

Analyzing the Italian Market for Business Design Services

Liisa Gadd

Master's thesis

August 2017

School of Business

Master's Degree Programme in International Business Management

Author Gadd, Liisa	Type of publication Master's Thesis	Date 21.8.2017 Language of publication: English
	Number of pages 64	Permission for web publication: x
Title of publication Analyzing the Italian Market for Business Design Services		
Degree programme Master's Degree Programme in International Business Management		
Supervisor Akpinar, Murat		
Assigned by Anonymous client		
Abstract <p>Services are increasingly becoming global business. Knowledge-intensive business services (KIBS) sector is among the most international service sectors. This work was assigned by a company operating in the management consulting industry that offers business design services and aims at internationalization.</p> <p>The aim was to analyze the potential of the Italian market for business design services. The literature review focused on the internationalization of KIBS companies and on analyzing foreign markets. The theoretical framework in the empirical study consisted of PEST analysis and Porter's Five Forces models.</p> <p>The empirical research was conducted using a qualitative approach. The data collection started with searching relevant secondary data. The data collection method for primary data was semi-structured interview. Four interviews were conducted with experts who are familiar with the Italian market and have experience on entering the market.</p> <p>The results showed that the modern and differentiated services based on design thinking combined with the strengths of the Finnish background could enable the company to have its own place and clientele in Italy's market, even though achieving popularity in Italy requires hard work in the midst of tight competition and complex macro business environment.</p> <p>The research results are useful for business executives in the KIBS sector who are interested in the Italian market. Further research could compare the potential of several European markets for business design services. Further research could also focus on an in-depth analysis of the competitors and of the needs of the potential clients.</p>		
Keywords/tags (subjects) Internationalization, knowledge-intensive business services, PEST analysis, Porter's Five Forces, Italian market for business design services		
Miscellaneous		

Tekijä Gadd, Liisa	Julkaisun laji Opinnäytetyö, ylempi AMK	Päivämäärä 21.8.2017
		Julkaisun kieli Englanti
	Sivumäärä 64	Permission for web publication: x
Työn nimi Analyzing the Italian Market for Business Design Services		
Koulutusohjelma Master's Degree Programme in International Business Management		
Työn ohjaaja Akpinar, Murat		
Toimeksiantaja Anonyymi toimeksiantaja		
<p>Tiivistelmä</p> <p>Palvelut kasvavat entistä vahvemmin globaalisti liiketoiminnaksi. Osaamisintensiiviset liike-elämän palvelut ovat yksi kaikkein kansainvälisimmistä palvelusektoreista. Tämän työn toimeksiantajayritys toimii johdon konsultointialalla ja tarjoaa bisnesmuotoilupalveluita. Yritys tavoittelee kansainvälistymistä.</p> <p>Tavoitteena oli analysoida Italian markkina-alueen potentiaalisuutta bisnesmuotoilupalveluille. Teoriaosio käsitteli osaamisintensiivisten liike-elämän palveluiden kansainvälistymistä ja ulkomaisten markkina-alueiden analysoimista. Teoreettisena viitekehystenä käytettiin PEST-analyysiä ja Porterin viiden kilpailuvoiman mallia. Empiirisessä tutkimuksessa oli laadullinen tutkimusote. Tiedonkeruu alkoi keräämällä aiheeseen liittyvää sekundääristä tietoa. Primääristä tietoa kerättiin puoli-strukturoitujen haastatteluiden avulla haastatteleamalla neljää asiantuntijaa, joilla on kokemusta Italian markkina-alueella toimimisesta ja markkinoille menosta.</p> <p>Tutkimustulokset osoittivat, että muotoiluajatteluun perustuva moderni ja erilaistunut palvelutarjonta yhdistettynä suomalaisen taustan vahvuuksiin, voisivat mahdollistaa yritykselle oman paikan ja asiakaskunnan Italian markkinoilla, vaikka suosio Italiassa vaatii kovaa työtä tiukan kilpailutilanteen ja monimutkaisen makrotaloudellisen toimintaympäristön keskellä.</p> <p>Tutkimustulokset ovat hyödyllisiä erityisesti osaamisintensiivisten liike-elämän palveluiden sektorilla toimiville yritysjohtajille, jotka ovat kiinnostuneita Italian markkinasta. Jatkotutkimukseksi ehdotettiin eri eurooppalaisten markkina-alueiden potentiaalisuuden vertailemista bisnesmuotoilupalveluille. Jatkotutkimus voisi myös keskittyä syvälliseen kilpailija-analyysiin ja potentiaalisten asiakkaiden tarpeiden selvittämiseen.</p>		
Avainsanat Kansainvälistyminen, osaamisintensiiviset liike-elämän palvelut, PEST-analyysi, Viiden kilpailuvoiman malli, Italian markkina bisnesmuotoilupalveluille		
Miscellaneous		

Contents

1	Introduction	4
1.1	The Research Background	4
1.2	The Motivation for the Research	5
1.3	The Research Questions	6
1.4	The Outline of the Thesis	7
2	Literature Review	7
2.1	Knowledge-Intensive Business Services	7
2.2	International Services	8
2.3	Challenges for Service Internationalization	9
2.4	Internationalization of Knowledge-Intensive Service Companies	10
2.5	International Market Selection	13
2.6	Analyzing Foreign Markets	15
2.7	Macro Environmental Analysis	15
2.8	Industry Analysis	17
3	Methodology	20
3.1	The Research Design	20
3.2	The Research Context	22
3.3	Data Collection	23
3.3.1	Secondary Data	23
3.3.2	Primary Data	24
3.4	Data Analysis	28
3.5	Verification of Findings	29
4	Results	31
4.1	PEST Analysis of the Italian Macro Business Environment	31
4.1.1	Political Environment	31

4.1.2	Economic Environment.....	33
4.1.3	Socio-Cultural Environment.....	36
4.1.4	Technological Environment	40
4.2	Analysis of Italy's management consulting industry based on Porter's Five Forces model	44
4.2.1	Industry Competitors.....	44
4.2.2	Potential Entrants	47
4.2.3	Buyers	48
4.2.4	Substitutes	49
4.2.5	Suppliers	50
5	Discussion	51
5.1	Answers to the Research Questions.....	52
5.2	Comparing the Results with the Literature	57
5.3	Managerial Implications	58
5.4	Limitations of the Study	59
5.5	Recommendations for Further Research	59
	References.....	60
	Appendices	63
	Appendix 1. Interview questions and codes.....	63
	Figures	
	Figure 1. Potential determinants of a firm's choice of foreign markets.....	14
	Figure 2. Porter's Five Forces framework	19
	Figure 3. Research process.....	22
	Figure 4. Italy's political risk summary	32
	Figure 5. Italy's economic growth	35
	Figure 6. PEST analysis of Italian macro business environment	43
	Figure 7. Porter's Five Forces analysis of management consulting industry in Italy ...	44

Tables

Table 1. Backgrounds of the interviewees	26
Table 2. Table of codes.....	29

1 Introduction

1.1 The Research Background

The service sector forms more than half of the production and employment in developed countries and it is steadily growing also in the developing economies (Toivonen, Patala, Lith, Tuominen, & Smedlund 2009, 1). The focus is shifting from manufacturing to services and developed economies are moving from information economy to knowledge economy. The trend is that services are increasingly becoming global business as well. (Patala 2008, 17.) The increasingly significant role of service internationalization has been detected during the last few decades. The growth of international activities in the service sector has been strong and the understanding of the different forms of internationalization has also grown. It is necessary to carefully consider the service sector in the efforts to increase the competitiveness of companies, regions and countries. (Toivonen et al. 2009, 1.) The service sector growth and internationalization have a growing impact on Finland's economic development (Patala 2008, 17).

Market opportunities for new services are influenced by the facts that trade agreements are increasingly multilateral, technology develops at fast pace and customer base support is globalizing. Internet has a significant role for service internationalization as it enables service business models that are scalable globally and creates new demand for expert services. Professional service companies deal increasingly with global customers and the competition is getting harder. Therefore, challenging their know-how in international markets helps build credibility and competences in key markets. (ibid., 17.)

Knowledge-intensive business services (KIBS) sector is among the most international service sectors. In Finland, the export of KIBS has been the most dynamic part of the country's services export. Beside the growth, the export of knowledge-intensive business services has become more diverse as earlier it consisted mainly of engineering services. The biggest growth in service exports has happened in IT services, but also management consulting, advertising and legal services exports

have grown. Digitization and the development of telecommunications technology have had a major impact on the exports of these services. (Toivonen et al. 2009, 11-12.)

1.2 The Motivation for the Research

According to Rodríguez & Nieto (2012, 1057) research on the internationalization of service firms has not kept pace with the growing importance of the phenomenon. Rodríguez et al. (2012, 1058) also state that since the research on the internationalization processes of KIBS remains scarce, more research on the topic is required.

This research concentrates on the market entry phase of KIBS internationalization. The purpose of this research is to understand what kind of challenges and opportunities KIBS companies can face when they are preparing to internationalize and are assessing which foreign market they should enter first. Understanding these factors can encourage and help the KIBS companies planning to internationalize to get started in the process and to understand the importance of international market research.

According to Hollensen (2016) the need for international market research is in many cases not fully understood by managers, as most small and medium-sized enterprises (SMEs) do not conduct any international market research before they enter a foreign market. It is typical that the decisions concerning entry into foreign markets and the selection and appointment of distributors are made after a subjective assessment of the situation. In most SMEs, the research done is usually less rigorous, less formal and less quantitative than in large-scale enterprises (LSEs) and once an SME has entered a foreign market, it is likely to discontinue any research of that market. (187.)

This master's thesis has been assigned by a small entrepreneur-led business that operates in the KIBS sector and offers business design services. The objective of this study is to conduct a foreign market analysis that considers the specific elements of the KIBS sector. The foreign market analysis in this research focuses on the Italian

market in the view point of business design services and on the macro environmental and industry levels. The aim is to gain an in-depth understanding of the management consulting industry in Italy and to provide foreign companies an overview of Italy's current business environment.

I hope that managers and employees in KIBS sector can use this research when they are assessing the potential of the Italian market for their services. I chose this topic because the case company I work for is considering the possibilities of growth through internationalization and is interested in the Italian market. Gaining a deeper understanding of the Italian market is beneficial for the company's decision making. Learning how to analyze the potential of foreign markets complements my own skills in a very useful way when considering the future projects in my work.

1.3 The Research Questions

The research is proceeding by presenting the main research question and two sub questions:

What is the potential of the Italian market for business design services?

- a. What is the current situation of Italy's macro business environment?
- b. What is the current situation of the management consulting industry in Italy?

This research is a descripto-explanatory study, which means that its purpose is both descriptive and explanatory. To answer the research questions, I chose to use a qualitative research method, because it is concerned with interpretation and understanding. This research uses both secondary research and primary research for analyzing the Italian market. The data collection started with searching relevant secondary data. The data collection method I used for collecting primary data in this study is semi-structured interview. The total of four interviews were conducted with experts who are familiar with the Italian market and have experience on entering the market.

1.4 The Outline of the Thesis

This thesis consists of five different chapters. Chapter one is an introduction to the research topic. Chapter two is the literature review and it contains the definition of the key concepts, earlier research on the topic and the theoretical framework for the thesis including the PEST analysis and Porter's Five Forces models. Chapter three explains the research methodology, and chapter four describes the results of the empirical study. Chapter five summarizes the research results and discusses the main implications of the research as well as the limitations and possibilities for future research.

2 Literature Review

2.1 Knowledge-Intensive Business Services

According to Toivonen (2004) the term KIBS was first introduced in 1995 by Miles et al. Even though the term is nowadays widely used when studying service branches, it is still difficult to define the term in a uniform way. It is challenging to find a common understanding because the whole service sector, as well as the business services sub-category, are indefinite by character, which creates difficulties for defining KIBS. The concept of knowledge-intensity also allows various interpretations in the theoretical sense and when connected to practical applications. (17.)

Business services can be defined as services that are offered by firms or organizations to other companies or organizations. The nature of business services is intermediate, and instead of being targeted to end-use, they are contributions to the manufacturing processes or to the production of other services. Elements that make KIBS different from other business services are the service content and function. KIBS companies do not merely store or transfer information to their clients, but advance the growth of knowledge and know-how through learning in networking. (Toivonen 2004, 34.) According to Hertog (2000, 491) KIBS function as facilitators and through their almost symbiotic relationship with client firms, some KIBS function as co-producers of innovation.

The defining criterion of KIBS includes the high proportion of expert labor. On this basis, the following categories of business services are included in the KIBS: 1. Computer and related activities, 2. Research and experimental development, 3. Legal, financial and management consultancy, 4. Advertising and marketing services and 5. Technical services. The other main defining criterion is the contributing role that the KIBS have in their clients' knowledge development. Specializing in knowledge-intensive services means that the core of their services is what they can contribute to their clients' knowledge formation processes. (Toivonen 2004, 34.)

Knowledge-intensive business services have attracted growing interest in Finland in recent years. The KIBS sectors have been the fastest growing economic sectors in western countries during the last thirty years. The growth is based on the increasing complexity of products, production processes and markets. The increasing complexity of these factors require specialization and specific expertise from companies. KIBS have a large number of companies as their clients and they can offer a wider perspective than what is possible to reach inside an individual company. The success of the KIBS companies' own business requires that they are constantly aware of the latest know-how in their field. Therefore, they spread the best practices and support their customers' development and innovation activities. KIBS companies have also been identified as important players as nodes of different networks and as enhancers of the attractiveness of regions. (Toivonen et al. 2009, 1-2.)

2.2 International Services

Bradley (2005) states that international services differ from domestic services in two respects: they involve something crossing borders and they interact with foreign culture (178). Kaartemo (2013) provides the following definition for international service as a result of concept development: "International service is a value co-creating process between two or more resource-integrating actors, which do not share the same significant institutional or cultural background due to national borders" (12-13).

This definition by Kaartemo clarifies the difference between international activity and international service by emphasizing value co-creation. The definition

emphasizes that there are also other differences than cultural differences, and that these differences in institutional and cultural background stem from the existence of national borders. A clear distinction can be made between intercultural and international service. Intercultural service may also happen from within a nation, as actors may have different race or may come from different parts of the country. When considering international services cultural differences stem from the variation in national cultures. In international service, actors may integrate products as well as other resources during the process of value co-creation. The processual nature of international service emphasizes the meaning of a chain of events, which take place before benefits from these activities emerge. (ibid., 13.)

2.3 Challenges for Service Internationalization

The four major constraints that service firms face when they are attempting to internationalize their business are service intangibility, service inseparability, heterogeneity of services and their perishability. Due to their intangibility, when services are traded internationally they must be embodied in products, information flows or people who move from one country to another. The intangible nature of services creates challenges when trying to differentiate services in different countries and cultures, as the fact that they cannot be displayed easily makes communication across borders difficult. (Bradley 2005, 179.)

The simultaneous production and consumption of a service means that the consumers and the providers need to be at the same place at the same time. The inseparability of these functions means that it is not possible to export a service on its own. The heterogeneity of services means that they are highly variable and require customization. They cannot easily be standardized or made in a uniform way, which makes them difficult to package and creates challenges when trying to ensure quality control across borders. Due to the perishability of services they cannot be stored, inventory is not an option and there is a greater pressure for a 'just-in-time' system. (ibid. 179-180.)

2.4 Internationalization of Knowledge-Intensive Service Companies

According to Hollensen (2016) internationalization occurs when a firm expands its research and development (R&D), production, selling and other business activities into international markets. It is typical that internationalization occurs in larger firms in a relatively continuous fashion, with the firm undertaking various internationalization stages on various foreign expansion projects simultaneously, over a period of time. In SMEs management often regards each internationalization venture as distinct and individual. (56)

The globalization of the economy pulls more and more companies to international markets and requires an international mindset also from domestic enterprises. Internationalization is a necessary step for many Finnish KIBS companies in terms of growth, due to the small size of the domestic market. Internationalization is also an essential element in increasing competence, and even smaller-scale international activities are beneficial from this point of view. (Toivonen et al. 2009, 6.)

According to Edvardsson, Edvinsson & Nyström (1993) to understand the internationalization process in service companies, a broader theoretical approach is needed compared with the traditional perspective to internationalization that stresses the marketing of existing products. It is essential to stress the development of knowledge and competence in the internationalization of service companies. Therefore, creative activities to generate and share knowledge become the focal point in business development and the focus is on the core competence in the company rather than in its existing services and products. The aim is to use the company's collected capacity to satisfy a variety of customer needs. (82.)

Also Scott-Kennel & von Batenburg (2012) emphasize the role of knowledge and learning in the internationalization process of a small, professional service firm. In this sector internationalization appears most influenced by internal, tacit knowledge. "The firm's ability to learn via depth and diversity of employee's experience is moderated by the efficiency of the mechanisms that enable application of knowledge to further internationalization. This is an interactive, iterative process that builds organizational wisdom." (1667.)

Edvardsson et al. (1993) emphasize a creative perspective rather than a planning perspective in the internationalization of service companies. In order to succeed in the internationalization process, it is essential to act creatively and with originality. Creative efforts which are aimed at generating new knowledge or new service concepts are important for long-term success, especially in knowledge-intensive, innovative companies. (82.)

Rodríguez & Nieto (2012) state that firms in knowledge-intensive sectors find that innovation allows them to develop services that are well suited to foreign markets and adaptable to special conditions and competitive environments. Innovation capability is highly important when considering the export of services by KIBS. Success in international markets depends on the ability to develop services and deal with overseas clients. This means that firms must be able to adapt both their services and their ways of delivering these services in new markets to be successful. (1060-1061.)

The ability to solve problems for the service buyers and to satisfy their needs is essential in knowledge-intensive service companies. When transferring service concepts to new cultural environments and languages, it is essential to be able to package the strategic knowledge in order to clarify the concepts, differentiate them from those of the competitors and to simplify the transfer to the customers. (Edvardsson et al. 1993, 96.)

The strategic prerequisites which can be considered of central importance for internationalization of service companies and which the companies themselves can influence, at least in the long perspective, are: technological competence (the knowledge capital), financial resources (the financial capital), internal and external networks and relationships (the organization and marketing capital) and image and expectations (the goodwill capital) (ibid., 83).

Traditional management theories mainly deal with impersonal investments in production, plants, markets and machinery and with financial resources, but in service internationalization, the focus should be in personal investments in people and relationships between people. Such soft investments consist of knowledge and

the ability to handle psychological and organizational relationships both within and outside the company. These factors influence to a large extent both the willingness to change and the power to initiate and carry through changes and therefore are significant in a development context. (ibid., 83-84.)

It can be argued that successful internationalization strategies are proactive rather than reactive. This means that they are created more by active participation and initiative by the company than by passive adaptation to existing growth tendencies and changes in the surrounding world. To create a proactive internationalization strategy, companies need a sensitive ear, pluralism in the gathering of information, intellectual and organizational flexibility, as well as constant organizational adaptation and development. (ibid., 86.)

Viewing internationalization as a combination of local and global activities is important, because it is both a question of choosing specific business locations and transferring competence between markets. The importance of a local marketing perspective is significant during the initial stages of the internationalization process. A global perspective becomes more important later on and the development of new knowledge which can be generalized and applied to new markets becomes important in a long-term perspective. (ibid., 90.)

To succeed in the internationalization process, service companies must be able to balance entrepreneurial vision with systematic planning and global service concepts and work methods with adaptation to local conditions. Leading actors, inspired persons and entrepreneurs often play a decisive role in the initiation of internationalization and also during critical phases of the process. The work of a truly inspired person acting as a propelling force is an essential prerequisite for success. Especially in knowledge-intensive companies, contact between creative individuals makes up the essential dynamics in the internationalization process. It is important to find active and creative individual buyers, because the interaction between them and the entrepreneurs forms businesses. The entrepreneurial approach is especially significant during the early phases of the internationalization process, while the formal planning and guidance becomes more important during the later stages. (ibid., 93-94.)

2.5 International Market Selection

It is important to recognize that the international market selection (IMS) process is different when comparing SMEs and LSEs. The IMS in SMEs is often simply a reaction to a stimulus provided by a change agent. Change agents, such as an unsolicited order or foreign opportunities that come to a firm's attention, constitute an externally driven decision in which the exporter simply responds to an opportunity in a given market. (Hollensen 2017, 280.)

According to Hollensen (2017) Johanson & Vahlne (1977) state that in other cases the IMS of SMEs is based on the following criteria: low physical distance, low cultural distance and low geographic distance. Low physical distance means low uncertainty about foreign markets and perceived difficulty of acquiring information about them. Physical distance refers to differences in language, culture, political system, level of education or level of industrial development. Low cultural distance means low perceived differences between the home and destination cultures. (280.)

The potential determinants of a firm's choice of foreign markets are presented in Figure 1.

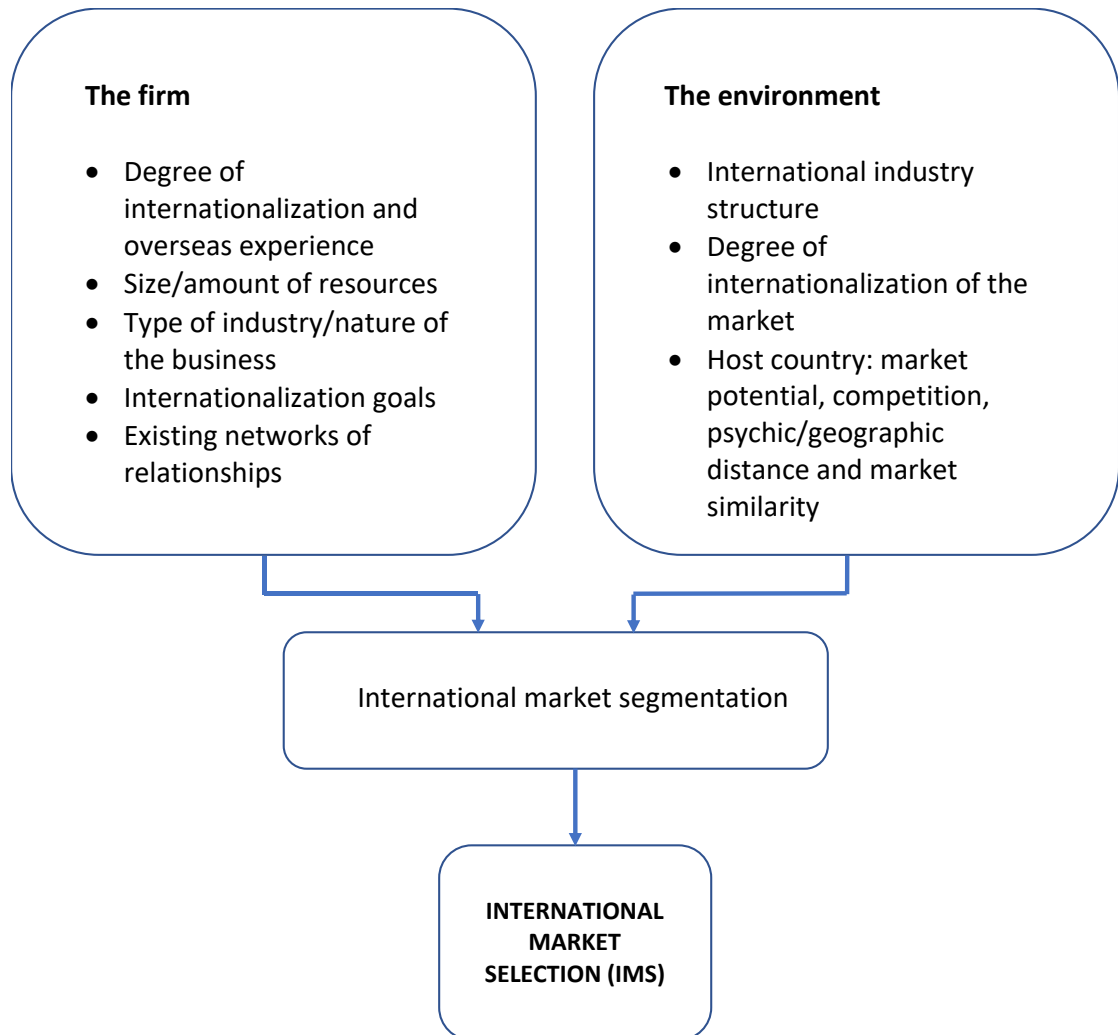


Figure 1. Potential determinants of a firm's choice of foreign markets (adapted from Hollensen 2017, 281.)

According to Edvarsson & al. (1993) internationalization is a question of choosing the right cultural environment in which to cultivate the business concept. It has proven successful for service companies to choose markets to match closely the service concepts, knowledge, organization and control systems which have been used most

successfully at home. Even though certain adjustments in marketing and organizational design must be made, the main concept is modeled after the home market. The result is globally usable service concepts and packaged services with local adaptation when it comes to marketing and organization. Key factors in creating successful multilocal service systems are insight and a deep understanding of local business culture, local laws and the inner motivations of the specific actors. (94-95.).

2.6 Analyzing Foreign Markets

This thesis focuses on the analysis of the external business environment in the chosen foreign market. According to Hollensen (2017) the development of a firm's international competitiveness takes place interactively with the environment, which means that it is essential to be able to adjust to customers, competitors and public authorities. When analyzing foreign markets, it is important to consider the general business environment of a nation (macro level) and the industry environment (meso level). (108.)

According to Nylund (2015), Hollensen (2012) states that the internal resources and capabilities of the company, the factors specific to the industry and the general business environment of the nation affect the performance of a firm in a foreign market. The general business environment of a nation (the macro environment) consists of factors that the firm cannot control and which can have a significant impact on the success of an exporting firm in the foreign market. The industry environment consists of more specific indicators that relate to a firm and the products and services it offers. It is easier to measure and access the general market dimension than the industry specific dimension. However, the industry specific dimension is more relevant when evaluating export market attractiveness. (27.)

2.7 Macro Environmental Analysis

Macro environmental analysis is an essential part of foreign market analysis, as it helps to understand the surrounding conditions and circumstances. According to Cadle & Turner (2008) there are several similar approaches that can be used to investigate the global business environment within which an organization operates

or is considering to enter. The most commonly used approaches to external environment analysis include: PEST (political, economic, socio-cultural, technological); PESTEL (political, economic, socio-cultural, technological, environmental, legal); PESTLIED (political, economic, socio-cultural, technological, legal, international, environmental, demographic); STEEPLE (socio-cultural, technological, environmental (or ecological), economic, political, legal, ethical). (3.) This research uses the PEST approach, because it covers all the most important factors connected to this research.

According to Babatunde & Adebisi (2012) organizations can use environmental scanning to determine whether or not to enter a new market. Environmental scanning is a process of gathering, analyzing and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering. (25-26.)

PEST analysis is a simple way to conduct environmental scanning. It gives an overview of the different macro environmental factors that the company needs to take into consideration when doing market research or conducting a strategic analysis. PEST analysis is a commonly used strategic tool that helps to understand market growth or decline, business position, potential and direction for operations. The external environments consist of opportunities and threats that are outside the organization and the management of any organization has little or no influence on the external environment. (ibid., 25-27.)

Political factors in the PEST analysis regard how and to what degree a government intervenes in the economy. Examples of political factors include areas, such as tax policy, labour law, environmental law, trade restrictions, tariffs and political stability. Political factors may also include goods and services which the government wants to provide or be provided and those that the government does not want to be provided. (ibid., 27.) The host country's trade policies and its general political environment require careful analysis, as these factors can have a significant effect on a firm's operations and performance (Griffin 2015, 358).

Economic factors such as economic growth, interest rates, exchange rates and the inflation rate have major impacts on how businesses operate and make decisions (Babatunde & Adebisi 2012, 27).

Socio-cultural factors include the cultural aspects and include e.g. health consciousness, population growth rate, age distribution and career attitudes. Trends in social factors can affect the demand for a company's products or services and how that company operates. For example, an aging population may mean a smaller and less-willing workforce which impacts the cost of labor. (ibid., 27.) Socio-cultural influences can be difficult to quantify due to their subjective nature (Griffin 2015, 359.) Developing an understanding of the socio-cultural influences helps analyze if the offerings are compatible with the local culture (ibid., 357).

Technological factors include technological aspects such as R&D activity, technology incentives and the rate of technological change. Technological shifts can affect costs, quality, lead to innovation and influence outsourcing decisions. (ibid., 27-28.) IT developments can have extensive business impacts, often across industries or business domains and on a range of organizations (Cadle & Turner 2008, 4).

2.8 Industry Analysis

According to Hollensen (2017, 113) one of the most useful and well-known frameworks for analyzing the competitive structure of an industry was developed by Porter. Porter (2008) states that competition for profits goes beyond established industry rivals to include four other competitive forces: customers, suppliers, potential entrants and substitute products. These five forces create extended rivalry that defines an industry's structure and shapes the nature of competitive interaction within an industry. Even though industries might appear quite different on the surface, the underlying drivers of profitability are the same. In order to understand industry competition and profitability, one must analyze the industry's underlying structure in terms of the five forces. (79-80.)

According to Cadle & Turner (2008) answering the following questions, which are based on Porter's five forces model, helps to identify the factors within the industry

that have the potential to impact the organization, either positively or negatively.

Industry competitors: What is the level of competition for the products or services in this industry? Is the organization in a good competitive position or is it a minor player? Are there several competitors that hold the power in the industry?

New entrants: Are there barriers to entry, such as the need for large amounts of money or expertise? Is it possible to start up an organization offering these products or services without much financial support? What is the likelihood of new entrants coming into the industry?

Substitutes: What is the range of substitutes available? What is the position of the organization when compared to the suppliers of these substitutes?

Buyers: How much choice do buyers have? Can they switch suppliers easily? Do they have the power in the relationship or are they locked in to the supplier?

Suppliers: How many suppliers are available? Is this a competitive situation where the organization has a choice of suppliers? Do the suppliers have the power in the relationship because they operate in an area of limited supply? (7.)

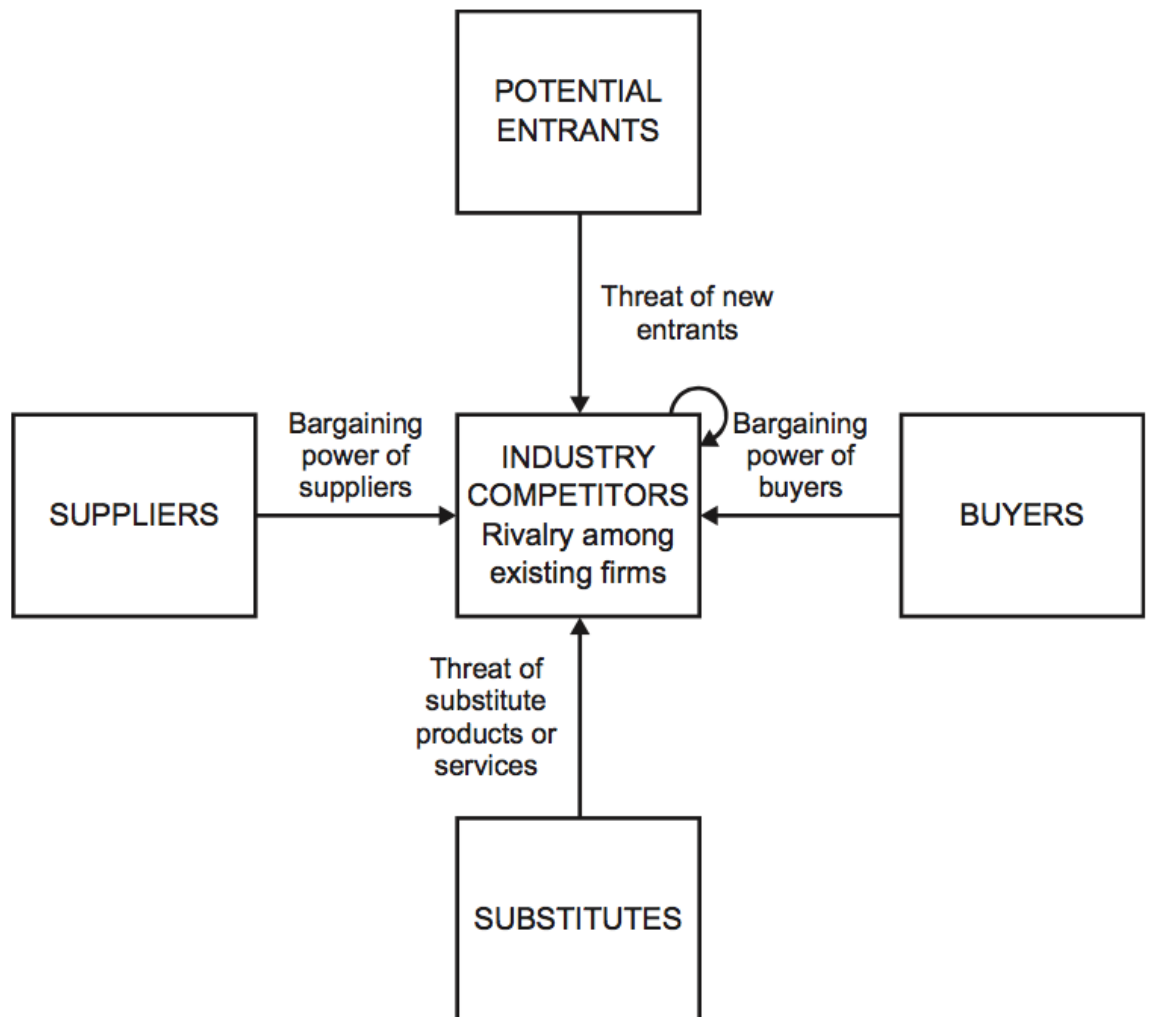


Figure 2. Porter's Five Forces framework

(Cadle & Turner 2008, 6.)

When conducting an environmental analysis, using PEST analysis and Porter's Five Forces model together helps to provide a detailed picture of the situation facing an organization, because using only one technique may leave gaps in the knowledge and understanding (Cadle & Turner 2008., 2). I will use the PEST analysis and Porter's Five Forces models as my theoretical framework in the empirical study.

3 Methodology

In this chapter, I describe the research methodology I used in my thesis and make a justification of my choice with a review of relevant methodology literature. This chapter also includes description of the research setting, the empirical study and the verification of the findings.

3.1 The Research Design

The choices relating to the research design are done according to their suitability to answer the research questions. The research questions in this research are:

What is the potential of the Italian market for business design services?

- a. What is the current situation of Italy's macro business environment?
- b. What is the current situation of the management consulting industry in Italy?

This research is a descripto-explanatory study, which means that its purpose is both descriptive and explanatory. According to Saunders, Lewis, & Thornhill (2009), Robson (2002) states that the object of descriptive research is 'to portray an accurate profile of persons, events or situations'. In explanatory research, the emphasis is on studying a situation or a problem in order to explain the relationships between variables. In descripto-explanatory study the description is a precursor to explanation. (140.)

I chose a qualitative research method for this study, because it is concerned with interpretation and understanding. According to Eriksson & Kovalainen (2008), it is typical for qualitative research approaches to aim at a holistic understanding of the issues studied. Qualitative research approaches are concerned with understanding reality as socially constructed which means that it is produced and interpreted through cultural meanings. (5-6.)

Even though in qualitative research decisions about research design and strategy are ongoing, it is important to produce a research design at the start of the process. The decisions about design and strategy are grounded in the practice, process and

context of the research itself, and thinking about strategy and design does not stop after the first decisions about the research design are made. (Mason 2002, 24.)

When planning the research design of this thesis, I paid attention to flexibility. After I had chosen the research topic, the next step was to formulate the initial research question. Eriksson & Kovalainen (2008) emphasize that when formulating the research questions, it is important to keep in mind that they drive the whole research project and the choice of methods and theoretical frame (27).

The next step was to study relevant literature and to choose appropriate theories. The literature consists of research on the internationalization of service companies and international market analysis. The theoretical framework for this thesis includes the PEST analysis model and Porter's Five Forces model. After reviewing literature, I considered the choice of appropriate method and chose a qualitative method.

Next, I planned the design of data collection. The secondary data used in this research is textual data and I made the decision to collect it from research institutions' reports & statistics, business portals, the web pages of industrial associations and companies and from media texts. The data collection method I chose for collecting primary data is semi-structured interview. After analyzing the collected data, the findings answered the research question by clarifying the potential of the Italian market for business design services. The main steps of this research are presented in Figure 3.

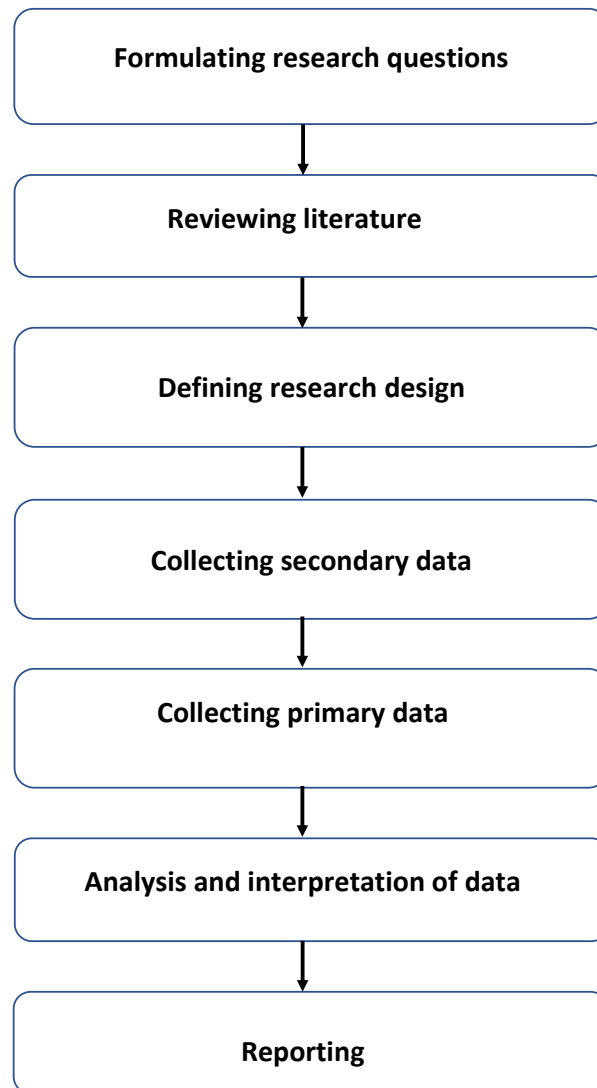


Figure 3. Research process

3.2 The Research Context

The company this thesis is assigned by is a small entrepreneur-led business that employs 15 people at the moment. The company operates in the KIBS sector in the field of business consulting and offers business design services. Business design is an approach to innovation, which combines design thinking, business strategy and customer empathy. The aim is to help organizations create new value and new forms

of competitive advantage. Business design helps organizations to create sustainable growth.

The case company combines business design thinking with digital service concepts. The company sees international potential for these services and intends to seek growth through internationalization. The idea is to use the Nordic way of thinking in business design and to offer it to businesses in other parts of Europe.

The case company is negotiating on forming a partnership with an Albanian company which concentrates on designing digital service concepts and has customers in Italy. The current Finnish customers of the case company are mainly SMEs in the service industries and typically SMEs in the travel industry. The target group that the case company plans to reach in the new foreign market is SMEs in the travel industry.

3.3 Data Collection

3.3.1 Secondary Data

Secondary data means information that has already been collected for other purposes and is readily available. Secondary research is frequently referred as desk research. The advantages of secondary research in foreign markets include low costs and amount of time associated with its collection. Research undertaken in the home country about the foreign environment has the benefit of objectivity as the researcher is not constrained by overseas customs. Secondary research can quickly generate useful background information for the preliminary stage of a market-screening process. The disadvantages of secondary research in foreign markets consist of non-availability of data, reliability of data, data classification and comparability of data. (Hollensen 2017, 188-189.)

According to Hollensen (2017) an international marketer should initiate market research by searching first for any relevant secondary data. It is typical that a great deal of information is already available. The researcher needs to know how to identify and locate the international sources of secondary data. (211.)

The secondary data used in this study is textual data. It includes publicly available

information on the Italian business environment on macro and meso levels. The secondary data was collected from research institutions' reports & statistics, business portals, the web pages of industrial associations and companies and from media texts.

3.3.2 Primary Data

In most market research cases, secondary data sources cannot provide all the information needed to answer the research questions, and thus it is necessary to collect primary data to get additional information. Primary data means information that is collected first-hand, generated by original research, tailor-made to answer specific current research questions. The advantage of using primary data is that it is specific, relevant and up to date. The disadvantages of primary data include the high costs and amount of time associated with its collection. (Hollensen 2017, 188-189.)

Primary data can be collected by qualitative and quantitative research. Quantitative techniques are concerned with getting data from a large, representative group of respondents, while the objective of qualitative research techniques is to give a holistic view of the research problem. (ibid., 193.)

The data collection method I used for collecting primary data in this study is semi-structured interview. According to Eriksson & Kovalainen (2008), the use of interviews in business research can offer an efficient and practical way of collecting information that cannot be found in a published form. Reasons to use interviews also include the aim to study people's experiences from their points of view or the social construction of knowledge concerning the chosen topic. (80-81.)

Semi-structured interviews can be used to study both 'what' and 'how' questions. Making a semi-structured interview means preparing an outline of topics, issues or themes, but still having the possibility to vary the wording and order of questions in each interview. The advantage of this type of interview is that the materials are somewhat systematic and comprehensive, while the tone of the interview is conversational and informal. (Eriksson & Kovalainen, 2008, 82.)

According to Mason (2002), it is not necessary to ask all your interviewees standardized questions in a standardized form to get data which are comparable in key ways. In some cases, you might need to ask different questions of your interviewees in order to generate situated knowledge. (75.)

A qualitative interviewer has to be prepared to react and make decisions based on what the interviewee is saying in the interview. This has to be done quickly, effectively, coherently and in ways which are consistent with the research questions in order to ensure that the interview interaction actually does generate relevant data. In qualitative interviewing, it is important not to under-estimate the reflexive challenge posed by analyzing your own role within the research process. (Mason 2002, 76-77.)

Mason (2002) states that an interview can be seen as a site of knowledge construction and the interviewee and the interviewer as co-participants in the process. The task is how to organize the asking and the listening so as to create the best conditions for the construction of meaningful knowledge. (227.)

In this research, a total of four (4) interviews were made. The interviewees are experts who are familiar with the Italian market and have experience in entering the market. The first interviewee is a Finnish entrepreneur and business executive who has roughly ten years of experience in doing business in Italy. His experience is from three different industries: fitness, software and engineering industry.

The second person interviewed is a Finnish entrepreneur, who is based in Finland, but has been working as an external consultant for Italian companies and organizations during the last five years. He has mainly worked in Italy with traditional industrial companies in the power industry, marine shipping and with their supply chains. The work has focused mainly on the companies' change processes. He has also worked in the education sector with a university chain in Spain, which had a mostly Italian staff.

The third person interviewed is an Italian, who works for a Finnish company as the sales manager for Southern and Eastern Europe. He is based in Italy, but travels at

regular intervals to Finland. He has a Finnish education in international business management.

The fourth person interviewed is Italian and has worked in Italy in promotion, marketing and sales in the packaging, chemical and advertising industries. She has worked as a cross-cultural manager when she was working in Italy for an Indian company. She has also experience in working in associations involved in the care of workers and the related employment processes. She has experienced both doing business in Italy in the domestic and European market and exporting to Italy from an international company. Currently she is studying and working in Finland. The fourth interviewee did not have knowledge about the situation of the management consulting industry in Italy and she focused on discussing Italy's macro business environment.

Table 1. Backgrounds of the interviewees

Interviews	Business experience in Italy	Position	Nationality
Interview 1	10 years of experience from fitness, software and engineering industries	Entrepreneur and business executive	Finnish
Interview 2	5 years of experience from management consulting in industrial companies and education sector	Entrepreneur	Finnish
Interview 3	7 years of experience for working for a Finnish company with Italian customers	Sales manager for Southern and Eastern Europe in Finnish company	Italian
Interview 4	Versatile experienced in doing business in Italy in the domestic and European market and exporting to Italy from an International company	Different positions as an employee, cross-cultural manager	Italian

The interviewees were chosen because the author wanted to have both the Finnish and the Italian perspective. They were also chosen because the author already had a connection to them. These connections made it easier to approach them and helped with building trust. However, having a prior connection to the persons interviewed may have the effect that the interviewees give answers that are more positive than what complete strangers might answer. Two of the interviewees are Finnish and two are Italian. All the interviews were conducted in English because all the participants are accustomed to using English in their work.

The interview questions were designed based on the applied theoretical frameworks. The questions were made open to encourage discussion and to let the respondents reply freely. The interviews helped to understand the specific challenges, opportunities and demands that the Italian market sets for a foreign KIBS company that seeks to enter the market. The way which the interviews were conducted depended on the wishes of the interviewee. The first interview was conducted face to face as the interviewee was conveniently located in the same city as the interviewer. The second interview was conducted on the phone. The third interview was conducted on Skype. The fourth interview was conducted by email. The questions were emailed to the interviewees prior to the interviews so they were able to prepare themselves. The interviews were recorded and transcribed.

The interview process in this research proceeded as follows:

1. Deciding who are desirable and suitable participants
2. Designing the semi-structured interview questions according to the themes in the theoretical framework
3. Contacting the potential participants with a brief explanation of the study and asking whether they are willing to participate and when
4. Making the first interview as agreed upon: explaining the background and the goals of the study and conducting and recording the actual interview
5. Transcribing the interview and analyzing the data gathered from the interview

6. Analyzing if the information that I received from the interview was suitable for answering the research questions and if I should have asked something more
7. Making the second interview, transcribing the interview and analyzing the data
8. Making the third interview, transcribing the interview and analyzing the data
9. Making the fourth interview by email and analyzing the data

3.4 Data Analysis

According to Hollensen (2017) the analysis of qualitative data is characterized by a high degree of flexibility and adaptation to the individual respondent and their special background. Qualitative techniques imply a less sharp separation between data retrieval and analysis because data retrieval will be dependent on the interviewer's interpretation of the previous answer. Therefore, the researcher's personal experience from fieldwork is a considerable input in the analysis phase. (194-195.)

The analysis of qualitative research depends particularly on the interpretation placed on the data by the researcher. No two qualitative researchers will analyze and interpret the data the same way. It is important that the researcher who has carried out the fieldwork should be deeply involved in the analysis, interpretation and presentation, for otherwise much will be lost. (Hague et al. 2004, 176.)

The verbatim responses can be entered into an Excel spreadsheet, together with an identifier that enables them to be sorted by different types of respondent. Sorting in this way will make it easier to illustrate with verbatim quotations from individual respondents when reporting. When interviews have been tape-recorded, it is generally considered good practice to transcribe them into typed-up text and carry out analysis with this material. (ibid., 175.)

In this research, the data analysis process is based on the pre-constructed theme and theoretical framework consisting of PEST analysis and Porter's Five Forces models. The PEST analysis model was used to analyze the macro-environment factors in the

Italian market and Porter's Five Forces model to analyze the chosen industry. The data analysis was conducted using a coding system. The data analysis process in this research followed the steps below:

Step 1. Creating codes that refer to the themes in the theoretical framework

Step 2. Data reduction using codes

Step 3. Taking the data to Excel

Step 4. Using data filter to analyze the data relevant to each theme

Step 5. Drawing conclusions from the data

Table 2. Table of codes

Theme	Code
General	G
Political	P
Economic	E
Socio-cultural	S
Technological	T
Competitors	C
Entrants	En
Substitutes	Su
Buyers	B
Suppliers	Sup

3.5 Verification of Findings

Reliability in research is concerned with whether a similar outcome can be achieved in two separate research occasions by two separate researchers in similar settings. The research validity is concerned with whether the outcome can be generalized and to which extent. (Hirsjärvi & Hurme 2000, 186.) The information from the empirical

research in this thesis supports the information presented in the theoretical background, which indicates that the results can be generalized to some extent inside the industry.

According to Eriksson & Kovalainen (2008) one unifying element in the research process of all qualitative research is reflexivity, which means that the researchers should consider their part in knowledge production as an important one and not exclude it from the research process or reporting (30). Saldaña & Leavy (2011) state that credibility and trustworthiness in qualitative research are matters of researcher honesty and integrity. It is important to work and write transparently to achieve credibility and trustworthiness with your readers. (136.) Auerbach & Silverstein (2003) emphasize that for a data analysis to be justifiable it must be transparent, which means that other researchers can know the steps by which you arrived at your interpretation (81).

Triangulation is a common procedure for establishing validity in qualitative research. Triangulation means the process of using multiple perspectives to refine and clarify the findings of the research. It is based on the idea that there is one version of reality that can be approached from different angles and viewpoints. Using these different views adds to the overall understanding of the focus of research. I used triangulation of data in this research, which means that evidence from multiple empirical sources is used to cross-check information. When using triangulation, it is possible to end up with controversial or even conflicting research results. This kind of results can be seen as an opportunity for new angles, ideas and research questions. (Eriksson & Kovalainen, 2008, 292-293.)

In this research, the sources of the secondary and primary data were carefully evaluated to ensure the quality and reliability of the collected data. The interviews were recorded and transcribed before the analysis in order to increase the reliability. I also paid attention to transparency by explaining the steps by which I arrived at my interpretation.

4 Results

4.1 PEST Analysis of the Italian Macro Business Environment

4.1.1 Political Environment

Italy is one of the founding member countries of the European Union (EU) and of the Eurozone (Country Risk Report – Italy 2016, 1). It is also a founding member of the North Atlantic Treaty Organisation (NATO) and a member of the World Trade Organisation (WTO), the Organisation for Economic Co-Operation and Development (OECD), the Organisation for Security and Co-operation in Europe (OSCE), G7 and Council of Europe. (Overseas Business Risk – Italy, 2016.)

In December 2016, the Italian public voted ‘no’ to constitutional reform in a referendum. The result caused Prime Minister Renzi to resign from office and his departure led to political uncertainty and the rise of the 5 Star Movement, a protest, anti-elite and anti-European formation. Renzi's Government implemented many reforms and focused on labor and employment laws, public administration, taxation and the revival of consumption through lower taxes. The 2017 budget includes measures to stimulate investment, a reduction in the corporate tax rate and an increase in small pensions. Paolo Gentiloni, from the ruling Democratic Party, is heading the Government until the parliamentary elections of February 2018. (Italy: Economic and Political Overview 2017.)

Italy's political risk is defined low. However, it is important to consider that Italy has a complex bureaucracy and an inefficient public sector. The business infrastructure is modern and advanced. Italy's governmental debt exceeded 132% of GDP in 2015, and the ECB and EU pressure Italy to control its high governmental debt. (Country Risk Report – Italy 2016, 3.) Businesses' perception of ethics and corruption has improved as a result of reforms implemented in recent years, but public-sector performance remains poor. (The Global Competitiveness Report 2016-2017, 212.)

Doing business in Italy is not straightforward. The corporate tax burden is the heaviest in Europe, and the levels of corruption and tax evasion are particularly high.

Other weaknesses include the slowness of the judicial system, high energy costs and an over-leveraged public sector. (Overseas Business Risk – Italy, 2016).

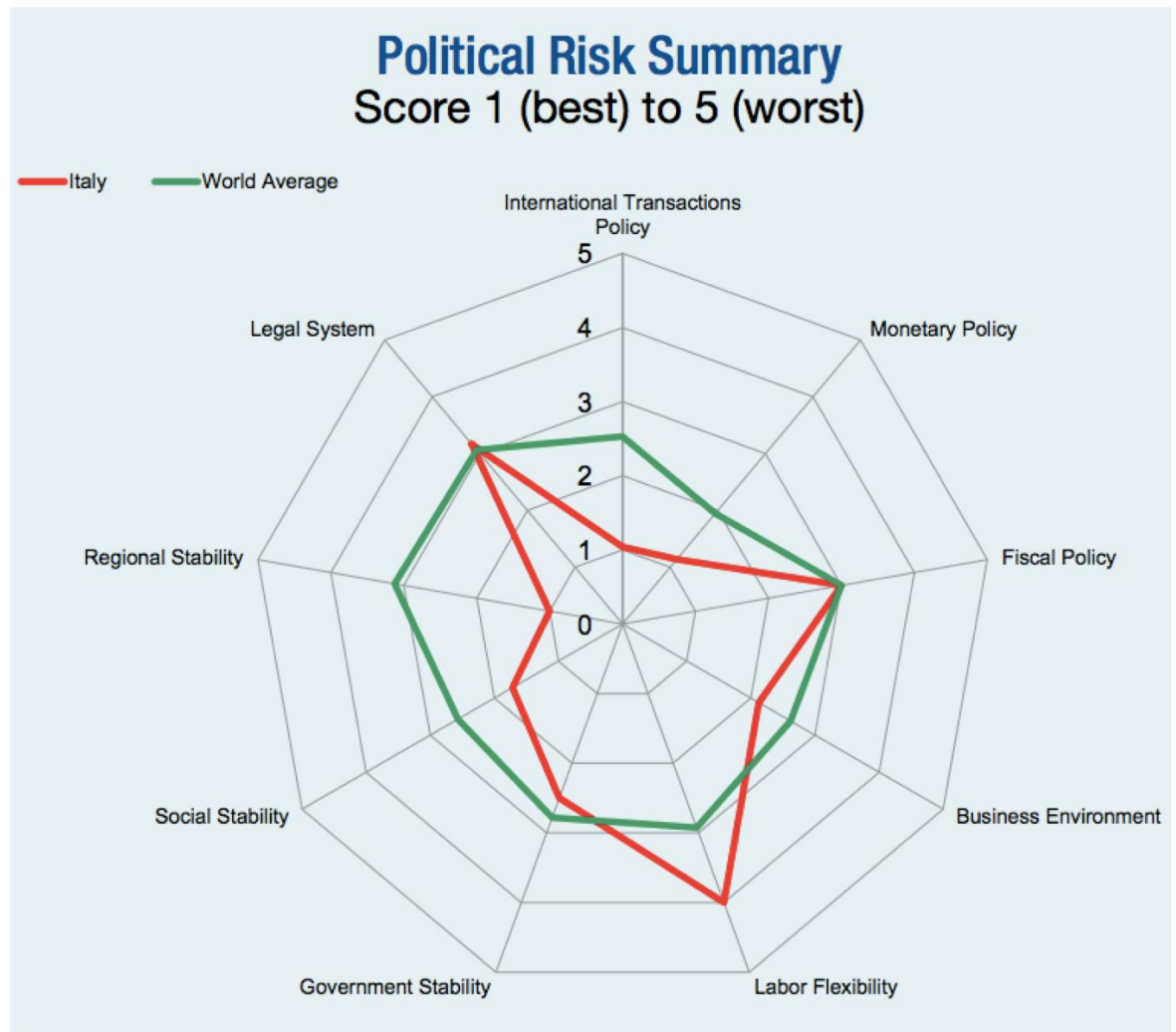


Figure 4. Italy's political risk summary
(Country Risk Report – Italy 2016, 3)

The results from the interviews show that according to the perceptions and experiences of the interviewees the current political environment in Italy is not favorable to foreign companies entering the market. Both Italian interviewees (interview 3 and interview 4) emphasize that the upcoming 2018 elections have major impacts on the political stability of the country. Interviewee 3 points out that the political situation is complex, and it is difficult to achieve a stable government for

the upcoming five years as the political parties have very different views. This conditional instability creates difficulties for foreign companies who consider investing in Italy. Interviewee 4 states that the 2018 elections will likely bring a big change, but uncertainty will most likely stay high because of the high Italian debt.

Interviewee 1 thinks it is important to consider that the struggling of the EU, the growth of immigration and the challenges from foreigners in Italy seem to have the effect that Italians turn increasingly inwards. This creates challenges with trust building for foreign companies, especially because it is a long tradition in Italy that Italians like to do business with people they know well.

Interviewee 4 emphasizes that it is important for foreign companies to consider that the transparency, clarity, efficiency and corruption differ widely in different parts of Italy.

4.1.2 Economic Environment

Italy's economy is diversified and there are major differences between the south and the north parts of the country. The north is developed and industrial while the south is less-developed, highly subsidized and agricultural. The north is dominated by private companies, and unemployment is higher in the south. The manufacture of high-quality consumer goods that are produced by SMEs strongly drive the Italian economy. Many of these companies are family-owned. The grey economy in Italy is sizable and it has been estimated that it accounts for 17% of GDP. The grey economy is most common within the agriculture, construction and service sectors. (The World Factbook 2017.)

The service sector is highly significant for Italy's economy as it constitutes about 75% of Italian GDP and employs about 70% of the country's workforce. Tourism is one of the fastest growing and most profitable industries in Italy and comprises the largest part of the service sector. Italy is a very attractive tourist destination as it is the fifth most visited country internationally and the third most visited country in the European Union. (Italy: Economic and Political Overview 2017.)

Italy's economic risk is defined low. The strengths of Italy include that it is a large and

modern economy and it has one of the largest manufacturing sectors in the world. However, if Italy wants to be competitive in Europe, industrial investment, restructuring and labor reforms are necessary. (Country Risk Report – Italy 2016, 2.)

Italy's competitiveness score has improved slowly and Italy places 44th in the Global Competitiveness index. The weakest areas of Italy include its financial and labor markets and institutions. The Italian banking sector is strained by non-performing loans and the need for recapitalization is growing in different institutions. The macroeconomic position of Italy has strengthened, but the public debt stays high. The strengths of the Italian economy include innovation and business sophistication. The digital readiness of Italy is improving. (The Global Competitiveness Report 2016-2017, 212.)

Following three years of economic contraction during the years 2012-2014, Italy's economy started to grow again in 2015 at a rate of 0.8%. (Country Risk Report – Italy 2016, 1.) The weaker euro, lower commodity prices and easy monetary policy, which enables refinancing, drive the light recovery. The geopolitical situations in and around the Eurozone, including Brexit, create concerns that can affect the fragile economic recovery. (Country Risk Report – Italy 2016, 1.) The factors that have been slowing Italy's economic growth include political uncertainty, high levels of debt, low productivity and a large grey economy. In addition, unemployment remains high. (Country Risk Report – Italy 2016, 2.)

Foreign Direct Investment (FDI) attractiveness in Italy is behind the largest economies, and inward investments to Italy declined steeply during the economic crisis. However, FDI is slowly increasing. The presence of organized crime is still strong in the Italian society even though authorities have seriously committed in solving the problems connected to organized crime. However, it is not common for organized crime syndicates to get in touch with non-Italian companies. (Overseas Business Risk – Italy, 2016).

The two Finnish interviewees (interview 1 and interview 2) think that the mafia can have some effects on foreign companies.

“When you look at the map and see where mafia is affecting, those areas are more difficult. It’s not a popular statement, but that’s just how it is, because they have their role in the business in those areas of the country. And where it’s more transparent and where it’s more sort of legal then it’s more normal to operate itself. North is easier to start with.” (Interview 1)

“People know what the mafia is doing or while it’s related to corruption mostly, but in the businesses and organization I’ve been working with I haven’t been facing that. So, because it’s especially when it’s the business to business type of collaboration, but maybe if you would work more closely with the people, to the consumers or the political public organizations, that might be more. It’s something that everybody knows, but that’s the way it is. But at least it may be heading to that the climate during the five last years that I’ve been discussing with that topic sometimes with the Italians they are feeling better because the role of the mafia is getting smaller and they have been able to arrest a lot of those key persons ... but not in my daily business or relationships.” (Interview 2)



Figure 5. Italy's economic growth

(Country Risk Report – Italy 2016, 2)

The results from the interviews show that according to the perceptions and experiences of the interviewees the current economic environment in Italy is complex. Interviewee 1 points out that the difficulties in the operations of the major banks create challenges for companies operating in the Italian market.

“When the big banks are struggling it provides a little bit less vision for future for even the local companies and local operators. If the banks are struggling it is difficult to get loans with motivating interests for expansions or growing your business. So, if you are not in financially good situation then it is more challenging to get funding for your projects and when we are talking about management consulting, management consulting is usually related to something that company wants to develop or something new they want to do and for that companies usually need funding. When in the global scale economies are going up but in Italy the banks are struggling it tells that something is going there differently than in the other parts of the world.”
(Interview 1)

Also Interviewee 2 emphasizes that the trust in banks is decreasing in Italy. He thinks the old money in the country helps the small family companies to survive the difficult times and the economic situation shows more in the consumers behavior.

Interviewee 3 thinks that high unemployment, especially among the young people, is a clear sign of economic difficulties. He states that the slow economic growth might stop foreign companies from approaching Italian companies or encourage foreign companies to buy Italian companies at a low price. He also thinks that the uncertainty about the future means that companies may delay new projects.

4.1.3 Socio-Cultural Environment

Italy has a highly individualistic culture, which means that individual responsibility and taking care of themselves and their immediate family first is very important for Italians. It is typical that Italian businesses are owned by individuals and families. When doing business in Italy, individualism affects Italians' choices to do business with people they already know well. (Doing Business in Italy 2009.)

When comparing the northern and southern parts of Italy, the differences in the business practices and culture are notable. Northern Italy is very European in regard to the work practices and work culture. (Maaraportti Italia [Country report Italy] 2010, 31.) The number of women who work is low in the south of the country as only

one in three women go to work. (The Global Competitiveness Report 2016-2017, 212).

Doing business successfully in Italy requires a personal network, understanding the business culture and preferably knowledge of the Italian language. Personal interaction is highly important. A foreigner needs to have contact persons who know the local practices. Finding the right contacts in Italy typically takes time, but Italians are loyal in their business relationships. Italian companies are much more hierarchical than Finnish companies and the management style is more authoritarian, which means that it is important to negotiate with the hierarchically right person. The leader is often the owner of the business and engaging him or her is essential. Doing business in the IT-sector is much more informal than doing business in the other sectors in Italy. (Maaraportti Italia [Country report Italy] 2010, 31.)

Decision making in business negotiations can take time in Italy, as the order of importance is often different for Italians when compared to Finnish and handling issues may therefore seem slow. When drawing up contracts with Italian companies, it is important to know the specific practices in the field. Contracts are important, but they can also be followed in a much more flexible way than in Finland. (Maaraportti Italia [Country report Italy] 2010, 31.)

Conversation and social interactions are essential parts of the Italian way of life, which means that good interpersonal skills are very useful. (Finpro 2010, 31.) Italians are very polite and formal and use titles and address people formally. Well-groomed representable appearance and a good sense of style are important in Italy. Sports, Italian culture and art, food and wine and especially the food cultures of the different areas are popular topics of discussion in Italy. It is advisable to leave politics, religion and mafia out of the conversation. (Maaraportti Italia [Country report Italy] 2010, 32.)

The results from the interviews show that the interviewees agree that relationship-building plays a major role when doing business in Italy. Italians like to know the people they do business with very well. The Finnish interviewees emphasize that the

business relationships and managing Italian workforce require being present in the country as much as possible.

“The relationship they require for business is a lot more intense, it’s a lot more family orientated. You need to sort of become a part of a good fellow organization there to succeed and to find real customers or even lead your team, lead your local employers or staff you need to be really heavily involved in their daily lives and spend long days and long evenings eating pizza and drinking wine.” (Interview 1)

“You need to be present, you cannot manage Italian company from Finland. You have to be there, like most of the time. Finnish operations run without management for half a year, but Italian operations don’t run without management for two weeks. So that’s something that needs to be understood. I was flying from Eindhoven practically once a week to Italy because it was forty-five minutes flight, so it was convenient to do. So, I spent one day a week in Italy just to look after the business. And that was the only way to get it going up” (Interview 1)

“...the customer relationship in Italy has much higher demands than in Finland. You need to be there, you really need to invest in the people and to the relationships in Italy. If the relationships are good then the business will be good as well.” (Interview 2)

Interviewee 1 thinks that in many aspects it is a similar way of doing business in Italy when compared to Finland. He says that Italians are ready to work with foreigners if the foreigners know how to work with their rules.

“More or less the culture is similar than in Finland when it comes to business and decision making. It’s a lot faster than let’s say in Spain or Portugal. But when an Italian person says “yes” it’s not definite yes. That’s something that Finnish people need to understand and not to react on the first yes, but then you need to close the deal properly and have names on the paper, cause after the first “yes” it might take quite a long time before anything starts to happen, but to get them excited and to get them moving when you know the right moves and tricks, it’s a similar way of doing business” (Interview 1)

The results of the interviews imply that outside the biggest cities in Italy, Italian language is a must for doing business. There are also generational and industrial differences in the use of English language in business contexts.

“Of course, in some industries it is easier, so you just do business in English. Of course, it is also regional division, so if you are doing business with companies in Milan then most likely it’s fine especially with the IT industry or something rather newer. But there is also big amount of smaller companies and in that sense especially if they are not in the main city areas or the management is not a bit young, then Italian is a must definitely.” (Interview 3)

“You cannot even expect them to speak English, if you go anywhere outside Rome or Torino or Milano. In those three major cities they speak English, but in other parts it’s only touristic sector that speaks English. The daily business people don’t and it’s a tough challenge.” (Interview 1)

When discussing what kind of attitude Italians have to Nordic countries and Finnish people, the interviewees agreed that Italians have a lot of trust towards Finnish people, which can be a clear advantage for a Finnish company in the Italian market.

“They like the Nordic simplicity and even when they don’t admit it they like Nordic design in a sense they copy it in many sense, but they won’t say it out loud. So, they know that Scandinavian people and especially Finnish people are trustworthy and they do what they promise and that’s what they like. It’s a straightforward method when you are not too pushy. Like I said don’t try Finnish culture to them but work with Finnish way that you keep what you promise, they like that because they also know that Italians won’t always keep what they promise. So, you can bring a nice sort of an option to the table that ok they can work with Finnish people who deliver what they say that they will deliver.” (Interview 1)

“A lot of trust, respect. They value our education system and honesty, like they know that there is no corruption and they can trust us. So yeah, the starting point is really good, because most of them are fed up with their own corruption and the system that doesn’t work always so well.” (Interview 2)

“To be Italian helps to discuss with Italians, so in that sense like my job is much easier approaching Italian market because I’m Italian so I can talk to people and be Italian, you are talking the same language you don’t need an... but of course the good part about Finland and in general the Nordic countries is that they implicitly mean reliability...so in that sense there are some good things in being from Finland because I often mention myself that we are Finnish company, meaning that we are very serious, we are rival and we do things in a proper way. So, in that sense that can be something that can really help to overcome the fact that you are not being Italian. (Interview 3)

The Italian interviewee who works for a Finnish company thinks there are clear differences in the working culture between Italy and Finland. He thinks that there is higher pressure at many workplaces in Italy.

“In Italy, there is always in a way a higher pressure and people are always squeezed if possible so what’s most important is to show that you are willing to always be into work and little bit in this, you know, Silicon Valley attitude that you always need to show how much work you can do... For example, when I explain to some of my friends that usually in the afternoon most of the offices in Finland are closed after four or something like that, for example I might leave at five and people are, well, it is sort of strange because some of my friends work until nine-ten in the evening and that’s considered fairly normal.” (Interview 3)

Interviewee 3 also thinks that when considering the Italian business culture, it is also important to acknowledge that convincing Italians can be challenging because many of them have very strong ideas and they do not like to admit that they are not always right.

“In Italy, there are always these strong characters and in companies, especially because I said there are many smaller ones, there always seem to be very strong ideas and people tend to see that each one of them is the best at what they do so that’s something that you will always struggle with because in every company you cannot just straight make some sense, you always need to prove yourself very right if you want to achieve something.” (Interview 3)

Interviewee 4 emphasizes that the regional location has a big impact on how strongly the cultural factors show. In general, she thinks that the Italian culture is a welcoming and open one and when it is a matter of business the culture is open-minded.

4.1.4 Technological Environment

In 2016 Italy climbed up 10 places to an overall rank of 45 in Networked Readiness Index, which assesses the factors, policies and institutions that enable a country to fully leverage information and communication technologies (ICTs) for increased competitiveness and well-being. The most significant driver is a large improvement in terms of both economic and social impacts. The Italian government has launched a number of policies aiming at improving the provision of online services to its citizens and creating a better environment for start-ups and innovative companies. The key constraints include the lack of venture capital and the overall political and business environment. (Global Information Technology Report 2016)

Italy is gaining in almost every aspect of the regulatory environment pillar, but it still remains far below the global average. Italy is doing best in individual usage of ICT (37th), followed by business (52nd) and government use (62nd). Only a small portion of Italians are connected to fixed broadband and the gap with other advanced economies has only increased in recent years. The country has an opportunity to close this gap with the private sector currently reorganizing itself and the launch of the 2015 national Digital Agenda, which will unfold in the coming years. (Global Information Technology Report 2016)

Digital uptake in Italy remains well behind other mature markets, mostly because so few clients have money for projects they see as non-essential. Some forms of digitization, especially in the client-facing space, are starting to feel mandatory, which means that work in this area is increasing. However, wide adoption of more sophisticated solutions is likely still a few years away. (The Italy Consulting Market in 2016, 2.)

E-commerce is increasingly popular in Italy, even though there are significant cultural challenges connected to it. Shopping and evening walks in the shopping alleys are part of the Italian way of life, and personal contact is highly appreciated. The most popular online purchases and services include travel services, IT-products, CDs, insurances and banking services. A few large grocery chains offer the possibility to purchase groceries online. (Maaraportti Italia [Country report Italy] 2010, 30.)

According to the experiences of the two Finnish interviewees, some industries in Italy are technologically really advanced while some more traditional industries are less so.

“In certain sectors they are really advanced, they are really far, like Technogym which is a stock market company in Italy, they do fitness and health related productions and they are really really advanced. Then of course the car industry, it’s really advanced. But then there are some industries that are so far behind that it’s not like two hours, it’s five years. So, you need to know, if there is a big driver company like a stock market company...it sort of pulls the whole industry up. But in some traditional industries like wine for example, even though the industry is huge they are technologically quite back compared to other wine production companies or wine production countries, like in Chile or Australia, its’ far more advanced. So, it is industry related how technological they are.” (Interview 1)

“They have the technology, they have the world-wide trends in many sectors like the cars, fashion, it exists but maybe from management consulting that’s still quite traditional. So, I have the feeling in person that the technology could be used better ways in management consulting...but in any way the management consulting in Italy is really hierarchical traditional type of a thing so I think there’s something to do differently but also we think that it is also such a hierarchical system that it’s also more difficult to explain if you want to do something differently. They are a little bit behind what we for example understand in North Europe on this management consulting. We are more flexible, they are more traditional. Same with the technology.” (Interview 2)

“The software and the management tools for hotels or hotel chains aren’t as technical or develop as in here in Nordic countries. But that’s also a traditional

industry that they don't have big companies leading, they don't have big chains with hotel chains they are privately owned, some family owns the hotel and they have no interest in investing the IT or ICT." (Interview 1)

Interviewee 3 thinks it is important to consider that the digital economy and society index which lists the European countries in dimensions like connectivity, human capital, digital skills, use of Internet by citizens, integration of digital technology by businesses and digital public services, places Italy the fourth last among 28 countries, just before Greece, Bulgaria and Romania. He thinks that these kinds of technological limits decrease the interest of foreign companies.

Both Italian interviewees think that the limited broadband connectivity is a factor that stands out in Italy and has influenced the slow development of the digital services that companies offer.

"The technological infrastructure in Italy is less developed than Finland because of a limited broadband connectivity. The Internet is used mainly for social networking, information or on-line purchases." (Interview 4)

"The cable TV is something that has not been in use in Italy and that has worked as an Internet provider to many of the other countries...we just have the normal antenna TV. And that has represented a big problem for the speed which each Internet can be accessed like people all around the country. So that is just an example, but also the use of Internet by citizens is something that in Italy the ecommerce is not as developed as in other countries. And also, the government, the access that we can have to governmental portal is something that is not even comparable with what I have experienced in Finland. And people still like to go physically to the bank, offices or people's offices and of course in business it is different, business people are more used to utilize the Internet but nevertheless many many people are not so eager to utilize these new channels, well not really new, but new for them, something that they don't understand and therefore this puts us a bit behind. One again there are regional differences." (Interview 3)

Interviewee 3 says that companies are starting to understand the importance of digital services and there has been some sensible change in the last few years.

Interviewee 2 emphasizes that Italians are advanced in the use of mobile technology.

The summary of the PEST analysis of the Italian macro business environment is presented in Figure 6.

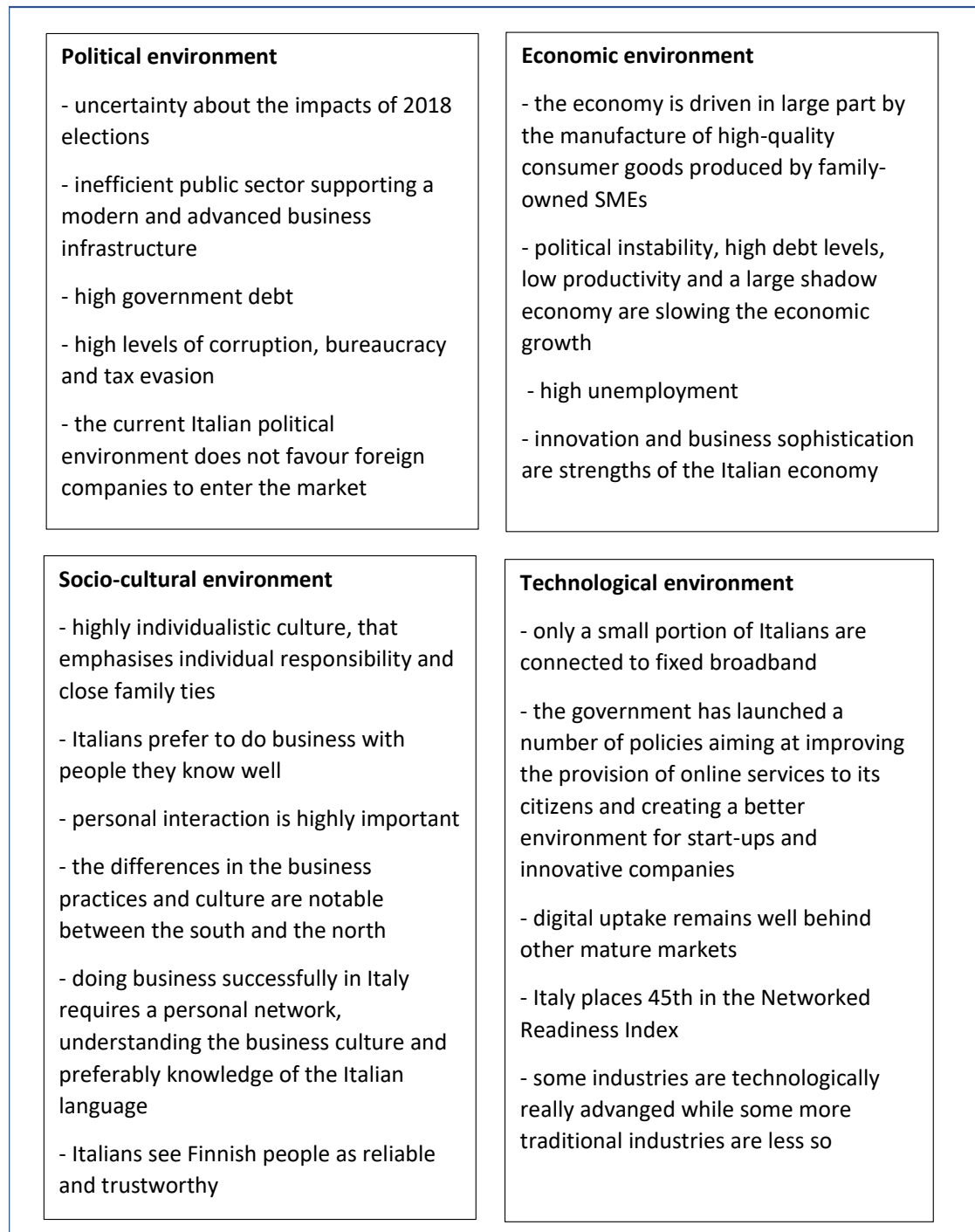


Figure 6. PEST analysis of Italian macro business environment

4.2 Analysis of Italy's management consulting industry based on Porter's Five Forces model

The overall picture of the competitive situation of Italy's management consulting industry based on Porter's Five Forces model is presented in Figure 7.

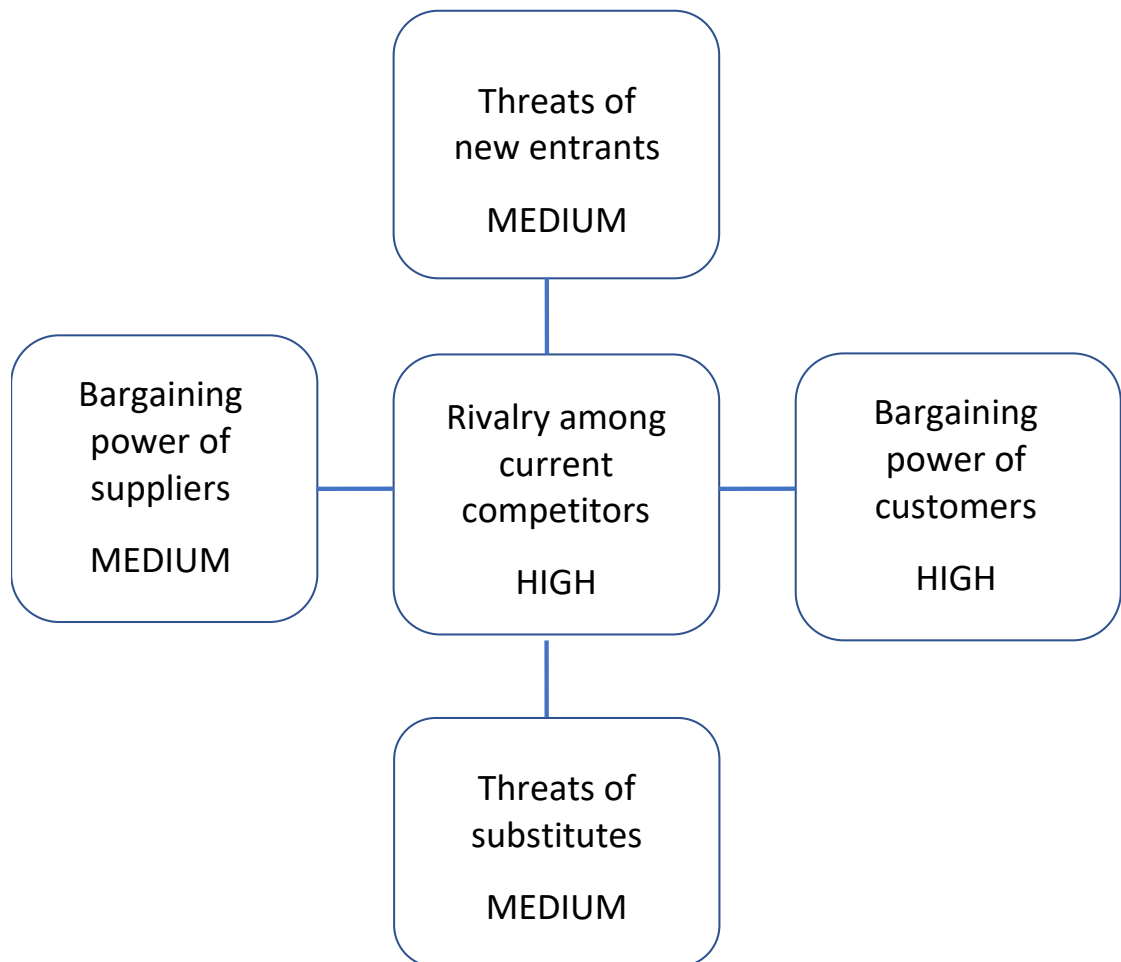


Figure 7. Porter's Five Forces analysis of management consulting industry in Italy

4.2.1 Industry Competitors

The Italian management consulting sector was impacted severely by the financial crisis. In 2015 the sector in Italy consisted approximately of 19,000 firms which

employed 35,500 people. Employment numbers inside the sector are growing. There have been big changes in the structure of the industry. In 2009 35% of the sector's turnovers were produced by the large consulting firms, and in 2015 their impact was almost 50%. 35 large consulting firms, mainly branches of multinational firms including Deloitte, PwC and Accenture, made half of the revenues. Italian companies accounted for 27% of the employees in this sector (more than 9,400) in 2015. They strongly affect the sector's recovery, because in 2014 their growth rate was almost double compared to the market average and their contribution to the employment growth was significant. (Pieraccini 2015)

While the large firms in the consulting sector are strengthening, the medium and small-sized consulting firms still control a quarter of the market. The market share of the micro-enterprises with less than three employees is decreasing and these firms made up for 22 % of turnovers in 2015. (Pieraccini 2015)

In 2015 Italy's consulting market expanded by 1% to reach a total value of €1,152m (The Italy Consulting Market in 2016). Spencer (2008) states that when a market is growing at a slow rate, only a few new customers enter the market each year and the companies need to compete for the existing customers. According to Pieraccini (2015) the president of Assoconsult-Confindustria, Carlo Maria Capé, states that there is room for growth in the Italian management consulting sector, because it accounts for 0.2% of GDP, which is only a fifth compared to Germany.

The results of the interviews show that according to the experiences of the Finnish interviewees, the competition in the management consulting industry in Italy is high. They both emphasize that the companies offering management consulting services have chosen clear focuses on certain sectors because specialization and differentiation are important factors for success. They also think it is important to consider in which of the sectors a Finnish company can be seen as credible in the eyes of the Italians.

"Based on sectors there are really good consulting companies for like I said car industry, there are really good consults for that. And fitness industry, some are experts in wine or distribution. So, all the consults are mainly focusing on certain area like I might guess from you it's a leisure industry and that could be a good place to

position yourself also that you are a foreign company that teaches the leisure industry it might work. But if you are a foreign company that tries to teach the automobile industry, it won't work. Or a Finnish company teaching wine brewers in Italy it won't work. Or a Finnish company teaching Italian design houses how to work, you will get your ass kicked. So, choose a sector and make good references from that sector and it might work." (Interview 1)

"The clearer your focus is, the better chances you have to succeed. You need to really have a clear message and clear focus and then you might be able to differentiate. It's about tailoring your message." (Interview 2)

"In general, if you go to a foreign market you need to have a reason why they would buy from you and not from an Italian company. So, the biggest thing is like why a foreigner why not them? Especially with such a culture that Italy, Spain or UK such cultures that I've been working with, they've been ruling the world in a history at some point. So, their mindset is that they rule the world, they are the best. So that's the mindset that everybody is having and that's the way it is nowadays so you need to really have something unique why they would buy from you and not from an Italian company." (Interview 2)

Interviewees 1, 2 and 3 think that a Finnish background and the Nordic way of thinking, which help building trust, combined with business design services, could work as tools for successful differentiation. However, they all agree that it needs to be considered that in Italy design is something that the Italians think they know best in the world. Therefore, it could be challenging for a foreign company to try to sell business design services for an Italian company. The name of the services should possibly be changed. In the eyes of these three interviewees the content of the business design services could work well in Italy.

"Italian mentality and Italian design and Italian fashion are the top of the notch in their eyes so if you brand services that ok we are doing business designing it's not going to be easy. That's just you might be better at it than the Italians are, but they won't accept it since it is not Italian design. So that is just the wording is challenging that I would rethink a little bit before going to Italy. You can do the service and they will probably buy the service but they will not buy design from anybody else than Italians" (Interview 1)

"I believe there is big room because of the whole country needs some sort of update. I believe there is a need for this kind of business design services." (Interview 3)

4.2.2 Potential Entrants

The barriers to entry in the management consulting industry include the fact that the experience of the established players leads to better contracts, operations and customer relationships. The need for specific expertise is another barrier to entry. The capital costs of setting up a business in the management consulting industry are relatively low as the focus is on services.

The results of the interviews show that the high importance of relationship building in Italy can be seen as one of the barriers for entry as relationship-building takes a lot of time and effort. The Finnish interviewees also emphasize that it is very important to either speak Italian or to have local staff, but it is very challenging to manage Italians from another country.

“You need to speak the language or you need to find a person who speaks that language and your language and is a trustworthy person.” (Interview 1)

“You need to be present, you cannot manage Italian company from Finland.” (Interview 1)

“Probably for Finnish company you need to have also the Italian language skills mostly or Italian representative in your team for you to enter the market. So those are the big ones and if you don’t find the person or organization that you could start collaborating to find the customers, it might be a long path and that might cost a lot of money.” (Interview 2)

“It’s about the people and customer relationships and the customer relationship in Italy is much higher demands like in Finland. You need to be there, you really need to invest in the people and to the relationships in Italy.” (Interview 2)

“In some business field, it is mandatory to have some references and contact or it is almost impossible to enter the market, this applies also for Italian companies. Let’s say that for doing business in Italy personal relationships are the X factors.” (interview 4)

Interviewee 3 emphasizes that one of the barriers for entering the Italian management consulting industry is the fact that understanding the market can take a long time.

“I think the main point would be to understand the Italian mentality in terms of business... I mean I’m in charge of the whole Southern and Eastern Europe market

and it's surprisingly different how even similar countries like Spain and Italy or Italy and Croatia et cetera are rather close but there are so many differences between the basic way of approaching the business, that it takes time to get full understanding of how things work in a country. For Italy, it's also hard." (Interview 3)

None of the interviewees had knowledge about government regulations that could prevent new foreign companies from entering the management consulting industry in Italy. However, Interviewee 1 pointed out that the legal perspectives in business and business logics are different than in Finland, so it is important to study the legal structure related to how companies operate. The company structure and ownership and how these things affect decision-making are based on a different legal structure than in Finland. It is important to study the law before entering the market because it affects how decisions are made and how the bureaucracy works in companies.

4.2.3 Buyers

Price pressure continues to be a significant factor in the Italian management consulting market. The situation is not helped by the fact that many clients are used to paying very little for consulting services. Offering innovative projects is one way to justify higher rates. However, with discretionary funds running low, any service beyond the absolute necessary can be a very hard sell. Consultants are considering how they could adjust and develop their delivery models for the low-price environment. One solution could be a shift to asset-based services. (The Italy Consulting Market in 2016, 2.) As a result of the price pressure, the consulting firms need to find new ways to resist greater erosion of their margins. They are working hard to invent how they can justify a higher rate by differentiating themselves and their service offerings from the competition. (Italian consulting market marginally outperforms GDP 2016, 1.)

According to Porter (2008) one of the reasons why price competition is most liable to occur is that products or services of rivals are nearly identical and there are few switching costs for buyers. This encourages competitors to cut prices to win new customers. (85.) In the management consultant business buyers can switch suppliers easily, which means that they have the power in the relationship.

Based on interviews 1 and 2, the companies that offer management consulting services in Italy have typically chosen a very precise sector that they concentrate on and tailor their message to. This limits the choices of the buyers as there are less companies that offer their services for several sectors and less service providers to choose from inside a specific sector.

4.2.4 Substitutes

In-house business analysts and marketing teams employed by many larger companies and organizations can present a substitution threat to management consultancy companies. Also, the analysis provided by the business intelligence industry present a substitution threat as companies often use these kinds of analysis to steer their decision-making process. (Competitive Landscape of Management Consulting 2007.) As the current situation is that firms are very careful about the amount of money they use for consulting services, it is possible that more and more companies grow their in-house staff and try to handle the work internally. However, using management consulting services offers a much wider perspective for the companies.

"Digitalization has had a major impact on management consulting because a huge amount of information is available for everybody through Internet and different digital services. Digitalization challenges management consulting services because there is so much current information available quickly and in cost-effective way. In my experience companies need consulting services especially for project and strategy implementation. The trend is that development work is done in a bigger group of people than earlier, which means that more in-house stuff is included and there are more joint responsibilities. What was earlier done between the management team and consultants is now done with a bigger group of people and more during the daily operations of the company. The perspectives of consultants are needed, because renewal is difficult without new ideas." (Interview 2)

According to the views of the interviewees, management consulting companies still work in quite traditional ways in Italy, so it is possible that there is room for new ways of thinking that challenge the traditional management consulting services.

4.2.5 Suppliers

The bargaining power of suppliers can mean different things to different industries, but for the management consulting business supply is about talent. Firms compete to attract the best talent and highly qualified and experienced people.

Consulting firms in the Italian market are facing a unique set of talent challenges as a result of the slow growth. There are not many opportunities for advancement, which frustrate the top talent in Italy. The employee turnover increases as consultants seek new opportunities elsewhere. (The Italy Consulting Market in 2016)

Interviewees 1, 2 and 3 agree that the Italian business education system has a major impact on the supply of qualified and talented people for the management consulting industry. Interviewee 3 thinks that the Italian business education system supports well the supply of talented and qualified people for the management consulting industry.

“I believe that these companies should have a supply of talent, but of course to find those ones that are up to the level that is needed there can be some ... to look for the best candidates we have very good private universities in Italy and I believe many of the people coming out from there also are looked for by management consulting firms and we have many many many universities all around and I believe that the best candidates easily end up for example in these management consulting firms. (Interview 3)

Interviewee 3, who has studied both in Finnish and Italian universities, thinks that in Finland in the universities of applied sciences, the students get more chances to do practical assignments with companies. This means that they have better chances to succeed in the management consulting industry right after graduation than Italians who graduate from Italian universities.

“In Finland, especially in the applied sciences universities you actually get a chance to get in touch with the companies or get a chance to work and by the time you finish your studies then in a way you are ready and experienced already to approach the work market. That’s probably the main difference. (Interview 3)

However, according to the experiences of the Finnish interviewee (interview 2) who has worked in the education sector also some of the Italian business schools work closely with big brands.

“They have good business schools and actually how they work...it is really integrated in the global brands. The students can learn with practice with the global, the best companies in the world, so I think that’s really something that we don’t have in Finland either.” (Interview 2)

According to the experiences of Interviewee 1, many talented Italians tend to study abroad and also stay there to work. This tendency limits the supply of talent.

“Of course, there are quite a many really really good universities, but when it comes to the business education the most talented Italians tend to go abroad to study. They study in U.K., U.S., somewhere else than in Italy because they want to understand the global perspective or business structure and when you study abroad you usually want to stay there working.” (Interview 1)

Interviewee 1 thinks that immigrants in Italy might be a good resource pool for finding talented business people.

“You might find really good foreigners or immigrants that have been in Italy for a few years but come from a strong business background, that might be a good resource pool. They are not born Italians and don’t have the network but they might have a really good business education. It’s a country where lots of immigrants go through, some even stay there and they probably don’t have that many good job offerings so looking at the immigrants might be a chance to find really talented business people. (Interview 1)

Interviewee 3 thinks that when trying to attract talented and qualified staff in Italy, Finnish companies might have some advantages that include reliability and flexible organizational culture.

“If you have a little bit of credibility and the clear thing what you want to do, there is nothing quite that they trust you. They want to be in an organization that they can trust and also that might be a little bit not so stiff and old fashioned. They might be willing to work for more flexible organizations like the Finnish smaller companies that they can have a bigger role, independent role. So, I think the organizational culture can be our advantage, I think, when speaking of hiring talented people. (Interview 2)

5 Discussion

The purpose of this research was to analyze the potential of the Italian market for business design services. To succeed in a new market, a company must be able take into account the country's and the industry's specific characteristics, when making business decisions. The analysis of the Italian market focused on the macro environmental and industry levels. The aim was to gain an in-depth understanding of

the management consulting industry in Italy and to provide foreign companies an overview of Italy's current business environment.

PEST analysis and Porter's Five Forces models were used as theoretical framework to answer the following research question and the sub questions:

What is the potential of the Italian market for business design services?

- a. What is the current situation of Italy's macro business environment?
- b. What is the current situation of the management consulting industry in Italy?

The research was conducted as qualitative research. Both secondary research and primary research were used for analyzing the Italian market. The data collection started with searching relevant secondary data. The primary data was collected through semi-structured interviews. The total of four interviews were conducted with experts who are familiar with the Italian market and have experience on entering the market.

5.1 Answers to the Research Questions

The main research question was divided into two sub questions. Answering the two sub questions first helps finding answers to the main research question.

What is the current situation of Italy's macro business environment?

The political environment is affected by the uncertainty about the impacts of the 2018 elections. The factors that have been slowing down the economic growth in Italy include political instability, high levels of debt, low productivity and a large grey economy. Italy has an inefficient public sector, but the business infrastructure is modern and advanced. The high levels of corruption, bureaucracy and tax evasion create challenges for foreign companies who are planning to enter the market. Understanding the Italian market takes time, and doing business in Italy is not straightforward. The results from the interviews show that according to the perceptions and experiences of the interviewees the current political environment is not favorable to foreign companies for entering the market.

It is important to take into account that the economy is largely driven by family businesses that produce high-quality consumer goods. The northern part of Italy is the most developed and the most industrial part of the country, whereas the south is less-developed and agricultural. The unemployment levels are high.

Italy's competitiveness score has improved slowly, and Italy places 44th in the Global Competitiveness index. Italy's weakest areas include the financial and labor markets and institutions. Financial market development is weak in Italy because non-performing loans burden the banking sector and recapitalization is needed for many institutions. The difficulties in the operations of the major banks create challenges for companies operating in the Italian market. Innovation and business sophistication are strengths of the Italian economy.

Italy is behind the largest economies in FDI attractiveness. Inward investments to Italy declined sharply over the economic crisis. However, the situation is improving and FDI is gradually increasing. The slow economic growth might stop foreign companies from approaching Italian companies or encourage foreign companies to buy Italian companies at a low price. The uncertainty about the future means that companies may delay new projects.

The presence of organized crime still creates many difficulties in Italy even though the authorities are committed to fight against it. However, the problems created by organized crime have less impact on foreign companies because most organized crime syndicates do not seek contact with foreign companies.

The service sector is highly significant for Italy's economy. It constitutes about 75% of Italian GDP and employs about 70% of the country's workforce. Tourism is one of the fastest growing and most profitable industries in Italy and comprises the largest part of the service sector.

Italy has a highly individualistic culture, that emphasizes individual responsibility and close family ties. Italians prefer to do business with people they know well and personal interaction is highly important. Doing business successfully in Italy requires a personal network, understanding the business culture and preferably knowledge of the Italian language. A foreigner needs to have contact persons who know the local

practices. Finding the right contacts in Italy typically takes time, but Italians are loyal in their business relationships. The differences in the business practices and culture are notable between the south and the north. Italians tend to think Finnish people are reliable and trustworthy.

The results from the interviews show that the interviewees agree that relationship building plays a major role when doing business in Italy. The Finnish interviewees emphasize that the business relationships and managing the Italian workforce require being present in the country as much as possible.

When considering Italy's technological environment, it is important to take into account that only a small portion of Italians are connected to fixed broadband. Italy places 45th in the Networked Readiness Index, and digital uptake is well behind other mature markets. The government has launched a number of policies aiming at improving the provision of online services to its citizens and creating a better environment for start-ups and innovative companies. Some industries are technologically really advanced while some more traditional industries are less so.

What is the current situation of the management consulting industry in Italy?

The Italian management consulting sector was strongly impacted by the financial crisis. Currently the employment numbers in the field are increasing. The large consulting firms are strengthening and the medium and small-sized firms remain behind them by controlling a quarter of the market. The market share of micro-enterprises employing less than three people is increasingly shrinking.

In 2015 Italy's consulting market expanded by 1% to reach a total value of €1,152m. The competition increases as a result of slow market growth. A smaller number of new customers enters the market each year and therefore firms must compete to win existing customers. When compared with Germany, there is room for growth in Italy for the management consulting business. Management consulting makes up 0.2% of GDP in Italy, which is only a fifth of the amount in Germany.

The barriers to entry in the management consulting industry include the fact that the experience of the established players leads to better contracts, operations and customer relationships. The need for specific expertise is another barrier to entry.

The capital costs of setting up a business in the management consulting industry are relatively low as the focus is on services.

The results of the interviews show that the high importance of relationship-building in Italy can be seen as one of the barriers for entry as relationship-building takes a lot of time and effort. The Finnish interviewees also emphasize that it is very important to either speak Italian or to have local staff, but it is very challenging to manage Italians from another country.

Price pressure has long been a huge factor in the Italian management consulting market and clients have grown accustomed to paying very little for consulting work. Offering innovative projects is one way to justify higher rates. As the discretionary funds are running low in many firms, it can be challenging to sell new services that are not considered absolute necessary. Consulting firms are working hard to invent how to differentiate themselves and their services from the competition in order to get a higher rate. In the management consultant business buyers can switch suppliers easily, which means that they have the power in the relationship.

When considering the range of substitutes available, it is important to consider that at the moment firms are very careful about the amount of money they use for consulting services and therefore it is possible that more and more companies grow their in-house staff and try to handle the work internally. Many companies also use the analysis provided by the business intelligence industry to steer their decision-making process. The results of the interviews showed that most management consulting companies still work in quite traditional ways in Italy, which means that there might be room for new ways of thinking that challenge the traditional management consulting services.

For the management consulting business, supply is about talent. Firms compete to attract the best talent and highly qualified people. The high competition for talent forces companies to foster their employer image and organizational culture. The slow growth in the Italian consulting market creates talent challenges for consulting firms. Without growth, there are less opportunities for advancement, which means that top talent may become frustrated and seek new opportunities elsewhere.

What is the potential of the Italian market for business design services?

The complex macro business environment in Italy is not favorable to foreign companies entering the market. The Italian culture is in many aspects similar to Finnish culture when it comes to business and decision making, which is a good starting point when considering the potential of the market. Digital uptake in Italy is well behind other mature markets and the work involving digitation is increasing. This could be an opportunity also for a Finnish company offering digital service design as part of their service package.

The competition in the management consulting industry and the price pressure inside the industry in Italy are high. The companies offering management consulting services have chosen clear focuses on certain sectors, because specialization and differentiation are important factors for success. It is important to consider in which of the sectors a Finnish company can be seen as credible in the eyes of the Italians. Offering management consulting services for the leisure industry could work for a Finnish company.

Finnish background and the Nordic way of thinking, which help building trust, combined with a business design approach could work as tools for successful differentiation. However, it needs to be considered that in Italy design is something that the Italians think they know best in the world. Therefore, it could be challenging for a foreign company to try to sell business design services to an Italian company. In the eyes of the interviewees the content of the business design services could work well in Italy.

When considering what kind of advantage a Finnish company could have in the Italian management consulting industry, it is important to take into account the possibility of offering a wider and different perspective than what is possible to reach inside companies that only operate in the domestic market. The wider perspective is based on the fact that KIBS companies have a large number of different companies as their clients and they are constantly aware of the latest know-how in their field. When trying to attract talented and qualified staff in Italy, Finnish companies might have some advantages that include reliability and flexible organizational culture.

Offering business design services could be a possibility for challenging the traditional management consulting services in Italy with new ways of thinking. The modern and differentiated services based on design thinking combined with the strengths of the Finnish background could enable the company to have its own place and clientele in Italy's market. However, achieving popularity in Italy requires hard work in the midst of tight competition and complex macro-business environment.

5.2 Comparing the Results with the Literature

The findings of this research are in line with the research of Edvardsson et al. (1993). The results of their research showed that in service internationalization the focus should be in personal investments in people and relationships between people. They also stated that especially in knowledge-intensive companies contact between creative individuals makes up the essential dynamics in the internationalization process. Therefore, it is important to find active and creative individual buyers, because the interaction between them and the entrepreneurs forms businesses. (ibid., 93-94). The importance of relationship-building and finding the right contacts was clearly emphasized in the results of this research.

Edvardsson et al. (1993) also stated that to succeed in the internationalization process in the KIBS sector, it is essential to act creatively and with originality. They argued that long-term success depends a great deal on creative efforts which are aimed at generating new knowledge or new service concepts. (82.) According to their research successful internationalization strategies are created more by active participation and initiative by the company than by passive adaptation to existing growth tendencies and changes in the surrounding world (ibid., 86). The results of this research implied that because many management consulting companies still work in quite traditional ways in Italy, there might be room for new ways of thinking that challenge the traditional management consulting services. The results also showed that, in the midst of tight competition, differentiation is an essential factor for success for management consulting companies entering the Italian market. These results support the views of Edvardsson et al.

5.3 Managerial Implications

When making decisions concerning market entry to Italy, it is important to follow the developments closely, especially in the political and economic situations. This research provides foreign companies an overview of Italy's current macro business environment. However, it is important to keep in mind that the situation changes constantly. The changes concerning the socio-cultural environment often happen over a longer period of time than the changes in the political, economic and technological situations.

The importance of relationship-building is key in the Italian market, and therefore finding the right contacts who understand the local practices and finding active and creative individual buyers, should be a top focus when entering the Italian market. Finding the right persons and managing the Italian workforce require frequent presence in the country.

When entering the highly competed management consulting industry, managers should take into account that differentiation and choosing the right sector are essential factors for success. It is also important to consider that the intangible nature of services creates challenges when trying to differentiate services in different countries and cultures as the fact that services cannot be displayed easily makes communication across borders difficult. Services are highly variable and require customization and therefore the nature of services creates challenges for quality control across borders.

As creativity, innovation and originality are important factors for success in the KIBS sector, companies should not settle for passive adaptation to existing growth tendencies and changes in the surrounding world, but instead be active and take the initiative in international markets. It is also important to keep in mind that Finnish background can be seen as a strength in many cases in the Italian market, which means that it is important to communicate it clearly to potential clients, employees and partners.

5.4 Limitations of the Study

The limitations of this study include that all the interviews were conducted in different ways; face-to-face, on the phone, by Skype and by e-mail. It would have been advisable to conduct all the interviews face to face, because then I would have had access to the interpretations of the interviewees' emotional expressions and body language and maybe could have gotten more information from them. Having a prior connection to the persons interviewed may have the effect that the interviewees give answers that are more positive than what complete strangers might answer. A prior connection to the interviewees can also have some positive effects as it can encourage the interviewees to speak openly and freely as they are more relaxed and trust the interviewer. It also makes the communication easier, because familiarity helps understand what both parties mean with different expressions and terms.

It can be stated that the results of this research answer the research questions. The results are useful for KIBS companies especially in the management consulting industry, who are interested in entering the Italian market. It is probable that other researchers using the same questions would get similar answers, but it should be noted that the situation changes.

5.5 Recommendations for Further Research

Before making decisions about entering a specific market it is advisable to compare the potential of several markets. Therefore, further research could concentrate e.g. on the potential of the Eastern European markets for business design services. In order to understand the competitors in a profound manner, I recommend an in-depth study of the major firms competing in the market in question. It would also be advisable to research what kind of needs the potential customers have, because the ability to solve problems for the service buyers and to satisfy their needs is essential in knowledge-intensive service companies. A clear and deep understanding of the competitors and of the needs of the potential clients enable successful differentiation. Further research that focuses on the success factors for small and

medium-sized KIBS companies which have entered foreign markets, could be beneficial for the field.

References

- Auerbach, C. F., & Silverstein, L. B. 2003. *Qualitative Data: An Introduction to Coding and Analysis*. New York University Press.
- Babatunde, B. O., & Adebisi, A.O. 2012. Strategic Environmental Scanning and Organization Performance in a Competitive Business Environment. *Economic Insights – Trends and Challenges*, 64, 24-34.
- Bradley F. 2005. *International Marketing Strategy*. Fifth edition. England: Pearson Education Limited.
- Cadle, J., Paul, D., & Turner, P. 2010. *Business Analysis Techniques: 72 Essential Tools for Success*. BCS The Chartered Institute for IT.
- Competitive Landscape of Management Consulting*. 2007. Page on The Consultancy group's website. Accessed on 25 July 2017. Retrieved from <http://www.theconsultancygroup.nl/nieuws/competitive-landscape-of-management-consulting>
- Country Risk Report – Italy*. 2016. Pdf document on A.M.Best's website. Accessed on 22 February 2017. Retrieved from <http://www3.ambest.com/ratings/cr/reports/italy.pdf>
- Doing Business in Italy*. 2009. Pdf document on Nyland's website. Accessed on 27 February 2017. Retrieved from http://www.nyland.it/download/Communicaid_BusinessInItaly.pdf
- Global Information Technology Report 2016*. Accessed on 27 February 2017. Retrieved from <http://reports.weforum.org/global-information-technology-report-2016/economies/#economy=ITA>
- Griffin, R. W. 2015. *International business: A managerial perspective*. Eighth edition. Global edition. Harlow: Pearson.
- Edvardsson B, Edvinsson L, Nyström H. 1993. Internationalization in Service Companies. *Service Industries Journal [serial online]*, 1, 80-97. Available from: Business Source Elite, Ipswich, MA. Accessed December 8, 2016.
- Eriksson, P. & Kovalainen, A. 2008: *Qualitative Methods in Business Research*. London: Sage Publications Ltd.
- Hague, P. N., Hague, N., & Morgan, C. 2004. *Market Research in Practice*. London: Kogan Page.

Hertog, P. D. 2000. Knowledge-Intensive Business Services as Co-Producers of Innovation. *International Journal Of Innovation Management*, 4, 491-528.

Hirsjärvi, S. Hurme, H. 2000. *Tutkimushaastattelu. Teemahaastattelun teoria ja käytäntö. [Theory and Practice for Research- and Theme interviews]* Helsinki: Yliopistopaino

Hollensen, S. 2017. *Global Marketing*. Seventh edition. Harlow: Pearson Education Limited

Italian consulting market marginally outperforms GDP. 2016. Press release on Source Global Research's website. Accessed on 28 February 2017. Retrieved from <http://www.sourceglobalresearch.com/sites/default/files/Italy%20PR%20-%20FINAL%20-%20Aug%2016.pdf>

Italy: Economic and Political Overview. 2017. Page on Sud de France Développement website. Accessed on 27 February 2017. Retrieved from <http://www.suddefrance-developpement.com/en/country-profiles/italy/political-outline.html>

Kaartemo, V. (2013) *What is actually "international service" in the research domain of service internationalization?* 12th Vaasa conference on international business, Vaasa, August 21-23.

Maaraportti Italia [Country report Italy]. 2010. Pdf document on Finnpro's webpage. Accessed 22 February 2017. Retrieved from <http://www.finpro.fi/documents/10304/16101/FinproItalycountryreport062011.pdf>

Mason, J. 2002. *Qualitative Researching*. London: Sage Publications Ltd.

May, T. 2001. *Qualitative Research in Action*. London: Sage Publications Ltd.

Nylund, T. 2015. *Finding an Export Market for a Small Finnish Boating Accessories Web-Shop*. Bachelor's thesis. Arcada - Nylands svenska yrkeshögskola, Degree Programme in International Business. Accessed 6 February 2017. Retrieved from <http://www.theseus.fi/bitstream/handle/10024/96349/Bachelors%20Thesis.pdf?sequence=1>

Overseas Business Risk – Italy. 2016. Page on UK Trade & Investment's website. Accessed on 22 February 2017. Retrieved from <https://www.gov.uk/government/publications/overseas-business-risk-italy/overseas-business-risk-italy>

Patala, I. 2008. *Services Going Global – KIBS and Trade*. Project report. Finnpro and Tekes. Accessed on 11 January 2017. Retrieved from https://www.tekes.fi/globalassets/global/ohjelmat-ja-palvelut/paattyneet-ohjelmat/serve/serve_services_going_global_report.pdf

Pieraccini, S. 2015. *For Italy's managerial consulting sector the crisis is over, but its effects linger*. Italy Europe 24. Accessed on 27 February 2017. Retrieved from <http://www.italy24.ilsole24ore.com/art/business-and-economy/2015-10-09/for-the->

[managerial-consulting-sector-the-crisis-is-over-but-its-effects-linger-123954.php?uuid=ACIWICDB](http://www.aciwicdb.com/managerial-consulting-sector-the-crisis-is-over-but-its-effects-linger-123954.php?uuid=ACIWICDB)

Porter, M. E. (2008). The Five Competitive Forces that Shape Strategy. *Harvard Business Review*, 86(1), 78-93.

Rodríguez, A., & Nieto, M. J. (2012). The internationalization of knowledge-intensive business services: the effect of collaboration and the mediating role of innovation. *Service Industries Journal*, 32(7), 1057-1075. doi:10.1080/02642069.2012.662493

Saldaña, J., & Leavy, P. 2011. *Fundamentals of Qualitative Research*. Oxford University Press.

Saunders, M., Lewis, P., & Thornhill, A. 2009. *Research Methods for Business Students*. 5th edition. Pearson Education.

Scott-Kennel, J., & von Batenburg, Z. (2012). The role of knowledge and learning in the internationalisation of professional service firms. *Service Industries Journal*, 32(10), 1667-1690. doi:10.1080/02642069.2012.665897

Spenser, T. 2008. *Porter's Five Forces Analysis*. Page on Tom Spencer's webpage. Accessed on 28 February 2017. Retrieved from <http://www.spencertom.com/2008/08/17/porters-five-forces-model-analysis-framework/#.WLVFF7Q4KGI>

The Global Competitiveness Report 2016 - 2017. PDF document on World Economic Forum's website. Accessed on 22 February 2017. Retrieved from http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

The Italy Consulting Market in 2016. Report on Source Global Research's website. Accessed on 27 February 2017. Retrieved from <http://www.sourceglobalresearch.com/report/download/1297/extract/0/The-Italy-Consulting-Market>

The World Factbook. 2017. Page on Central Intelligence Agency's webpage. Accessed 27 February 2017. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/geos/it.html>

Toivonen, M., Patala, I., Lith, P., Tuominen, T., & Smedlund, A. (2009). *Palvelujen kansainvälistymisen muodot ja polut –Selvitys liike-elämän asiantuntijapalveluiden kansainvälistymisestä ja sen merkityksestä yritysten kasvuille*. (No. 265/2009). Tekesin katsaus. Helsinki: Tekes. Accessed on 28 December 2016. Retrieved from https://www.tekes.fi/globalassets/julkaisut/palvelujen_kansainvalistyminen.pdf

Toivonen M. 2004. *Expertise as Business. Long-Term Development and Future Prospects of Knowledge-Intensive Business Services (KIBS)*. Doctoral dissertation. Helsinki University of Technology. Accessed on 28 December 2016. Retrieved from <http://lib.tkk.fi/Diss/2004/isbn9512273152/isbn9512273152.pdf>

Appendices

Appendix 1. Interview questions and codes

Theme	Code	Question
General	G	What kind of background and experience do you have in doing business in Italy?
Political	P	How do you think the current political environment in Italy might affect foreign companies who are planning to enter the Italian market?
Economic	E	How do you think the current economic environment in Italy might affect foreign companies who are planning to enter the market?
Socio-cultural	S	Which are the most important cultural factors that a foreign company planning to enter the management consulting industry in Italy should consider?
Technological	T	How would you describe the level of advancement in the technological infrastructure in Italy and how do you think it affects management consulting?
Competitors	C	How do you see the level of competition in the management consulting industry in Italy at the moment?
	C	How do you see the potential of the Italian market for business design services?
Entrants	En	Do you know of any government regulations that may prevent new foreign companies from entering the management consulting industry in Italy?
Entrants	En	What do you think are the main challenges for a Finnish company entering the Italian management consulting industry?

Buyers, Competitors, Substitutes	B C Su	Do you think the firms offering management consulting services in the Italian market have been able to differentiate themselves and how?
Suppliers	Sup	How do you see the supply of talent in the Italian market for management consulting? Are there enough qualified and talented people or is the competition fierce between the firms to attract the best talent?