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Integration model of development of the European management consulting market

INTRODUCTION

Management consulting services are an integral part of the global economy's infrastructure, which acts on a professional basis. Research of the trends on the European consulting market have significant importance for the economy, as on the basis of the structural and dynamic change-analysis in this area it is possible to draw the conclusions on the state and the development of the economy as a whole, as well as on the interdependence of the consulting market and the GDP of European countries. Demand for the certain consulting services reflects indirectly the level of the management of the individual economic actors, and the efficiency of the socio-economic structure of the country. Asymmetry on the European consulting market makes it possible to describe the key economic development trends of the selected countries in Europe. Comparison of country's level of the demand for some certain types of consulting services in developed countries in Europe helps to identify the key priorities in the institutional environment of the countries.

According to expert research, the main trends in the consulting industry directly depend on the development dynamics of material and non-material production as well as on the socio-economic inequalities in different countries and regions [Verba, 2011]. Therefore, an important task for today is the research and the analysis of the main determinants defining features of the European consulting market and the major factors and forces affecting its integration and transformation.

Despite the growing interest in the theoretical and practical aspects of the management consulting theory by scientists, the question of methods of quantitative measurement of the dimensional characters of the European and global management consulting market is still unplumbed in the studies of the domestic

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and foreign scholars, the principles and mechanisms of its implementation in enterprises are not analyzed well enough if we are taking into account the globalization and the integration in the world markets. Almost unexamined in the economic literature remains the question of the consulting services impact on the macroeconomic performance of the European countries. Especially relevant becomes the problem of the institutionalization in the global consulting environment.

DYNAMIC PERFORMANCE ON THE EUROPEAN CONSULTING MARKET

Considering the global nature of advisory services at its current stage, the consulting market members can't act in isolation, independent from the other key players on the market. One of the key features of the consulting market transformation is its tendency to integration. Finding an appropriate model of European consulting market will promote the development of the economy as a whole, these are the primary goals of integration processes on the global consulting market.

With the emergence of the global consulting services market and intensification of the significant information asymmetry in the consulting industry arises an objective need for the institutions, which will organize, regulate and facilitate the effectiveness of many international consulting firms. The main objective of the professional associations and consulting institutes is to guarantee the high quality of consulting services and the professional skills of its members. Among the leading international professional consulting associations are the Association of Management Consulting Firms (AMCF), European Federation of Management Consultancies Associations (FEACO) and the International Council of Management Consulting Institutes (ICMCI).

According to the FEACO annual survey, the European consultancy market had a strong positive trend and increased significantly in 2011 compared to 1997 by 333%, or more than 4 times. Compared to 2010, the consulting market in 2011 increased by 6.2 billion euro, or by 6.6% and reached 92.4 billion (Table 1, Figure 1).

**Table 1. Key Figures of the European consulting market development
2008–2011**

	2008	2009	2010	2011
Market size	€86,7bl	€83,7bl	€86,2bl	€92,4bl
Growth rate	+8,2 %	-5,0 %	+2,9 %	+6,6%
Total stuff (thousand people)	557	574	659	517
Consulting stuff growth rate	+5,8%	+3,1%	+14,8%	-27%
Total income per one consultant (thousand euro)	€155,7	€145,8	€130,8	€178

Source: Calculated by author according to FEACO data.

At the various stages of the European consulting market development there is a very clear trend for changes in the structure of some of its types and the growth rates. In 1994–1999 there was an intensive growth of the consulting services in Europe by an average of 23% annually [Gusev, 2005, p.20]. Rapidly consulting market was growing in the period 1997–2001, the average annual consulting companies income growth in this period amounted to 11–18%. After 2002 the growth rate fell sharply as a result of economic recession in many European countries and only in 2003 the consulting services market reached the level of 2001.

The period 2005–2008 was marked by a sharp increase in the consulting market. During this period, the size of the market almost doubled reaching 86.7 billion euro and increased in comparison with 2004 by 38.2 billion euro or 79%. According to expert estimates, the expected growth of the management consultancy sector is going to be nearly 6% in 2012 and the quantitative amount of it will be on level of 97.7 billion euro in 2012[MCA, (<http://www.mca.org.uk>)] (Fig.1).

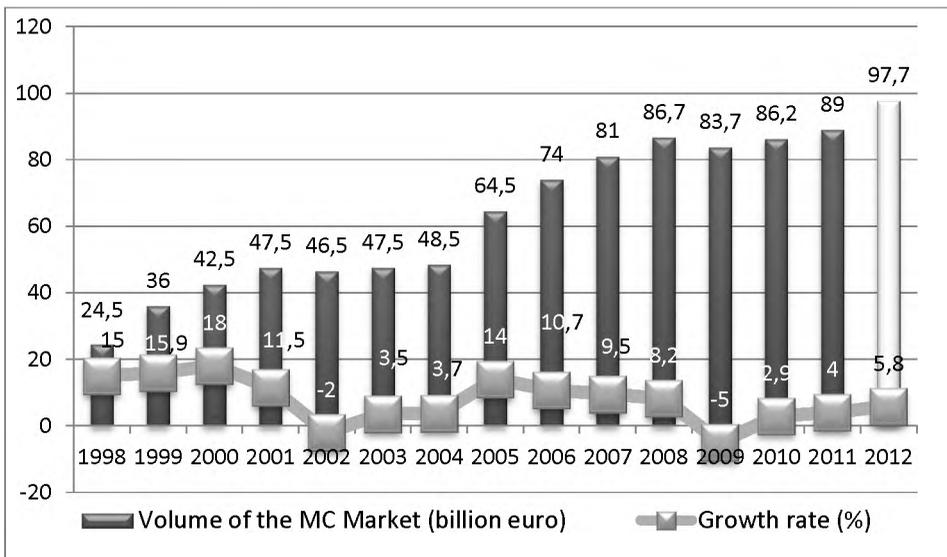


Figure 1. Size of the European MC Market, 1998–2011, 2012 – estimate

Source: FEACO, Survey of the European Management Consultancy 2011/2012.

Stable optimistic tendency about the evolution of the European consulting market is illustrated in the Figure 1. Until 2004, changes in the management consulting market sizes and turnover can be described as a slow but stable growth. In 2005, revenues increased significantly, illustrating jumpy upward

trend that lasted until 2008, when the market growth rate reached 307% compared to the base year 1997. After several years of a rapid growth, the industry experienced a small decline connected with a crisis in 2009 (-5%), which was only temporary as in 2010 management consulting market volume reached pre-crisis levels of the 2008 (Table 1).

The total number of employees in consulting in 2010 surpassed the number in 2009 by 85 thousand people or by 14.8% and reached 659 thousand people. In 2011 the number of consulting business employees significantly decreased in comparison with 2010 by 142 thousand or 27% compared to 2010 due to a strong decrease in numbers of employees the revenues per one employed in recent years significantly increased. So in 2008 this average figure in Europe was 155.7 thousand euro, in 2009 –145.8 thousand euro, in 2010 – 130,8 thousand euro and in 2011 – 178 thousand euro (Table 1). Significant increase in revenue per consultant took place in countries such as the UK, Germany, Switzerland, Norway (Figure 2).

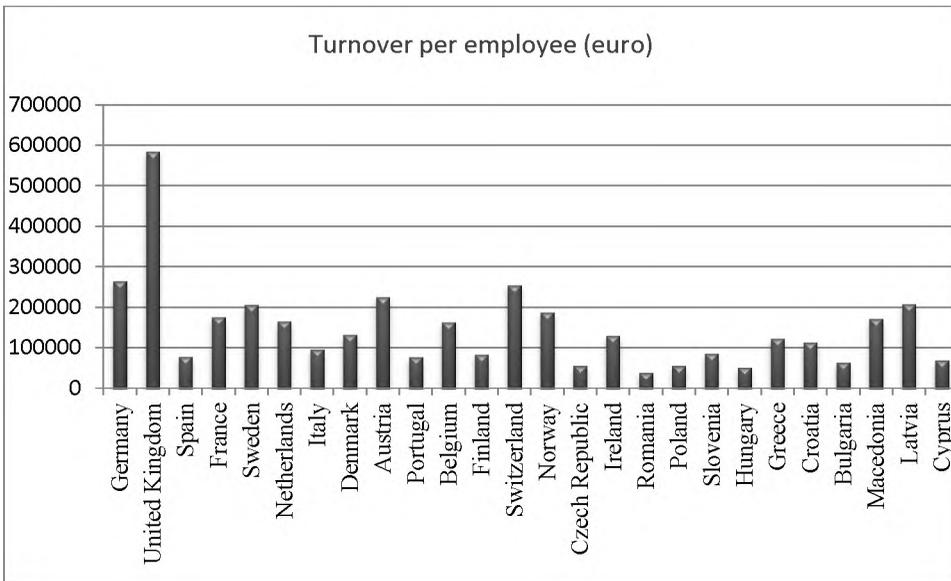


Figure 2. Turnover per employee, 2011

Source: Composed by author according to FEACO data.

Summarized data of the European consulting companies in the period 2008–2011 from different countries and regions in Europe is shown in the figure 3. A significant part of the total industry turnover in Europe falls into the following key areas as business and IT consulting.

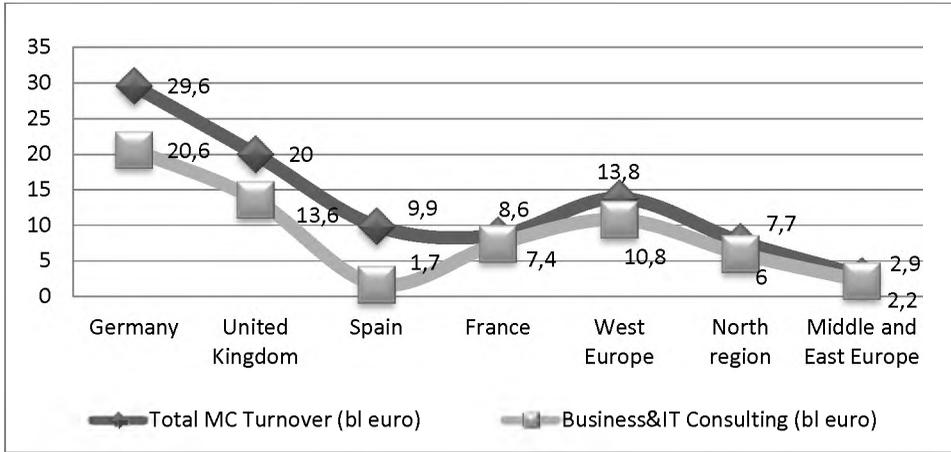


Figure 3. Turnover volume of the MC Market in selected countries and regions, 2011

Source: Composed by author according to FEACO data.

According to the statistical data no significant changes in the consulting market occurred in 2011, compared to the previous years. Germany is still the largest producer of consulting services in the European market with a total turnover of 29.6 billion euro in 2011 (representing 33% of the European market), followed by the UK with 20 billion euro (22%), Spain (12%) and France (10%). With regard to a regional distribution, the first place belongs to Western Europe, followed by the North Region and Central and then by Eastern Europe. Consulting market share in individual countries is shown in the Figure 4.

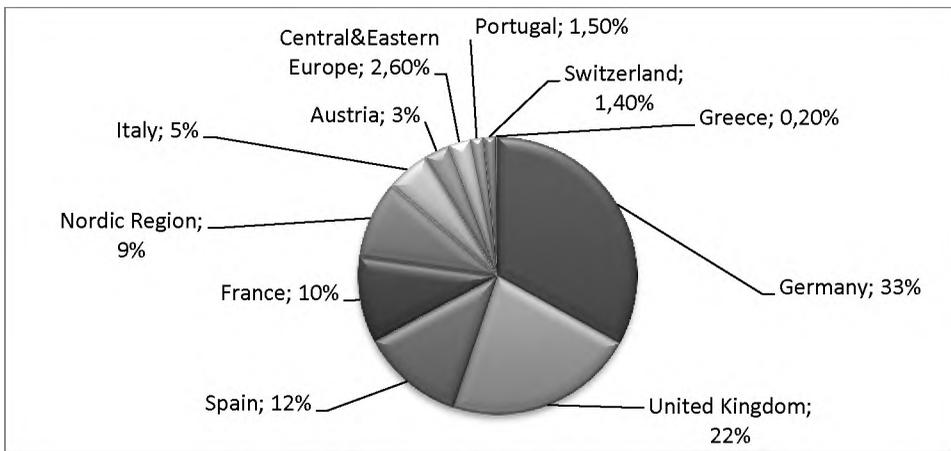


Figure 4. Size of the European MC Market by country and region, 2011

Source: Composed by author according to FEACO data.

By the structuring the advisory services in the selected countries there is a high concentration of consulting business in the European market – more than 76% of the market cover only 4 countries (Germany, UK, Spain, France).

Depending on the each national market characteristics, variation and type of consulting services differ in the content and level of quality. It is difficult to set some clear sectoral scopes of the consulting activities because they differ in different countries in both types and classification.

The structure of revenues by key sectors of the European management consulting markets is shown in the Table 2.

Table 2. The structure of the European consulting services market by key segments in 2008–2011

Segment	2008		2009		2010		2011	
	bl euro	%	bl euro	%	bl euro	%	bl euro	%
Business consulting	36 414,00	42	35 991,00	43	43 100,00	50	48 048,0	52
IT-consulting	12 138,00	14	11 718,00	14	12 930,00	15	17 556,0	19
Development& Integration	18 207,00	21	15 066,00	18	16 378,00	19	9240,0	10
Outsourcing	14 739,00	17	15 903,00	19	10 344,00	12	8316,0	9
Other services	5 202,00	6	5 022,00	6	3 448,00	4	9240,0	10
Total	86 700,0	100	83 700,0	100	86200,0	100	92 400,0	100

Source: Composed by author according to FEACO data.

Over the period the ‘Business Consulting’ sector was consistently leading in the consulting market structure and significantly strengthened its position compared to others: in 2010 it was already 50% of the market and continues to grow by 2% points and now stands at 52% of the MC market in 2011. Another great structural change took place in 2010: the ‘Development&Integration’ sector (19%) got ahead of the ‘IT consulting’ (15%), but in 2011 the situation changed completely: the ‘Development&Integration’ has fallen by 10%, and the ‘IT-consulting’ has grown up to 19%. ‘Outsourcing’ revenues declined by 3%, the share of other services now is 10% (Figure 5). The Figure 5 shows the changes in the MC market segmentation in the period 2008–2011.

The ‘Outsourcing’ sector in the period declined its revenues with 9% from total revenues in 2011 which is 8 percentage points lower than in 2008. The ‘Development and integration’ sector has relatively weakened its position in the market, its share compared to 2008 decreased by 11 percentage points and amounted to 10% in 2011.

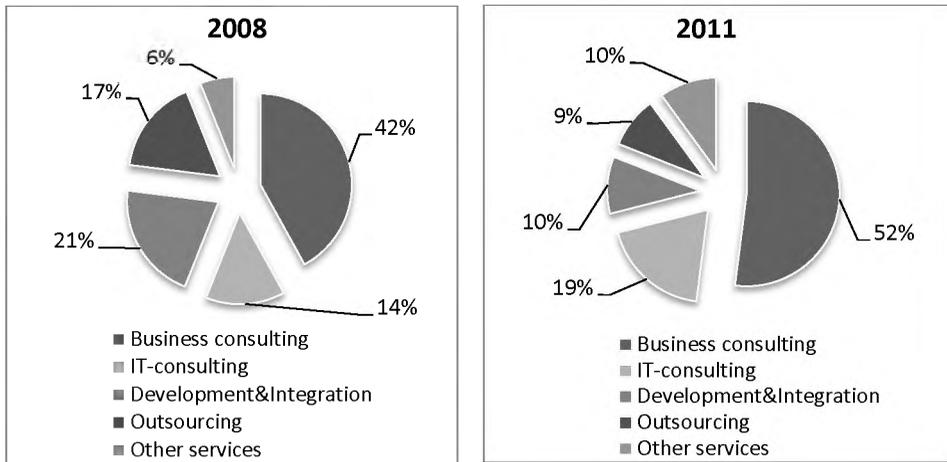


Figure 5. Structure of the MC Market by service lines in 2008, 2011

Source: Composed by author according to FEACO data.

Analysis of the consulting trends in Europe has practical significance for managers. It is clear that the demand for certain services indirectly reflects the level of administrative culture of the country or region. As it is shown in the table 3. The IT-consulting in Europe is declining rapidly: from 40.2% in 2000 it declined to 15% in 2010, however in Ukraine and other CIS countries this consulting segment traditionally occupies almost a half of the market [*European Bank...*, (<http://astarta-tanit.com.ua>)].

The reasons for decline in demand for IT consulting is that many companies are in the state were qualified IT-professionals who have undertaken to resolve issues related to information technologies implementation on their own. However, companies growth force them to implement more complex software systems to be seamlessly integrated into existing solutions. Comparison of European consulting market and the global consulting market shows that in the global environment by information services still dominate (45% of total market volume management consulting) [Kennedy..., (<http://www.kennedyinfo.com>)].

Table 3. Dynamics and structure of the consulting market in 2000–2011, in %

Service lines	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Business consulting	38,8	41,9	41,1	39,3	36,4	42,5	39,1	42	42	43	50	52
IT-consulting	40,2	33,2	28,5	28,1	25,8	12,3	17	15	14	14	15	19
Development&Integration	5,6	4,5	10,7	10,2	19	19	19	20	21	18	19	10
Outsourcing	7,4	12,4	12,7	17,4	19	20,9	19	20	17	19	12	9
Other services	8	8	7	5	4	7,3	5,9	3	6	6	4	10

Source: KennedyConsultingResearch&Advisory.

According to the dynamics, Business consulting has significantly strengthened its position in the European market with 28.8% in 2000 increased to 52% in 2011. It includes such services as strategic management, operations management, project management and change management. In turn, operations and organization management includes such consulting areas as reengineering of business processes, cost management, financial management and procurement and supplies management. Thus there is a clear trend towards increasing customer interest to project management and customer relationship management, human resources management. Also, there has been increasing demand for these types of consulting as evaluation and quality control staff.

Analysis of the consulting services structure in selected European countries in 2011 illustrates that the business consultancy in the most countries surveyed more than 50% of the consulting market (Table 3). For example, in France the share of this consulting service line in 2011 was 78.2%, in Greece – 78.5%. The structure of the consulting market differs in Spain, where the share of business consulting services accounted only 6%. This configuration of the consulting market reflects the level of economic development as their European and global integration, culture and multiplicity of the management technologies.

MANAGEMENT CONSULTING AS A SHARE OF GDP

An important indicator of the consulting business is its share in the gross domestic product, the dynamics of which in 1998–2011 for the EU countries is illustrated in the Figure 6.

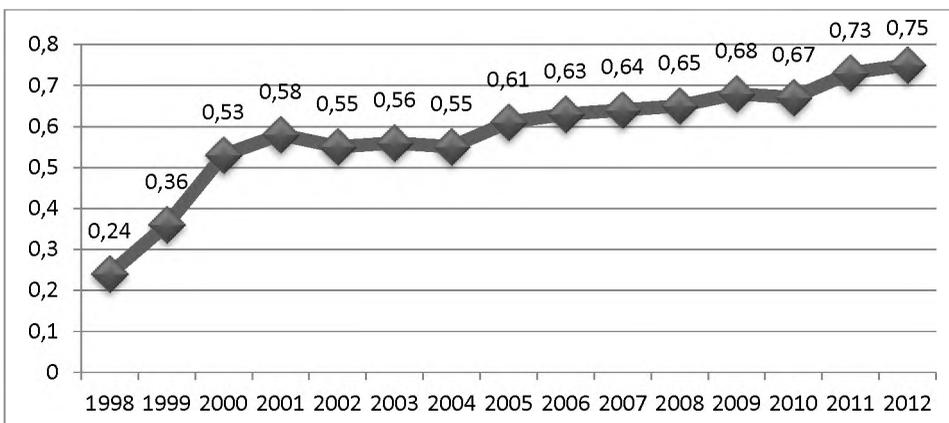


Figure 6. Management Consulting as a percentage of GDP in EU, 1998–2012, 2012– estimates

Source: Composed by author according to FEACO data.

It should be noted that an abrupt increase in the share of consulting services in GDP in European countries observed during the 1998 – 2001 years, when the value of this index increased from 0.24% in 1998 to 0.58%. During 2002 – 2004 the share of consulting services in GDP declined slightly compared to 2001 and stood at 0.55% – 0.56%. Relatively stable positive upward trend in this indicator was observed during the next period 2005–2011, which during this period increased from 0.61% to 0.73% in 2011, that's s growth of 0.12 percentage points.

In 2011, the three countries have places on record in management consulting share of GDP at above 1%, that were the United Kingdom (1.14%), Germany (1.15%) and Austria (1.04). Most European countries demonstrated the rate from 0.2% up to 1% of GDP and in only three countries (Poland, Greece and Croatia) management consulting share of GDP was below 0.2% (Figure 7). Such results of the consultancy activities development in the national economies were formed due to the historically high levels of management culture, the desire of business innovation and increasing competitive advantage [Verba, 2011, p. 246].

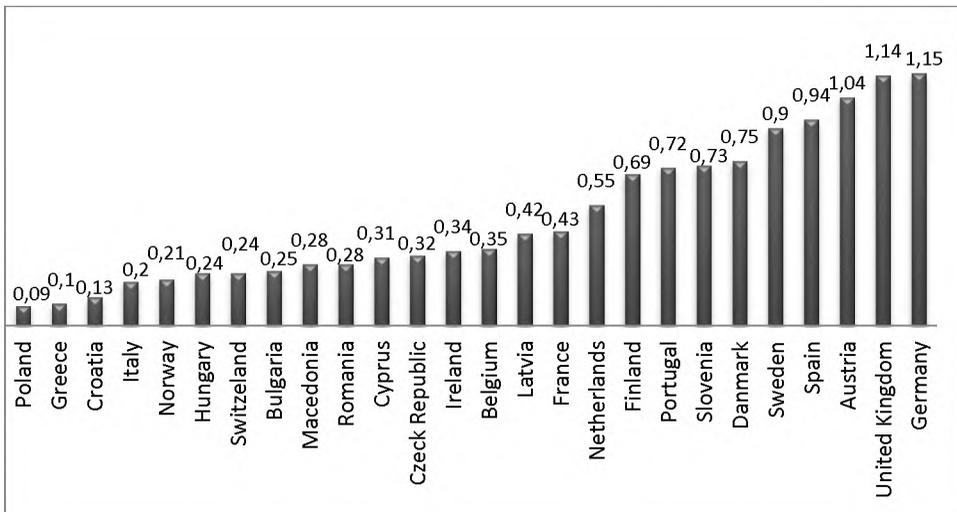


Figure 7. Share of management consulting as a percentage of GDP in selected countries, 2011

Source: Composed by author according to FEACO data.

Analysis of the national consulting markets levels shows that in most the „consulting-oriented” countries their GDP share of Europe’s GDP is much lower than the share of the consulting market in the total European consulting market. For example, Germany produced 19.3% of Europe's GDP and provides 32.2% of the European consulting market, United Kingdom – 13.1% of GDP against 21.6% of the consulting industry in Europe. For comparison, the developed

economy of Italy produces 11.8% of GDP in Europe and its contribution to the consulting industry is only 3.4% of the market.

Research of the latest statistics, main trends and patterns occurring in the consulting market, gives a reason to believe that the capacity of the consulting market depends on the level of economic development: the higher it is, the higher the share of the consulting industry in the total income of the country. So, there exists certain interdependence between the indicator 'share of the consulting market in the country's GDP', which describes the consulting activity of the country, and the indicator 'GDP per capita', which describes the state of economic development. For the research of this interdependence we used a correlation analysis, the results of which are shown in the Figure 8.

To determine the correlation-regression model we used the statistical data from 10 European countries by 2010 and 13 countries in 2009.

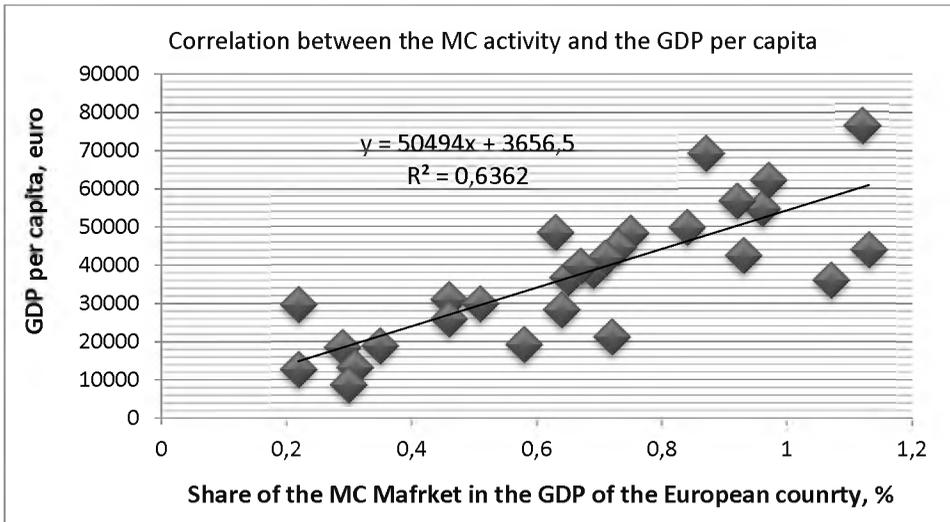


Figure 8. Correlation between the Management Consultancy activity and the GDP per capita

Source: own calculation.

Analysis of these data indicates a quite close correlation between selected parameters: correlation coefficient is $R = 0,7976$ and the coefficient of determination is $D = 0,6362$, which indicates that the changes in the level of GDP per capita in the country to 63.62% is determined by the change of the share of the consulting market in the country's GDP. The interdependence between these parameters is described by correlation-regression model:

$$Y = 50494x + 3556,5$$

Based on this model, an increase in consulting market revenues share in the country's GDP by 1% increases the GDP per capita by 50494 euros. However, even in high developed countries, this figure is usually within 1%. In Ukraine, for example, this figure is set at 0.3%.

Analysis of the structural changes in the European consulting market gives an opportunity to identify the certain consistent patterns of the economic development. According to the data in the table 3 there is a clear trend towards increasing the share of business consulting in the European consulting market. The higher the level of economic development is, the greater is the share of this type of consulting services. We have researched the dependence between the 'GDP per capita' level (characterizing the level of economic development) and the 'share of the business consulting' in the whole consulting market, which has recently dominated the European consulting market (Figure 9).

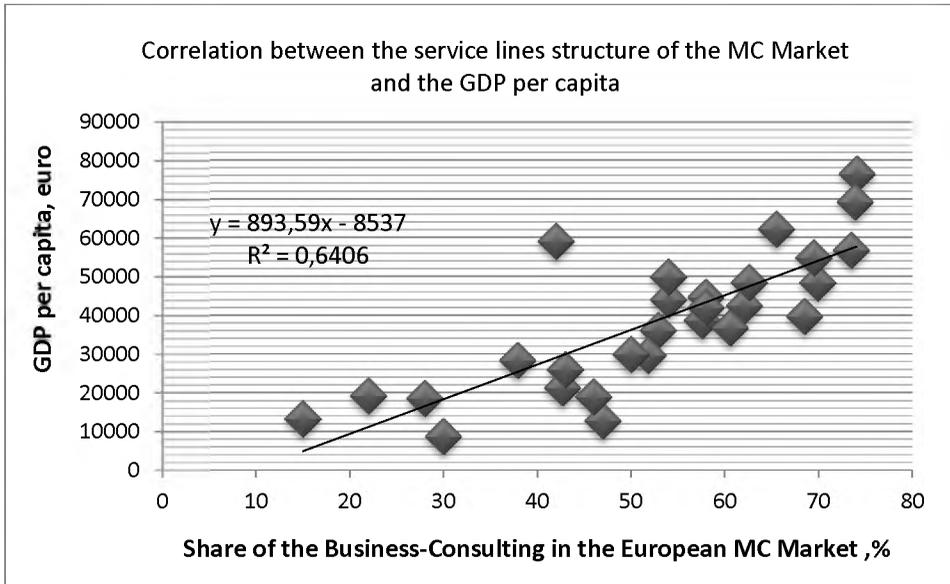


Figure 9. Correlation between the GDP per capita and the service lines structure of the MC Market

Source: Own calculation.

Correlation-regression model of the dependence of these two parameters is described by the following equation:

$$Y = 893,59x - 8537$$

The model is statistically significant: the correlation coefficient is $R = 0,8003$, coefficient of determination is $D = 0,6406$. So, the increase of the busi-

ness consulting share by 1% in the consulting market brings to an increase of the GDP per capita of the country to 893.59 euro.

Less close correlation is observed between the ‘share of the business consulting’ in the total consulting market and the consulting activity level of the country, which is expressed through the ‘consulting market revenues as a share of GDP’ (Figure 10).

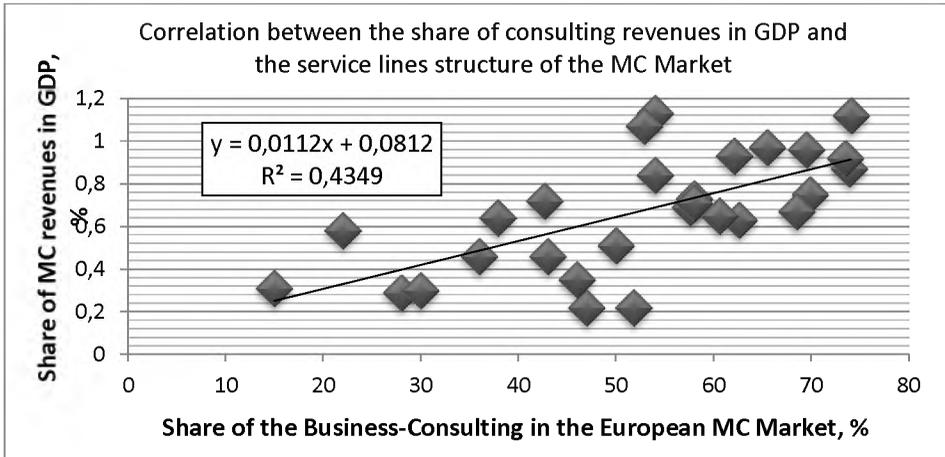


Figure 10. Correlation between the share of consulting revenues in GDP and the service lines structure of the MC Market

Source: Own calculation.

The correlation-regression model of the dependence of these two parameters is described by the following equation:

$$Y = 0,0112 + 0,0812$$

Based on this model, the increase of the business consulting share in the total consulting market by 1% brings to an increase of the share of consulting companies revenues to 0.0112 percentage points. Model is statistically significant: $R = 0,6617$, coefficient of determination $D = 0,4349$. This means that the effectiveness rate change (share of consulting revenues in the country's GDP) to 43.49% is caused by the change of the Business-Consulting factor.

CONCLUSIONS

From the research it can be concluded that the structural characteristics of the European management consulting market act as an indicator of the country's economic situation: in less developed countries dominates the demand for IT-

consulting, while for developed countries there is a clear tendency for increasing demand for Business consulting. Research of the main trends and patterns occurring in consulting market, gives us a reason to believe that the capacity of the consulting market depends on the level of the economic development: the higher it is, the higher is the share of the consulting industry in the total income of the country. Construction of correlation-regression models allowed to identify a direct interdependence between the growth of GDP per capita and the consulting activity rate of the country. In addition, the proposed model provides a methodological basis for forecasting the main trends in the consulting industry on the global and European markets.

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Summary

The research deals with the analysis of the main trends on the European consulting market through the understanding of the structural and dynamic changes in the last years. Such analysis in this area makes it possible to draw the conclusions on the state and the development level of the economy as a whole, as well as on the interdependence of the consulting market and the GDP of European countries. Demand for the certain consulting services reflects indirectly the level of the management of the individual economic actors and the efficiency of the socio-economic structure of the country. Author characterizes the dependence between the size of MC market and the GDP of European countries with a help of the correlation models, based on the last statistical reports. The proposed models also provide a methodological basis for forecasting the main trends in the consulting industry on the global and European markets.

Keywords: consulting market, management, correlation models

Integracyjny model rozwoju europejskiego rynku doradztwa w zarządzaniu*Streszczenie*

W artykule omówiono problem głównych trendów zachodzących w europejskim rynku konsultingowym poprzez analizę strukturalnych i dynamicznych zmian widocznych w ostatnich latach. Analiza ta umożliwia wyciągnięcie wniosków dotyczących poziomu rozwoju gospodarczego państw oraz wzajemnej zależności między poziomem PKB krajów europejskich a zaawansowaniem rynku doradztwa. Popyt na pewne usługi konsultingowe pośrednio odzwierciedla poziom zarządzania poszczególnych podmiotów ekonomicznych oraz efektywność struktury społeczno-ekonomicznej państwa. Zbadano zależności między rozwojem rynku doradztwa oraz poziomem PKB poprzez modele korelacji. Zaproponowane modele mogą służyć za metodologiczną bazę prognozowania głównych trendów zachodzących na europejskim i globalnym rynku konsultingowym.

Słowa kluczowe: rynek doradztwa, zarządzanie, modele korelacji

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