
CONSULTING SERVICES – A BOOMING NICHE WITHIN THE TERTIARY SECTOR OF OUR ECONOMY?

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Abstract:

The paper aims to analyze the current status of the consulting services within our beleaguered economy, and tries to foresee the growth perspectives which this subsector may present for it. The accent is put on consulting, from human resources to IT, with the core element being European funding, a subject which is overly debated within the media nowadays. The paper also tries to distinguish between the different types of consulting firms, as well as whether or not consultancy for European funds, given by Romanian consultants has been booming or just busted, in terms of successful projects. The main issues of the consulting sector are analyzed, with the stated purpose of trying to propose new solutions for existing issues concerning business consulting in our country. The context of the current paper is given by the tremendous accent which is being put on accelerating the absorption process for European funding, both by politicians and economists.

Keywords: consulting services, tertiary sector, European funding

1. Introduction

Services have become a key sector within the Romanian economy. This affirmation is supported by the percentage which the service sector currently occupies within our economy, of over 50% of GDP (INS, 2010). If we also take into account the fact that, since January 1st, 2007, our economy has been declared a functional market economy (European Commission, 2007), we can note that Romania, as a whole is converging on something which was its core objective since the fall of the communist regime, in 1989, namely the status of a developed state.

Within a developed state, the service sector is the cornerstone of development and the key sector of the economy. The service sector in our country has boomed since 1990, with the ascending trend being registered from the beginning of 2000-2001. The three major components of this sector, in Romania, are the financial sector, the tourism sector and communications sector. These three main sectors account for more than 60% of total services within our country (INS, 2010). We can also notice that, during the last 20 years, these services have developed at an astonishing rate.

Communications, for example, are extremely developed. Indicators such the number of broadband connections per capita in Romania is, in some cases, several times higher than in many countries of the European Union.

In tourism, the number of touroperators has increased as well, and nowadays, in spite of the current crisis, everybody is at least considering a holiday abroad.

In terms of financial services, according to the National Bank (BNR, 2012), we have over 43 banks and financial institutions which offer a very wide array of banking services. We can also visualize the way in which this sector has developed, over the years.

However, as we can notice, there are still circa 40% of the services sector unaccounted for. Or, rather, accounted for, but included in a vague category, namely "other services". These include services from consulting to lawyers and architects, private doctors, and the classification criteria is somewhat vague.

Yet, among all of these elements composing the "other services sector", one of them stands out, in particular, to raise particular interest. Ergo, the consulting sector. Nowadays, we have consultants from all fields varying from human resources to European financing, and, in spite of the current downturn in global economics, and the national economy in particular, this sector continued to develop, almost unhindered.

2. A few numbers

According to the most recent estimates made by the European Federation of Management Consulting Associations (FEACO, 2011), the consulting sector grew with almost 10 % in Europe and the results for Romania are even more encouraging, the growth here being of almost 30 %. Of course, we must mention that many consulting companies, regardless of their field, are subsidiaries of larger, Western companies, working with them through franchises or partnerships. But the growth remains. According to the same source (FEACO, 2011), the contribution of consulting services to the European GDP was of almost 0,62%.

Significant growth was also registered within the IT and bussiness consulting sectors, which in countries such as Germany or France accounted for almost 30% of the total turnover within this sector.

According to FEACO experts, there are more than 85.000 companies, within the European Union, which offer consulting services in various fields, which account for almost 450.000 employees.

Concerning Romania, our entire consulting market is estimated by FEACO to be of almost 260.000.000 euros, with almost 700 consulting companies, numbering just over 6.000 employees.

3. The status quo – a pragmatic analysis

The situation at this time is characterized by a relative stagnation of the sector. The severe recession of 2008 – 2011 left its toll on the consulting market. Many

companies have disappeared. Mergers and acquisitions became something common. Yet, the sums allocated towards this sector continued to increase.

For example, as large corporations became desperate for quality personnel, this became an opportunity for human resources companies, or headhunters, to make a profit. Financial consulting companies also had good years, because the current environment, a turbulent one without a shadow of a doubt, called for financial reorganization of the companies.

Thus, consulting services became more and more sought after, as companies sought to diminish their costs.

The intelligence of companies such as human resources firms suddenly became more and more precious, outsourcing firms had a better and better situation, as many firms prefer this alternative rather than paying for their own employees. We are currently in an environment where, at this time, cheaper is better. Most companies cannot afford to pay their own HR department, and therefore, pay a nominal fee to such recruitment companies, which in turn provide human capital.

Concerning the IT consulting sector, the situation is better than in other consulting sectors, but things here are always a bit atypical. This is partly due to the nature of the sector. This means that, usually, consultancy within the IT sector is based on long term contracts. This means that, for example, the supplier of a computer program, for example a CRM-type program, where CRM stands for Client Relationship Manager, also offers consulting services to a customer, and, at all times, can not be separated from the program that it sells. Ergo, as major companies have solid contracts with IT suppliers, the market in this subsector is rather stable at this point, even if it does not have large growth opportunities. Competition here is fierce, as it is within all other sectors of the tertiary pannel of the economy.

Another dimension where the consulting sector apparently boomed, was the consulting for European funds.

Out of all the composing elements of the tertiary sector, this one received the most attention from both politicians and the media sector in our country. Unfortunately, this publicity was seldom positive. This happened because, even today, almost 5 years after E.U. adhesion, there is still a state of confusion concerning european funds. Some even believe that it is a lottery. Consultants within this field are subject to scrutiny, as people believe most of them to be unprepared for the job that they do. And, sadly, they are right.

This is a particular type of consulting, rather different from all the other sorts of services available on the market. These services became extremely important for the Romanian economy, as companies begin to realize that the amount of money they could receive from the European Comission could ensure cheap investments. And of course, these funds are non-refundable.

Several economies within this region have taken advantage of the opportunity of European financing, and now reap its benefits. Countries such as Poland, which has the highest rate from all European members, as of 2004, concerning funds absorbtion.

The opportunity of financing through European leverages has generated hundreds of consulting firms, but the issues of the financing itself have also been numerous.

4. The main issues

Out of all the consulting sectors which we named above, things are more or less in order concerning such as the IT sector or human resources. Due, in part, to the services they offer to their customers, or the degree in which a potential customer is in need for such services, these sectors are not confronted with fluctuations.

We will emphasize the European funds consulting sector, because this is the sector which is subject to the most intense media coverage, a sector where everybody asks questions, but answers fail to satisfy those questions.

Concerning European funds, the activity of consulting companies is rather difficult to monitor, or even to assess. This is because the consulting process for funds consists of two stages:

- The first stage means the effective writing of the required documents, which are then grouped into a folder, the financing folder, and submitted for evaluation,
- The second stage, which takes place after the project has been approved, consists of implementing the respective project. From here on, issues are plentiful.

This is because most projects involve acquisitions of goods and services, acquisitions which must be made in accordance with the law, namely the Government Ordinance no. 34 / 2006 (OG 34/2006, 2006). And this process is extremely complicated.

There have been numerous situations where trials of justice were the only way to solve issues of acquisitions.

On the other hand, consultants are also unprepared to offer concrete solutions to financing problems, which only cause distrust to occur.

Another issue within European consulting is the timespan required for the evaluation of projects. This interval can be up to 9 months, which causes fund solicitors to be discouraged when talking about European projects. This, in turn, causes potential clients of consulting firms to be reluctant to apply for funds, or, if they do, to negotiate severe contractual terms. Ergo, a consultant is confronted with the issue of cash flow, or rather, lack of cash flows, which could even force it to shut down.

There are several main factors that contributed to the current situation and the current issues (BRD study, 2010):

- this is the first exercise of accessing European funds at the national level (except SAPARD during pre-accession period),
- there are different rules applied by the management authorities,
- the analysis/selection of the eligible projects is often a very slow process,
- the eligibility criteria do not always match the bank's specific requests,

- some of the consulting companies are interested mainly in the approval of the project and not for the implementation of the respective project,
- And last but not least, the economic and financial crisis halted/delayed some of the private initiative.

European funds represent a real opportunity for Romania to overcome its crisis, and a real way for companies, enterprises and even our agricultural sector to become more competitive. Several solutions have been generated, as a result of this analysis.

5. Possible solutions

It has become a widely accepted idea that the results in terms of absorption of E.U. funds are below expectations (BRD study, 2010), but one can consider that in 2012 the situation will improve.

We can clearly state that these non-returnable funds are great opportunity for either existing or new business owners, entrepreneurs, especially in current times of turmoil. We must also take into consideration that, due to the time span factor mentioned above, this process requires both knowledge and patience.

A measure that was implemented, at the initiative of the banking system (BRD study, 2010) with positive effects during 2011 was the requested committed letter of comfort at the moment of submitting of the financing Application to the Managing Authority. By this document, the bank certifies the existence of sources of funding needed by the beneficiary in order to implement the project in good condition, hence lowering the risk of lack of financing resources for projects implementation.

There are also some other key aspects that could have a positive effect on the absorption rate. Some of them could be:

- the increase of transparency of the entire process during all of the stages of evaluation, be it administrative, or financial and economic;
- the decrease of bureaucracy, which is, arguably, our biggest fault, so far. Decreasing bureaucracy would also mean a shortening of the time which passes from when a project is submitted until it is accepted or rejected;
- the improved financial motivation of the staff involved in the management/administration of EU Funds;
- a better coordination between national and European legislation, particularly concerning acquisition.

Other measures that have been undertaken to increase the absorption rate include the passage of VAT as an eligible expense, this means that the beneficiary of European funds does not have to support VAT on its own. It is expected that this move will increase the attractiveness of funding.

The most dynamic sector so far, in terms of European funds applications, is the private one, namely the one that includes SMEs or small and medium enterprises but also large companies, but we should also not neglect the fact that the local public

authorities and NGOs are making efforts to accelerate the implementation of their projects.

Agriculture leads the way, however, with an absorption rate of almost 40% (APDRP, 2011). In terms of perspectives, 2012 seems to be a very good year for European projects, with new calls being scheduled in almost all areas.

The beneficiary should take into consideration involving a bank since the project definition phase or phase 1, in order to correctly identify the need for funding. Also, the information in the “application form” for European funding should include the necessary data for the bank’s review and approval of financing facilities and the cash-flow predictions should include different scenarios regarding the collection of the EU grant (pessimistic/optimistic) (BRD study, 2010).

In addition, the beneficiary should be familiar with the rules and procedures for implementing and monitoring the post-implementation of the project. As mentioned before, this is the real difficult part of the project. The entrepreneur should also carefully choose the project consultant and ensure that he is experienced not only in writing but also in implementing such projects. In such a way, many frauds could be exposed and the implementation would go much smoother.

There are European projects which go very smooth and which do not require any additional attention. As long as everybody respects the rules, issues are almost a non-issue. This is a field in which reputation must be flawless, in order to achieve performance.

6. The question answered

In conclusion, consulting services are of the utmost importance for the service sector as a whole. In times of stagnating economy, both in the primary and secondary sectors, as well as in some of tertiary sectors’ composing elements, the consulting services sector has proven that it can sustain growth, even with the perspective of economies of scale.

Out of all the paths towards becoming a fully developed economy, able to better withstand financial shocks, the development of services seems to be the only key towards a successful, durable development. Romania is a new country, which changed, from the economic, social and financial points of view in a dramatic manner during the last 20 years.

A path which began with a painful transition, towards a market economy, ended, at least on paper, in 2007. But the crisis was only one year away, at that time.

Being a country with a fragile macroeconomic equilibrium, Romania must choose its path wisely. It seems, so far, that services have been the sector which revealed the most potential for sustainable growth. A large part of the service sector still remains uncharted, as we revealed in the beginning.

But as far as consulting services go, they certainly represent a niche with a tremendous potential for development. Due to the fact that we have ample

opportunities to develop various consulting services, this sector has another ace “up its sleeve”. It has great added value, which makes it an extremely profitable sector.

This is why, from an economic perspective, we must understand that the full potential of this sector must and should be unleashed. The state must act as an active actor on the services market, aiding to boom or to restrain the sector, but it must always encourage its development.

Consulting development is what lead countries such as Japan or the U.S. to what they represent today. And while we can never compete, we can still learn and apply such invaluable lessons. Business consulting, with the particular case of European funds consulting in our country can lead to sustainable growth, for various reasons. Aside from the development of this niche, we can attract considerable resources for our country. Romania has 19,7 billion euros at its disposal until 2013. Almost 10% of that amount of money will be consulting services, as the law states (HG 28 / 2008, 2008) , goes directly towards consultants.

Can this niche help boost a sector which could then boost an entire economy? Certainly. At it can do so at a very high added value. The impact of the service sector on our economy will be greater and greater with each passing year. As we develop, as we evolve, as individuals, so does our economy.

The situation might be a bit different during the interval 2014 – 2020, when, unfortunately, because we have been unable to attract as many funds as we could have, we risk of having a smaller amount being given to us, smaller than the 19,7 billion euros which we have at this time.

But first, we must make a leap of faith, ergo we must trust in the service sector, in its ability to become an advocate of growth, of sustainable development. Before building highways, before creating acres of crops, building hospitals and schools, increasing the competitiveness of our SMEs, we must first believe that we can achieve that. After this step, everything will come into place.

7. References:

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