DIPLOMARBEIT

Titel der Diplomarbeit

„Management Consulting Sector – Beginning, Evolution and Internationalization“

Verfasserin

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angestrebter akademischer Grad

Magistra der Sozial- und Wirtschaftswissenschaften
(Mag. rer. soc. oec)

Wien im Mai 2012

Studienkennzahl lt. Studienblatt:	A 157
Studienrichtung lt.Studienblatt:	Diplomstudium Internationale Betriebswirtschaft
Betreuer:	Ao. Univ.-Prof. Mag. Dr. Josef Windsperger

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2. Introduction

The sociological and economic changes as well as the technological development on the level unheard of before at the end of the 19th and the beginning of the 20th century were a factor helping in the development of the management consulting sector. Gradual liberalization on the international market of services promoted a systematic demand for consulting services.[1] Internationalization of consulting services was growing in importance among businessmen in the whole world, which could be proven by the fact that the biggest growth among all fields of the global economy was noticed in the area of management consulting and the demand for the services of consultants was not dropping even in the face of the economic crisis. [2]

Nowadays in the field of consulting the profit reaches the amount of USD 360 billion, one third of which is generated by the European market. These results are better than those in the previous years and steady growth of these amounts is estimated for the following years. Such a growth is possible only thanks to an internationalization of consulting companies whose services are used by the biggest companies and organization of the world including government agencies.[3]

In view of constantly growing demand for consulting services as well as of relatively low number of scientific studies on this subject, the process of internationalization of consulting companies seems extremely interesting. This thesis concerns precisely the process mentioned above. To study this process, I will first describe the genesis, development, characteristics and distinguishing features of the management consulting sector.

In the next step I will present the most important internationalization theories and their reference to the consulting sector, emphasizing especially the motives inducing the involvement in the internationalization process. Expert literature regarding the

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[1]Bäcklund, J. (2003): *Arguing for relevance. Global and local knowledge claims in management consulting*, Universitetstryckeriet, Economikum, Uppsala; p.10

[2]http://www.plunkettresearch.com/consulting-market-research/industry-trends (2011.06.10)

[3]Jozsef Poor, Andrew C. Gross (2010); *Report for FEACO; Survey of the European Management Consultancy 2010/2011*

subject of internationalization shows the readers many approaches and definitions. Analyzing literature and numerous scientific publications in my thesis, I will concentrate only on the most important theoretical concepts of the internationalization process, those which are related to companies from the management consulting sector. Internationalization models which will be described in the chapters below include: the Uppsala internationalization model, network approach, transaction cost theory and the embeddedness theory. The theories just mentioned present different approaches to the internationalization process. In the light of these models, the first steps of the consulting companies on the foreign markets are possible thanks to the dynamic knowledge acquisition, an advantage in the comparative analysis of costs, contacts with other actors operating on the international market and relations between them. Studying the available scientific literature, it is also possible to distinguish the most important factors influencing the decision made by companies to start activities aiming at engaging in the internationalization process. Looking at the internationalization process from the point of view of the management consulting sector, the following motives for engaging in the activities on the foreign market were distinguished: market related motives, cost related motives, resources related motives and political motives. Furthermore, attention should be particularly paid to the factors of proactive and reactive internationalization.

The last step will be to analyze literature in order to define the most important market entry forms, which are related to consulting companies. Companies which decide to enter the foreign markets and want to be successful on them have to choose among various foreign market entry forms. With respect to the specific character of the sector and especially to the intangible character of the services rendered by companies in the management consulting sector, three ways of entering international operations are distinguished, namely: export, cooperations and direct investments.

In this thesis one can find the answers to the questions such as: which of the theoretical concepts is related to the management consulting sector? How and why are consulting companies expanding their services and how do they use them? As well as by which motives are they driven to come to the foreign markets and which of the market entry forms are chosen by the companies from the management consulting sector?

3. Characteristics of the Management Consulting sector

3.1 The beginnings and evolution of the sector

Management Consulting sector, as its name suggests, could be defined as a management form. This form, however, is exceptional as it is based on asking others for advice which is to result in finding the most effective solution to a decision problem. Milan Kubr suggests that although there are many ways to define management consulting, we should distinguish two basic ones. The first way was expressed by Fritz Steel who defined management consulting with following words: "…a form of providing help regarding the content or the structure or their sequence of a given phenomenon for provision of which the consultant providing help is not responsible". The other approach was presented by Laary Greiner and Robert Metzger who stated that: "Management Consulting may be understood as a consulting service contracted and rendered for the organization by expressly trained and qualified people who perform their duties objectively and independently aiming at identifying decision problems, performing analysis of these problems, as well as recommending solutions to them and, if necessary, implementing recommended solutions".[4] The above presented definitions distinguished by Kubr differ concerning only the view on the implementing elements. The first approach eliminates entirely implementing elements, whereas in the other they are an integral part of the management consulting sector. The implementing activity is very often connected with delegating some area of a company's activity to an outside company; this process is called outsourcing. After delegating a part of the activity of a consulting company which is simultaneously engaged in consulting, there may appear a conflict of interests. Connected with it is a risk of lack of consulting objectivity resulting from the intention to expand the influence on the client's organization. Therefore some critics recommend the severance of relations with a given company when the part of the company's activity is delegated.[5]

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[4] Milan Kubr (2002); *Management consulting: a guide to the profession*; International Labour Organization; p. 3

[5] Larry Greiner, Flemming Poulfelt (2005); *Handbook of Management Consulting: the Contemporary Consultant: Insights from World Experts*; South-Western; p. 14-15

Having acknowledged the definitions of management consulting, it is easy to state that the birth of this sector took place when there appeared a demand for consulting services. The only such time during the centuries was the end of the Industrial Revolution (from the first half of the18th century till the first half of the 20th century) during which many discoveries were made. These discoveries were mainly related to such areas as: production technology (i.e. the use of steel, the discovery of a steam engine, electricity, and oil refinement), management of the production process, machines (i.e. spinning machine, telegraph and radio), transport (i.e. locomotive, steamship, a car, and a plane) and many other discoveries in non-industrial areas.[6] Big companies quickly understood that investing in technological inventions is the best way of development in industries dominated by science. This was possible thanks to incredible returns that companies generated from their investments and thanks to monopolistic position reached because of patents. It is not surprising either that in the USA companies such as DuPont or Eastman Kodak, which were to a large measure dependent on the patent technologies began, at the turn of the centuries, to cooperate with their employees, students and lecturers of the leading technical universities mainly M.I.T. It was supposed to result in a better management of innovations in these companies. Thanks to this phenomenon many M.I.T graduates set up engineering consulting companies in Boston in the 80's of the 19th century.[7] Among them there was also Arthur D. Little, a graduate of the Chemistry Department of the Massachusetts Institute of Technology. In the year of 1886 he set up supposedly the first in the world management consulting company which before the Second World War was called "Management Engineering".

Dynamic economic development caused by the Industrial Revolution and more and more complicated structure of American industrial enterprises built a growing demand for the services of professionals from the outside at the turn of the centuries. In this period concepts proposed by Frederick W. Taylor and Henry Fayol became popular. F. W. Taylor was spreading the concept of scientific management basing the concepts of management and the development of companies on the scientific development. On the other hand H. Fayol, considered the prominent creator of

[6]http://www.britannica.com/EBchecked/topic/287086/Industrial-Revolution (2011.03.10)

[7]Christopher D. McKenna (2006); *The world's newest profession: management consulting in the twentieth century*; Cambridge University Press; p. 30

contemporary management, created a concept of organization based on the structure, knowledge and basic principles such as: planning, organizing, ordering, coordination and supervision which is supposed to result in the optimal effectiveness.[8] Spreading these concepts increased the interest in consulting services.

Table 1. The historical development of consulting

PHASES	TIME	FIRMS	MANAGEMENT ISSUES
1.Origins of consulting	Before 1900	Fayol, Taylor	Birth of scientific management
2.The engineering epoch	1900-1925	Arthur D.Little	Scientific management, work design
3.Birth of personnel and HR	1925	Hay, Towers Perrin	Human relations, compensation
4.Emergence of the generalist approach	1930	McKinsey, Booz Allen, PA	General management
5.Internationalization/ reentrance of engineering	1950	Cresap	Operations management
6.Rise of computer consultants, conglomerates	1960	The Big 8 Accounting Firms	Performance measurement, electronic data processing, portfolio management
7. Business strategy	1970	BCG, Bain	Planning, organization structure, marketing, competitive advantage
8.Restructuring and effectiveness	1980	March & McLennan, Saatchi & Saatchi, KPMG, Ernst & Young,	Excellence, culture, M&A, globalization

[8] Stewart Clegg, Martin Kornberger, Tyrone Pitsis (2005); *Managing and organizations: an introduction to theory and practice*; SAGE; p. 18-28

9.Information technology and reengineering	1990	Accenture, PwC, Monitor, IBM Consulting Services	Internet leadership, change, Y2K, BPR, ERP
10.E-business and value chain	2000	Cap Gemini / E&Y, IBM Global Services	Outsourcing, transformation, networks, alliances

Source: Larry E. Greiner, Flemming Poulfelt (2009); Management consulting today and tomorrow: perspectives and advices from 20 leading world experts; Taylor & Francis; p. 10

3.1.1 The situation before the year of 1930:

As a result of a rapid economic development big enterprises, whose organizational structure did not catch up with the speed of the development, supported themselves to a high degree with services of the engineering consulting companies. At this time the significance of companies which offered consulting in the fields of accounting and law grew. This way already at the turn of the century organizations in demand for the outside engineering consulting could turn to such companies as the company of Arthur D. Little specializing mainly in the chemistry sector or Stone & Webster company operating mainly in the electricity sector. As far as the legal consulting was concerned new New York companies offering their services were set up, these being among others: Cravath Swaine, Davis Polk and Sullivan & Cromwel. In the same field of legal consulting some regional companies were operating as well such as: Jones Day in Cleveland and Baker and Botts in Houston. At the turn of the century in the USA there appeared branches of the British company Price Waterhouse which offered consulting services in the field of accounting. Successive companies operating in the field of accounting consulting included: Arthur Andersen, Haskins & Sells, Ernst & Ernst and Seidman & Seidman.[9]

Most of the leading companies operating in the field of accounting consulting were set up in the first quarter of the 20th century. These companies focused their services on such areas as: taxes, financial ventures, creating business strategies and consulting

[9]Christopher D. McKenna (1995); *The Origins of Modern Management Consulting* on the basis of the thesis *The history of Management Consulting, 1880-1980*; Business and economic history

in the field of HR.[10] In the 20's of the previous century the interest in the aspects of human resources management grew. At this time Elton Mayo conducted his first famous experiment in Hawthorne. He studied the factors influencing the effectiveness of the employees' work. For the purpose of his study he divided the employees into two groups: an experimental and a control group. Employees in each group were subjected to the effects of different factors, among others: lighting, work breaks, weariness etc., which was supposed to verify which of these factors had the biggest influence on effectiveness. The studies conducted by Mayo showed that people, as social beings, to a large degree pay attention to social relations. Another conclusion was that the care for mental satisfaction resulting from the internal integration is a crucial element which influences employees' motivation. [11]At the same time studies concerning the management of human resources were conducted as well by Mary Parker Follett. She claimed that overusing the power in the human resources management by way of making employees perform their duties is effective only in the short term, because as an effect it leaves a sense of resentment which results in the fluctuation of motivation. [12] These findings were the base for the new companies which started operating in consulting services in the field of human resources management in the middle of the 20's. These were among others: Towers Perrin, Hay, Mercer and Watson Wyatt.[13] The reason for consulting companies to widen the range of their services was the growing demand for the outside consultants in different industrial areas. This new market situation to some degree created a demand for the services of universal consulting concerning different areas of activity.

In 1914 Edwin Booz noticed the appearance of this demand and set up the first company on the market offering universal consulting comprising many areas of management and called "Business Research Services", which now changed its name to Booz Allen & Hamilton. James O. McKinsey, a lawyer and an accountant from Chicago, followed the steps of Edwin Booz and is now considered the creator of the management consulting profession. In 1926 he set up a company of universal

[10]http://findarticles.com/p/articles/mi_m1094/is_4_43/ai_n31302643/ (2011.03.19) following Andrew C. Gross (October 2008); *The global management consulting sector*; Business Economics

[11]Adam Oleksiak (2007); *Problemy organizacji: materiały do studiowania*; Key Text Wydawnictwo; p.145

[12]Jack Rabin, Samuel Humes, Brian S. Morgan (1984); *Managing administration*; CRC Press; p. 12

[13]Larry Greiner, Flemming Poulfelt (2005); *Handbook of Management Consulting: the Contemporary Consultant: Insights from World Experts*; South-Western; p. 6

consulting called McKinsey & Company which till this day is one of the most famous companies in this sector.[14]

3.1.2 The years of 1930 – 1950

Christopher D. McKenna, who was also one of the experts in this field, thought that the real development of independent companies in the management consulting sector started at the time of the Great Depression in the years of 1929 – 1940 when the Bank Steagall Act was implemented.[15] In the 30's of the 20th century the activities of banks were different from those nowadays, namely they were not divided into commercial activities (dealing mainly with the area of credits and deposits) and investment activities (dealing mainly with services in the capital market). Before 1933 banks in the USA concentrated on both commercial and investment activities with no limitations and most frequently simultaneously. Together with the development of capital market, the profits that were possible to be gained were becoming an interesting alternative for investments in more secure financial instruments. As a consequence a large part of banks in the USA started investing the money coming from deposits on the financial market. Moreover, they bought the shares of debut companies in order to resell them with a profit to private investors. This way a conflict of interests arose resulting from the financial engagement in entities which were potentially involved in the credit activities of the banks. For this reason there was a temptation to grant credits on preferential terms to such entities whose shares were in the investment portfolio of a given bank, which aimed at the superficial improvement of their financial standing.[16] Additionally, banks rendered consulting services which included the pricing of companies, determining the perspectives and making the analysis for new stock exchange listed companies, reorganization of companies on the verge of bankruptcy, as well as the integration of companies in operations such as mergers and acquisitions. At that time banks acted as internal

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[14] Milan Kubr (2002); *Management consulting: a guide to the profession*; International Labour Organization; p. 32

[15] R.Heakal; *What Was The Glass-Steagall Act?;* http://www.investopedia.com/articles/03/071603.asp (2011.08.03)

[16] R.Heakal; *What Was The Glass-Steagall Act?;* http://www.investopedia.com/articles/03/071603.asp (2011.08.03)

consultants employing engineers, accountants and lawyers for cooperation in the projects executed for clients. In these activities there was also a temptation for the banks to favor the opinion about organizations in which the banks were involved.[17] In the 30's it was thought that the reason for the Great Depression, which spread to the whole world, was a risky investment policy of the banks. Therefore in 1933 the Congress passed the Glass-Steagall Act which is also called the Banking Act. The main objective of this Act was to separate the commercial banking from the investment banking. It was also passed to eliminate those elements from the banks' activities which created the possibility of the conflict of interests. These elements included: the distribution of securities connected with financial consulting and running the insurance activity.[18] After passing the Glass-Steagall Act banks had a year to make a decision whether they wanted to concentrate their activities on the commercial or investment area. The decision on the choice of commercial activity would exclude rendering consulting services, whereas investment banking would not include such limitations. The Security and Exchange Commission (SEC) created a requirement that while preparing analysis such as "due diligence" concerning the emission of securities or in the case of enterprises reorganization, investment banks were obliged to use the services of outside consultants. As a result of this requirement investment banks were not able to use the services of their internal specialists while certifying new emissions. Moreover the provisions of the Banking Act and SEC forbade the competing professional groups (lawyers, engineers, accountants) to perform the role of consultants, because it would become the basis for the conflict of interests as well. Therefore federal regulations forced both commercial and investment banks to use the services of outside consultants while formulating an opinion regarding reorganization of a bankrupting company as well as while preparing the emission prospects for new stock exchange listed companies. The changes mentioned above created new market possibilities for a recently born sector of management consulting. These solutions created a situation about which a sociologist Andrew Abbott said: "Professions develop when legal limits disappear". The development of the management consulting sector could be observed in the

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[17]Christopher D. McKenna (1995); The Origins of Modern Management Consulting on the basis of the thesis: *The history of Management Consulting*, 1880-1980; Business and economic history

[18]Robert C. Effros (1994); *Current legal issues affecting central banks*; International Monetary Fund; p.157

example of companies which at that time were extremely successful. Those were, among others: McKinsey & Company, Booz Allen & Hamilton and George S. Armstrong & Company. This success is emphasized by the fact that in 1926, after 12 years of existence the Edwin Booz company employed only one consultant, however in 1936 the Booz Allen & Hamilton company employed as many as 11 consultants. Similarly James O. McKinsey developed his company employing more than 25 consultants in 1936 and placing his company second in New York. An interesting fact could be observed in the example of George Armstrong, a vice-president of the National City Bank, today's Citibank, who resigned from his position in 1933 only to set up his own consulting company. His company was instantly successful thanks to the execution of projects delegated by investment banks including: Jones & Laughlin, Birds Eye Frozen Foods, Seagram's and Philip Morris.[19]

In the 30's the demand for services of the management consulting sector was constantly growing which created a possibility for consultants to participate in reorganizations of the biggest and most important organizations in the world. During the Second World War consulting companies were also engaged by governments to execute projects aiming at army improvement and gaining advantage on the battlefield. Moreover the operational studies and other analytical techniques which were developed in the government projects were also frequently used in business and public economy which extended the offers of management consulting companies.[20]

As a result the efficiency approach, which was widespread at the turn of the previous century, returned to the management of organization's development. In other countries, unlike in the USA, legislative regulations did not oblige banks to make the distinction between the commercial and investment banking, which in turn meant no obligation for outside consultants to provide consulting services. As a result, in accordance with the concept of C. McKenn, management consulting sector did not develop there to the same degree as in the USA. At the turn of the 50's and 60's American consulting companies used the advantage obtained in the way described

[19] Christopher D. McKenna (2006); *The world's newest profession: management consulting in the twentieth century*; Cambridge University Press; p. 17-18

[20] Christopher D McKenna (1996); *Agents of Adhocracy: Management Consultants and the Reorganization of the Executive Branch*, 1947-1949; Business and Economic History, Vol. 25, No. 1; p. 101-111

above and basing on their precious know-how started to spread their operations, opening their branches in Europe and in the whole world.

Table 2. Geographical expansion of management consulting firms.

EXPANSION FIRM	WEST EUROPE 1960'	MIDDLE AND SOUTH AMERICA, JAPAN 1970'	EAST EUROPE 1990'	ESTERN ASIA 1990'
A.T. KEARNEY 1946	1964 Dusseldorf 1967 London 1967 Paris 1968 Milan	1972 Tokyo	1992 Prague 1995 Warsaw 1996 Moscow 1998 Istanbul 1999 Budapest	1988 Singapore 1992 Hong Kong 1995 Peking, Seoul 1996 Kuala Lumpur 1997 New Delhi 1997 Djakarta 1999 Bangkok
BOSTON CONSULTING GROUP 1963	1970 London	1966 Tokyo	1994 Moscow 1997 Warsaw 1997 Budapest	1991 Hong Kong 1992 Kuala Lumpur 1993 Shanghai 1994 Bangkok 1994 Seoul 1995 Djakarta 1995 Singapore 1996 Bombay
MCKINSEY 1926	1959 London 1964 Dusseldorf 1964Amsterdam 1964 Paris 1966 Zurich	1970 Mexico City 1971 Tokyo 1974 Caracas 1975 Sao Paulo	1993 Prague 1993 Warsaw 1995 Moscow 1997 Budapest	1991 Seoul 1993 Delhi 1995 Djakarta 1995 Peking 1997 Bangkok 1997 Kuala Lumpur 1997 Singapore
ROLAND BERGER 1967	1967 Munich 1969 Milan	1976 Sao Paulo	1991 Moscow 1992 Bucharest 1993 Prague 1993 Riga 1994 Kiev 1997 Budapest 2000 Warsaw	1995 Peking

Source: Michel E. Domsch, Elena Hristozova (2006); Human Resource Management in Consulting Firms; Birkhäuser; p. 59

As far as the USA is concerned, management consulting companies had to compete with each other, but in other countries the possibilities were not used. Not much is known about the international development of management consulting companies.

However, as it could be concluded from some sources, it began in the 60's when American companies began for the first time to open their branches in the West European countries. Studies from the 70's show that American consulting companies, especially McKinsey, played a considerable role in spreading concepts such as the deconcentrated multidivision structure among European companies. It should be noticed that the products offered by consulting companies differed from each other, which could be seen in the examples of Booz Allen who implemented a system of production control, Arthur D. Little who was renowned for preparing expert reports in the field of operational management, and McKinsey who concentrated on decentralization of many British, French and German companies in the 60's. [21] At this time in Great Britain 32 out of the 100 biggest companies used the services of consulting companies during the process of restructuring. In 22 cases the consulting company chosen was McKinsey. At the end of the 80's McKinsey owned 6 branches in Western Europe coming first on this market, the second being A.T. Kearney with his 5 offices, and the third being Arthur D. Little with his 4 offices. Considering the profit generated in the European projects in 1969 McKinsey placed first with his 35% of the market. At that time it was considered that the company had a monopolistic position.[22]

3.1.3 The years of 1950- 1980

C. McKenna stated that anti-monopolistic regulations helped to institutionalize the management consulting sector and influenced the establishment of its new trends at the turn of the 50's and 60's. It could be said that as a result of legal regulations implemented in the 30's, big auditing companies (Arthur Andersen & Company) lost a considerable share in the market, when SEC considered offering consulting services by auditing companies a conflict of interests. On the other hand, the 50's was an extremely advantageous period for those companies. At this time the American Justice Department forbade the then leading IT company (IBM) to render consulting

[21]Michel E. Domsch, Elena Hristozova (2006); *Human Resource Management in Consulting Firms*; Birkhäuser; p. 59
[22]John Cunningham Wood, Michael C. Wood; (2002); *F. W. Taylor: critical evaluations in business and management*; Taylor & Francis; p. 280-290

services in the IT area. It was possible thanks to the implementation of a new anti-monopolistic act by the government. Such a situation opened new possibilities of rendering consulting services in the IT area for auditing companies such as Anderson Consulting and other companies belonging at that time to the Big Eight of auditing companies.[23] The companies in the Big Eight included: Arthur Andersen LLP, Coopers & Lybrand LLP, Deloitte Haskins & Wells LLP, Ernst & Winney LLP, Peat Marwick Mitchel LLP, Price Waterhouse LLP and Touche Ross LLP. The 80's was the period of consolidations and this group of companies was transformed in to the Big Six, which in the following years resulted in the creation of the Big Four which includes: Deloitte and Touche LLP, Ernst & Young LLP, KPMG LLP and PriceWaterhouseCoopers LLP.[24] After extending their offer by adding consulting services, these companies generated 20% of their income on this account in the early 60' and gradually increased this result generating more profit than traditional auditing companies.[25] Until the 60's very few companies used what we call now a strategy. Most of the strategic decisions of that time were made ad hoc and were based more on intuition and business tradition than on the analysis supported by experience and current methodology. The turning point in the area of understanding business strategies came with the Bruce Henderson's discovery. He became interested in the diversity of unit costs in the companies which used similar technologies. He defined the relationship which is now called "experience curve" regarding a reduction of the unit costs together with the increase of production. This relationship was already known during the Second World War, but the way in which the founder of The Boston Consulting presented its use turned out to be revolutionary. Henderson stated that when the unit cost is reduced with the simultaneous increase of cumulated experience of a company, which in many cases can be closely related to the relative share in the market, then the reduction of the unit cost could be made dependent on the share in the market. This discovery was made in a perfect time and became a reference point in Henderson's "Growth Share Matrix" which is about a strategic

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[23] National Academy of Engineering (2008); *The Off-shoring of Engineering: Facts, Unknowns, and Potential Implications*; National Academies Press; p. 53-54 citing Christopher D. McKenna; *The world's newest profession: management consulting in the twentieth century*; Cambridge University Press, 2006

[24] General Accounting Office (2003); *Accounting firm consolidation selected large public company views on audit fees, quality, independence, and choice*; DIANE Publishing; p. 1

[25] Milan Kubr (2002); *Management consulting: a guide to the profession*; International Labour Organization; p. 34

allocation of resources.[26] This solution was generally accepted and the logic set by a statement “become as big as possible as soon as possible” became the motto of strategic thinking in the 70’s. In the 80’s this strategy opened an opportunity of a large success for big companies, like GE, striving to be in the position of a market share leader in every area of business in which the company was involved.[27] It was Michael Porter, a professor of Harvard Business School, who was an important person with a huge influence on modeling the economic thought and management practice in the 80’s. He facilitated the concept of market share by working out a model later called with his name: the model of “Porter’s Five Forces”. In this concept Porter suggested new possibilities of making strategic choices for the companies. This way, apart from the already mentioned cost leadership, Porter pointed at the differentiation and focus strategies. Differentiation strategy is based on a company’s search for the way to become unique in its sector. Such a company searches then for attributes fundamental for a client or a group of clients, and then the company is somehow rewarded for it by the higher price that the client is willing to pay for the additional asset of a product or service. While differentiation strategy consists in getting to clients who value other attributes more than the price, the third strategy focuses on filling a narrow market segment. Focus strategy consists in filling a narrow market segment which has not been penetrated yet and beginning to offer products or services within this segment.[28] Thanks to the discoveries of Porter and Henderson, in the 80’s companies’ managers had three ways of gaining advantage over their rivals to choose from. The first one focused on the profit growth thanks to the reduction of production unit costs. The second one, proposed by Porter, consisted in gaining advantage over the rivals through differentiating different areas of company’s activity. Whereas the third one regarded gaining advantage thanks to focusing the company’s activities on a market segment resistant to the level of outside costs and competition pressure.

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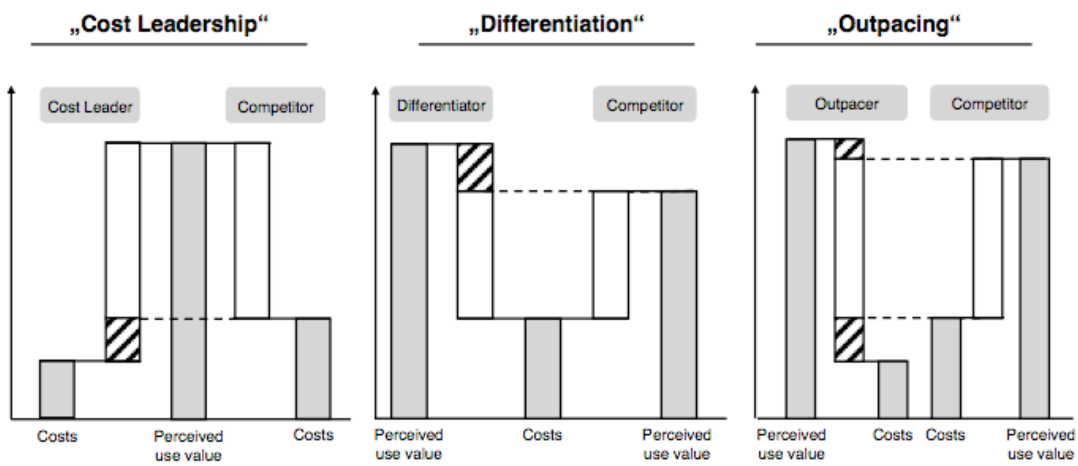
[26] Carl W. Stern, Michael S. Deimler (200&); *The Boston Consulting Group on strategy*; John Wiley and Sons; p. 10-18

[27] Larry Greiner, Flemming Poulfelt (2005); *Handbook of Management Consulting: the Contemporary Consultant: Insights from World Experts*; South-Western; p. 78-79

[28] Michael E. Porter (1998); *Competitive Advantage: Creating and Sustaining Superior Performance: with a New Introduction*; Free Press

In 1987 Xavier Gilbert and Paul Strebel suggested a concept of a hybrid strategy combining elements of the three strategies described above. This way outpacing strategies exist thanks to the combination of advantages resulting from differentiation and cost leadership. [29]

Picture 1: Outpacing strategies



Source: http://www.management.wiso.uni-erlangen.de/Forschung/Arbeitspapiere/IUP-VPF-%2006-04%20Towards%20an%20integrated%20perspective%20of%20straegy.pdf (2012.03.17); Albrecht Enders, Andreas König, Harald Hungenberg (2006); *Towards an Integrated Perspective of Strategy:The Value-Process Framework*

Jacques Horovitz presented three kinds of outpacing strategies:

- The effectiveness strategy – which consists in lowering the prices through the cost reduction, which gives the client a bigger satisfaction resulting from a lower price;
- The value substitution strategy – which focuses on increasing the benefits from the received products and services simultaneously reducing the costs. As a result the level of a client's satisfaction is higher induced by receiving a product or service with a higher level of usefulness. On the other hand, the company has also a possibility to make the margin higher through the cost reduction.

[29] Michael Marti (2007); *Complexity Management: Optimizing Product Architecture of Industrial Products*; DUV;p. 101

- The utility strategy – determines growth of benefits from the received products or services with the simultaneous maintenance of the same cost structure.[30]

In the history of strategic management the above mentioned strategies are considered classic. Although these strategies are effective, many companies in the 90's found themselves in the so-called non-profit zone because of the changing character of market conditions. Companies in specific market areas lost their ability to make profit regardless of the degree of controlled market share. This situation affected companies from many sectors, from aviation through commercial banking to electronic segment. Among main reasons for this situation there could be found series of changes which took place in the early 90's such as:

- Global unproductivity of some products;
- The growth of clients' interaction force thanks to increase in the competition among producers and wider access to information;
- Expanding wave of imitations of products and services in the face of decreasing transport costs and growing production capacity;
- Growing number of competitors because of the easier and easier access to capital thanks to the development of a financing form such as "venture capital".[31]

This market situation forced the determination of solutions which would be more up-to-date and more adapted to reality. Adrian J. Slywotzky was one of the first to work on new business strategies. In his book "Value Migration", which was published in 1995, he described in detail the phenomenon of the migration of value. The author emphasized that in the previous years, majority of big corporations noted a decrease of their market value, whereas other corporations operating in the same sector noted surprisingly good results and were developing rapidly. As an example the author presented the computer sector where a DEC company in the years of 1986 – 1994

[30] Jacques Horovitz (2004); *Service strategy: management moves for customer results;* Pearson Education; p. 31-32
[31] Larry Greiner, Flemming Poulfelt (2005); *Handbook of Management Consulting: the Contemporary Consultant: Insights from World Experts*; South-Western; p. 79-80

noted a drop of its market value from USD 20 billion to USD 5 billion, whereas at the same time Microsoft company increased its market value from about USD 2 billion to almost USD 40 billion. The same tendency was noticed in the aviation sector – in the respective period USAir noted a decrease of its market value from ca. USD 1 billion to USD 300 million while Southwest Air increased its value from around USD 1 billion to USD 5 billion. Remaining in the same period of time, we can see that the metallurgical sector struggled with a similar phenomenon - the Bethlehem company noted a decline in its market value from around USD 3 billion to ca. USD 2 billion, whereas Nucor noted the increase from ca. USD 1 billion to around USD 4.5 billion. Slywotzky claimed that the direction of this migration is not random but is a result of the ability to adapt to the transformation of external conditions. [32] In his book "Value migration" the author presented a hypothesis that the value was for those companies which were constantly changing, evolving and adjusting to market needs. In his opinion, at the turn of the 80's and 90's companies stopped developing in the face of the following market transformations:

- The evolution of clients' awareness – clients are evolving into more demanding, they are no longer willing to pay higher prices only for using the services or products of good brands when a cheaper substitute is available.
- Growth of the number of competitors – an increase in the number of home- and foreign competitors with an innovative approach to business. Products and services offered by them are better suited for clients' needs.
- Technological progress – cheap substitutes of various products are more effectively produced, which results in a situation where different sectors become competitors, for example: steel vs. plastic vs. aluminum.
- Many companies do not need to become large anymore in order to develop – the barriers in market entry were reduced thanks to an easy access to information, wide use of outsourcing services as well as the tendency to separate from the producing enterprises.
- The reduction of costs of a transfer to competitors – made possible thanks to an easier access, that clients started to have, to information.

[32] Adrian J. Slywotzky (1996); *Value migration: how to think several moves ahead of the competition*; Harvard Business Press; p. 8

- Easier access to capital – which reduced the advantage of rich companies with a stable position and weakened the barriers of entry to many sectors. [33]

For those companies, which at the proper time did not adapt the changing market conditions, Slywotzky suggested a model of strategic management which has been functioning till today. He did not deny previous theories but additionally stated that each company has its own business design which determines the entirety of company's activities and has the following goals: selection of clients' profiles, classification of clients into proper groups, making decisions as to what should be delegated by way of outsourcing, allocation of resources, making decisions about the method of creating added value for clients, and the way to generate profit.[34]

Table 3. Key questions by constructing a business design

DIMENSION	KEY QUESTION
FUNDAMENTAL ASSUMPTIONS	How are customers changing? What are customer's priorities? What are the profit drivers fort he business
CUSTOMER SELECTION	Which customers do I want to serve? Which ones will drive value growth?
SCOPE	What product / services do I want to sell? Which support activities do I want to perform in-house? Which ones do I want to subcontract or outsource?
DIFFERENTIATION	What is my basic for differentiation, my unique value proposition? Why should the customer want to buy from me? Who are my key competitors? How convincing is my differentiation relative to theirs?

[33]Adrian J. Slywotzky (1996); *Value migration: how to think several moves ahead of the competition*; Harvard Business Press; p.10
[34]Adrian J. Slywotzky (1996); *Value migration: how to think several moves ahead of the competition*; Harvard Business Press; p. 21-27

VALUE RECAPTURE	How does the customer pay fort he utility I provide? How are my shareholders compensated fort he value I create fort he customer?
PURCHASING SYSTEM	How do I buy? Transactional or long-term relationship? Antagonistic or partnership?
MANUFACTURING / OPERATING SYSTEM	How much do I manufacture versus subcontract? Are my manufacturing / service delivery economics based primarily on fixed or variable costs? Do I need state-of-the-art or ninetieth-percentile process technology?
CAPITAL INTENSITY	Do I choose a capital-intensive, high-fixed-cost operating system? Or a less capital-intensive, flexible approach?
R&D / PRODUCT DEVELOPMENT SYSTEM	Internal or outsourced? Focused on process or product? Focused on astute project selection? Speed of development?
ORGANIZATIONAL CONFIGURATION	Centralized or decentralized? Pyramid or network? Functional business, or matrixes? Internal promotion or external hiring?
GO-TO-MARKET MECHANISM	Direct sales force? Low cost distribution? Account management? Licensing? Hybrid?

Source: Adrian J. Slywotzky (1996); Value migration: how to think several moves ahead of the competition; Harvard Business Press; p. 25-27

The success of the company, i.e. value migration in the direction of that company, is affected solely by the degree in which the business design – on which the company's activities are based – is adapted to the current market conditions. Slywotzky suggested that while creating the current business design, the companies should follow the above mentioned set of questions which is helpful not only in determining the current business design, but also in defining its future form. [35]

[35] Adrian J. Slywotzky (1996); *Value migration: how to think several moves ahead of the competition*; Harvard Business Press; p. 21-43

3.1.4 The years of 1980 – 2000

In the 80's management consulting sector observed a particularly dynamic development, two reasons for it being: the growth of demand for consulting services in the IT sector and the expansion of consulting companies outside the territory of the USA. Consulting companies did not only spread by way of organic growth but also through many mergers and acquisitions. The biggest number of merger and acquisition operations was carried out by auditing companies which consolidated in order to generate a bigger profit in the area of audit and consulting. This way in 1987 KPMG was created through the merger of two companies: Peat Marwick International with Klynveld Main Goerdeler. In 1989 Deloitte company merged with Touche Ross creating Deloitte & Touche. At the same time Ernst & Whiney and Arthur Young consolidated into Ernst & Young. Almost 10 years later, in 1998 Price Waterhouse merged with Coopers & Lybrand creating PricewaterhouseCoopers. Apart from the giants of the management consulting sector, there were also mergers and acquisitions on a smaller scale. Small and average firms were taken over by big consulting companies, for example: in 1991 Sogetti took over MAC Group company and United Research creating thus the core of Gemini Consulting.[36]

In the late 90's the American Congress to a large degree abolished the provisions of the Glass-Steagall Act, which enabled banks to render management consulting services again. This caused a large threat to the competitiveness posed by the banks.[37] It turned out, however, that in the advantageous period the consulting sector developed to such a degree that this risk never became a real danger.

The main trend and reason for mergers and acquisitions in the management consulting sector till the late 90's was the intention to combine the consulting competence with IT. This was proven by the acquisitions such as: A.T. Kearney by the EDS company and Index company by the CSC. Consolidations of such type took place even if many aspects of companies' functioning were not compatible. It should be remembered that the main driving force for the whole management consulting sector at that time was

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[36] Larry Greiner, Flemming Poulfelt (2005); *Handbook of Management Consulting: the Contemporary Consultant: Insights from World Experts*; South-Western; p. 7-8

[37] Christopher D. McKenna (2006); *The world's newest profession: management consulting in the twentieth century*; Cambridge University Press; p. 23

the development of consulting services in IT. Because of combining the strategic consulting competence with IT, companies could help their clients to prepare information strategies, formulate information infrastructure as well as to implement suggested solutions. The 90's was a period when many consulting companies started to transform into outsourcing companies which happened because of the more frequent delegation of this profession outside by the companies. The biggest and most influential consulting companies in the IT sector include: IBM Global Services (the biggest company of this type in the world), Electronic Data System (EDS), Accenture, Deloitte Consulting and Cap Gemini. These companies, apart from outsourcing, render services such as: an evaluation of the client's infrastructure, development of the proper systems and software, integration of incompatible technologies, remodeling of business processors, the purchase and installation of hardware, management of the changes, and employee training. Among all services rendered by consulting companies in the IT sector, strategic analysis has a considerably small share and usually is closely connected with the IT elements.[38] The period from the middle 90's till the turn of the century was essential for the development of the management consulting sector. It was caused mainly by a boom for services such as e-commerce and e-business and popularization of these services. The sector which had been almost non-existent before became the most rapidly developing one. Offered in majority by consulting companies directed at IT, the set of services was based mainly on a popular at that time idea of promoting companies by way of internet, penetrating in this way those areas which had not been used till then. Excitement arising out of this dropped at the end of 2000 when it was discovered that most companies did not need such advanced instruments and that in most cases they did not bring the expected effects. In the year of 2000 the speculative bubble burst. The reason for it lay in exceedingly ambitious stipulations caused by optimistic prognosis for the IT sector with the result of exaggerated pricing of the companies in this sector. The prices of shares of the internet consulting companies dropped by even 90% or more and the companies themselves were forced to dismiss a lot of employees.[39]

[38]Christopher D. McKenna (2006); *The world's newest profession: management consulting in the twentieth century*; Cambridge University Press; p. 130-140
[39]Milan Kubr (2002); *Management consulting: a guide to the profession*; International Labour Organization; p. 358-340

3.2 The characteristics of the supply and demand

Nowadays the management consulting sector has the income of around USD 360 billion a year and this result shows the level of growth in comparison to the income from the previous years.[40] Taking into consideration the fact that this sector has existed for 120 years, and according to some (as described above) its real development started in the 30's of the 20th century, this result is very good. In the report from 2011 prepared by The European Federation of Management Consultancies Associations we can additionally find detailed information about the development of this sector on the European market. In 2009 the income in the management consulting sector reached the amount of EUR 83.7 billion and in 2010 the amount of EUR 86.2 billion, and for the year 2012 the increase by 4% was estimated.[41] Taking into consideration the income in the consulting sector in all the European countries, the dominant position of Germany with its 32.6% and the United Kingdom with 22.05% over other countries could be noticed.[42]

3.2.1 The explanation on how the supply and demand meet in the Management Consulting sector.

The most characteristic feature of the management consulting sector is the way in which supply meets with demand. Because of the intangible character of services rendered by companies in this sector, the price is not the main determinant of the demand. For that reason the demand curve in this case does not have the usual shape, which points at the mechanism of the increase in demand by way of prices reduction. In the management consulting sector the point where the supply and demand meet might be compared to a visit to a doctor. From this point of view, the client could be seen as a patient, i.e. a person who needs help, whereas a consulting company could be seen as a doctor, i.e. an expert with a knowledge in a specific area. Jonas Bäcklund and Andreas Werr stated, on the basis of the analysis of Internet websites of

[40]http://www.plunkettresearch.com/consulting-market-research/industry-trends (2011.07.20)
[41]Jozsef Poor,Andrew C.Gross (2010); *Report for FEACO; Survey of the European Management Consultancy 2010/2011*; p. 6
[42] Jozsef Poor,Andrew C.Gross (2010); *Report for FEACO; Survey of the European Management Consultancy 2010/2011*; p. 10

management consulting companies, that there is a set of advantages that the consultant has over the client who has the following deficiencies:

- Lack of contemporary knowledge;
- Lack of the ability to give priority to the most contemporary knowledge over the practical solutions;
- Lack of formalized and strictly defined approach to analyzing and implementing solutions;
- Lack of objectivity – the managing team of the company is too strongly engaged in the activities of the company to stay objective;
- Lack of creativity and analytical skills – arising out of the lack of proper methodologies and scientific potential.[43]

Thus the demand meets with supply, i.e. the cooperation between the consulting company and economic entity begins, when there is a need to use services offered by an outside consultant. This demand is raised by management consulting companies which emphasize the advantages of their services mentioned above. Consulting companies show themselves as organizations which have properly defined approach to find solutions to problems, which is essential to solve business problems. The way to win clients, widely used by consulting companies, is to demonstrate the significance of experience in the project's success. This method is mostly used by consulting companies with a rich history of rendered services. [44]

Jonas Bäcklund and Andreas Werr defined also the concept of three global myths which are used by management consulting companies to win new clients. These are:

- Rationality myth – which is about a global rationalization of knowledge of management, i.e. about basing it on scientific achievements;
- Globalization myth – which is about a specific role of relying on knowledge

[43]Jonas Bäcklund, Andreas Werr; (2001) *The construction of global management consulting - a study of consultancies' web presentations*; SSE/EFI Working Paper Series in Business Administration No 2001:3
[44]Jonas Bäcklund, Andreas Werr (2001); *The construction of global management consulting - a study of consultancies' web presentations*; SSE/EFI Working Paper Series in Business Administration No 2001:3

arising out of the latest scientific discoveries in the light of globalization and growing competition as well as technological progress;

- Universality myth – which is about a statement that knowledge obtained in one area (e.g. sector, country, etc.) can be adopted to another one.

Management consulting companies whose concepts are based on the above mentioned myths have bigger chances that the economic entity will use their services. The above mentioned ideas are called myths because they do not apply in all circumstances, although they are often treated as true.[45]

3.3 Marketing in the Management Consulting sector

Milan Kubr stated that in the management consulting sector marketing is different from the one in other sectors as it does not rely on an advertisement of a single product. Marketing in the consulting companies sector aims at creating a proper image of a company as well as informing about the capabilities and the scope of rendered services. [46] In his book " The McKinsey Way" Ethan M. Rasiel presented the way in which the most prestigious management consulting company sells its services on the market. The author states that McKinsey based the way of selling his services on a pre-war model where self-respecting companies would not damage their reputation by advertising or striving for clients. The author called this phenomenon "selling without selling", and its secret lay in the constant presence in the proper circles, so that the first association, as far as solving business problems is concerned, would be McKinsey. Instruments helpful in these activities include book and article publications, sending free copies of "The McKinsey Quarterly" to his clients and the participation of his consultants in sector conferences.[47]

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[45] Jonas Bäcklund, Andreas Werr (2001); *The construction of global management consulting - a study of consultancies' web presentations*; SSE/EFI Working Paper Series in Business Administration No. 2001:3

[46] Milan Kubr (2002); *Management consulting: a guide to the profession*; International Labour Organization; p. 652-653

[47] Ethan M. Rasiel (1999); *The McKinsey way: using the techniques of the world's top strategic consultants to help you and your business*; McGraw-Hill Professional; p. 50-53

3.3.1 Recommendation system

Following the way of thinking of Ethan M. Rasiel it is easy to say that one of the most effective marketing techniques in the management consulting sector is the recommendation system. It is a consequence of the fact that men of business and managers exchange with each other information and experience regarding legal, accounting, engineering and consulting services. Such an exchange of information and opinions concerns both positive and negative feelings. It is also a fact that managers, who are supposed to choose one of the many consulting companies existing on the market, will first ask their fellow businessmen for an opinion and then take another step which will be to use more sophisticated methods. For management consulting companies thus, positive opinion is extremely important.[48] Direct message is the best and the most effective instrument promoting companies from this sector, however, it is not the only one. Many consultants do not wait for satisfied clients to recommend their company and partly take the initiative asking for:

- suggestions from the clients as to the companies potentially interested in consulting services;
- giving recommendations and permission to publish them;
- permission to publish the description of the executed project, creating case study in the sector's newspapers, promotional materials or presentations;
- recommending the company to friends from the business circle, managers, bankers, lawyers and accountants.

Marketing techniques mentioned above require very good relations with clients from consultants. These techniques will not be beneficial if the clients feel that they spent money on something they could have done themselves. The perfect situation is when clients feel proud that a given company renders services for them and implements solutions, which were out of reach for them before. Additionally, the consulting company should make the client feel its engagement reaching beyond the scope of a single project. This effect could be achieved through informing former clients about the results of the latest studies and current problems in the sector. In these messages

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[48] Milan Kubr (2002); *Management consulting: a guide to the profession*; International Labour Organization; p. 654

there should also be information about new services offered by the consulting company and sometimes even an invitation to lunch aiming at keeping the contact with the client. The use of the above mentioned techniques makes the client voluntarily and willingly give positive opinions about the management consulting company to his business colleagues becoming in this way the source of the best advertisement. [49]

3.3.2 Other techniques

Apart from the recommendation system considered most effective in the management consulting sector, there are also other marketing techniques. Thomas Armbrüster divided those techniques into four categories:

- Direct marketing
- Marketing based on events
- Marketing based on publications
- Internet marketing.

Table 4: Marketing techniques

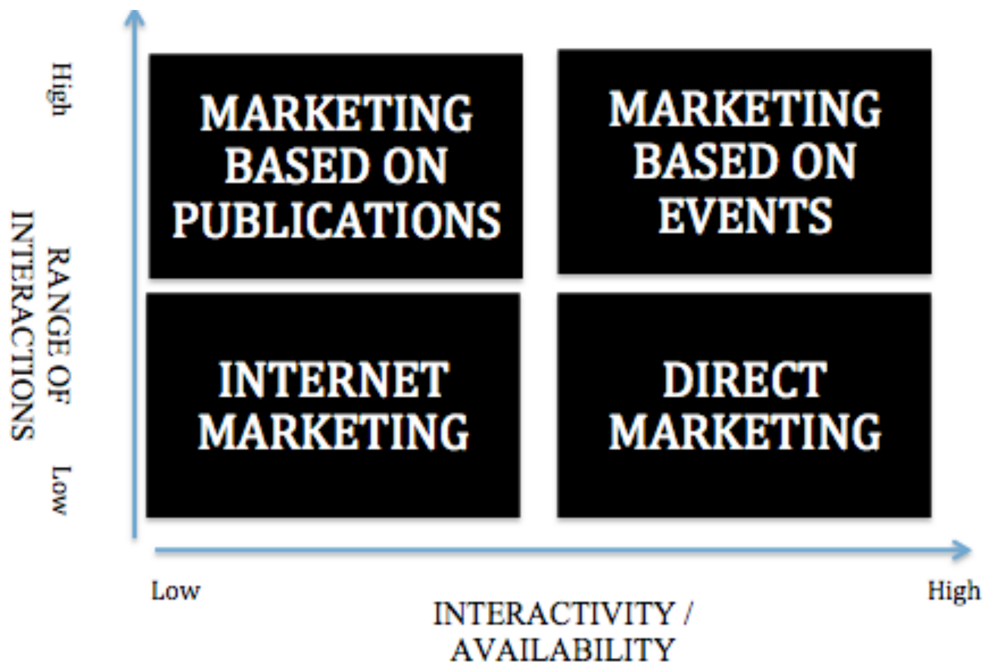
TECHNIQUE	REALISATION
DIRECT MARKETING	mass or direct mailing, telemarketing, mailing for a specific product, mailing recipients are particularly industries
MARKETING BASED ON EVENTS	workshops, presentations, speeches, fairs, internships
MARKETING BASED ON PUBLICATIONS	books, magazines, research reports
INTERNET MARKETING	Homepages, flyers

Source: Thomas Armbrüster (2006); The economics and sociology of management consulting, Cambridge University Press; strona 142

[49] Milan Kubr (2002); *Management consulting: a guide to the profession*; International Labour Organization; p. 654

Armbrüster states that each of those marketing techniques includes a different level of intensity of one or two features, i.e. interaction range as well as the proximity and interactivity of a client. Both these features are very important and their intensity in a given technique depends on its attributes. The interaction range is usually achieved through promotion of the company with a large interaction range, which results in a situation where the specific image of the given company is created within a wide group of recipients. On the other hand, the proximity and interactivity of the client can be achieved through getting to an individual recipient and through his engagement in some kind of interactions. This helps to create the image of the company within a given group of people through individual approach.

Picture 2: Marketing techniques by range of interactions



Source: Thomas Armbrüster (2006); The economics and sociology of management consulting, Cambridge University Press; strona 144

According to the picture, marketing based on publications involves a large range of interactions thanks to a large number of potential readers and potential availability. On the other hand, it has a low interactivity level as the reader remains unknown to the consulting company. Direct marketing is characterized by high interactivity achieved at the expense of interaction range. Whereas internet marketing has both features on the low level because of a low interactivity of internet websites and relatively low interaction range. On the other hand, marketing based on events is the most highly valued as it is highly interactive and has a wide range of interaction.[50]

The division of marketing techniques on the basis of their effectiveness, which was proposed by Armbrüster, shows that potential clients are affected by the traditional marketing techniques such as: marketing based on events or publications. According to the author, these techniques which are based on new technologies are neither that highly valuable nor effective. It should be noticed, however, that in the contemporary reality, people are deeply engaged in IT technologies. These technologies are reaching new market areas, also those which until now have been susceptible to their influence. Because of the fact that internet invades a larger number of business areas, and those connected with everyday life as well, it is very probable that this phenomenon will also concern marketing in the management consulting sector. Companies such as Kennedy Consulting even now offer trainings and presentations of results of their research in the form of “webcasts”, i.e. a presentation form which enables the consultant to make presentations via internet without the necessity to resign from the interactivity of participants.[51] Another example could be a distribution of publications by way of placing them on the companies’ websites by such companies as The Boston Consulting Group or McKinsey Company. Those companies create repositories of documents additionally equipped with search engines which are a useful tool for finding information and, for that matter, creating a positive image within a growing number of recipients.

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[50]Thomas Armbrüster (2006); *The economics and sociology of management consulting*, Cambridge University Press; p. 142-145

[51]http://www.kennedyinfo.com/consulting/events/ ; (2011.04.22)

4. Internationalization theories in the Management Consulting sector

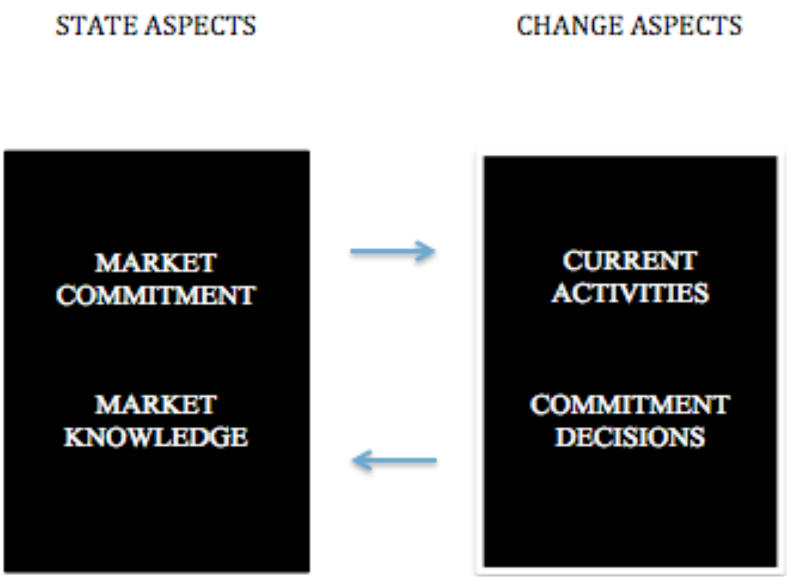
There are many approaches and definitions in the expert literature that readers can find. In this chapter I will describe four internationalization models and to make this part clear, internationalization is understood as a process of the company's first contact with a foreign market (market as close as possible) and gradual spreading of activities to further markets. The first contact of a company with a foreign market is connected with the use of market entry forms which in turn means low transfer of resources abroad. The growth of the internationalization level is parallel with the growth of resources commitment abroad.

4.1 The Uppsala Internalization Model

The Uppsala model was first suggested in 1977 by Johanson and Vahlne, professors of the Swedish Uppsala University. The authors studied Swedish companies with respect to involving in and spreading their international activities, stating at the same time that the internationalization is possible only thanks to a dynamic knowledge acquisition.[52] Johanson and Vahlne assumed that in the course of time companies get to know foreign markets and gradually build up their international engagement. Ipso facto the internationalization level is determined by the level of acquired knowledge. The operations in the internationalization process are correlative to the knowledge acquired by the company. This knowledge is divided into two kinds: objective knowledge – transferred and learned, and knowledge acquired from the individual experience of the company.[53] The basic assumptions of the Uppsala model presented above are shown in the picture. Market Knowledge and Market Commitment are presented as "State Aspect" whereas Commitment Decisions and Current Activities are called "Change Aspects". This means that market knowledge and commitment are determined by the changing influence of these two aspects.

[52]Johanson, J. and Vahlne, J. (2009); *The Uppsala internationalization process model revisited*: *From liability of foreignness to liability of outsidership.* In: Journal of International Business Studies 40;p.2-3
[53] Manfred Perlitz (2004); *Internationales Management*; Lucius & Lucius Verlagsgesellschaft mbH Stuttgard; p.122

Picture 3: The internationalization process of the firm



Source: A. Blomstermo, D. Deo Sharma (2003); Learning in the Internationalization Process of Firms; p.22

In order to understand the Uppsala model better it is necessary to familiarize oneself with its main aspects:[54]

- Market commitment: it is determined by two factors, the amount of resources with which a given market or company is connected and the level of market commitment. Johanson and Vahlne compare the amount of resources which is needed for internationalization process with the size of investment in the foreign market. The more specialized the resources must be for a given market the higher level of market commitment. In the case of consulting companies, resources are almost wholly limited to personal resources, which means the employees (consultants). The level of market commitment in this case is very high as in the whole service sector, because it is very hard to simultaneously employ consultants both in the home country and abroad, consultants who would be experts in the field of foreign market and clients.

[54] Johanson, J. and Vahlne, J. (1997); *The internationalization process of the firm - a model of knowledge development and increasing foreign market commitment*. In: Journal of International Business Studies 8; p. 23-32

- Market Knowledge: market knowledge is divided into objective knowledge and knowledge acquired through experience. The first one is acquired through learning and training, transferred from other people. Whereas the latter, as the authors claim, can only be acquired through personal experience in specific circumstances and it can be neither transferred nor separated from the individual. The knowledge based on experience is problematic in the context of the Uppsala model as it is usually acquired while already being active on the foreign market and not before the potential internationalization. The less structured and defined the foreign activity is, the more important the knowledge acquired through experience becomes. Additionally, the authors suggested the division into a general knowledge and specialized market knowledge. In this context the first one is a specialized knowledge (book-learning) in a given sector and goes beyond the borders of a given country. The specialized knowledge of a given market includes: a study of the mentality of a given country, business etiquette, customs, the structure of a given market, a study of law and the political situation and a study of the potential clients. Johanson and Vahlne emphasize that the specialized market knowledge is gained precisely through experience. Companies from the management consulting sector have access to both the objective knowledge and specialized market knowledge already before the beginning of the internationalization process. The acquisition of the specialized market knowledge is more time consuming. This time, however, might be shortened by the adapted to the foreign market choice of resources and employees who already gained experience on the potential foreign market.

- Current Activities: if current activities are performed for a longer period of time they lead to specific consequences. The more complex a given service is, the more time is needed to reach the consequences of given activities and the higher level of resources commitment is achieved. Additionally current activities lead to broadening the experience on a larger and larger scale. In this context market experience and experience on a company level are emphasized. As this process takes a very long time in usual conditions Johanson and Vahlne interpret the time needed to gain experience as the reason for internationalization to be such a long process. In the case of consulting companies this time, complexity and resources commitment depends on the specific project. The complexity of tasks will be very different depending on the sector the project concerns. This way it is not possible to compare projects in which several people and several weeks of work are needed with such ones where to complete them teams comprising many specialized consultants and years of work are required. Based on the Uppsala model and the knowledge of the consulting sector, it could be stated that the current activities process takes much time, however it cannot be generalized.

- Commitment Decisions: it comprises the process of making decisions how to combine resources with foreign countries. Here the dependence appears that bigger the possibilities of current activities and fewer problems in a specific foreign country guarantee higher level of commitment decisions and for that matter higher level of resources commitment of a given market. The aspects presented by Johanson and Vahlne and the conclusions drawn from their theories regard the whole process of internationalization of companies, also in the management consulting sector.

The factors of the Uppsala model presented above have influence on each other creating a closed course of events, i.e. the higher level of market knowledge the more valuable the resources and higher market commitment. Going further we have the next relationship: the better the market knowledge and for that matter the market commitment, the more real commitment decisions seem to be which depend on current activities.[55] This model is strongly reflected in the consulting sector, especially because of the focus on factors such as the experience and commitment. Rendering consulting services well is possible and dependent on the specialized market knowledge, expert knowledge and market commitment. The circle of mutual dependence described above is evident in the internationalization process of consulting companies The more specialized market knowledge of the consultant is, the higher his commitment level on the specific markets and in specific projects will be. Making a decision to delegate a given consultant to a foreign market depends on his contribution in current company's projects, because together with the growing

[55] A.Blomstermo, D.Deo Sharma (2003); *Learing in the Internalization Process of Firms*; p.22

complexity and expanding time of a given project, his commitment will be growing as well.

4.2 Network approach

In the last decades many theories appeared aiming at explaining different forms of network solutions. The common denominator of those assumptions was the statement that the internationalization process with the use of network approach is more complex and less structured than the one based on Uppsala model described above. Network approach concentrates on the relations between actors operating on the international markets. [56] It emphasizes the significance of gaining experience and knowledge through good interpersonal relations and networks, whereas in the Uppsala model, gaining experience was possible only through personal activity on the market. Finding information through network is the easiest way to familiarize with a new market. A company involved in the internationalization process might – through strategic alliances – overcome obstacles arising while coming on a foreign market.[57] In a broad sense, social and international interactions could be understood as a set of networks that goes beyond time and place. Network approach enables activities on the international ground and an insight into specific relations, also those between actors who do not correlate with a given organization.[58] In today's rapidly changing world interactions of companies with other organizations might be highly beneficial, which means for example: growing flexibility and speed of activities as well as complexity. The motto of the network approach is a statement that organizations have only limited set of competences and tools for operating. Tikkanen and Halinen suggest that companies operating in today's market economy should have access to outside competences and resources of other companies. Through creating such relations companies become mutually dependent and in this way they provide mutual

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[56]Kock, S., Owusu, R. A., Sandhu, M. (2003); *Project business as a distinct market entry mode: A conceptual discussion*. In: Sandhu, M.; *Managing project management development: An inter- and intra-organizational perspective*, Swedish School of Economics Helsinki, Doctoral Dissertation; p.6

[57]Petersen, B., Pedersen T., Sharma, D. (2001): *The role of knowledge in firms' internationalization process*: *Wherefrom and whereto?;* p.7-9

[58] Z.Maoz, R.D.Kuperman, L.G.Terris, I.Talamud (2003); *International Relations: A Network Approach*; p.3-4

limitations and possibilities. For this reason the network approach plays a big role when a company decides to expand its activity onto foreign markets.[59] Additionally network approach constitutes a basis for studies on the dependence between the internationalization of a company and internationalization of its network and knowledge of international markets. Studies showed that the higher level of experiential knowledge, the higher level of internationalization of a given organization, which means that experiential knowledge is a key determinant in the internationalization process. R. Hadley and H. Wilson demonstrated that there are differences in the level of experiential knowledge between companies which are on the same level of the internationalization process.[60] Johanson and Vahlne noticed that companies which plan to involve in the international activity start with engaging themselves in the domestic network and only after using its benefits, they develop business relations in the international networks. [61]

O'Farrell presented two ways of cooperation for companies which plan to involve in the internationalization process. These solutions fit perfectly companies from the management consulting sector. The author suggested that there exist network agreements for participants of the consulting market which in this case means other companies offering management consulting services. The other way of cooperation is the cooperation of clients using the services of consulting companies. The success of international activities is thus dependent on the way in which such relations and networks will be used. In the internationalization process management consulting companies must constantly remember that operating in network has influence on the growth of competitiveness in the sector. The quality of rendered consulting services is in this case the main determinant of reputation in the network, and therefore cannot be neglected.[62]

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[59] J. Tikkanen i A.Halinen (2003); *Network Approach to Strategic Management-exploration to the emerging perspective*; p. 4-6

[60] R.D.Hadley, H.I.M.Wilson (2003); *The Network Model of Internationalization and experiential knowledge*; International Business review, Volume 12, Issue 6; p.4-6

[61] J.Johanson, J.Vahlne (2003); *The Mechanism of Internationalisation*; International Marketing Review, Volume 7, Issue 4; p.9-11

[62] O'Farrell, P. N., Scheuer, M. and Schmidt, E. M. (1999): *Internationalisierung von Unternehmensdienstleistungen*. Untersuchungen des Rheinisch-Westfälischen Instituts für Wirtschaftsforschung, Heft 30; p.23

4.3 Transaction Cost theory

The economy of transaction costs is mentioned by Armbrüster as one of those which justify the demand for consulting services. The first concepts of this transaction cost theory were suggested by Ronald Coase in 1937 in his publication „The nature of the firm”. Although the author did not use the expression “economy of transaction costs”, he is still generally considered the creator of this theory. Coase, in his publication, described one simple observation, that if the price mechanism allows for the effective allocation of resources, it is then not necessary for them to be allocated within one enterprise.[63] The author stated also that outside the company there are supply-demand market mechanisms that control the price. In this way he thought that the existence of the company makes sense only when it performs specific functions in a more effective way than the market. Otherwise, the recipients, who had a perfect access to information, would start using the products and services offered by rivals.[64] For that reason companies must make decision like “make or buy”. This, in turn, means making a decision of obtaining knowledge needed for the accomplishment of the company’s mission from the outside or generating it inside the organization.

The economy of transaction costs theory is based on the division of company’s costs into two categories: production and transaction costs. Production costs are directly linked to the production process of the company, which means that the company chooses the “make” option. Whereas in the other category of costs, we have those which are linked with the economic activities of the organization, in which case the company chooses the “buy” option. These costs include among others those connected with gathering information, finalizing contracts, executing provisions of contracts and conflict resolutions The comparison of costs connected with the choice of “make or buy” option is the basis for making the decision as to which activities should the company involve in.[65]

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[63] Michael Dietrich (1994); *Transaction cost economics and beyond: towards a new economics of the firm*; Routledge; p. 15 citing Ronald Harry Coase (1937); *The nature of the firm*; Economica,

[64] Michael Dietrich (1994); *Transaction cost economics and beyond: towards a new economics of the firm*; Routledge; p. 15

[65] Thomas Armbrüster (2006); *The economics and sociology of management consulting*, Cambridge University Press; p. 12-14

Oliver E. Williamson stated that the choice of the execution of a given competence internally or externally depends on three aspects, namely: specification of assets, uncertainty and the frequency of use. These three aspects are characterized above all by the positive relation to the level of transaction costs. This means that if the value of the particular aspects is higher, they have bigger influence on the level of transaction costs, which in turn means that they make the option of obtaining a given competence inside the company more attractive. The description of aspects given by Williamson is as follows:[66]

- Specification of assets: the easiest way to interpret their influence on the level of transaction costs is as follows: outside organizations which are potential executors of a given competence (e.g. consulting company) must increase the costs in order to adjust their services to the specific character of assets. The example of such an activity could be a project of developing the optimal composition of a medicine delegated by a pharmaceutical company. Knowledge needed to determine a proper composition is specialized to such a degree that it would be a very expensive venture for the consultants lacking special qualifications to acquire it.

- Uncertainty: it was divided by Michael Dietrich into quantifying and behavioral uncertainty. Quantifying uncertainty is connected with the change of external factors, whereas behavioral uncertainty concerns the human factor and includes the inability to determine future consequences because of the human factor. However, if a business problem is connected with a high level of uncertainty, the cost of employing an outside consultant will be equally high. Let us take the following situation as an example: the studies on the best set of ingredients of a food product, where there is an uncertainty as to the length of such studies. In such cases it would be much better to delegate such a project to the Research & Development department which would gradually improve the set of ingredients, learning on its own experience.[67]

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[66]Oliver E. Williamson, Sidney G. Winter (1993); *The Nature of the firm: origins, evolution, and development;* Oxford University Press US; p. 93-96

[67]Michael Dietrich (1994); *Transaction cost economics and beyond: towards a new economics of the firm*; Routledge; p. 25-28

- Frequency: this is an element whose influence on transaction costs is the easiest to explain. The more frequent the performance of a particular activity is, the more profitable it is to create a proper department in a company. The experience curve suggested by Boston Consulting Group shows the growth of the specialization level and ipso facto reduction of the unit costs together with the increase in experience which will ensure bigger profitability of an internal execution of a given competence.[68]

Taking into consideration companies from the consulting management sector, it is clients who entrust them with the execution of projects precisely because of their knowledge, ability to gather information and acquire knowledge. If companies have or can cheaply obtain these competences, there is a justification to consider internal execution of a part of projects. According to transaction cost theory, the decision about using consulting companies services is made on the basis of comparative analysis of costs of internal execution of a given project and an execution with the help of management consulting company.

The transaction cost theory is frequently used in the internationalization processes. The most important costs include: costs of finding a proper transaction partner and expenses connected with negotiations of contracts and their conditions. For companies which plan to enter the foreign markets these are the main aspects determining the choice of internationalization strategy. The economy of transaction costs theory is frequently used to understand the activities of companies which decide to involve in internationalization through foreign direct investments as opposed to the export of their services or cooperation with the local enterprises.[69]

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[68] http://www.bcg.com.pl/media/klasyka/krzywa.aspx ; (2012.01.17)

[69] O'Farrell, P. N., Scheuer, M. and Schmidt, E. M. (1999); *Internationalisierung von Unternehmensdienstleistungen.* Untersuchungen des Rheinisch- Westfälischen Instituts für Wirtschaftsforschung, Book 30; p.19

4.4 The Embeddedness Theory

In 1985 Granovetter suggested a theory which till this day is generally called the embeddedness theory and is highly significant in the economic sociology. The author states that economic activities are always connected with social, interpersonal activities.[70] The embeddedness theory and transaction cost theory are complete opposites, and there continues a dispute between supporters of both these concepts. According to the transaction cost theory, organizations depend in their actions to a large degree on the comparison of economic aspects. Mark Granovetter in his article "Economic Action and Social Structure: The Problem of Embeddedness" stated that the transaction cost theory does not take into account sociological motives and interpersonal relations. Additionally the author states that the actual explanation of factors influencing making business decisions lies between the profit and loss analysis and interpersonal relations.[71] The range of behaviors in the activities of a company is limited by specific social structures shown by rules and conventions so that these behaviors are predictable to some degree.[72]It is frequently repeated in literature that the main aspect in the Embeddedness Theory is the relations between actors, which means that the interaction appears between the members of one organization and individuals from the same or other companies. In this way social networks are built, most frequently through members of the family, friends, political parties and personal contacts, which later has its share in the business activities. [73] The embeddedness theory has also its use in many aspects of everyday life, for example the relations between an employee and an employer. Taking this theory into consideration Dorothy Berger stated that it is less probable that an employee will look for a new job if during the recruitment process the employer tries to match, as best as it is possible, the candidate's preferences with the anticipated duties. It will also be true when both the employee and employer make an effort to tighten social relations between them. Berger thinks that the "rooting" between the actors resulting from matching the duties with the preferences and creating proper relations will act like a magnet which will

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[70]Granovetter M.(1985); *Economic Action and Social Structure: The problem of embeddedness*; In: American Journal of Sociology 91:3

[71] Mary C. Brinton, Victor Nee (1998); *The new institutionalism in sociology*; Russell Sage Foundation; p. 159

[72]Glückler J. (2004); *Internationalisierung der Unternehmensberatung in Europa*; Frankfurt a. Main,

[73]Törnroos J., Halinen A. (1998): *The Role of Embeddedness in the evolution of business networks*; In: Scandinavian Journal of Management 14

keep the employee in the company, which in turn will guarantee mutual satisfaction.[74] Törnroos and Halinen emphasize the significance of a distinction between verticla and horizontal in the Embeddedness theory. In this context the first one is understood as a relation between different levels of a given network (including geographical, organizational ones), whereas the latter is seen as a relation on one level of a given network (e.g. a sector). This division helps in a better presentation of a given network's transparency.[75]

Looking at this rooting theory from a perspective of a demand for consulting services, it can be easily noticed that it emphasizes interpersonal relations as a basis for the choice of a given company from a management consulting sector. The relations between clients and consultants have the greatest significance here, as the success of delegated projects depends to a large degree on these relations.

The rooting costs theory also explains the motives that the companies have when they choose a consulting company. In this case the "make or buy" decision is not based solely on a dry costs analysis, but rather on sociological grounds. This means that the potential client might get to know about the existence and effectiveness of a consulting company thanks to social relations, i.e. business or personal contacts, good relations with clients or even rivals. Calculations might also turn out to be helpful, however social relations are a basic and even key factor. As it happens most frequently decision process in the case of a choice of a consulting company does not have a traditional course, i.e. the first step is not to make a decision whether a given task is delegated outside or stays inside the company and the next one does not necessarily mean verification of potential executors. In practice these are interpersonal interactions with business partners that usually decide whether the enterprises will start cooperating with a management consulting company or not. That is precisely why having a good network of social contacts might potentially be the biggest advantage over rivals in the management consulting sector.[76]

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[74] Dorothy Berger (2008); *The Compensation Handbook*; McGraw Hill Professional; p. 618

[75] Törnroos J., Halinen A. (1998): *The Role of Embeddedness in the evolution of business networks*; In: Scandinavian Journal of Management 14

[76] Thomas Armbrüster (2006); *The economics and sociology of management consulting*, Cambridge University Press; p. 15-18

Management consulting sector is also characterized by a high level of uncertainty, which is why the significance of reputation is even larger in the general description of companies from the management consulting sector. It is particularly important during the company's entry onto a new market, where the use of already possessed network or creating new ones is essential in social locating of a company and gathering new market contacts and information. Glückler and Schmidt emphasize also that to build embeddedness it is essentials to build personal trust before building network reputation and these two before building the general reputation on the market. In this way they also state that some companies from the management consulting sector might have a good reputation on the market, the client, however, has only conditional safety of a transaction. In the opposite situation, i.e. when the company's transactions are safe, the client has adequately high personal trust. The conclusion thus appears that during internationalization process, management consulting companies should aim at keeping three factors in good proportions in order to have a healthy network reputation.[77]

5. Motives for internationalization

The analysis of the internationalization process should be started from considering the motives which drive a company that has the intention to involve in cross-border activities or is planning to engage in the cooperation with a foreign partner. In literature there are many discrepancies as far as the motives guiding companies which involve in the internationalization process are concerned. For that reason the following conclusion suggests itself: there are precisely so many reasons for taking up international expansion as there are companies which decide to do it. The main factors which have an influence on taking up the international activity include a specific character of a sector and driving factors of globalization.[78] Thus motives for internationalization of companies from the management sector also exist and could be

[77] Glückler J.; Schmidt N. (2002): *Netzwerkeffekte in der Erschließung internationaler Beratungsmärkte*. Frankfurt a. Main

[78]Olczak, A. (2008); *Strategie marketingowe polskich przedsiębiorstw odzieżowych w perspektywie Unii Europejskie*j, Politechnika Łódzka; p.100

divided into those connected with the achievement of high profit and those connected with development of an enterprise. In other words, reasons for internationalization of companies in the management consulting sector lie always in the accomplishment of goals that given companies set. The kinds of motives and their classifications are very different, however most frequently they include: market, costs and resources related motives, and political motives. In this chapter I will describe the main reasons for the internationalization process.

5.1 Market related motives

Market related motives for internationalization are connected not only with the search for new markets on which company's services could be offered, but also with keeping and increasing the shares on the market on which the company already exists. The most important economic factor is the size of a given market, the range and speed of its growth, its structure, and preferences of its consumers. Companies will consider foreign expansion if there is a recession in the export or, with existing barriers e.g. tariff, a recession in licenses or direct investments. In the case when a company is already exporting its goods onto a foreign market, the intention to adjust its activities to the needs of clients might be a motive to the further expansion of activities by way of opening a branch for example. Exporting to a given area gives possibilities to familiarize with a given market, its specific character, which in turn enables further steps in the foreign activities to be taken. The intention to decrease the risk or to distribute it might also be a motive for involving in the internationalization process. Diversification of the markets and clients definitely decreases the risk of being dependent on one of them, which in case of a market breakdown protects the company form the negative consequences such as turnover decline or, in the worst case scenario, the bankruptcy of the company. The decision of companies to start foreign activities is sometimes a result of "imitation effect", when it is a reaction to the activities of rival companies. In order to keep a competitive position on the home market, in a situation when a rival started its expansion onto the foreign markets, it is frequently necessary for a company to take the same steps. This situation very often appears with big oligopolists. In literature such behavior is often defined as the oligopolistic reaction theory. The motive in this case is the control of sales both in the home country and abroad, as well as direct control of rivals, which in turn means the ability to react quickly to competitors' moves. Market factors which motivate decisions of internationalization process and determine its form include currency exchange rates, which means that constant currency undervaluation in a given country enhances export and blocks import and all other instruments such as duty tax, taxes, compensatory charges and quantity limits. Market related motives also include factors creating the so-called investment climate, i.e. the present and expected state of infrastructure, labor costs or procedures necessary for setting up a new company and political stability of a given country. Breaking the barriers in world economy and striving for unification of rules for its functioning facilitates the decision to involve in international activities for many companies.[79] From the economic point of view, internationalization of companies creates possibilities for a better use of technologies and marketing abilities of a company together with gaining new ones on the home market or, when the demand on this market begins to drop as well as when the number of import-export restrictions is increased, on the current markets of the company. An element also considered one of the market related motives is an intention to gain advantage or dominant position on the market, as well as being ahead of the rivals. Companies might gain technological, organizational and marketing advantage over competitors while realizing their experience. Some of the companies, while striving for advantage in their effectiveness, start operating in countries with different production factors aiming at accomplishing vertical integration. On the other hand, operating in countries with similar economic conditions leads to the creation of horizontal connections.[80]

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[79] Sowa, K. (2006); *Strategie konkurencji korporacji ponadnarodowych*, Difin, Warszawa; p.44-47

[80] Liberska, B. (2002); *Współczesne procesy globalizacji gospodarki światowej,* [in]: Liberska, Globalizacja-Mechanizmy i wyzwania, PWE, Warszawa; p.39

5.2 Costs related motives

A very important motive for internationalization of companies is lowering the costs of production, labor and general functioning, which is supposed to help to increase the income rate and profitability of the company. Wages of employees are frequently a motive for the transfer of the whole or a part of the company's activities. It is particularly significant in a situation when labor costs are a key factor in producing a good product. A research carried out by Feenster and Hanson in 1997 showed that low labor costs in Mexico have a big influence on the growing number of American investments there.[81] Similar conclusion was drawn by Dees in 1998 when he studied the Chinese market which at that time had the lowest wages in all the countries of East Asia. It was precisely the lowest wages that was the main reason of investments in China made by companies from many countries.[82] However, studies conducted by Mody, Dasquot and Sinh in 1998 proved that not the labor costs but labor quality was the main factor which had the fundamental influence on the decision of Japanese companies to make foreign investments. Apart from the labor costs, an intention to lower the production costs (in case of enterprises connected with production) might be the additional costs related motive for the company's internationalization.[83] The choice of a given form of the internationalization process might be determined also by the lower costs of credits or other sources of financing. Production process close to the market lowers also the costs of transport. The motive to undertake export activities instead of, for example, opening a branch on a given market might be costs of supervision and control over the branch connected with communication or transport. Costs reduction is a very important motive for investments abroad. However, there are many studies which show that low costs of production or operating the company are one of the last highlighted by companies. The essential issue of the costs related motives is the issue of the environmental protection, i.e. so-called external costs. Some stages of production, and in some cases even the whole production process, cause pollution of the environment, which in turn, in some

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[81]Feenstra, R.C., Hanson, G.H. (1997); *Foreign Direct Investment and Relative Wages: Evidence from Mexico's Maquiladoras,* Journal of International Economics, Vol. 42.
[82]Dees, S. (1998); Foreign *Direct Investment in China: Determinants and Effects*, Economics of Planning, Vol. 31.
[83]Mody, A., Dasgupta, S., Sinh, S. (1998); *Japanese Multinationals in Asia: Drivers and Attractors*, Oxford Development Studies, Vol. 27, No. 2. [in]: Gorynia. M. (2005); Strategie firm polskich wobec ekspansji inwestorów zagranicznych, Polskie Wydawnictwo Ekonomiczne.

countries results in high financial penalties. For that reason companies transfer their production process to those places where the financial penalties or charges are lower or do not exist at all.

5.3 Resources related motives

According to Dunning one of the basic motives for foreign expansion of companies is the drive to obtain strategic resources. Strategic resources which are sought for by companies could be divided into tangible and intangible resources.[84] Tangible resources include the supply of different production factors (including labor force) which, for example, it is cheaper to import from other countries. The access to latest knowledge, advanced technologies, marketing and management as well as highly developed capital market impel companies to invest above all in highly developed countries. For example many enterprises have their seats in London, New York or Hong Kong because of the better access to financial markets and information. However, some companies, striving for the improvement of their effectiveness, undertake investments in countries with different production factors and diverse structure of supply. Relations between companies and other organizations are an example of specific strategic resources.[85] Relations with proper business partners facilitate obtaining key resources for creating own competitiveness. The intention to obtain strategic resources is seen most clearly in the case when companies decide to undertake joint venture with a foreign investor. Thanks to such activities companies gain advanced production and organizational technologies, as well as knowledge essential for running business abroad. Motives which influence the decision to undertake foreign investments concern also the possibility of a company's development through the use of knowledge available on the foreign market. Shan and Song claim that extension and improvement of technological capabilities are one of the important stimuli for companies which decide to undertake foreign activities. In the research of the companies' resources theory the attention is paid to the necessity to

[84]Dunning, J.H. (1993); *Multinational Enterprises and the Global Economy*, New York: Addison-Wesley Publishing Company.
[85]Steier, L. (2001); *Next generation entrepreneurs and succession: An exploratory study of models and means of managing social capital*, Family Business Review, 14:3

use the resources that companies already possess and which are not fully used. Undertaking foreign activities also brings new possibilities to use the unique resources, competences and skills that companies already possess. It is additionally a perfect moment to create new sources of advantage over rivals. When a company lacks such resources, the choice of a given form of entering the foreign market is frequently a way to take over unique and rare resources.[86] If a company possesses specific intangible resources and the intention to use them with benefits, it is inclined to make a decision to involve in the internationalization process. In 1992 Moreck and Yeung ascertained that in the case of competitive advantages resulting from the possession of unique resources the internationalization will be in all likelihood profitable. Moreck and Yeung additionally emphasize that the costliness and risk connected with the transfer of intangible assets should be remembered.[87] Taking into consideration direct foreign investments, there may appear many problems with organization and management resulting mainly from the degree of complexity of the undertaking and from the cultural differences between the home country and host country. Aspects which are connected with obtaining and using unique resources are commonly considered as significant while making the decision about the internationalization of a company. It is also important that in some cases the internationalization of company results from the necessity to keep or defend the position of a given company in the chain of creating value, i.e. in the business network. Internationalization of one company in the network might lead to further internationalizations of other companies which are connected with the first one. Considering the fact that the possibility to obtain resources by family companies is limited, one of the reasons for internationalization, as shown by Dunning, is striving for obtaining strategic resources as well as the intention to use unique resources remaining within the reach of the company. On the basis of the research conducted by the author it can be concluded that companies making the decision of internationalization want in this way to gain access to knowledge generated on other markets as well as technologies and possibilities of foreign markets in order to ensure

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[86]Shan, W., Song, J. (1997): *Foreign Direct Investment and the Sourcing of Technological Advantage: Evidence from the Biotechnology Industry*, Journal of International Business Studies, Vol. 28, no 2. [in]: Gorynia. M, (2005); Strategie firm polskich wobec ekspansji inwestorów zagranicznych, Polskie Wydawnictwo Ekonomiczne.
[87]Morck, R., Yeung, B. (1992); *Internalization: An Event Study Test, Journal of International Economics*, Vol. 33, August, [in]: Gorynia. M. (2005); Strategie firm polskich wobec ekspansji inwestorów zagranicznych, Polskie Wydawnictwo Ekonomiczne.

the survival of the company for the next generations.[88]

5.4 Political motives

The group of political motives includes politics understood in the full sense of this word. In this case the political situation of both the home-country and the potential foreign country is taken into consideration. Authorities of each of those countries might in general principles support or effectively restrain foreign activities. There are some tools supporting for example export such as insurance of export credits, tax allowances, duty rebate as well as the financial support of the process of gaining information about foreign markets and promoting home products. Most of these tools are characterized by bilaterality and multilaterality which arise out of agreements between countries. Politically related factors include also the company's search for stability and political safety. These are legal regulations regarding foreign investments in given countries and elements creating economic environment. They include above all business promoting, aspects enticing making investments, service and help after the investment is made on a given market, and tools ensuring reduction of costs and barriers connected with corruption or bureaucracy.[89] Financial and fiscal factors are also included in the set of tools of national policy which is supposed to encourage export or foreign investments. In this context fiscal factors comprise tax and duty allowances, accelerated cost recovery, the possibility to deduct losses from the future income, and lowering the insurance premium. On the other hand financial factors comprise subsidizing wages, marketing and other costs of obtaining capital as well as government credit guarantees. Countries with a high political risk are not the ones where many foreign investments are made. In literature the search for stability and political safety is emphasized as a motive to begin investment activities in foreign countries.[90] Activities of different groups including ecological, which are effective lobbies, might also influence politician's decisions that considerably increase the

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[88] Dunning, J.H. (1993); *Multinational Enterprises and the Global Economy*, New York: Addison-Wesley Publishing Company.
[89] Erramili, M.K., Rao, C.P. (*1993); Service Firms' International Entry Mode Choice: A Modifies Transaction-Cost Analysis Approach*, Journal of Marketing, July, Vol.57.
[90] Nowakowski, M.K. (2000); *Biznes międzynarodowy – obszary decyzji strategicznych*, Wydawnictwo Key Text, Warszawa; p.120

costs of a given activity or even make it impossible and in this connection incentives to invest in other foreign countries appear.[91] The facts mentioned above are linked above all with regulations regarding environmental protection and other regulations restricting and even wholly forbidding production or sales of goods and services in a given country. In today's global economy many countries use means which in effect restrict the inflow of foreign investments. It arises out of the fear of losing sovereignty and too rapid exploitation of natural resources. In such a situation in national politics there appears the application of selective support of investments, i.e. the choice of those investments which are useful from a given point of view. The factor that has a particularly negative influence on foreign investments is the lack or limited form of protection of property rights and diverse changes in acts which regard running business activity. Nowadays many countries create economic zones, duty-free zones and technological parks where potential investors would be able to use incentives to invest in a given geographical region. While making a decision to involve in the internationalization process each company pays attention to political and economic stability and chooses the country where none of the foreign cooperation forms is restricted.

5.5 The factors of proactive and reactive internationalization

The growth of globalization and relative elimination of barriers in the international trade influence constant expansion of services rendered by companies from the management consulting sector. In order to analyze the management consulting sector it is necessary to make a division of motives enhancing internationalization of those companies distinguishing between the proactive and reactive internationalization.

Proactive internationalization is characteristic mainly of those companies which enter foreign markets on their own initiative. Motives lying behind those activities might regard the economic, market related or political motives described above, as well as

[91]Rymarczyk, J. (2004); *Internacjonalizacja i globalizacja przedsiębiorstwa*, Polskie Wydawnictwo Ekonomiczne, Warszawa; p.69

personal motives. The most important proactive factors include:[92]

- The desire to increase global share in the market,
- The intention to make profit on international markets, generate higher profits through reduction of production costs as an effect of gained experience and through acquisition of new resources,
- The desire to possess a unique range of services and products, and the desire to satisfy the demand for unique services and products on foreign markets,
- The desire to have a technological advantage,
- The desire to disperse risks through diversification of sources of sales, resources and expert knowledge,
- The desire of a company's management to use tax benefits arising from involvement in internationalization offered by a foreign country,
- The desire to possess expert knowledge of a new market and its clients,
- A company belongs to other companies of the born global network,
- A personal engagement of a company's management members in its internationalization, the desire to increase the prestige of the company, and the desire of the members to prove themselves as people managing the international company.

Reactive factors are those, which in a way force the company to engage in the cross-border operations. The most important reactive factors comprise:[93]

- Internationalization of the part of the company's clients,
- The location of the company in the borderlands or close to international ports which results in a natural proximity to foreign clients,
- The situation when a foreign company establishes contact with a home-company in order to engage joint operations on the foreign company's market or on other international markets,
- The pressure made by competing companies,
- Internationalization of competing companies, following main rivals mainly for

[92]J. Sutherland, D. Carnwell, (2008); *Klucz do biznesu międzynarodowego. Najważniejsze teorie, pojęcia, postaci*, PWN, Warszawa; p. 199–200
[93]E. Duliniec (2004); *Marketing międzynarodowy*, PWE, Warszawa; p. 17 and 19

strategic reasons,

- The need to find alternative markets for the saturated internal market, saturation of home market and diminishing interest in goods and services of the home market,
- Seeking alternatives for the unused management powers of the company.
- Seeking alternatives for growing costs on the home market.

It should be remembered that the above described list of proactive and reactive factors is changeable and differs depending on the analyzed branch. Those factors change in time and depend on the economies' openness to the globalization process and on the internationalizations of both home- and foreign companies.[94]

Summing up the above, it could be stated that the degree of companies' internationalization is inseparably connected with the foreign market entry strategy chosen by the company and in the course of time with the urge or its lack to further expand the company's operations on the new markets with the use of obtained experience. The choice of the proper foreign entry market mode is decisive in building proper strategies determining both real chances and threats of operating on the foreign market. For that reason in the next chapter I will describe foreign market entry modes, which refer to the management consulting sector.

6. The most important foreign market entry modes from the point of view of management consulting sector.

Companies from the management consulting sector, which involve in the internationalization process, have many different modes and strategies of entering foreign markets with their services. World Trade Organization suggests that companies which decide to enter the international service trade should choose one of four main options, namely: cross-border, consumption abroad, commercial presence

[94]Dunning J.H. (1993); *Multinational Enterprises and the Global Economy*, Reading, Addison-Wesley, Massachusetts

in the consuming country and presence of natural person.[95] The classification of World Trade Organization determines also the position of the service provider and service user as follows:

- cross-border: the service providers render their services in their country and the service users stay abroad; the service will be provided to the recipient to the territory of their country via the media such as the internet and telephone;
- consumption abroad: service users use the services in the country of service providers;
- commercial presence: service providers render their services in the country of service users thanks to opening a branch or a daughter company in the foreign country;
- presence of natural persons: temporary migration of service providers to the country of service users; service provider goes abroad only for the time of rendering the service.[96]

Therefore in the management consulting sector there are three ways of entering international operations distinguished: export, cooperations and direct investments. Below each of these three options will be described with consideration of their characteristics, i.e. advantages and disadvantages.

6.1 Export

In general export is defined as the production of goods and services in a given country and their further export, i.e. sale to the foreign market.[97] Rendering consulting services is possible only with a close cooperation of the client and consultant and in this way it is basically impossible to export that product beyond the country's border.

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[95] WTO October 1999; 'An Introduction to the GATS' WTO Secretariat, Trade in Services Division,
[96] Von Limburg, L.(2003); *Liberalisierungsanforderungen der Entwicklungsländer an die EU unter dem Dienstleistungsabkommen* GATS; p.2
[97] Morschett, D. (2006): *Markteintrittsstrategien als zentrale Unternehmensentscheidung* im internationalen Management, Magazin Forschung 2/2006; p.16

In this case the only thing possible to export is the consulting service.[98] This is possible thanks to delegating the consultant by the consulting company to the country of the service user for the time of rendering the service. On the other hand, with the technology that the economy of the 21st century has, consulting services could also be exported with the help of modern IT and technological means. With the help of the media it is also possible to keep a face-to-face contact between consultants and clients.[99]

Basic advantages and disadvantages characterizing the export of consulting services should be described in accordance with the expert literature. In 2003 Jahn in his research showed that the most important advantages include:[100]

- Low resources' contribution,
- Foreign operations with low costs which enable detailed observation of the foreign market,
- Obtaining specialist market know-how,
- Full control over consulting activities,
- The possibility of flexible adjustment to the clients' needs.

Disadvantages of this internationalization form, according to Kutschker and Schmidt include above all the prospect of using it only in countries with small differences in the language and culture, as well as the short-term use of this form because of high costs of transport.[101]

As far as consulting companies are considered, export is the least risky foreign market entry form and therefore the most frequently chosen one. The consulting sector is

[98] Reich, C.; Reihlen, M. und Rohde, A. (2006); *Internationalsierung von Managementberatungsunternehmen: Der Erklärungsbeitrag von Dunnings eklektischer Theorie am Beispiel von A. T. Kearney*, in: Reihlen, M. und Rohde, A. (2006); Internationalisierung professioneller Dienstleistungsunternehmen, Köln: Kölner Wissenschaftsverlag; p.151

[99] Morgan, G.; Sturdy, A. und Quack, S. (2006); *The Globalization of Management Consultancy Firms: Constraints and Limitations*, in Miozzo, M. und Grimshaw, D. (2006); Knowledge Intensive Business Services. Organizational Forms and National Institutions, Cheltenham: Edward Elger; p.238

[100] Jahn, C. I. (2003); *Internationalisierung von Unternehmensberatungen: Motive, Eintrittsformen und Marktmechanismen*, Working Paper für den Workshop des Graduiertenkollegs „Märkte und Sozialräume in Europa"; p.17

[101] Kutschker, M. und Schmid, S. (2005); *Internationales Management*, 4. bearbeitete Auflage, München: Oldenbourg; p.833

developing on a world scale also through other market entry forms.

6.2 Cooperations

Cooperations are defined as a collaboration of two or more companies which keep their economic independency which is only limited for the time of the project.[102] Entering a foreign market through cooperations mode is possible in many forms which include among others: licensing, franchising, joint-ventures and strategic alliances.[103] One of the advantages of cooperations is relatively low financial contribution because of which this form is frequently used by small consulting companies. In the case of this foreign market entry form, it is also easy to overcome language and culture differences. On the other hand, this form is connected with the limited access to the foreign market, the access being indirect. As a result the possibility of control is limited and there is a risk of losing clients because of opportunistic activities of the cooperations partner.[104]

In 2001 Glückner presented ways of facilitating foreign market entry by way of cooperations. Management consulting sector is characterized by the large level of personnel rotation, and for that reason the author suggested the use of graduates associations, the so called alumni. Thanks to this network former employees of a given company have the possibility to get prominent consulting positions in big international corporations. Those networks help to discover new solutions and open the doors to inaccessible before markets and possibilities. The other way suggested by Glückner is the recommendation system. Other companies from the management consulting sector or business partners can pave the way for a company to enter the foreign market with its consulting services. In literature this way is called the "piggyback-principle" and appears when a consulting company is employed to help with a given project by another consulting company on the foreign market.[105]

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[102]Bea, X. F. (2004); *Entscheidungen des Unternehmens*, in: Bea, X. F.; Friedl, B. und Schweitzer,M.: Allgemeine Betriebswirtschaftslehre, Band 1: Grundfragen, 9., überarbeitete Auflage,Stuttgart: Lucius & Lucius, p.402

[103]Kutschker, M. und Schmid, S. (2005); *Internationales Management*, 4. bearbeitete Auflage, München: Oldenbourg; p.858

[104]Glückler, J. (2001); I*nternationalisierung der Unternehmensberatung – Eine Exploration im Rhein-Main-Gebiet,* IWSG Working Papers 11-2001, Frankfurt am Main; p.41

[105]Glückler, J. (2001); *Internationalisierung der Unternehmensberatung – EineExploration im Rhein-*

As it could be concluded from the above mentioned facts, companies with a global scope of activities have bigger possibilities as far as obtaining expert knowledge is concerned. World service providers are in a definite dominant position in the access to big networks, because of which the entry on the foreign market is much easier for them.

6.3 Wholly-owned subsidiary

A company which decides on cross-border investments in the direct form has three possibilities, first, it may open a new organization, so called Greenfield, secondly it may open a foreign branch and thirdly it can buy an already existing company. The purchase of an already existing company is also possible through the purchase of such an amount of shares of the given company which will allow for the control of its activity. [106] The choice between these forms is not always possible. When in a foreign country there is an organization in whose acquisition another company is interested, such an operation is beneficial only if thanks to this operation, rapid market entry and elimination of competitors is possible. On the other hand, building a new company might be adapted from the very beginning to the requirements and vision of the company. Creating own subsidiaries or branches on the foreign markets is characterized by a larger - than in other foreign expansion forms – capital engagement, which is connected with a higher level of risk. In this way a subsidiary or branch ensures high degree of control and larger influence on projects being executed. Creating a subsidiary or a branch allows among others to reduce transaction costs. It should be noticed that a branch constitutes an element of a home company and is subject to the law of the home country, whereas a subsidiary is a separate entity which is subject to the law of the country in which it was created.[107]

Leaders of the world market in the management consulting sector consider the

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Main-Gebiet, IWSG Working Paper; p.37-38

[106]Gostomski, E. (2003); *Rodzaje transakcji stosowanych w obrotach międzynarodowych*, [in]: Treder, H., Podstawy handlu zagranicznego, Wydawnictwo Uniwersytetu Gdańskiego; p.211

[107]Rymarczyk, J. (2004); *Internacjonalizacja i globalizacja przedsiębiorstwa*, Polskie Wydawnictwo Ekonomiczne, Warszawa; p.191

organic development of the company as one of the most important factors. In their opinion the acquisition of the already existing consulting companies is unprofitable or unfeasible with respect to the fact that rendering consulting services is too individual and the culture and features of a given company too strong. This means that in the international consulting world it is very difficult to estimate clear framework of internal activities and culture of a given organization. Cultural and institutional barriers existing in such a form of entering the target foreign market as Greenfield might be permanently eliminated by choice of personnel from the local market in the recruitment process. With operations such as Greenfield it should be remembered about disadvantages which are high investment costs and slow development of recipients' network. As opposed to Greenfield operations, in the process of acquisition there is a possibility to purchase and use already existing, qualified personnel and the network of service users. Such activities, however, do not give any guarantees that internationalization strategy will be successful, despite very promising perspectives.[108]

In his report from 2001 Glückler states that consulting companies which decide to involve in internationalization through such investments as Greenfield follow one of their clients to the foreign market. In the client's country the company renders consulting services for him and using the opportunity opens foreign offices through which it searches for new clients. As such activities are very radical, only big companies from the sector possessing large financial capital can afford to do that. The author also states that further activities, i.e. maintenance and development of foreign operations is more difficult than only entering another market with consulting services. The most important is to obtain the biggest possible number of clients just after entering the foreign market with simultaneous continuous work over the project of the client who drew the consulting company to the foreign market.[109]

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108 Glückler, J. (2001); *Internationalisierung der Unternehmensberatung – Eine Exploration im Rhein Main-Gebiet*, IWSG Working Paper; p.44

109 Glückler, J. (2001); *Internationalisierung der Unternehmensberatung – Eine Exploration im Rhein Main-Gebie*t, IWSG Working Paper; p.37-39

7. Implications, Conclusions

Internationalization process of companies from the management consulting sector is very interesting because of the number of factors and characteristics comprised in it. The above described foreign market entry forms in the case of companies from the management consulting sector were also confirmed by research. In 2005 Helfen and Kadrova conducted a research on the consulting market in Germany which included more than 400 companies from the sector. In their research the authors received confirmation from 50% of questioned companies that direct export is favored as a foreign market entry form. Similarly popular is the operation of delegating consultants to the foreign country; this foreign entry form was confirmed by 43% of consulting companies which participated in the research. The least popular forms of foreign expansion, according to German companies from the management consulting sector, are strategic alliance and joint venture as 93% of the questioned companies was opposed to these cooperation forms. Export of consulting services is popular mainly because of low resources commitment, low risk, and great number of possibilities to retreat in case of failure.[110]

Similar research was conducted in 1999 by O'Farrell who received confirmation from 75% of the questioned companies from the sector that direct export of consulting services was the best foreign market entry mode. In this research as well internationalization of consulting companies by way of cooperations or subsidiaries turned out to be not so popular.[111]

In 2007 Faust analyzed German companies from the consulting sector again with respect to their approach to internationalization. In his research he states that 74% of companies still decide to involve in export as the preferred foreign market entry mode. The least popular are direct investments in the foreign country. This is caused by high investment costs and high risk with which only very big consulting companies can deal.[112]

[110]Helfen M., Kandrova D. (2005); *Kurzstudie zur Internationalisierung von Beratungsunternehmen*. Lehrstuhl für Internationales Management RWTH Aachen
[111]O'Farrell P.:(1999); *Internationalisierung von Unternehmensdienstleistungen*.;Essen
[112]S.Birkner, M.Faust, T.Kordon, M. Mohe (2007); Beratung über Grenzen: Eine empirische Analyse zur Internationalisierung der Unternehmensberatung

As in literature there appear many discrepancies regarding the main factors influencing the internationalization process, in this thesis I described only the most important ones, namely those which are directly related to the management consulting sector. The main motives driving companies to involve in cross-border activities are driving factors of globalization and specific character of a given sector.[113] For consulting companies the main motives for internationalization are divided into two groups: the first group consists of factors connected with the achievement of high profit, whereas the other one consists of those connected with the development of an enterprise. This means that the reasons for internationalization of companies from the management consulting sector lie always in the accomplishment of goals that given companies set for themselves. The main classification of motives for the internationalization process distinguishes the following: market related, cost related, resources related and political motives. All of them have the same influence on the success in the process of entering the foreign markets. It should be remembered that the motives for market internationalization are connected not only with the search of new markets which companies can enter offering their services, but also with the need to keep and constantly increase the share in the markets on which such companies already operate. The most important economic factor for the management consulting sector is the size of a given market, the range and speed of its growth, its structure and the preferences of its consumers.

The constant expansion of services rendered by companies from the management consulting sector is influenced especially by the growth of globalization and consistent elimination of barriers in the international trade. Based on these factors, the division of motives for the internationalization process of consulting companies into proactive and reactive internationalization is essential. The motives lying behind those activities might regard the economy related, market related or political motives described above, as well as personal motives.

Summing up the above mentioned facts, it should be stated that the degree of companies' internationalization is directly influenced by the foreign market entry

[113]Olczak, A., 2008, Strategie marketingowe polskich przedsiębiorstw odzieżowych w perspektywie Unii Europejskiej, Politechnika Łódzka; p.100

strategy chosen by companies. In the whole internationalization process the urge, or its lack, to further expand the companies' operations on new markets with the use of obtained experience is constantly observed. The internationalization process of consulting companies regularly shows both real chances as well as threats of operating on the foreign markets.

The internationalization of companies from the management consulting sector has a positive influence on the quality of executed projects as the better recognition of consumers' final needs is a natural consequence of this process. The internationalization process in the consulting sector has positive effects for companies which engage in the cross-border operations, both for the host countries as well as the home countries. From the perspective of both markets and the given company, the most important consequences of the internationalization process are: the growth of the consulting and capital market, the increase in the quantity and quality of rendered services, the development of new positions in the non-production area, dynamic knowledge acquisition through the exchange of experience among particular actors, dynamic cultural and mental development, easier access to information and scientific-technical solutions as well as the dispersion of risks and costs. [114]

Regardless of the approach, be it Uppsala model, network approach or others, from the point of view of which internationalization is viewed, researchers of foreign expansions accepted that the analysis of the foreign market entry modes should be carried out in accordance to the specific order. For that reason, according to the accepted approach, the review began with export, through cooperations and finishing with the analysis of the independent business running abroad with the help of subsidiaries and branches. In such as way also in this thesis I presented foreign market entry forms in the context of management consulting companies.

In contemporary times the market of consulting services is functioning perfectly well, it is already developed and yet still growing. However, the scientific literature regarding the internationalization of companies from the management consulting sector still has a wide spectrum of possibilities. On the basis of assumptions and

[114] http://www.psz.pl/index2.php?option=com_content&do_pdf=1&id=11770 (20.06.2012)

theories presented in this thesis, more issues appear, for example: the internationalization of specific areas of consulting companies' activities and the potential and size of particular consulting services. This thesis may serve as an introduction to a comparative analysis of the internationalization process of the European and American consulting companies. Moreover, issues presented in this thesis may serve as a theoretical concept in the study and analysis of the internationalization process of companies from the management consulting sector on the Asian and Near East markets. The achievements of existing consulting companies and the aggressive and dynamic way in which the management consulting sector is developing may be the basis for numerous scientific works.

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9. Appendix

9.1 Abstract

Die Liberalisierung der internationalen Märkte fördert die Nachfrage nach Consulting Leistungen. Somit gewinnt die Internationalisierung des Management Consulting Sektors immer mehr an Bedeutung. Mittlerweile hat die Branche das größte Wachstum aller Wirtschaftszweige, welches auch nicht durch die Wirtschaftskrise gebremst werden konnte.

Trotz dieser Fakten gibt es eine relativ kleine Anzahl an wissenschaftlichen Quellen zum Thema Internationalisierung von Management Consulting Unternehmen. Diese Arbeit beruht genau auf diesem Thema. Im ersten Teil der Arbeit wurde die Geschichte, Merkmale und Besonderheiten des Management Consulting Sektors beschrieben.

Im nächsten Schritt wurden die theoretischen Konzepte des Internationalisierungsprozesses erläutert. Hierfür wurden verschiedene Internationalisierungsmodelle beschrieben. Uppsala-Modell, Network Approach, Transaction Cost Theory und Embeddedness Theory. Folgende Theorien haben eine bedeutende Anwendung für den Consulting Bereich.
Im weitern Schritt wurden die wichtigsten Determinanten erwähnt, welche Einfluss auf die Entscheidung eines Internationalisierungsprozesses in einem Unternehmen haben.

Zu den wichtigsten Determinanten gehören folgende: marktbezogene-, kostenbezogene-, ressourcenbezogene- und politische Motive. Besonders hervorzuheben sind proaktive und reaktive Internationalisierungsfaktoren.

Unternehmen die international erfolgreich sein wollen, haben verschiedene Market Entry Formen zur Auswahl. Im letzteren Teil der Arbeit wurden die Fachliteratur und empirische Studien analysiert. Aufgrund dieser lässt sich feststellen, dass auf die Management Consulting Branche vor allem Export, Kooperationen und direkt Investitionen von Bedeutung sind.

9.2 Curriculum Vitae

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Polnisch - Muttersprache
Englisch - sehr gut
Deutsch - sehr gut
Italienisch - sehr gut

Andere Kenntnisse: MS Office, HTML, Java Script, SQL, Programmiersprache C++, Führerschein B, SAP (Controlling, Logistik)

Interessen: Reisen, Lesen, Kitesurfing, Snowboarding