INTERNATIONALIZATION ANALYSIS

EUROPEAN MARKET

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STUDENT NUMBER 1648

A PROJECT CARRIED OUT WITH THE SUPERVISION OF:

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I am indebted to Dr. Leandro Pereira, CEO of Winning Management Consulting, for his valuable help during this project.

I would also like to include a special thanks to my close friends, for teaching me that the best journeys are the ones in which you enjoy the ride.

I would like to express my heart-felt gratitude to my family for being my source of energy. None of this would have been possible without their unconditional love and support.

Most important, I wish I could travel in time and give a warm thanks to my dad, to whom this Work Project is dedicated. Wherever you are, thank you for being my biggest inspiration and pushing me to always seek for the best and happiest version of myself. Words cannot express how much I miss you.

Abstract

A few decades ago, global management consulting was considered to be one of the most attractive industries due to its abnormal high profit margins and above-average growth rates. However, after the dot-com bubble in 2000 and the last global financial crisis, firms folded and growth rates declined sharply. In an attempt to overcome the uncertainty and information volatility, internationalization is commonly cited as a good strategy. WMC, a Portuguese SME founded in 2012, has now decided to expand its management consulting services. Therefore, a scoring model was created to assess selected European countries’ attractiveness taking into consideration macro and microeconomic data. Results show that Spain is the best option at the moment, mainly because it is where the company has the larger number of projects already developed and is more likely to leverage its network.

**Key-words:** Europe; Internationalization; Management Consulting; Spain
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Introduction

In the last decade, we have witnessed a change in the world. The Western Europe has created a unified region with 500 million consumers and the Eastern Europe and Russia have already acknowledged the need of free market economic structures. This in turn created a set of opportunities which led to a shift in the way firms do business. Most of them are now adopting a global philosophy, in which the world functions as a single market to produce and sell goods and services. As a consequence, there is a greater concern about understanding foreign countries’ environment, customers and market competitive forces.

Winning Management Consulting (“WMC”) is a Portuguese management consulting SME founded in 2012 and currently seeking for growing opportunities outside its home market. Europe, due to the countries’ geographic and cultural proximity, shared currency and common trade policies has a great potential for the company to develop its internationalization strategy. However, it is not feasible for WMC to approach all European markets simultaneously. In line with this limitation, it was developed a tailored scoring model which provides the company insights into the most attractive markets to internationalize its current portfolio of services.

The work project starts with a literature review on internationalization of SMEs, which is followed by a brief description of the methodology used in this analysis. Afterwards, company’s internal dynamics are studied and an assessment of the management consulting industry is made. The next section is focused on the scoring model, the explanation of the criteria used and the results obtained. At this stage, Spain is ranked first place and thus a country evaluation is performed. Finally, possible entry strategies are analyzed and recommendations for the success of this internationalization process are given.
Literature Review

Internationalization of SMEs

Internationalization can be understood as being “the process by which a company enters a foreign market” (Rugman and Collinson, 2006). A more dynamic definition describes this concept as being “the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries” (Beamish, 1990).

The research on companies’ internationalization, with particular interest in small and medium-sized enterprises (SMEs), has intensively grown throughout the last few decades, resulting in a variety of theories and models. Traditional theories were mainly focused on analyzing the internationalization process of big multinational enterprises (MNEs), being less relevant to SMEs (Dana, Etemad and Wright, 1999).

Literature suggests that three major approaches can be followed when analyzing the process by which a SME internationalizes: (1) the Stage Approach; (2) the Network Approach; and (3) the International Entrepreneurship Approach.

The Stage Approach considers that internationalization is a linear and sequential process consisting of distinctive stages (Coviello and McAuley, 1999; Melin, 1992). Regarding this approach, two major schools of thought can be identified: the Uppsala Model (U-Model), firstly developed by Johanson and Wiedersheim-Paul (1975) and further refined by Johanson and Vahlne (1977); and the Innovation-Related Internationalization Model (I-Model), to which Bilkey and Tesar (1977), Cavusgil (1980), Czinkota (1982) and Reid (1981) have contributed.
The Uppsala Model recognizes internationalization as a process of gradual learning, being the experience gained on the foreign markets the key element of this framework (Johanson and Vahlne, 1977). The acquired knowledge is then used as an input of the decision-making process, being internationalization the result of several incremental decisions (Laghzaoui, 2009). The original model explains the dynamic features of the internationalization process by combining the changes and the cycle of events into one single mechanism. According to the authors, the model is based on two essential elements: the amount of resources committed and the degree of commitment. Subsequently, Johanson and Vahlne (1990) introduced the idea that internationalization results from the interaction between continuous knowledge development on foreign markets and the gradual resources commitment to international markets.

The Innovation-Related Internationalization Model considers that each stage of the internationalization process constitutes an innovation for the company (Gankema et al., 2000; Gemser et al., 2004; Li et al., 2004). The main difference between this model and the Uppsala model lies in the number of stages of the internationalization process, as well as the description of each stage.

Although these approaches represent a significant contribution to the internationalization literature, they have some limitations. For instance, none of them provide an explanation for some of the SMEs rapid international development, which is contradictory to what is presented in the models. The recognition of some of these constraints opened the way for other approaches to arise, such as the Network Approach and the International Entrepreneurship Approach.
The Network Approach, introduced by Johanson and Mattsson in 1988, can be understood as an improvement of the previous Uppsala Model, in which it is highlighted the importance of including the company in a multinational framework by mobilizing both intra and inter-organizational relations (Laghzaoui, 2009). According to the authors, a firm is dependent on resources controlled by other firms and the way it can access those resources is by developing its position in the network. In the model, internationalization occurs as the firm starts developing relationships with firms belonging to networks in foreign countries. These relationships between firms operating in different countries will ultimately work as a bridge to new markets (Johanson and Vahlne, 1990).

Finally, the International Entrepreneurship Approach, developed by McDougall and Oviatt in 2000, studies the proactive role of the entrepreneur in the process of creating the necessary conditions to go overseas. According to the authors, international entrepreneurship is a “combination of innovative, risk-seeking behavior that crosses national borders and is intended to create value in organization (McDougall and Oviatt, 2000). In this context, the entrepreneur has a key role in the internationalization process, since he will bring two important assets to the company: the experience and the networks (Birley and Westhead, 1993).

Considering the internationalization models presented above, and taking into account Winning Management Consulting rapid growth allied to founders and employees’ expertise and business experience, as well as the solid network in which the company is inserted, the Network Approach seems to be the most appropriate to use when defining and developing the WMC internationalization process.
Methodology

The methodology used in this internationalization project was based on a deep and comprehensive analysis of the external environment, the company itself and the target foreign market. For a better understanding of the company’s internal dynamics, crucial data was provided and interviews were conducted to Winning Management Consulting CEO, Dr. Leandro Pereira. Furthermore, secondary data was gathered from countries’ statistical websites and from publications and surveys held by official institutions, in particular by European Federation of Management Consultancies Associations (FEACO) and the Spanish Association of Consulting Firms (AEC). In addition, strategy and international business books were consulted, as well as business articles and websites, as presented in the bibliography.

Internal Analysis

1. Company Overview

Winning Management Consulting is a Portuguese SME management consulting company created in January 2012 (see Appendix I). The company offers a portfolio of services which includes management consulting, vocational training and research and development. The management consulting is the company’s core activity, accounting for 85% of its total turnover, and has included seven competency centers: Corporate Intelligence, Business Cases, Business Analysis, Quality Management, Project Management, Human Capital and Government, Risk and Compliance.

The demand for Winning Management Consulting services mainly arises from large companies in the banking sector (44%), being followed by telecommunications firms
(25%), retail (24%) and others (7%). About 50% of these clients are in the top 20 listed companies in Portugal.

Currently, the Portuguese market represents around 95% of the company’s revenue. However, Winning Management Consulting has been developing projects in Spain, Italy, UK and Angola, either because the company benefitted from the network in which it is inserted or because it followed its clients in their expansion decision to these markets. The consultancy aims to expand its existing services so that in two years, the slice of revenues outside Portugal is approximately 25% of total consolidated turnover\(^1\).

2. Mission, Vision and Values

The company’s mission is to act as the accelerator of the productivity and predictability of its clients’ business, projects and operations – *Make your objectives more predictable*. It aims to deliver successful solutions to its clients, allowing both parties to build a win-win relationship – *Become Winners Together*.

The WMC guides itself by values that rely on being passionate about what it is done, put the maximum of know-how, expertise and effort in it and allow everyone to participate and get involved, while maintaining a professional, respectful and fairness attitude\(^2\).

3. Strategic Objectives

As part of WMC strategy, the company defined objectives to be achieved in the next years. In the end of the current year, the company expects to reach a turnover of €5 million, a value that, according to WMC’s CEO, should double by the end of 2018. Additionally, in 2015 two new competency centers will be created, Management Control and Continuous

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\(^1\) Information provided by Dr. Leandro Pereira, CEO of WMC (February, 2015).

\(^2\) Information collected from WMC’s website ([www.winning.pt](http://www.winning.pt)), accessed on 18 February 2015.
Improvement. In parallel, the Winning Management Consulting Research Center will be launched in order to reinforce the company’s current services portfolio. Furthermore, the company also considers that strengthen its position in Portuguese market is a priority, as well as expand its services to other geographic segments³.

4. Competition
The management consulting industry is characterized for companies living in a highly competitive environment and Winning Management Consulting is no exception. The company faces different competitors in the Portuguese market, depending on the specific area in which the projects are included. For instance, without any particular order, in the Business Cases segment, the company’s main competition comes from Deloitte, McKinsey & Company and PwC. In the Business Analysis area, the main competitors are Aventia, Novabase and Accenture. Moreover, if we consider the scope of Project Management, Bright Partners, Novabase and Indra are the company’s main rivals.

5. Competitive Advantage
Winning Management Consulting differentiates itself from competition by adopting a methodology based on business model analysis and project management expertise, as well as on the experience of the team in leading projects in which all the attention is put on the wealth creation and value added, rather than on cost-effectiveness. Considering the intangibility of the company’s resources such as the accumulated knowledge, expertise, reputation

³ Information provided by Dr. Leandro Pereira, CEO of WMC (February, 2015).
and its network, one can conclude that they are valuable, rare and very difficult
to imitate. However, the increasing fragmentation of the market allows clients
to easily substitute the management consulting services, which also limits their
exploitation. Because of this, it can be argued that the company holds a
temporary rather than a sustainable competitive advantage.

**External Analysis**

**Management Consulting Industry**

Literature suggests that defining the management consulting industry can be a challenging
task. According to some authors, the difficulties found are mainly due to the existence of
unclear boundaries, which in some cases cause an overlap with other service activities.
Moreover, the heterogeneity of companies is also reported as being a limitation to reach a
consensual definition of what management consulting industry is all about. This results
from the fact that the group of management consulting firms may include not only large
and global players such as McKinsey & Company and BCG, but also small-medium sized
firms that operate at a regional or national level. Also, there is the case of the sole
practitioners and the big accountancy firms like Deloitte and PwC, which provide advisory
services (Baaij, M., 2013).

According to FEACO, the industry can be divided into four segments: (1) Consulting, (2)
Development and Integration, (3) Outsourcing, and (4) Other services.

Recent data from Kennedy Consulting Research and Advisory show that the industry
surpassed $234 billion in 2014 and it is expected to generate $245 billion in 2015, with
European market accounting for about 34% (see Appendix II). Based on the last FEACO’s
annual survey available, the demand of MC services mainly arises from Banking and Assurance sector (26%), Industry (23%) and the Public sector (14%).

In the Portuguese market, the management consulting services are included in the “Accounting, Audit and Consulting Services” sector, which recorded a turnover of €3.8 billion in 2013\(^4\), being management consulting services responsible for about €2.1 billion. This industry has approximately 38.3 thousand companies, with the private companies representing the biggest slice of the industry clients (90%). The majority of the management consulting services are performed in the national market (86%), with exports to EU and third countries accounting for 5.7% and 8.3% in, respectively.

In the last decades, the consulting industry grew at above-average rates, primarily driven by the abnormally high profit margins, which together with the low entry barriers led to an increase in the number of new firms entering the market. At the same time, the established consultancies continued to hire consultants in what they called the “war for talent”. This did not last for too long and after the Internet bubble in 2000, the industry growth rates have sharply declined and even became negative (Richter and Niewiem, 2004). Currently, still recovering from the recession that started in 2008, the European market is considered to be almost saturated, forcing companies to search for new growing opportunities overseas. In an attempt to overcome the stagnation and financial crisis occurring in developed economies, there is a rising tendency for consultancies to invest in emerging economies, such as the regions of Asia-Pacific, Latin America and Africa.

Porter’s 5 Forces Model

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Michael Porter developed a competitive advantage model in 1979 based on five basic forces, which collectively determine the profit potential of an industry (Porter, 1979). This framework is widely used in industry analysis and represents a useful tool for companies entering in new markets. The strength of the different forces vary within an industry over time and between industries.

After analyzing the strength of the five forces in the particular case of Management Consulting industry, it was possible to conclude that overall the intensity of competition is considered to be **moderately-high**. This conclusion resulted from (1) the moderate threat of new consultancies to enter the market, (2) the high substitutability of management consulting services, (3) the low bargaining power of consultants, (4) the strong bargaining power of clients, and (5) the moderate rivalry among existing consulting companies. An analysis of each force is performed below (see Figure 1) and a more detailed assessment can be found in Appendix III.

![Figure 1. Summary of Porter’s 5 Forces Model applied to MC industry](Source: Datamonitor)
SWOT Analysis & TOWS Matrix

The SWOT analysis, also known as “situation analysis”, is an essential step of the internationalization process. It assesses the internal capabilities and the external environment in order to identify the existing Strengths, Weaknesses, Opportunities and Threats. This tool enables WMC to formulate a strategy based on the market conditions and the company’s competencies in relation to its competitors (see Figure 2). In order to facilitate the match between the external threats and opportunities with the internal weaknesses and strengths, a systematic analysis was performed using a TOWS matrix (see Figure 3).

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertise</td>
<td>Fierce competition</td>
<td>Europe is recovering from economic and financial crises</td>
<td>Mature and very competitive market</td>
</tr>
<tr>
<td>Experience in the market</td>
<td>Little national and international market presence and reputation</td>
<td>Increased concern for processes efficiency and effectiveness</td>
<td>Fluctuations in currencies affect international projects</td>
</tr>
<tr>
<td>Certified consultants by management consulting international institutions</td>
<td>Low brand equity</td>
<td>Increased focus on building trust relationships with consumers</td>
<td>Companies setting up their own knowledge centers</td>
</tr>
<tr>
<td>Tailored solutions</td>
<td>Unclear brand positioning</td>
<td>Shift of corporate focus from cost reduction to growth initiatives</td>
<td>Competition focused on price over quality</td>
</tr>
<tr>
<td>Quality of services</td>
<td>Small human resources pool</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Centralized decisions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Expertise</td>
<td>1. Fierce competition</td>
</tr>
<tr>
<td>2. Expertise in the market</td>
<td>2. Little market presence and reputation</td>
</tr>
<tr>
<td>3. Certified consultants</td>
<td>3. Low brand equity</td>
</tr>
<tr>
<td>4. Tailored solutions</td>
<td>4. Unclear brand positioning</td>
</tr>
<tr>
<td>5. Quality of service</td>
<td>5. Small human resources pool</td>
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<tr>
<td>6. Centralized decisions</td>
<td></td>
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<thead>
<tr>
<th>TOWS Matrix</th>
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<tr>
<td>S</td>
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<tr>
<td>STRENGTHS</td>
</tr>
<tr>
<td>Expertise</td>
</tr>
<tr>
<td>Experience in the market</td>
</tr>
<tr>
<td>Certified consultants by management consulting international institutions</td>
</tr>
<tr>
<td>Tailored solutions</td>
</tr>
<tr>
<td>Quality of services</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>S/O Strategies</th>
<th>W/O Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Focus on competency centers which deliver solutions for efficiency and efficacy of processes</td>
<td>1. Create actions such as “The Open Day” for clients who are interested in understanding how the company works, in order to increase the brand reputation and expand the client base</td>
</tr>
<tr>
<td>2. Invest in creating long-term trust relationships</td>
<td>2. Improve the brand marketing and communication program</td>
</tr>
<tr>
<td>3. Reinforce the WMC’s differentiation strategy focused on wealth creation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>S/T Strategies</th>
<th>W/T Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Develop and consolidate WMC’s presence in European market</td>
<td>1. Invest in strengthening WMC brand positioning and build strategies to increase the brand awareness inside and outside network.</td>
</tr>
<tr>
<td>2. Consider the emerging economies as a source of growth opportunities</td>
<td>2. Participate in universities’ job fairs, in order to get students to know the company and attract potential skilled hires.</td>
</tr>
<tr>
<td>3. Reinforce the WMC’s differentiation strategy focused on wealth creation</td>
<td>3. De-centralize and simplify the decision-making process.</td>
</tr>
<tr>
<td>4. Invest in creating long-term trust relationships</td>
<td></td>
</tr>
</tbody>
</table>

Country Selection

Scoring Model

Due to resources constraints, it is not feasible for Winning Management Consulting to approach all European markets simultaneously. In line with this limitation, and due to the lack of literature on scoring models for management consulting companies, it was
developed a tailored scoring model which provides WMC insights into the most attractive markets to internationalize its services (see Appendix IV).

This framework aims to use statistical information on macro and microeconomic levels, along with company’s specific indicators as inputs, each of them scoring from 1 to 5 (1: lowest potential; 5: highest potential). Furthermore, weights are allocated to the chosen variables taking into account their relative importance for the analysis, as well as the information provided by the Winning Management Consulting regarding its strategic intents. The performance of the selected European countries is then calculated by multiplying these weights by the individual metric’s score (see Figure 4). Finally, countries are ranked according to their global scores, which are used as an approximation to their attractiveness level (see Figure 5).

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>METRIC</th>
<th>WEIGHT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macroeconomic</strong></td>
<td>GDP forecast</td>
<td>10.0%</td>
</tr>
<tr>
<td>20%</td>
<td>Annual currency volatility</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td>Index of Economic Freedom</td>
<td>3.0%</td>
</tr>
<tr>
<td></td>
<td>Corruption Perception Index</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Business</strong></td>
<td>15.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ease of doing business</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td>Corporate tax</td>
<td>10.0%</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Consulting</td>
<td>15.0%</td>
</tr>
<tr>
<td><strong>Microeconomic</strong></td>
<td>MC Total turnover</td>
<td>10.0%</td>
</tr>
<tr>
<td>80%</td>
<td>MC contribution to GDP</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Demand</strong></td>
<td>15.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nr of new companies registered</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td>SMEs</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td>Proportion of SMEs</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Company</strong></td>
<td>35.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Numbr of projects WMC</td>
<td>35.0%</td>
</tr>
</tbody>
</table>

Source: Own contribution

Figure 4. Scoring Model

**Criteria**

**Macroeconomic indicators**
At a macroeconomic level, the variables chosen for the analysis were (1) the GDP forecast, (2) the annual currency volatility, (3) the Economic Freedom Index, and (4) the Corruption Perception Index.

The GDP is an aggregate measure of a country’s total economic production. Following this definition, the variable of GDP forecast was considered relevant since it reflects the % change in the level of economic activity for the next five years (in this case, from 2015 to 2020).

The annual currency volatility is a measure of the degree of change in the returns of the country’s local currency against the euro. For a company that is looking for opportunities outside boarders, this measure might be determinant for the choice of the country, since there may be profit losses associated to exchange rate fluctuations, either from incurring in foreign transactions or by having a net investment in a foreign operation.

The Index of Economic Freedom “documents the positive relationship between economic freedom and a variety of positive social and economic goals”\(^5\). This index covers ten aspects, which can be grouped in four broad categories: (1) Rule of law; (2) Government size; (3) Regulatory efficiency; and (4) Market openness. The choice of this variable was prompted by the fact that countries with a higher score are likely to be more attractive to invest in, since they have, among other characteristics, healthier societies, higher per capita wealth and superior human development.

The Corruption Perception Index measures the perceived level of a country’s public sector corruption. Although the selected European countries have similar results on this metric,

\(^5\) Source: The Heritage Foundation ([www.heritage.org/index/about](http://www.heritage.org/index/about)), accessed on 23 March 2015.
with an average score of 64/100, it was chosen because it might impact the assessment of a
country’s attractiveness if the scope of the analysis is broader and includes countries in
regions such as Africa, Asia or South America, where the corruption levels are even more
significant.

Microeconomic indicators
At a microeconomic level, the variables were grouped in four categories: Business,
Management Consulting, Competition and Company.

In the Business category, two variables were considered for the analysis: (1) Ease of doing
business rank, and (2) Corporate tax. The first one “provides quantitative measures of
regulations for starting a business, dealing with construction permits, getting electricity,
registering property, getting credit, protecting minority investors, paying taxes, trading
across borders, enforcing contracts and resolving insolvency”\(^6\). This variable was chosen
because it is widely recognized as a good indicator of whether the country’s regulatory
environment is favorable to business operations or not. Regarding the corporate tax, it
represents a duty companies have to pay against the profits earned and may differ from
country to country. This variable was considered in the model since it directly impacts the
profits of the company and therefore, should be taken into consideration in the decision-
making process.

In the Management Consulting category, there were included two variables: (1) the volume
of turnover in the management consulting industry, and (2) the contribution of management
consulting services to GDP. These metrics were chosen because they allow for a good

estimative of the size as well as the prospective growth of the countries’ management consulting market.

On the Demand side, three variables were used when performing the analysis on the potential of the market: (1) the number of new companies registered, (2) the number of small and medium-sized companies and, (3) the proportion of the small and medium-sized companies to the total number of companies. The reason behind the choice of these metrics has to do with the fact that the number of SMEs is increasing, leveraged by factors such as the creation of government policies that benefit this type of companies. Examples of these incentives are related to the minimization of regulatory burdens, an easier access to financing and the encouragement to export and innovate\(^7\). Additionally, although WMC targets large companies, the SME’s should be taken into consideration at the initial stage of the internationalization process. This because SMEs might work as a means to an end – the large companies – since they are growing in size and relevance, which may facilitate the WMC’s market penetration. As the company starts developing management consulting projects, its brand equity will increase and its brand reputation will be strengthened. These factors will contribute for the reinforcement of WMC’s position in the network, allowing for the expansion of its client base.

For the Company category, the number of projects already developed by WMC in the selected countries was considered to be a key variable when assessing the attractiveness of the markets. Due to the characteristics of the management consulting industry, where the

reputation, network and portfolio of clients are crucial to be successful, selecting a market in which there are no previous contact could represent a significant risk for the company.

Results

The analysis performed using the tailored scoring model provided a list of countries ranked according to their attractiveness level, taking into consideration the set of variables previously described. According to this ranking, the most attractive country for Winning Management Consulting’s internationalization is **Spain** (3.92/5), followed by UK (2.65/5) and Germany (2.45/5). Croatia (1.70/5) and Hungary (1.65/5) appear in the bottom of the list, being considered the less attractive markets to pursue at this moment, given the current socioeconomic conditions.

Spain

Spain is a country located in the Western Europe, being bordered to the north by France and Andorra, and to the west by Portugal (see Appendix V). Its territory is spread over an extension of 505,990.7 km$^2$ and the main towns are Madrid (capital) with approximately 3.2 million citizens, followed by Barcelona, with 1.6 million and Valencia, with about 800 thousand people. The country is an EU member since January 1986 and Eurozone member since January 1999. In 2013, the GDP registered a value of 1.049 trillion euros and in 2015 it is expected to reach 1.078 trillion euros$^8$.

Spain is gaining momentum at a faster pace than what it was expected. Data from the past quarters show that it has been one of the euro-zone’s stronger performers, with the

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country’s GDP growth rate reaching 0.5%, a value that is slightly higher than the euro-zone average rate of 0.2%.

In order to obtain an overview of Spain, it was firstly performed a PESTEL analysis, a tool that represents one of the vertebrae of the backbone of strategic management (see Figure 6). This framework assesses the Political, Economic, Social, Technological, Environmental and Legal factors affecting the environment in which a company is operating or planning to operate. It can be particularly useful when a firm is pursuing new opportunities, launching new products/services or approaching new markets. A more detailed analysis can be found in Appendix VI.

Figure 6. PESTEL analysis - Spain

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Additionally, apart from being the closest country to Portugal in geographical terms, there is also the language similarity, as well as the shared historical roots. This proximity is also reflected in the country’s cultural comparison done by the psychologist Dr Geert Hofstede on six cultural dimensions: (1) Power distance; (2) Individualism; (3) Masculinity; (4) Uncertainty avoidance; (5) Long term orientation; and (6) Indulgence (see Appendix VII).

Management Consulting in Spain

Spain has about 3 million of active companies\textsuperscript{10}, which represent the potential demand for consultancies operating in this market. On the supply side, consulting firms registered an accumulated annual growth rate of nearly 6.1% in the last decade, being the total income from sales reported of about 10.5 billion euros in 2013 (see Appendix VIII).

Moreover, recent data shows that services industry’s turnover grew nearly 5.6% from 2014 to 2015, being the \textit{Professional, scientific and technical activities} the second sector which has contributed the most for these results.\textsuperscript{11}

Regarding the clients’ portfolio of Spanish consultancy firms, it includes public and private companies, from all sizes and all industries. Particularly, the financial (27%), telecom (15.9%) and government (16.7%) are the three biggest sectors, accounting for nearly 60% of the total business (see Appendix VIII).

Due to WMC’s dimension, it becomes necessary to analyze opportunities at a regional level. Concerning the number of companies, which corresponds to WMC potential clients, \textit{Catalunha} is the autonomous community with the higher number of active companies (18.5% of the total), followed by \textit{Comunidad de Madrid} (15.9%). Additionally, \textit{Comunidad}


\textsuperscript{11} Source: INE – Instituto Nacional de Estadística, Services Sector Activity Indicators (March 2015).
de Madrid is the community with the higher number of large companies (33.4% of the total) and the highest turnover in the industry of Services (33.2% of total), with consulting representing the biggest slice of the market (24.4% of total services)\textsuperscript{12}.

**Entry mode**

A company seeking to internationalize its operations must make a key strategic decision on which entry mode to use, taking into account the trade-offs risks/returns and commitment/control. The appropriate entry mode allows for the alignment of the company’s internal capabilities with the foreign country’s environmental conditions. Although there is no consensus on universally accepted categories, the market entry strategies can be grouped into three broad groups: (1) Export entry modes; (2) Contractual entry modes; and (3) Investment entry modes.

The first one includes the direct exporting, in which the company conducts the export and shall be responsible for building the whole operation; and the indirect exporting activity, in which the company only carries out the exporting, being another firm responsible for leading the required operation (Young et al, 1989; Root, 1994).

Contractual entry modes are long-term non-equity agreements made with a local firm in the target foreign market. These agreements are usually related to the transfer of intangible assets, such as trademarks, patents and technological know-how. It usually takes the form of licensing, franchising or management contracts (Keillor, 2011).

Investment entry modes are associated with an equity investment in the foreign market, and may be classified into two main categories: (1) wholly owned subsidiaries, in which the

\textsuperscript{12} Sources: INE – Instituto Nacional de Estadística, Spain 2014, accessed on 20 May 2015
company either purchases an established company already operating in the foreign market or invests in a new operation through a Greenfield venture; and (2) joint ventures, in which the company enters together with another company in the foreign country, and both share the risks and revenues (Keillor, 2011).

In the case of Winning Management Consulting and considering the characteristics of the industry in which the company operates, two distinct phases of the internationalization process can be identified: the first one, with an approximate duration of 3 years, will be based on a strong commercial approach to the Spanish potential clients; this phase will be followed by the establishment of a new office or branch in the foreign country, through a Greenfield venture. This entry strategy facilitates the establishment and full control of a brand new operation, while avoiding the problem of integration, since it is relatively easy to transfer the company’s own culture to the new venture. However, it should be taken into account that this option also requires the knowledge of the foreign management and has high risk and commitment associated.

Conclusions and Recommendations

Winning Management Consulting’s first contact with foreign countries occurred as a consequence of the company’s action of following its clients in their international projects. As the company grows and the home market becomes more saturated, there is the need to seek for growing opportunities overseas, build a solid network of relationships, increase the company’s reputation and ultimately establish a subsidiary in a foreign country. This market-seeking motive for internationalization requires a proactive strategy in order to select a target market and choose the most appropriate entry form.
After an extensive analysis, supported by the creation of an analytical scoring model and by a qualitative assessment of the country’s environmental conditions, results show that Spain is the best option for WMC. The main reason behind this result has to do with the fact that Spain is recovering from the global economic and financial crises at a faster pace than the majority of European countries. Also, it is where WMC has the larger number of projects already developed, being more likely to leverage its network.

Combining the WMC’s lack of internationalization experience, its limited resources, and taking into consideration the characteristics of the management consulting industry, the recommendation is that the company internationalizes to Madrid, the Spanish capital. Madrid is a cosmopolitan city that not only has a considerably high number of active companies, which represents the potential demand for consulting firms, but it is also the Spanish community with the biggest slice of revenues derived from the consulting services. Moreover, according to the analysis performed on the existing theoretical models of internationalization for SMEs, the Network approach seems to be the one which fits Winning Management Consulting better. This perspective prioritizes the network position over the internal conditions of the host market, viewing the market as a network in which solid relations are created between suppliers, customers and competitors. Accordingly, WMC internationalization process will occur as the firm starts developing relationships with its clients belonging to its network in Spain.

Following this reasoning, two distinct phases of the company internationalization process were identified. The first one, expected to begin in 2018 and last for about 3 years, is based on a commercial approach focused in the development of the company’s position in the
network. At this stage, a team with two consultants from the office in Lisbon will be travelling between the city and Madrid. The estimated annual costs incurred with these trips are, according to WMC CEO, around €100 thousand, being included the business development costs, the fares, accommodation and living expenses. After having developed a solid network, expanded its client base, increased its brand awareness and brand reputation and gained market share, the company will begin the second phase of the internationalization process, which implies the establishment of a new office in Madrid. At this stage, WMC wants to have a combination of consultants from its headquarters in Lisbon and consultants hired directly from Spain, because of the experience and knowledge of the Spanish consulting market. The facility will have fixed costs such as rent and supplies and services but variable personnel costs will continue to weigh more on WMC’s cost structure, with an estimated annual cost of approximately €40,000/consultant.

The uncertainty of this industry and the high dependence on buyers makes it very difficult to forecast revenues without having a track record. However, since the majority of the costs are variable and dependent on the specificities of the projects as well as on the company’s clients, the exit costs associated with these recommendations are considered to be residual.

Finally, since the Winning Management Consulting’s competitive advantage is not sustainable and the industry is very competitive and highly fragmented, a close monitoring of the market dynamics’ evolution is strongly advised.
References


A WORK PROJECT, PRESENTED AS PART OF THE REQUIREMENTS FOR THE AWARD OF A
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APPENDICES TO WORK PROJECT

INTERNATIONALIZATION ANALYSIS

EUROPEAN MARKET

INÉS PINTO FERREIRA

STUDENT NUMBER 1648

A PROJECT CARRIED OUT WITH THE SUPERVISION OF:

PROFESSOR SARA ALVES

JUNE, 2015
Appendices

Appendix I – Winning Management Consulting

1. History

The Winning Management Consulting was created in January 2012, in Lisbon, by four of the company’s current partners, a group of friends who have in common the experience in the consulting market, the interest in research and the academic education. The main purpose was to develop a management consulting approach based on a portfolio of services able to give answers to the most specific and critical issues, delivering value to the client and creating a win-win relationship.

By the time the company was launched, the business environment was still recovering from the global economic and financial crises. Winning Management Consulting was able to create an ambitious business plan based on a countercyclical growth perspective, without accessing to external financing sources. By the end of the first year of activities, the company had already a turnover of € 1.2 million and 25 employees. One year later, these values roughly doubled and by the end of 2015 the company expects to reach € 5 million of revenues and have nearly 120 employees.

2. Revenue Analysis

Currently, management consulting is the core activity of WMC (85% of turnover) and this area can be segmented in three sub-areas: (1) Business Cases (15%); (2) Business Analysis (30%); and (3) Project Management (55%).

Source: Own contribution, based on information provided by WMC CEO

3. Key Employee Biographies

Leandro F. Pereira

Leandro Pereira is the CEO and founder of Winning Management Consulting. With over 10 years of working experience in functions of executive management in management consultancy organizations, having a degree in Information Management from Escola de Engenharia de Universidade do Minho, with a GPA of 10/20, he obtained the distinction of best student of Universidade do Minho. Later, he took a PhD in Project Management at the prestigious Universidade de São Paulo, where he conducted a pioneering project in the project management area. Regarding the PhD program, he was twice granted with the award for developing the research project with highest grade. At ISCTE, Leandro Pereira is a professor of Project Management and Strategy Management, being the advisor of several PhD and Master's theses in the same areas. He obtained the Project Management Professional (PMP) and PMI Professional Certification from PMI Institute. Throughout his professional experience, he was responsible for the conceptualization, design and implementation of management solutions not only at organizational level but also at technical level, including conceptualization and design of organizational units – PMOs in several companies within Banking, Pharmaceutical, Utilities, Services, Infrastructures and Civil Engineering sectors. As an instructor, he获得a wide experience in this area which gives from the conceptualization of advanced courses in Business Cases, Business Analysis, Project Management, Cost Management, to the preparation of numerous applications for PMP® and CSMP® in Portugal. Moreover, Leandro Pereira is the Director of PMI Portugal Chapter. Author of several articles in management magazines (RH Magazine, Personel, Ensaio), recently published a book called "Gestão de Conhecimento em Projetos" from ICA. During his professional and academic path, he received many distinctions, being the Best Professor of Executive Master in Project Management at ISCTE and 8 Merit Awards with highlights or Prêmio Sendo Internacional, for being the best student at Universidade do Minho and Prêmio Governo Civil de Braga, for being the student with highest grade in the entire university. Besides, he was awarded with the diploma supplement to the degree developed by UNESCO. Before the admission is the higher education, in 1994, he received the Prêmio de Distinção Nacional "Juventude e Defesa Nacional", awarded by Ministério da Defesa.
António Fernandes

Partner at Winning Management Consulting
Degree in Organization and Business Management
Post-Graduation in Project Management

Certifications:
- CIPM® Certification from IIBA®
- PMP® Certification from PMI®

Mobile: +351 91 795 50 14
Email: Antonio.Fernandes@Winning.pt


Eng. Carlos Gerónimo

Partner at Winning Management Consulting
PhD in Project Management
Director of PMI® Portugal chapter
PMP® Certification from PMI®

Mobile: +351 91 795 44 81
Email: Carico.Jeronimo@Winning.pt

Certifications:
- Certified Professional: Managing Projects by Microsoft ITIL® Certification by EXIN, attaining advanced education in Project Management and Business Analysis.

Vânia Patrício

Partner at Winning Management Consulting
PhD in Management
Member of general assembly of PMI® Portugal Chapter
PMP® Certification from PMI®
Certified in ROI Professional
International Certification in Coaching approved by ICF®

Mobile: +351 91 796 42 99
Email: Vania.Patricio@Winning.pt

Appendix II – Management Consulting Market Size

1. Global

![Global Management Consulting Market Size (2011 – 2015)](image)


2. Europe

![European Management Consulting Market Size (by country)](image)

Appendix III – Detailed Porter’s 5 Forces Model

1. Threat of new entrants (new Consultancies)

New players in an industry bring new capacity and a desire to gain market share, which might impact not only prices, but also costs and the investment rate necessary to compete. Consequently, the threat of entry limits the profit potential of an industry. The strength of this threat depends on the height of the industry entry barriers and on the reaction newcomers expect from incumbents. Accordingly, as the number of barriers for entering in an industry increases, the threat posed by new entrants decreases.

Considering the particular case of management consulting industry, three main potential entry barriers can be identified: the demand-side benefits of scale, the incumbency advantages independent of the size and the unequal access to distribution channels.

The demand-side benefits of scale, also known as network effects, are related to the increase in a buyers’ willingness to buy a product as the number of other buyers increase. This may limit clients’ willingness to buy from a new entrant and may force newcomers to reduce prices until they have a large client base. In the specific case of management consulting industry, this may represent an entry barrier since trust and reputation are two critical success factors, resulting in a high dependency on a solid network of clients, consulting firms and consultants.

Incumbents may have cost or quality advantages which are independent of their size. In management consulting industry, this entry barrier is related to the previous entry barrier in the sense that a solid network, cumulative experience and a strong reputation together with
product differentiation and favorable geographical location may not be available to potential rivals, working as a competitive advantage.

Finally, the unequal access to distribution channels also goes hand in hand with the entry barriers mentioned above, since incumbents may have a stronger trust relationships built with their clients, making it harder for newcomers to access and break them. Although these entry barriers can prevent a small number of companies of entering in the management consulting industry, the truth is that the majority of newcomers will be able to build a trust relationship with clients by investing in brand reputation and by being part of a solid network. However, this phenomenon will not last much longer since the consulting market is becoming more and more saturated as the number of entrants increase. Because of that, and for the purpose of this analysis, the threat of new entrants is considered to be moderate and it is likely to decrease in the future.

2. **Threat of Substitutes**

The degree of competition from substitutes will depend on (1) the companies’ effectiveness in meeting the specific customer needs; (2) companies’ relative price and performance; (3) buyers’ switching costs and willingness to substitute (Stonehouse et al., 2004). In the management consulting industry, clients hire external consultants to provide recommendations to identified issues, essentially because they bring in different points of view. However, this external service may be done internally, either because the company retains some of the consultancies best practices and is able to do it by itself, or because it decides to hire a consultant as an employee instead of contracting to external companies. Additionally, companies have the option to get in touch with an online consultancy agency
or even decide to outsource that process to an external supplier. Because of the factors mentioned above, this force is considered to be high and is expected to increase in the future, due to the consultancies’ practices standardization tendency driven by technological development.

3. Rivalry among existing Consultancies

The sharply decrease in the industry growth rates observed in the last years led to an increase in the competitiveness within consultancies because of the pressure to lower prices, which ultimately began a war for reaching and retaining clients.

Nowadays, the global management consulting industry compounded annual growth rate for the periods from 2011 to 2015 was about 4.5%\(^\text{13}\), a value that is smaller than the 20% annual growth rates registered from 1995 to 1999 (Kubr, 2002). Additionally, although the industry is dominated by bigger consulting firms, SMEs are strengthening their competitive position which combined together with the increased tendency of standardization of processes and similarity of services contribute to increase the rivalry among players.

Overall, this force is considered to be moderate and likely to increase in the next years. The decline in the industry growth rates, the similarity of the services offered as well as the increased standardization of the processes will create a huge pressure on companies to “keep their head above the water”. Using the analogy of Darwin’s theory about the evolution of individuals by natural selection, it is expected that only the strongest companies will survive, which will increase the competitiveness between existing players.


\(^{13}\) Source: [http://www.consultancy.uk/consulting-industry/global-consulting-market](http://www.consultancy.uk/consulting-industry/global-consulting-market), accessed on 13 May 2015
In the past, clients had very little knowledge on management consulting firms and practices. As a result, their power was low and they were more dependent on existing firms to solve their problems and help them implementing solutions. However, in the recent years, the industry has become highly fragmented and because of that, clients are currently faced with a lot of options to choose from when hiring consulting services. Additionally, buyers have developed a deeper understanding of the market and accumulated knowledge from standardized processes, which has decreased their dependence on external consulting firms and increased their bargaining position. Accordingly, this force is considered to be **high** and likely to increase in the future.

5. *Bargaining Power of Suppliers (“Consultants”)*

When we include universities in the group of suppliers, justified by the fact that most of the consultants are directly hired from business schools, the power that the Government may have regarding policies that may affect the industry should be taken into account. However, because of the industry’s increasing fragmentation, the overall bargaining power of suppliers is considered to be **low** and expected to decrease in the future, following the increasing tendency of buyers’ bargaining power.
### Appendix IV – Scoring Model

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#### Management Consulting 15.0%

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#### Microeconomic 80%

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#### Macroeconomic Indicators

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#### Country Rank

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<td>1.82</td>
</tr>
<tr>
<td>Croatia</td>
<td>1.70</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.65</td>
</tr>
</tbody>
</table>
Appendix V – Spain

1. Location

![Map of Spain](image1)


![Population pyramid of Spain](image2)

Appendix VI – Detailed PESTEL Analysis

Political

Spain is a constitutional monarchy governed by the king Felipe VI since June 2014, who followed the throne’s abdication of his father, Juan Carlos. Although it has a bicameral legislature, the Cortes (*Las Cortes Generales*), the effective power belongs to the 350-seat Congress of Deputies\(^\text{14}\). Administratively, the country is split into seventeen autonomous communities, each one of them with its own parliament and regional government, and two autonomous cities (Ceuta and Melilla). In spite of being considered one of the most decentralized large European countries, there is an increased political tension in Spain arising from the continuous demand for more autonomy by the Catalonia and the Basque Country.

Economic

Spain has been experienced a prolonged recession as a consequence of the global economic and financial crises. The Harmonized Index of Consumer Prices registered a negative annual percentage change in 2014 and it is expected to continue decreasing until 2016, after which it is expected to grow 1.1%. However, the recent increase in the private consumption levels boosted real GDP growth rate to become positive in 2014 and forecasts indicate that it will grow 2.8% in 2015\(^\text{15}\). Similarly, labor reforms led to a reduction in the unemployment rate to about 24% in 2014 and this value is expected to reach 20.5% by 2016\(^\text{16}\). Services accounted for about 72% of GDP in 2014; industry and construction for


around 25%; and agriculture for approximately 2.6%. Furthermore, the foreign tourism industry became the second biggest in the world in terms of receipts, and the fourth global largest destination in terms of arrivals.

Social

The country’s population amounts to 46.5 million of people. This value is expected to decrease in the next years, following the negative trend that started in 2012. Moreover, it is observed that population is ageing and if it continues, the percentage of people over 65 years of age is expected to increase from 18.2% in 2014 to 24.9% in 2029 (see Appendix V). However, statistics show that the life expectancy is likely to increase and likewise, a woman aged 65 years lives, on average, 22.96 years more (19 for men), a number that is expected to grow to 25.62 (21.76 for men) by 2029.

Technological

In 2014, 74.4% of households in Spain had a broadband Internet connection and 51.1% of the population participated in social networks. Furthermore, 98.3% of the companies with 10 or more employees had Internet connection and almost all of them reported an increase in the use of computers (99.2%). The results also showed that 75.8% of the companies using Internet had a website, a percentage that reached 95.7% in companies with 250 or more employees. Concerning the R&D expenditures, the Business sector was the field which registered the highest percentage on this indicator, with 53.1%.

Environmental

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Overall, the satisfaction level with the national environmental quality in Spain is higher than what is observed in the majority of other European countries. Most of the environmental laws applied derive from the transposition of EU legislation and the Spanish Penal Code of 1995 now includes chapters on the protection of the environment through criminal law.

*Legal*

The top rate of personal income tax in Spain suffered a decrease from 52% in 2014 to 47% in 2015 and it is expected that it continues to follow this path in 2016, reaching a value of 45%. However, the threshold at which this tax is applied has also suffered a reduction in 2015, from €300,000 to €60,000. Regarding the corporate tax, which directly impacts companies’ net income, it is observed a reduction from 30% in 2014 to 28% in 2015, being this rate projected to fall to 25% by 2016.  

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Appendix VII – Hofstede’s Model for Country Comparison

1. Spain vs. Portugal

2. Germany vs. Portugal

3. UK vs. Portugal

Appendix VIII – Management Consulting in Spain

1. Total income from Sales


2. Industry revenue by sector