

**Multilateral institutions and the internationalisation of consulting providers: Client following, market seeking or network positioning?**

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Competitive paper submitted to the 20<sup>th</sup> Annual Conference of the Industrial Marketing and Purchasing Group, Copenhagen, 2-4 September 2004.

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**Abstract**

The purpose of this paper is to examine the role of multilateral institutions in the internationalisation of consulting providers. Existing theories on the internationalisation of service firms contrast client-following and market-seeking influences on the internationalisation of service firms. This study of consulting providers to multilateral institutions suggests that both client following and market seeking are significant internationalisation trajectories, and that internationalisation decisions are best understood in the firm's broader network context.

**Introduction**

Research on international service firms has centred on explaining observed differences between their internationalisation patterns and those of manufacturing firms. In general, service internationalisation is regarded as 'relatively more complex' (Knight 1999, p. 356) – even riskier (Carman and Langeard 1980) – for service than non-service firms, as a result of the inseparability of production and consumption, the high degree of customer contact and customisation, and greater need for cultural adaptation (Knight 1999). One commonly cited difference between the internationalisation of service and manufacturing firms is the higher incidence of 'client following' among the former than the latter. The purpose of this paper is to examine the role that client-following strategies play in the internationalisation of providers of consulting services. However, the paper differs from prior studies in two respects. First, the focus is on a client that has received little attention in the international marketing and international business literature to date: the multilateral institution. Multilateral institutions – chiefly the United Nations and

multilateral development banks (MDBs) such as the World Bank and Asian Development Bank (ADB) – provide aid and concessional loans to fund projects in developing countries. In this role, they are significant procurers of goods, services and civil works. Second, unlike many studies (with the exception of Coviello and Martin 1999; Hellman 1996; Majkgård and Sharma 1998), the dyadic relationship between client and service provider is examined in its network context.

One consistent theme in the international services literature is the sheer diversity of services and service firms (see eg. Clark et al. 1996). Boddewyn et al. (1986) have advocated the analysis of service subsectors rather than services in general, especially as the differences among service firms may be greater than the differences between service and non-service firms. This is also the approach taken in this paper, which is confined to the experiences of firms providing international consulting services. Consulting has, however, proved to be a difficult service to characterise and classify. Consulting is characterised by simultaneous production and consumption (Cicic et al. 1999; Erramilli 1990; Erramilli and Rao 1990); a high degree of intangibility (Nicoulaud 1989), with delivery often made on a project basis (see eg. Sharma 1988); and, in many cases, ‘high contact’ with the client and a high degree of customisation (Patterson and Cicic 1995). All these characteristics of consulting services have an impact on their internationalisation, a topic examined more closely in the next section.

### **Explaining the internationalisation of service firms**

Client following – the act of moving offshore to serve the foreign affiliates of a home country client – has long been identified as a motivation for the international expansion of service firms. In a study of US advertising agencies, Miracle (1966, p. 43) concluded that ‘[t]he international expansion of US advertising agencies is related to the international expansion policies of US manufacturers.’ Later studies of US advertising agencies have confirmed that client following is a motive in their international expansion (Terpstra and Yu 1988; Weinstein 1977), with a similar

conclusion being reached in studies of other industries such as banking (eg. Grubel 1989; Nigh et al. 1986) and software (Bell 1995; Majkgård and Sharma 1998). However, Erramilli (1990) and Sarathy (1999) have cautioned that the incidence of client following does vary across industries and even across industry subsectors.

While the literature on client following is not extensive, some hypotheses and conclusions have been reached. One finding is that client following appears to be more prevalent among firms that are early rather than late internationalisers in their industry (eg. Weinstein 1977; Li 1994; Li and Guisinger 1992). A second and related finding is that as service firms develop their international operations, they shift from client-following to market-seeking strategies; in other words, from serving the international operations of domestic clients to serving foreign customers (for a summary, see Cicic et al. 1999). As a result, ‘the importance of the client-following strategy may decrease over time’ (Li 1994, p. 230). Additional empirical support for this switch from client following to market seeking can be found in Coviello and Martin’s (1999) study of the internationalisation of engineering consulting firms. However evidence from Majkgård and Sharma (1998) suggests that this shift from client following to market seeking does not appear to be universal.

A third finding is that client following may be related to the entry mode choice of service firms. Many service firms do not follow the ‘establishment chain’ typical of manufacturing firms that sees them evolve from ‘low commitment’ modes such as exporting to the ‘high commitment’ establishment of subsidiary operations (however, for a different finding see Coviello and Martin 1999). One reason put forward for this is that the inseparability of many services means that exporting is not possible in many cases, particularly for ‘soft’ services, so firms have no choice but to skip to more ‘advanced’ entry modes (eg. Cicic et al. 1999; Ekeledo and Sivakumar 1998). An alternative explanation is offered by Erramilli and Rao (1990), who find that, in general, firms that pursue a ‘client-following’ strategy are more likely to enter markets by means of high

commitment modes than those taking a 'market-seeking' approach (however, see Majkgård and Sharma 1998 for an opposing view).

Fourthly and lastly, there is evidence that firms pursuing a client-following strategy regard psychic distance as a secondary, even 'fortuitous', consideration in their market selection process (Bell 1995). Unlike market-seeking firms, client followers possess valuable market knowledge through their clients, so 'are better able to move anywhere in the world rapidly' (Majkgård and Sharma 1998, p. 30). The challenge for client followers may in fact come later in their development, when they realise that in order to diversify their client base in the foreign market extensive adaptation to the service offering may be required (McLaughlin and Fitzsimmons 1996). In seeking to explain these findings, researchers suggest that client-following strategies represent a reduction in the uncertainty and risk posed by the firm's lack of market-specific knowledge: a key driver of internationalisation as identified by the Uppsala internationalisation process model (Johanson and Vahlne 1977, 1990).

The phenomenon of client following therefore has implications for the internationalisation process of service firms, including firm decisions about market selection and development, entry mode choice, timing of entry, degree of market commitment and market knowledge. Moreover, it suggests the importance of 'networking' motives for and processes of internationalisation (Coviello and Martin 1999; Erramilli 1990). A key insight of the Industrial Marketing and Purchasing (IMP) Group is that a firm's internationalisation is 'to an important extent, dependent on its current network position' (Axelsson and Johanson 1992, p. 218). Firms may establish themselves in a new foreign market by utilising their domestic relationships as a 'bridge' (Sharma and Johanson 1987), or may enter a new market via its connections in a third market (Johanson and Mattsson 1988). These relationships do not have to be confined to domestic clients. Other domestic and international partners may be influential in 'pulling' firms offshore, such as suppliers (Majkgård and Sharma 1998), foreign licensors or other 'inward' connections (Welch and Luostarinen 1993) and even firms that are indirectly connected, such as competitors (Engwall

and Wallenstål 1988; Hellman 1996). The IMP ‘networks’ approach therefore shifts the analytical focus from the dyadic client-supplier relationship to the dynamics of a firm’s entire network of direct and indirect connections. This is also the approach taken in this paper, which will additionally focus on a client that has received little attention in previous literature: the multilateral institution.

In sum, while existing research has arrived at diverse, even divergent, findings, there is evidence to suggest that client following can influence a range of internationalisation decisions. Coviello and Martin (1999) even conclude that client following is ‘the most consistent external influence’ on the internationalisation of the firms they analysed. In this paper, client following is examined in the context of the relationship between international consulting firms and multilateral institutions. In particular, the following research questions were explored: To what extent do firms ‘follow’ multilateral institutions into foreign markets? How do the specific characteristics of multilateral institutions influence the internationalisation decisions of the firms that provide them with consulting services? What are the key network connections that influence a consulting provider’s decisions about project selection and market development?

### **The multilateral institution as client**

There has been little prior research on the role of multilateral institutions in the internationalisation process of firms. In their survey of business service firms, O’Farrell et al. (1998) found that initial market entry for firms in some industries was often the result of a tender from an international agency such as the World Bank (for a similar result, see Coviello and Martin 1999). In addition, Sharma (1988) identifies multilateral funding institutions as important sources of information for consulting firms about forthcoming project opportunities. In their study of an export grouping scheme targeting a World Bank project in China, Welch et al. (1996) explore the complex web of relationships and alliances that are often necessary to secure such opportunities.

In sum, existing literature suggests that multilateral institutions do play a noteworthy role in the internationalisation of firms in some industries.

Multilateral institutions are similar to domestic clients that internationalise to the extent that their operations span borders, and thus provide opportunities for suppliers in multiple countries. Thus, knowledge of the client is transferable across markets. However, they differ in that their operations are confined to developing markets, thus they do not represent a home country client for firms from developed countries. O'Farrell and Wood (1994) suggest that multilateral institutions represent intermediate clients for business service firms: such firms may begin by fulfilling contracts with their home governments, graduate to multilateral opportunities and then diversify their markets and clients.

Multilateral institutions constitute a distinctive type of client in a number of ways. Firstly, in the case of the MDBs and many UN agencies, they commit loans or aid to developing countries on a project basis. The MDBs have an established project cycle, from project identification and design to implementation and evaluation. Projects are often large and multidisciplinary in nature, meaning that firms frequently form consortia and alliances to bid for contracts (Welch et al. 1996). Procurement for multilaterally financed projects is generally conducted on the basis of international competitive bidding, a form of open rather than closed tender (Sharma 1988). Criteria for the evaluation of proposals vary, but consulting services tend to be evaluated on the basis of quality as well as cost (Quality and Cost-Based Selection).

Secondly, multilateral institutions form what might be termed a 'fragmented' buying centre (Cova et al. 2002). The UN represents a complex procurement system, with each agency conducting its own procurement. In the case of the MDBs, procurement for projects financed by loans is managed by the borrowing country, which nominates an executing agency to oversee the tendering and implementation process. In the case of a loan project, the consultancy signs a contract with the executing agency rather than the MDB. If the MDB is directly funding

consulting services, as in the case of ADB ‘technical assistance’ (TA) contracts, the local executing agency is still involved, even though the consultant has a contract with the Bank.

### **Methodology**

As the focus of this investigation is the multilateral institution, the first stage of the empirical phase of this study involved compiling a database of the 77 Australian organisations that registered or bid for contracts with the World Bank and Asian Development Bank (ADB) in 2000-2002 (for Australian firms, MDBs rather than the UN are the most significant multilateral clients, so will also be the focus of this paper). Organisations with consulting contracts were then selected from this database, with four criteria for sampling initially used: firm size (small, medium and large), industry and ownership (public/private). This resulted in a diverse sample of organisations at different stages of internationalisation and of multilateral experience. Given the exploratory nature of this study, this form of ‘maximum variation’ sampling, capturing shared patterns as well as uniqueness, was considered appropriate (Patton 1990). Of the 23 organisations in the sample, 8 were consulting engineers, 2 were in environmental management, 4 were multi-disciplinary project managers, 5 specialised in health, education or other forms of social infrastructure, 3 were in regulatory or public sector reform, and one in business services. Precise details of these organisations are not provided in order to preserve their anonymity.

In the next stage, 27 in-depth, semi-structured interviews averaging 90 minutes long were conducted with at least one manager from each organisation. All of the managers interviewed were directly involved in their organisation’s international operations. Most interviews were conducted face-to-face, while two were in the form of written answers plus a follow-up phone interview. While validation of the study would have been improved had more interviewees been included from each organisation, a decision was made to focus on breadth – including a larger number of firms in the study – rather than depth – studying a smaller number of firms more

intensively (Flick 2002). Instead, verification was provided by member checks – seeking follow-up feedback from each informant (Lincoln and Guba 1985) – and by supplementing interviews with media reports and as much company documentation as was made publicly available. Interview transcripts or summaries were then coded with the aid of NVivo data analysis software.

### **Interview findings and discussion**

The consulting providers in this study defied a simple classification as client followers or market seekers. Instead, each firm tended to pursue both client following and market seeking as internationalisation paths – although certainly some firms were pronounced in their client-following strategies than others, and other firms experienced a shift in focus over time. This section examines Bank-following and marketing-seeking strategies in turn, as well as the interdependence between the two.

#### *Bank following: where they go we go?*

Most of the organisations in the sample demonstrated a degree of ‘client following’ in relation to the MDBs; in other words, the pursuit of project opportunities partially or fully financed by MDBs, no matter where in the world these project opportunities arose. This resulted in a sequence of market entries that one manager characterised as ‘not that deliberate’. One reason for this is that by following a ‘project’ or ‘client’ logic rather than ‘market’ logic, firms can capitalise on their existing expertise and project track record. Firms that complete a project in a technically specialised area may successfully use this experience as a basis for winning similar projects elsewhere – indeed, they may have no choice but to do so, if there is no follow-on project within the same country. Because MDB lending is guided by a common set of development principles and priorities, this does encourage a certain standardisation of projects across countries. Moreover, firms that implement a project successfully often have the opportunity to interact with

Bank staff who manage a portfolio of projects in different countries. As one manager summarised, ‘multilateral work may not be repeat work in the same country, but... if you develop a track record and a relationship with various [Bank] project officers, you’ll get repeat work [elsewhere].’

However, client following – and the conversion of a project record in one country into an opportunity in another – was regarded by interviewees as far from automatic, since competition for multilaterally financed projects is intense. Securing regular multilateral work – which ‘Bank following’ implies – is particularly difficult for firms without an existing track record with MDBs. ‘Bank following’ requires considerable knowledge about MDB project cycles, tendering processes and policies – and even familiarity with key decision-makers. In addition, client following is commonly regarded as requiring credibility with the Bank – another requirement which makes the entry barriers to multilateral business appear relatively high. These problems of a ‘knowledge’ and ‘credibility’ gap were raised by the least experienced firms in the sample.

Firms may therefore make considerable investments, as well as adaptations of their organisational resources and routines, in order to gain client-specific knowledge and ensure a continuous ‘pipeline’ of multilaterally financed projects. The organisational adaptations and investments listed by interviewees involve both internal and external capabilities. Internally, firms may establish a separate division for multilateral business and hire staff who have previously worked or consulted for multilateral institutions. In addition, firms integrate the monitoring of MDB activities into their business development function, tracking MDB websites, procurement notices and project documents. While the advent of the internet has facilitated this process of tracking, most firms also place importance on face-to-face contact with staff at Bank headquarters. Over time, firms may also find themselves adapting their technical expertise and resources. Multilaterally financed projects, while they vary considerably, are seen as requiring different technical solutions and methodologies to those used for clients in developed countries. For example, projects tend to have a ‘capacity building’ and technology transfer component,

which as one consultant explained, means that the nature of consultancy ‘has to be more involved’ than is the case with a home-country client.

Externally, client following may involve the formation of inter-firm partnerships and other alliances to facilitate the entry into new markets. For example, a number of firms were seeking or had established cooperation with European firms in order to pursue multilateral opportunities in regions, such as Africa and Central Asia, where European firms were regarded as better established than their Australian counterparts. One firm would commonly use the government trade facilitation agency, Austrade, as a ‘broker’ in order to gain access to officials in countries where that firm had not previously operated. It had also joined a consortium of Australian firms to bid for projects in an unfamiliar region. Partnerships are one way to ensure that firms can follow the Bank without being hampered by a lack of market-specific knowledge.

The degree of client following did, however, vary among the firms studied. One crucial distinction was between firms that saw themselves as development specialists, or those for whom development projects were a core business, as opposed to those for whom multilaterally financed projects were secondary to their domestic business or other international clients. Development specialists were the most likely to engage in ‘Bank following’, since MDBs are a substantial source of development aid and loans. As a result, the internationalisation of these firms often reflected changes in MDB lending. Over the past fifteen years, MDBs have withdrawn or downgraded their presence in some countries (eg. Pakistan and Indonesia), while entering new ones (eg. the former Soviet bloc and East Timor). Development specialists tended to mirror this pattern in terms of their market entry and withdrawal, most recently following multilateral institutions into Afghanistan and Iraq.

The seven firms that did not regard development projects to be the primary business displayed a higher degree of market seeking and country focus. For these firms, multilaterally financed projects were more likely to be seen as part of their country strategy. One such firm regarded an MDB contract primarily as a marketing tool particularly useful in the initial stages of

foreign market development. While the margins for multilateral work are not regarded by this firm as attractive, the benefits of a contract would rather lie in the opportunity to use it as a ‘reference site’. The credibility that is attached to a multilateral contract would, it was hoped, result in additional in-country work. For another firm, multilaterally financed projects represented a means of accessing a boom in its industry in an Asian country without having to engage in FDI.

However, even among development specialists there was a strong tendency for firms to target particular countries and/or regions – as one manager put it, there was always a tradeoff between breadth and depth. Moreover, there was an overwhelming sense that Australian firms are more competitive in the Pacific and Asian – particularly South-East Asian – regions. As a result, Australian firms often gravitate to countries possessing close geographical proximity (eg. South-East Asia and the Pacific), historical connections (eg. British Commonwealth countries), high levels of bilateral aid funding from the Australian Government (eg. Papua New Guinea), and linguistic familiarity (eg. Sri Lanka and India). Only later in their development was there a more concerted push to consider more psychically distant markets.

The exception to this trend of country targeting seemed to be firms still new to multilateral bidding. Interviewees from two firms reported that they were highly experimental at this stage, taking a ‘scattergun’ approach by submitting expressions of interest for projects in a wide range of countries and regions. Both of these firms have become more targeted in their country focus as they have accumulated shortlistings and contracts: as a consultant from one of the firms explained, ‘Now we know where the land lies...., I think we will build on what we’ve got.’ In the case of one firm, this even extended to experimentation with the services it offered, as it sought to find the technical area in which it was best able to ‘get a niche’. The geographical and technical scope of MDB lending makes such experimental behaviour possible.

Bank following ultimately has the advantage that it often provides early opportunity for market entry, as MDBs tend to be the first entrants into a newly opened country. However, the degree of ‘Bank-following’ pursued by firms is limited by the requirements of the MDBs

themselves. MDB selection of consulting services emphasises the importance of in-country expertise. This means that projects cannot be fully standardised across countries, and that project experience in one country is not fully transferable to a project in another country environment. Moreover, the involvement of borrowing or recipient countries in MDB project cycles means that in effect, firms bidding for multilateral contracts need to contend with two potential clients: the local government and the lending institution. In this way, client-specific commitment and market-specific commitment are not always congruent. One manager explained his firm's regret that it had exited a country when the types of multilaterally financed projects it had been pursuing came to an end. At that time, the firm had rated its market commitment as secondary to its client commitment and technical expertise: 'we were project focused, we weren't market focused.' Issues associated with market focus are accordingly the theme of the following section.

*Market seeking: entry and development*

In following a 'market' not just 'client' logic, consulting providers face the typical dilemma of project firms: namely that while market development requires a sustained and continuous presence, the nature of projects is discontinuous and irregular. Moreover, client following only reinforces this discontinuity, in that it may not produce a project pipeline in the same country or countries. Yet a local presence is regarded by firms as an essential requirement for ongoing success at winning multilaterally financed projects, and many are prepared to invest the resources needed to ensure that the nature of this presence is an ongoing one.

The sample organisations typically commenced their multilateral involvement in the form of direct exporting; in other words, servicing the client by sending the project team to the foreign site (Grönroos 1999). For a large multi-year project, this would also involve the establishment of a temporary project office. Despite the prevalence of exporting in these early stages, an enduring local presence – whether it is in the form of a local representative, joint venture, branch office or subsidiary – is a goal of most firms. The newest firm in the sample had been relying on

information on multilateral opportunities mainly by means of monitoring MDB websites, but had reached the stage of ‘look[ing] at different ways of doing things... the only paradigm isn’t waiting for procurement notices.’ The other paradigm tends to be in-country presence and local knowledge, which are regarded as crucial to both the bidding and implementation phases of projects – particularly loan projects, which tend to be larger and involve a direct contractual relationship with the executing agency. In relation to project bidding, local presence can be vital in obtaining advance warning of an upcoming project opportunity, a potential advantage when preparing a bid. A local presence may even be the only way a firm finds out about a tender at all, with some procurement notices only advertised locally.

Perhaps even more importantly, local presence allows access to key decision-makers when preparing a project proposal. In the case of a loan project, the tendering process is run by a local executing agency, a government department or instrumentality; and in view of MDB policies to decentralise, increasingly key Bank staff are located in the field rather than at headquarters. Even in the case of TAs and other Bank-funded projects, understanding the needs of the ultimate client – the local government – is regarded as crucial. These may in fact differ from the demands that the MDB has of the project. A local presence therefore provides the in-country knowledge which is seen as being an increasingly important part of a successful bid, as well as being a visible and concrete demonstration of the firm’s commitment to the country. For one development specialist, in-country knowledge was regarded as so important that it attached low priority to face-to-face contact with MDB headquarters.

A local presence can also be useful in the project implementation stage, with some firms delegating part of the project management role to their local offices or representatives. It can be an important means for ensuring client satisfaction, since ‘Having somebody come from Australia once every six or twelve months doesn’t really give them [ie. clients] any sense of partnership or relationship.’ A local office or representative also provides firms with country-specific intelligence and the early identification of country risks; as one manager commented, it would be

too late to find out about a national emergency on a night-time news bulletin. Locally based staff can also ensure firms submit invoices correctly, thus avoiding potentially lengthy payment delays.

For the international consulting firms in this study, the most common 'establishment chain' for their foreign market development saw them moving from exporting to the appointment of local representatives, then the opening of a wholly-owned office, and culminating in the establishment of a locally registered subsidiary company. Local representatives are common in the early stages of market development, although the nature of representative arrangements can vary significantly. Some agents are part-time and non-exclusive, others are exclusive; many are nationals, while others are expatriates; remuneration varies from payment by commission or retainer, retainer and commission, and a percentage of profits; the responsibilities range from agents being little more than local delivery services, to providing and supervising the domestic consultants on projects. Some interviewees clearly stated that the use of representatives was a second-best option. However, much depended on the talents of the representative concerned, as well as the effectiveness of the monitoring and support from head office.

The decision to switch from representatives to wholly-owned offices depends on the availability of suitable staff, but it is also related to a firm's ability to generate a 'critical mass' of projects within a country. The overheads of a wholly-owned office can be considerable, although firms try to reduce them by, for example, employing local staff. One firm withdrew its expatriate manager because of the expense involved. A manager from a firm with a global network of offices explained that this was only possible due to the fact that these offices were multi-functional rather than just responsible for development projects.

The final step in the 'establishment chain' is a local subsidiary that is locally incorporated. The two firms in the sample that were the most highly internationalised had both taken the step of locally incorporating some of their offices. A major benefit of this step lies in the fact that these offices are then qualified to bid for local government work, and for contracts with aid programs that would otherwise exclude Australian companies. Another advantage is the

additional legitimacy that these firms gain by offering local employment and investment. Furthermore, it increases the firms' attraction as potential alliance partners, since they can bring the strength of local knowledge to any inter-firm partnership. As a manager from one of the firms detailed, the advantage of localisation means that his firm can draw on both local and expatriate staff, which is 'an almost unbeatable combination... because these two categories of people have access to two different sets of local networks.'

However, continuity of presence can pose a challenge for even these highly internationalised firms. An enduring in-country presence may require functional diversification, as well as diversification of funding source. As national economic development is a dynamic process, the types of projects funded tend to change over time, meaning that firms need to provide a different range of consulting services if they are to remain in the market. Firms can also consolidate their market presence by seeking other clients, using their MDB record as a 'bridge' or reference site. Some interviewees mentioned that they had been able to obtain follow-on non-multilaterally financed work from local governments, which has the advantage of not involving international competitive bidding. This, however, is not possible in all industries or all countries. For one specialised consultancy, multilateral institutions were the major funding source. In some of the least developed countries, alternative funding sources are uncommon; while in other countries, rapid economic growth has even meant that MDB loans have been reduced, or in some cases ceased altogether. A spread of clients in the one country therefore helps ensure that a firm's presence will endure beyond that of the MDBs. The end result of a 'market' logic may therefore be the firm considerably reducing its percentage of overseas revenue derived from multilateral contracts.

## **Conclusions**

In the current study, it was not possible to categorise firms as either a Bank follower or market seeker; rather, the firms tended to combine both a ‘client’ and a ‘market’ logic. While this differs from Majkgård and Sharma’s (1998) findings, it is consistent with Hellman’s (1996, p. 203) argument that firm internationalisation is typically based on ‘elements of both customer following and market seeking’, and that a categorisation of a firm as a ‘client follower’ or ‘market seeker’ may therefore be misleading. To some extent, this combination of client-following and country-targeting strategies is the result of the characteristics of the multilateral institutions themselves: the fact the MDB project cycle involves dual clients in the form of both the multilateral institution and the local government. However, it was also the result of the two types of opportunities that possibly follow from the successful completion of a multilaterally financed project: repeat work in the same country, as opposed to the possibility of a technically similar project in another country. As firms became more experienced suppliers of consulting services to the MDBs, they were able to accumulate both client-specific and market-specific knowledge.

The internationalisation of the firms included in this study was very much influenced by their multilateral clients. This is consistent with existing IMP research, which suggests that customer-supplier relationships involve a high degree of adaptation over time (Håkansson 1982). Market selection was frequently the result of a firm’s pre-existing client-specific knowledge of MDBs. Client following allows international consulting firms to extend their geographical reach quickly – although it also potentially necessitates market withdrawal. However, at the same time, most firms, while seeking to take advantage of ‘Bank-following’ opportunities, also target specific countries. Except possibly at an experimental stage of their consulting ‘exports’, firms are likely to prioritise countries on the basis of prior firm experience, country risk, market potential, psychic distance and degree of competition.

In terms of market entry and development, the firms in this study, despite being providers of soft services, did typically follow an ‘establishment chain’ from low- to high-commitment forms of entry – the main exception being firms that had already established an office as part of a

contract with a private client or clients. Again, this was related to the nature of multilaterally financed projects. The projects were for a defined period, with repeat work not necessarily guaranteed, and the project pipeline was characterised by a high degree of variability and uncertainty, not least because of the instability affecting some of the countries concerned. This encouraged the use of exporting and representative arrangements until the project volume in a country could sustain a company-owned entity. As a result, the key challenge for these firms came in the form of market development – of sustaining their presence in a market over time following initial entry (for a similar result, see O’Farrell et al. 1998). Moreover, firms did not necessarily find it easy to broaden their client base and use their multilateral record as a ‘bridge’ to local networks. In some countries and industries in particular, private clients are scarce; moreover, procurement procedures for private clients, as well as their consulting requirements, may be very different to those used in multilaterally financed projects.

Perhaps one of the more significant challenges for the firms in this study came in the form of reconciling a ‘client’ with a ‘market’ logic. To a great extent, the two could be regarded as complementary. As a firm upgraded its commitment to a foreign market, this could result in a higher number of multilateral contracts, thus improving the firm’s client-specific knowledge. Conversely, the implementation of a multilateral contract could provide face-to-face, personalised contact with key decision-makers in the executing agency and other parts of the local government, thus providing an opportunity for market-specific learning. However, the pursuit of both client-related and market-related opportunities can stretch the resources of even a large firm, and result in potential tension between the opening of new markets as opposed to the development of existing ones.

Another dimension of the internationalisation of the consulting firms under study was the structuring and evolution of their inter-firm and inter-organisational networks. Inter-firm partnerships are common to both client following and market seeking, and the internationalisation of the consulting firms studied involved the formation of new network relationships. In order to

gain the client-specific knowledge necessary to secure repeat contracts from MDBs, firms often partner with more experienced counterparts, only bidding as the lead contractor once they have established a multilateral track record. Given that client following leads firms into new markets, a common response to the deficit of market-specific knowledge is to seek associations with other firms who have a record in that country, or to make use of the services of information ‘brokers’ such as government trade facilitation agencies. At the same time, multilateral contracts require the formation of local partnerships, which can then provide the basis for further market-specific commitment. A firm’s expanding international network also encompasses Bank officials, many of whom manage projects in a range of countries, and whose relationships with local governments also have the potential to affect the business opportunities for firms. Over time, considerable adaptation to firms’ technical expertise and organisational routines result. Hence, client following and market seeking can be seen as part of the wider network dynamics in which a firm is embedded; both client following and market seeking can be analysed as forms of network positioning.

While the focus in this paper has been providers of consulting services and their relationships with multilateral clients, the question remains as to whether ‘Bank following’ can also be found among manufacturing firms. Further research would be necessary for an answer to this question. Another limitation of this study is that it is confined to a sample of Australian firms, which as a result of their geographical location tend to have a multilateral client ‘portfolio’ dominated by the World Bank and ADB. Further research could therefore be conducted into firms from other regions with different client portfolios. Additional questions arise when considering the internationalisation of manufacturing and service firms from the developing countries in which the MDBs finance projects. For these firms, the MDBs are in fact a type of domestic client. To what extent can such firms use their involvement in MDB-financed projects in their home country as a bridge into foreign markets?

While this study has been confined to the internationalisation decisions of consulting firms, it does have implications for internationalisation theories more generally. In particular, it raises questions about the role of clients and customers in the internationalisation process. The procurement rules and policies of the multilateral institutions are a significant influence on the firms that supply consulting services to them, to the extent of impacting directly on their network positioning in foreign markets. A wide range of factors, both internal and external, have been found to impact on the internationalisation decisions made by firms. The role and characteristics of various types of foreign customers and clients – and the different network configurations that result – are another dimension that, this paper suggests, warrants further analysis.

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