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EUROPE: A MARKET FOR THE CONSULTING INDUSTRY

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ABSTRACT

The work project analyses the evolution of the European consulting industry during the last decade. Key findings are compared with past studies comprising the evolution of the market from the 1960's to the 1990's in order to assess the validity of two expected trends: evolution in a convergent path (homogenization hypothesis) and dominance of American companies (Americanization hypothesis). The conclusions from this study contradict the homogenization hypothesis, characterizing Europe as a continent of diversity. While the Americanization hypothesis seems plausible, European consultancies remain relevant players. A new discussion topic arises: is Europe replicating the Americanization phenomenon (Europeanization hypothesis)?

KEYWORDS: management consulting; Europe; homogenization; Americanization.

INTRODUCTION

Despite its popularity, the definition of management consulting is far from being widely accepted. For the purpose of this project, the industry is going to be defined as an “advisory service contracted for and provided to organizations by specially trained and qualified persons who assist, in an objective and independent manner, the client or organization to identify management problems, recommend solutions to these problems, and help when requested, in the implementation of solutions” (Greiner and Metzger 1983:7).

The thesis hereby presented intends to study Europe as a market for the consulting industry in a long-term perspective. The main objective is to assess the validity of the hypothesis proposed by Matthias Kipping and Thomas Armbrüster (1999:22) stating that the Europe will be dominated by American players and the one suggested by Lars Engwall (1999:31), which foresees increased homogeneity in the market.

American consultancies are prominent players in Europe. By the 1990’s, these companies already ranked among the top competitors in business volume and seemed to be gaining importance. Nevertheless, their presence and degree of penetration varied greatly across the many domestic markets (Gross and Poor 2008:61). In the context of the CEMP research project, Matthias Kipping and Thomas Armbrüster (1999) predicted an increased Americanization of European consultancy.

Leveraged in his model for the dynamic creation of management knowledge, Lars Engwall (1999) identified a trend towards the homogenization at two levels: within

consultancies and among their clients. While defining clearly the customers and evaluating the convergence in their practices is not easy, it is feasible to measure the standardization within the industry based on the changes in the market structures. Therefore this test will be used as the main driving question to validate the homogenization hypothesis.

Assessment will be grounded on the evolution of European market in terms of size, structure, concentration and importance. Then, the results will be compared with trends listed in the literature review, focusing on the two main hypotheses to be tested.

The project is divided in two core parts: review of past studies and analysis of the last decade. The first one will appraise the relevance of consulting as an activity that has been shaping management knowledge and the evolution of the European market for consulting from the 1960's up to 2000, with special emphasis in the decades of the 1980's and 1990's. The second part will use data from FEACO and Gartner to evaluate the main changes in the European market. Due to imperfect information, a parallel analysis will be conducted based in a small set of years in order to measure differences among key countries. Finally, combining the two parts, some conclusions will be drawn.

CONSULTING AS MANAGEMENT KNOWLEDGE AND PRACTICE

Despite its importance there is no unique approach to the research of the consulting. Due to its broad and volatile definition, two main perspectives were formed. Authors like Lars Engwall and Matthias Kipping (2002) center their research on the role and impact of the industry in management knowledge and business practices – functionalist perspective. In opposition, a second approach questions the professionalization of the advisor and the

maintenance of a “knowledge industry” based in the consultants’ ability to legitimize its value proposition through results (Clark and Fincham 2002:7) – critical perspective. For the purpose of this project, the functionalist perspective is the most relevant, as it is centered in the evolution of the industry and the contribution of the consultant to the management practice.

There are different agents in the creation of management knowledge. The CEMP project defined the process as a close and multidirectional interaction between the key producers: practice, academia, media and consulting (Engwall 1999:62). Such relationship results in a collaborative evolution that has blurred boundaries between the different entities. Despite this convergent path, each agent plays a different role. While global consultancies tend to be active in the development of a standardized common language accessible to all businesses regardless of nature or geography, local consultancies and business schools play their part in the translation and adaptation to local contexts (Engwall, et al. 2001).

Historically, consultants have been hired based on their exposure, that extends in depth, breadth and variety (Drucker 1981:3) and they have been prominent publishers of best practices and success cases ever since they became officially institutionalized. After the 1960’s, frameworks developed by companies like the Boston Consulting Group became standard tools that supported the creation of management knowledge in areas such as strategy. Nevertheless and regardless of their role as creators, consultants have predominantly been disseminators of knowledge (Kipping and Armbrüster 2000:15).

Larger companies, which are typically of American origin and ownership (Engwall, et al. 2001:10) feed on their scale, network and reputation (Engwall 1999:52) to develop projects with an extensive client base. This ability to influence in a cross industry axis is furthermore complemented by the capacity to shape organizations, practices and mindsets in a vertical way. While projects are usually directed to middle and top managers, consultancies are also a popular employment destiny among recent graduates. The “super business school” concept (*The Economist*, 1997:16), associated with the high employee turnover that characterizes the industry (*Financial Times*, 2011) makes consultancies short term projects that enrich the status transition from student to professional (Miner 1973:253). It is also worthy to point out that a significant part of those who keep working as consultants end up creating spin-offs to offer complementary or specialized services, scattering the knowledge and work methods within the industry boundaries.

The standardization of business practices is deeply tied to the access to management knowledge. In this context, consultants play a unique role as carriers and promoters of homogenization, capable of generating isomorphism through three forces: coercive, normative and mimetic (DiMaggio 1983). Coercive (imposed decisions, rules and norms) through the implementation of projects; normative (professional proximity), when a standard business practice results from common solution implemented by several clients operating in the same industry . The third one, mimetic (benchmarking), becomes evident considering that “to McKinsey” was once used as a transitive verb that meant an internal reorganization lead by McKinsey (McKenna 2006:181).

Consultancy in Europe (1960-2000)

The pioneering consultancies appeared in the USA at the end of the XIX century (Canback 1998:4), signaling the birth of a structured industry. The first institutionally organized consultants were mainly engineers that relied on scientific management methodologies to improve efficiency at the shop floor level (Engwall, et al. 2001). McKenna (1995:52) defends that modern consulting started only in the 1930's, when a second wave of consultants (Engwall and Kipping 2002:14) moved to the "CEO-level" (Kipping 1996:112) and started selling the strategy service. During the 1960's, as business volume grew larger, auditing firms joined the competition for consulting services, introducing the third wave. More recently big IT-related firms entered the market. With an offering that was based in software integration and data analysis these players outgrew the strategy oriented firms (Kipping and Armbrüster 1999:4).

While the first evidence of the industry in Europe dates back to the 1920's, it was not until the Second World War that American consultancies started establishing offices in Western Europe (Keeble and Schwalback 1995:3). London and Brussels provided privileged gateway points for the overseas satellites founded in partnership with local firms and professionals. The "Big Five" (Andersen, Deloitte, KPMG, PricewaterhouseCoopers and Ernst & Young) became prominent players in this market during the 1990s, as local clients demanded for more structure and coordination projects as well as IT consulting services (Engwall, et al. 2001).

The development of the industry occurred at different pace across the domestic markets. The continent became polarized between the North and the South. In the North

business volume and income fees were large, whereas in the south the consulting activity was more fragmented and less valued (Kipping and Armbrüster 1999:37).

Market structure also varied across regions (Kipping 1996:121) with Germany and the United Kingdom being examples of two completely opposite equilibriums. Germany was predominantly controlled by small and medium consultancies and while the American companies were among the largest players, their share was small (Gross and Poor 2008:61). On the contrary, the United Kingdom was dominated by large companies and, among them, US based firms detained more than 50% of the market share (Kipping and Armbrüster 1999:26).

By 1989 the European market was about half the size of the American one and twice the size of the Asia-Pacific market (Kipping 2001:11). A decade later, in 1999, consulting in Europe was still growing at a double digit, mainly propelled by periphery countries like Portugal, Greece Spain and the Nordic regions, (FEACO 1999:4). Past studies concluded that by that time, the industry structure was divided between large and small sized firms and dominated by American based companies. Additionally, the coexistence of both strategy consultancies and audit companies among the top firms indicated that in 1997 Europe was in a state of transition between the second and third wave (Kipping and Armbrüster 1999). Keeble and Schwalback (1995:3) characterized this period as the beginning of a restructuring phase that could increase the American dominance. Furthermore this process could also threaten the position of strategy consultancies if the European market focus were to shift to the third wave of consultants (Engwall, et al. 2001:38).

As the market matures, the increased number of projects and consultants would fuel the homogenization of business practices (Engwall 1999:8). While the larger client base and activity intensity would be sources of isomorphism among contracting companies, the number of professionals switching consultancies would aggravate the standardization within industry boundaries.

This study assesses the impact of the restructuring process (Keeble and Schwalback 1995:3) in order to test two hypothesis stemming from the literature: increased Americanization (Kipping and Armbrüster 1999:22) and homogenization, especially within the consulting industry (Engwall 1999:8).

SOURCES OF INFORMATION

As previously stated, consultancy is a service of very volatile and blurred boundaries. In addition, the ownership structure of most companies and the absence of regulatory entities further restricts access to accurate information about the sector.

This project is based on statistical information provided by the European Federation of Management Consultancies Associations (FEACO), a non-profit association established in 1960 and composed by national associations across Europe. The entity publishes yearbooks compiling statistical data on domestic and aggregated markets. In 2010, FEACO had 17 national associations from Austria, Bulgaria, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Portugal, Romania, Slovenia, Spain, Switzerland and the United Kingdom. Although aiming to provide the most accurate and reliable information possible, there are shortcomings. Some countries with large economic impact in the industry do not

provide direct information (for example: Belgium, Norway and Czech Republic). Many consultancies also choose not to disclose detailed information about revenues and respective sources, as well as number of employees and client data. Furthermore, in 2005 the organization redefined some key elements such as clients, consultants and service lines, creating additional consistency issues that must be solved.

Regardless of its limitations, FEACO annual reports are still the best source of information about the European consulting market. These surveys provide an overview of the entire area, as well as information on different domestic markets. Moreover, as this organization is the main source of data used in the previous studies, using the same sources of information assures continuity in the study of the market.

Gartner is a research and advisory company that conducts and publishes annual industry scans for the use of consultancies. In order to test the Americanization hypothesis, Gartner's 2010 report will be used, which contains quantitative information about the 10 companies with most market share in Eastern and Western Europe in 2008 and 2009. The document includes additional qualitative findings about the general evolution of the market, which are used as support for the conclusions. Whenever complementary information is required, Eurostat statistics are used.

CONSULTING INDUSTRY IN EUROPE: THE LAST DECADE

In 2010, the European consultancy industry represented a market volume of €86 trillion (at market prices), generating 0,67% of the European GDP and employing almost 660.000 people including consultants and auxiliary staff.

The decade was characterized by macroeconomic events that introduced significant instability in the European markets. The *dot.com* and the 2008 financial crisis produced negative impact, while European Union enlargements generated additional revenues. In opposition, 2006 was a particularly prosperous year, economic growth was accelerated by record levels of investment (Europa 2006:1) which were reflected on the industry performance; consulting in Austria, Denmark, Italy and Romania grew over 20% (FEACO 2006). As a consequence of the instability, the average growth rate of the decade was significantly smaller than in the late 1990's (FEACO 1999:2; FEACO 2000:3). However, when compared to GDP growth, consulting remained an outperforming industry (refer to figure 1 for industry growth rates).

France, Germany, Spain and the United Kingdom formed the group of countries with larger business volume, representing consistently more than 70% of the business volume generated in Europe. Among the four regions, Germany and the United Kingdom stood out, producing more than 50% of the market volume throughout the entire decade. In both cases the industry accounted for more than 1% of the country's GDP in 2010 (refer to figure 2 for an industry ranking), setting these countries as the most important in maturity and activity intensity (Kipping and Armbrüster 1999:18). Oppositely, with annual growth rates peeking at over 20%, Eastern countries represented an opportunity zone (Gartner 2010:7) (refer to figure 1).

The ratio business volume over GDP can be considered a good indicator of industry development as it reveals the economic importance of consulting. When comparing markets that are relatively similar, *ceteris paribus*, the one with the highest ratio should be the more

developed one. According to this hypothesis, the UK was the most mature market, followed by Denmark, Austria and Sweden. There were also markets maturing at slower pace, as was the case of Poland and Greece, where the industry was still of reduced importance. The fact that, in general, the ratio increased could be interpreted as evidence that consulting was an outperforming industry in Europe. Additionally, the growth rate of the indicator could also be used as a proxy for the relative positioning of the regions in an industry lifecycle graph (refer to figure 3).

Market structure

The decade (2001-2010) was shaped by a process of concentration in both large and small consultancies. The reduction of market share of medium companies was especially evident during the *dot.com*. When associated with the increase of the top 20 players' share, such change could be perceived as evidence of takeovers within the industry (check figure 4 for more information on the evolution of market share). The possibility is likely to be part of a growth strategy for big multinationals operating in mature markets with limited organic growth opportunities. Moreover, past events suggest that some strategy consultancies were acquired by IT and operations companies (*The Economist*, 2012). If found valid for the European market, this premise supported the transition hypothesis, as it represented a shift of focus from second to third wave consultants

Recent top consultancy rankings introduced significant changes (check table 1 for evolution of the European top consultancy ranking). The most immediate difference is the presence of all "big four" (Deloitte, PricewaterhouseCoopers, Ernst & Young and KPMG) among the top 10. These companies are not only American as they are audit oriented firms.

In addition, the absence of strategy consultancies suggests that the third wave of consultants dominated the market. While only 3 companies have headquarters outside USA, the only 2 purely European consultancies were among the top 5 performers of the region, proving the importance of local players.

Considering the proximity to the worldwide ranking as a proxy for industry maturity, a clear parallel could be made between the organizations present in both lists. Although more mature, the larger statistical significance in the correlation with global leadership proves that the consulting industry in the USA still outweighed the European one (refer to tables 2 and 3 for ranking and Spearman correlation analysis, respectively).

Due to data limitations, comparing the concentration of consulting with other industries is not an easy task. Observing figure 4, the fact that the top 20 companies detain consistently more than 50% of the market all throughout the decade, may be an indication for a concentrated industry.

Clementino (2009:16) suggested that multinational consultancies charged higher fees for their services. As a result, domestic markets that are more exposed to these companies are more likely to register higher total turnover per management consultant ratios, especially when considering countries where the industry maturity and price levels are comparable. The UK and Switzerland scored the highest ratios. Bulgaria and Poland were the regions with lowest turnover per consultant. All-in-all, Europe remained a continent of diversity. The sizeable growth observed in the dispersion index of this ratio implied increased differences between the markets (refer to figure 5).

Even the most developed markets remained very different from each other. While the UK and Germany are the most relevant examples, other domestic markets also evolved in divergent paths. One may consider the case of Austria and Denmark as being paradigmatic; two countries relatively alike in terms of business volume, industry growth and economic importance. Austria's market was severely fragmented and controlled by small consultancies; industry structure and tough competition limited turnover per consultant. In opposition, in Denmark, increased client loyalty and centralized purchasing decisions favored large-scale players and concentration (FEACO 2006).

Market segments

Business consulting was the most important segment for the majority of the countries, with the exception of Spain. Nevertheless, due to the large number of services that fit in the definition, it cannot be immediately perceived as a sign of homogenization. In fact, there were significant variations (within the group). For example, in Slovenia and Germany strategy-oriented projects were more important, while UK consultants draw a sizeable amount of revenues from operations and organization as well as project management. HR consulting was a particularly important issue in France.

The first half of the decade was characterized by a reduction in the relative importance of IT services. In 2001, IT represented more than 33% of the services rendered. However, in 2004, it accounted for less than 26%. Oppositely, operations management increased its share all throughout the decade and in 2010, the service represented 37% of the total turnover. Outsourcing was characterized by a convex curve topping in 2005 (refer to figure 6 for more information on the evolution of these service lines). The peak in

outsourcing added to the decrease in IT consulting services could indicate that clients were switching from an advisory service to build in-house capabilities to a more specialized third party service provider.

Considering customer sectors, there were three major sources of business: public, financial services and manufacturing. All countries present in FEACO surveys were highly dependent in at least one of these sectors (making this variable a particularly useful item in the clustering of domestic markets). The public sector is a peculiar type of client as it is likely to contribute to the concentration. Due to the centralized purchasing functions and the scale of its operations, this client will probably hire a high volume of business from a restricted number of consultancies. Such occurrence seems to be supported by the evidences gathered by Matthias Kipping and Thomas Armbrüster (1999:21), which ranked the United Kingdom as a more concentrated market than the German one. Furthermore, possibly due the very complex and heavily regulated procurement process (Roodhooft and Van den Abbeele 2006:494) and/or due to the dual objective of both financial performance and social wellbeing, the public sector was slower to adapt. As a result, it became an especially relevant source of revenues during less wealthy times, peaking its relative weight at over 25% market share during the *dot.com* period (refer to table 4 for the relative weigh of the public sector as a client). Similarly, even though no information was provided about the size of the contracting organizations, client bases composed by larger companies are also likely to contribute to more concentrated industry structures.

Recent reports included information about international trade. Although limited in sample size and temporal extension, it is important to note that even with significant

differences between the domestic markets, the overall distribution was close to a 50-50 split between exports within Europe and to the rest of the world (refer to figure 7 for more details on international trade). Such observation could be a first evidence that Europe is undergoing a process that is similar to the Americanization. As the market becomes increasingly more mature, consultancies not only follow clients to foreign locations (Gross and Poor 2008:61) as they try to explore business opportunities with the host country's main economic partners. This international venture could result in an Europeanization of the consulting industries in booming economies spread across South America, Africa and Asia.

DISCUSSION AND CONCLUSIONS

An unstable environment shaped the years between 2001 and 2010. As a result the growth rate of the consulting industry in Europe was considerably smaller than that of the precedent decade.

Due to data limitations, it was not possible to reach a definitive conclusion about the Americanization hypothesis. Consultancies with headquarters located in the USA dominated the rankings, but European players remained among the top-ranked firms. Therefore, and even if the hypothesis seems to be supported, if valid, it has not occurred to its full extension. The redistribution of market share increased the polarization between small and large companies (Gross and Poor 2008:66). Given the unfavorable growth predictions for the European economy, this process is likely to aggravate in the future (FEACO 2011:9). The ranking leaders and additional relevance of top 20 consultancies can

constitute evidences of the transition phase from the second to the third wave, as some of the strategy firms were bought by the Big Five and IT-based consultancies.

The evolution of the domestic markets occurred in divergent paths. Industry development and structure seemed to be influenced by the client base. While it seems some countries are likely to become more concentrated, others are turning into more fragmented industries (Kipping and Armbrüster 1999:21). On the short-run, European Union impositions and compulsory limitations on the governments' budget may punish markets that rely heavily on the public sector.

Western countries remained the most mature and relevant consultancy markets, while Eastern Europe constituted the opportunity zone for the industry.

Exports with destinations outside Europe are likely to continue to outgrow those within Europe. This is because of the opportunities created in countries that are growing rapidly and do not possess qualified human capital to satisfy the demand, and also due to the investment in the strengthening of economic bonds with these countries. These international ventures will keep on playing an important role both in the acquisition of new clients and in the consolidation of the relationships with current clients (Stumpf 1999:396), who perceive exports as a way to improve business performance in stalled economies (Mughan, Lloyd-Reason and Zimmerman 2004:426).

All-in-all, based in past studies and the analysis of the last decade, one could sum up this study by commenting briefly and explicitly the conclusions regarding the main objectives: the Americanization hypothesis proposed by Matthias Kipping and Thomas Armbrüster (1999:22) has not occurred to its full extension and while some degree of homogenization (Engwall 1999:31) is observed in the European market, diversity rules.

As an endnote, in order to seal this work project while setting grounds for further research, one discussion question is proposed: are the European consultancies disseminating local management knowledge in the rest of the world (Europeanization hypothesis) or is it solely an American phenomenon?

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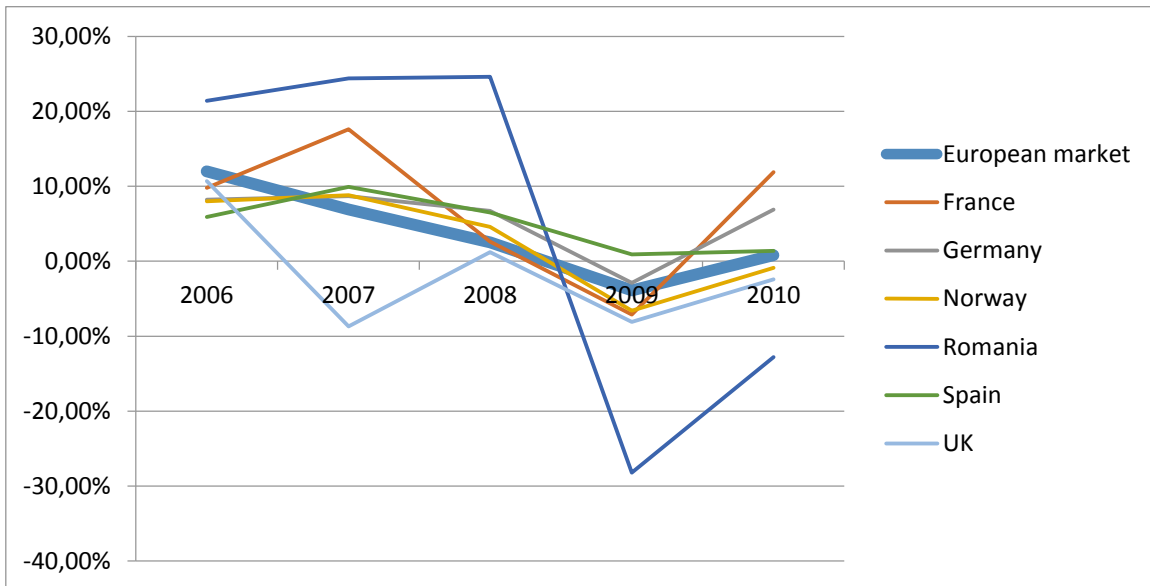
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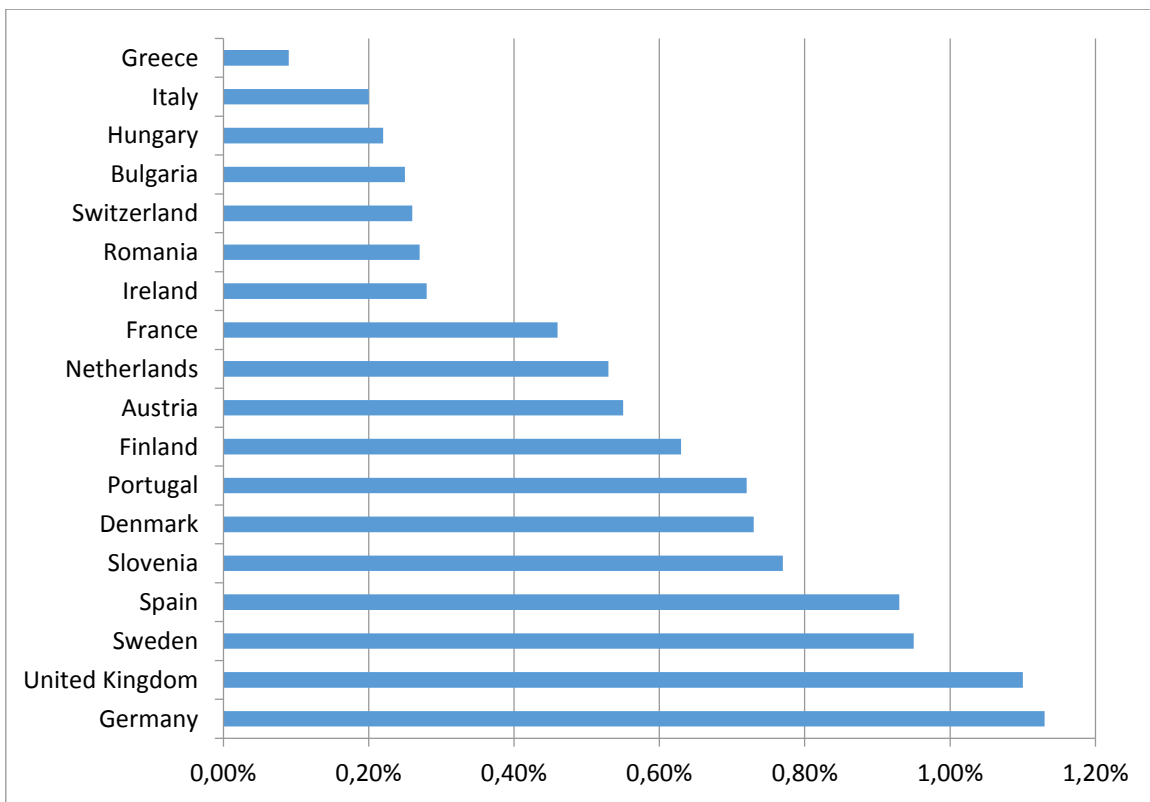
FIGURES AND TABLES

FIGURE 1- BUSINESS VOLUME REAL GROWTH



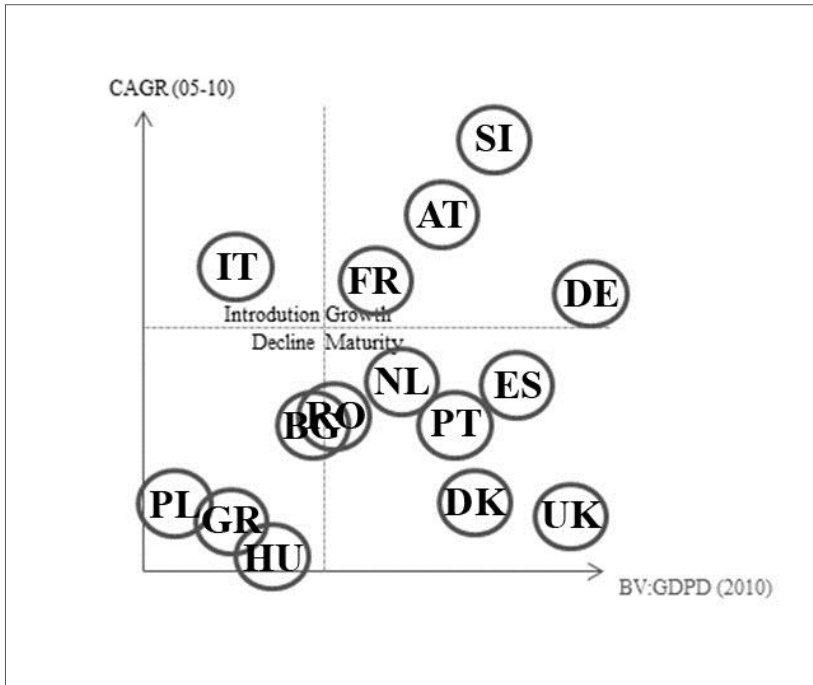
SOURCE: FEACO (2000-2010) AND EUROSTAT

FIGURE 2 - BUSINESS VOLUME:GDP (2010)



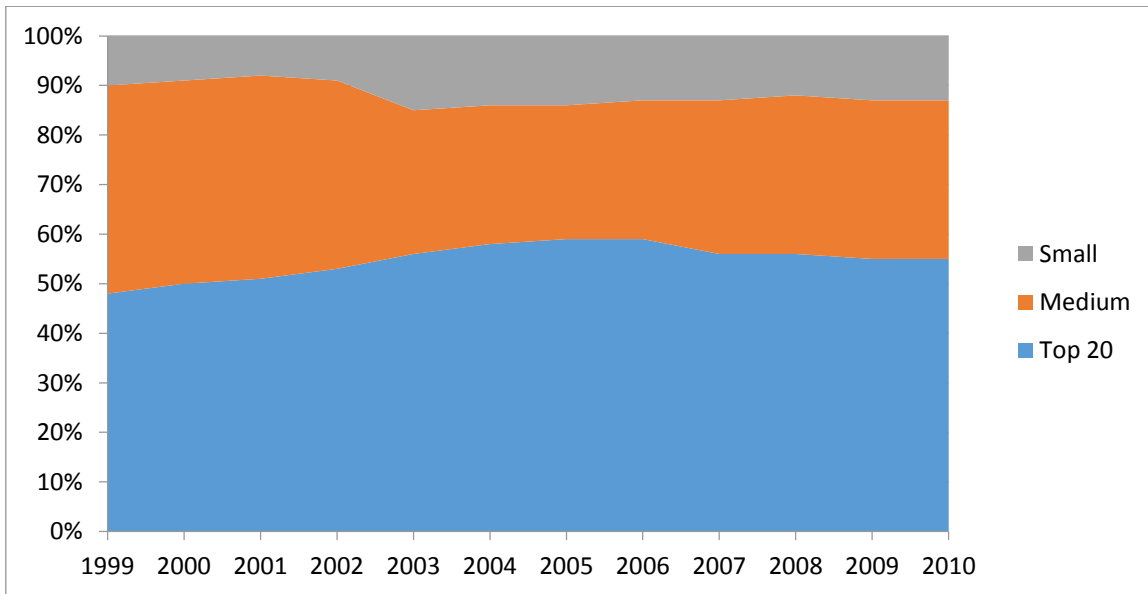
SOURCE: FEACO (2010)

FIGURE 3 - INDUSTRY LIFECYCLE



SOURCE: FEACO (2005-2010)

FIGURE 4- MARKET SHARE BY COMPANY SIZE



SOURCE: FEACO (1999-2010)

TABLE 1- EUROPEAN RANKING

Ranking	2009	2006	1997
1	Deloitte	Capgemini	Accenture
2	Accenture	Accenture	Sema Group
3	Logica	IBM Consulting	PricewaterhouseCoopers
4	Capgemini	Atos Origin	CSC Computer Sciences
5	IBM	Deloitte & Touche	McKinsey & Co.
6	PricewaterhouseCoopers	LogicaCMC	KPMG International
7	Ernst & Young	KPMG International	Capgemini
8	KPMG International	T-Systems	Ernst & Young
9	Fujitsu	CSC Computer Sciences	Deloitte & Touche
10	HP	PricewaterhouseCoopers	A.T. Kearney

SOURCE: GARTNER, KENNEDY INFORMATION AND MANAGEMENT CONSULTANT INTERNATIONAL

TABLE 2 - GLOBAL RANKING

Organization	Rank 2009 EU	Rank 2009 Worldwide	Rank 2009 US	Headquarters
Deloitte	1	1	1	USA
Accenture	2	4	8	USA
Logica	3	-	-	UK
Capgemini	4	10	-	France
IBM	5	2	3	USA
PwC	6	3	2	USA
Ernst & Young	7	5	7	USA
KPMG International	8	7	10	USA
Fujitsu	9	8	-	Japan
HP	10	9	-	USA

SOURCE: GARTNER (2010)

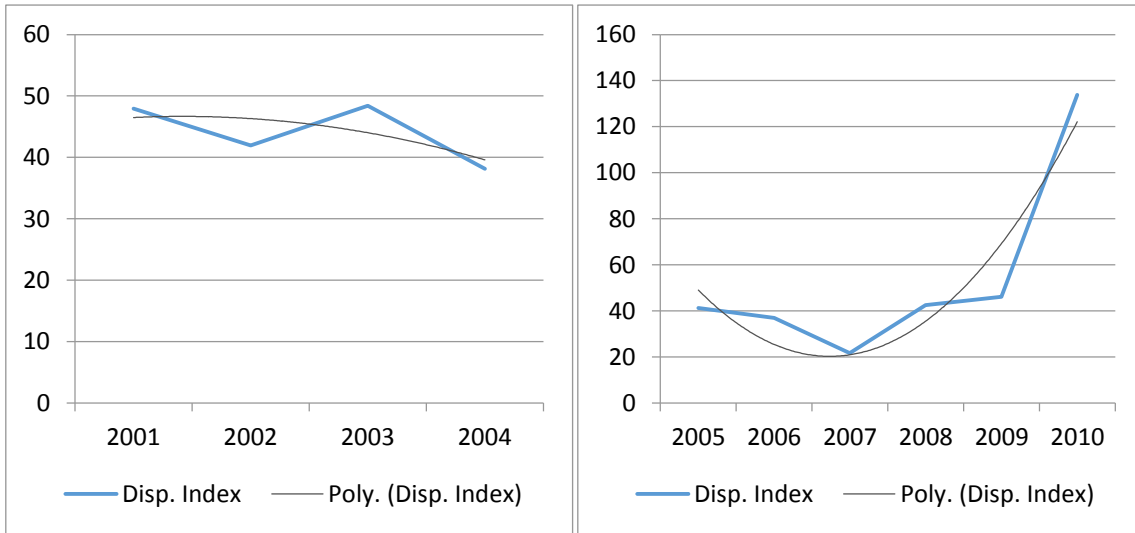
TABLE 3 - SPEARMAN'S CORRELATION

		EU	USA	World	
Spearman's rho	EU	Correlation Coefficient	1,000	0,600	0,567
		Sig. (2-tailed)	.	0,208	0,112
		N	10	6	9
	USA	Correlation Coefficient	0,600	1,000	0,821*
		Sig. (2-tailed)	0,208	.	0,023
		N	6	7	7

*. Correlation is significant at the 0.05 level (2-tailed).

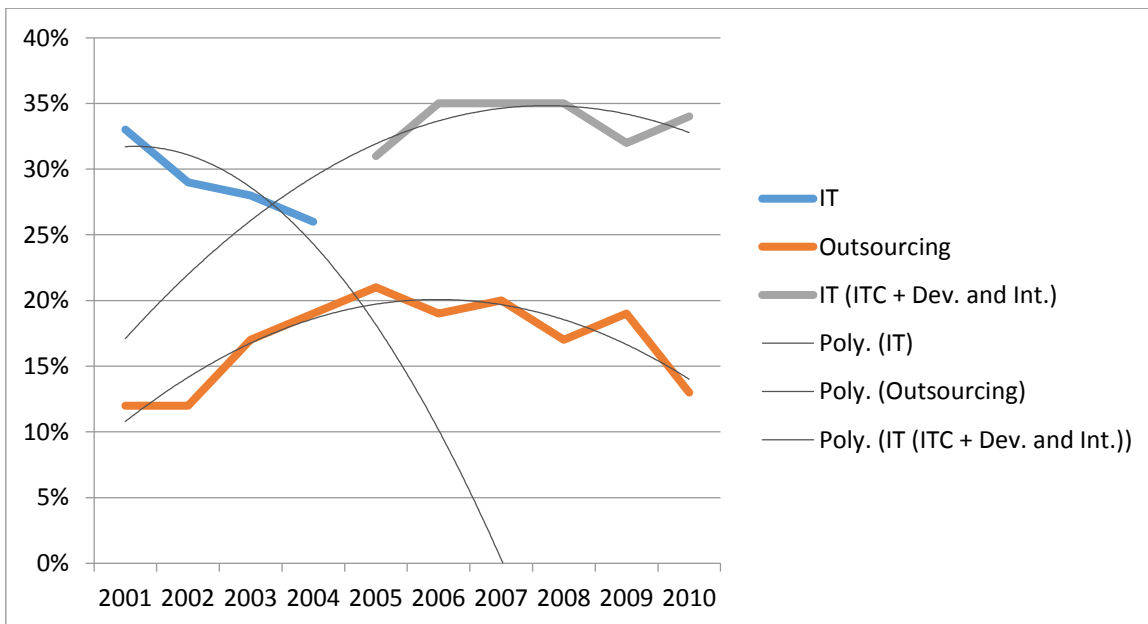
SOURCE: GARTNER (2010)

FIGURE 5 - ANNUAL TURNOVER PER MANAGEMENT CONSULTANT (PRE-2005) AND TOTAL STAFF (POST-2005)



SOURCE: FEACO (2001-2010)

FIGURE 6 - IT AND OUTSOURCING



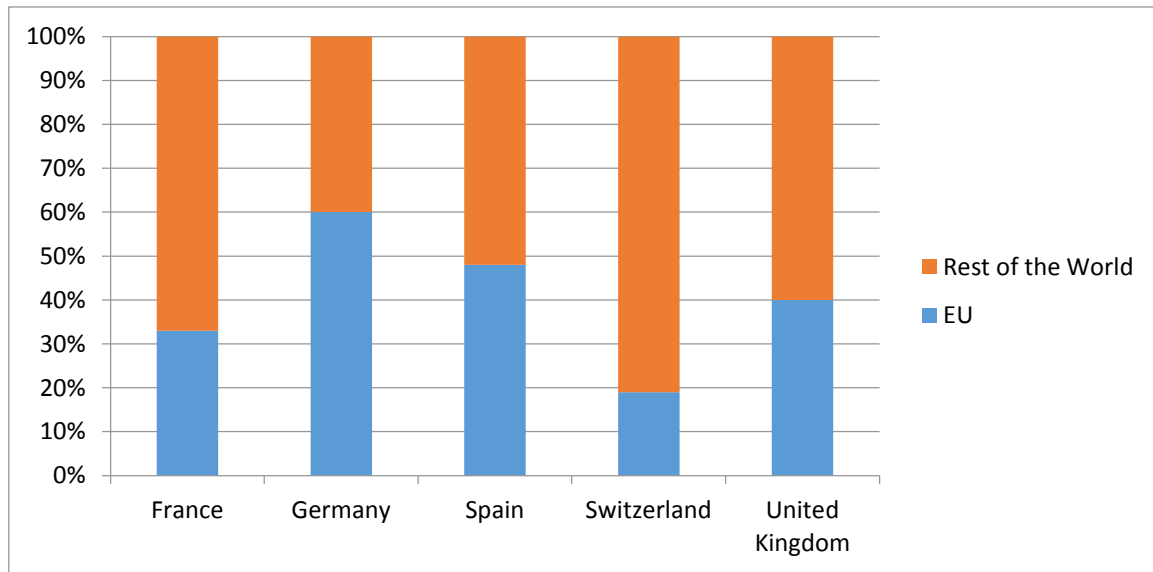
SOURCE: FEACO (2001-2010)

TABLE 4 - TOTAL PUBLIC EXPENDITURE AS REVENUE FOR CONSULTANCIES

Region	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Market	8,70%	9,40%	22,30%	25,20%	17,40%	16,00%	14,00%	11,00%	20,20%	18,70%
France	-	-	-	-	8,00%	10,00%	8,00%	11,00%	17,00%	15,00%
Germany	7,00%	10,00%	10,60%	17,10%	9,70%	9,00%	9,00%	9,40%	10,20%	10,10%
Greece	30,00%	25,00%	33,00%	42,10%	43,10%	44,00%	38,00%	52,00%	41,50%	46,60%
Hungary	22,00%	23,00%	29,00%	22,00%	11,50%	33,00%	43,00%	42,00%	40,00%	28,00%
Slovenia	13,00%	15,00%	29,20%	21,00%	14,00%	13,00%	15,00%	15,00%	14,50%	13,00%
Spain	4,20%	10,00%	11,60%	14,60%	14,00%	17,00%	17,00%	16,00%	14,00%	16,00%
Switzerland	4,00%	24,00%	20,00%	29,00%	8,00%	8,00%	7,00%	7,00%	8,00%	9,00%
UK	12,90%	31,60%	37,20%	37,20%	28,90%	25,00%	21,00%	32,50%	36,40%	29,90%

SOURCE: FEACO (2001-2010)

FIGURE 7 - EXPORTS IN 2010 (BILL. €)



SOURCE: FEACO (2010)