Visits to the Client when Tendering for Consulting Contracts: Sourcing Information or Influencing the Client?

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Abstract

Consulting firms (CFs) sell services on a project basis to many clients and must therefore continuously tender for new contracts. One frequently used strategy by CFs is to visit the clients in connection to the tenders. The reason to the visits is either: 1) to influence the client in his decision-making in some sense; or 2) to source information about the project so that a better proposal can be submitted. Using a unique database on individual proposals, I examine empirically which of these two reasons is the most important. The estimations suggest that influencing the client dominates as explanation to the visits.

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1. Introduction

Consulting implies that independent consulting firms (CFs) sell services on a project basis to many different clients and offer thereby the clients flexibility, the alternative for the client being to employ professionals permanently. As a consequence, the CFs must conti-nuously compete for new contracts - either through tenders in competition or through direct negotiations. A stylized fact in the consulting service sectors is that the CFs use to visit the client in connection to the tenders, that is, before the tender evaluation is completed. In Svensson (1998), it was found that Swedish CFs visited the client in 61% of all tenders when competing for international contracts in primarily developing countries and Eastern Europe, in spite of the long distances and high travel costs.

The economic theory about consulting services states that the CFs will market their experience and previous assignments as well as the experience and competence of their employees as signals of the quality of the services to the clients. Repeat purchases and long-term relationships between CFs and clients will also be frequent (Svensson, 2000). These phenomenons occur because production, sales and consumption of consulting services can neither be separated in time nor in room, which might cause adverse selection problems to arise as the CFs have more information than the clients about the services. Repeat purchases from the same CF will be frequent if the buyer expects that the CF will continue to supply high quality services (Kreps and Wilson, 1982; Milgrom and Roberts, 1986) and it will induce the CF to continue to supply services with high quality if there is a "quality premium" associated with high quality (see, e.g., Klein and Leffler, 1981; Shapiro, 1983). Moreover, most consulting services are jointly produced by the CF and the client, meaning that these agents must be able to cooperate - a factor that likewise is difficult to evaluate *a priori*. Thus, one can expect that repeat purchases are reinforced.

By visiting the client before the proposal is submitted, the CF can try to influence the client in several ways in his decision-making - either develop LTRs with the client, market the experience of the CF, bribe the client, or the costly visits may simply be a signal of high quality of the CF's services (Nelson, 1974). In fact, there are two main reasons why the CF would visit the client in connection to the tender: 1) to influence the client in his or her decision-making. This reason will from now on be referred to as "influencing the client"; or 2) to source information

about the project, client or other factors so that the CF can submit a better proposal, henceforth called "sourcing information".

The purpose with the present study is to analyze which of the reasons influencing the client and sourcing information that dominates when the CFs visit the clients in connection to the tenders. To the best of my knowledge such an issue about consulting services and procurement has not been examined before. In the empirical analysis, I use a database on individual proposals submitted abroad by Swedish CFs. What is unique with this database is that I can distinguish between tenders where the client is allowed to partici-pate in the selection of supplier and tenders where he is not. By testing how the visits affect the probability to win the contracts in these two cases, it is thereby possible to conclude why the CFs visit the clients. If the visits only affect the probability to win the tenders when the client is allowed to participate in the selection, then the visits were undertaken to influence the client. But if the visits has a positive impact on the probability irrespective of whether the client may affect the selection, then the visits were plausible undertaken to source information. The empirical model is taken from Svensson (1998), where the deter-minants of winning contracts in consulting sectors were analyzed. The paper is organized as follows. Facts about tenders, visits, the database and methodology are provided in section 2. In section 3, hypotheses for the explanatory variables are set up. The results are presented in section 4, and the final section concludes.

2. Tenders, visits and methodology

Tenders and visits

Consulting services can be procured either with or without competition. In the latter case, the client / financier invites a CF for direct negotiation. In competition, however, there are three main relevant tender systems: 1) *Open tenders,* where the CFs can decide directly whether to submit a proposal / tender document or not, 2) *Invited tenders*, where some specific CFs are invited to submit a proposal; or 3) *Tenders with application and invitation*, where the CFs first must apply for participation to tender. After that, some of these CFs are invited (short-listed) to submit a proposal. Open tenders occur seldom. The overwhelming majority of tenders belong either to

alternative 2 or 3 and has, thus, several steps. Irrespect-ive of tender system, the invited CF can always choose whether to submit a proposal or not. The proposal that is submitted to the final selection can be regarded as a sealed bid, where the participating CFs know approximately how many competitors there are, but not exactly who they are. They neither know what the competitors have included in their proposals nor what strategies their competitors have undertaken.

In commercial projects, there are only two agents: a CF that supplies services and a client who purchases the services and selects the supplier himself. There are, however, cases when there is a third agent involved who assists the client with the financing of the project, for example, development agencies finance often consulting projects in emerging markets.[1] The client is then sometimes not allowed to participate in the final selection of the CF. This is the case when the financing takes the form of grants or technical assistance. When the client has to borrow or finance some parts of the project himself, he is usually allowed to affect the selection of supplier. By distinguishing between these two cases where the client may, and may not, participate in the final selection, one can set up two mutually exclusive hypotheses and try to determine the reason that dominates when the CFs visit the clients:

Hypothesis A, If the visits are positively related to the probability of winning tenders when the client is allowed to participate in the final selection, and this positive relationship is significantly higher than when the client may not affect the selection, then it is plausible that the CFs pay the visits in order to *influence the client* in his decision-making.

Hypothesis B, If the positive relationship between visits and the probability of winning tenders holds irrespective whether the client is allowed to participate in the tender evaluation or not and there is no significant

[1] The high knowledge intensity of CFs, the direct contact between the CF and the client, and the fact that services seldom can be patented mean that the execution of consulting services should be associated with intensive knowledge transfer. The development agencies have during recent years given a higher priority to knowledge transfer to developing countries with the result that a larger focus has been to finance consulting projects. For CFs originating from developed countries, development agencies finance between 60% and 80% of the projects in these regions (Svensson, 2000).

difference between the two cases, then I believe that the purpose with the visits mainly were to *source information* about the project.

Let's say that the CFs visit the client mainly in order to affect the client. Why would the CFs visit the client at all when the latter agent is not allowed to participate in the selection? One plausible explanation is that the procurement of consulting services in an investment or a restructuring project has often several steps which each involves tendering. In the first steps of the project, preproject identification such as master plans and feasibility studies are undertaken, including technical and economic calculations. These first steps are often financed through grants or technical assistance when development agencies are involved.[2] The client will then not be allowed to affect the selection of CF. When the project is implemented and design, management, supervision, and training services are undertaken, then the development agencies assist with loans and, accordingly, the client may influence the choice of supplier. The visits during the first steps could then be seen as attempts to develop LTRs with the client for future steps when the client is allowed to participate in the selection.

A necessary condition for the visits to have any affect at all on the client in his decision-making is that the specification of the project must not be strictly defined before the participating CFs submit their proposals. Such strict definitions exist seldom in the consulting sectors. The services that the CFs supply are clearly heterogenous, meaning that the CFs have many different technical and managerial solutions which they can suggest in their proposals.

When development agencies are involved, they have often strict rules for procure-ment of consulting services in order to facilitate the selection of supplier (partly due to potential adverse selection problems mentioned in the introduction). In these rules, most weight are given to the experience and competence of the CF's employees and the experience of the whole CF. In Svensson (1998), it was, however, shown that LTRs, in the form of previous contracts between the supplier and client, and visits to the client, have at least as large influence on the outcome of the tender evaluation as these experience and competence factors - also when development

[2] It is then not yet decided whether to implement the investment or not and, accordingly, the client will maybe not receive any incomes to cover these costs.

agencies are involved. The visit in connection to the tender can seldom be observed by the development agency. Even if the development agency's purpose with the assistance and loans are political or economic, it may be desirable for the development agency too that there is a good confidence and communica-tion between the supplier and client. This may be reflected by the fact that the client during recent years has got more to say about the final selection. From the client's point of view, it is desirable that he can trust, and communicate with, the CF in order to be able to receive all kind of knowledge that is supplied by the CF.

Database and methodology

For the empirical analysis, I have a unique database on 458 individual proposals submitted abroad by Swedish CFs during the period from 1995 to 1997. With a proposal is here meant that the CF has submitted an offer to a final selection, that is, applications for participation, invitations or other previous steps of the tender are not available here. Each observation consists of information on whether the CF won or lost the tender and other characteristics, such as the size, sector and type of client and financier, as well as which strategies and competitive factors the CF applied in connection with the tender, e.g., the education level and international experience of the CF's proposed team leader, whether the CF visited the client and whether the CF had previous experience with the client. The 31 firms included in the database are CFs which export engineering and management services in connection to investments and restructuring in the infrastructure sectors. They account for more than 95% of all Swedish consulting exports in the infrastructure sectors.

Considering the sample criteria, only proposals in competition will be included in the sample, that is, negotiated contracts are excluded. If the CF is subconsultant to a contractor or another CF, the latter firms will specify the proposal and undertake the necessary strategies in order to win the contract. Since the competitive factors of the subconsultant are then irrelevant and this firm will be passive, such observations are therefore omitted. These criteria generates a

sample of 316 observations.[3] An essential characteristic of the database is that one can divide the observations into two groups - *group A* with 268 observations where the client may affect the selection and *group B* with 48 observations where the client may not. This makes it possible to test the reason why the CF visits the client. In fact, it is necessary to use a database on *export proposals* to test the hypotheses, because a database on domestic proposals would mean that the client always makes the selection of supplier himself.

The dependent variable, $OUTC_{pijt}$, is the outcome for a proposal in a tender evaluation. It is dichotomous in nature taking the value of 1 if the firm wins the tender, and 0 otherwise, where subscripts refer to project *p*, firm *i*, country *j* and year *t*. Given this feature, a probit model, via non-linear maximum-likelihood procedures, is then an appropriate statistical model to use when estimating the variation in *OUTC*:

$$F^{-1}(P_{pijt}) = Z = \alpha + \beta_0 CLVIS_{pijt} + X_p'\beta_p + X_i'\beta_i + X_j'\beta_j + X_t'\beta_t \ , \qquad [1]$$

$$\text{where} \qquad \beta_0 = \beta_1 + \beta_2 D \ .$$

P_{pijt} is the estimated probability that the firm will win the tender and F^{-1} is the inverse of the cumulative normal distribution function. $\boldsymbol{X}_p$ is a vector of characteristics of the project, $\boldsymbol{X}_i$ is a vector representing strategies and competitive factors of the tendering firm and $\boldsymbol{X}_j$ is a vector of host country characteristics and $\boldsymbol{X}_t$, finally, is a vector of time-specific variables.[4] The $\boldsymbol{\beta}$'s are the corresponding vectors of parameters, which can be interpreted as the impact of various project, firm, host country and time period attributes on the outcome of the tender evaluation.

$CLVIS_{pijt}$ is the main explanatory (dummy) variable taking the value of 1 if the CF visited the client, and 0 otherwise. To test why the CF visits the client, I let the parameter of *CLVIS*, β_0, vary across the two groups of observations. The dummy *D* equals 1 if the client can not affect the

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[3] An objection against the sample could be that the CF has been invited to tender rather than chosen itself to tender. This will, however, not cause sample selection bias or other problems, since an invitation is determined by other factors and takes place in an earlier stage before the tender documents are submitted and evaluated, that is, the decisions about invitation and which CF wins the tender are obviously sequential. Here, I am only interested in the last stage where the client / financier definitely selects a CF. I assume that the CF only submits a proposal if it expects to have a chance to win the tender.

[4] The subscription of the vectors of explanatory variables is made to simplify the denotation. These variables can, for example, be project-, firm- and time-specific, or country- and time-specific.

selection, and 0 otherwise. Thus, β_1 is the parameter for *group A* and $\beta_1+\beta_2$ is the parameter for *group B*. If β_1 turns out to be positive and significant at the same time as β_2 is negative and significant (and maybe $\beta_1+\beta_2$ is insignificant), then this would support Hypothesis A that the purpose with the visits is to influence the client. On the other hand, if β_1 is significant (and positive) and β_2 is close to zero, then the information-sourcing reason would dominate (Hypothesis B). By using a likelihood ratio test, I will examine whether an unrestrictive model (U-model), where β_1 *and* β_2 are allowed to vary freely, fits the data better than a restrictive model (R-model), where $\beta_2 = 0$:

$$2 \times [\log(L)_U - \log(L)_R] \sim \chi^2_k \quad . \qquad \textbf{[2]}$$

$\log(L)_U$ is the likelihood value of the U-model and $\log(L)_R$ is the corresponding value of the R-model. The number of degrees of freedom, *k*, equals the difference in number of parame-ters between the models, that is, 1 here. If the null hypothesis of no significant difference can not be rejected, then the more restricted model can be applied.

3. Explanatory variables

The explanatory variables included in the model are based on Svensson (1998) and can be divided into five groups of factors: 1) LTR factors; 2) Skill and experience factors of the firm; 3) Skill and experience factors of the employed professionals; 4) Local network factors; 5) Competition level and other factors. The expected impact of these explanatory variables on *OUTC* can be seen in Table 1.

LTR factors are represented by *CLVIS*, described in Section 2, and $CLEXP_{pijt}$, measured as a dummy variable taking the value of 1 if the CF has had previous contracts for the client, and 0 otherwise. Since repeat purchases should be common in this sector, CFs which have had previous contracts for a specific client has a comparative advantage - compared to CFs which have not - when this client will purchase services in the future. A positive relationship with *OUTC* is, thus, expected.

Since the demand on consulting services is led by the client, the CF will not try to use

persuasive marketing. The CF will instead market the skill, education and experience of its employees as well as the reputation and previous assignments of the whole firm. As the services can not be evaluated before they have been purchased, these factors are essen-tial signals when the proposals are evaluated by the client / financier. Especially the experi-ence and education of the team leader as well as the composition of the team are important competitive factors that development agencies give high priority to. For the whole firm, experience of the host country and of similar projects abroad should be relevant factors. As the tender systems and rules differ across development agencies, it may also take time to learn these rules. Previous proposals to, and contracts for, a financier should be an indica-tion of the CF's experience and increase the probability to win the tender.[5]

[Table 1 about here]

Two variables measuring the skill and experience of the CF's employees are includ-ed in the estimations: the team leader's education level, $TLED_{pit}$, and international experien-ce, $TLEXP_{pit}$. Both variables are measured in years, where high values are associated with high education and long experience. Regarding the experience of the whole CF, $CFEXP_{pit}$ measures the number of similar project abroad that the CF has implemented during the last 10 years, $HCEXP_{ijt}$ is a dummy variable taking the value of 1 if the CF has previous assignments in the host country and 0 if not, and $FINEXP_{pit}$ is a dummy variable that equals 1 if the CF has had previous assignments for the financier and 0 if not. I expect that all these five variables will exert a positive impact on *OUTC*, although the last three factors related to the whole firm should, as suggested in Svensson (2000), be more relevant for pre-vious steps of the tender (short-listing and invitation) which I do not examine here. I have no measure of the technical and organizational offers included in the proposal. The skill and experience factors described above should, however, be positively related to these factors.

Permanent or representative offices in the host country or contacts with local CFs are

[5] However, I do not expect that this type of experience create networks or LTRs between the CF and the financier, since the CFs are seldom allowed to visit the financier for lobbying during the tender.

two ways to get information about potential projects in the host country. A permanent office in the host country means also that expensive transportation costs for some of the employees are reduced, that is, the price offer can be lowered in the proposal. Both own offices and cooperation with local CFs can be used to develop LTRs and contacts with clients and the name of the local office or local CF can be used to gain access to local decision-makers and clients as well as local financing. Furthermore, knowledge about local conditions are often possessed by local professionals. This motivates contacts and coopera-tion with local CFs. Government authorities in developing countries and development agen-cies often encourage, or sometimes enforce, international CFs to enter partnerships with local CFs when the former firms operate in the host country. The idea is that knowledge will be transferred from international to local CFs which in the long run will decrease the host country's dependence on foreign firms. At the same time, local professional are emplo-yed in connection with the projects. Local professionals are less expensive than those from developed countries. A competitive strategy could then be that the international CF imple-ments the more complex tasks in the project, while less complex or standard tasks could be subcontracted to local firms. However, if the CF is enforced to cooperate with local CFs, then cooperation is not a choice variable of the CF and should therefore not have an effect on the outcome of the tender. If the CF has a local office in the host country, then the dummy variable $LOCOFF_{ijt}$ equals 1, and 0 otherwise. Cooperation with local CFs, $LOCCO_{pijt}$, is measured as the percentage in time that local firms was planned to be awar-ded if the CF wins the tender. A positive impact on $OUTC$ is hypothesized in both cases.

As the type of tender system partly will determine the number of competitors, it is necessary to control for the competition level in the estimations. Since the consulting sector is characterized by scope economies, the larger the value of the project the more CFs will compete, or will be invited to compete, for this tender. Here, I use the value in MSEK of the CF's proposal as an approximation for the project size, $SIZE_{pijt}$. This variable has a range between 0.03 and 129 MSEK and a mean of 7.3 MSEK - a typical skewed distribu-tion with some extreme high values. The competition level is hardly expected to increase linearly with the value of such a skewed variable, but rather in a positive and decreasingly way. Therefore I will also use this

variable in logarithmic form, $size_{pijt}$, in the estimations.[6]

Some development agencies limit competition among the CFs. For example, bilateral grants and loans are almost exclusively purchased from suppliers in the home country. This means that only Swedish CFs are allowed to compete when Sida (Swedish International Development and Cooperation Agency) finances the project. Nordic develop-ment agencies only allow CFs from the Nordic countries to tender, etc. The choice of tender system varies also across financiers.[7] Therefore, I include additive dummy variables for development agencies in order to control for tender systems and limited competition.[8]

I include also other control variables. Networks and cooperation with other CFs are also important in order to get information about potential projects as many different countries must be observed. It is also a way to limit competition and to complement the, often specialized, CF's own skills. However, cooperation could also be an expression of that competition is very hard in the area of the consulting sector and may also be enforced by the financier, e.g., if EU funds are involved. Networks with other CFs, *INTCO*, is here measured as a dummy variable with the value of 1 if cooperation was planned with other international CFs, and 0 otherwise. The impact on *OUTC* is unsettled.

Export of consulting services is characterized by high transportation costs (Sven-sson, 2000). A longer distance between the home and host countries should therefore lower the probability to win a tender. This is, however, a premature conclusion. Only Swedish CFs are allowed to tender when Sida finances the project. Thus, the distance will then have no effect at all. In the case of Nordic development agencies, the competing CFs from the neighboring

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[6] *SIZE* is the only explanatory variable which have such a skewed distribution. Most other variables are dummies or variables taking on a few different discrete values.

[7] Practically, open tender systems are almost only applied in architecture competitions. Competi-tion is then fierce. Invitations are used for most commercial projects and when Sida and sometimes multi-lateral development agencies are financiers. Otherwise, application *and* invitation are praxis when multilateral agencies are involved because of that too many CFs are otherwise interested to many. The two last tender systems cover 99% of all observations in the sample. Note that the financier and client is the same agent in commercial projects.

[8] Seven dummies are included for: Sida, Nordic development agencies, EBRD, EU-funds, World Bank, Regional development banks (AsDB, AfDB, IDB), and other development agencies (UN, bilateral organizations). The reference group is commercially financed projects.

countries have approximately the same distance to the host country as the Swedish CF. This argument holds also when European development agencies are involved, since only European CFs are allowed to compete. Local CFs are only allowed to participate as subcon-tractors to the CFs from the European countries. When non-European and local CFs are allowed to compete, however, as in the case of commercial projects or when the World Bank is involved, distance may have an influence on the outcome. $DIST_j$ is here defined as the distance in kilometers between the capitals in Sweden and the host country.[9]

I do not have any measure of the CF's price offer compared to the other competitors in the database. Practically, the international price level, in fee per hour, is well-known in the consulting sectors, meaning that no large differences in price levels use to occur. If price differences do occur, however, this factor will seldom get a weight more than 20% according to the tender evaluation rules of most development agenices. In addition, the more unstandardized and heterogenous products the less important should prices be as competitive factor. Consulting services are very heterogenous in nature and, thus, prices should be less important compared to other services and goods. It is also examined whether there are any sector-, region- and time-specific factors that influence the outcome of the tender evaluation. This is done by including additive dummy variables for sectors, regions and time periods.[10] An additive dummy is also included showing whether the client is from Sweden or not, and another dummy for whether the client is a contractor or not. Since communication should be important in the consulting sectors,

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[9] Since the employees are transported by air, the distance will be measured as the crow flies. Distance can only be a factor of importance when non-European CFs are allowed to compete. *DIST* is therefore constructed as a combined interaction variable with a dummy that equals 1 if the project is financed by the client himself (commercial) or financed by some of the worldwide multilateral development agencies (e.g., World Bank, AsDB) and 0 if financed by Sida or a European development agency. In this database, I will, however, never know whether the competing CFs originate from the host country or any other country. Another problem is that the transportation costs may be absorbed by other factors in the model. A strategy to decrease the transportation costs could be, for example, to either subcontract tasks to local CFs or to establish permanent offices in the host country.

[10] There are twelve regions in the sample: Western Europe, Central Europe, the Baltic countries, Russia and other former Soviet-countries, North America and other industrialized countries, Latin America, Northern Africa, Southern Africa (Sub-Sahara), the Middle East, the Indian subcontinent, South-East Asia, and Eastern Asia. There are three time periods in the sample: 1995, 1996 and 1997. The sector dummies are assigned on a broad and a fine level. The broad level comprises ten different groups: Transport infrastructure, telecom, energy, hydro power, manufacturing, building, water, environment, natural resource, and other sectors. In the fine level, these sectors are each divided into two or three subsectors which gives 18 groups.

the CF and client must master the same language. I do not expect, however, that this factor will affect the probabi-lity to win a tender *given* that the CF has been invited to tender and has chosen to submit a proposal. If they do not master the same language, it is much more likely that the CF does not submit any proposal at all, alternatively will not be invited by the client / financier, that is, language factors will determine the outcome of previous steps.

4. Empirical results

Four different variants of the model are run to test the sensitivity of the estimations. The variable *SIZE* is used in non-logarithmic (Models I and II) and logarithmic form (Models III and IV) and sector dummies are used on a broad (Models I and III) and fine level (Models II and IV). The parameter estimates and their significance levels are satisfactorily stable across the four variants, as can be seen in Table 2 and in Appendix Table A. As a measure of goodness of fit of the estimations, the number of correctly predicted observa-tions is between 70% and 73%. What is more important, however, is that only 115 of 316 observations take on the value 1 for the dependent variable.[11] The more uneven the distribution of "zeroes" and "ones", the more difficult to correctly predict the small group, that is, "ones" in this case. Between 44% and 52% of the "ones" are correctly predicted, which is satisfactorily high as only 36% of the observations are "ones". Model II has the best performance with respect to both measures of goodness of fit.

[Table 2 about here]

Turning to our main variable, *CLVIS*, the estimates of β_1 are positive as expected and significant at the 1% level across the four runs in the U-model. In other words, the visits to the client are positively related to the probability to win contracts for the *group A* observations when the client may participate in the selection. The estimates of β_2 are also significant at either the 5%

[11] It is more easy for the CF to give information about won than lost tenders. 115 of 316 observations may, in fact, be an over-representation of "ones". However, this bias does not seem to be correlated with any of the explanatory variables included in the model, that is, there is no systematic bias. The bias should therefore not be a problem of great concern for the estimations.

or 10% level, but has a negative sign. This suggests that there is a significant difference between the *A and B groups* of observations. The estimates for *group B*, $\$_1+\$_2$, are in fact negative and insignificant, indicating that the visits have no impact on the probability to win contracts when the financiers are solely responsible for the final selection.

In the R-model where it is assumed that there is no significant difference between the two groups of observations, the estimates of $\$_1$ are positive and significant at the 5% level. When comparing the U- and R-models, it turns out that they have approximately the same percentage of correctly predicted observations. The likelihood ratio test suggests, however, that the U-model is significantly better to predict the variation in *OUTC*. The U-model should, thus, be preferable. Thus, I conclude that the purpose with the visits is mainly to influence the client in his decision-making.

The results for the other explanatory variables are shown in Appendix Table A. The estimated coefficient of *CLEXP* is positive as expected and always significant at the 1% level. This suggests that previous contracts between a supplier and a client are important for the outcome of the tender evaluation and that repeat purchases occur in the consulting sectors. The education and international experience of the CF's teamleader, *TLED* and *TLEXP*, exert also a positive and significant impact on *OUTC* at the 10% and 5% levels, respectively. The three variables measuring the experience of the whole firm fail, however, to show any significant influence on the probability to win tenders.[12] Local offices seems to increase the probability to win tenders, while *LOCCO*, *INTCO* and *DIST* fail to show any significant impact on *OUTC*. In the first case, it may depend on that cooperation with local CFs is enforced by the client or government in the host country or by the development agency. In the second case, cooperation with other CFs may depend on that the firm is very specialized or that the competition is fierce.

5. Concluding remarks

[12] This does not mean that experienced firms will not win more contracts than unexperienced firms. It means that *given* that the firm has been invited to submit a proposal, the experience factors of the whole firm will not have a significant influence on the final selection. But since experienced firms are more often invited to submit proposals, they will win more contracts than unexperienced firms.

In this study, I have analyzed CFs that supply engineering and management services in, primarily, the infrastructure sectors. The specific purpose has been to examine why CFs visit the client in connection to the tender when they compete for new contracts in the international market. Theoretically, there are two main reasons to the visits: 1) To influence the client in some way in his decision-making; or 2) To source information about the project so that the firm can submit a better proposal. When operating abroad, most exports of CFs originating in developed countries are directed to developing countries and Eastern Europe. This means that development agencies often are involved as financiers. In the case of commercial projects and most projects that are financed through loans from development agencies, the client may in some way participate in the final selection of CF. When the external financing take the form of grants or technical assistance, however, these agencies do not use to allow the client to participate in the final selection of supplier. The distin-guishing between these two cases is fundamental for the analysis.

In the empirical analysis, I used a detailed database on individual proposals submitted abroad by Swedish CFs between 1995 and 1997. Here, it is possible to distin-guish between observations where the client has something to say about the final selection of CF and where the client has not. The estimations suggest that the visits have a positive and significant impact on the probability to win tenders only when the client is allowed to affect the final selection and is not significant when the financier selects the supplier. This difference between the two groups of observations is statistically significant, indicating that the main reason to the visits is to influence the client in some way in his decision-making. The fact that the visits to the client have no effect on the probability to win tenders when the financiers are solely responsible for the final selection, does not mean that these visits are vasted. Such visits may, for example, be attempts to develop LTRs with the client for future projects when the client is allowed to affect the selection, though I have not analyzed this issue in the present study.

During recent years, the client has got a larger mandate to select the supplier when development agencies are involved as financiers. Since visits to the client, according to our estimations, are more likely to affect the outcome of the tender evaluation when the client is allowed to participate in the final selection, such visits should be an increasingly impor-tant strategy when competing for new projects in the future. The CFs must, therefore, deve-lop a more selling and marketing attitude and give a larger weight to good communication and social competence of their employees as competitive factors if they continuously want to win

international tenders. The result that the visits are undertaken to influence the client and that communication and social competence are important competitive factors should, however, not only be limited to CFs operating in the infrastructure sectors or in foreign markets. It should also be relevant for other CFs operating in the health, education and IT sectors, etc, as well as for CFs in the domestic market. In principle, the economic theory is the same for all kind of CFs and consulting services. Howver, I have not examined in which way the CFs try to influence the client in his decision-making. This can either be to market the experience of the firm, bribe the client, or develop LTRs with the client and is an issue to be analyzed in future research.

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Appendix

[Table A about here]

Table 1. Basic statistics and hypotheses for the variables

Denotation	Description	Mean	Std.dev.	Expected impact
Dependent variable				
OUTC	Outcome of a tender document (dummy)	0.36	0.48	XXXX
Explanatory variables				
CLVIS	The CF visited the client (dummy)	0.69	0.46	+
CLEXP	The CF's experience of the client (dummy)	0.35	0.48	+
TLED	Team leader's education level (years)	6.23	2.28	+
TLEXP	Team leader's international experience (years)	9.34	5.43	+
CFEXP	The CF's international experience of similar projects (numbers)	10.94	8.62	+
HCEXP	The CF's experience of the host country (dummy)	0.73	0.44	+
FINEXP	The CF's experience of the financier (dummy)	0.64	0.48	+
LOCOFF	The CF has a local office in the host country (dummy)	0.21	0.40	+
LOCCO	Local CFs' planned share in the project (percents)	13.92	18.00	+
SIZE	Size of the project (million SEK)	7.70	13.68	-
size	*SIZE* in logarithmic form	1.15	1.39	-
INTCO	Planned cooperation with other international CFs (dummy)	0.49	0.50	?
DIST	Distance between Sweden and the host country (kilometers)	1803	3557	-

Table 2. Main results of the estimations

Statistical model: Probit model					
Dependent variable = *OUTC*					
Estimated parameters		Model I	Model II	Model III	Model IV
in U-model	β_1	0.550 *** (0.212)	0.597 *** (0.225)	0.594 *** (0.217)	0.635 *** (0.228)
	β_2	-0.781 * (0.410)	-0.870 ** (0.436)	-0.737 * (0.401)	-0.843 ** (0.426)
	$\beta_1+\beta_2$	-0.231 (0.413)	-0.273 (0.442)	-0.143 (0.406)	-0.208 (0.434)
in R-model (β_2=0)	β_1	0.446 ** (0.204)	0.487 ** (0.215)	0.490 ** (0.209)	0.522 ** (0.219)
Likelihood ratio test between U- and R-model		3.83 *	4.26 **	3.56 *	4.18 **
Number of observations of which *OUTC*=1		316 115	316 115	316 115	316 115
U-model: Percentage of correctly predicted observations at critical probability of 0.5.		70.9	71.2	69.9	70.9
Percentage of correctly predicted "ones" (*OUTC*=1) at critical probability of 0.5.		49.6	52.2	44.3	48.7
R-model: Percentage of correctly predicted observations at critical probability of 0.5.		71.5	71.5	69.6	72.8
Percentage of correctly predicted "ones" (*OUTC*=1) at critical probability of 0.5.		47.0	50.4	43.5	49.6

Note: Standard errors in parentheses. ***, ** and * represent significance at the 1%, 5% and 10% level, respectively. Estimations for the other explanatory variables can be found in Appendix Table 3.

Table A. Results for other explanatory variables

Statistical model: Probit model				
Dependent variable = *OUTC*				
Explanatory variables	Model I	Model II	Model III	Model IV
CLEXP	0.588 *** (0.213)	0.609 *** (0.228)	0.555 *** (0.211)	0.589 *** (0.225)
TLED	0.072 * (0.042)	0.071 (0.045)	0.073 * (0.041)	0.073 * (0.044)
TLEXP	0.040 ** (0.018)	0.047 ** (0.020)	0.035 * (0.018)	0.041 ** (0.019)
CFEXP	-0.011 (0.011)	-6.06 E-3 (0.012)	-6.54 E-3 (0.011)	-9.41 E-4 (0.011)
HCEXP	-0.211 (0.229)	-0.236 (0.243)	-0.208 (0.227)	-0.225 (0.240)
FINEXP	-0.375 (0.352)	-0.216 (0.369)	-0.391 (0.349)	-0.232 (0364)
LOCOFF	0.643 *** (0.223)	0.600 ** (0.241)	0.588 *** (0.227)	0.527 ** (0.238)
LOCCO	-1.73 E-3 (5.45 E-3)	-1.75 E-3 (5.83 E-3)	-2.35 E-3 (5.32 E-3)	-2.59 E-3 (5.61 E-3)
SIZE	-0.039 *** (0.013)	-0.045 *** (0.014)	---	---
size	---	---	-0.214 *** (0.074)	-0.228 *** (0.076)
INTCO	-0.089 (0.194)	-0.014 (0.207)	-0.046 (0.195)	0.017 (0.206)
DIST	4.82 E-5 (3.71 E-5)	5.71 E-5 (3.89 E-5)	4.76 E-5 (3.62 E-5)	5.54 E-5 (3.90 E-5)

Note: Standard errors in parentheses. ***, ** and * represent significance at the 1%, 5% and 10% level, respectively. Results for dummies are not shown, but are available from the author on request.