

Selling Consultancy Services: The Portuguese Case in Historical and Comparative Perspective

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Reports in the general and specialist press as well as several (semi-)official estimates [e.g. UNCTAD, 1993, EU, 1989-1996], point at a rapid increase in the use of management consultants during the post-war period and especially from the 1960s onwards. The relevant literature suggests several inter-related reasons for this development. A number of authors link the growth in consultancy use with the increasing complexity of markets and technology. Drawing on the resource-based view, they argue that clients employ consultants in order to gain access to external expertise not available within the firm [e.g. Bennett, 1990, p. 35]. Other authors suggest that managers use consultants mainly in order to reduce the high level of uncertainty prevalent in today's economy [Tordoir, 1995]. But there are many motives that extend beyond the realm of economic efficiency. Consultants might be used for legitimisation purposes, for example to transmit the impression of modernity, to signal that "best practices" are being applied, to facilitate the acceptance of "tough decisions" or to break internal deadlock and get things moving [e.g. McLarty and Robinson, 1998].

Most of these explanations have focused on the demand side. But supply side factors also come into play. One strand of the literature argues that consultants stimulate the demand for their own services [Kieser, 1998]. They are seen to promote fears that established structures, management systems and corporate cultures will no longer persist, thus creating an atmosphere of uncertainty, even chaos. As a consequence, managers are likely to believe that they are lacking the managerial skills to implement the necessary changes and may well look for external support [Abrahamson, 1996; Clark and Salaman, 1996 and 1998]. This not only helps explain the growth in the use of consultancy serv-

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ices in general, but also the fact that consultancies quite often manage to extend their assignments in a given company far beyond the initial project.

By contrast, the actual sales and marketing efforts of consultants have so far received little attention. This might also be due to the fact that membership in a consultancy association and professional ethics in general have excluded the use of traditional promotion and selling techniques [Kyrö, 1995]. There is little doubt, however, that even the supposedly professional consultancies have tended to promote their own services in various ways. Thus, Kipping [1999] has recently suggested a kind of three-stage model to explain the expansion of American consultancies to Western Europe from the 1920s to the 1980s. He argues that multinationals both from the home and the host countries acted as “bridges” for these consultancies, providing them with initial assignments and allowing them to build up a reputation. Subsequently, the successful consultancies used host-country individuals with excellent business, political and social connections to extend their domestic client base, both in private industry and government. A further expansion was often facilitated by the –more or less– systematic “scattering” of former consultants into positions of responsibility. All of these provided the first movers among the consultancies with clear advantages which latecomers could only overcome through the acquisition of existing service providers or highly distinctive approaches.

Kipping has concentrated his analysis on the largest and most developed European countries. This article will examine the methods used by consultancies to sell their services in Portugal, where the expansion of consultancy services occurred much later than in the rest of Western Europe, but has accelerated considerably in recent decades. The article consists of three parts. The first part briefly looks at the nature of consultancy services, focusing on the importance of trust-creating mechanisms for the establishment of lasting relationships with clients. The second part gives an overview of the evolution of the Portuguese consultancy market and compares it with the development in other European countries. It highlights the crucial role of foreign service providers. The third part examines the ways in which these consultancies have gained access to potential clients and the extent to which these have (or have not) changed over time.

The Nature of Consultancy Services and the Importance of Trust

Several studies have examined the specific characteristics of service activities and how these affect their marketability [e.g. Fuchs, 1968]. Like many other services, management consultancy is largely a perishable and intangible “good,” characterised by high uncertainty about the value of the consultancy work and asymmetric information between the buyer and seller [Mitchell, 1994; Gallouj, 1997]. Another important characteristic is the wide range of services available (“heterogeneity”) and the fact that the performance of a consultancy may vary substantially from one assignment to another. In addition, the consultancy business is characterised by low barriers to entry and consid-

erable turbulence, i.e. high birth and death rates, especially among small firms [Keeble and Schwalbach, 1995].

All these characteristics make it difficult for clients to learn the value of the consultancy work *ex ante* and therefore create problems in the definition of an agreement between the buyer and seller of consultancy services. Moreover, the information asymmetry regarding the consultancy's technical skills and commitment to solve the client's problem add to the uncertainty about the service [De Bandt, 1995]. Indeed, in order to avoid the considerable search costs, clients tend to collect information only about a small number of service providers. The lack of information about the quality of the service being provided cannot be compensated for by providing a sample, allowing for a trial period or establishing a detailed contract, since consultancy services are consumed at the same time as they are produced (so-called co-production).

Transaction cost theory [e.g. Williamson, 1975 and 1986] suggests that in situations where market imperfections are high clients might be better off internalising the service, instead of buying it in the market. However, many of the roles attributed to consultancies, in terms of providing expertise, legitimisation or arbitration for example, can only be fulfilled by outsiders. Other mechanisms therefore have to reduce the information asymmetry and uncertainty between the contractual parties. Most professional services have managed to reduce the uncertainty through the introduction of strict entry qualifications, such as a qualifying exam [Forsyth, 1992]. For a variety of reasons, similar efforts have only had a limited success in the consulting industry [McKenna, 1999; Crucini, 1999]. Instead, institutions could provide deeper information about the quality of the product and of the service provider or offer the purchaser a form of quality assurance [Hölmstrom, 1985; Hölmstrom and Tirole, 1989]. But they are also largely absent in the consulting industry. In such a context, reputation becomes an intangible asset of strategic importance [Kreps and Wilson, 1982]. For consultancies in particular, their reputation can be used to assure clients about the quality of the service and its supplier. Indeed, Dawes et al. [1992] found that the two most important criteria by which consultancies are selected were the general reputation of the firm and its expertise in the area concerned.

However, most of the selling in the consulting business still remains based on the "word-of-mouth," and on non-institutional-based trust between client and supplier [Baudry, 1994; Gallouj, 1997]. Trust can be developed within a long-term relationship context [Zucker, 1986]. As the knowledge between the contractual parties increases, transaction costs of future contracts will decrease. There are lower search costs and less friction during the interaction. Indeed, consultancy buyers prefer to transact with known service providers rather than take risks by dealing with new and unfamiliar ones. This also means that they can avoid to disclose internal information to yet another firm. Consultancies also try to forge long-term relationships, as they will save time in searching for potential clients and learning about them. It is clearly less costly to maintain existing clients and sell additional work to them rather than to find

new ones.

While the advantages of long-term trust-based relationships are obvious, little is known about the ways in which they are initially created. This article will explore these issues in some detail in the case of Portugal, examining the efforts undertaken by the consultancies themselves to reduce uncertainty, create a reputation and gain access to new clients. Beforehand, it will give an overview of the historical evolution of the Portuguese consultancy market in order to identify those consultancies, which managed to successfully establish and maintain a presence in the long run.

The Development of the Portuguese Consultancy Market

Like in most other European countries [Kipping, 1996 and 1997], the origins of management consultancy activities in Portugal are related to scientific management and the improvement of shopfloor efficiency. However, the growth of consultancy services occurred much later than elsewhere in Europe, mainly due to the backwardness of the Portuguese economy in terms of the level of development and industrial structure [Amorim, 1999]. Over recent decades, and namely since its accession to membership of the European Union in 1986, Portugal has caught up considerably with the rest of Western Europe. The degree of consultancy use is still lower than in the United Kingdom or Germany, but appears to have become similar to other Southern European countries [FEACO, 1997; DN, 1998].

Engineering related management consultancy services in Portugal were first offered in the 1940s. They were carried out by consulting centres founded by university professors, and by the consulting department of large economic groups which were servicing group and non-group companies [Sismet, 1993]. But demand for consultancy services only picked up during the 1960s. In response to government-sponsored efforts to promote economic growth and the modernisation of plants, a few large diversified companies as well as a number of medium-sized firms showed an interest in scientific management, industrial engineering, corporate organisation and planning as well as human resources practices [Ferreira, 1991; Inácio and Weir, 1993; Correia et al., 1994; Silva, 1997a]. Since the domestic supply of consultancy services was very limited, if not to say non-existent, these Portuguese companies attracted a small number of foreign service providers, most of them from France. Among them were Paul Planus and Corte, both specialising in the improvement of efficiency and work processes on the shopfloor. Cegos, another French consultancy, established a partnership with the Lisbon Chamber of Commerce (Associação Comercial de Lisboa) called Cegoc which offered mainly training and human resource related activities.¹ McKinsey also made its first appearance on the

¹ For the origins of Paul Planus and Cegos see Henry 1994. She does not mention Corte which was, however, identified by many interviewees as an important player in the Portuguese consultancy market during the early stages of development.

Portuguese market, carrying out a reorganisation of the conglomerate Cooperativa Uniao Fabril (CUF) in 1969, but did not establish a permanent presence.

Political, economic and social changes occurring after the revolution of 1974, which brought an end to the Salazar dictatorship, deeply affected the course of events in the Portuguese consultancy market. On the one hand, the domestic consultancies lost their privileged access to the market of the colonies. On the other hand and more importantly, they were not able to satisfy the needs of the large, newly nationalised firms. And neither could they supply services which addressed the consequences of economic recovery, the import of technology and labour conflicts, i.e. consultancy focusing on industrial relations and work performance as well as industrial organisation [Cunha and Marques, 1995]. Once again, this created opportunities for international consulting firms to enter the market and overcome the lack of domestic supply. The most prominent entrant during this period was probably the American consultancy Hay, which specialises in human resource services.

A definite and prolonged upswing of consultancy activities in Portugal occurred only from the mid-1980s onwards, when the country joined the European Communities, now the European Union. Since then, Portugal has experienced a high-level economic growth and its industrial structure also changed significantly. Most of the large state-owned enterprises, including some of the major utilities, have since been privatised. Many large companies grew considerably and diversified their activities [Cunha and Marques, 1995]. Consequently, Portuguese firms were forced to look for managerial solutions to cope with the growing and more competitive markets as well as with their increasing organisational complexity. This has in turn led to a growing demand for management consultancy services [Inácio and Weir, 1993; Silva, 1997a].

The supply side conditions also changed quite considerably. On the one hand, during the 1980s and 1990s a large number of domestic consulting firms were established. There was also an upsurge in public and semi-public institutions offering consultancy services, namely to small and medium-sized enterprises. On the other hand, there were also drastic changes in the supply from foreign service providers. The consultancy departments of the large Anglo-American accountancies, such as Arthur Andersen, expanded massively. They had been present in Portugal since the 1950s (e.g. Price Waterhouse and Arthur Andersen open their Portuguese offices in 1951 and 1969 respectively) but until the 1980s only occasionally offered consultancy services. They subsequently became major players, especially in the information technology area. Another wave of major international service providers entered the market and opened offices in Lisbon, namely McKinsey and Roland Berger (1989), the Boston Consulting Group (1995), A.T. Kearney (1997). Unlike Planus etc. in the earlier period, all of them offered consulting at the corporate level, including organisation and strategy or human resource management [Cunha and Marques, 1995].

In conclusion it can be said that in comparative perspective the consul-

tancy market in Portugal developed significantly later than in other Western European countries, reflecting the much smaller size of the domestic economy and the belated emergence of modern large-scale enterprises. Almost from the outset, foreign consultancies played a major role in supplying consultancy services. During the 1960s and 1970s, most of them were of French origin and focused on efficiency improvements. A second wave of foreign service providers entered the market in the 1980s and 1990s, offering IT consulting and advice to top management on a variety of issues. The latest estimates indicate that 6 among the ten largest management consultancies are of foreign origin, accounting for more than 50% of revenues in the leading group [DN, 1998]. It remains to be seen how the successful consultancies managed to establish long-term trust-based relationships with Portuguese firm, a task made more complicated by their foreign origin and the resulting cultural barriers.

Selling Consultancy Services in Portugal

It appears that the entry of foreign consultancy firms in Portugal largely resembles the three stage process analysed by Kipping for the expansion of US consulting companies to Britain and the larger Continental economies (see above). While the language and cultural barriers might have been lower for the French service providers, who entered the Portuguese market in the 1960s, they used similar methods to gain access to clients as did the American consultancies twenty years later. There are, however, some differences with the evolution in other European countries. First, development and business agencies seem to have played a significant role in Portugal either as clients and providers of consultancy services or in prescribing the use of specific service providers. Secondly, many foreign consultancies chose to enter the Portuguese market in a more cautious and incremental way, setting up alliances with local service providers and institutions or supplying the market from abroad and establishing an office only belatedly.

In the 1960s and then again from the 1980s onwards, the majority of the initial clients of foreign consultancies were multinational enterprises (MNEs), both from their home and the host country. These early assignments not only ensured consultancies with an initial income stream, but also helped them to build-up their reputation, to learn about the "new market" and to strategically widen their contacts with the local business community. Thus, the first wave of foreign consultancies operating in Portugal during the 1960s, namely Corte, Paul Planus, Cegoc and McKinsey worked mainly with the subsidiaries of foreign multinationals and the large Portuguese international groups, including for example IBM, Grupo Champallimaud and the above mentioned conglomerate CUF [Amorim, 1999]. Similarly, interviews revealed that in the 1990s the new entrants also targeted the large international firms, either of Portuguese or foreign origin. One of those interviewed stated that "the most difficult is to gain a first assignment, because afterwards we will have easy access to other firms within the same group". Since some of these groups, such as Portugal Telecom,

Electricidade de Portugal, Banco Português de Investimento, are relatively large, there are cases where they account for more than 60 per cent of the turnover of a given consulting firm.

Especially after the accession of Portugal to the European Union in 1986, development and business support organisations played an important role for the development of the consultancy market. The Institute for Support of Small and Medium Manufacturing Enterprises (IAPMEI) and the Confederação Comércio e Indústria (CCI) are cases in point. Others are the Portuguese Association for Quality (APQ) and the Portuguese Institute for Quality (IPQ). These organisations have been important players both as suppliers of basic consultancy type of work and in suggesting the use of “certified” consultancies or consultants.² But already before, the industrial and regional development plans prompted the penetration of some of the international consultancies.³ This might be due to the fact that, until recently, Portugal resembled in many respects a developing country rather than a developed economy. Many of the assignments of American and British consultancies in the developing world were also arranged through international agencies or the host country government [Kipping, 1999].

In a second stage, the foreign consultancies widened their client base with the help of social, corporate and political networks. On the one hand, international consultancies recruited a few individuals who had excellent contacts with the social, economic and political elite in the host country and thus could provide them with the necessary introductions. Moreover, consultancies benefited from the fact that their consultants and the managers of the large client firms shared the feeling of belonging to the same elite. Most of them had attended the same schools and came from the same cultural or economic background. A prominent example is the work of McKinsey for CUF in the late 1960s. It seems that the decision to employ the American consultancy was made by client managers who had been studying abroad [Correia et al. 1994, p. 44]. On the other hand, a few consultancies opted for an alliance with existing organisations or institutions in the host country, including for example commercial associations, other consultancies or suppliers of technology, while others established preferential relationships with banks.

An interesting feature of the market entry of foreign consultancies is the caution with which they proceeded in general. This might be due to the size of the market which probably did not justify a fully fledged presence in the initial stages of development. The (perceived) cultural differences with other

² Some of the interviewees highlighted that their consultancies had been selected by APQ or IAPMEI as “official” consultants for small and medium enterprises in particular topics, e.g. quality, human resources.

³ This fact was mentioned to us by one partner of the leading consultancies.

European countries, might have also been a reason.⁴ Thus, in the 1960s, the French consultancy Cegos chose to set up a partnership with Associação Comercial de Lisboa (see above), instead of entering the market on its own. It took McKinsey another twenty years after its initial work with CUF, before finally opening an office in Lisbon in 1989. In the meantime, it supplied the market on an ad hoc basis from the London or Madrid offices. The same is true for the Boston Consulting Group (BCG) which only established a permanent presence in Portugal in 1995. It appears therefore that many foreign consultancies were only willing to commit themselves to the Portuguese market, once a constant income stream could be secured. This was confirmed by BCG President John Clarkeson, who stated in an interview with a Portuguese journal that his consultancy did “not want to grow explosively. We are slower than the market” [Exame, 1994, p. 26]

Finally, like elsewhere, the foreign entrants prompted a further, and increasingly rapid expansion of the Portuguese consultancy market through the “scattering” of former consultants. In general, this occurs in at least two ways, either through spin-offs, i.e. when host country nationals complete a kind of apprenticeship at the foreign service provider and then set up their own consultancies, or when former consultants take up leading positions in domestic companies or in politics. Furthermore, consultancies also benefit from the transfer of managers across companies. Client staff moving across to another organisations tend to prefer those consultancies with whom they have had previous links.

In Portugal a large number of former consultants and managers who had intense contacts with international consultancies, for example with McKinsey in the late 1960s and Hay during the 1970s, have taken leading positions in the Portuguese industry and politics. For them, the fact that they had been working for large consultancies or participated in consultancy assignments on the client side became a kind of “passport” for entering large Portuguese companies. At the same time, McKinsey and Hay seem to have relied considerably on these links to broaden their client base in Portugal. Another prominent example are the large Anglo-American accountancies that diversified into consulting in the 1980s. Arthur Andersen was one of the first auditing firms in Portugal, opening its first office in 1969 and quickly gained access to many large Portuguese companies. Nowadays, former Andersen employees run some of these companies, for example Thomaz Vasconcellos in the case of Vandal or Artur Gomes at Somague [Correia et al. 1994, p. 50]. Both Arthur Andersen and Andersen Consulting, its consultancy arm which was formally established in 1989 and is now trying to become fully independent, have been able to capitalise on these contacts.

Recently, other ways of promoting consultancy services have become

⁴ In terms of the Hofstede dimensions, which are one way to “measure” and compare national cultures, Portugal exhibits indeed considerable differences to most other Western European countries [Hofstede, 1984]

more important. Most of them aim at achieving a high level of visibility in the business community. Interviews with top consultants and a systematic analysis of the Portuguese business press over the last decade suggest that consultancies are increasingly making use of indirect marketing by publishing articles or giving interviews to the most widely diffused business periodicals such as *Exame*, *Executive Digest*, and *Expresso*. Speaking at or sponsoring business seminars as well as high-profile voluntary work for non-profit organisations also appear to be on the increase since the late 1980s.⁵ The consulting arms of the large international accountancies seem to go even further and are increasingly resorting to traditional promotional and marketing techniques. The sponsoring of sports or cultural events has become very popular. And Deloitte & Touche, for example, is said to mail information about its services to prospective clients. Especially Andersen Consulting, but also PriceWaterhouseCoopers and Gemini Consulting have recently advertised directly in the business press.

It should be noted, however, that these activities are not confined to Portugal. Most of the global accountancy and consultancy firms are actually launching world-wide advertising campaigns, quite often using the same adverts or images across the globe [e.g. Kennedy, 1989]. Actually, they are probably used less in Portugal than in some of the larger and more developed markets. "Contingent contracts", another form of promotion which appears to have been spreading to Europe from the United States over the last few years, has also only made minor inroads in Portugal. It consists of linking the payment for the consultancy to the results achieved, for example in terms of headcount reduction [O'Shea and Madigan, 1997; Gallouj, 1997]. Only one of the Portuguese consultants interviewed, the partner of a large consultancy, revealed to have used this practice. As a recent entrant, his firm probably has to use a wider range of sales techniques than the more established service providers. However, his and the general feeling in the market was that these contracts did not prove to be very efficient, because the results of consultancy interventions are usually difficult to measure.

Conclusion

Thus, in a historical and comparative perspective, the Portuguese consultancy market seems to have developed considerably later than in most of Western Europe. It expanded in two waves, first during the 1960s and then again, more consistently, from the mid-1980s in conjunction with the country's membership in the European Union. The relatively low level of economic development and the slow emergence of large scale enterprises appear to be the most important explanatory variables for the belated development. Until recently, Portugal actually resembled a developing, more than a developed country. Foreign consultancies played an important role in supplying the

⁵ There are also some reports about "free" trials, but the evidence is too limited to conclude that they are being used in a systematic way.

Portuguese market, namely a number of French consultancies during the first period and then, over the last decade or so, the well known US consultancies and consulting arms of the Anglo-American accountancies.

Despite these differences in the timing and the level of development, the foreign service providers seem to have used similar methods to establish and maintain long-term trust-based relationships with client companies, compared to the more developed consultancy markets. These included work for multinational companies, both of Portuguese and foreign origin, close connections with individuals well placed in the corporate, social and political elite as well as the "scattering" of former consultants. But at the same time, there were a number of features more specific to the Portuguese case, namely the role of international organisations and development agencies, both as clients and as intermediaries, and the caution with which most of the foreign consultancies entered the Portuguese market. Once again, both find their explanation in the size and the nature of the Portuguese economy.

In recent years, Portugal appears to have become more similar to other consultancy markets, in terms of the level of activities, the predominant service providers and the -increasingly direct- marketing and sales methods used by them.

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