

MANAGEMENT CONSULTANCY IN EUROPE

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Abstract

The paper reviews the characteristics and recent growth of management consultancy firms in western Europe, using data collected by the Federation of European Management Consultancy Associations and the German Management Consultancy Federation, BDU. Particular attention is paid to inter-country variations in firm size and age structures, employment growth, and the differentiation of consultancy activities. It then presents an in-depth analysis of the role and dynamics of small management consultancy firms in the United Kingdom, using data collected by the Cambridge University Small Business Research Centre. This reveals remarkable growth and dynamism amongst small consultancy firms, together with high birth and death rates, as well as highlighting the key role of market specialisation and of different supply-side and demand-side influences in the industry's expansion. The paper also discusses entrepreneurship, founder motivation and the origins of small consultancy firms, the nature of demand and competitive advantage, flexibility and networking, the impact of externalisation and new technology, and future prospects for small consultancies.

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MANAGEMENT CONSULTANCY IN EUROPE

1. Introduction

1.1 Aim of the study

The market for management consultancy belongs to the most dynamic group of industries. Compared to manufacturing, for instance, little is known about this market and what is known is often based on crude estimates and experts' observations. In this spirit, rough estimates indicate that there are about 200,000 consultants world-wide with a total fee income of about 14 billion ECU.¹ Increases in management consultancy turnover are estimated to have been of the order of 20 per cent per annum in many countries during the 1980s (Berger, 1988), although this growth was severely curtailed by the early-1990s recession. United Kingdom management consultancy turnover for example is now growing again, but more slowly, with a 10.2% increase 1993-94 (mid year estimates: Central Statistical Office, 1994). As this indicates, growth rates in fee income have in fact varied considerably and are sensitive to business cycles, country-specific factors and size of the consultancy firm.

The importance of management consultancy varies greatly between countries. Estimates suggest that American consultancy firms capture a world market share of about 50 percent, Western European firms one of 33 percent, Japanese firms 10 percent and the rest about 7 percent (Berger, 1988). Much of the variance in market shares can be explained by factors which reflect the different stages of development of the management consultancy market across countries. Despite different market histories, firm size distributions basically show a few large and many small firms in each country. Although large firms have persistently protected their market position, the small firm sector shows a high degree of turbulence with high rates of entry, growth and exit. For example, in the United Kingdom according to the Cambridge University Small Business Research Centre (SBRC) data bank (Bryson, Keeble and Wood, 1990, P.29) 77 percent of

management consultancy firms employed less than 12 persons (consultants and supporting staff) in the period 1989-90, while only ten percent employed more than 50. Furthermore, the U.K. VAT statistics reveal that 98 percent of new firm formation between 1985 and 1989 belonged to the small business sector. High rates of entry by small firms cause a rapid turnover of firms. The SBRC data base shows that on average every third firm disappeared within the first five years of its existence.

As in other industry studies, large firms have attracted considerable attention from analysts whereas the small firm sector, despite its dynamics, has remained virtually unstudied until recently. This applies particularly to the market of management consultancy. The purpose of the paper is to illustrate the structure of this market while at the same time giving specific attention to the small firm sector.

1.2. Market definition

Management consultancy is part of business consultancy which includes activities like legal advice, accountancy, tax consultancy, auditing, advertising, market research, technical services and management consultancy. According to the Federation of European Management Consulting Organisations (FEACO) management consultancy is defined as: "...the rendering of independent advice and assistance about management issues. This typically includes identifying and investigating problems and/or opportunities, recommending appropriate action and helping to implement those recommendations."

The market for management consultancy overlaps with other service activities. Therefore, a standardized market definition of management consultancy does not exist in Europe or elsewhere. It is often difficult to draw a clear line between the various markets. This is particularly the case between management, human resource and information technology consulting. FEACO divides management consultancy into the following fields of activities:

- Corporate strategy and organisation development
- Financial and administrative systems
- Human resources (including executive search and interim management)
- Production and services management (including technology, logistics, R&D and quality control)
- Marketing and corporate communication
- Information technology and systems
- Project management
- Economic and environmental studies

EUROSTAT combines management consultancy with other service activities to form industry group NACE 839.1: "Market research and management consultancy" and in the revision of NACE, NACE Rev. 1, to create subgroup 74.14: "Business and management consultancy activities".

1.3. Market development

In each country, a distinct history of the market for management consultancy can be found. However, most European countries went through stages of development which were not too different from one another. According to Gerybadze (1991, p. 40), the West European market for management consultancy has developed in three phases:

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|----------------------------|---|
| <i>Phase 1:</i> 1960 - 74, | Transfer of American consultancy methods to Western Europe. |
| <i>Phase 2:</i> 1975 - 89, | Differentiation of national consultancy markets and institutions in Western Europe. |
| <i>Phase 3:</i> 1990 - | Restructuring process within European management consulting. |

Following Gerybadze's analysis, the transfer of American management consultancy methods to Western Europe in the sixties was stimulated by American manufacturing and other companies

which entered the European market and established subsidiaries in various countries. At that time, the European consultancy market was not developed in a way to meet the expectations of these multinational firms. American consultancy firms joined the entry process and established offices mainly in London or Brussels in the first place. Over the years, American consulting firms were also approached by European firms which enabled them to expand geographically by opening offices in other European countries and cities.

In the seventies, many consulting firms were founded in Europe, some of them being spin-offs of American firms. The competitive advantage of these new firms was their country-specific expertise. Although the American firms enjoyed an experience advantage of about 10-20 years, some European firms grew faster than their American counterparts. The distinct feature of the European firms was their specialisation within a particular national market. As a consequence, two groups of firms could be found in the consultancy market, the internationally experienced and oriented firms (most of them of American origin) and the nationally oriented firms. Table 1 shows the largest of these firms in selected countries.

Table 1: Management consultancy. Leading consultancy firms within the EC¹

Germany	Spain	Italy	France	The Netherlands	United Kingdom
Roland Berger	Andersen Consulting	Ambrosetti Consulenza	Arthur Andersen	Berenschot	Coopers Lybrand
Mc Kinsey	Price Waterhouse	Andersen Consulting	Bossard	Twjinstra Gudde	PA
Kienbaum	CP	Mc Kinsey	Cegos	KPMG	Andersen Consultants
Treuarbeit	Mc Kinsey	Coopers Lybrand	Sema Group	Ernst and Young	Price Waterhouse
Deloitte	KPMG	Cueno et Associati	Euroquip	Deloitte	KPMG
Arthur Andersen	Mac Group	Galgano & Association	Algoe	GITP	PE Inbucon
Wibera	Bedaux	Hay	Eurosept	Andersen	Ernst and Young + Braxton
A.T. Kearney	Bossard	KPMG	O & A	C & L	Touche Ross
KPMG	C & L	Orga	Bernard Julhiet		Bain
BCG		Praxi	Gamma		ADL
		Telos Consulting			

1) For information purposes: approximate classification by turnover of management consultancy activity, excluding computing.

Source: Siar Bossard and Sema Group Management Consultants, cited in: EUROSTAT, Panorama of EC Industry, 1991-92, Luxembourg, 1991, p. 27-67.

In recent years, the completion of the European Common Market and the general internationalization of markets has led to a restructuring process within the consulting markets. The nationally oriented firms are now in the middle of this process of becoming international. Some of these firms have established partnerships, others have expanded on their own. Which expansion strategy will be more successful remains to be seen.

1.4. Sources of market information

Information available from EUROSTAT sources is not rich enough to provide a deep insight into the market of management consultancy. Instead, we rely on statistics and publications of FEACO and national federations of management consultancy. This material is supplemented by anecdotal and case study evidence from industry experts. To capture the dynamics of management consultancy firms, a survey has been produced which includes the members of FEACO. Further evidence about small firm dynamics comes from the Business Services Project of the Small Business Research Centre (SBRC) at the University of Cambridge.

On the European level, the richest set of information on management consultancy has been gathered by the German federation, Bundesverband Deutscher Unternehmensberater e.V. (BDU, 1991), for the year 1989. Based on a German pilot study, 21,336 questionnaires were sent to firms in EC and EFTA countries which considered themselves as management consultants or enrolled voluntarily in appropriate national registers. 17.4 percent (3,703) of the questionnaires were included in the BDU analysis. The response rate across countries varied between 4.8 percent (Spain) and 78.5 percent (The Netherlands), and the assumed low degree of representation at least in some countries suggests a careful interpretation of the results. The information gathered by the BDU includes the number of firms, employees and turnover as well as turnover distribution across activities. Since the information provided by the BDU survey and FEACO is used in this study, one is inclined to compare the two data sets. Table 2 shows this comparison for the EC member states for the year 1989. According to Table 2 less than 20 percent of the observed management consultancy firms in these countries are members of FEACO. Extreme cases are France and the United Kingdom in which 1.5 and 2.0 percent are FEACO members, respectively. If the turnover figures in Table 2 are taken into consideration, however, one sees that the FEACO members account for a much larger share of the market activities. The main distinction

between the two data bases is that the BDU data seem to represent the firm size distribution better than the FEACO data which are biased towards larger firms.

Table 2: Firms and Turnover. Comparison of BDU collection with FEACO members, 1989

Country	Number of Firms			Turnover		
	BDU	FEACO	Share %	BDU (Mill. ECU)	FEACO (Mill. ECU)	Share %
Belgium	280*	24	8.6	249*	90	36.1
Denmark	367	50	13.6	180	34	18.9
France	2,600	40	1.5	1,310	323	24.7
Germany	5,900	310	5.3	4,300	1,550	36.0
Ireland	250	15	6.0	30	n.a.	-
Italy	300	51	17.0	600	270	45.0
Netherlands	200	30	15.0	270	151	55.9
Portugal	170	19	11.2	124	n.a.	-
Spain	246	35	14.2	790	130	16.5
United Kingdom	1,529	31	2.0	3,840	980	25.5

* with Luxembourg

Source: BDU (1991), Panorama of EC Industry 1991, Management Consultancy, Table 1, page 27-65.

2. Market Structure and Dynamics

2.1. Firms, employment and turnover structure

The BDU survey contains information on the number of management consultancy firms, the number of consultants and supporting staff, and the turnover distribution by firm size. As previously mentioned, the market definition for management consultancy is not standardized across countries and firms seeing themselves as part of the market may not have realized the majority of their turnover in that market. Therefore the numbers available have to be handled carefully.

Table 3 summarizes the basic structure of the market across EC and EFTA countries in the year 1989. From the first two columns one observes that the number of firms varies considerably across countries. Most firms which consider themselves as management consultancy firms are found in Germany and the least are observed in Greece. About 71 percent of the consultancy firms in Western Europe belong to the EEC with almost half of them operating in Germany. Within each country there is some dispute about these numbers. For instance, in the Netherlands 1,567 management consultancy firms are officially registered, but the Dutch federation considers only 200 firms to have their core business in management consultancy.

Table 3 also reveals the distribution of the number of consultants and supporting staff across countries. As for the previous measure, the highest number and share of employees is observed in Germany and the lowest in Greece. In absolute terms there are the most consultants in Germany, but the firms in which they are employed are smaller on average than, for instance, those in the United Kingdom where the average firm consists of 14 consultants.

The wide range of the average number of consultants employed suggests that one can expect different firm size distributions across these countries.

Table 3 furthermore shows that the number of supporting staff never exceeds the number of consultants and the average number of supporting staff varies to some extent. A closer look provides the impression that on average larger firms employ less supporting staff per consultant.

Table 3: Enterprises, Employees and Turnover - 1989

Country	Enterprises			Employees					Turnover			
	Number	Share	Total	Share	Number	per firm	Supporting Staff Number	per consult.	Total in Mill. ECU	Share (in %)	per firm	per consult.
Belgium/Luxembourg	280	1.7	2,350	1.4	1,650	5.9	700	0.4	249	1.6	0.89	0.15
Denmark	367	2.2	n.a.	-	1,400	3.8	n.a.	-	180	1.1	0.49	0.13
France	2,600	15.5	15,100	8.6	8,300	3.2	6,800	0.8	1,310	8.3	0.50	0.16
Germany	5,900	35.1	56,400	32.0	35,400	6.0	21,000	0.6	4,300	27.3	0.73	0.12
Greece	80	0.5	800	0.5	500	6.3	300	0.6	30	0.2	0.38	0.06
Ireland	250	1.5	1,130	0.6	680	2.7	450	0.7	112	0.7	0.45	0.16
Italy	300	1.8	n.a.	-	n.a.	-	n.a.	-	600	3.8	0.0	-
Netherlands	200	1.2	3,400	1.9	2,200	11.0	1,200	0.5	270	1.7	1.35	0.12
Portugal	170	1.0	2,550	1.4	1,600	9.4	950	0.6	124	0.8	0.73	0.08
Spain	246	1.4	18,000	10.2	n.a.	-	n.a.	-	790	5.0	3.21	-
United Kingdom	1,529	9.1	31,200	17.7	21,400	14.0	9,800	0.5	3,840	24.4	2.51	0.18
EEC	11,922	71.0	130,930	74.3	73,130	6.4	41,200	0.6	11,805	74.9	0.99	0.14
Austria	1,100	6.5	10,550	6.0	6,100	5.5	4,450	0.7	697.1	4.4	0.63	0.11
Finland	160	0.9	1,550	0.9	920	5.8	630	0.7	112.1	0.7	0.70	0.12
Norway	520	3.1	4,100	2.3	3,000	5.8	1,100	0.4	374	2.4	0.72	0.12
Sweden	900	5.4	11,600	6.6	9,500	10.6	2,100	0.2	1,000	6.4	1.11	0.11
Switzerland	2,200	13.1	17,460	9.9	11,490	5.2	5,970	0.5	1,767.4	11.2	0.80	0.15
Europe	16,802	100	176,190	100	104,140	6.4	55,450	0.5	15,755.6	100	0.94	0.14

As indicated in Table 3, turnover shares correspond to firm and employment shares. The highest turnover per firm is observed in Spain and the United Kingdom and the lowest in Greece and Ireland. Only in four out of 16 countries do average firms achieve turnovers above the European average. Finally, the highest productivity in terms of turnover per consultant can be found in the United Kingdom, France and Ireland.

1.2. Firm size distribution

The BDU survey does not provide information on the firm size distribution, although from the previous table one gets the impression that the distribution is different across countries. To shed more light on the firm size distribution one has to limit the analysis to the FEACO members. Table 4, based on its membership list, shows the distribution of consultancy firms across four different size classes while concentrating on EEC member countries only. As mentioned in Section 1.4, FEACO members do not necessarily represent the whole spectrum of the market, but can be considered to be the core players in the market. Table 4 reveals that on average about 40 percent are small firms with up to 10 employees and about 37 percent are mid-sized with 11-50 employees. Every eighth firm can be considered large with over 100 employees. There is a large variance of firm sizes across countries. The proportion of small firms is highest in Denmark and Germany, whereas in most other countries the majority of firms are of medium size. An exception is the United Kingdom where FEACO members are on average appreciably larger than in other countries. Although we know that the size distribution of FEACO member firms is biased towards larger firms, the results in Table 4 show that the distribution is still skewed to the right.

Table 4: Size Distribution of FEACO Members, 1990

Country	Employment Size Classes					Number of FEACO members
	1-10	11-50	51-100	> 100	Total	
						1990
Belgium	8 (34.8)	12 (52.2)	1 (4.3)	2 (8.7)	23	23
Denmark	21 (70.0)	7 (23.49)	1 (3.3)	1 (3.3)	30	34
France	5 (15.2)	17 (51.5)	4 (12.1)	7 (21.2)	33	33
Germany	140 (53.4)	68 (26.0)	22 (8.4)	32 (12.2)	262	332
Italy	13 (25.5)	31 (60.8)	4 (7.8)	3 (5.9)	51	51
Netherlands	4 (15.4)	16 (61.5)	1 (3.9)	5 (19.2)	26	26
Portugal	6 (31.6)	10 (52.6)	1 (5.3)	2 (10.5)	19	19
Spain	6 (21.4)	11 (39.3)	6 (21.4)	5 (17.9)	28	30
United Kingdom	0 (0.0)	16 (48.5)	5 (15.1)	12 (36.4)	33	33
Total	203 (40.2)	188 (37.2)	45 (8.9)	69 (13.7)	505	581

Source: FEACO and own calculations

1.3 Firms' age distribution

The FEACO membership list also provides information about the year a particular firm was founded. Again, we expect that due to membership regulations the age distribution is biased towards more established firms. The FEACO statute requires a minimum of three years of consultancy experience before membership application can

be filed. Further criteria are independence, expertise, ethics, qualification and verification.

Table 5 summarizes the age distribution of FEACO member firms across EEC member countries. On average, about every third firm exceeds the age of twenty years or is younger than eleven years. The remaining firms have a history between eleven and twenty years. Table 5 also shows a considerable variation of age structure across countries. Denmark is the only country where firms are almost equally distributed across age classes. In the United Kingdom, the Netherlands, France and Belgium, older firms dominate the age structure. At the other end, many young firms can be found in countries like Spain, Portugal, Denmark and Germany. If one compares the results in Tables 4 and 5, there seems to be a correlation between size and age in the sense that countries with a higher share of larger firms also have a higher share of older firms. However, we would again stress that the apparent absence of young firms in countries such as the UK and the Netherlands is in part at least a reflection of the particular nature of the FEACO membership data base.

Table 5: Age Structure of FEACO Members, 1990

Country	Age Classes						Number of FEACO members
	1-5	6-10	11-15	16-20	> 20	Total	
							1990
Belgium	1 (4.6)	3 (13.6)	5 (22.7)	4 (18.2)	9 (40.9)	22	23
Denmark	5 (15.2)	7 (21.2)	11 (27.2)	5 (15.2)	7 (21.2)	33	34
France	4 (12.5)	6 (18.7)	3 (9.4)	3 (9.4)	16 (50.0)	32	33
Germany	24 (8.1)	80 (26.9)	64 (21.5)	56 (18.9)	73 (24.6)	297	332
Italy	4 (8.4)	11 (22.9)	12 (25.0)	5 (10.4)	16 (33.3)	48	51
Netherlands	0	4 (16.0)	4 (16.0)	3 (12.0)	14 (56.0)	25	26
Portugal	5 (26.3)	6 (31.6)	3 (15.8)	2 (10.5)	3 (15.8)	19	19
Spain	5 (19.3)	9 (34.6)	1 (3.8)	1 (3.8)	10 (38.5)	26	30
United Kingdom	0	3 (9.1)	3 (9.1)	6 (18.2)	21 (63.6)	33	33
Total	48 (9.0)	129 (24.1)	104 (19.4)	85 (15.9)	169 (31.6)	535	581

Source: FEACO and own calculations

1.4. Business service diversification

Management consultancy is a fast growing market. Many firms in related fields of business have extended their activities to that market. Most noticeable are auditing/accountancy companies and banks which entered the management consultancy market by setting up own branches or by merger and acquisitions. A good example is the acquisition of majority assets of the largest native German consulting firm Roland Berger & Partner by the largest Germany bank, the Deutsche Bank AG.

Management consultancy firms have also diversified their activities into related fields. Preferred fields have been computer (hard- and software) and technology consultancy as well as investment banking and merger acquisitions. The prime motives were the high growth potential in related fields and the exploitation of economies of scope.

Table 6 gives an impression of the extent of diversification by the firms included in the BDU data base. The analysis also allows us to distinguish between diversification of small (turnover up to 240,000 ECU) and large (over 2.4 million ECU) firms. Table 6 reveals that in most countries management consultancy is the core business for the majority of small and large firms. However, diversification strategies show some differences in different countries. Among small firms, some started their business as tax advisers or auditors / accountants and expanded it to management consultancy. This seems to apply to countries like Belgium/Luxembourg, Ireland and Italy. In the case of Ireland and Italy one can question whether the small firms can be considered as management consultancy firms if one applies the rule of the BDU according to which 60 percent of the income has to come from the core market to qualify as management consultancy firm.

Table 6 furthermore shows that the extent of diversification is relatively low in all countries. This is particularly the case for the United Kingdom where diversification takes place, if at all, into the market of software production.

Finally, one observes that the firm size effect on diversification is very small. Large firms seem to extend their activities to the markets for software production and advertising more than smaller firms, whereas small firms seem to start out as tax advisers and auditors. Independent of size, diversification does not take place across all markets mentioned in Table 6. Instead, there seems to be a different degree of heterogeneity among management consultancy firms across countries. In Germany, the firms seem to be more diversified than in Portugal and Belgium/Luxembourg, for instance.

Table 6: Diversification of Management Consultancy Firms, 1989

Country	small versus large firms	Mgmt. consult.	Software prod.	Advertising agency	Tax advice	Finance advice	Insurance agency	Auditing	Legal advice	Others
Belgium/Luxembourg	small	62.0	0	0	25.0	0	0	9.0	1.0	3.0
	large	72.4	20.6	0	2.0	0.7	0	4.3	0	0
France	small	81.4	2.0	0.9	2.6	5.9	0	4.6	1.1	1.5
	large	79.3	6.4	1.8	2.4	1.9	0	8.0	0.2	0
Germany	small	76.5	3.0	2.2	1.5	1.7	1.0	0.9	0.5	12.7
	large	68.9	4.3	5.6	0.2	0.1	0	1.9	0	19.0
Greece	small	83.4	4.2	1.6	0.8	3.7	2.5	3.3	0	0.5
	mid/large*	81.7	3.3	0	0.8	14.2	0	0	0	0
Ireland	small	20.7	1.2	0.8	13.2	12.2	6.0	45.9	0	0
	mid/large**	58.3	1.0	0	11.4	8.5	0.1	20.7	0	0
Italy	small	43.7	0	0.5	49.8	1.2	0.2	3.2	0.1	1.3
	mid/large**	59.6	0.8	0	24.4	3.0	0	6.5	0.7	5.0
Netherlands	small	83.4	4.8	0.5	2.4	4.4	0	2.6	0.3	1.6
	large	80.3	3.1	10.0	1.4	1.6	0	2.8	0.8	0
Portugal	small***	73.5	0	0	11.0	0	0	0	5.5	10.0
	mid/large**	87.2	5.9	0.1	1.0	4.4	0	1.4	0	0
United Kingdom	small	91.9	2.5	0.9	0.1	2.0	0	0.1	0.1	2.4
	large	81.0	7.9	1.9	1.0	0.6	0.1	2.5	0	5.0

Note: Definitions of small firms: 0-240,000 ECU and large firms: over 2.4 Mill. ECU
 * over 240,000 ECU; ** over 480,000 ECU; *** 0-120,000 ECU

Source: BDU (1991), tables IV.a) and own calculations

1.5. Differentiation of activities

Although one observes a low degree of diversification of business services beyond the core management consultancy business in the majority of firms, these firms are by no means single-product or single-service firms. The market of management consultancy is divided into many segments. One observes that the number of these segments has increased over time and many firms have expanded their activities by entering new segments. Several reasons are responsible for this development. In the first place, internationalisation of markets has increased the competitive pressure for firms which have reacted by adopting efficiency enhancing policies. Many of those policies were suggested by management consultancy firms. The internationalisation of markets has also increased the complexity of the competitive problem to be solved by firms. To satisfy the demand by clients, consulting firms were advised to provide services belonging to different market segments. The second major reason for higher differentiation is the increasing competitive pressure within the management consultancy market. The market which was formerly dominated by multinational companies has been challenged over time by national firms in basically each country. The obvious competitive move by these firms has been to enter many market segments to be able to be the exclusive consultant to a client.

Table 7 provides an impression about the extent of activity differentiation by small and large firms included in the BDU data base. The market segments were defined by FEACO and BDU. Table 7 clearly shows that the most important market segment for management consultancy firms is corporate strategy and organization development and that this bears a bigger weight in small firms across most countries. Human resource and financial/administrative systems consultancy are also important market segments for small and large firms.

Table 7: Differentiation of Activities by Management Consultancy Firms, 1989

Country	small versus large firms	Corporate strategy organization development	Financial and administrative systems	Human resources	Production and services management	Marketing and corporate communication	Information technology and systems	Project management	Economic and environmental studies
Belgium/Luxembourg	small	54.00	21.0	23.0	0	0	2.0	0	0
	large	23.3	13.6	8.4	17.0	2.3	25.1	7.3	3.0
France	small	26.0	13.9	17.2	14.8	8.7	4.6	8.0	6.8
	large	20.5	3.9	28.6	9.6	12.8	9.6	11.4	3.6
Germany	small	30.4	10.5	1.0	9.0	13.6	13.1	8.0	3.4
	large	20.1	5.4	16.7	12.0	9.3	21.1	10.5	4.9
Greece	small	27.6	39.5	12.8	4.2	5.0	7.9	3.0	0
	mid/large*	18.7	12.2	36.3	1.7	9.7	7.5	4.2	9.8
Ireland	small	27.6	39.5	12.8	4.2	5.0	7.9	3.0	0
	mid/large**	20.0	19.0	7.5	13.0	18.5	11.5	0.5	10.0
Italy	small	45.6	32.2	15.7	0.5	1.4	1.6	1.2	2.0
	mid/large**	52.0	17.8	13.8	3.3	0.8	6.1	3.2	3.0
Portugal	small***	21.2	18.4	6.7	11.1	0	0	28.7	13.9
	mid/large**	19.2	5.4	10.7	14.5	4.9	3.9	31.7	9.7
United Kingdom	small	22.4	7.6	25.1	12.4	15.3	9.0	5.6	2.6
	large	18.7	6.7	22.1	8.3	12.1	17.4	4.9	9.8

Note: Definitions of small firms: 0-240,000 ECU and large firms: over 2.4 Mill. ECU
 * over 240,000 ECU; ++ over 480,000 ECU; *** 0-120,000 ECU

Source: BDU (1991), tables V and own calculations

Table 7 reveals that the variance of relative importance of market segments is considerable across firm sizes and countries. In Belgium/Luxembourg and Italy strategy and organization development consultancy seem to dominate other activities. In France, Greece and the United Kingdom, human resource consultancy is a major field of activity. In Ireland and Italy, financial and administrative systems consultancy is an important activity. In Germany, information technology and systems consultancy has the highest relative share across countries. Finally, in Portugal there seems to be a high demand for project management support.

Variances of turnover shares across firm sizes can be observed in all countries and market segments. Small firms seem to concentrate more on strategy and financial consultancy. Large firms, on the other hand, seem to be represented to a greater extent in the information technology segment than small firms. In addition, large firms seem to be involved in more market segments. This is most clearly seen in Belgium/Luxembourg and Portugal.

3. Small Firm Dynamics

In the absence of comprehensive databanks on small firm creation and growth at the European-wide level, this section presents information about small management consultancy firm dynamics in the United Kingdom, based on the work of the Cambridge University Small Business Research Centre's (SBRC) Business Services Project.² The role, growth and dynamics of UK management consultancy companies are likely to be reasonably similar to those in other larger European countries such as Germany and France. Before presentation of this case study, however, results of a questionnaire survey of FEACO members provide some European-wide information in this area.

3.1. Dynamics in Europe

The dynamics of European consultancy firms were studied by analysing data provided by FEACO members. A questionnaire was sent to 581 consultancies across countries and fields of activities. 145 questionnaires were returned and completed which corresponds to a response rate of 25 percent. The analysis provides some European-wide insights into the creation, age, size, growth, specialization of and clients served by the consultancy firms.

The analysis reveals that the majority of new management consultancies were created as new start-ups (63.8%) with a minority spinning-off from existing firms (28.4%). The remaining consultancies arose from mergers (3.5%) and buyouts (4.3%) The year of creation for the majority of these firms reached back no more than 15 years with about 4 percent being younger than eleven years, 57 percent under 16 years and 74 percent not older than 20 years. The age distribution is slightly biased toward older firms since FEACO statutes require that firms have to show a record of success to become a member.

Many consultancies grew considerably. In 1984, 63.5 percent of the firms employed only up to ten people, but by 1988 this share had fallen to 45.8 and continued to fall to 39.8 percent in 1992. Most of these consultancies grew into the size class 11 to 50 employees whose share increased from an original 27 percent in 1984 to 39.7 percent in 1988 and thereafter fell slightly to 37 percent in 1992. Some FEACO members continued their rapid growth and employed more than 50 people. As a consequence, the large firm size class increased its share from 9.6 percent in 1984 to 23.2 percent in 1992.

Growth rates by small consultancies were the highest, a pattern which applies to employment of consulting staff and support staff as well as fee income. Growth rates varied over time and were roughly twice as high in the period 1984 to 1988 than thereafter. However, the ranking

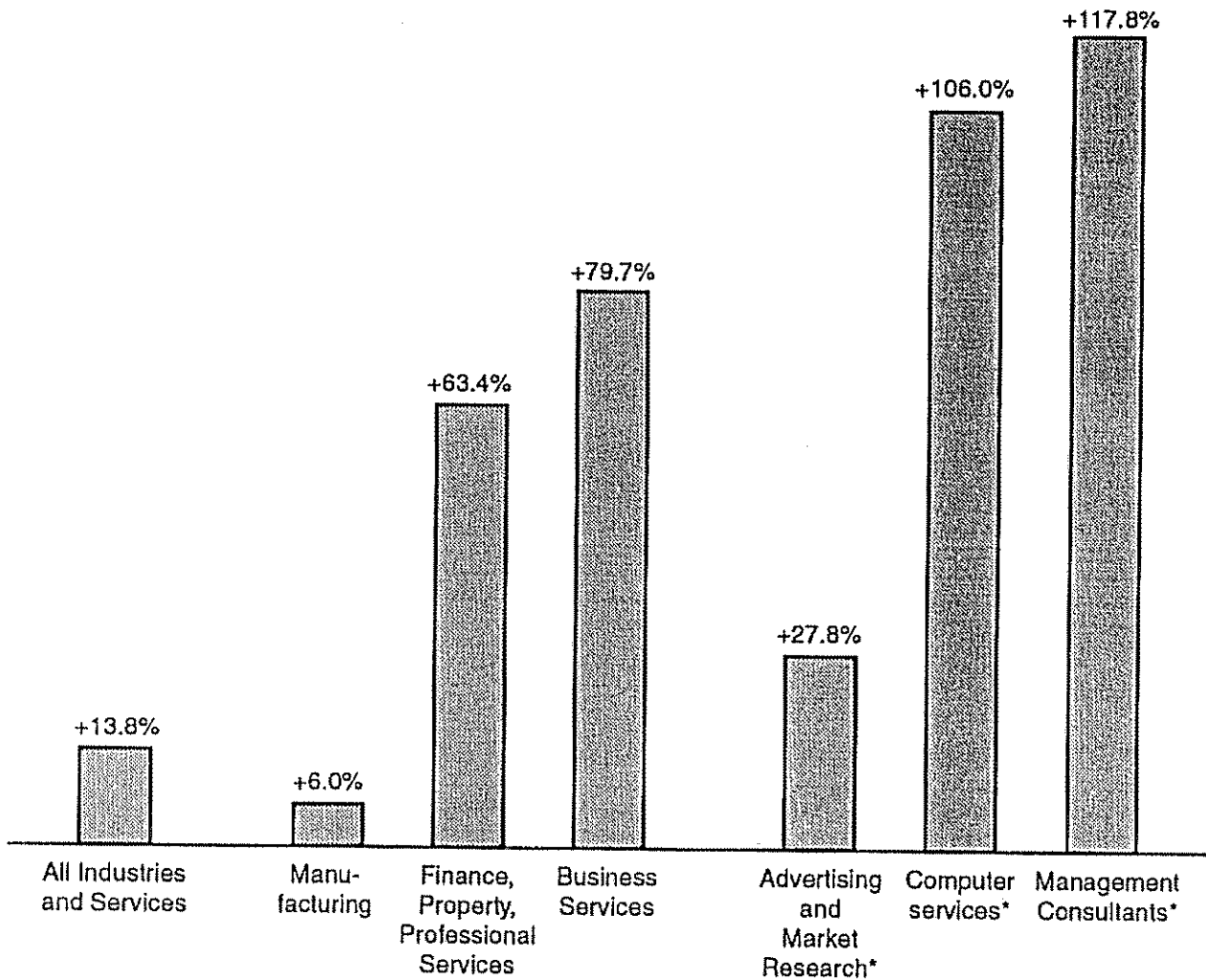
of the growth rates was stable over time and by size of firm, large firms showing less rapid growth than smaller consultancies.

Small consultancies served more small clients with less than 20 employees but the majority of the clients were medium-sized and large (77 percent). Interestingly, the size distribution of clients was not much different among the consultancies. In addition, the area of consultation also did not differ much across firms. Strategy consulting was the most important field of activities by the consultants. Human resource consulting came next for small firms and ranked third for all firms. Technology consulting was more important for larger firms but was still the third most important field of activity for small consultancies. Further differences between small and larger firms relate to production and marketing consulting where large consultants are more active in production than in marketing relative to small firms.

3.2. Dynamics in the United Kingdom

3.2.1 Growth

The Cambridge SBRC's study of small UK management consultancies is based on Business Statistics Office data on numbers and turnover of businesses classifying themselves as "management consultants" for VAT registration purposes, an original databank of 833 management consultancy enterprises compiled from the Institute of Management Consultants membership list and the sector's leading commercial directory, a nationwide postal survey of 841 professional business service firms (149 management consultancies) randomly selected from Dunn and Bradstreet unpublished registers, and an interview survey of 60 small management consultancy companies randomly chosen from the SBRC's management consultancy databank in South East and Northern England.



* Note : the three right hand columns exclude voluntary registrations below the VAT threshold

Figure 1 : Percentage Growth in Stock of Businesses in the UK, 1985-1992, by Sectors

Source : Business Statistics Office, Business Monitor PA1003, 1985 and 1992

The first of these reveals (Figure 1) that the number of UK management consultancy companies registered for VAT more than doubled (+118%) in the seven years 1985-1992, growing from 6,451 to 14,052 notwithstanding recession. Moreover these figures exclude very small consultancies with turnovers below the VAT threshold (£26 thousand), of which there were a further 5,423 in 1992. This growth was the second fastest and fourth largest in volume of all 4-digit manufacturing and service sectors in the United Kingdom economy, and far higher than for business services generally, or the economy as a whole. Self-classification and limited choice of categories means that these estimates undoubtedly include large numbers of business consultancies which would not be accepted as true management consultancies by the Institute of Management Consultants, for example. But they do indicate the remarkable recent dynamism of this sector, which is fully borne out by the SBRC's own management consultancy databank, which reveals a growth of +116% in management consultancies between 1985 and 1990 (see Table 10).

This dramatic growth of businesses has moreover been dominated, in numbers at least, by small and new enterprises. Table 8 shows that management consultancies with turnovers of less than £1 million grew by 7,371, or +116%, 1985-92: and this excludes the 5,423 very small consultancies, no doubt including many part-time or self-employed consultants, referred to above. Omitting the latter, small firms still nonetheless accounted for 98% of the total net growth of management consultancy businesses. While growth rates of numbers of medium-sized and large companies were higher, this at least partly reflects the mathematics of percentage growth rate calculations based on small initial totals. A similar picture emerges from Table 10, derived from the SBRC's own management consultancy databank, which shows that 74% of the net growth of enterprises recorded by the databank between 1985 and 1990 was of small firms employing 12 or fewer professionals. The rapid proliferation of small businesses is thus a key feature of the recent evolution of the management consultancy industry in the United Kingdom.

Of course, large firms are by definition much more important in terms of share and growth of turnover than their numbers alone indicate. Average turnover in the UK's 37 largest consultancies grew by no less than 35% in the single year 1988/89 to 1989/90, with an average growth in numbers of professional staff of 20%. Nonetheless, because of their large numbers, small firms are actually more important than large firms in their share of total UK management consultancy turnover. Table 9, based on VAT statistics and surveys by the journal Management Consultancy, suggests that in 1989-90, small consultancy firms (up to £1 million turnover) accounted for 42% of UK turnover, compared with only 22% for medium-sized firms (£1.001-5 million) and 36% for large firms (over £5 million). Small firms are thus an important component of this dynamic industry.

Table 8: Management Consultancies in the United Kingdom, 1985-92

Firm Size (£000 turnover)	1985	1992	Change 1985-1992	
			Number	%
19-100	5,518	10,340	+4,822	+87
101-1000	838	3,387	+2,549	+304
1001-5000	82	254	+172	+210
over 5000	13	71	+58	+446
Total	6,451	14,052	+7,511	+115

Source: Business Statistics Office, Business Monitor PA 1003, 1985 and 1992

Note: Figures are numbers of businesses (legal units) in VAT trade category 8655, 'management consultants'. Registrations below the VAT threshold, which rose from 19 to 26 thousand pounds, 1985-1991, are excluded.

Table 9: An Estimate of the Turnover of the Management Consultancy Industry, 1989-90

Turnover (£000)	No of companies		Total turnover (£m)	
		%		%
22-50	7,278	62	275.5	11
51-100	2,339	20	188.2	8
101-250	1,278	11	234.0	9
251-500	446	4	163.0	7
501-1000	226	2	181.0	7
1001-5000	184	1	546.0	22
Over 5000	26		915.0	36
Total	11,777	100	2502.7	100

Source: Business Statistics Office, 1989; Management Consultancy, May 1990

Table 10: The Changing Structure of the Management Consultancy Industry, 1985-1990

Size of firm	No. of firms		Growth number of firms		Survivors 1985 to 1990	
	1985	1990	No.	%	No.	%
1-2	94	223	129	137	48	51
3-5	136	242	106	78	79	58
6-12	79	177	98	124	58	73
13-25	30	72	42	140	23	77
26-50	19	48	29	153	15	79
51-100	15	36	21	140	11	73
101-250	4	18	14	350	4	100
251-500	8	9	1	13	8	100
501+	0	8	8			
Total	385	833	448	116	246	64

Source: Management Consultancy Database, 1985 and 1990

Note: Firm size is measured by number of professional staff

Table 11: **Survival and Growth Rates of UK Management Consultancy Firms, 1985-1990**

Live firms by 1985 size class	1985 Number of firms	All survivors	Survivors 1985-1990: analysis by 1990 size class									
			Number of professional staff									
			1	2-5	6-12	13-25	26-50	51-100	101-250	251-500	501-1000	1001+
1	94	48	36	11	1							
2-5	136	79	2	50	25	1	1					
6-12	79	58		3	31	18	4	2				
13-25	30	23			3	9	10	1				
26-50	19	15			1	2	4	7	1			
51-100	15	11					2	4	2	3		
101-250	4	4						1	1	1		
251-500	8	8							1	1	2	4
501-1000												
1001 +												
Total	385	246	38	64	61	30	21	15	6	5	2	4

Source: SBRC Management Consultancy Database 1985 and 1990

UK management consultancy is also of course characterised by a high rate of new firm formation. The SBRC databank shows that 57% of companies operating in 1990 were new enterprises established since 1980, with 35% founded since 1985. Most of these are small firms, though a minority of these new enterprises had already grown significantly. The SBRC postal survey reveals an even higher proportion, of exactly two-thirds, of post-1980 new firms amongst the small and medium-sized management consultancy firms in this sample. The last decade has thus witnessed a high rate of new firm creation in this dynamic industry.

3.2.2 Survival

The SBRC databank shows that high birth rates are also accompanied by relatively high death rates, with corresponding high business turbulence. Tables 10 and 11 show that just over one-third (36%) of companies operating in 1985 had disappeared by 1990, and that death rates are closely related to firm size. The five-year death rate for firms employing only 1-2 professionals was 51%, with 42% for firms employing between 2 and 5 professional staff, 27% for the 6-12 size group, and 23% for firms with 13-25 professionals. In contrast, no company employing over 100 professionals in 1985 had disappeared

by 1990. Of those companies operating in 1985 but not in 1990, 60% had been established between 1975 and 1985.

For surviving companies, however, growth rates have often been rapid. Table 11 also shows that over one-third (36%) of surviving 1985 firms expanded their professional employment into a larger size class during this period. Only 6% dropped to a lower size class, while 58% remained in the same size class. Since these classes are often quite broad, it is probable that many firms in the last group also grew, but without entering a larger class. The probability of growth to a larger size class does, however, increase significantly with initial firm size, rising from only 13% for 1985 sole practitioners, to 20% for those employing 2-5 professionals, 30% for those with 6-12, 42% for those with 26-50, and no less than 75% for the 251-500 size group. The SBRC postal survey of 841 small and medium-sized business service firms also reveals that management consultancies (generally small: median size only 12 employees in total) recorded the fastest employment growth of all sectors surveyed. Their median growth rate (+50.0%) was thus appreciably greater than that for public relations and personnel (+32.6%), design and market research (+33.3%), and 'other' professional business service (+35.0%) enterprises.

3.2.3 Specialisation

One of the most interesting findings of the SBRC project is that most small management consultancy firms exhibit a high level of specialisation in terms of particular expertise or reputation in relation to specific market segments. Table 12 shows that nearly four-fifths of small consultancy firms interviewed reported specialising in providing a particular type of expertise, with 52% viewing themselves as primarily operating as specialist management consultancies, with expertise and reputation in a particular market niche. A further 18% saw themselves as both a generalist and specialist. The minority (30%) who viewed themselves only as generalists argued that clients' enquiries dictated this, small firms being unable to pick and choose assignments. This also reduced risk and acted as a survival strategy.

Specialist firms on the other hand argued that this enabled exploitation of market niches, and that the firm's success reflected its knowledge of and reputation for work in specialised areas of growing demand. There thus appear to be two different models of recent small firm development in management consultancy and other information-intensive business services, namely the specialist and generalist models, which represent different strategies for survival. The specialist model is however not only more frequent, but also much more successful. Thus employment growth was overwhelmingly concentrated in specialist management consultancy firms, which grew on average by +3.1 employees 1985-91, compared with virtually static employment (+0.4 employees) in the group of generalists. Specialisation thus appears to be the key to small business growth in this sector.

The nature of small firm specialisation varies quite widely, with small specialist firms being found in all areas of management consultancy. But certain market sectors are favoured, as revealed by firm self-descriptions recorded in the SBRC databank, which reveal a relative small firm bias towards management strategy, personnel and human resources, marketing and sales, and executive selection. Large UK firms, in contrast, report expertise more frequently in information technology, manufacturing, and economic and environmental planning.

Table 12: Small Management Consultancy Firms: Specialists or Generalists?

Does your firm specialize in providing a particular type of expertise?

Yes		No	
No.	%	No.	%
46	76.7	14	23.3

Is your firm primarily a specialist or generalist management consultancy company?

Specialist		Generalist		Both	
No.	%	No.	%	No.	%
31	51.7	18	30.0	11	18.3

Source: SBRC Management Consultancy Interview Survey

Nature of small and large firm specialisation

	Small %	Large %
Small firms more likely to specialise on		
- personnel and human resources	22.1	16.7
- general management strategy	19.6	13.2
- marketing and sales	12.3	9.3
- executive selection	5.2	1.9
Large firms more likely to specialise on:		
- information systems and technology	9.2	14.3
- manufacturing and production	7.6	10.5
- economic and environmental planning	1.3	4.7

Source: SBRC Management Consultancy Databank (small firms = 1-12 professional staff, 1467 responses; large firms = 51 and over professional staff, 258 responses)

3.2.4 Factors behind small firm dynamics

The results of the SBRC Business Services project strongly suggest that the rapid recent growth and high formation rate of small management consultancy firms in the UK are chiefly to be explained by rapid growth in demand for specialised business advice and expertise from large and small firms, across the whole spectrum of the economy. This demand growth in turn reflects the remarkable economic and political turbulence of the last decade, involving acute recession, rapid technological change, increasing internationalisation - and Europeanisation - of competition, and radical government policies such as deregulation and privatisation. Small consultancy firms do however most frequently serve large rather than small clients, in manufacturing, business and financial services (Table 13). Their provision of business expertise to such companies is thus arguably of some strategic importance in enhancing the overall competitive efficiency of Europe's economies in the 1990s.

Understanding the growth of small management consultancy enterprises and their apparent ability to compete effectively with large firms must begin with the fact that the strategic advice and information they exist to provide is both relatively intangible and embodied in experienced individuals. These individuals provide a personal or 'customized' service to clients while their expertise is based on their own reputations, track records and contacts. Such professional expertise is highly mobile, and coupled with low barriers to entry and capital requirements, enables individuals easily to leave established firms to set up new firms. Mobility also means that large firms are unable to achieve industry dominance by takeovers, since key professionals can easily 'vote with their feet' rendering takeover strategies ineffectual. A further key factor is that small management consultancies are operating within an imperfect and fragmented market place for business services. Consultancies usually have little knowledge of their competitors, while client choice of external advisors is frequently if not typically dependent on personal recommendation and an informal selection procedure. These

characteristics all contribute to continuing fragmentation, turbulence and high birth and death rates in the management consultancy sector.

Table 13: Markets and Clients of Small Management Consultancy Firms

Average % Sales to Clients by Sector							
	Financial Services	Business Services	Consumer Services	Manu- facturing	Local Govt.	Central Govt.	Other
All Firms	14.8	16.6	13.2	38.2	4.0	8.8	4.4
Average % Sales to Clients by Size of Client							
	Small Firms		Medium-Sized Firms		Large Firms		
All Firms	16.7		18.3		64.6		
Average % Sales to Clients by Client Location							
	Local		Rest of Region		Rest of UK		Overseas
All Firms	20.9		29.8		40.0		11.1

Source: SBRC Management Consultancy Interview Survey

3.2.5 Supply-side factors

The process of small management consultancy firm creation and growth thus needs to be understood in terms of both supply-side and demand-side stimuli. On the supply side, expertise, reputation and client networks characteristically stem from previous work in large client or consultancy companies. Thus 71% of entrepreneurs interviewed reported that they had previously worked for a large (over £5 million turnover), not small (only 17% in companies with less than £1 million turnover), enterprise before setting up their firm. This large firm 'incubation' finding is the precise opposite of that normally reported for new manufacturing firms (Keeble, Walker and Robson, 1993, chapter 3). Previous employment was usually in consultancy (45%) or client (46%) companies, with a few founders coming from higher education or the public sector (9%). The great majority of new management consultancies begin life as entirely new start-ups (77% of the 149 consultancies surveyed by the SBRC postal questionnaire), with a minority spinning-off from existing companies (19%). Virtually none arise from mergers or management buyouts (only 2% in each case). Low barriers to entry are clearly indicated by the very

small capital requirements reported by survey respondents, which are usually met from personal savings (71% of firms) and/or bank loans (23%).

Entrepreneurs' motives for and processes of new management consultancy formation are recorded in Table 14, obtained as unconstrained responses to 'open' questions. The table reveals an overwhelming preponderance of positive motives, involving enhanced personal satisfaction and betterment, and greater independence, stimulus, job satisfaction and financial gain. In contrast, only 13% of firms were set up as a result of the redundancy and unemployment of at least one of their founders, with only 10% reporting this as a prime motivation. While the proportion of firms reporting unemployment to be a factor in firm formation was higher (27%) amongst the SBRC's postal questionnaire respondents, with a particular emphasis on firms set up in the 1980s (32%; see Bryson/Wood/Keeble, 1993), the general conclusion here is that recession and rising unemployment have played a secondary rather than a dominant role in new management consultancy firm creation in the UK.

Table 14: The Process of and Motivations for Management Consultancy Firm Formation

How and why was your firm established?

No. of firms					
A	B	C	D	E	F
21	17	8	4	0	1

- A = worked for existing MC firm and decided that they could do it for themselves
- B = worked for an existing client firm and decided they could do it for themselves
- C = redundancy
- D = spin-off, of 2-3 founders jointly from MC firm
- E = housewife with children re-entering profession/work
- F = externalization, of 2-3 founders jointly from client company's in-house service department

What were the founder's prime motivations in setting up the firm?

No. of firms								
	A	B	C	D	E	F	G	H
Management Consultancy	33	12	17	12	4	10	4	6

A = independence/freedom

B = financial gain

C = challenge/intellectual and personal stimulus

D = greater job satisfaction

E = felt able to do it better than former employer

F = to earn a living

G = to provide better service than competitors

H = redundancy

Source: SBRC Management Consultancy Interview Survey

Even less important is the role of externalisation, in the sense of the deliberate hiving-off as an independent firm by a larger company of a section or department previously operating as an in-house consultancy activity. Only one case of this was discovered by the SBRC interview survey. Large firms do sometimes help new firms set up by their former employees by providing work and initial assignments. But this was nonetheless reported only by a minority (28%) of firms, with the majority (58%) receiving no help, and a few (8%) being actively discouraged by threats of legal or other action. Externalisation of this kind has thus been at best only a minor supply-side influence on small management consultancy firm formation.

A final supply-side influence which warrants attention is the role of new technology. The SBRC study provides little support for the thesis that technological change is directly stimulating new management consultancy firm formation, as has perhaps happened in computer services, only 8% of firms surveyed reporting new technology as a factor in their establishment. But it does suggest that the recent development of cheap high-performance personal computer systems, sophisticated software for data analysis and desk-top publishing, and

the whole range of modern telefax, mobile telephone and other telecommunication equipment, have enabled small management consultancies to compete on much more equal terms than previously with large firms in relation to report quality, presentation, data analysis and speed of preparation. Thus 83% of surveyed firms had 'invested significantly' in new technologies and equipment over the last five years, and 82% reported that this had improved competitiveness, through a range of mechanisms including higher quality and creativity of reports, faster and more flexible responses to clients' needs, increased productivity and in-house savings, and even the production and sale of tangible products such as computer programmes and software. Overall, new technologies were reported by 79% of surveyed firms as being 'important' for competitiveness and viability, with 38% reporting them to be 'very important'.

3.2.6 Demand-side factors

The processes of small management consultancy firm creation and growth are of course even more powerfully influenced by demand-side forces. As already discussed, recent growth in demand for expert, specialised and customized business advice is of fundamental importance in this respect. The nature and importance of such demand is further highlighted by Table 15, which records management consultancy firm responses to an 'open' question on the nature of their most important competitive strengths. The reputation of the firm's professionals, quality of expertise, customization ('personal attention to clients' needs'), specialisation and flexibility dominate the list of these strengths. Price, perceived by some observers as a key factor in small firm competitiveness relative to large, comes only eighth in the list, notwithstanding average 1991 charging rates for the small management consultancies surveyed which are 37% lower than the average for a large company sample reported in Management Consultancy (Keeble, Bryson and Wood, 1992).

The inclusion of 'flexibility' deserves further discussion. Small firms are generally viewed as being inherently more flexible than large firms, in their ability to respond rapidly to changing market or competitive environments. But in the case of small management consultancy firms, this inherent flexibility is significantly enhanced by the widespread development and use of networking via associate consultants and cooperative agreements with other small firms, to access additional specialised expertise. As Table 16 shows, no less than 85% of the SBRC interview sample made use of associate consultants to enhance their flexibility, with network sizes frequently involving as many if not more additional consultants as those employed full-time by the firm itself (mean number = 10 associates). And over twice as many firms (37%) reported increased use of such associate consultants over the preceding five years as those reporting decreased use. The most frequently cited reasons for such networking were moreover directly to enhance flexibility, by extending the range of specialised expertise offered to clients, and coping with periods of work overload. Finally, the SBRC survey also reveals that over half (53%) of all the small management consultancies surveyed had set up or were setting up co-operative networking agreements with other management consultancy companies, again to enhance flexibility and widen access to expertise and markets. These empirical findings thus provide considerable support for 'flexible specialisation' explanations of the growth of small firms in professional business services, focussing attention as they do on market fragmentation and new opportunities for specialised small firms, and the growing need for flexibility and customization in meeting client needs (Wood, 1991; Keeble, 1990).

Table 15: Small Management Consultancy Firm Competitive Advantages

What do you consider to be your firm's main competitive strengths?

		No. of mentions
1	Reputation	25
2	Quality of work	20
3	Personal attention to clients' needs	17
4	Quality of firm's people and staff	17
5	Specialisation	15
6	Knowledge of specific markets/expertise	15
7	Flexibility	15
8	Price	10
9	Awareness of client's requirements	8
10	Added value	3

Source: SBRC Management Consultancy Interview Survey

Table 16: Networking and Flexibility in Small Management Consultancy Firms: Associate Consultants and Co-operative Agreements

Size of Network of Associates	% of Firms	Role of Associates in Business Activity	% of Firms
No Associates	15	Extend Range of Expertise	83
1-5 Associates	22	Assist with Work Overload	43
6-10 Associates	38	Reduce Costs/Increase Flexibility	25
11 Associates and over	25	Marketing	10
		Data Collection	3
		Extend Geographic Range	10

Has your Firm or is your Firm Establishing Co-operative Ventures with Other Management Consultancy Companies?

% of Firms

Already Established	43
Being Established	5
Actively Considering	5
Not Considering	47

Source: SBRC Management Consultancy Interview Survey

Technological change is a further demand-side influence which appears to be significant in small management consultancy growth. Nearly two-thirds (63%) of interviewed companies reported that technological change in client activities, through increased use of new information technology, computerization, or flexible production methods, had increased demand for their services. This reflects increased need by clients for information technology and computer-related business advice, a general increase in work because of technological restructuring, and provision of better information from clients for analysing their needs.

In contrast to this, however, the UK evidence is less supportive of the thesis that small management consultancy firm growth simply or largely reflects externalisation of work previously carried out within client firms by their own employees. This thesis, argued by workers such as Rajan and Pearson (1986) and Martinelli (1991), implies that small business service firm growth is in a sense illusory, representing simply a reclassification of activity between organisations, and specifically from large firms, refocussing their operations on core manufacturing or service functions, to small firms. This UK case study has already demonstrated, however, that this process has not been of any supply-side significance for small management consultancy creation. And the interview survey (Table 17) also reveals that though externalised work has increased demand for small firm expertise, this has affected only a minority (40%) of surveyed firms, three-fifths reporting no impact at all of this kind on the development of their business. Externalised work is moreover currently of measurable importance for only just over one-fifth of surveyed firms (Table 17), reflecting the fact that for some firms, externalisation was only important historically, in the early 1980s period of severe recession. While some firms were not able to assess the extent to which current assignments represented work previously carried out within client companies, the general conclusion arising from these findings is that externalisation has been a minor, not major, demand-side influence on the recent growth of small

management consultancy firms in the UK, contrary to many previous judgments.

Table 17: Small Management Consultancy Firms and Externalization of Client Demand

Have you taken on work formerly undertaken by client's own employees?

Yes		No	
No.	%	No.	%
24	40.0	36	60.0

What proportion of current business has come from this type of switching activity?

None/Not known		1-10%		11-20%		21-40%	
No.	%	No.	%	No.	%	No.	%
47	78.3	7	11.7	2	3.3	4	6.7

Source: SBRC Management Consultancy Interview Survey

Table 18: Has your firm benefitted from any government policies designed specifically to help small companies?

	% of Firms			
	A	B	C	D
Management Consultancy	7	7	0	3

- A = Enterprise Initiative Scheme
- B = Enterprise Allowance Scheme
- C = Business Expansion Scheme
- D = Loan Guarantee Scheme

Has your firm been involved in consultancy work as part of the DTI's Enterprise Initiative scheme?

% of Firms	% of Current Work				
	Not involved	1-10%	11-30%	31-74%	75-100%
	67	10	10	3	10

Source: SBRC Management Consultancy Interview Survey. The UK Department of Industry's Enterprise Initiative, set up in 1988, provides subsidized private consultancy advice to small and medium-sized manufacturing and service enterprises. The Enterprise Allowance scheme provides weekly financial support for one year to unemployed workers setting up new businesses.

Finally, the UK case study also lends only limited support to the argument that small firm growth reflects the impact of supportive government policies. Only 18% of surveyed companies viewed such policies and government encouragement of an 'enterprise culture' - 'the Thatcher factor' - as a significant reason for the growth of small firms in their industry. Surveyed firms depend to only a limited degree on government contracts and assignments (12.8% of current turnover on average from central and local government, taken together: see Table 13), while specific government policies such as the Department of Trade and Industry's consultancy-focussed Enterprise Initiative (see Table 18) have provided business for only a minority (33%) of these companies. It is however noteworthy that a small number (12%) of consultancies did depend heavily (60% or more of their business) upon Enterprise Initiative contracts, and that these are likely to suffer from the planned termination of the scheme in 1994-95. Government policies have therefore played some part in UK small management consultancy growth; but their role is not of major importance in explaining this phenomenon.

4. The Future of Small Management Consultancies?

The study has argued that small management consultancies in Europe perform a valuable role in contributing specialised information and business expertise to a wide range of organisations, but especially large firms in manufacturing, financial and business services. Their rapid recent growth reflects a variety of forces, centred on increased demand for specialised advice from other firms in a rapidly-changing and turbulent business environment. Small firms can compete with large management consultancies in the context of an imperfect market because they offer specialised and customised professional expertise, and possess inherent and organised flexibility through associates and co-operative networks. They also benefit from the availability of modern personal computer and telecommunication technologies, and lower overheads. Professional reputation and informal contacts derived from previous employment in large

companies, the main incubators for new small management consultancies, are crucial for successful establishment and growth.

The UK data show that like small firms generally, high birth rates are accompanied by high death rates, small consultancies being significantly more vulnerable to closure than larger firms. The severe early-1990s recession has undoubtedly boosted these death rates, although no data are yet available to measure this. However, the SBRC survey of small business service firms in Great Britain, which was carried out during 1991 in the midst of a deepening recession focussed on the South East where most firms operate, does suggest that the long-term prospects for such firms are relatively positive. Only three of the 80 firms contacted for interviews had actually closed since registers were compiled in 1990, while half reported that notwithstanding recession, their main objective over the next two years was further growth, either steadily (43%) or rapidly (7%). The remainder opted either for 'staying small by choice' (31%) or 'survival' (18%).

Their expectations for their industry generally during the 1990s (Table 19) were naturally coloured by their current recessionary experience, with declining market demand being forecast by a significant minority (23%: equal first in the list) of surveyed firms. However, an increased small firm death rate because of over-capacity and too much 'dead wood' came only 6th in the list (13%), with the majority of firms adopting either a positive or neutral view of the industry's likely future. Thus a significant number (23%, equal first in the list) anticipated a continuing growth in market demand, with others envisaging trends to increasing specialisation of demand and service provision (18%: equal third) and a growth in client sophistication in their use of external consultants (18%: equal third). Some 17% anticipated increased polarisation between large and small management consultancy firms. These no-doubt cautious judgments and the growth objectives noted above do suggest that despite the undoubtedly major recessionary problems experienced by both large and small management consultancy firms in Europe since 1990, the

significant role and competitive success of many small management consultancy enterprises is likely to continue in the 1990s, reflecting their value-adding capability, specialised expertise and flexibility in responding to client needs.

Table 19: How do you see your industry as a whole developing in the 1990s?

		No. of mentions
1 =	Growth in market	14
1 =	Decline in market	14
3 =	More specialisation	11
3 =	Clients more sophisticated in using outside help	11
5	Polarisation between large and small firms	10
6	Too many companies - a lot of dead wood - many will die	8
7 =	New technology - small firms will benefit	1
7 =	Industry will become more professional	1

Source: SBRC Management Consultancy Interview Survey

Notes

- 1 These figures are estimated based on various experts' judgements, like Roland Berger & Partner (1988).
- 2 The project was sponsored by the UK Economic and Social Research Council, Barclays Bank, Commission of the European Communities (DGXXIII), Department of Employment and the Rural Development Commission. Their support is gratefully acknowledged.

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