipping (1999) suggested 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. Kipping has concentrated his analysis on the largest and most developed European countries. This paper examines 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: THE PORTUGUESE CASE

DATA COLLECTION AND METHODOLOGY

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 experienced consultants. Table 1. Provides a description of the case studies and their main activities. The data were analysed following Miles and Huberman (1994) techniques, and the cases were broadly classified into four groupings accordingly to determinants of FDI. As discussed next, they share other characteristics, such as period of entry and consulting specialisation. Group 1 (ACCOUNT) is formed by top leading accountancy based firms, which established in Portugal in the 1950s-early 1970s, but expanded into consultancy only in late 1980s and 1990s. Group 2 (FCONS) is formed by the first "consultancy" foreign providers. They entered in the 1960s and 1970s but their competitiveness has changed significantly in a context of increasing competition. Two groups established local presence only in late 1980s and 1990s. Within these, Group 3 (EXPE) were already servicing the Portuguese market from abroad, while Group 4 (NOEXPE) is formed by new entrants inexperienced in the country.

TABLE 1. MAIN CHARACTERISTICS OF THE CASE STUDIES

	HOME COUNTRY	YEAR OF ESTABLISHMENT	MAIN AREA OF CONSULTANCY BY LATE 1990S	N. CONSULTANTS IN 1997/8	CONSULTING FEES 1998 MILL PTE
F1	UK	1951 (1985) †		290*	3500
F2	UK	1965 (1996)		20	2400
F3	US	1969 (1996)		60	4200
F4	US/UK	<1980 (1988)	IT/Processes	80	1772`
F5	US	** (1989)		500	8000
F6	F/sp	1963	Training, Rec.Selec	21 (+29)***	800
F7	US	1972	HRM	30	720`
F8	US	1985		50	3375`
F9****	F/US	1987		28	2400`
F10	US	1995	Strategy	20	1600`
F11	US	1997	Strategy/ IT	28	2181`
F12	F	Exports	IT		

† In brackets year of expansion into consulting *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.

DETERMINANTS OF FDI – DYNAMICS OF OLI PARADIGM

Like in most other European countries (Kipping, 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. However, the supply remained relatively undeveloped, dominated by consulting centres founded by university professors, and by the consulting departments of large national groups (Sismet, 1993). The first foreign consultancies with local presence were the international accountancies ACCOUNT which established in Portugal to satisfy the accounting needs of its home clients and domestic multinational groups. Despite the small size and market potential, need for frequent contact and country specific accounting procedures justified local presence, and an uncompetitive host market assured their profitability (Table 2).

The demand for pure consultancy services only picked up during the 1960s following the government-sponsored economic growth, FDI inflows and the modernisation of plants. A few firms showed an interest in scientific management, industrial engineering, corporate organisation and planning as well as human resources practices. Since the domestic supply of consultancy services was very limited, if not to say non-existent, the increase in demand attracted a small number of well-known foreign providers. 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 were probably the FCONS, which specialises in human resource services. They soon expanded to the large domestic companies assuming a leading role in the Portuguese market. The small size of the market and country risk prevented other companies from establishing. The American consultancies F8 and F10 for example, 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.

TABLE 2. DETERMINANTS OF MARKET ENTRY AND MARKET SPECIFICITY IN THE 1990S.

	BUSINESS AT ENTRY	OLI PARADIGM			MARKET SPECIFICITY IN LATE 1990S	BARRIERS FOR DEVELOPMENT IN LATE 1990S
		OWNERSHIP	LOCATION	INTERNALISATION		
Group 1 ACCOUNT (1950-70)†	Accounting	Brand name International presence Market access	Undeveloped supply Follow MNE client	Legal specificity (accounting) Frequency of contact	Belated development of certain industries and services Smaller firms No competition from domestic	Recruiting professionals Small market Price-sensitive EU funds distorted market Inadequacy finance-real economy
Group 2. FCONS (1960-70)	Training HRM	Brand name International presence Market access Innovative products	Undeveloped supply Follow MNE client Increase in demand (industrialisation)	Local specificity (labour, HR legislation) Service implies frequent/close contact to clients (e.g. training)	One step behind	Small market Competition
Group 3. EXPE (1985-95)	Strategy	Brand name Global presence Market access Scale and scope Innovative	Familiarity with market Market potential Servicing globally	Frequent assignments Scale and scope International presence Access to business networks / knowledge	Lack of competition Smaller firms Industry specificity	Small market size Recruiting
Group 4. NOEXPE (>1995)	Strategy/IT	Brand name Global presence Market access Scale and scope Innovative	Follow competitors - Defensive Servicing globally	Scale and scope International presence Access to business networks / knowledge	Potential in health, telecom Small market	Saturated market Late entry – competition by foreign Recruiting Finding a local Partner (for F12)

† In brackets period of entry in the market (as table 1)

Political, economic and social changes occurring with revolution of 1974 deeply affected Portugal as location for FDI in consulting and in FDI in general (Simões, 1995). The domestic consultancies were not able to satisfy the needs of the large, newly nationalised firms, neither of the increasing number of 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 (Cunha and Marques, 1995). Despite these opportunities, small market size and political instability prevented the entry of international consultancies. The already established FCONS benefited most from these developments, registering consecutive growth rates over the 1970s and even 1980s. They provided consultancy on industrial relations and work performance as well as industrial organisation.

A definite and prolonged upswing of consultancy activities in Portugal occurred only from the mid-1980s onwards, when the country joined the European Communities. Since then, Portugal has experienced a high-level economic growth, booming FDI inflows and its industrial structure also changed significantly**.** Portuguese firms, large and SMEs, public and recently privatised, were forced to look for managerial solutions to cope with the growing and more competitive markets as well as with their increasing organisational complexity (Cunha and Marques, 1995). Accordingly to our interviewees these led to a growing demand for management consultancy. Financial services, utilities, distribution and to a less extent a few manufacturing industries such as automobile became the main clients of international consultancies (Table 2).

The supply side conditions also changed quite considerably. On the one hand, there was an upsurge in domestic supply of consultancy, namely to small and medium-sized enterprises. On the other hand, there were significant changes in foreign service providers. A second wave of entrants corresponded to major international consultancies which enjoyed strong reputation in foreign markets (e.g. EXPE and NOEXPE). Unlike previous entrants, they built up a strong international image, showing higher international integration and coordination between dispersed units. Unlike Planus etc. in the earlier period, all of them offer consulting at the corporate level, including organisation and strategy or human resource management and IT. EXPE were supplying the market through exports and opened offices in Lisbon when market size reached a threshold justifying local presence. They build-up a small but constant base of clients, and nearly 80% of their sales are repeated business (Table 2). Finally, NOEXPE represents the *late comers* without prior permanent assignments in Portugal. These recognise that the market is saturated, and that there is not much scope to expand. However, they also recognise that survival in such a concentrated industry implies to be where competitors are, to have global operations to serve global clients (Table 2). It is a typical *oligopolistic* behaviour, mainly of the defensive type aiming at retaining clients expanding abroad. Their recent entry explains the low percentage of repeated business.

In parallel, established foreign suppliers reorganised their operations. Large Anglo-American accountancies expanded into the consulting business in late 1980s in search for economies of scale and scope (Table 2) and 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. Its penetration is reflected on the share of repeated business, i.e. 80%. By contrast, in face of increasing competition and new market demands, FCONS lost pace to competitors not only in Portugal but also abroad. In response to these developments, a profound restructuring at global level is occurring. Their endeavours include emphasis on high value-added consulting and higher international integration and coordination between dispersed units.

Despite increasing international integration, the Portuguese affiliates appear 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. Market specificity exists due to small market size and belated development of certain industries. Furthermore, foreign subsidiaries face in the Portuguese market some barriers for development worth to reveal. These are mainly related to market distortions induced by the EU incentives, and, more importantly to difficulties in recruiting appropriate labour force (Table 2). 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. 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 (Amorim, 1999). It remains to be seen how the successful consultancies created long-term trust-based relationships with Portuguese firms, a task made more complicated by their foreign origin.

GLOBAL CONSULTANCIES: THE STRENGHT OF WEAK TIES

It appears that the entry of foreign consultancies in Portugal largely resembles the process analysed by Kipping for the expansion of US consulting companies to larger European economies. 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). ACCOUNT and FCONS for example, worked mainly with the subsidiaries of foreign multinationals and the large

Portuguese international groups, including IBM, and the conglomerates CUF and Grupo Champallimaud (Amorim, 1999). 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 widen their ties with the local business community. Similarly, interviews revealed that in the 1990s the new entrants also targeted the large international firms.

But, as stated by one of the interviewees, "the most difficult is to gain a first assignment, because afterwards we will have easy access to other firms within the same group". It seems that the foreign consultancies widened their client base with the help of their own consultants reputation and "weak-ties" (Granovetter, 1973) to social, corporate and political networks. A few established alliances with well-known Portuguese associations (e.g. French Firm F6). Others opened their Portuguese operations with a few individuals, members of social, economic and political elites in Portugal and thus could provide them with the necessary introductions. 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 Portuguese which had been engaged in assignments in Portugal and had close ties to leading companies. Almost ten years later F10 followed a similar approach, this time hiring experienced and well connected consultants which had been working for F8 in Portugal. Other, e.g. F9, opted for hiring experienced managers from large Portuguese companies.

The role of the consultant as an individual becomes clearer when analysing some market failures. From top leading consultancy in the 1980s F7 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 not only a stronger international image (as described above), but also the recruitment of an experienced manager from a large multinational company with good ties to the business. 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, twice they were unlucky with the selection of founder partners (Table 2). F6 downplayed the enforcement of ties and 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. Without the trust based ties they had to enter in price-cutting strategies when their clients swap for cheaper competitors.

Finally, 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 former consultants set up their own consultancies, or when they take up leading positions in companies or in politics. Furthermore, consultancies also benefit from the transfer of managers across companies, which tend to prefer those with whom they have ties. In Portugal a 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 as clients became a kind of "passport" for entering large Portuguese companies. The anglo-American accountancies that diversified into consulting in the 1980s, have also relied considerably on these ties to broaden their client base.

Recently, other ways of creating initial links have become important. Most of them aim at achieving a high level of visibility in the business community. The interviews 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 reputed business periodicals. Speaking at or sponsoring business seminars, "free" trials, as well as high-profile voluntary work for non-profit organisations also appear to be on the increase. The consulting arms of the large international accountancies seem to go even further and are increasingly resorting to traditional promotional and marketing techniques. This is a 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). 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.

CONCLUSION AND AVENUES FOR FURTHER 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. 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.

An 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, as also to the difficulty in building up ties to business. 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 and F10 nearly twenty years after their initial work in Portugal, before finally opening an office in Lisbon in 1989 and 1995 respectively. 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. *Late comers* are an exception as industry developments changed the nature of FDI determinants. However, the role of consultants` ties to initiate their operations is still determinant.

As for manufacturing EC membership lead to a determinant upswing in foreign consultancies activities in Portugal. However, consultancy inward investments 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 market-driven and GDP growth. In the 1990s, due to concentration in a global scale oligopolistic reaction became one of the main reasons for FDI. While Portugal development path largely explains the penetration of consultancies until the 1980s, in the 1990s firm specific global oriented strategies are predominant. There is a clear evolution in terms of the OLI paradigm, with country specific variables losing space to firm global strategies.

The Portuguese consulting affiliates appear, until now, like miniature replicas of their parent firms. 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, technological developments are changing this situation fundamentally by allowing a strategic international division of labour and delivery across time and space. 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. Efficiency-seeking is already behind some of the recent movements, namely international integration and rationalisation of subsidiaries activities. In this regard, internal knowledge management systems becomes determinant, with strong impact on the pattern and nature of each affiliate and its international involvement (Sarvary, 1999). There is evidence that the Portuguese affiliates are loosing in this regard. For some consultancies the integration of the Portuguese and Spanish operations is already a reality, being the Iberian office in most cases located in Spain. Otherwise, the former are becoming mere "outlets" to offer "products" developed elsewhere. The sitting of excellence centres and back-office support operations within consulting firms rests on an adequate supply of premises, communication facilities, and suitable trained labour (Moore and Birkinshaw, 1998), and foreign consultancies are already referring to difficulties in recruiting specialised personnel. The scale, reasons and consequence of this development ought to be further analysed. This calls for more attention on services FDI, which has been largely neglected by governmental policies.

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