

Trends and tendencies in management consulting in light of local and international development

Ferencné Farkas Dr.

Lecturer , University Pécs, Hungary, e-mail: farkasne@tkk.pte.hu

Andrew C. Gross, Ph.D.

Professor of Marketing and International Business, Cleveland State University, US, e-mail: a.gross@csuohio.edu

Agnes Milovecz

Ph.D. candidate , University Pécs, Hungary, e-mail: milovecza@ajk.pte.hu

Abstract: The field of management consulting is now over 100 years old, but there are definite gaps in information about the size and nature of this field at the national, regional, and global levels. The aim of our contribution is to analyze the major trends in management consulting in Hungary and contrast the findings with those reported by FEACO, the European Federation of Management Consulting. The authors were and are actively involved in assembling data for Hungary, for the EU, and at the global level. We include a brief bird's eye-view on the evolution of this important professional sector.

Keywords: Management Consulting, Europe, Central and Eastern Europe, Hungary

1 A Historical and Global Perspective on Consultancies

1.1 Trends and tendencies

Management consulting practice is centuries old, but the use of consultancies is more recent. Origins of consulting practice can be traced to late the 19th century and early 20th century with the rise of 'advisory practices' by large accounting firms in both the UK and USA. Technical and economic consultants, such as A. D. Little, also made their appearance at this time. The first management consultancies, founded during 1914-1925 by Booz, McKinsey, Kearney, and others in the USA, emphasized the professionalism of the firm rather than each staff member [1] [2]. Then associations were formed in the 1930s; these, in turn, promoted certification of individuals [3]. Growth in this era rested on relationships: recruiting at elite schools, joining social clubs, donating money, and forging bonds with ex-employees or 'alumni' to gain contracts. Major growth and international expansion occurred in the 1950s and 1960s, with many 'old-line' U.S. firms establishing offices in Western Europe. The aggressive capture of private and public clients in the UK by McKinsey & Company was a notable step [4][5][6][7][8]. Bain, BCG, and others followed the move across the Atlantic; but European firms, such as Roland Berger and PA Consulting, have moved overseas too [9][10]. In the past two decades information technology firms such as CSC, EDS, and IBM from the USA as well as Infosys, Tata Consulting, and Wipro from India entered all regions [11]. This is not surprising in an era of online presence and data mining. Marketing strategies must consist of global or regional reach, diverse service offerings, emphasis on technical and operational expertise, and negotiated fees instead of 'billable hours.' Early on, management consultancies emphasized strategy and human resource as functional areas; now operations, information technology, and outsourcing dominate. Key end-users are: manufacturing and natural resource companies; financial and insurance firms; and the public sector.

Currently each accounts for about one-fifth of the total, with global revenues at over 300 billion euros annually [12]. The market in the EU is about 85 million euros [13], though North America is still the dominant region with about 46 percent of global revenues. In the coming decade, Asia-Pacific will be the fastest growing region. Large Western firms operate in 25, 50, or even 75 cities, claiming a global presence; they are fighting for market share, hoping to hold off rivals from emerging nations. This will be difficult as competition becomes more intense and non-Western firms offer talent at far lower salaries.

Like other professional services, consultancies will focus on select regions and long-time clients [14][15][16][17]. Marketing strategy should reflect a new

version of an old adage: “Compete globally --really: regionally-- and act locally.” During World War II, consulting was suspended. When the USSR asserted its dominance of the region in the late 1940s, domestic dictatorships concentrated power in the ministries focusing on production quotas, not on productivity, profits or people. In short, bureaucrats and planners came in, managers and leaders were out. However, by the 1960s, institutes affiliated with ministries became de-facto, in-house consultancies, by paying attention to productivity and profits, especially in agriculture and manufacturing [18][19]. A few select Western consultants were invited in the 1970s, e.g. in restructuring the Taurus Rubber Works and in advising Ikarus in Hungary, a major autobus manufacturer in the region and Podem and Balkancar in Bulgaria. International Labor Organization (ILO), UNIDO, World Bank and other international development agencies have started to provide internships and engagement opportunities to professionals from CEE countries. Later on management training and development institutions have been created upon insistence of ILO and UNIDO in almost all CEE countries [20]. When, in the 1980s, universities began to offer courses in marketing, some of the graduates decided to become entrepreneurs and forged joint ventures with consulting firms from Austria, Germany, and Switzerland.

When the Iron Curtain and the Berlin Wall came tumbling down at the end of the 1980s, the excitement was evident throughout Central Europe. In a few years, euphoria was replaced by reality as individuals and organizations struggled in the new landscape. Privatization came to the fore with varying degrees of success; the invasion by firms in the West was evident. In management consulting, entries came from the big accounting firms (Andersen; PWC; Ernst & Young); old-line, classic partnerships (McKinsey, Bain, BCG, Berger); and even law firms (Baker & McKenzie, Squire Saunders). However, many small domestic consultancies opened their doors, energized by opportunities to cater to both the private sector and public agencies. Most were solo operations or had only 10 to 15 employees during 1990-2000; but in the past ten years, several medium size firms emerged [21][22].

1.2 Methodology

At this section of our paper we turn our focus to analyze the main identifiable trends of management consulting by highlighting the Hungarian specialties of the management consulting industry. We chose to determine European management consulting market as a market involving the following countries: Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Czech Republic, Cyprus, Denmark, United Kingdom, Finland, France, Greece, Netherland, Croatia, Ireland, Poland, Hungary, Germany, Norway, Portugal, Romania, Italy, Switzerland, Spain, Sweden, and Slovenia. At our analysis we mainly relied on the data published annually by the European Federation of Management Consultancies Associations

(FEACO – www.feaco.org). We deflated the data edited by FEACO in the annual surveys on the European management consulting market by the Harmonized Consumer Price Index to get more realistic data. At this point we would like to draw attention to the fact that the secondary data progressed in this article are good identifications of the main tendencies on the European management consulting market, but there are some methodological shortness. One of the basic problems is that the number of countries participating in the annual FEACO surveys is different, but the countries covering almost two-third of the European management consulting market did always give their contribution to the report.

1.2.1 Tendencies in management consulting – Global and European scenes

Kennedy Consulting Research & Advisory analysts project that the global consulting market will rebound in 2011 but will not return to 2008 levels until 2012. The market has irreversibly changed and is highly unlikely to experience the robust, doubly-digit growth in demand it has seen in the past three decades. There are few if any recognized drivers to accelerate demand for consulting services out of the recession. While the client spending will slightly exceed 2008 levels by 2012, what few drivers there are will serve to sustain rather than grow the overall market. [23]

The distribution of total turnover generated by management consulting industry on the global marketplace in 2009. The highest proportion of management consulting revenue is earned in North America that is followed by 39% generated in the EMEA (Europe, Middle-East, and Africa) region. Asia owns 11% of the global management consulting revenues and the rest of 3% are hold by South America. [24]

Figure 1 demonstrates the evolution of the European management consulting market in the 1998-2010 interval. We can identify the dynamics of growth in the timeperiod of 1998-2001, when the total turnover generated on the European management consulting market increased at 192% in 2001 compared to the base year of 1998 (100%). [25] The economic slowdown of the millennium didn't have great impact on the management consulting industry, thus the revenues stagnated in 2001-2004 and it turned to increase in 2005, which year showed 33% growth compared to 2004 that meant a 261% increase in volume compared to the base year. The time period 2005-2008 can be described as period of stable growth on the European management consulting market at 345% increase of revenues in 2008 (compared to 1998). The first signs of the economic downturn in 2009 were identifiable also in the management consulting industry and the European management consulting market realized an almost 1% decrease in total turnover. The prognosis for 2010 refers for a slight increase in revenues of management consulting.

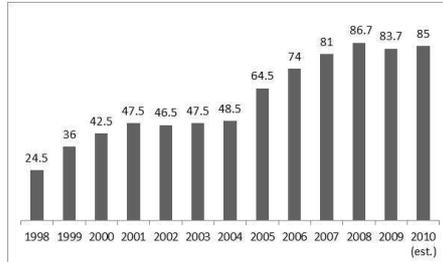


Figure 1

Total turnover of the European management consulting market (billion €)

Figure 2 demonstrates the tendencies of key service lines of management consulting by analyzing 2005-2009. On the European management consulting market the highest proportion of revenues are earned in the field of Business Consulting. By concerning this five year time period we see that the total turnover generated by the Business Consulting market always was between 40-43%. IT Consulting reached 16% of the total turnover on the European management consulting market in 2006, and in the other analyzed years it was around 14%. Development & Integration and Outsourcing have almost with the same weight, generating usually 18-21% of the total turnover of the European MC market. In 2009 19% of the total turnover on the European management consulting market was generated in Outsourcing, 18% in Development and Integration, 14% in IT Consulting and 6% in Other services.

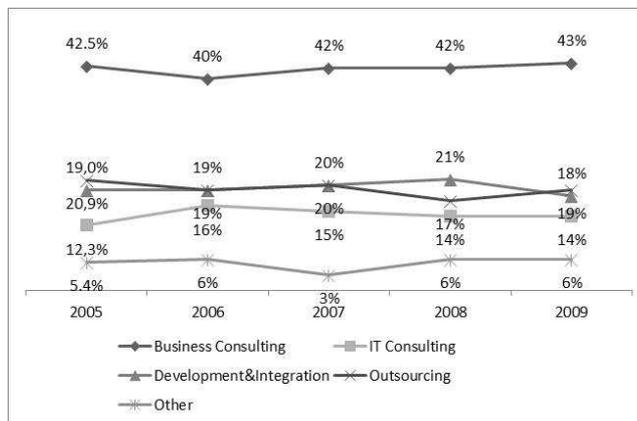


Figure 2

Distribution of the total turnover on the European management consulting market by the key service lines

Figure 3 demonstrates the distribution of Business Consulting in details analyzed by the total turnover generated in the different service lines of Business Consulting. In 2009 the highest proportion of revenues in the field of Business Consulting was earned by Operation/Organization Management. It was followed by 24% of turnover generated in Strategy, 18% in Project Management, 11-11% in Change Management and HR Consulting. Concerning the time period of 2005-2009 Strategy has lost on importance in 2008-2009, when it reached 27-24% of total BC turnover compared to its 30% ratio in 2005-2007. Operation/Organization Management has two picks in demand, one in 2007 with 43% turnover, and the other in 2009 with 37%. The demand on Project Management followed a decreasing trend in 2005-2007, and in 2008-2009 it gained on importance. Clients' demand for Change Management has doubled during the financial crisis. HR management has lost demand, but the decreasing trend was stopped in 2008.

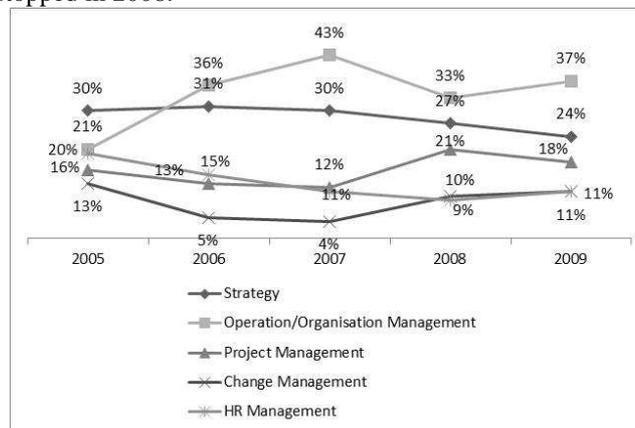


Figure 3

Distribution of the European total turnover in Business Consulting

1.2.2 Tendencies in management consulting - local development - Hungary

The development of the Hungarian management consulting industry followed the closely the same tendencies that characterized the evolution of the European management consulting market. Thus the economic slowdown in 2001-2002 and the current financial crises had deeper effects on the Hungarian management consulting industry [26].

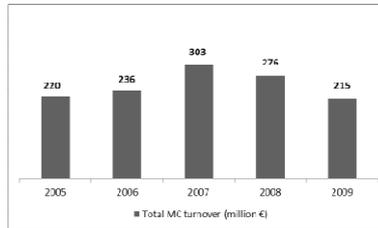


Figure 4

Total turnover of the Hungarian MC market (million €)

By analyzing the changes in the total turnover of the management consulting industry we can identify similar tendencies to the whole European management consulting market, thus a slighter increase in volume can be drawn on the Hungarian MC market (Figure 4). Compared to the base year of 1998 the Hungarian MC revenues had doubled in 2006, reaching 198%. The financial crisis had deep impact on the Hungarian MC market, the revenues decreased by 8.3%, that was followed next year by a 21.7% drop in total turnover.

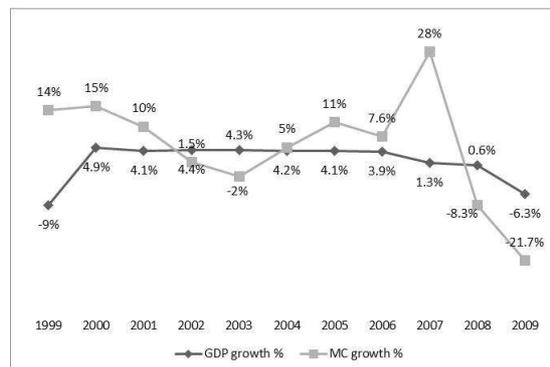


Figure 5

Evolution of the Hungarian GDP and management consulting growth

The Hungarian GDP can be described with a relative stable growth by 4-5% in 2000-2006, while the Hungarian MC market growth overcome the GDP growth in 2001, 2002 and 2005 (Figure 5). 2007 shows an interesting picture, yet the GDP data signal the effects of the financial crisis, the Hungarian management consulting market realized a 23.5% growth in revenues. In 2008 the total turnover generated in the Hungarian management consulting industry decreased and significantly dropped by 21.7% in 2009, thus the fall in the Hungarian GDP was slighter compared to the European average at this period.

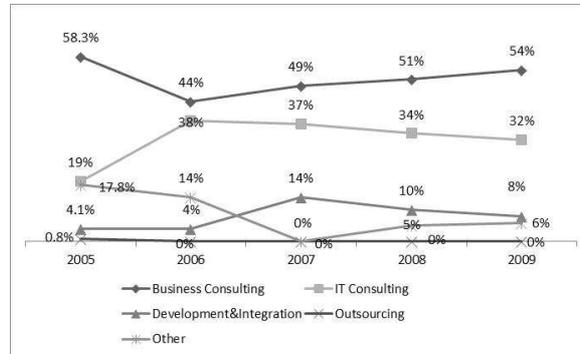


Figure 6

Distribution of the total turnover on the Hungarian management consulting market by the key service lines

By analyzing the 2005-2009 period of the Hungarian management consulting market, we can state that Business Consulting has a determining role concerning the total turnover of the whole Hungarian management consulting industry. In 2009 more than half of the Hungarian MC revenues were earned in the field of Business Consulting. IT Consulting showed a dynamic growth in 2006, when the turnover doubled, and IT Consulting holds the third of the total turnovers on the Hungarian MC market. The Development & Integration service line shows a hectic trend. Outsourcing activities are not characteristic for the Hungarian MC market. Our analysis shows that in case of Hungary it requires a more exploratory research to identify the drivers of change in the different field to Business Consulting. Concerning the FEACO and VTMSZ data Change Management and HR Consulting generates the lowest proportion of BC revenues. In 2007 the ratio of Strategy significantly increased, it was the beginning of the EU strategy planning period. In 2008, 2009 the clients' demand for Operation/Organisation Management did increase, thus the enormous demand growth for Project Management calls for further investigation. [26]

Conclusions

Assessing the nature, the characteristics and the size of management consulting sector at the national, regional or global level is no small task [11] The work should begin at the national level and many European nations have attempted that via "official statistics" from central statistical bureaus or via associations. Then FEACO [13] has undertaken the task of collating the national data and even analyzing the trends across nations and over time with varying degree of success. Finally, various organizations such as Kennedy Information, Datamonitor and Vault in the USA tried their hands at assembling data for the field at the global level. There are many issues in such compilations, too numerous to list here; they range from terminology or definition (e.g. who is a management consultant) to data collection methods, from the important topics of reliability and validity to the

comparability of data across nations. Equally important, there is the paramount issue of defining the field. Indeed the scope of management consulting has been expanded. The early four way division (strategy, operations, HR and IT) has broadened and now the field encompasses new areas such as outsourcing. Furthermore, many older terms, such as strategy and operations, have yielded to new ones, such as business consulting and development & integration. In short, assessing the nature and size of the field is a constant challenge; forecasting its future is fraught with risks. We analyze the evolution of management consulting for the past 20 years both in Europe and in the transitional economies of Central and Eastern Europe (CEE). Our paper relies on major set of multiyear surveys, conducted by the authors' direct involvement in Europe-wide. Special attention is paid to management consulting in Hungary and CEE countries as well.

References

- [1] David, E. J. (2001). The Emergence and Evolution of an 'Expert' Field: Unpublished Ph.D. dissertation. Ithaca, NY: Cornell University.
- [2] McKenna, C. (2006). *The World's Newest Profession: Management Consulting in the Twentieth Century*. Cambridge: Cambridge University Press.
- [3] Higdon, H. (1967). *The Business Healers*, New York: Random House.
- [4] Armbruster, T. (2006). *The Economics and Sociology of Management Consulting*. Cambridge: Cambridge University Press.
- [5] Curnow, B. & Reuvid, J. (2001). *The International Guide to Management Consulting*. London: Kogan Page.
- [6] Kipping, M. and Engwall, L. (2001). *Management Consulting: The Emergence and Dynamics of a Knowledge Industry*. Oxford: Oxford University Press.
- [7] Kubr, M, Ed. (2004) *Management Consulting: A Guide to the Profession*, 4th edition. Geneva: International Labour Organisation.
- [8] O'Mahoney, J. (2010). *Management Consultancy*. Oxford: Oxford University Press.
- [9] Ferguson, M. (2002). *The Rise of Management Consulting in Britain*. Aldershot, UK: Ashgate.
- [10] Thommen, P. & Richter, A. (2004). *Management Consulting Today*. Wiesbaden: Gabler.
- [11] Gross, A. and Poór, J. (2008). "The Global Management Consulting Sector." *Business Economics*, October pp. 69-78.

- [12] Kennedy Information. (annual). The Global Consultant Marketplace, Peterboro, 2009NH: Kennedy Information.
- [13] FEACO (2010). Survey of the European Management Consultancy. Brussels: FEACO.
- [14] Boussebaa, M. (2007). "The Myth of the Global Management Consulting Firm." Proceedings of Fifth International Critical Studies Management Conference.
- [15] Kiechel, W. (2010). Lords of Strategies. Boston: Harvard University Press.
- [16] Lovelock, C. (1999). "Developing Marketing Strategies for Transnational Service Operations." Journal of Services Marketing, 13/4-5, 278-295.
- [17] Rugman, A. & Brain, C. (2003). "Multinationals Are Regional, Not Global." Multinational Business Review, 11/1, 3-12.
- [18] Clark, T. and Fincham, R., eds. (2002). Critical Consulting: New Perspectives in the Management Advice Industry. London: Blackwell.
- [19] Poor, J. & Gross, A. (2003). Management Consultancy in an East European Context. Budapest: KJK Publishing House.
- [20] Kubr, M, Ed. (2004) Management Consulting: A Guide to the Profession, 4th edition. Geneva: International Labour Organisation.
- [21] Janko, A. (2006). Specialities of Management Consulting in Newly Joined and Candidate Countries. 10th Conference of FEACO "New Trends and Tendencies in the Consulting Industry in an Enlarging Europe – Consulting the 21st Century", Budapest: 8-10 November
- [22] Placet, J-L. (2008). Main development in 2007-2008. Competitiveness, innovation, business excellence and consulting in CSE Europe . FEACO-Conference Dubrovnik: 23-24 October.
- [23] Matthews K., Newton M. A., Smiths D.: Global Consulting Marketplace 2009-2012 In: Kennedy Consulting Research & Advisory Research Summary, Peterborough, USA, 2009, pp. 2- 3
- [24] O'Mahoney, J. (2010). Management Consultancy. Oxford: Oxford University Press.
- [25] FEACO (2010). Survey of the European Management Consultancy. Brussels: FEACO.
- [26] Poór, J (2010). Management Consulting Handbook. Budapest: Akadémia Publishing Co.
- [27] McKenna, C. (2006). The World's Newest Profession. Cambridge:Cambridge University Press.