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## THE USAGE OF CONSULTING SERVICES AMONG ROMANIAN SMES BETWEEN 2011-2015

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**ABSTRACT:** The gap in competitiveness between Romanian SMEs and European firms is generated by limited access to economic, legal, technological and management knowledge. This gap can be recovered by using the services of external consultants which can bring added value to the company. The consulting services market has had an upward trend in last years at European level, but in Romania there is still some reluctance to these services and even distrust regarding the companies that offer them. Based on these facts, this paper aims to highlight the proportion and the characteristics of Romanian entrepreneurs that use external consultants and the evolution of the usage of external consulting services, taking into account the last five years. The results obtained in the current research reveal an irregular evolution of rate of SMEs that use external consulting services. One can see that, in the period of analysis, there was been a descendant trend of entrepreneurs that resort to consultancy between 2011 and 2014. On the other hand, the percentage of entrepreneurs that use external consultants has had a significant comeback in 2015, when 10,49% of enterprises have resorted to this type of services.

**KEY WORDS:** Consulting services, external consultants, SMEs.

### 1. INTRODUCTION

The research presented within this article aims to highlight the proportion and the characteristics of Romanian entrepreneurs that use external consultants and the evolution of the usage of external consulting services, taking into account the last five years of activity.

We consider that this research has a high importance in the context of adherence at European Union, because being a part of it, Romanian enterprises have to increase their performance in order to be competitive on European market. The gap in competitiveness between Romanian and European firms is generated by limited access to economic, legal, technological and specific management knowledge.

To provide quality consultancy services implies the existence of an educated market, well-prepared specialists in every field of consultancy, customers that fully cooperate with specialists and consultants, available to offer information. These are only a few premises required for an efficient consultancy process.

In conducting the research we focused our attention on SMEs, because most of the businesses are represented by this type of enterprise. They have a very important role in any country, fulfilling multiple economic, technical and social functions. They are a source of entrepreneurial skills, innovation and job creation. In the EU, approximately 23 million SMEs provide approximately 75 million jobs and represent 99% of all existent businesses. [6]

The fact that SMEs are the largest sector of enterprises, and they have multiple disadvantages, in particular due to limited resources is a very important difficulty in the application and

development of consultancy. For a typical SME in Romania the request of consulting services is something uncommon, very expensive. As a result, it is eliminated as an alternative to the performance development of the organization. [5]

Therefore we decided to analyse which is the trend of using external consultancy services among Romanian SMEs and what characteristics have firms which use consulting services considering the following criteria: age of the company, size of the company, type of the company and level of studies of the entrepreneur.

### 2. THEORETICAL BACKGROUND

Consultancy is the practice that helps organizations improve their performance through analysis of existing organizational problems and development of improvement plans. There are two fundamental consultancy approaches, which complement each other.

The first approach refers to consultancy from an ample operational perspective. Fritz Steele believes that the consultation process means any form of help, on the content, conduct or structure of an activity or series of activities, action in which the consultant does not respond to actual execution of that activity, but he helps those charged with that responsibility. [2]

The second approach of the consultancy assumes that it is providing a professional service specialized and highlights a number of features that such a service must have. By Larry Greiner and Robert Metzger, consultancy is an advisory service for which interested organizations have to sign a contract with individuals who are trained and qualified in this field, people that

help the organization, in an objective and independent way, to identify and to analyse problems, recommending solutions to such problems and helping when they are asked to implement solutions. [1]

Therefore, consultancy can be seen either as a professional service or as a way to give advice and concrete help.

The consulting industry can trace its roots back to the late 19th century, when the world's first modern consulting firms were founded. From the turn of the century onwards, management consulting – which early on focused mainly on engineering and finance – increasingly gained terrain in the business world.

The consulting industry started its internationalisation in the early 1960s, when the large American management consultancies expanded into Europe, bringing their management models and experience to transform European organisations. In the next thirty years, the consulting industry found itself in a phase of unprecedented growth across Western markets, far outpacing the growth of the world economy during the same time period.

Nearly two decades from then, the consulting industry has developed into one of the most mature sectors in the professional services sector, generating between \$100 billion to \$300 billion in revenues, with the precise estimate depending on the definitions used. At the heart of the industry stand six main domains – Strategy Consulting, General Management Consulting, Operations Consulting, Financial Advisory, HR Consulting and Tech Consulting – that combined span services and offerings in over 200 industry and functional areas. [9]

Over the past decades, the global consulting market has grown to become a multi-billion industry. The industry has not only grown in size, stature and international reach, it has also navigated its way through several cycles of professionalization, today making it one of the more developed segments within the professional services industry. [9]

The European consultancy market has experienced a significant growth in terms of both turnover and employment. The growth has been driven mainly by Germany and the UK but it has spread across all the European countries, highlighting a quite general recovery. [7]

The consultancy market has rapidly developed in recent years and many companies have emerged, but in Romania there is a reticence regarding these services and even the distrust in the companies that provide them. The inconsistent and relatively low demand for consulting services is also generated by the un-consecrated professionalism of those who provide consulting services in Romania.

The management consultant profession is relatively new in Romania, at least by according to the definition given by the economy market, based on principles such as economic efficiency, independence, objectivity, assumption of a professional behaviour and an ethic code.

The management consultancy in Romania faces many obstacles, some image and substance issues, very different from the same kind of problems from other countries.

First, the lack of a consistent tradition in this field indicates a lack of information and experience, regarding the suppliers and the users of consultancy. Potential users of consultancy do not realize the need for an external consulting expertise within their activities, whether business or administration of some

institutions, while providers often do not have the necessary training to provide qualitative services.

Another obstacle to the development of consultancy in our country is the relative lack of training programs for future consultants. The recent appearance of some forms of postgraduate training in consulting will likely continue through the emergence of new and specific programs and, why not, some studies concerns and postdoctoral research at major universities and academic institutes, because the preparation of consultants through short courses is not enough. As Romanian businesses are maturing, the focus on the quality of the consultancy will increase. Both obeying the professional ethics and proper preparation of the consultants are the key elements of the quality of consultancy. [4]

External consultants are often brought in because they bring wisdom, objectivity and expertise to the organization. The external consultant is usually viewed as having higher levels of expertise, experience and credibility, especially if he or she is published, credentialed, and well known. This gives the external more influence and buy-in from senior level executives who may prefer to hear from outsiders. Paying for services also implies the output is better or more valued. In addition to these perceived advantages, externals are frequently more up-to-date on the newest business thinking and new ways of working, and they bring the added value of a broader base of experience. With this broader experience, the external can provide benchmarking and best practices as well as insights into potential pitfalls learned from other clients. Externals are valued by clients for their outsider objectivity and ability to give tough feedback or to ask the difficult question. [8]

### 3. METHODOLOGY

The scope of this research was to illustrate how the availability of Romanian SMEs to use external consulting services has evolved in the last five years and what are the characteristics of Romanian entrepreneurs that use external consultants.

The current study involved a secondary research based on information from 5 editions of the White Charter of Romanian SMEs, which presents the most comprehensive studies of Romanian SMEs made by the National Council of Small and Medium Sized Private Enterprises from Romania. The tool that has been used in the primary research is the questionnaire.

Each of the 5 editions of the White Charter of Romanian SMEs was made based on responses of more than one thousand entrepreneurs. In addition the sample of the research has the correct distribution at national level, taking into account that analysed SMEs have different size, age, location, domain of activity and performances. [3] Given the above we consider that the sample is nationally representative and that the conclusions of the research are relevant for the whole population of entrepreneurs in Romania.

### 4. RESULTS

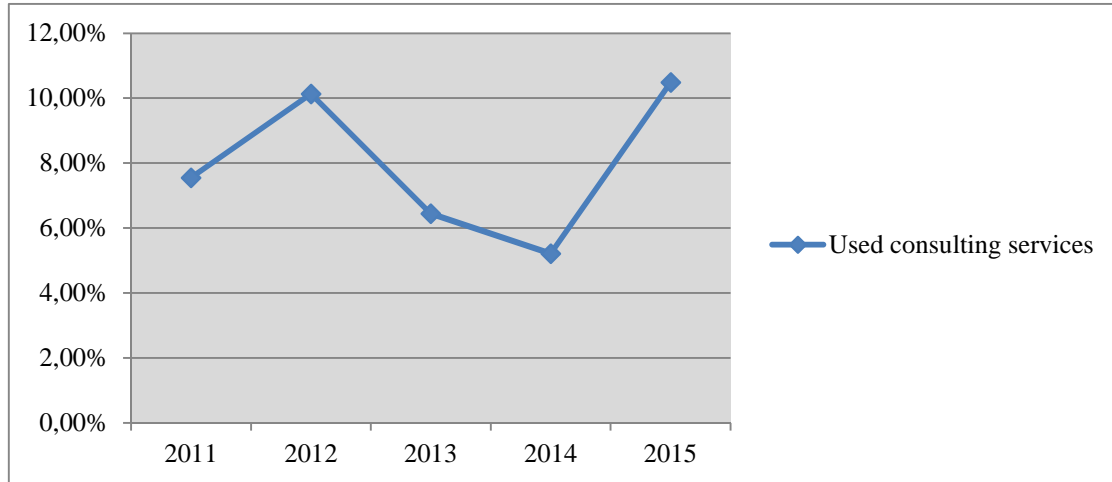
Considering the fact that SMEs do not have the whole knowledge, skills and competence necessary to a proper carry out of business in a competitive environment, using consultancy services is an option increasingly important.

Because the delivery of performing activities depends usually on entrepreneurship consultancy, particularly in financial field, managerial, legal, marketing, technical, human resources and informational, it is extremely important to know how frequent the Romanian firms use external consultants.

The table and the figure below present the evolution of the rate of Romanian SMEs that used external consulting services, taking into account the responses that entrepreneurs offered between 2011 and 2015.

**Table 1.** Usage of consulting services by Romanian SMEs.

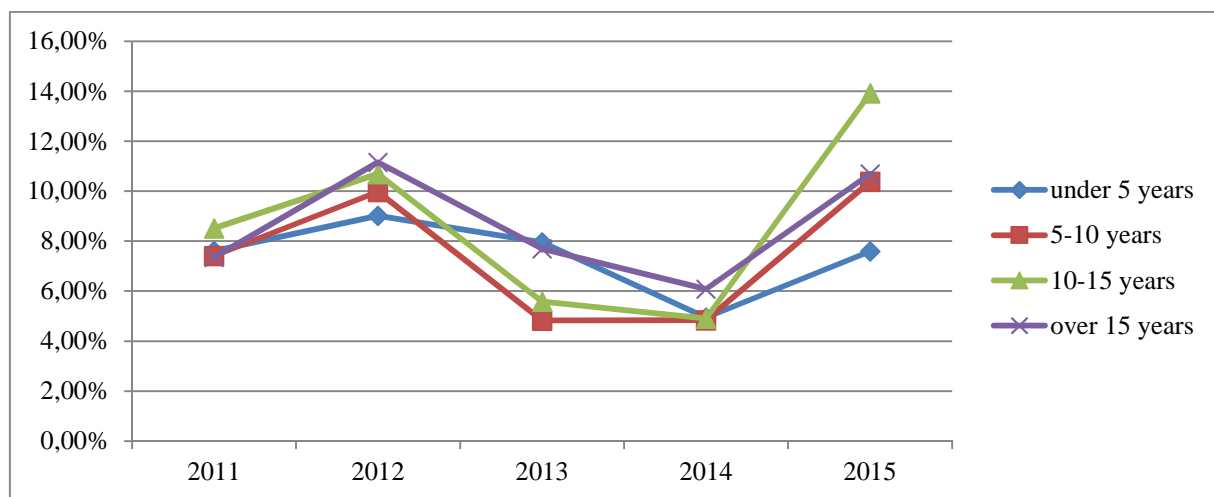
Year	Used consulting services
2011	7,55%
2012	10,13%
2013	6,44%
2014	5,21%
2015	10,49%



**Figure 1.** Evolution of the usage of consulting services by Romanian SMEs.

The results obtained in the current research reveals an irregular evolution of rate of SMEs that use external consulting services. In general, until 2014 there was a descendant trend except 2012, when 10,13% of entrepreneurs responded that have used external consultants. This indicates the existence of barriers that stop the development of good relations between productive business environment and consultants.

2014 was the year in which the rate of SMEs that used external consultants was minimal during the analysed period. One can then see a major increase of this rate in 2015, rising at 10,49%, which means that the entrepreneurs are starting to realize the need and the utility of using external consulting services, in the context of a growing general economy. For more details, please visit figure no. 1.



**Figure 2.** Evolution of the usage of consulting services taking into account the age of SMEs

Considering the age of SMEs, we can notice that there is not necessarily a correlation between it and the rate of SMEs who use external consultancy services. But still, from the analysis of the last year, one can see that the enterprises older than 10 years use more often consulting services than those that have less than 10 years of activity.

This is because an older organization is more likely to have already exhausted the ideas of their entrepreneurs and employees to solve problems or develop the firm and they need a new vision and a new approach from outsider council. The entrepreneurs from younger organizations are trying to

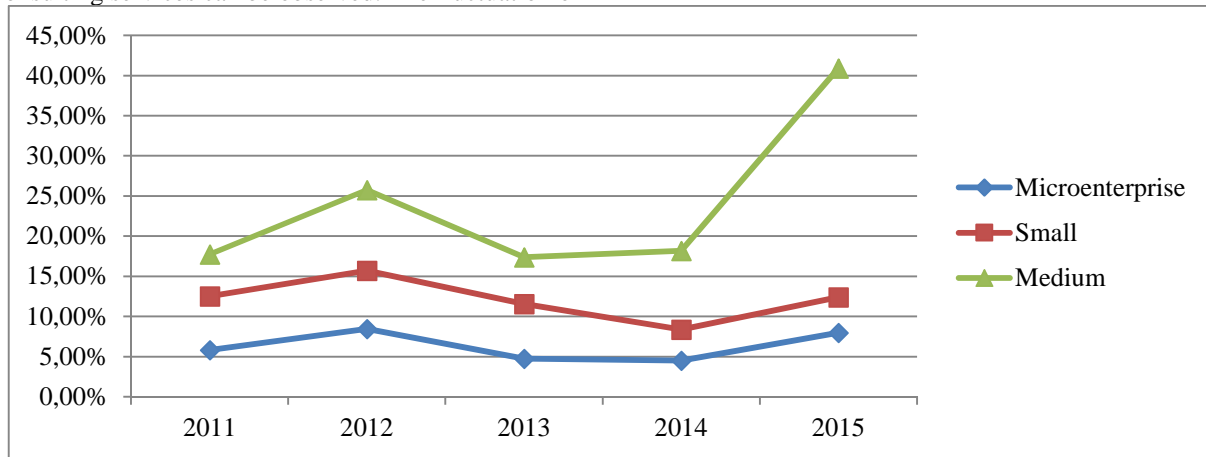
implement their own ideas as much as they can, these being so numerous. This gives them the enthusiasm they need to feed the energy needed to develop the company.

The older organizations have some maturity and they control their budgets very well. They know how much from the budget can allocate for external consulting and they have the necessary financial resources or they know from where can get funds for consultancy. The new firms, most often have problems with the available financial resources. Being on their beginning, they do not have a stable cash flow, this preventing them to plan their activity with a greater accuracy. Access to financing is restricted especially for new firms because of the lack of certainty

regarding the company's financial situation and the lack of guarantees.

Also, a higher fluctuation of the rate of older SMEs that use external consulting services can be observed. The fluctuation of

the SMEs rate using consultancy is reduced among the new enterprises because they use it rarely, relying mainly on their own resources and knowledge.



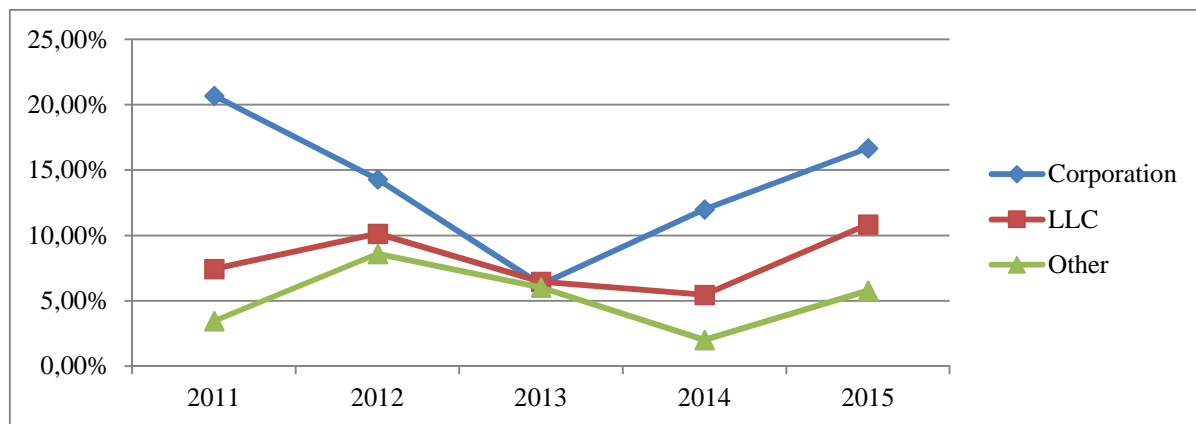
**Figure 3.** Evolution of the usage of consulting services taking into account the size of SMEs

Considering the size of SMEs that were analysed, one can observe a positive correlation between this indicator and the rate of SMEs that use external consultancy services. The bigger a firm is, the higher the probability of using external consultants is.

According to research results, microenterprises generally appeal rarely to external consultants, the highest rate of micro enterprises that have used external consultants (8,47%) was registered in 2012. In general this is due to limited resources, as in the case of start-ups.

Medium size enterprises show the highest rate of SMEs that use the services of external consultants, the lowest rate being registered in 2013 (17,39%) and the maximum in 2015 (40,91%). They have a greater economic power and can afford to access external consultants.

Evolution of the rate of SMEs that use external consultancy in time shows a higher fluctuation among medium-sized companies, this being due to the fact that medium-sized companies show the highest share of SMEs that use consulting services.



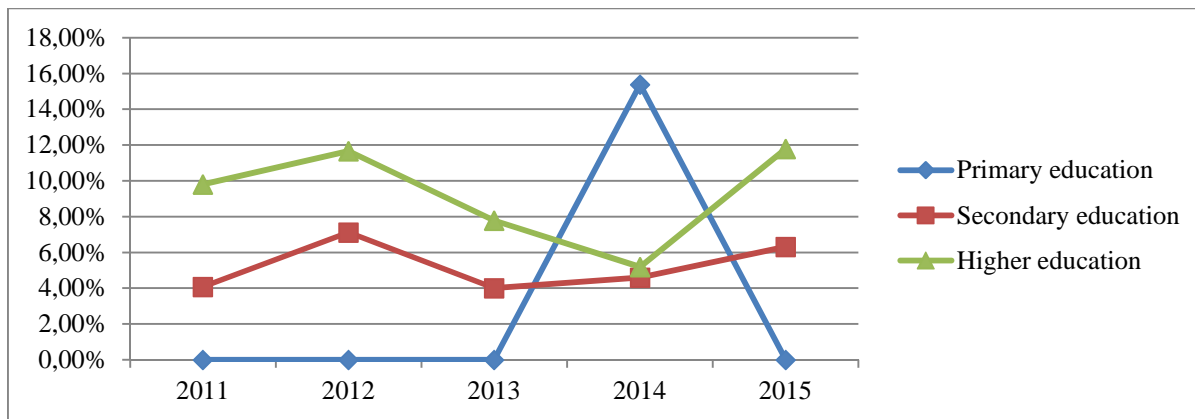
**Figure 4.** Evolution of the usage of consulting services taking into account the type of SMEs

The examination of SMEs depending on the form of legal organization points out that the corporations have used external consultants in the highest proportion, followed by limited liability companies and economic agents with another legal form.

The corporations are large organizations so they have the highest rate of companies using external consulting services. Having larger dimensions, at their level an acute need for external consultants is felt, but they also have more resources that can be allocated for consulting services.

It can be hard for corporations to do what their main need implies, especially this involves cutting jobs, salaries and benefit reduction or other major strategic changes. Hiring external consultants can be a good way to reach the desired conclusions with sufficient political cover in case certain parties do not agree or things go wrong.

Because corporations are organizations that use most frequently external consulting services, they have the largest fluctuation over time (as seen in figure 4).



**Figure 5.** Evolution of the usage of consulting services taking into account the level of education of entrepreneurs

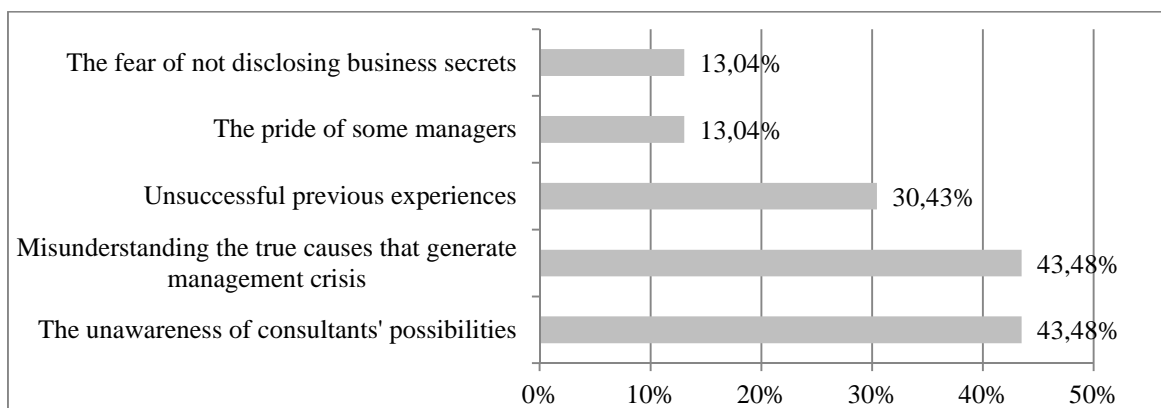
The analysis of SMEs depending on the level of education of entrepreneurs (Figure 5) shows that entrepreneurs with higher education have used external consulting services in the largest proportion, being followed by the entrepreneurs with secondary education and finally by those with only primary education.

There is an important exception in 2014, when 15,38% of entrepreneurs with primary education resorted to external consultants. We did not examine the cause of this exception, because this is not a subject of the current research.

Analysing why the entrepreneurs with higher education level use more often consulting services than the entrepreneurs with lower education level, we found 2 reasons.

The first reason is that entrepreneurs with higher education level lead larger organizations, where it feels a stronger need to use consulting services. The proof is shown above in Figure 3.

The second reason is that entrepreneurs with higher education level know better the needs of the organization and they are aware that the organizations they run and their staff cannot pose all the information needed to successfully perform in the competitive economic environment.

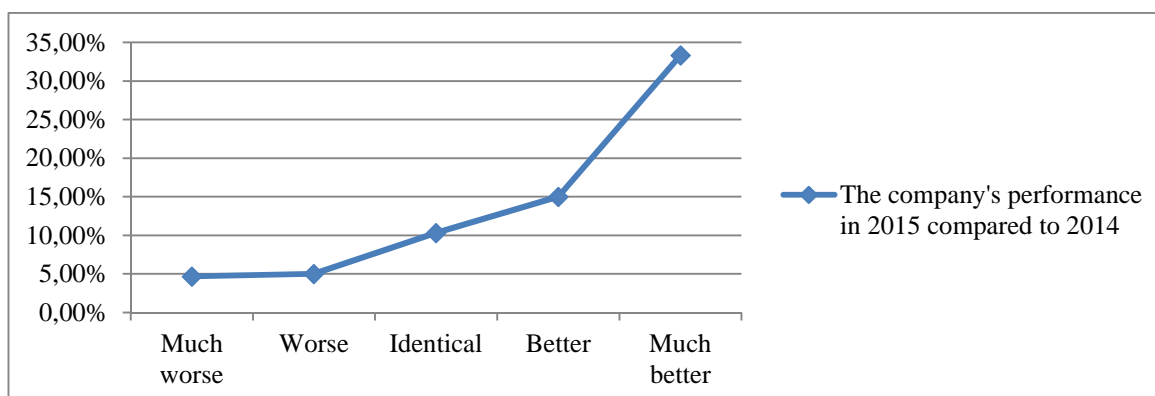


**Figure 6.** The barriers in using consulting services

There are many barriers and reasons that SMEs do not use consulting services. Although many might consider that the main reason is the limited financial resources of SMEs, the survey shows that Romanian SMEs have other reasons, such as ignorance of consultants' possibilities, the fear of not disclosing "business secrets", the pride of managers, misunderstanding the true causes that generate managerial crisis and previous

unsuccessful experience. As one can see in Figure 6, 43,48% of surveyed entrepreneurs and managers do not know which the management consultants' role is, do not know what they are doing and how could they improve the performance of SMEs. [4]

These issues explain why entrepreneurs with higher education level use external consultants in a higher proportion.



**Figure 7.** The correlation between the intensity of consultancy use and performance of SMEs from 2015 compared to 2014

The interpretation of results based on the performance of companies from 2015 compared to 2014 (Figure 7) reveals that 33,33% of companies with much better performance have appealed to consultants, while only 4,69% of firms with much worse results have used external consultants. This highlights a positive correlation between SMEs' rate that use external consultants and their performance.

This can be explained by the fact that companies which have much better results can afford to use consulting services because they have supplementary budget they can manage as they wish. Instead, firms with bad results will use the budget primarily to cover their losses and more often in these organizations the funds for development are cut, not supplemented.

## 5. CONCLUSIONS

The results obtained in the current research reveals an irregular evolution of rate of SMEs that use external consulting services. One can see that, in the period of analysis, there was been a descendant trend of entrepreneurs that resort to consultancy.

On the other hand, the percentage of entrepreneurs that use external consultants has increased from 7,55% in 2011 to 10,49% in 2015, with another significant peak in 2012 (10,13%).

So there is an uncertain evolution of consultancy market. This is because in Romania consulting market has not reached maturity and there are some difficulties that obstruct the development of stable and beneficial relations between productive business environment and the suppliers that are specialized in managerial know-how, accounting, marketing, technical and so on.

Resistance to change is also a reality in all organizations and groups where there are bigger or smaller changes. Resistance to change is perceived by many as an element capable of creating disruption and additional consumption of organizational resources in order for change to achieve the coordinates.

However, although it seems a paradox, transformation is the key to progress and we cannot ignore it. On the contrary, change is needed and leaving the comfort zone is a premise for development.

Taking into account the age of SMEs, one can notice that there is not necessarily a correlation between it and the rate of SMEs who use external consultancy services, but generally the rate of companies who resort to such services is higher in SMEs that have been active for more than 10 years.

Considering the size of SMEs that were analysed, one can observe a positive correlation between this indicator and the rate of SMEs that use external consultancy services. The bigger a firm is, the higher the probability of using external consultants is, because bigger enterprises have a greater economic power and can afford to access consultancy.

Depending on the legal form of enterprise creation, corporations are more willing to use external consulting services, especially due to their higher economic power.

Analysing the rate of SMEs that use consulting services depending on the level of education of the entrepreneurs, we can conclude that an entrepreneur with higher studies is more willing to use external consultancy and he or she is more aware that the firm cannot solve all the problems by just using its own knowledge and abilities.

To sum up by designing the profile of the enterprise that uses consultancy services in Romania, this enterprise would be a corporation with a minimum of 10 years of activity, which has a medium size and is run by managers with higher forms of education.

The lower rate of SMEs that use external consultancy can be justified by the fact that most of the entrepreneurs and managers do not know what the management consultants' role clearly is, do not know what these consultants are actually doing and how could they could improve the performance of their enterprise.

Finally, we consider that this study is a very useful material for those interested in the subject Romanian consultancy market. This work can be used as a foundation for future research, carried out by analysing the SMEs that use more frequently external consulting services.

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