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Management Consultancy in Hungary and in Croatia in Light of Empirical Research – Market and Human Factors

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Abstract: "Management consultancy is in a rapidly changing world into which new players, disciplines and capabilities are continuously being integrated, where borders are constantly expanding and where horizons are receding to the point where our profession has now become a global network of businesses, covering a wide spectrum of areas which only a few years ago, was not imagined" (Jamieson et al; 2016). Over recent decades, technological and social progress have greatly enhanced the role of Business Consultants in the economy and pressure on consulting profession is ever increasing (Dötsch 2016). This study attempts to show some aspects of the Hungarian and the Croatian consulting markets and make comparisons as far as the two different databases allow.

Consulting can earn trust by showing clients their weaknesses and deficiencies. Additionally, consultants are essential and consulting service is a knowledge sharing.

1 Management Consulting

FEACO (2013) is one of the most comprehensive studies on European management consulting. Its definition of management consulting:

- a wide range of services,
- rendered by consultants legally independent from the clients,
- typically includes: identifying and investigating problems, recommending appropriate actions and assistance with the implementation of solutions.

The most typical management consulting service areas are:

- strategy consulting,
- organization, operations management,
- project management,
- change management,
- human resources consulting,
- knowledge management consulting,
- coaching, team coaching,
- information management consulting,
- development and integration,
- outsourcing.

2 General characteristics of the two countries examined

As macroeconomic environment has a profound impact on any trade it also shapes the character of consulting business. Let us begin with the comparison of the main economic and cultural characteristics of the two countries of our focus: Hungary and Croatia.

1.1 Hungary

Socio-economic factors

The country's area is 93 030 square kilometres. Its population is 9,9M – ageing, decreasing due to unfavourable birth/death ratio and recently, emigration. Its total GDP amounts to 121 billion USD. GDP /capita is 12 200 USD (Global Competitiveness Report 2016/17). Wealth inequality (GINI index) is around the European average (EUROSTAT 2015). Human Development Index (HDI) – which is a combined indicator of life expectancy, quality of education and per capita income - i.e. how good a place is the country to live in – is in the last third of the European league.

Foreign Direct Investment (FDI)

The level of Total Foreign Direct Investment 92 billion USD. The biggest share (almost 75%) belonged to the service industry (napi.hu). FDI/capita is 9,3k USD. (knoema.com)

Competitiveness ranking

This section is based on the Global Competitiveness Report for 2016/17. In the interpretation of this report competitiveness means the ability of a country or region to produce efficiently marketable products and services. Competitiveness is facilitated by a great number of different constituents. These fall under three subindices:

- subindex A: basic requirements (institutions, infrastructure, macroeconomic environment, health and primary education)

- subindex B: efficiency enhancers (higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size)

- subindex C: innovation and sophistication factors (business sophistication, innovation).

Hungary's total ranking in the world's hall of fame is the **69th out of 138**. While the country claims to target becoming an economy fuelled by innovation, the overall decline in its total score has been observed in the past years. In comparison with the best – most innovative – economies of Europe its innovation subindex is low and decreasing, efficiency enhancers subindex is stagnating and worst of all, basic requirements subindex – the factors that mean the entrance for any further development - has started to **relapse**, as well. The country, despite all slogans, appears to permanently head not for the innovative status but towards the opposite direction. The surveys of the study seem to identify the three biggest issues of daily operation as follows:

- policy instability,
- corruption,
- tax regulations.

Culture

The **deculturizing and dehumanizing effect of globalization** is not yet complete and there are still cultural differences among countries even in case of neighbouring European countries. Culture – being a **humanizing force** – is a pervasive rulebook of all activities in the given society. Thus, cultural gaps among countries result in differences in the ways companies work. Among other renowned scholars Gert Hofstede might be the most cited when things come to national cultures.

He measures national cultures alongside six dimensions:

- power distance: means the distribution of power within the society. How evenly is it spread? How large is the difference between big wigs and John Smiths's ?
- individualism: Is it "I" or is it "we" that really matters. Is it the individual or the society that counts more?
- masculinity: is it the soft style that appears more rewarded or the tough one?
- uncertainty avoidance: how unwell people in a country tolerate uncertainty.
- long term orientation: Is today and the very near future the more important or the long-term future?
- indulgence: how ready are we to accept daily pleasures offered by life?

Hungary is characterized by **mediocre power distance**, high **individualism**, very high **masculinity**, mediocre long termism, and very **low indulgence**.

1.2 Croatia

Socio-economic factors

The country's area is 56 600 square kilometres. Its population is 4,2M – ageing, decreasing. Its total GDP amount to 49 billion USD. GDP /capita is 11 600 USD (Global Competitiveness Report 2016/17). Wealth inequality (GINI index) is around the European average (EUROSTAT 2015). Human Development Index (HDI) is in the last third of the European ranking.

Foreign Direct Investment (FDI)

The level of Total Foreign Direct Investment is 26 billion USD. FDI/capita is 6,2k USD. (knoema)

Competitiveness raking

Croatia's competitiveness ranking (World Competitiveness Report) is overall increasing. Currently, it is the 74th out of 138. Basic requirements subindex is stagnating, efficiency enhancer subindex has improved and innovation subindex has stagnated in the past few years.

Culture

Hofstede's researches show that in Croatia **power distance is large**, **collectivism is strong**, **masculinity is low**, uncertainty avoidance is high, long term orientation is medium and **indulgence is low**.

Comparison

Socio-economic factors and FDI

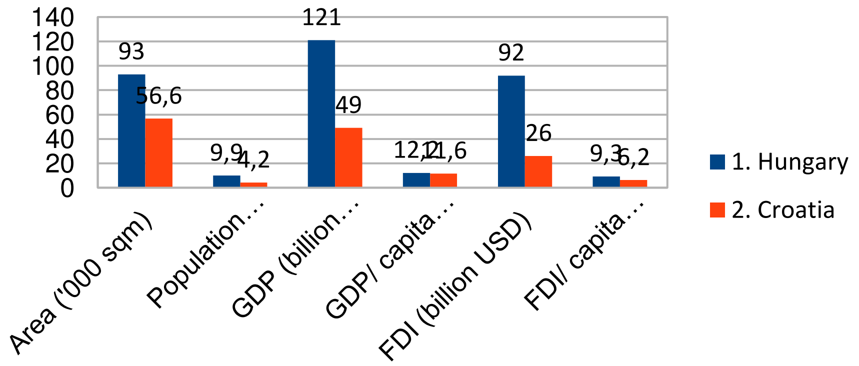

Diagram 1
Comparison of socio-economic factors

Croatia is about half size of Hungary both in area and population with similar GDP/capita value. FDI/capita if 1,5 times higher in Hungary – but it does not at all seem to boost its economic position.

Culture

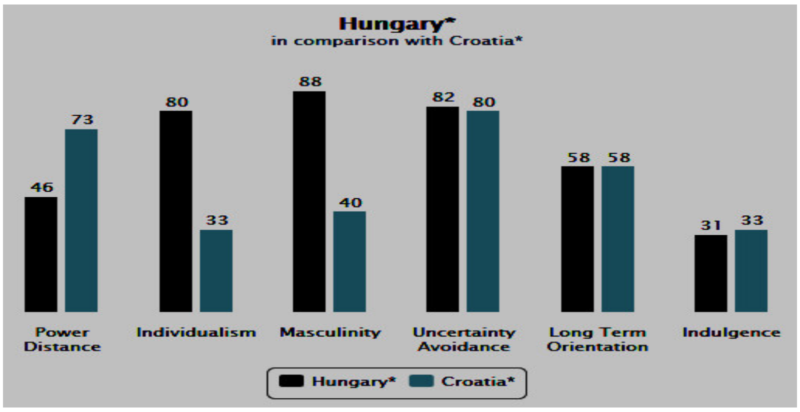

Diagram 2
Comparison of cultures

Power distance is remarkably smaller in Hungary, while individualism and masculinity are much higher. Uncertainty avoidance is equally high in both countries, long term orientation is equally medium and indulgence is low.

1.3 Consulting market

Croatia

Alpeza et al (2014) carried out a comprehensive study of the Croatian consulting market. The present section builds on their findings.

In Croatia, small and medium sized enterprises employ two thirds of all employees and produce over half of GDP. Still, their cumulated result is a significant net loss. Large companies – mainly multinationals – employ the rest of the people and cumulate an overall net profit. This leads the authors to the conclusion that there is a lot of room to improve business efficiency at SME's, in other words this should be a target area for the consulting trade. Unfortunately, the overall **poor profitability of the SME sector** does not leave much money to spend on consultants. State subsidy would be necessary but this rarely happen.

The geographical distribution of consulting activities is heavily **concentrated around Zagreb**. This region alone accounts for more consulting firms than the rest of the whole country.

The total revenue of consulting business is 63M EUR. Half of this sum is generated by the **top four consulting firms**: KPMG. PWC, Deloitte and Austrotherm.

Most consulting firms are in the MSME category. Within the MSME (micro, small and medium sized) consulting companies 82% is micro (with consultants less than 10), the rest is small or medium sized. The majority of these consulting firms are specialised in the following areas of consultancy:

- wholesale export/import

- construction

- tourism and entertainment.

Almost two thirds of them is oriented purely towards the domestic market.

The typical issues the consultants must deal with:

- various legal issues

- problems in financial management

- problems in sales and marketing

- searching for a loan

- HR issues

- problems relating to writing plans and projects.

78% of enterprises have not hired any consultant in the last three years and only 13% turned out to be repeated users.72% of users found consultants by recommendation or word of mouth. Any other channel is very unlikely.

Clients were **less than satisfied** with the performance of the applied consultant, only 43% would repeat the cooperation. Criteria of valuation of the consultant's performance are:

- understanding of business problem,

- expertise, knowledge,

- speed of feedback,

- communication during cooperation,

- value perceived for the price,

- usefulness of cooperation,

- overall results.

The areas users were the least satisfied with: results (the last three of the above list). The conditions under which clients would consider using the services again:

- if they were sure to benefit from the services,

- cheaper pricing of consultants,

- get a free sample advise first and than decide on the continuation of the cooperation.

Most respondents believe that if they decided to use a consultant it would be in connection with:

- issues in project and plan briefing,

- business planning,

- seeking business partner and investors,

- market research and marketing,

- saving energy and eco issues,

- IT and related issues.

Most clients see the usage of consultancy as a short term job. More than 60% expects a cooperation for a duration shorter than two years.

For Croatian consultants MSME segment should be a target for its large unexploited potential. A weakness is the insufficient number of consultants with specialised expertise. A threat: due to low entry barriers there are **unskilled consultants** who destroy the reputation of the consulting trade. Developing trust is a great challenge nyway.

Hungary

Overall turnover in the consultancy industry was 235 million EUR in 2012. With traditional consulting firms, atypical large consulting companies can be found, as well as a medium-, micro-, and mini-advisory enterprises. The Management Consulting clients fall under three sectors which are: industry, banking sector and public sector. The distribution of consultancy industry turnover is: 9%, banking and insurance 14%, public sector 31%. It should be noted, the public sector's orders are slowly rising. The most developments were in the financial and insurance industry over the last five years.

According to the Hungarian Central Statistics Office, the total number of companies registered for business and management consultancy services in 2012 is 500 and the total number of employees is 4 580.

Most consulting firms are micro or small sized (69%) – (Poór 2013)

Typical areas of consulting are:

- operations and organizing,

- project management,

- strategy,

- HR issues

- IT.

Main methods of consulting are:

- process consulting,
- advisory consulting and
- inquiry consulting (Józsa-Vinogradov-Poór 2016)

Over 70% of respondents claims that the **reputation** of consulting firms has not changed or **deteriorated** in the past 1-2 years. Most people (57%) expects no improvement or further deterioration in this area.

For the coming years, most respondents expect **stagnation in revenue** in most operational areas of consulting.

Competition amongst consulting firms ever intensifies. The extension of average projects is shrinking. Communication between clients and consultants should be improved.

Unskilled consultants have great responsibility in the unsatisfactory overall image of consulting profession. These weak consultants should be filtered out somehow.

Government policies and state subsidies have a tremendous impact on the consulting business. The situation of consulting is further aggravated by the unfavourable economic situation.

The lobbying power of consulting is slight. There are remarkable improvement opportunities in the cooperation, communication and two-way knowledge transfer between consultants and clients.

Conclusions

While Hungary's competitive position is in constant relapse, Croatia seems to be able to improve hers. Higher capital import does not appear to better Hungary's economic health. Strong collective attitude might be a reason for Croatian advancements. People in both countries – for cultural reasons - are unprepared for happiness. Competitiveness is measured by the Global Competitiveness Report. There are authors who claim that this report tends to sometimes overvalue or undervalue actual competitiveness (Djogo-Stanisic 2016).

The overall spending on consulting is a small fraction of what Western European countries spend on consulting services.

Large consulting firms rule the market of large clients leaving only small clients to small domestic consulting firms. MSME clients are having grave financial problems in both countries. Competition is ever strengthening, forcing consultants into miserable pricing or exaggerating promises of results. Post-bureaucratic managers have also become consultants within their companies (Sturdy-Wright-Wylie 2016).

Bronnenmayer-Wirtz.Göttel (2016) claim that critical success factors for management consulting are: originality (value), intensity of collaboration, common vision, consultant expertise and top management support.

Problems are exacerbated by the lack of thorough filtering out weak consultants. The operation of unskilled consultants cause remarkable harm to the reputation of serious consulting enterprises.

In consideration of the above issues, it is easy to see that consulting is **far from flourishing** in these countries.

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