



Department of Impresa and Management

Course of International Business

**THE ROLE OF CLIENTS IN THE INTERNATIONALIZATION  
PROCESS OF ITALIAN MANAGEMENT CONSULTING SMEs:  
A CASE STUDY ON BIP**

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Academic Year 2019/2020



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## **LIST OF ABBREVIATIONS**

EMEA: *Europe, Middle East and Africa*

ERP: *Enterprise Resource Planning*

FDI: *Foreign Direct Investment*

GDP: *Gross Domestic Product*

HR: *Human Resources*

INV: *International New Venture*

IT: *Information Technology*

KIBS: *Knowledge-Intensive Business Services*

MBA: *Master in Business Administration*

MNC: *Multinational Corporation*

OD: *Organization Development*

SME: *Small-Medium Enterprises*

SWOT: *Strengths, Weaknesses, Opportunities and Threats*

VRIN: *Valuable, Rare, Inimitable and Not Substitutable*



# 1. INTRODUCTION

“What are the reasons that lead firms to expand their operations abroad?” Almost all internationalization theories have developed starting from this question. During the last decades, the globalisation has reduced both the obstacles to international trade and the transaction costs by favouring an integration process among economies of different countries. These changes, along with the progress of new information technologies, have completely modified the companies’ growing strategies: in order to preserve their competitive position, these firms are more inclined to follow the internationalization course. When a company decides to undertake this course, usually, it embraces an evaluation process of foreign markets and subsequently defines the composition of the country-portfolio to supervise. The presence on different countries obliges the firm to have adequate economic and financial resources, especially when equity modes of entry are preferred. The company will have to define strategically its internationalization plan depending on its resources, its competencies and the conditions of the external environment.

This process has attracted the attention of the academic world that has advanced different theoretical approaches to the analysis of firms’ international behaviour. Since the middle 70’, several scholars started studying the internationalization process of firms. The researches in this field have two common macro areas of differentiation. The first one includes the analysis of the internationalization process of MNCs or SMEs and their geographic origin, while the second relevant element of diversity of all those studies is the industrial sector of the companies. Depending by these two factors, the implementation of internationalization strategies can be substantially diverse and the overall results of these operations may vary a lot. The most relevant studies on this topic generally provide a specific insight of one of the macro areas, due to the breadth of the research and the diversity of the results. Because of this reason, the literature review of this paper considers just the relevant theories on the topic.

This study focuses on the internationalization process of Italian SMEs in the management consulting sectors. The choice of this focus comes from a careful analysis

of traditional theories of firms' internationalization and my personal interest into the consulting sector. Specifically, this thesis wants to explore and to give a contribution in the analysis of a relevant gap in both the previous researches and in the existing literature. The main works advanced from the 70' until the last years of the 20<sup>th</sup> century have had a great focus on MNCs, while the interest of the scholars for SMEs' international development has increased just in the recent years. Being the most important theories on the internationalization of firms referred to MNCs, the Italian market has never gained much attention. Traditionally, the Italian industrial sector, constituted by several SMEs, has never been a relevant object of analysis of previous studies. At the same time, during the years, the concern about the service firms has increased. The explanation for this is that consulting companies have become strategically very important starting from the first years of the 21<sup>th</sup> century. The aim of this paper is, therefore, to integrate the "gaps" in the literature above described with the analysis of a relevant internationalization strategy of companies: the client-following strategy. The latter has had poor attention in the previous researches too, but it covers a strategic role in this research context. Considering these premises, it is crucial to answer to this literature gap, given the importance of SMEs in the Italian economic context and the emerging role that the consulting sector is having all over the world in the last decades.

According to the interest of the study, these are the key research questions:

- What are the drivers/reasons for internationalization of Italian consulting firms?
- What are the stages of internationalization for Italian consulting firms? Do they evolve over time?
- What is the impact of client-following strategy on entry mode choice of Italian consulting firms?
- Can we expect the client-following strategy to be still valid and constantly implemented by Italian consulting firms during the next years?

Moreover, this study wants to investigate over three different propositions that come from the contextualization of the three different internationalization model described in the work in the Italian market of consulting SMEs.

The qualitative approach is the method selected in this study, in order to obtain process and report information. In particular, the case study is the research method utilized. I opted for this method because, in this specific context, it is difficult to achieve a big sample and the description of the phenomenon in an exhaustive and comprehensive way is required. The case study selected is BIP, a leader company in the Italian management consulting industry. For the data collection, it has been conducted a semi-structured interview to BIP's CEO, Carlo Capè. Given the role covered by the interviewee since the foundation of the company and his experience and competences, he has had the possibility to focus on what he felt more relevant about the topic. There are two levels of questions to drive the conversation towards the study subject: the general questions and the in-depth ones.

The results of the work shows that the reasons why Italian consulting firms go abroad are similar to those that drive foreign firms. However, the industry in which the company operates highly influences these reasons and the importance that digitalization is assuming in the last years affects that aspects as well. The internationalization strategy evolves over time and this is particularly true for born global firms and start-ups that have a low level of experience. In our case study, the role covered by the client in the international development is crucial, in terms of growth perspectives and choice of foreign countries. Finally, the outcomes give some significant indications about the strategic importance of the client-following strategy over time.

The work has two main sections: the theoretical section and the empirical one. The theoretical part of this study includes the definition of internationalization process and the contextualization of the research and of the topic. Later are reviewed the most remarkable theories about internationalization of firms which are relevant for our purpose and then an overview of the Italian consulting sector and its main trends are proposed. Based on the theories mentioned above, I developed the theoretical

framework. It includes a general analysis of those models and their gaps and continues with the description of how the client-following strategy should integrate in the existing literature.

Then comes the presentation of the empirical part of the study: the methodology and the analysis approach used, the case study development and, finally, the review and the contextualization of the results, including the theory development.

## 2. LITERATURE REVIEW

### ***2.1 INTRODUCTION TO INTERNATIONALIZATION***

There are multiple ways to define the term “internationalization”. One way is to define it as increasing a company’s involvement in foreign markets (Johanson and Vahlne 1977). At the same time, as suggested by Welch and Luostarinen in 1988, the internationalization process is also “the process of increasing involvement in international operations”<sup>1</sup>. Because of the fact, both inward and outward sides of the process have become more linked in the dynamics of the world-wide trade, it is appropriate to refer to a broader concept of internationalization. An important signal of how outward and inward growth have converted into a more tied bond is that there are different forms to represent the growth of countertrade: from barter to offset policies and buy-back arrangements. Therefore, it seems inappropriate to limit the concept of increasing international environment only to the outward side, given the relevance of the inward outward interlink. Calof and Beamish (1995) proposed another definition. They consider it as “the process of adapting firms’ operations (strategy, structure, resources) to international environments”<sup>2</sup>. However, these definitions come from a mere mechanical perception of internationalisation.

Although, as we said before, there is no agreed standard explanation of the internationalization concept but we can still refer to internationalization with a broad definition: “the process of increasing of enterprises in international markets”<sup>3</sup> (Johanson and Vahlne, 1977). In order to understand the full meaning of this notion, we should abandon our attempts to look for a simple and incomplete definition. In fact,

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<sup>1</sup> Welch, L. and Luostarinen, R., 1988. Internationalization: Evolution of a Concept. *Journal of General Management*, 14(2), pp.34-55.

<sup>2</sup> Calof, J. and Beamish, P., 1995. Adapting to foreign markets: Explaining internationalization. *International Business Review*, 4(2), pp.115-131.

<sup>3</sup> Johanson, J. and Vahlne, J., 1977. The Internationalization Process of the Firm—A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 8(1), pp.23-32.

it is more useful to focus on theories and frameworks rather than on single definitions. Consequently, these propositions elaborated during the past years lead to models highlighting internationalization as a process and its incremental nature.

The concept has very ancient origins and today it is an essential aspect in firms' strategy and management. The opening of the global economy has enabled the companies to search for new business opportunities in foreign markets. This process is a forced choice for all those firms that want to establish their business in a new highly competitive arena, where globalization and competition push the companies to face complex and stimulants challenges. The expansive strategies of firms are the direct consequence of the need to put in place more aggressive strategies. Currently, the presence on foreign markets is an opportunity for entrepreneurs and managers to increase rapidly the market share in those countries.

The internationalization is just one of the effects produced by the impulse to firms' change. The complexity of leading a company into external markets is comparable to the difficulties entrepreneurs face when starting a new business. Without a deep and careful planning, the project risks to fail. The strategic planning is the mean through which a firm concretize its proactive attitude and rationalize its approach towards the foreign markets. However, it is necessary to make some considerations.

- The results of abroad investments are generally not immediately observable.
- The analysis of the entry barriers is crucial: these affect the accessibility to the markets and their attractiveness.
- Once you take a decision, it is difficult to come back. The initial analysis should be as much exhaustive as possible to avoid large losses due to opportunity costs.
- During the last years, the external environment is changing faster than ever. Companies are facing the problems of keeping pace with the time. A remarkable effort to predict most of the variables that will affect the industry in the following years could be strategically fundamental. Managers should carefully study the actions aimed to reduce the uncertainty level.
- Finally, when entering in another market, a firm must be aware of its strengths

and weaknesses. Formulating the entry strategy on core strengths of the company is an action that can increase considerably chances of success of the SME itself (Belniak, 2015)<sup>4</sup>.

Moreover, it seems reasonable to ask ourselves, which is the role of contacts and of the relationships with foreign governments and buyers in the process of opening to new markets and how the companies should “exploit” these opportunities. There are just few cases in which firms managed to be successful by pursuing a strategy of developing contacts and getting opportunities little by little as they come out. The first reason why several experts do not recommend following this strategy is its risk. The importance of the capabilities that are required to run a business abroad tend to emerge just when you realize you do not have them. Inadequate mean of payment and different contractual clauses are just some of the most common risks that usually lead to the insolvency of a firm. When considering developing countries, the risks are even higher. The second motive is that this choice could be very inefficient. In fact, the firm has not guaranteed that sporadic opportunities are the most suitable to exploit the strengths of the firm. There could be better chances in other markets with different strategies, still using the same amount of resources. Furthermore, it seems not logical that once the internal competences are developed, it is not possible to exploit them in a systematic way addressing promising markets through the definition of a project of internationalization supported by a plan. The first variable to consider when analysing the entry in a foreign market is the size of the demand. Once the firm has run an exhaustive examine of it, then managers should measure other variables, such as the location and the labour cost.

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<sup>4</sup> Belniak, T., 2015. Review of “Journal of Electronic Publishing,” edited by Maria Bonn. *Collection Management*, 40(1), pp.59-59.

## ***2.2 INTERNATIONALIZATION'S THEORIES***

### ***Traditional and modern theories***

Within the economic doctrine, researchers elaborated different theories to offer an explanation to the phenomenon, nowadays increasingly complex and intricate, of the internationalization. In a first and rough analysis, these theories divide into two macro areas: the traditional theories on the internationalization, based mainly on States and countries, and the modern theories, which put at the centre the internationalization strategy implemented by the firm.

Different theories assume a traditional or a modern nature thanks to the development of the concepts on internationalization advanced by Hymer (1960) and Vernon (1966). They marked an epochal turning point in the definition of large multinational companies and of their international activities.

Traditional theories relate on what Adam Smith, Ricardo and Heckscher-Ohlin have theorized in their literature production. Specifically, the first one in the absolute advantage theory (1776)<sup>5</sup>, the second in the comparative advantage theory (1817)<sup>6</sup> and the latter in the theory of relative factors (1933)<sup>7</sup>. These theories were important to determine why and where countries traded but, because of their assumptions (the market as a perfect trade mechanism, absence of transaction costs, immobility of resources among national borders), they could not answer to the needs regarding the proprietary and the organizational structure of the economic activities.

On the other hand, some critical studies highlight the importance of modern theories. In particular: the studies proposed by Hymer, Vernon, Caves (1971), the ones of the Reading School (Buckley and Casson, 1976) and the studies of Dunning (eclectic paradigm, 1980).

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<sup>5</sup> The concept is attributed to Adam Smith for his publication "The Wealth of Nations" in 1776.

<sup>6</sup> David Ricardo first proposed this concept in his work "On the Principles of Political Economy and Taxation" in 1817.

<sup>7</sup> Also known as the Heckscher-Ohlin model. It has been first advanced by E. Heckscher in his study "The effect of foreign trade on the distribution of income" in 1919.

However, none of the traditional and modern theories is suitable for explaining the international development of Italian management consulting SMEs. This is due to the rigidity of their assumptions. Moreover, these theories are nowadays obsolete because are based on the observation and explanation of phenomena that occurred several years ago.

After the theorization of the modern models, several theories on the internationalization of individual firms were proposed. Among all models, particularly relevant has been the role covered by the Uppsala model that support a sequential process for the internationalization (Johanson and Wiedersheim, 1975, and Johanson and Valhne, 1977). For the first time, through this model, the level of knowledge and the learning process are at the base of the analysis. The theoretical background of the model explains a dynamic approach based on the learning process and a continuous trend that enables the company to develop its positioning in the foreign country. The basic assumption, which sustains this theory, is that the managerial learning process has its origins on the experience and on learning by doing.

Anyway, the Uppsala model, like both traditional and modern theories, has several limitations in the new global era too. One of the main shortfall in the model is that it does not consider the reason behind foreign direct investments and why should firms follow that step of development. Moreover, it looks at the international development purely as an internal capability, ignoring external factors such as competitive forces and market potential, which are fundamental in a globalized environment.

Carneiro, Rocha and Silva proposed a research challenging the Uppsala internationalization model, focusing on its limits on describing the foreign development of service firms. The outcomes of the work underline the difficulties to apply the Uppsala's gradual commitment of resources in the host market process to service firms. A desire for higher-control may not always include the capacity to commit the resources to warrant control (Erramilli & Rao, 1993). Additionally, the hypotheses advanced by the Uppsala model are valid only if the service firm's objective is market seeking and economic return. The case study in object in this work showed other motivations to go international, in particular strategic reasons; therefore, other considerations might apply.

So far, we have analysed theories that want to investigate the factors that determine the internationalization of firms and we just mentioned some strategies that those firms decide to implement. The SMEs have become a global protagonist of the international doctrine since few years. For this reason, the majority of the theories developed previously do not consider some of the typical aspects of the small-medium enterprises. Consequently, it is important to rearrange and to reinterpret those models and ideas under the point of view of a smaller company and within the consulting industry.

Both the traditional theories and the modern ones, along with the Uppsala model, are not suitable for the analysis and understanding of the internationalization of service SMEs. In the following paragraphs, we present three different theories: the International New Ventures Model (or Born Globals), the Network Model and the International Entrepreneurship Theory. Those are far from being exhaustive, but present some critical hints that are applicable in our context.

### ***International new ventures model***

During the recent years, different studies have revealed the existence of SMEs of recent internationalization that have showed behaviours consistently dissimilar from those planned by the behaviourist model of the development stages. Those enterprises, defined as *Born Globals* or *International New Ventures (INV)*, usually have small dimensions but they tend to pursue, since their foundation (or at least not far from it), an intense international activity. Knight and Cavusgil (1996) identify the new international ventures as “those companies whose foreign market trade reach at least the 25% of their total sales over a period of less than 3 years since they were established”<sup>8</sup>. During the last years, these enterprises have had many different

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<sup>8</sup> Knight, G.A. & Cavusgil, S.T. (1996) The Born Global Firm: A Challenge to Traditional Internationalization Theory. In S.T. Cavusgil & T. Madsen (Eds.), *Advances in International Marketing*, Vol. 8. JAI Press.

definitions and classifications. Andersson and Wictor (2003) proposed a general definition of *INV* “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”<sup>9</sup>.

The *INVs*, usually characterized by a dynamic international strategy, are more inclined to take risks and are generally able to offer unique products or services. Their international activity is advanced by organizational forms with a high level of involvement or, at least, by a consistent tendency towards the exporting activity. Distinguished by a global vision, the *Born Globals* commonly penetrate in foreign markets before developing in the domestic market, through a non-sequential appeal of different entry modes. As mentioned before, the behaviour of these firms is substantially different from what the stage development theory appoints. Furthermore, the study of the *INVs* showed a reduction of the importance of the experiential knowledge on the selection of the foreign markets and on the choice of mode of entry. In other words, neither the traditional theories neither the more recent ones are able to explain the existence of the *International New Ventures* nor their high efficiency in distant and unstable markets despite the limited international knowledge they have.

Madsen and Servais (1997) identified some of the causes that contributed to the development of the *Born Globals*: the intensity of the global competition, the new information and communication technologies, the reduction of product’s life cycle, the affirmation of new managerial competencies needed to operate effectively in foreign countries. Among these factors, the increasingly specialization in advanced technology sectors, and the consequent formation of market niches, has had a strategical role in the *INVs*’ development. The companies that operate in high-tech industries, in fact, offer innovative services and they have to expand their market abroad because of the small size of the domestic demand. Beside the high-tech, those enterprises may be part of other niche segments that operate in transnational industries.

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<sup>9</sup> Andersson, S. and Wictor, I. (2003). Innovative internationalization in new firms: Born Global – the Swedish case. *Journal of International Entrepreneurship*, 1 (3), 249-276.

According to Oviatt and McDougall (1995)<sup>10</sup>, seven different characteristics permit us to identify successful global start-ups:

1. A global vision has existed since inception
2. Managers are internationally experienced
3. Global entrepreneurs have strong international business networks
4. Exploitation of pre-emptive technology or marketing
5. Existence of a unique intangible asset
6. Strong links among products or services
7. The organization is closely coordinated worldwide.

Another reason why previous theories are not suitable for describing *Born Globals*' behaviour is that they do not consider some critical elements such as the entrepreneur and his international orientation and, most of all, the fact that the firm may be part of an internationalized network. The latter aspect is particularly important. *Born Globals*, in fact, such as all SMEs, usually face problems concerning the accessibility to resources and the lack of knowledge. Moreover, these firms are not able to influence decisional processes because of the absence of an accurate internationalization plan. Consequently, the concept of network becomes central. Considering the impossibility of the company to quickly get access all resources it needs, the control of assets through strategic agreements is a valid alternative.

In this case, the international knowledge is not gained through the experience, but it has a link with the relationships that the firm is able to build with other economic actors within its industrial network. That knowledge, moreover, comes from the entrepreneur who, thanks to his previous experiences, may be more inclined towards the international development (Coviello, 2015).

These considerations led to the elaboration of two new approaches to the study of the internationalization process that we will below analyse.

In summary, the International New Venture model is suitable for, at least partially,

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<sup>10</sup> Oviatt, B. and McDougall, P., 1995. Global start-ups: Entrepreneurs on a worldwide stage. *Academy of Management Perspectives*, 9(2), pp.30-43

describing the expansion in foreign countries of Italian SMEs in the management consultancy sector. In fact, this theory addresses its focus on the enterprises of small-medium dimension, which have showed a great velocity in the internationalization process, meaning the period in between their foundation and their first foreign operation. Moreover, the strategic objective of going abroad of the *Born Globals* is simply and similar to the one of Italian service firms: internationalize as soon and as quick as possible.

### ***Network model***

An industrial network represents a relationship system among various economic actors: clients, suppliers, agents, consultants and public entities. The most important characteristic of this system is that each firm depends by the others and therefore they have to continuously implement new and stable industrial relationships with other players. In this way, the firms, in particular non-service firms, are able to ensure stability and growth to their business. The industrial relationships are built thanks to the trust among the partners due to a continue interaction over time (Ojala, 2008).

Based on the opinion of the major researchers of the network analysis, the enterprises, through these relationships, acquire the resources and the knowledge that they should have developed with the direct experience in foreign markets. The first scholars who understood the importance of the network in the internationalization of firms, both non-service and service firms, were Johanson and Mattson (1988). They strongly believed that the growth process of companies highly depends by the number and the intensity of the industrial relationships.

The internationalization levels of the economic players, which differ one from another depending by their activity and the relational structure of the foreign market in which they are involved, are four: “the early starter”, “the late starter”, “the lonely international”, “the international among others”( Johanson and Mattson, 1988).

The first level presents a low level of internationalization of both the network and the firm; moreover, the latter, does not have developed strong international linkages. Therefore, it has limited possibilities to acquire a specific knowledge of the market

from the other members of the network. Because of the lack of sectorial and institutional knowledge, actors already established in the foreign market (such as the commercial intermediaries) push the internationalization. In this phase, it is very important the socio-economic sustain of the national agencies to promote the development of firms in overseas markets.

The “late starter” phase describes the internationalization of firms that have indirect relationships with foreign networks thanks to an international network of domestic bonds. In this case, the high level of internationalization of the domestic network facilitates the expansion process abroad of inexperienced firms.

On the other way, in the “lonely international” phase, the enterprise is established in various foreign networks, but its domestic network is not very internationalized. The firm adopts an innovative behaviour and it anticipates the internationalization processes of the domestic network. However, the limits of the national network negatively influence the competitive position of the firm. The specific knowledge of the “lonely international” may be lower than the one of those who are part of more internationalized networks.

A higher grade of internationalization of both the network and the company corresponds to the “international among others” level. Here, the enterprise is part of an international industrial context, which increase its experiential knowledge level, and, consequently, increases the international development. This process includes a high commitment level, such as the presence of subsidiaries or production facilities or strategic agreements, like joint ventures.

In summary, the network analysis underlines that the international behaviour of a company is the results of its positioning within a network of industrial relationships and of its internationalization level.

It is possible to find some aspects of the Network model that are relevant in the Italian consulting sector too. However, as a premise, it is important to remark that clients, rather than agents, suppliers or public entities are the most relevant players within a consulting firms’ network. Its explanation comes from the fact that those firms provides services and not products. The domestic clients are crucial for the transmission of both knowledge and international experience to the firm.

At the same time, the “network of competitors” plays a crucial role in this sector. In

the consulting industry, there are several large multinationals that run their business at a global scale, which highly influence the strategic decisions of the other competitors. This leads other companies to expand abroad in order to be more competitive, including the Italians' one.

### ***International entrepreneurship model***

Morrow (1988) coined for the first time the term “international entrepreneurship” in an article where he wanted to explain how the technological innovations, the process of cultural homogenization and the reduction of trade barriers enabled SMEs to get access to remote markets. Few months later, McDougall (1989) proposed an empirical study with the aim to compare the behaviour of domestic firms and *Born Globals*. Thanks to this work, the study of the international entrepreneurship began at an academic level too. Additionally, International entrepreneurship as an area of scholarly inquiry dates from Oviatt and McDougall's (1994) paper identifying and explaining the phenomenon of “international new ventures,” which received the 2004 *Journal of International Business Studies* Decade Award. Since that moment, this line of research, studies the transnational behaviour of entrepreneurs; in particular, it focuses on how do they discover new opportunities, evaluate them through their experience and exploit them.

Among the major exponents of this stream of research, McDougall and Oviatt (2000) introduced their definition of international entrepreneurship: a combination of innovative and risk prone behaviours that overcome national barriers in order to create value<sup>11</sup>. They believed that those behaviours, together with information and communication technology innovation, explain the internationalization of SMEs, even if they classify as *International New Ventures*.

In other words, the international entrepreneurship theory considers the entrepreneur as the key element for internationalize. In fact, he is the only actor who has the

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<sup>11</sup> Oviatt, B. and McDougall, P., 2004. Toward a theory of international new ventures. *Journal of International Business Studies*, 36(1), pp.29-41.

experiential knowledge needed to evaluate the opportunities of the market and to exploit them in an efficient way to acquire competitive advantages. The entrepreneur has to build relationships with other companies, clients and suppliers. Sometimes, the entrepreneur must be able to manage the relations with local media and local government bodies too (McDougall and Oviatt, 2004).

This theory claims that a firm, in order to expand internationally, should follow the leadership and the directives of the entrepreneur. He must run a cost-benefit analysis of the opportunities that the market presents and he should not be discouraged by the high level of risk perception related to those operations. Because of their experience and knowledge of the industry, the entrepreneurs enable the company to build contacts and to stipulate sign new contracts.

The international entrepreneurship model is attracting the attention of several scholars nowadays, especially because of its intuitions regarding the growth and the transnational strategies of *Born Global* firms.

This model gives some important hints for describing the sector of the management service firms. The role of the founders (in the case of the consulting firm they are often partners) becomes crucial in the first phases of the internationalization process. Specifically, the business requires the entrepreneur, because of its experiences and knowledge, to identify the most suitable clients depending on the strategic positioning and goals of the firm. The relevance of his role comes in when the firm needs to create a network of domestic clients. He must be able to build relationships, to identify the best business opportunities and to exploit as much as possible the international background of the clients.

The International New Venture model, the Network model and the International Entrepreneurship model have underlined some fundamental aspects, which are relevant for better understanding the features of the internationalization process of Italian consulting SMEs. However, beyond the several characteristics that make these models suitable for analyzing the international expansion of Italian service firms, they do not consider some remarkable factors. These theories, being international ones, have some intrinsic limits in describing phenomenon and processes that are both country and industry-specific. In particular, there is not a link between the theoretical

models and the internationalization strategy adopted by Italian consulting firms. This is a crucial aspect when we consider the Italian context. It is thanks to a detailed analysis of the foreign strategic decision that we can properly understand how the international development of an enterprise started and evolved over time.

Hence, it is necessary to adopt a different approach for the consulting sector. This study wants to link the most relevant aspects of the previous theories with the most important strategy adopted by small-medium consultancy firms during the internationalization phases: the client-following strategy.

## ***2.3 CONSULTANCY INDUSTRY***

### ***History and overview***

Many services, in particular business services, are knowledge intensive. The so called ‘knowledge-intensive business services’ (KIBS) are concerned with the study and distribution of data and knowledge and they play a crucial role in the creation and in the application of knowledge among and within firms at different geographical levels. In this chapter, we will focus on management consultancy services, an example of KIBS, with a special view on the Italian sector.

In 2002, Kipping claimed that the growth of management consultancy has a link with the evolution of management practice and ideology. The spread of scientific management in the first years of the 20<sup>th</sup> century marked the development of management consultancy activity in the United States of America. Despite the fact, many actors, from bankers to engineers, delivered management consultancy services, the growth of this sector started after the Great Depression when some important legislative changes pushed the quick growth of independent management consultants. The origins of modern management consulting are in the 1930s. Before 1930s, management engineers drew on the practices of lawyers, engineers and accountants in order to offer to top managers studies of strategy and operations. The key change has been the political developments. The Glass-Steagall Act forced commercial and investment bankers to abandon internal consulting activities. The law established that an outside commission should made those studies and this fuelled the fast growth of consulting firms from the 1930s onward. Because of the fact, other nations did not legislate the separation of commercial and investment banking, the spread of management consulting never overcame the US boundaries. In the early 1960s, American consultants decided to expand into Europe by selling their management know-how.

Kipping identified three main waves in the evolution of management consultancy,

which he links with the changing fortunes of the top consultancy organisations. From 1930s to 1950s evolved the first wave of scientific management. Subsequently, from the 1960s-1980s, took place the organisation and strategy wave and, lastly, the IT network building wave became dominant since 1990s. However, beyond these three waves, it is possible to add a fourth wave, which is currently the key consulting activity: the outsourcing.

In Italy, the management consultancy industry was born during the 70's. At the very beginning, it was a job for just few experts, those who had the unique chance to attend MBA programmes and to have study trips in North America and Japan. As 'advisors' of CEOs, the consultants had an individualistic role and were paid with high 'parcel' salaries. Considering that the clients run the realization of the projects, the consultant had mainly the role of facilitator. The 'advisorship' activity focused, therefore, on the introduction and on the improvement of firm's operating systems and on the development of business strategies. During the 90's we assisted to a revolution of the consultancy world in Italy. Thanks to the introduction of ERP systems, the large M&A operations and the informatics revolution in 2000, have been commissioned some turnkey projects realized by 'pyramid structured' teams and focused on the result. In this period, there were changes on the assignment of the contracts, through competitive races. Simultaneously, the biggest consultancy companies had to face a credibility crisis. The 'Enron case' was the starting point of the problems. Because of it, it has been possible to highlight both the problem of the conflict of interests of consultants with family relationships with auditors and the issue of the consultant's objectives, which overcome the projects' results. The early 2000's was marked by a stagnation in the sector, with a strong restructuring of the multinationals and the sale of consultancy branches to third-party companies looking for synergies<sup>12</sup>. It is during those years, in particular in 2003, that in Italy was founded a small consultancy firm called BIP (Business Integrations Partners).

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<sup>12</sup> Giudici, G. and Marchetto, F., 2015. *Quando Il Made In Italy È Più Forte Della Crisi*. Milano: McGraw-Hill Education.

As reported by FEACO Association in the 2018 annual report “Survey of the European Management Consultancy”, the consulting sector divides into different segments of consulting services. The largest of which is Operations Consulting, that accounts for almost 30% of the total global sector. Follows the Financial Advisory segment and by the Strategy Consulting, the most prestigious among the segments of the industry, which represents about 15% of the market.

Through a regional context analysis, the North America is by far the consulting sector most dominant, globally speaking. However, the EMEA segment -represented by Europe, Middle East and Africa, has the lead in terms of dimensions of the sector (accounting almost 41% of the overall consultancy economy). Within the EMEA segment, Europe constitutes the largest segment, with Western Europe serving as the most important role, adding about 90% of Europe’s total turnover in the sector. Through a better examination of the Consulting sector in Europe, differences among the consultancy sectors in West and East-Europe become clearer. Considering the contributions of the single countries, the UK and Germany are the largest consulting sectors, followed by France. A more in-depth comparison of the various European sectors underlines that there are consistent variations in both segments and offerings between different nations. In UK, the Financial Advisory segment plays a fundamental role (32%), while in the Southern Europe the Human Resources Consulting is still emerging (Greiner, Motamendi, Jamieson, 2011). At this point, our focus shifts to the Italian context, to its features and its recent trends.

### ***The desire for internationalizing***

Internationalization is no longer just a phenomenon that applies to manufacturing firms or MNCs. As discussed in the previous paragraphs, SMEs internationalize as well, either in a gradual way, immediately from start up or in a hybrid way. In knowledge intensive service sectors, firms internationalize as well. The consultancy sector is an unusual one, because it is characterised by few large players and a vast number of very small players. Another important feature of the consultancy market is that it is as flexible as changing. In fact, the consultant must be able to respond to specific and

changing needs of clients. Therefore it is required a great adaptability of the consultants and of the consultancy firms' organizational structure.

The desire for internationalization for Italian consultancy firms started to spread during the 90's, when Italian companies had to fulfil the exigence of an international presence to improve their service, guarantee an abroad service to their clients. The results of the internationalization processes of Italian SMEs have been poor. While the manufacturing sector of Italian SMEs has had a remarkable success in expanding its business abroad, it is not possible to say the same for the consultancy one. These, have always had problems in the 'exportation processes of intellectual services. Being the consulting a service based on mutual trust, it can vary according to different factors: recognition of common culture and origins among consultants and managers, identification of a superior contribute provided by the consultant compared to the one coming from inside the firm and the ability in delivering the project. Therefore the opening of foreign subsidiaries has to be followed by strong agreements with local partners; at the same time it is crucial to transfer know how and the methodologies, which are the real added value to successfully sell abroad. However, if the parent company does not have an international reputation, it is much more difficult to create loyalty with local partners. Local consultants usually have success in their company because of the brand, but it is not given that they will succeed in a foreign firm with a weak brand; moreover, once they manage to build a client base and they received the know-how, they could be incentivized to build their own company. These are some of the explanations of why consulting firms may fail in their internationalization.

The strategic reasons at the base of the internationalization process of service SMEs has been the object of several analysis and classifications. A first classification distinguishes among offense (*first mover*) and defensive (*follow the leader*) reasons. Another classification divides the strategy that lead the service firm to follow its client in the international development (*follow the client*) and the one that implies the search of new markets (*market seeking*). The motives that are included into those two groups are not alternatively exclusive: the firm that decides to follow its client abroad may also be the first who goes in a foreign market, facing both the difficulties and opportunities that this situation implies.

### ***Issues and limits for internationalizing SMEs***

By definition, SMEs have a limited amount of resources and capabilities. Because of this reason, the SMEs' subsidiaries are likely to be as small as very vulnerable to environmental changes. According to Rialp Rialp and Kinght (2005), SMEs face various constraints in their international development process, due to lack of experience, time or management. During the international expansion, SMEs' foreign subsidiaries face three fundamental liabilities (Lu and Beamish, 2006). The first liability is the "liability of foreignness". It underlines the idea that when a firm goes abroad come across different limits just because of its 'non-native status'. What generally causes this liability is the lack of local knowledge. The second liability is the "liability of newness", which includes the idea of building relationship with customers, suppliers, employees etc. completely from scratch. A key passage in this sense is the legitimizing process. It can be time consuming and expensive considering SMEs do not have an international background. The "liability of smallness" is the third one and the limited availability of resources and capabilities 'cause' it. When a SME is able to overcome these three liabilities, then the performance of its subsidiaries will improve.

As well as for other companies, also consultancy firms must be able to create long-term relationships and to break up any current long-term relations that already connect with local consultancy companies and possible customers in the host country. The higher risk faced by consultancy firms is comparable to the one of firms from other industries. The main sources of risks are the differences in laws, regulations, tax and financial system.

The issues and the limits for the international development of SMEs are even more evident within the Italian sector, where industrial system bases on a vast number of SMEs. Moreover, Italian SMEs usually have a limited amount of financial resources and they are oppressed by a stringent tax system. Because of these reasons, the internationalization of an Italian SMEs is more difficult compared to other European firms.

## *New consultant roles in a fast-moving world*

In this new dynamic 24/7 business world, the uncertainties and the ever-changing environments are giving to consultancy firms significant opportunities for succeed and, at the same time, for fail. Globalized markets, hyper competition, customer's real-time decisions are just some of the major trends heating up and pushing consultants to face challenges caused by fast-moving events. The presence of these new realities creates the need of studying and establishing both updated consulting roles and processes and the definition of their success criteria. These criteria necessitate real-time consultant behaviour in order to being able to come up with immediate solutions. Kurt Motamedi (2008) puts in evidence some main criteria is his studies: the speed, the access to dispersed and fragmented knowledge, inclusion, integrative analysis and management, immediate implementation and continuous revision. This new trend in the management consultancy industry spells the end to traditional and time-consuming consulting studies characterized by their length and their high fees. Therefore, especially in the consulting industry, companies with several traditional roles and practices are becoming obsolete. In his work "New consultant roles and processes in a 24/7 world" Kurt Motamedi divides old roles into two contrasting types: from one side the expert management consulting and from the other organization development (OD)/human resource (HR) consulting.

Frequently, expert management consulting uses large-scale projects that are content oriented with the support of broad data-gathering studies. Consequently, expert consultants are usually slow to respond to client's needs; they often rely on interviews with a small sample of managers, causing a formal reporting process that treats managers as a passive audience. Contrary to those, firms that put emphasis on processes, which aim to improve human relationship and employees' commitment, perform OD/HR consulting. These processes often help managers to set in place a 'vision' regarding the future direction of the company. In general, OD/HR consultants favour people/processes and they result into improving motivation, communication and problem-solving capabilities within the organisation.

During the last years, consulting companies and their employees have gradually shifted away from strategy projects towards tactical issues. This process has permitted to

tactical consultants to focus on strategic activities such as outsourcing and investing in companies. There has been an extended history of tactical consulting firms, from Bain Consulting (later Bain Capital) to IBM Corp. Nowadays, two emerging roles are replacing the expert and OD/HR consultants: the facilitator consultants and transorganization consultants. The first role is a combination of the expert consultants focused on content and the OD/HR consultants mainly focused on processes. The most important activities made by the facilitator are organizing sub-group discussions, facilitating consensus decisions and solutions, setting the agenda and providing analytical frameworks to capture innovative ideas. The facilitator strongly believes that content answers results from the participation of the clients and through the discussion. Some methods used are the SWOT or VRIN analysis.

These two roles, facilitator and transorganization consultants, are complementary to each other. Both aims to provide fast solutions through the application of three new processes. The first one is “networking to identify knowledge/political resources”. In fact, consultants usually do not apply their networking experience and knowledge on projects. The second one is ‘guided involvement’, meaning to set the stage for a constructive social dialogue and the last one is ‘constructive social dialogue’. In this case, organization members are involved into sharing their opinions, listening to each other and reflecting on the different ideas in order to reach a consensus conclusion. The analysis of facilitator and transorganization consultants enable us to have a clearer idea about why traditional internationalization theories are o not applicable nowadays to SMEs in this specific sector. Given the complexity and the diffusion of transorganization relationships in a 24/7 environment, it is essential that consultants are able to operate effectively during difficult changing times. Transorganization consultants must also be comfortable in working cross-culturally with diversity of stakeholders, interests and point of views.

### ***Italian management consultancy sector***

As reported in the 2018-2019 Report of Assconsult, the Management Consultancy sector in Italy is composed by almost 23.000 firms, which generate a revenue of around

4,5 billion of euros and it counts 45.000 employees. It is a very fragmented sector, with a polarized structure in between a small number of groups of large dimensions – that have a market share of almost 55% - and a huge number of small and micro enterprises – which represent the 98% of the companies in the market – that share the remaining 45% of the market. Micro firms, meaning those that have less than three employees, are almost 20.000 but their weight on the revenue of the sector is considerably decreasing from 2010. Large companies with more than 50 employees are 35 and their market share is strongly increasing during the last years. The polarized structure of the Management Consulting sector reflects the organizational shape of the Italian economy based on a vast number of SME. At the same time, there is often a clear division of tasks among firms of different size. Big Management Consulting companies are more likely to serve large multinationals or companies while SMEs of the consultancy industry generally assist businesses of medium-small dimensions.

This sector is going through an expansive era, after a period of crisis from 2010 and 2013. During the last five years, the sector has been growing at an average rate higher than 7%, in spite of the difficulties faced by the Italian economy. Considering the high growth rate, the consultancy market is an emerging one. Moreover it is important to underline that the Italian consultancy market is relatively underdeveloped compared to those of other mayor countries in EU. The incidence of the sector on the home country GDP is equal to 0,26%, significantly inferior to the one of Germany (1,09%) or Great Britain (0,42%). It is therefore probable that the structural gap with the other markets, with which Italy has frequent and relevant relations, has positively affected the growth of the last years. Because of the fact, the Italian sector is mostly oriented towards the domestic market, it seems reasonable to have some preoccupations on the chances of maintaining such high rhythms of growth. The growth trend registered from 2010 to 2019 has been influenced most of all by the encouraging results of big companies, while small firms have had a long period of crisis. Clearly, the willingness of Italian firms to invest both in innovation and in digital transformation affects the quickness of the growth. Within the sector, the dynamics of growth are not homogeneous: from one side the incidence of the main consultancy groups has grown, increasing the market share from 30% to 55% in nine years. On the other hand, smaller firms have had a painful restructuring process, with falling turnovers (the turnover of

this sector is reaching in 2019 what had in 2010) and a significant turnover of companies. The market in which operate the management consulting firms is very dynamic, with a continuous transformation, and with emerging needs which vary depending on the priorities of the customers. From the need of a new and radical model for the public administration, to the requirement of guarantying the openness towards foreign markets of Italian SMEs, and from the fintech revolution for financial intermediaries, to the introduction of 5G in the telecommunication sector, these and many others are the strategical challenges to which the consultancy sector is asked to ensure support, ideas and results.

A deep analysis of the specialization areas covered by the Management Consulting companies in Italy shows trends similar to the global ones. The demand of IT, Strategy and Operations projects is, also in 2019, the most influential and represent more than 50% of the revenues of the whole sector. However, among these three different specializations, just the IT demand has recorded an increase from the past year, from 20,2% to 21,8%. Risk & Compliance and Finance projects showed similar dimensions during the past year and are two of the most relevant activities. Their trends have been different in both 2018 and 2019 but in the long period, they almost coincide. Given the overall strong growth of the market, the consultancy services are rising in absolute terms in almost all specializations. In this case, the only exception is the Marketing & Training area, where the trend is negative. The specialization profiles present remarkable differences depending on the dimensions of firms. In this sense, large companies focus on IT, Strategy and Operations and are largely present in providing Financial Services and support in both Telecommunications and Energy. Small and medium enterprises provide advanced solutions in two main areas: Human Resources and, most of all, in Training; these focuses mostly on “Other Services”.

Talking about the sectors served by Italian Management Consultancy firms, Assconsult (2019 report) claims that the most relevant compartment is the manufacturing one. The high number of projects linked with the Industry 4.0 increases of the overall value of the manufacturing sector. The Financial Services is the second sector for dimensions while the Energy sector has registered the highest demand increase from the previous year. From an analysis of the evolution of the sectors from

2010 to 2019, it is important to underline some interesting trends. The role that the service sector had in 2010 is even more crucial in 2019. Its market value has, indeed, raised from 52,8% to 56,6%, growing at an annual average rate equal to +7,5%. The consultancy services connected with manufacturing sector increased as well, registering an annual average growth rate equal to 7,3%. On the other hand, consulting in the public sector has lost a significant market share compared to 2010.

For what concerns the clients served, there are two main distinctions. On one side in 2019 private companies have acquired consulting services for a value of 3,3 billion of euros, mainly intended to large companies (those with a revenue > 500 millions). Under the demand point of view, the distribution of the spending of customer firms highlights a link between the dimensions of firms and the dimensions of consultancy firms. Specifically, large companies acquire almost 90% of the consulting services of the major consultancy firms. Moving our focus on the public sector, in 2019 public organizations have acquired consulting services mainly for the “Amministrazioni Centrali” (about 56% of the total spending) and for the “Amministrazioni Locali” and “Sanità” (about 44% of the total spending). In particular, big consultancy firms serve “Amministrazioni Centrali” and “Sanità” almost completely while the SMEs usually serve “Amministrazioni Locali”.

### 3. THEORETICAL FRAMEWORK

When the International New Venture model was framed, it aimed to describe the behaviour of manufacturing firms. This is one of the main reasons why is not perfectly applicable to the Italian service SMEs industry. Knight and Cavusgil (1996) and Andersson and Wictor (2003) address the “*Born Globals*” concept to those firms who produce, who sell products and who increase their revenues because of the outputs of their production processes. *Born Globals* usually have a production capacity that is higher than the market demand and, because of this reason, expand abroad in new unexplored markets. Clearly, this is not the case of the consulting industry. Moreover, different studies, included the one proposed by Madsen and Servais (1997), indicate that *Born Globals* have a high resource commitment in the foreign country, especially in the high-tech industry, while several studies showed an opposite trend for service firms. Same results comes from the analysis of the propensity to the risk. Service firms usually embrace the international development supported by their clients, whose presence reduce the risks that the company faces. Contrariwise, *Born Globals* high-tech firms are usually risk prone (Andersson and Wictor, 2003).

The Network model stresses the importance of the network itself as a mean to ensure stability and growth of the business (Ojala, 2008). When for the first time Johanson and Mattson (1988) understood the importance of the network for the international development of firms, they mainly referred to non-service firms. The thorough meaning that “network” assumes for non-service firms is different when we apply this concept to the consulting industry. The extension to the consulting market of the network model required some additional clarifications.

As mentioned in the previous chapter, the clients, rather than other players or competitors, represent the network of consulting firms. Consequently, the supply chain of the services does not involve a large number of players. The consulting firms build strong relationships with their clients rather than with their competitors. Therefore, the foreign presence and the international strategies of the clients influence the international development of the firm.

Considering these aspects, the Network model may be useful to better understand the specific context of this study, but it cannot give an exhaustive explanation and economical representation of the internationalization of Italian SMEs in the management consultancy sector.

The last model proposed, the International Entrepreneurship, needs to be adjusted and integrated in order to enlarge its arguments to the Italian management consultancy industry of SMEs. In fact, the centrality of the entrepreneur as a facilitator of the internationalization process, which is a key aspect in this theory, is just partially applicable to the Italian consulting sector. For consulting firms, the strategic importance of the entrepreneur in the internationalization process decreases over time. His experiential knowledge is still relevant, but he just moderately affects the evaluation of the international opportunities. Contrary to what happens for manufacturing companies, consulting firms, generally, do not expand their business in the foreign country once they established. In fact, the consulting service that partners provide comes from strong relationships and their capabilities in building trust and mutual regard with their potential clients. For companies of two different countries it is very difficult to overcome such barriers. Therefore, the role of the entrepreneur decreases over time. Additionally, the leadership and the strategic vision of the entrepreneur have a secondary role within the consulting sector.

The sectorial variables of the consultancy industry highlight the limits of the theoretical models discussed above in describing the internationalization of the Italian consulting SMEs. Thus, a different and more exhaustive approach is required for this analysis.

Many sectors in which operate the service-firms are “fragmented”: they are characterized by a low concentration of the offering, by the absence of leaders and by the presence of several SMEs (Porter, 1985). For the Italian management consulting sector, this definition does apply. The key success factors in this context are the capabilities to offer a differentiated product, its personalization, the flexibility of the company, its image and the ability to build strong relationships with the clients. Thanks to the new technologies, the level of sensitivity to demand differentiation has decreased, giving the possibility to achieve economies of scale and of experience.

The globalization process of the economy push consultancy firms to elaborate international strategies (Caselli, 1994). The management consulting firm, however, cannot conceive an international strategy for each country, but it should exploit the existing interrelations (Porter 1986, 1987).

What emerges from these analyses is that, for services, the growth of the globalization level relies on the service differentiation level.

### ***3.1 CLIENT-FOLLOWING STRATEGY***

A detailed comparison of management consultancy firms with non-service firms has put in evidence that consultancy firms can easily enter and exit foreign market (Svensson, 2000). This is due to the high mobility and low physical capital requirements of the suppliers in the consultancy industry.

In general, service internationalization is regarded as more difficult for service firms than, for example, manufacturing firms, as a result of higher level of customization, the inseparability of production and consumption processes and an increasingly need for cultural adoption (Knight 1999). The incidence of the “client following” strategy is the most important difference factor in internationalization between non-service firms and service firms.

The client-following strategy is one of the most relevant international strategies for the expansion abroad of consulting SMEs. This examination aims to be, together with the relevant aspects of the theories already discussed, the mean to achieve a better overview of the internationalization process of management consulting SMEs and the link among the theoretical background and the specific context of the study. Given the features and the characteristics of the Italian management consulting industry previously discussed, we may expect the client-following strategy to be a relevant internationalization strategy that those firms can implement.

The drivers for entering in a new international market can be categorised into push and pull factors (Alexander, 1997). Push factors usually relate to phenomena within a company’s domestic market that lead the firm to enter into unexplored markets. They can be positive and negative. In fact, the saturation of the domestic market and the encouragement, through tax benefits or other forms of support, of the domestic government in pushing firms to trade globally are two of the key push factors nowadays. Pull factors, instead, are phenomena in other international markets that draw the company to them. For example, a new international market may have an emerging middle class with increased spending power, offering a potential chance for a company to exploit. However, in practice, push and pull factors do not exist in

isolation but they tend to interact in order to help driving internationalization (Alexander, 1997).

“Client following” is the act of moving offshore in order to serve the foreign partners of a home country client and it is one of the key reasons for the international expansion of service firms. This action is as a push factor, considering the role covered by the clients in pushing the consultancy firm to go abroad. The incidence of this strategy does vary across industries and subsectors (Erramilli 1990).

Nowadays the literature on the client following strategy is far to be exhaustive and extensive but still some conclusions have been reached.

The domestic clients may lead service firms, both in the consumer and service industry, to internationalize (Kasper et al., p 401). It means that a company decides to internationalize because its clients are looking for new business opportunities abroad. The supplying firm starts an internationalization process as well, in order to serve the client in a more appropriate way. Many MNCs of different industries usually prefers, at least at the beginning, to maintain the same services. This is due to the fact they know the quality and reliability of the service. In this situation, the service firm may be pushed to go abroad considering that a refusal of providing its services in other countries could cause the breakdown of the relationship with the client. Having the chance to follow a domestic client is a good possibility to internationalize, without exposing the company to an excessive risk (Svensson, 2000). On the other side, this strategy may lead the company to have an excessive dependence from the domestic client. However, when we consider start-ups or *Born Globals*, it is as difficult as counterproductive to refuse the request. It is important to remember that, to support the development, the firm should not limit itself to passively follow the client abroad, but it should proactively be part of the expansion and integration in the foreign region. One of the main limits of this strategy is that the company does not develop a long-term strategy but focuses just on the short-medium period. At the same time, there is not a clear internationalization strategy and the decisions of the clients completely affects the whole process (McLaughlin and Fitzimmons, 1996).

## ***3.2 RESEARCH PROPOSITION***

Considering that the literature on the internationalization of Italian SMEs in the consultancy sector is poor, this thesis comes in to provide additional elements to the existing theory and highlight some interesting fields and pathways for future researches.

There are not previous works related to the specific subject selected, the client-follow strategy, and, actually, neither pertinent with the overall internationalization of Italian firms. Most of the previous works have been run mainly focusing on the American and Japanese context. Therefore, the case studies selected for these works are typically MNCs. Those results are just partially generalizable to the Italian framework that includes a significant industrial network of SMEs.

The aim of this study is to have a deeper investigation over the internationalization process of Italian consulting SMEs. The research questions are, therefore, country and sector-specific. The work focus on two main themes. On one side, we examine the drivers and the reasons for the international development of those firms and how their international strategy evolve over time. On the other hand, we put emphasis on the role of the client, on how the client-following strategy influences the Italian service SMEs and on its strategic role in the future years.

Based on the theory literature review, we want also to investigate whether some of the main strongholds regarding the international development of MNCs proposed in the major previous research are valid to our specific context too. The analysis of both the client following strategy and the three main internationalization models for Italian service SMEs, may suggest the following propositions:

- P1 During the first years of the internationalization process, client followers of service firms usually opt for high-control modes of entry.
- P2 The client following strategy is more likely to be implemented during the first stages of the foreign development of Italian consulting SMEs.

- P3 Once followed the home-country client firm abroad, the Italian consulting SMEs start to expand their business in the foreign country.

Through the case study development and its analysis, we will see whether the outcomes support these statements or not. The propositions come from the contextualization of the already mentioned three theories and the client following strategy in the Italian market of consulting SMEs. The uniqueness of the Italian context anticipates that there may be some discrepancies from these propositions and the outcomes of the case study analysis.

## **4 METHODOLOGY**

This chapter includes the explanation of the research approach used to elaborate this work. Subsequently, an analysis of the data collection and of the validity and reliability of the thesis will introduce the mere examination of the case study.

### ***4.1 RESEARCH METHOD***

In the world of research, there are two general approaches to obtaining, processing and reporting information: quantitative and qualitative approaches. The quantitative approach enables to gather information across a large sample of participants/firms through the application of statistical techniques to identify overall patterns in the relation of processes. The main advantages of this method are that it allows the comparison depending on outcomes of interest and it permits generalization to broader population. However, through this method, it is more difficult to recognize new and untouched phenomena. The qualitative method, in order to obtain information, focuses on describing a certain phenomenon in an exhaustive and comprehensive way. Interviews and open-ended questions are usually the basis of this methodology. Because of this reason, when the number of participants is small, it is appropriate to apply it. Considering the few numbers of participants and the investment in this type of research, we cannot generalize the outcomes. Additionally, the qualitative research has an explanatory nature and it can be subjective, because it focuses on participants' observation. According to Solloway and Fisher (2007), in the qualitative approach the individual interpretation is crucial to have an in-depth understanding of the interview. In summary, quantitative and qualitative methods allow a diverse perspective of situations. Both these approaches to research are highly informative, in particular when they are used in combination. Most of researchers choose just one kind of method to follow. However, it is possible that sometimes, after formulating the research questions, therefore when the nature of research is clear, researchers can choose to use a combination of both.

For this work, the case study is the research method used. It permits to explore and understand complex issues while it is particularly valid when holistic and in-depth investigation is required. The single-case design applied for this research ensures a higher level of confidence in the robustness of the method and it can be adopted with real-life events. Yin (1984) identified three different categories of case study: exploratory, descriptive and explanatory. Considering the literature, in this paper the case study investigation stands in between the exploratory and the explanatory mode. A case study, to be explorative, should set to explore any aspects in the data that is a point of interest to the research. In this specific case study, prior fieldwork and small-scale data collection may be conducted before the research questions are proposed. In this way, the initial work can help to prepare a framework of the study. The explanatory nature of this work stands on the examination of the data to explain certain phenomena in the data themselves. In this kind of case studies, sometimes, researchers may form a theory and set to test it. Furthermore, we use explanatory cases when there are multivariate cases. According to the further classification of the case studies proposed by McDonough and McDonough (1997), this work can also be categorized as an evaluative case study, because the research adds its own judgement to the phenomena found in the data.

An analysis of the reason why I choose the case study research method for this work may be useful to understand the case itself. Case studies are very useful as they permit researchers to examine data at the micro level. An important way to provide a valid qualitative analysis is through the case study: a practical solution when a big sample is difficult to obtain, therefore they are particularly suitable for our purposes.

## ***4.2 DATA COLLECTION***

For data collection, I selected the interview method. However, there are three main ways of conducting an interview. The first method is the ‘open interview’ and, in this case, the interview is in the form of an informal conversation. The ‘pre-coded interviews’ are based on predetermined questions. The overall interview process follows a structured path where the interviewer has a great degree of control on the direction of the interview itself. A hybrid methodology of the previous ones is the ‘semi-structured interview’ (Fisher 2007).

The typology of interview selected for this research is the semi-structured. This kind of interview permits to focus on the problems that were meaningful for the participant, allowing broader perceptions to be expressed (Cridland et al. 2014). It is fundamental the usage of previous knowledge to gain a comprehensive and adequate understanding of the subject. Therefore, past knowledge formed a predetermined framework for the interview (Barriball & White 1994, Turner 2010). The phase of the appraisal of knowledge should conduct to an extensive literature review focused on the aim of the work (Krauss et al. 2009). The questions in the interview should lead to get as much as possible rich data (Turner 2010). A semi-structured interview has two levels of questions. The first ones are about the main theme, while the follow-up questions are more emotional and in-depth and are used to drive the conversation towards the study subject (Whiting 2008, Baumbush 2010).

The overall construction of this work is on primary and secondary data, gathered from credible information sources such as newspapers and books. According to Ghauri and Gronhaug (1995), secondary data are useful in the formulation of research questions. In this specific work, secondary data are useful to analyse the internationalization process and to create a link in between the literature and the case study. In spite of that, primary data is more relevant because it is intentionally collected for this study, considering the research questions. The primary data is based on the information gathered from the interviews.

## ***4.3 CASE STUDY IN THE ITALIAN CONSULTANCY SECTOR***

### ***Overview of BIP***

BIP (Business Integration Partners) is a multinational Italian consultancy firm, which works for businesses and public administration. The headquarter is in Milan and the company delivers services in other eleven countries. The company operates in the field of business consultancy, strategic consultancy, IT consultancy and in the cybersecurity field too. Nowadays it is the largest Italian management consultancy firm with more than 2,700 people globally.

In 2003, during a period of stagnation of the consultancy sector, BIP started its business. In particular, it was born after the ‘Enron crack’ and the failure of Arthur Andersen. Many auditors of this former company had the possibility to find an employment at Deloitte, where Nino Lo Bianco, Fabio Troiani and Carlo Maria Capè were partners in the consulting division. Together with the auditors, there were many auditing contracts with some famous public companies that converged in Deloitte. This situation raised problems of conflict of interests, mainly in the telecommunication and energy sectors. Because of this reason, they created a new company to host some of the new contracts and clients in order to avoid an anticompetitive and unfair behaviour. This was a win-win operation: from one side Deloitte could reduce its costs by terminating the working contracts with about 50 consultants, and from the other part, the three partners had the possibility to create a new firm and to shape it depending by their own experience and willingness.

Since the very beginning, BIP was willing to be an innovative start-up and to do so it had to position itself in a new segment.

Three were the strongholds:

- Absence of conflicts of interests.
- Providing a support to the technological evolution, which in 2003 was already the

mission that all companies had to face.

- Focus of the business: initially the clients belong to the energy/utility and telecommunications sector. BIP decided to focus, and therefore specialize, in these two sectors, using the non-competition agreement (just in some specific sectors) as an opportunity rather than as a limit.

The key for creating an innovative consulting service was the application of those systems who enabled new business models such as web and e-commerce systems, analytics and artificial intelligence systems. BIP put a clear effort in investing on those aspects, which were the keys to create a ground-breaking and advanced consulting service.

In 2009, BIP had to face a tough economic crisis that involved the entire global economy. During that phase, the overall Italian consultancy sector had a reduction of the revenues, while we assisted to a relevant recovery of the sector just in 2014. In particular, from 2009 to 2014, we observe three main trends within this sector:

- There has not been any reduction of the personnel. In fact, the companies preferred to increase the efficiency rather than having a reduction of their most valuable good, their employees.
- The mayor consulting firms had a growing financial statement and an overall performance higher than the average of the industry itself.
- Small-medium consulting enterprises were those who suffered most the crisis. Their number decreased, being acquired by bigger companies or shutting down their activity.

In those years, BIP was able to register an opposite trend. Despite the fact it was a start-up and had relatively small dimensions, BIP had an organic growth, which led to an increase of the number of employees and of the organization's structure as well. Considering these premises, nowadays BIP is the major Italian player in the management consulting sector.

## ***Interview topics***

On February 26<sup>th</sup> 2020, just before the spread of the COVID-19 pandemic in Italy, I conducted an interview with Carlo Capè, CEO of Business Integration Partners S.p.a. following a semi-structured interview guide. During the interview were proposed seven different arguments and questions. The main topics are summarized as follows.

### ***The reasons for internationalizing***

The first topic that the interview covered has been the reasons that pushed BIP to internationalize and to expand its business abroad. Specifically, it is possible to identify three main motives:

1. Clients need international consultancy firms. A multi-country company has much experience than a local firm because the internationalization process itself implies that the company is able to face different challenges in various countries. If this process is run successfully (mostly under an economical point of view), the company gives proof of its competence and its reliability increases. At the same time, the company's image has a benefit from it and clients will be more inclined to rely on the international procedure. Moreover, an international company is more likely to be used as a benchmark by its clients and investors, while its benchmark analysis is usually more advanced and effective compared to the one made by local firms.
2. The growth perspectives are crucial. Considering that the Italian consultancy sector has a lower growth rate than other major European countries and that the tariffs are generally lower as well, it becomes fundamental for an Italian company to have real chances to develop abroad. Contrary to the main European countries, in Italy the consultancy sector has a poor impact on the overall level of GDP. The international presence increases the sustainability of the business and its growth, especially in the medium-long period.
3. The consultancy sector benefits who is big. All major consulting players are large multinationals and can take advantage from their reputation, their image and their financial and non-financial resources. Therefore, the ability to attract qualified

employees is essential. The company must be able to offer them adequate career opportunities in order to compete with larger players.

There are not any other significant reasons that lead BIP to internationalize. At the time of BIP's foundation, in 2003, there was not a problem of saturation of the domestic market and the consultancy sector in Italy was not, as it is today, very concentrated. Therefore, there were not any problems or relevant adversities concerning the impossibility to develop the business. Italy has a very fragmented consultancy market and, as we introduced before, it is underdeveloped. Moreover, the economic crisis in 2008 did not force BIP to internationalize. Instead, BIP answered to the crisis by identifying the key elements on which it would be profitable to invest. "Innovation" has been the solution that Carlo Capè and his partners found to overcome the crisis. BIP decided to enhance the innovation process to overstep both economic and financial problems, changing the way the consultancy service was provided rather than internationalizing. In fact, the crisis was an opportunity to change the business model and to give a strong technological and innovative imprint to the firm.

### ***The internationalization phases***

Before focusing on each single internationalization phase, it is important to make a premise. BIP did not have a linear internationalization process and we may identify different "starting point of the internationalization process". However, from the interview it turned out that it was better to divide different phases depending by the strategic goal of the firm.

Because of this reason, the very first phase of internationalization started concurrently with BIP foundation in 2003. After just six months from the establishment of the new company, they opened a subsidiary in Spain. This was not a strategic operation. It was simply justified by the fact that some Deloitte's colleagues from Spain showed interest into the new start-up. Carlo Capè defines this transaction as "a group of friends which come together and show passion and ambition in the same job". The reasons behind the decision of opening in Spain were merely relational and there were not any strategic

implications. Nevertheless, BIP entered into the Spanish market so quickly also thanks to the similarities with Italy in terms of culture, way of working and business environment. All these aspects assisted BIP in the closing of the transaction and increased the likeliness of obtaining positive results in the medium-long period too. We can conclude that strong relationships, not specific strategies, were the basis of the start of the internationalization process of BIP.

Subsequently, from 2007 we can recognise the second internationalization phase advanced by the firm. It is possible to call this stage as “the internationalization through projects”. This is due to the fact that BIP began to develop its business abroad by following the clients, so adopting a client-following strategy. Generally, those clients already had an international presence abroad or at least were willing to internationalize. BIP had an international development by projects. This means to open foreign subsidiaries in order to support a local client in its growth. In these cases, the Italian client asks BIP to follow the company in its expansion in the foreign country. Therefore, starting from 2007 until 2013, BIP opened subsidiaries in different countries: Brazil, UK, Tunisia, and Argentina. The project locations could last many years, depending by different factors, including the relationship established between the two companies and the quality of the work produced. However, once the project is finished, BIP closes its foreign subsidiary. It is clear that, also in these cases, there was not a strategy associated with each specific country. The investments in the foreign country were equal to zero. In this period, BIP adopted only low commitment entry modes. As pointed out during the interview by Carlo Capè, this kind of strategy is an intermediate one. It does not enable you to become a multinational. On the other hand, we should underline that, once created a subsidiary in a foreign market, in order to expand and have success in it, it is essential to make expensive investments. It means that BIP would have to hire local partners and acquire local firms. In the consulting world, it is difficult to sell a service among different cultures. There are strong barriers that hinder this procedure. Local partners and employees with a deep knowledge of the local traditions are essential and without them, it is almost impossible to provide any kind of service to foreign customers.

The third internationalization period started from 2013. In this year BIP began to invest in the foreign expansion of its business. Before, the development process in countries

abroad did not produce the expected results. In fact, though an internationalization based on projects, BIP did not manage to build a strong relationship with its clients. The low success produced by these operations led BIP to embrace a new plan of action for internationalizing.

In 2013, BIP acquired a Brazilian company to serve a large Italian multinational in the telecommunication sector. In this way, the very first foreign investment took place. BIP integrated this firm with local employees little by little over time. Brazilian clients started to pay for the firm's services that, in just a few years, has had an all-round cultural integration. The results coming from the first acquisition were above the expectations. The large success of the Brazilian experience led BIP to invest in Turkey too. In June 2014, BIP reached an agreement with the Italian-French-Swiss fund Argos-Soditic. After the stipulation of the contract, BIP would have maintained its managerial independence while the new fund would have provided equity capital and its international brand. Thanks to this partnership, BIP made two acquisitions in the following months: one in Italy and one, as mentioned before, in Turkey.

In those countries, BIP, based on the previous experience, invested wisely: once obtained the project in the foreign country, BIP's consultants started immediately to look for a company with high potential. Specifically, they identified the target company and then initiated to work together. As it happened in Brazil, after some months BIP promoted the integration among the two entities and this process brought to the acquisition from BIP of the Turkish firm. Meanwhile running these two acquisitions, BIP continued to follow a "project internationalization" strategy. From 2013 to 2018, the company opened several subsidiaries abroad, depending by the requests of the clients. In addition to those opened during the first phase of the internationalization, BIP established new subsidiaries in USA, Austria, Switzerland, Belgium, Chile, Colombia and United Emirated States.

In 2018, there was a turning point in BIP's strategy. Apax Partners, one of the largest private equity found in Europe, acquired the majority of the shares of the company while Lo Bianco, Capè and Troiani maintained their roles within the firm and their shares remained untouched. The objective of the operation was to help BIP into becoming a global leader in its sector. Apax Partners could enable BIP to continue both its organic and external growth and could support its international development and the

diversification of its business. The entry of the found permitted BIP to better identify target firms and it gave support in the preliminary phase of risk assessment and in the post-acquisition integration as well. From that moment on BIP's internationalization strategy completely changed. As we will see later, BIP's strategy changed from a client following to a push strategy where clients follow the consultancy firm.

In summary, BIP's internationalization strategy evolved over time. Since its foundation, the goal of the firm remained clear: internationalize as soon as possible to be more effective in a sector that impose a competition on a global scale (a typical feature of the *International New Venture* model). Meanwhile, BIP's partners wanted to establish in different countries as well. These were the two main objectives of BIP's founders.

In order to achieve that goals, first the firm internationalized by projects. Later an internationalization strategy based on acquisition took place.

### ***BIP's international experience***

Another important topic covered during the interview has been how BIP managed to face and overcome their little international experience. Actually, BIP directly experienced this lack and paid for it. Carlo Capè identified three critical areas, which were impacted by their limited international experience.

1. Since the first years, BIP maintained the same organization design of the firm. They did not consider that an expansion abroad should be followed by an adjustment of their overall structure. For example, being BIP organized by clients, the same team that worked for the client in Italy had to work for the same one in the foreign country. Therefore, there was not a national management of the service provided for each country. The limits of the organizational model resulted into the absence of levers to develop the business in each country in a proper way.
2. Together with an "immature" organization, BIP internationalized with the belief that it was enough to minimize the foreign investment by paying a business developer. Typically, the business developer supports the firm by facilitating the creation and the establishment of a network with local clients. After this stage, the work of this

intermediate ends. Therefore, the firm sells the project by itself. It is easy to see some drawbacks in this strategy. Cultural differences represent a barrier during the bargaining phase and without an intermediate, it is almost impossible to have success, and BIP paid for this strategical mistake.

3. The last aspect that affected the international results of the company is the absence of a structured strategy on foreign countries. For years, BIP continued to go ahead according with its clients in a tactic and casual way, rather than undertake a structured strategy.

To summarize, BIP made three mistakes: the first one is an organizational one. Then, they made a commercial strategy mistake while the last one has a connection with the foreign strategy. The cause of all of them was the lack of previous experience.

As underlined during the interview, BIP could have followed the internationalization strategy based on investments and acquisitions since the beginning. First BIP would have had to identify strategic countries and then ask itself how to invest on them. The strategy, which BIP is following nowadays with the private equity fund, could have been implemented in 2003, through the financing of, for example, banks. However, this was not done and, accumulating and learning from these mistakes, BIP nowadays can count on experiences that are doubtless useful. BIP's managers has now clear on which basis they should build future of the company.

### ***The role of the clients in the internationalization process***

After the premises concerning the reasons for internationalizing, the phases of this process and how the lack of experience influenced on BIP's results, the focus of the interview has shifted to the role the clients had in the internationalization development. When considering this topic, it is essential to underline that the client must be your focus and each company should emphasise that. This aspect must not be ignored, regardless the strategy or the internationalization mode your select.

For what concerns BIP, the clients that can help more in internationalizing are the Italian multinationals. In fact, the corporate of a company takes the most important strategic

decisions. This means that Italian multinationals take those decisions in their headquarter, so in Italy, where there are all relevant managerial roles. Then, those have a direct impact to all subsidiaries all over the world. Therefore, it becomes clear how important it is to be close to the corporate of a client firm for a consulting company. At the same time, it is crucial to be already international when approaching a new client, in order to exploit the foreign subsidiaries in those countries where the client is present. This aspect can make easier the implementation of a project.

In Italy there are few multinationals, especially in the telecommunication and energy sectors. However, those few are fundamental because they enabled BIP to grow when they expanded abroad. It was a win-win situation. These clients usually have Italian managers who control the foreign subsidiaries. This means that it will be easier to build strong relationships in the host nation. Additionally, because of the presence of Italian managers, once the main overseas project is finished it is very likely that BIP continues to follow other smaller projects.

There are some meaningful examples of how BIP managed to develop the relationship with an Italian multinational client. Being BIP a consultancy firm focused on two specific sectors, below are analysed two different cases, one concerning the Telecommunications sector and one about the Energy&Utilities one.

1. In the Telecommunications case, the client was one of the largest players in Italy. The collaboration between the two firms started since BIP foundation. This player aimed to strategically expand in South America through equity modes of entry, mostly acquisitions, in order to allow the organization to be closer to the customers. An interesting aspect during this internationalization has been the export of work patterns. The client wanted these models to be transferred from the home country to the foreign subsidiaries. Because of the large cultural distance among Italy and the South America regions, the export process was as delicate as difficult. Therefore, the client needed qualified consultants, with a deep knowledge of these work patters, able to carry out the exportation process. The relationship between BIP and the client is strong still nowadays. During all these years, BIP worked for ensuring the proper transfer of know-how, technology and best practices from Italy to other countries in South America.

In conclusion, we can state that, for all these years, BIP has been, and it is still

nowadays, the “operating arm” in the internationalization of this large Italian Telecommunications player.

2. The second example highlights the case of a large Italian player in the Energy&Utility sector. BIP initiated to work with this client at the very beginning of its history too. Both firms developed internationally simultaneously and hand by hand. The multinational had some strategic acquisitions in Spain during the first years of its internationalization. Then, these operations enabled the client to entry in the South American market. As it happened in the Telecommunications case, BIP helped the Italian client in the exportation of Italian best practices in the foreign subsidiaries. However, in this case the countries regulations played a crucial role. Italy is advanced under this point of view. This means that the technologies and the work patterns exported would be exploited as soon as the regulations would have evolved in the host regions. Contrary to the previous example, with this client BIP had a strategic role. BIP supported the international development of its client in a completely new sector, the one of the renewable energies. BIP assisted the company in the planning of how to penetrate in the market but most of all, largely contributed on how to combine sustainability and plant system. In fact, when a stranger enters in a new market he is not always “well seen” by local populations. Under this point of view, BIP contributed in the integration with locals in order to maximize the investment. Once overstepped those aspects, BIP made the subsidiaries operative: installing information, control and maintenance systems.

One of the main successes of BIP has been the possibility to apply these models to different sectors.

In both cases, the exportation of know-how in the foreign subsidiaries was a key activity. The duration of the projects gave BIP the opportunity to study the host country and to strengthen the ties with the clients. These two cases are a clear example of a client-following strategy. BIP moved offshore to serve affiliates clients of the home country. However, as we already mentioned before, this trend is not sustainable for a company, which aims to become a multinational. In the following paragraphs, we will analyse the role of the clients in the selection of the mode of entry and further some considerations on the future usage of this strategy will be elaborated.

### ***The role of the clients in the choice of entry mode***

Considering what has been previously said during the analysis of the internationalization phases, the clients played a relevant role just during the internationalization “by projects”. This means that the influence of the clients is strictly related with the client-following strategy. From BIP’s foundation to 2018, the clients have been the real focus and they enabled almost all international activities of the firm. When internationalizing, the clients want a continuity of the service. Because of this, the consulting firm has to make sure to provide its client the same service in both locations, in the home country and abroad. This is what the clients expect from consultants.

These premises can help to understand why the clients did not have much influence in BIP’s selection of the mode of entry. There are two specific reasons. First, the projects that have been commissioned to BIP were technical. Second, being the consultancy service an “exportation of brains”, when you work abroad it is possible to work with Italian people that relocate for a few years. Consequently, there are not many alternatives when deciding the mode of entry in a foreign market. The only feasible model is the one, which implies the relocation of employees abroad and the opening of a legal and operative office and concurrently, the starts of collaborations and projects on site. Any other alternatives, such as joint ventures or franchising, would be useless. In fact, these modes would end up creating a gap between the foreign service and the home service. BIP opted for low control entry modes.

There have been just few sporadic cases in which the client specifically asked for local people. In these situations, BIP sent a leader overseas who subcontracted the project to a freelancer or to a local firm.

Once established abroad, there have never been any cases in which BIP decided to expand its business and network in the same region.

### ***BIP’s future competencies***

In the previous paragraphs, we have seen the role of the clients in BIP

internationalization. In the volume “Quando il made in Italy è più forte della crisi: lesson learnt” wrote by Giudici and Marchetto, Carlo Capè provides a wide overview of the history of BIP, of its success and of its future perspectives. In particular, Carlo Capè identifies two consultancy models, which, along with the digital transformation, are the base from which the consultancy service is being renewed. The first model is the “product service”; it implies that consultants sell products and services that were already successful somewhere else, with a defined intellectual property and that integrate with projects managed by the customers. The “network services” is the second model. These are services enabled by innovative technologies, which requires a network of specialized companies. The latter companies make available their processes and systems in order to provide the service.

In the interview, we took into account these themes and we asked whether they are still actual and valid. The first consideration that we should made is that, nowadays, the digitalization process is disruptive. There are many companies that, because of the digitalization, are able to offer various specific services. For a company it is almost impossible to provide successfully all these services. In the consultancy sector, it is common that a single client relies on different consulting firms. It often happens that BIP deals with the strategic part of the project and it relies on other firm’s services to conclude the project. In this way, it is introduced the problem of the control of services delivered by others. One of the main objectives of BIP is to provide, as much as possible, the highest quality of the service. When BIP delegate some services to other companies, it must control the quality and the costs. Otherwise, the services provided directly by BIP would be negatively affected. This implies a coordination with other firms super specialized, and the client knows it.

During the last years, BIP is trying to control as much as possible the supply chain service. BIP wants to increase the quality level of its services. To do so, in the last years BIP has started an internalization process, through the acquisition of small and focused companies or hiring suitable people. One of the main advantages is that BIP is advanced under the technological and digital point of view. Because of this, the internalization process of BIP is less costly, in terms of integration, both technological and cultural, and in terms of capital and human requirements. Being BIP strong on the digital services, it can sell a lot on digital.

One of the major dilemmas of the consulting has always been the decision between “the

egg or the hen”, meaning the selection among competencies or products. Is it better to have the competences and right people or is it better to have a good network and the best products? Does the relationship win or does the competence win?

BIP wants to focus on the competences, on the human side. Carlo Capè and his partners truly believe that, especially in the digital, people win. An advisor service, which first tries to sell the project and then brings employees together to complete it, is unsustainable. BIP partners have confidence in the fact that a company manages to sell a service because of the cleverness and abilities of the people working for it. There probably is not and there will never be a clear and unambiguous answer to this dilemma. However, this theme makes us better understand how this company has strategically acted in the past and on which levers it will base its future investments.

### ***BIP's future perspectives***

Since its foundation, BIP has always put great efforts and invested lots of resources and money to pursue a profitable international development. As explicitly reported by its partners, BIP's ultimate goal is to become a multinational. The strategy of the company is conceived so that the objective could be achieved within in the medium term. Being a multinational is crucial to attract the largest number of international firms that increase the dividends of the company. In the consultancy sector, a multinational is not only a firm, which manage to have several foreign subsidiaries. Contrary, the term multinational identifies the enterprise that is classified among the top consultancy companies in different countries, and not just in a few. For what regards this former point, BIP wants to be one of the most renowned in three geographical areas: in Europe, in the Unites States and in Latin America.

We already stressed the importance of the resource commitment and the availability of large and continuous financings during the internationalization of a company. Considering these aspects, it has been asked to Carlo Capè whether the company future strategies also include the possibility for the company to be listed on the stock exchange. Now, BIP has no hurry. A possible quotation is not fundamental. This is due because of the presence of the private equity found. Flanked by the found, BIP is already a public company and makes the firm more dynamic and it increases its reputation. A private

equity found has some pros and cons, like being listed on the stock exchange. For the moment, the private equity found provides the economic, financial and experiential support that the company needs.

The idea of turning the company into a publicly traded one is surely an option that the top managers of the firm will continuously evaluate in the future years. For the moment, the company is having excellent results and there is no need to completely change its organization and its structure.

## 5 EMPIRICAL ANALYSIS

In this chapter, the empirical data is analysed. The case analysis has been run to identify the main aspects of the internationalization process of the most important management consulting firm in Italy. Being BIP an exception in the consulting Italian market in terms of dimensions, dynamicity and resources, the findings are not generalizable. BIP has showed the way for the internationalization to all other firms in the management consulting sector. The results are therefore of great interest and importance as they are unique in this context. Those outputs could be useful to companies interested into embracing a similar international development.

### 5.1 WHAT ARE THE DRIVERS FOR INTERNATIONALIZATION OF ITALIAN CONSULTING FIRMS?

The case company provided three key reasons, which led the firm to internationalize. To be precise, they were four. In fact, the fourth includes the strategical objective of the firm. BIP, since its foundation, wanted to become big and international as soon as possible, following the traditional pathway of the so-called “born global” firms.

Among the other three reasons, just one of them relates with the characteristics of the domestic market. The Italian consultancy market is underdeveloped and has a poor impact on the overall GDP of the country, compared to the other main country in Europe. BIP needed to find different sources of income besides the Italian market. Those were fundamental to both ensure the sustainability of the business, especially in the medium-long term, and to reach a higher level of diversification of both clients and business. The other two reasons consider different aspects: on one hand, the needs of the clients and on the other hand the global requirements of the sector.

Nowadays a company must give proof of its competencies and of its effectiveness. An international firm is more likely to have both these characteristics and, because of this reason, both clients and employees would prefer to deal with it rather than with a local company.

However, it is reasonable to expect some divergences depending by the company considered. Dimension of the firm at the beginning of the implementation of the internationalization strategy, firm's resources and financial capital and the competitive landscape of the industry, are just some of the variables that can affect the decisions of the corporate management of a company. Anyway, the reasons that it was possible to identify thanks to the case study are quite generalizable to other service SMEs.

This is because the motives directly refer to the Italian market and to the consulting industry. Therefore, it seems likely that, one day, other Italian firms could have similar whys to justify their internationalization abroad.

The roles of both the entrepreneur/founder and the network are crucial in this process. These two aspects may highly influence the reasons why consulting SMEs internationalize and how they undertake this course.

## ***5.2 WHAT ARE THE STAGES OF INTERNATIONALIZATION FOR ITALIAN CONSULTING FIRMS?***

BIP's case shows that the international experience has a direct impact on the evolution of the internationalization strategy. The lack of that aspect led BIP to face the reality as it was. During the first years of the new millennium, BIP was trying to achieve goals that were only a mirage for the majority of other European companies. Therefore, it was impossible to avoid mistakes, especially in the first phase of the expansion. It was crucial to reduce as much as possible the errors and to have a clear goal in mind.

BIP was able to adapt itself to the external environment from the very first months. When there was the opportunity to enter in the Spanish market, BIP immediately seized it. Then, once having rooted its business in Italy, the firm instantly advanced a strategy based on "the internationalization through projects". After that, BIP started to make investments abroad, supported by an equity found. This led to the acquisition of the first foreign company, in Brazil. Now, it is more than two years that BIP gave up the client-following strategy, in order to implement a push strategy with its client. This includes heavy investments abroad and it should help the company to become a global leader within its sector.

In hindsight, one could say that the company should have adopted a push type strategy right away. However, as all sectors, also the consultancy one requires players to have a deep knowledge of the market and of its characteristics. BIP was aware to do not have these key aspects within their organization and therefore it had to overcome this barrier in another way. BIP partners' thoughts were simple: it is not important the nature of the problem, but how you approach to it. It is remarkable to see the ability of the company to grab each opportunity to evolve, expand, develop and grow, every time it arose. The key element has been the dynamism. This aspect explains the easiness with which BIP expanded in Spain after just six months from its foundation or the ability of BIP corporate management to plan a new internationalization strategy in 2018 despite the excellent results the company was achieving.

Again, the role of the founders and enterprising behaviour of the firm, typical of *Born Globals*, was crucial. The strategy of a company usually changes over time, more or less often. Talking about the consultancy sector and about the foreign strategy, the changes are even more likely to take place. The way the strategy evolves depends by the strategic vision of the entrepreneur and on the dynamism, in terms of propensity for change and sharing of knowledge and experience, of the company itself. BIP directly experienced this process, probably even more than other foreign companies did because it has been the first service company, in Italy, to pursue this strategy. BIP's case has shown the way to future Italian consultancy firms that want to expand abroad. The firm has managed, through failures and difficulties, to achieve important milestones. For future researches, it will be interesting to compare the path followed by new Italian companies, if there will be any, and the one carried out by BIP.

### ***5.3 WHAT IS THE IMPACT OF CLIENT-FOLLOWING STRATEGY ON ENTRY MODE CHOICE OF ITALIAN CONSULTING FIRMS?***

Our case study is particularly suitable for an analysis of the influence the clients had in the international development of the company. As all consulting firms, also BIP, since the very first years, run its business trying to serve its clients in the best possible way. In 2003, large players mainly composed the Italian market of the Telecommunications

and of Energy & Utilities. Nowadays, the situation is very similar. Considered the limited dimensions of BIP, the influence that those large clients had on the company was remarkable. At that time, BIP did not want to miss the opportunity to support the development of such important and distinguished companies, also because large part of company's profits came from them. Because of this reason, BIP joined the partnership with those players considering that as an opportunity to learn, develop and grow. It becomes obvious why BIP has implemented the client-following strategy during the first years of the internationalization. Clearly, the biggest clients enabled the company to build a solid experience within both sectors. These results underline the importance of this strategy in the very first years from the foundation of the company and confirm the second statement that has been advanced in this work: the client-following strategy is more likely to be implemented during the first years since the firm's foundation.

During the first phases of international growth, we could identify the clients' role as facilitators. They had a particularly relevant role in opening BIP's prospective toward an international environment acting as a bridge between the home country and the foreign regions. Therefore, the "network of clients" of the company has had a great importance in the international development. The clients have been the mean through which the company managed to access to foreign markets, despite the limited amount of financial resources.

From the case study, the clients did not have any influence in the selection of the mode of entry in the foreign country. Contrary to what one may expect in other industries, in the consultancy world clients want to be served in the host country as they are served at home where their headquarter is located. In this way employees are relocated abroad where is usually opened a legal site for the whole duration of the project.

However, we could find an element that set some barriers in the choice of entry mode of BIP. When a company decides to enter into new market through an equity investment, it knows that the process of establishment, integration and development of local relationships will take time. At that time, BIP simply did not have time to run this kind of process and neither had the economic resources. Therefore, BIP was "obliged" to undertake the client-following strategy to go abroad. Simply, it was impossible to consider any equity alternatives. The circumstances dictated the choice and they restricted the number of possibilities that BIP could undertake.

#### ***5.4 WILL THE CLIENT-FOLLOWING STRATEGY STILL BE ADOPTED BY ITALIAN CONSULTING FIRMS DURING THE NEXT YEARS?***

There are different aspects concerning the client-following strategy that emerged from the analysis of BIP.

As a response to the company's needs, to the perspectives offered by the Italian market and to the company's strategic goals, the client-following strategy has been largely implemented by BIP for many years. BIP has adopted this method during the first stages of its international development while in the later stages the company has preferred a different strategy.

From the results of this study, we do not expect a decrease, in absolute terms, of the usage of this strategy by other Italian firms. Besides particular situations of each company, there are no reasons why a consulting firm should not implement it in the coming years. This method provides some remarkable advantages, such as the time to learn and gain experience while the company's financial exposure and risks are still low. Instead, we should expect this strategy to have a lower strategic importance. This means that companies will employ it as a way to acquire international experience and to strengthen their relationship with the mayor home-country multinationals. Consequently, the client-following strategy is not meant to be a long-term strategical pathway. It is more reasonable to expect the client-following strategy to be an "intermediate strategy".

Therefore, this strategy will be more likely implemented during the first stages of the internationalization process, when the international experience and the knowledge of the foreign market is low. Moreover, in these stages, the financial resources of companies are quite limited. The firm has incentives to spend time to acquire experience and knowledge. Then, during the later stages of the international development, other strategy may assume more relevance. The case study shows that BIP shifted from a push strategy to a pull one. Since 2018, BIP decided to explore foreign country without the support of domestic multinationals. In this way, BIP aims to attract Italian enterprises to ask support for the internationalization in those countries. The financial support of the private equity fund is a crucial element in this process. Its support enables BIP to

have equity direct investments on strategic firms in the foreign countries. Experience, knowledge and financial resources are fundamental aspects for running a pull and market seeking strategy in the consulting sector.

## 6 DISCUSSION

So far, this paper shows the limits on the applicability of previous theories on the foreign development of Italian consulting SMEs. The International New Ventures model, the Network model and the International Entrepreneurship model are not exhaustive theories for the description of this process. As we already said, all of them provide important elements that help in the understanding of this specific context. However, it is necessary to put together those aspects and contextualize their assumptions to the Italian framework. Moreover, through this work, we want to stress the importance to integrate and relate those models with the client-following strategy and its strategic role in the consultancy sector of SMEs.

Under this perspective, it is possible to advance a theory development analysis. In particular, we will see how the client-following's results of the case combines and integrates with the existing literature.

Coviello and Martin in 1999 suggested the crucial role of 'networking' motives as key implications in the process of internationalization. As stressed by Axelsson and Johanson in 1992, the internationalization of a firm is dependent on its current network position. Companies may both pursue the internationalization of their operations by exploiting their domestic relationships and using them as a 'bridge' or they could enter in a new market through its links and connections in a third market. Suppliers, foreign licensors and even players indirectly connected such as competitors may have an influential effect in 'pulling' companies abroad. The 'network' approach shifts the focus to the dynamics of the direct and indirect connections of a firm within the network rather than focusing on the dyadic client-supplier relationship.

Scholars have convincingly argued that the network of relationships and resource exchange of companies affects both their internationalization strategies and behaviour (Mattsson 1985; Axelsson and Johanson 1992). As previously explained in the Network model, the networks may help an enterprise to internationalize, for example by supporting its members in the search of buyers abroad. Within its current network,

a company can decide whether to opt for a market seeking or a client-following strategy (Erramilli 1991; Hellman 1996). The client-following behaviour implies that a firm is involved in an international network of exchanges. The partners who are part of that network operate internationally and they push and stimulate the other members of the same network to go abroad as well.

As underlined by Terpstra and Yu (1988), client-following firms have accumulated experiential knowledge of their counterpart. The client-following strategy is an operation with a low level of uncertainty, being run by service firms. Because of the fact client followers have a deep knowledge of the client and are part of an international network, the process of entering in a new market may be seen as “unproblematic” (Erramilli and Rao 1990; Sharma and Johanson 1987).

In 1990 Erramilli and Rao stated that the entry mode chosen by client followers service firms has two main characteristics. The first is that, in the early stages of the process, client followers invest a great amount of resources in the foreign country. Secondly, the client followers, compared to the market seekers, are more willing to commit resources in equity ventures. In 2008, Majkgard and Sharma published the research “Client-Following and Market-Seeking Strategies in the Internationalization of Service Firms”. This study is based on three case studies of Swedish service firms from the software industry. Its outcomes underline how in the early years of foreign market entry, client followers firms prefer to opt for low control entry modes because of their lower experiential knowledge of foreign countries.

In light of what has been said above, these trends are just partially generalizable to the BIP case and, more generally, to the Italian consultancy firms. In fact, the case study provides additional elements to be integrated with the existing literature.

To begin with, the case of BIP demonstrates that the network of a company highly influences the decisions of entering or not into new foreign markets. Specifically, BIP was not part of a home international network. As already stressed, the Italian consultancy market has few players, which have an international presence. However, BIP managed to create a network with some big players in the Telecommunications and Energy&Utilities sectors, which enabled the company to have an international exposure. Moreover, during the first stages of the internationalization of its operations, BIP did not invest a large amount of resources in the foreign country, leaving its

client to take the greatest risk. As was mentioned in the previous chapters, the client-following strategy led BIP to prefer, at least at the beginning, low control entry modes. This outcome does not confirm what the first proposition of this work suggests.

Stoyan Tanev, (2012) in his work on the characteristics of *Born Globals*, identifies some key features of these firms: the high activity in international markets from or near the founding, limited financial and tangible resources, managers have a strong international outlook, present across most industries and emphasis on superior product quality<sup>13</sup>. Almost all of these aspects are suitable for describing the structure and the organization of the Italian consulting SMEs. However, this study, like all other studies strictly related on *Born Globals*, was advanced for the analysis of non-service firms. BIP's case study confirms that existing theory on *Born Globals* cannot explain the international development of Italian consulting SMEs.

Within the Italian consultancy industry there is not a problem of saturation of the domestic market and service firms do not have to expand abroad in new markets as a response to it. The Italian sector has several SMEs and the market demand's level is higher than the capacity of providing services of the companies. BIP did not followed an international path because of this reason, but because of the strategic vision of the management and because of the globalized structure of the consulting market.

Madsen and Servais (1997) claim that *Born Global* are inclined to have a high resource commitment in the foreign country, while our case study showed that this international strategy is not suitable to the consulting services. BIP's case demonstrated that for SMEs it is easier and convenient to adopt, unless the firm has strong financial resources, a low commitment and control entry mode, preferring a client-following strategy.

Moreover, the case study results show that BIP is not risk prone and it pursued an international development because of its clients, which took on the majority of the risks.

As for the INV model and the Network model, the existing literature on the

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<sup>13</sup> Tanev, S., 2012. Global from the Start: The Characteristics of Born-Global Firms in the Technology Sector. *Technology Innovation Management Review*, 2(3), pp.5-8.

International Entrepreneurship model does not perfectly apply to our context.

International entrepreneurship is a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations (McDougall & Oviatt, 2000). A broader and more updated definition, which considers the servicing activity, is “international entrepreneurship is the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services”<sup>14</sup>. Despite the fact more recent studies on this model relate with the consulting services, the International Entrepreneurship theory still needs to be integrated with the results of this work in order to be more suitable for describing the international process of Italian SMEs of the management consulting industry.

The case study gives a clear picture on the limitations above mentioned. To begin with, BIP’s case demonstrates that it is restricting to consider the entrepreneur as the key figure for the internationalization. There are different actors that are relevant as well, especially the clients and the potential clients. The results show that the role of the entrepreneur (partner) is fundamental when the company has to establish new connections and new relationships, both with domestic and foreign clients. Because of this, its strategic role is mainly relevant during the first period from the firm’s foundation or when he takes important decisions on the future of the firm, for example a changing the internationalization strategy. As BIP’s case suggests, the partner must be able to work close to the corporate management of the clients and to support and guide them towards an international development. In the ordinary management of the company, the leadership and the personality of the entrepreneur is not as relevant as for non-service firms.

Table.1, below, includes a schematic summary and the limits on the applicability of the three theories discussed in this work to the Italian consulting industry. Additionally, the table remarks how the existing literature should be integrated considering both the analysis and the results of the client-following strategy and of the case study.

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<sup>14</sup> Oviatt, B. M., & McDougall, P. P. 2005. The internationalization of entrepreneurship. *Journal of International Business Studies*, 36(1): 2–8.

THEORY	EXISTING LITERATURE	LIMITS FOR THE APPLICABILITY	INTEGRATION WITH CASE-STUDY RESULTS
<b>INTERNATIONAL NEW VENTURES MODEL</b>	<p>SMEs with an intense international activity since foundation</p> <p>Dynamic internationalization process, main objective 'internationalize as soon as possible'</p> <p>Great speed of international development</p>	<p>Conceived for manufacturing firms</p> <p>Saturation of the domestic market as main reason to expand abroad</p> <p>High resource commitment in the foreign country</p> <p>The firm is risk prone</p>	<p>The structure of the Italian consulting sector highly influences the international strategy</p> <p>Propensity to low control and commitment entry modes in the first stages of the foreign development</p> <p>Low risk strategy</p>
<b>NETWORK MODEL</b>	<p>Relationship model among various economic actors</p> <p>Acquisition of knowledge and resources thanks to the network</p> <p>International behavior of firms influenced by their positioning within the network</p>	<p>Conceived for non-service firms</p> <p>If applied to the consulting sector, the "network" assumes a different meaning</p>	<p>Network made by clients and competitors</p> <p>High influence of competitors in the international strategy due to structure of consulting sector</p> <p>Knowledge and experience acquisition through the clients</p>
<b>INTERNATIONAL ENTREPRENEURSHIP MODEL</b>	<p>Focus on transnational behavior of entrepreneurs</p> <p>Entrepreneurs as key element for the internationalization</p> <p>Entrepreneurship as innovative and risk prone actions</p>	<p>Limited applicability of the concept of entrepreneur to the consulting industry in terms of:</p> <ul style="list-style-type: none"> <li>-leadership and strategic vision</li> <li>-his relative importance over time</li> <li>-centralization of strategic decisions</li> </ul>	<p>Entrepreneur is not the key figure for the internationalization anymore</p> <p>Entrepreneur able to work with corporate management of the clients</p> <p>Entrepreneur important for creating new partnerships and mutual trust with clients</p>

**Table.1: How the results of the study should intergrate the existing literature**

## ***6.1 FUTURE IMPORTANCE OF CLIENT-FOLLOWING STRATEGY***

The client-following strategy has been observed in the early stages of most U.S., Japanese and European service investments abroad (Li and Guisinger, 1992). Li (1994) run a research using a logistic regression model to test hypothesis on the international expansion decisions of 180 service firms in the Asia-Pacific region over the 1980-1986 period. The focus of that study was to analyse the increasing presence, through the establishment of new subsidiaries, of those firms in that area. The results show that, even if recent service FDI in foreign countries have shifted from client-following to market-seeking reasons, the client-follow strategy is still a valid strategy. Moreover, it is showed that business service companies may move to a new country in order to gather information to facilitate the entering of their home country clients. As shown by the results, many service firms, once established abroad after following their clients, start to expand their services to both other local firms and other foreign firms in the host country.

Again, the results of the main studies on the implementation of the client-following strategy by MNCs are not suitable for explaining the singularity of the Italian market. Some of the aspects mentioned above, were not identified in our case study. From the interview resulted that BIP, after following the home-country client firm, did not begin to serve local firms and other foreign firms in the host market. This is due to the specific features of the consulting service. Therefore, the third proposition advanced in the theoretical framework has not been confirmed.

We already mentioned in the previous sections of this paper that clients wanted to have a direct relationship with the consultants. The service provided in the home country, must be replicated as accurately as possible abroad. It is easy to understand how difficult it would be for an Italian consulting firm to expand in foreign countries serving other local firms.

This aspect enables us to suppose that the importance of the client-following strategy won't decrease over time, at least in the Italian context where the service SMEs don't have, especially in the first stages of their development, the financial resources and the

experience to directly invest abroad.

## ***6.2 OUTCOMES OF THE INITIAL PROPOSITIONS***

In order to summarize the results, Table.2 shows whether the initial propositions of the thesis are supported by the analysis of this work.

<b>PROPOSITIONS</b>	<b>OUTCOMES</b>
1. During the first years of the internationalization process, client followers of service firms usually opt for high-control modes of entry	<ul style="list-style-type: none"> <li>• NOT SUPPORTED: The analysis of the case study shows that BIP preferred to implement an international strategy based on a low-level of resources commitment and on low-control modes of entry</li> </ul>
2. The client following strategy is more likely to be implemented during the first stages of the foreign development of Italian consulting SMEs	<ul style="list-style-type: none"> <li>• SUPPORTED: BIP adopted the client-following strategy since the very first months since its foundation as the company did not yet have the adequate financial and human resources to implement a different foreign strategy</li> </ul>
3. Once followed the home-country client firm abroad, the Italian consulting SMEs start to expand their business in the foreign country	<ul style="list-style-type: none"> <li>• NOT SUPPORTED: due to the specific characteristics of the consulting services, BIP did not serve local firms and other foreign firms in the foreign country</li> </ul>

**Table.2: Empirical results regarding propositions**

## 7 CONCLUSIONS

The aim of this work is to integrate the “gaps” in the internationalization process of Italian SMEs in the consultancy sector with the analysis of the client-following strategy, one of the most implemented strategies for the foreign expansion of firms.

To achieve this result, I started with a review of the traditional and modern internationalization theories, focusing on the three most relevant for describing the behaviour of Italian consulting SMEs: the International New Ventures model, the Network model and the International Entrepreneurship model. This study highlights their pitfalls and underlines why they are significant in this specific context.

The results confirm the relevance of the client-following strategy within the Italian consulting sector. At the same time, the case study demonstrates how the existing literature should be integrated, in order to explain in a more comprehensive and detailed way the internationalization process of the Italian management consulting SMEs. In fact, this work supports just one out of three of the initial propositions. This shows that the existing literature on the internationalization of service SMEs is still far to be exhaustive.

Further, the outcomes suggest that we may expect a decrease of the strategic importance of the client-following strategy in the next years.

The originality of the work stands in the relevance of the case study itself. The witness of BIP’s CEO allows having a unique viewpoint of the international development of the firm. Moreover, it significantly increases the relevance of the study and differentiates it for reliability and completeness.

The main issue arose from my analysis lie in the low generalizable results due to the dimension of the sample. In fact, a higher sample of firms and a cross analysis would have given a broader overview of the phenomenon. However, the Italian consulting sector has just started to broaden its horizons towards an international development. Future researches may integrate the literature with other case studies and may assess some specific consideration about the phenomena and the impact of the client-following strategy.

Even if past and existing researches has led to different and sometimes divergent

results, there is evidence that the client following strategy can affect a broad range of internationalization decisions. The literature on this topic is far to be exhaustive and divergent results may relate with social, cultural and economic differences. Coviello and Martin in 1999 claimed that ‘client following is the most consistent external influence on the internationalization of the firms we analysed’<sup>15</sup>. Nowadays, this statement, as demonstrated by BIP’s case study, is particularly true for Italian SMEs, considering their difficulties to implement a long-term strategy based on foreign equity investments since the first years of their internationalization process.

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<sup>15</sup> Coviello, N. and Martin, K., 1999. Internationalization of Service SMEs: An Integrated Perspective from the Engineering Consulting Sector. *Journal of International Marketing*, 7(4), pp.42-66.

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# APPENDIX

## *INTERVIEW GUIDE*

- THE REASONS FOR INTERNATIONALIZING
  - Why Bip decided to internationalize?
  - Which have been the main factors that influenced this choice?
  
- THE INTERNATIONALIZATION PHASES
  - How Bip's top management conducted the internationalization?
  - How the internationalization process evolved over time?
  
- BIP's INTERNATIONAL EXPERIENCE
  - Did the level of international experience influence the international development of Bip?
  - How did Bip overcome this issue?
  
- ROLE OF THE CLIENTS IN THE INTERNATIONALIZATION PROCESS
  - Did the clients play a relevant role in this process?
  - How did the clients influenced Bip's internationalization strategy?
  
- ROLE OF THE CLIENTS IN THE CHOICE OF ENTRY MODE
  
- BIP's FUTURE COMPETENCIES
  - Which are the competencies on which Bip will focus in the future years?
  - How will Bip differentiate its services from the other competitors?
  
- BIP's FUTURE PERSPECTIVES
  - Do you plan to list the company in the stock exchange in the next future years?

# MASTER THESIS SUMMARY

## *INTRODUCTION*

During the last months, we are assisting, due to the effects of the COVID-19 pandemic on the global economy, to the so-called “slowbalization” process. Many scholars refer to this term to define the course in which globalization has given way to a new era of sluggishness. This is due to several factors: from the cost of moving goods which has stopped falling to many activities that are shifting towards services, including the consultancy ones, which are more difficult to sell abroad. The slowbalization will more likely lead to deeper links among regional blocs.

The company’s growing strategies have been highly impacted by the effects of the globalization. The reduction of the obstacles to international trade and the integration process among different countries have enlarged the competitive arena of firms. These changes raised some new issues for firms: how to preserve and to increase their competitive position on the market in an ultra-connected and fast-changing world. The answer is clear: internationalize. However, the process of expanding the operations abroad is risky and difficult to manage. In fact, a company that wants to follow this path should carefully analyze and evaluate the foreign markets and it should understand the critical factors for the economic success in that area. At the same time, it is crucial to evaluate the economic and financial resources required, along with the importance of the competencies and of the know-how.

J. Calof and P. Beamish have proposed the most relevant definition of “internationalization” in 1995 referring to it as “the process of adapting firm’s operations (strategy, structure, resources) to international environments”<sup>16</sup>. The

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<sup>16</sup> Calof, J. and Beamish, P., 1995. Adapting to foreign markets: Explaining internationalization. *International Business Review*, 4(2), pp.115-131.

opportunities that a company evaluates when considering the expansion in a new country presents different risks too. To begin with, the importance of the know-how that is required to develop abroad usually emerges when you realize you do not have it. Moreover, the opportunities connected with that strategy may not compensate the risks associated with it. There could be other possibilities to use the same amount of resources in other countries reducing the risks.

Additional observations regarding the internationalization of firms include the fact that the results of this operation is not immediately observable. Sometimes a company manage to outperform the foreign market after several years from its establishment and therefore it is more difficult to assess the success of the investment. Top managers should also consider that, once they take the decision to go abroad, it is quitter difficult to come back. Some crucial activities include the ability to strategically predict the most influential variables in the coming years and a reliable evaluation of the accessibility and the attractiveness of the market.

Since the middle 70', many scholars began to focus on this process and on how firms behave when they pursue an internationalization strategy. So far, the literature embed several studies, which mainly focus on the international development of MNCs. At the same time, the previous literature is quite poor for what concerns the study of service firms and their behaviour in an international context. Most of the researches conducted in the past years took place in the United States of America and therefore it is reasonable to expect a greater focus on MNCs and on non-service firms. The implementation of the international strategies varies a lot depending by the size and the industry of the firm. In this study, the analysis relates with the international development of SMEs in the consulting industry.

## ***LITERATURE REVIEW***

This work aims to investigate the internationalization process of Italian consulting SMEs. In order to do so, the literature review section presents a first analysis of both the traditional theories and the modern theories. The first ones focus on States and countries, while the second category refers to the internationalization theories that underline the importance of the international strategy advanced by the firm.

However, since the SMEs has become a crucial protagonist of the internationalization doctrine during the last few years, these theories are not suitable for describing the foreign expansion of small-medium enterprises. Because of this reason, the research focus on just three theories, which include some important hints that are useful to study the international behaviour of Italian SMEs of the service industry.

The International New Ventures Model defines as Born Globals those firms that, despite their limited dimensions, are able to pursue an intense international activity since their foundations or, at least, during the very first years. Those firms usually have a dynamic international strategy and managers are internationally experienced or have a strong international business network. The characteristics of the organization of the Born Globals enables to reach a close and an effective coordination worldwide.

The Network model remarks the importance of the network of various economic actors in the internationalization of firms, both non-service and service firms. In particular, the intensity of the industrial relationships highly affects the growth process of companies in the foreign countries. Therefore, an international network facilitates the expansion abroad of a company while having strong relationships with regional actors may be an obstacle to the international growth.

The International Entrepreneurship model investigates on how entrepreneurs discover new opportunities and how evaluate them based on their personal experience. This theory considers the entrepreneur as a key figure to run all the operations within a firm, especially all those that relate with the international activity. He is responsible to create a competitive advantage for the firms, which is sustainable in the foreign market too. At the same time, his capabilities in building relationships with other companies and

the business network of the firm become a crucial aspect for the success of any international operation.

The three theories described above presents some limits in describing the phenomenon of the internationalization of Italian consulting SMEs. Because of this reason in this work, it is used a different approach, linking the main elements of the previous theories with a relevant strategy implemented by small-medium service firms during the internationalization phases: the client following strategy.

Before focusing on the presentation of the theoretical framework and the research questions, we discuss about the consulting sector, both from a global and country-specific point of view. Specifically, in this section of the literature review we underline the uniqueness of the Italian consulting sector. The presence of just small-medium players in a very fragmented market makes it difficult for Italian companies to compete at a global scale. However, the positive trend, in terms of growth and revenues that the European consulting market is facing is supported by the Italian market too. Since the 90's, Italian consulting firms started to look in a more systematic way for new opportunities in foreign markets. Many firms had the exigence to expand internationally to improve their operations and to guarantee a high level of services to their clients. Nevertheless, the results of the international development of Italian SMEs has been poor. As this work explains in detail, the exportation of intellectual services is very difficult and for Italian firms, which usually did not have a foreign presence yet, it is even more difficult. This is just one of the limits and issues that Italian companies have to face when internationalizing. Moreover, the evolving role of the consultants in this fast-changing world and the several strategic reasons that may influence the international process of a firm are crucial aspect that have a great effect on how the foreign expansion is conducted and on its overall result.

## ***THEORETICAL FRAMEWORK***

In the first part of this section, we focused our attention on the limits why the International New Venture model, the Network model and the International Entrepreneurship model are not suitable for describing the international development of Italian SMEs of the consulting industry. At the same time, the description of the sectorial variables of the Italian consulting industry put in evidence those limits as well. The low concentration of the offering along with the absence of market leaders and the existence of several small—medium enterprises make the Italian management consulting market very fragmented. Despite its not favorable characteristics, the Italian consulting sector has an international background.

One of the most implemented international strategy for the expansion in foreign countries of service SMEs is the client-following one. In this work, we want to investigate whether this statement is confirmed within the Italian consulting sector. As explained by Erramilli (1990), the client following is the act of moving offshore in order to serve the foreign partners of a home country client. This means that a firm decides to internationalize because its clients are looking for new business opportunities abroad. In this way, the supplying firm starts an international growth as well, so that it can serve the client more effectively.

When large MNCs decide to expand abroad, they usually prefer, at least during the first years, to maintain the same services. On the other hand, the service firm is pushed to internationalize, considering that a refusal may cause a breakdown of the relationship with the client. This strategy presents two main limits. First, it does not enable the company to develop a long-term strategy. Then, the client completely affects this decision and this does not permit the company to follow a clear internationalization strategy.

Considering that the literature on the internationalization of Italian SMEs in the consultancy sector is poor, this thesis comes in to provide additional elements to the existing theory and highlight some interesting fields and pathways for future researches. There are not previous works related to the specific subject selected, the client-follow strategy, and, actually, neither pertinent with the overall internationalization of Italian firms. Most of the previous works have been run mainly focusing on the American and Japanese context. Therefore, the case studies selected for these works are typically

MNCs. Those results are just partially generalizable to the Italian framework that includes a significant industrial network of SMEs. The research questions are, therefore, country and sector-specific. In particular, the research questions are: 1. What are the drivers/reasons for internationalization of Italian consulting firms? 2. What are the stages of internationalization for Italian consulting firms? 3. What is the impact of the client-following strategy on the entry mode choice of Italian consulting firms? 4. Will the client-following strategy be still adopted by Italian consulting firms during the next years?

Moreover, we want to examine whether some of the main strongholds concerning the internationalization of MNCs proposed by several researches are valid to in our case study. With these premises, we proposed three different propositions that question some important topics of the internationalization process: the choice of high-control modes of entry, the implementation of the client-following strategy since the very first years of the international development and the expansion of the business in the foreign country once established abroad. In the case study analysis, we will try to answer to the research questions and we will see whether the results support these propositions.

## ***METHODOLOGY***

The research method I used for this work is the case study, which enables to have an in-depth investigation of the issue. In particular, this research method has both an explanatory and an exploratory nature. The case study is one of the most reliable methods to provide a qualitative analysis. It becomes very practical in our context because it was not possible to obtain big sample of firms.

I used a semi-structured interview in order to obtain the data required for the analysis. This typology of interview let Carlo Capè, CEO of BIP S.p.a., to focus on the aspects he considered more meaningful and it enabled him to the express of a broader range of perceptions. He followed and directed the international development of the company directly since its foundation. Therefore, he is the most experienced and suitable person within the firm to explain the internationalization of BIP under a strategical and corporate-level point of view.

BIP (Business Integration Partners) is a multinational Italian consultancy firm, which works for businesses and public administration. The headquarter is in Milan and the company delivers services in other eleven countries. The company operates in the field of business consultancy, strategic consultancy, IT consultancy and in the cybersecurity field too. Nowadays it is the largest Italian management consultancy firm with more than 2,600 people globally. Since its foundation, the company focused on some strongholds such as the absence of conflict of interests and serving clients of the energy/utility and telecommunications sector and the company managed to exploit a non-competition agreement as an opportunity to specialize rather than as a limit.

In the interview, I proposed seven different arguments and questions, from the reasons for internationalizing to the future perspectives of the firm, from the analysis of the stages of the foreign expansion to the role of the clients in both the internationalization process and in the choice of entry mode.

## ***ANALYSIS AND DISCUSSION***

The case company provided three key reasons, which led the firm to internationalize: the characteristics of the domestic market (underdeveloped and with a poor impact on the Italian GDP), the global requirements of the consulting sector that favours big firms and the needs of the clients. However, it is reasonable to expect some divergences depending by the company considered. Dimension of the firm at the beginning of the implementation of the internationalization strategy, firm's resources and financial capital and the competitive landscape of the industry, are just some of the variables that can affect the decisions of the corporate management of a company.

BIP's case shows that the international experience has a direct impact on the evolution of the internationalization strategy. Because of the lack of that aspect, it was almost impossible to avoid mistakes, especially in the first phase of the expansion. Once having rooted its business in Italy, the firm instantly advanced a strategy based on "the internationalization through projects". After that, BIP started to make investments abroad, supported by an equity found. BIP directly experienced this process and the problems related to it, probably even more than other foreign companies did because it has been the first service company, in Italy, to pursue this strategy. In hindsight, one could say that the company should have adopted a push type strategy right away. However, it is remarkable to see the ability of the company to grab each opportunity to evolve, expand, develop and grow, every time it arose. The key element has been in this phase has been the strategic vision of the top management and the dynamism of the company's organization.

For what concerns the impact of the client-following strategy on the entry mode choice of BIP in foreign markets, the most important element to take into consideration is its limited dimensions, which enabled the largest clients to have a strong influence on BIP's international decisions. At that time, BIP did not want to miss the opportunity to support the development of such important and distinguished companies, also because large part of company's profits came from them. Because of this reason, BIP joined the partnership with those players considering that as an opportunity to learn,

develop and grow. It becomes obvious why BIP has implemented the client-following strategy during the first years of the internationalization. Moreover, the results coming from this work underline that a firm will more likely implement the client-following strategy during the first years since the foundation. However, from the case study, the clients did not have any influence in the selection of the mode of entry in the foreign country. At the same time, BIP did not have time to run a process of establishment, integration and development of local relationships and neither had the economic resources. Therefore, we can claim that BIP was “obliged” to undertake the client-following strategy to go abroad and that it was impossible at that time to consider any equity alternatives.

From the results of this study, we do not expect a decrease, in absolute terms, of the usage of this strategy by other Italian firms. Besides particular situations of each company, there are no reasons why a consulting firm should not implement it in the coming years. This method provides some remarkable advantages, such as the time to learn and gain experience while the company’s financial exposure and risks are still low.

Instead, we should expect this strategy to have a lower strategic importance. This means that companies will employ it as a way to acquire international experience and to strengthen their relationship with the mayor home-country multinationals. Consequently, the client-following strategy is not meant to be a long-term strategical pathway. It is more reasonable to expect the client-following strategy to be an “intermediate strategy”. In fact, under a long-term perspective, the later stages of the international development may involve the implementation of other international strategies.

This study shows the limits on the applicability of previous theories on the foreign development of Italian consulting SMEs. The International New Ventures model, the Network model and the International Entrepreneurship model are not exhaustive theories for the description of this process. The following table summarizes the most relevant outcomes from both the interview and the analysis of the case study concerning the validity of the previous models.

THEORY	EXISTING LITERATURE	LIMITS FOR THEIR APPLICABILITY	INTEGRATION WITH CASE-STUDY RESULTS
<b>INTERNATIONAL NEW VENTURES MODEL</b>	<p>SMEs with an intense international activity since foundation</p> <p>Dynamic internationalization process, main objective 'internationalize as soon as possible'</p> <p>Great speed of international development</p>	<p>Conceived for manufacturing firms</p> <p>Saturation of the domestic market as main reason to expand abroad</p> <p>High resource commitment in the foreign country</p> <p>The firm is risk prone</p>	<p>The structure of the Italian consulting sector highly influences the international strategy</p> <p>Propensity to low control and commitment entry modes in the first stages of the foreign development</p> <p>Low risk strategy</p>
<b>NETWORK MODEL</b>	<p>Relationship model among various economic actors</p> <p>Acquisition of knowledge and resources thanks to the network</p> <p>International behavior of firms influenced by their positioning within the network</p>	<p>Conceived for non-service firms</p> <p>If applied to the consulting sector, the "network" assumes a different meaning</p>	<p>Network made by clients and competitors</p> <p>High influence of competitors in the international strategy due to structure of consulting sector</p> <p>Knowledge and experience acquisition through the clients</p>
<b>INTERNATIONAL ENTREPRENEURSHIP MODEL</b>	<p>Focus on transnational behavior of entrepreneurs</p> <p>Entrepreneurs as key element for the internationalization</p> <p>Entrepreneurship as innovative and risk prone actions</p>	<p>Limited applicability of the concept of entrepreneur to the consulting industry in terms of:</p> <ul style="list-style-type: none"> <li>-leadership and strategic vision</li> <li>-his relative importance over time</li> <li>-centralization of strategic decisions</li> </ul>	<p>Entrepreneur is not the key figure for the internationalization anymore</p> <p>Entrepreneur able to work with corporate management of the clients</p> <p>Important for creating new partnerships and mutual trust with clients</p>

The following table proposes a summary of the outcomes of the initial propositions of the study.

<b>PROPOSITIONS</b>	<b>OUTCOMES</b>
4. During the first years of the internationalization process, client followers of service firms usually opt for high-control modes of entry	<ul style="list-style-type: none"> <li>• <b>NOT SUPPORTED:</b> The analysis of the case study shows that BIP preferred to implement an international strategy based on a low-level of resources commitment and on low-control modes of entry</li> </ul>
5. The client following strategy is more likely to be implemented during the first stages of the foreign development of Italian consulting SMEs	<ul style="list-style-type: none"> <li>• <b>SUPPORTED:</b> BIP adopted the client-following strategy since the very first months since its foundation as the company did not yet have the adequate financial and human resources to implement a different foreign strategy</li> </ul>
6. Once followed the home-country client firm abroad, the Italian consulting SMEs start to expand their business in the foreign country	<ul style="list-style-type: none"> <li>• <b>NOT SUPPORTED:</b> due to the specific characteristics of the consulting services, BIP did not serve local firms and other foreign firms in the foreign country</li> </ul>

This study highlights their pitfalls of previous researches on the internationalization of service firms and underlines why three particular models are significant in this specific context.

The results confirm the relevance of the client-following strategy within the Italian consulting sector. At the same time, the outcomes of the case study should integrate the existing literature, in order to explain in a more comprehensive and detailed way the internationalization process of the Italian management consulting SMEs.

Even if past and existing researches has led to different and sometimes divergent

results, there is evidence that the client following strategy can affect a broad range of internationalization decisions. The literature on this topic is far to be exhaustive and divergent results may relate with social, cultural and economic differences. Nowadays, the client-following strategy, as demonstrated by BIP's case study, is one of the most important externalities in the internationalization process of a firm. This is particularly true for Italian SMEs, considering their difficulties to implement a long-term strategy based on foreign equity investments since the first years of their internationalization process.