



Munich Personal RePEc Archive

Points of reference in the evolution of the Romanian management consultancy market

Ciumara, Tudor

Carbon Consult SRL

December 2009

Online at <https://mpra.ub.uni-muenchen.de/19389/>

MPRA Paper No. 19389, posted 17 Dec 2009 09:01 UTC

Points of reference in the evolution of the Romanian management consultancy market

Tudor Ciumara
[December 2009]

Romania's management consultancy market developed significantly in recent years. In order to assess this development, it has to be taken into account the fact that there are strong influence factors, of both national and international origin. Romania's accession to the European Union is perhaps one of the most important such factors. The current economic crisis is another important influence on the development of the local management consultancy industry, but its full effect will become more evident in the near future.

Romanian management consultancy market develops in line with the country's economy in general. The years preceding the economic and financial crisis have been very favorable to consultancy, as they have been for the economy, as well. One may naturally wonder what the cause-effect relationship in this equation is: has economic growth led to consultancy development or have the benefits of consultancy led to economic growth? A precise answer is difficult to provide. We believe, however, that both options are valid, each to some extent.

In Romania, the consultancy market does not develop independently, but in close connection with the regional, European and global one. Global market leaves its mark mainly through three major factors: the arrival of global management consultancy companies in Romania, which are important providers of services, especially to the public sector, the dissemination of "consultancy science" knowledge, as well as the appearance of certified management consultants (with internationally recognized certification). The impact of the European market is felt at institutional level, on the one hand, through the affiliation of the main national consultancy association to the European Federation in this field, which places Romanian consultancy in a specific structure. On the other hand, the impact of Romania's accession to the European Union has fundamental effects over the local consultancy. In the end, the regional connections of Romania's consultancy are mainly about a mutual past and represent a starting point for Romanian consultancy and the consultancy in other regional countries. Also, the Balkan region offers the local consultancy market the first opportunities for internationalization.

Management consultancy is a field with a relatively small prevalence in Romania's GDP, but with a special dynamics and an economy related importance that cannot be disregarded. Defined as an activity that aims to optimize organizational resources, improve the efficiency of their processes, training, selection and integration of human and technological resources in accordance with the specific needs of the respective organization, the local management consultancy is still a discrete presence within the pages of studies and research related to various branches of the economy, markets or

professional activities. Consequently we believe it is appropriate to present some points of reference in the evolution of this market. In this respect we use as fundamental source of information the annual studies related to the European management consultancy market prepared by the European Federation of Management Consultancies Associations (FEACO). All the quantitative information presented in this material has been taken from these FEACO studies.

The changes that occurred in the methodology of FEACO studies along the years have at times had a negative influence over the flow of the information presented. Generally, the information collected from these studies originates from FEACO estimations based on querying consultancy companies in the member states, through the national consultancy companies associations.

In order to have a better perspective over the evolution of the Romanian market, we shall also provide data related to other representative countries in the region: Bulgaria, Slovenia and Hungary. Bulgaria has already become a classical comparison partner for Romania, as the two countries have a similar level of economic development. Hungary and Slovenia are Central and Eastern European countries with an economic, social and political history similar to the one of Romania, but which are more economically advanced. We believe it is appropriate to present the four countries together, as thus the common characteristics of Central and Eastern European countries are pointed out, as well as the characteristic specific to each country.

The market of Romanian consultancy services has been and will continue to be significantly influenced by the process of Romania's accession and integration into the European Union. In the 90's the main source of demand for consultancy was in the public sector, mainly related to privatizations and later with regards to strategic planning in order to adjust the legislation to the community acquis.

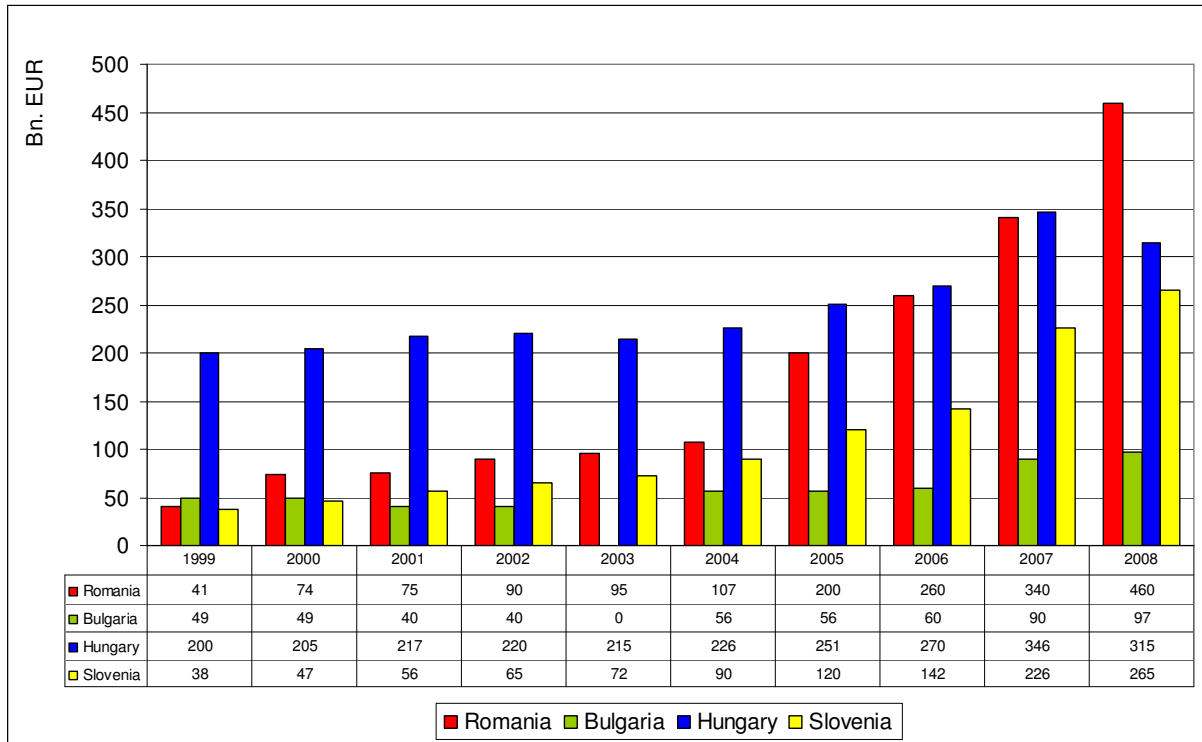
After 2000 an increase in the demand for consultancy services from private clients is noticed, in the same time with a slight decrease in the demand from the public sector. Consequently, the development of the consultancy services market in the analyzed period has been achieved not only by an increase in turnover, but also through structural changes.

In this period of time the maturing of the client-consultant relationship has also been remarkable. Many consultants have gained experience and some clients have learnt more about what they are supposed to request and expect from the consultancy process. These changes led to the emergence of a consultancy culture in the Romanian economic environment. As a result, the process of transferring business practices, ideas and concepts that eventually represent the essence of management consultancy has become smoother. Especially after 2000 international consultancy companies have appeared on the market. More importantly maybe, from a national perspective over the consultancy market, starting in 2005 some local consultancy companies started projects in other countries in the region, as well. This trend has been mostly the result of Romanian companies that extended their business in regional countries and requested consultancy services in this respect.

In the ten year period analyzed below (Fig. 1) the turnover of the Romanian management consultancy industry has increased by over 11 times, from 41 million EUR in 1999 to about 640 million EUR in 2008. It must be noted that a significantly smaller increase was registered at the level of the entire European market over a period of 15 years, between 1994 and 2008. Thus the European consultancy market has increased almost 8 times, from 11 billion EUR in 1994 to 86 billion EUR in 2009. The growth rate of the Romanian market has been clearly superior to the one registered in any of the countries in the region that we have information on. The only country, the evolution of which is comparable from this perspective, is Slovenia, where the consultancy market turnover has grown 7 times in the period between 1999 and 2008. The evolution of the Romanian consultancy market, compared to the Bulgarian one, is spectacular: in 1999 the turnover of the Romanian consultancy market was smaller than the one in the neighbouring country, while 9 years later, in 2008, it was almost 5 times higher. Apart from its own high dynamics that the Romanian consultancy market had in this period, this difference is partially explainable by the rather weak consultancy development in the beginning of the analysed period. Thus in 1999 the consultancy turnover was equivalent to approximately 0.12% of the GDP, while in 2008 this sector's contribution to the GDP

increased to approximately 0.34%. It is significant to notice that the European average of consultancy contribution to the GDP was 0.33% in 1999 and reached 0.65% in 2008.

Fig. 1 – Turnover by country in the management consultancy industry

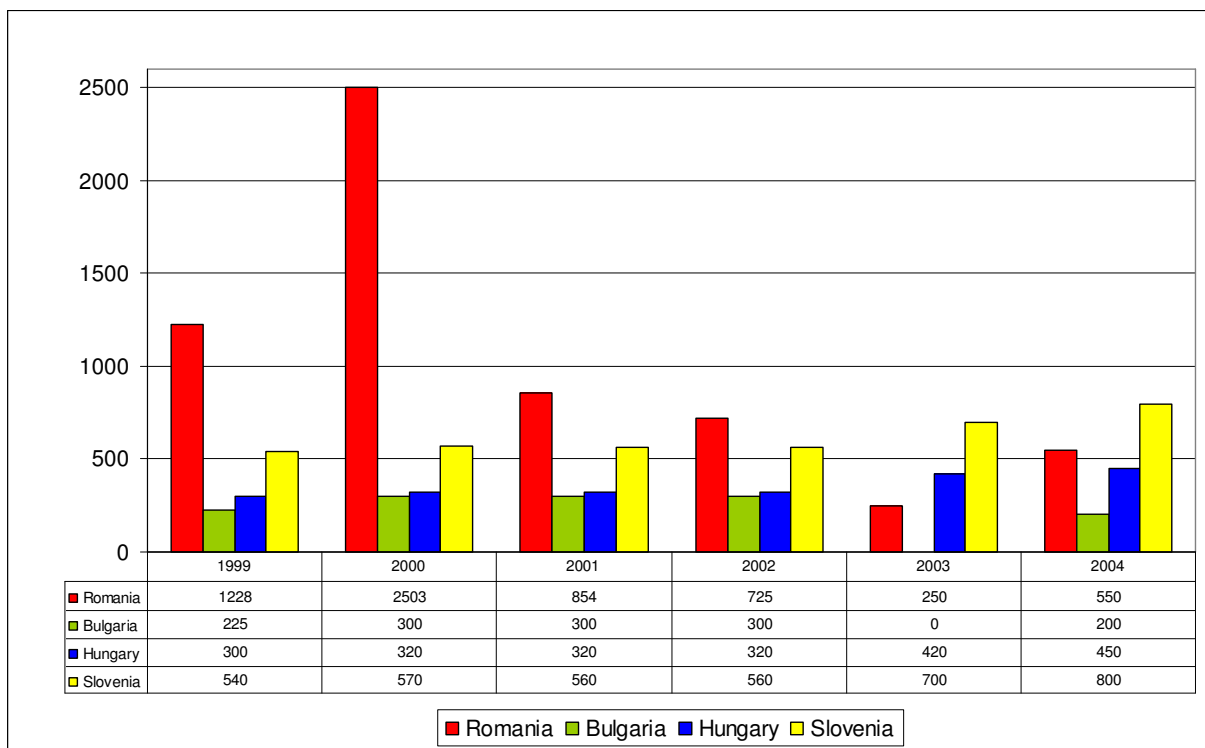


Source of data: (FEACO, 1999-2009)

The total number of companies that have consultancy as their main object of activity has varied a lot in Romania (Fig. 2). This is mainly due to both some specific evolutions in this sector, as well as to some other influences, such as the legislative ones. Unfortunately the data regarding consultancy companies in Romania has only been collected by FEACO until 2004, and as a result we do not have an updated situation. It is remarkable that in the period between 1999-2004 there were more management consultancy companies in Romania than in any other of the analysed countries. Actually, between 1999-2000 there were more consultancy companies in Romania than in all the other 3 countries together. Today, authorized market sources estimate that the actual number of consultancy companies in Romania exceeds 1.000.

The drastic decrease in the number of consultancy companies in 2001 happened when the law 314/2001 came into force, with regards to regulating the situation of some companies (the companies which had not increased their social capital according to the law were dissolved). We believe that the great fluctuation in the number of consultancy companies in Romania in the period between 2002-2003 is likely to be less about some real evolutions and is triggered by the possible discrepancies in the FEACO process of data collection and forecasts.

Fig. 2 – Number of management consultancy companies



Source of data: (FEACO, 1999-2005)

At times, FEACO data shows situations that are somewhat paradoxical. For instance, in the year 2000 the existence of more consultancy companies (2503) than consultants (2.000) is mentioned. This situation occurs while the number of consultants from the previous year stays the same, but the number of consultancy companies doubles (2.503 in 2000, as opposed to 1.228 in 1999). The situation that occurs in some years, when the number of consultants is lower than the number of consultancy companies in

Romania, can be explained by some legislative particularities (not necessarily happy ones). Thus, in a company with a sole associate, where the associate was also the administrator, he could not employ himself. This fact led to the existence of some consultancy companies with one employee who filled a different position than the one of consultant, while the consultancy activity per se was conducted by the sole associate/administrator, who was not employed by the respective company.

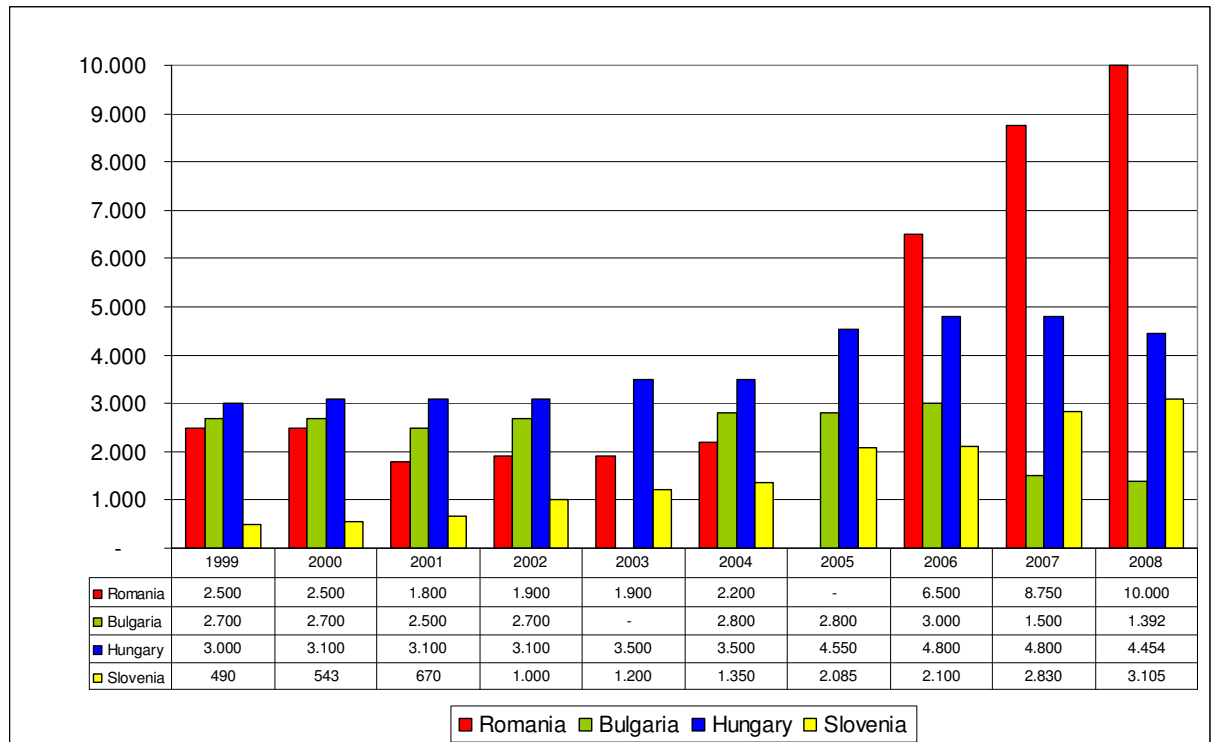
We observe the great increase in the number of consultants in Romania in 2006 and 2007 (Fig.3). This is clearly due to Romania's accession into the EU and the need for consultancy services generated by structural funds. Paradoxically the situation may be the exact opposite in Bulgaria, a country with the same political and economic context, but where the number of consultants decreased by 50% in this period. The effect of increase in the number of consultants around EU accession may also be noticed in countries such as Hungary and Slovenia in 2004 and 2005, therefore we appreciate that the normal evolution is the one that occurred in Romania.

An issue that should raise some questions though is the one related the professional training of the consultants newly appeared in the period 2006-2008 (also keeping in mind that the training of many consultants with more experience in the field can also be questioned sometimes). We do not have data for 2005, but we find, based on the existent information, that in the period 2004-2006, the number of management consultants has almost tripled in Romania, reaching 4.300. The situation seems to be even more spectacular in the period 2004-2008, as the number of consultants grew 4.4 times. In one year only (2006-2007) 2.250 management consultants started to activate. Surely, many of them are "contextual consultants", who emerged as a result of the excessive bureaucracy in the absorption of structural and cohesion funds.

We must emphasize that according to the FEACO data regarding the number of consultants in each country, as it is presented in the below figure, the term "consultant" defines all personnel directly associated with the consultancy activity developed by the companies in the field. Actually, as far as Romania is concerned, the ratio of actual consultants is estimated to be around 80% of the total personnel, which means that only

8.000 of the 10.000 employees of consultancy companies in 2008 are consultants, the rest being administrative personnel. This share of 80% consultants from the total number of employees is also the European average for this indicator.

Fig. 3 – Number of management consultants



Source of data: (FEACO, 1999-2009)

The average income evolution of Romanian consultants appears to be inversely proportionate to the increase in their number. This is especially obvious in the period between 2004 and 2007 when, given the great increase in the number of consultants, their average income decreased by approximately 22% (Fig. 18). We can certainly state that consultancy fees of established consultants did not decrease in this period; on the contrary, market data suggests a substantial increase. The obvious conclusion is that those consultants newly appeared in this period practiced very low fees compared to the ones who already existed on the market, leading to a decrease in the average income. Possible causes for this situation may be both the slightly lower quality of services provided by the new consultants, as well as that they probably provide different types of services, which

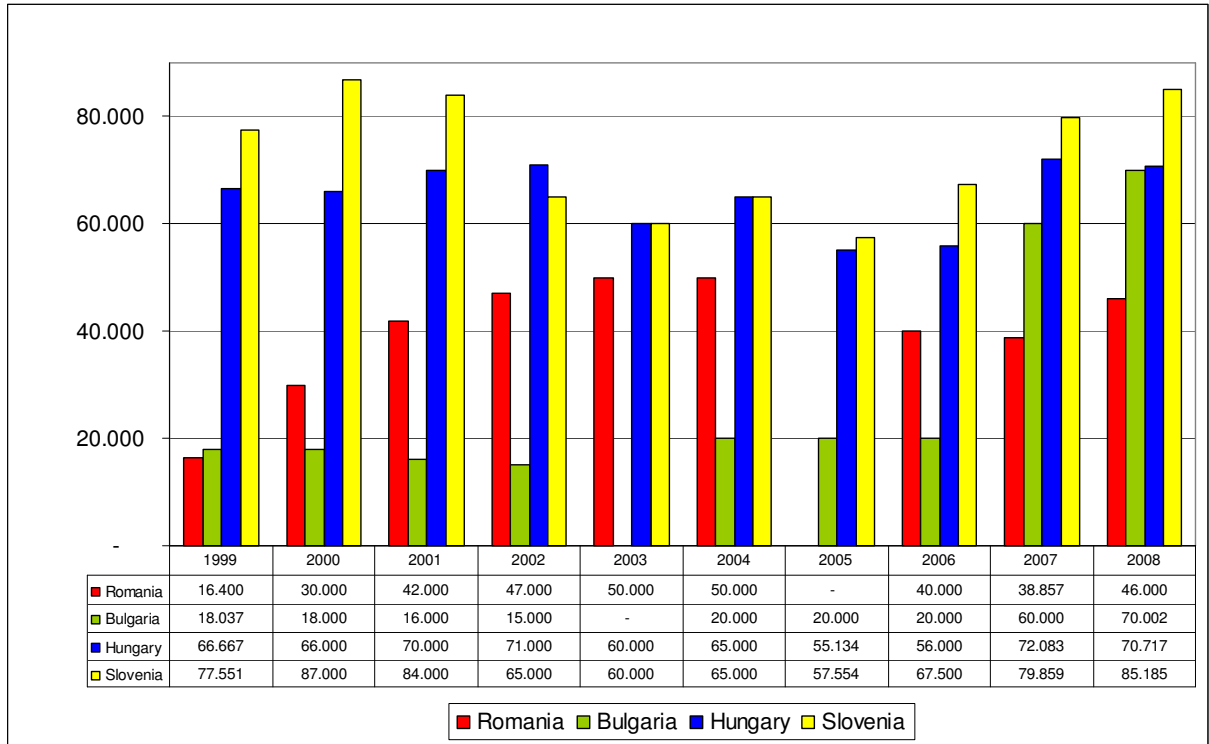
trigger fees or fee structures different from the older consultants. In 2008 an 18% increase in the average income of Romanian consultants was registered, however, but they remain on the last place in Europe, based on this indicator.

We assume that most of the new consultants provide services related to accessing European funds. A very common practice in the consultancy field regarding European funds is the payment by the (potential) beneficiary of a fixed amount in advance and of a success commission after receiving the grants. Most of the times, the success commission represents the larger part of the total consultancy fee. Given that the practical preparation for the projects to obtain financing from structural and cohesion funds started only really in 2007 and the first success commissions could only be paid after the projects were approved, respectively in 2008, we assume that an increase in the income of consultants activating in the field of structural and cohesion funds will only be noticed starting in 2008 and more in 2009. Thus, 2006 was an introductory year in this field, and 2007 only marked the beginning of the actual work, mainly without consultants getting their respective income. It is highly probable that this fact may have contributed to the decrease in the average income of Romanian consultants, in the last years.

Similar situations also occur in Hungary and Slovenia, countries where, after their accession into the European Union in 2004, the number of management consultants grew in the same time with a decrease in their average income. After a 2 year period a significant increase in the consultants' average income, by approximately 20-30%, has also been registered in these countries, while the number of consultants remains the same or even keeps increasing.

A completely different situation seems to occur in Bulgaria, where, while the number of consultants decreased by half in the period 2006-2007, their average income seems to have tripled. Again, Bulgaria appears to have an atypical evolution, different from the other countries in the region.

Fig. 4 – Average income/consultant in a consultancy company (EUR)



Source of data: (FEACO, 1999-2009)

To synthesise the information presented before we notice that in the four countries taken under consideration, the evolution of the management consultancy services market has had both common elements, as well as significant differences within the last years. The market with the most dynamic evolution has definitely been the Romanian one, especially given its obvious initial underdevelopment. At the opposite end, the Hungarian market has had the slowest evolution, without any major fluctuations. In Bulgaria, consultancy has registered changes which occurred in their own rhythm, mostly unlike the experiences in the other analysed countries. Slovenia seems to be the country where consultancy has had the most similar development to the one in Romania.

As far as the Romanian market is concerned, we may state that, given the evolution within the last few years, there seems to be solid support for its further development in the years to come. The existence of demand sources such as structural and cohesion funds will continue to feed this market for the following years. This will allow the consolidation of some consultancy companies and will lead to creating a business

environment that will encourage the development of the consultant-client relationship, and thus of a consultancy culture. However, one must not overlook the effects of the economic crisis, which also reached Romania in 2009. Even though the effects this crisis has over management consultancy are different, FEACO forecast for 2009 indicates a market decrease by 20%, the highest in Europe. Such a decrease might indicate a special vulnerability of Romanian consultancy industry to general economic conditions. This data is pending for confirmation through additional analysis conducted next year.

References

- European Federation of Management Consulting Associations (FEACO), 1999, *Survey of the European Management Consultancy Market 1999*, Brussels.
- European Federation of Management Consulting Associations (FEACO), 2000, *Survey of the European Management Consultancy Market 2000*, Brussels.
- European Federation of Management Consulting Associations (FEACO), 2001, *Survey of the European Management Consultancy Market 2001*, Brussels.
- European Federation of Management Consulting Associations (FEACO), 2002, *Survey of the European Management Consultancy Market 2002*, Brussels.
- European Federation of Management Consultancies Associations (FEACO), 2003, *Survey of the European Management Consultancy Market 2003*, Brussels.
- European Federation of Management Consultancies Associations (FEACO), 2004, *Survey of the European Management Consultancy Market 2004*, Brussels.
- European Federation of Management Consultancies Associations (FEACO), 2006, *2005-2006 Survey of the European Management Consultancy Market*, Brussels.
- European Federation of Management Consultancies Associations, (FEACO), 2007, *2006-2007 Survey of the European Management Consultancy Market*, Brussels.
- European Federation of Management Consultancies Associations, (FEACO), 2008, *2007-2008 Survey of the European Management Consultancy Market*, Brussels.
- European Federation of Management Consultancies Associations, (FEACO), 2009, *2008-2009 Survey of the European Management Consultancy Market*, Brussels.

For any comments or suggestions please contact me at tudor@ciumara.ro.