Estimating the Size of National Management Consultancy Markets

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Abstract

In 2018, a research project was initiated by a team connected with the International Council for Management Consulting Institutes to analyse the factors that account for the relative strength of country’s management consulting sector. The results of this project, the Consulting Readiness Index (CRI) were reported in the previous issue of the Management Consulting Journal (Haslam et al, 2018). Since the development of the CRI, further investigation has been conducted to enable the ingredients of the CRI to estimate the financial value of national management consulting markets. This paper describes the approach, the results and the implications.
The Consulting Readiness Index (CRI) and its Background

The Consulting Readiness Index (CRI) was conceived as a means of helping determine the degree to which a country’s management consulting sector is substantial and, by understanding the factors that account for differences in the adoption of management consulting, provide pointers to the aspects which are potentially holding back sector development. The driver for this study was the International Council for Management Consulting Institutes (ICMCI), whose focus is to encourage the professionalisation of the sector and the quality of consulting work.

The basis for the CRI was to use a selection of countries where the sizes of the management consulting sector were known and then seek to determine the other characteristics of the countries which varied in relation to the relative strength of these. To enable meaningful comparison the CRI project used only data from reliable sources, including that for the size of national management consulting sectors. To provide a stable and robust foundation for the project, all the data on the national market sizes for management consulting firms were obtained from Source Global Research, a commercial research organisation focusing on the consulting industry (Source Global Research, 2018). The CRI is based on Source’s interpretation of what is meant by management consultancy and its primary research into the size of national management consulting sectors, embracing large firms through the long tail of smaller enterprises.

Fifteen countries were selected as the basis for the CRI, this sample chosen to reflect different geographical areas, cultures, country sizes, and amount of management consulting. Figure 1 shows the size of the management consulting markets ($m) for the fifteen countries. It also shows the strength of the management consulting markets in terms of the proportion of a country’s GDP and as a per-capita figure of its population. By taking the size of the country’s economy and its population, we gain an indication of that country’s propensity to embrace management consulting or not.

How the CRI was Calculated

The CRI aims to explain the differences between the relative strength of national management consulting sectors and a country’s disposition towards management consulting as an economically valuable activity. The expectation was that, as an ‘index’, the CRI would incorporate a range of indicators with no single existing indicator being sufficiently robust or comprehensive to function as the CRI by itself. Through a process of desk research and consultation involving the ICMCI and its community of Academic Fellows, thirty-two factors were offered as potential components of the CRI.

![Figure 1: National management consulting sectors (sample of 15 countries)](image-url)
The testing of each of the thirty-two possible indicators led to five indicators being identified which were shown to vary in relation to the GDP-based perspective of the strength of the country’s management consulting sector and in relation to the per-capita-based perspective of the strength of the country’s management consulting sector. The five indicators of relevance, which correlate strongly with the relative strength of national management consulting sectors, are:

**Hofstede: Individualism-Collectivism (IDV),** national culture measure. This index highlights the degree to which people in a society are integrated into groups (Hofstede, G., 2011). Individualistic societies have loose ties that, in the opinion of Hofstede, often only relate to an individual’s immediate family. In collective societies, these integrated relationships tie extended families and others into ‘in-groups’. These ‘in-groups’ are characterised by internal loyalty and mutual support, for example in the face of conflict with another group. IDV scores range from 0-100 with higher scores reflecting the more individualistic societies.

**Index of Economic Freedom (IEF) (The Heritage Foundation, 2018)**
The Index of Economic Freedom was created in 1995 by The Heritage Foundation and The Wall Street Journal. It is designed to measure the degree of economic freedom within a country. This is based on twelve factors within four broad categories: the rule of law; government size; regulatory efficiency; and open markets. The index has a scale of 0-100, with higher scores representing countries with greater economic freedom (each of the twelve factors is equally weighted to create the index).

**e-Government Development Index (EGDI) (United Nations, 2018)**
This index is a United Nations creation and has its roots in the UN General Assembly Resolution 66/288 ‘The Future We Want’. This strand of the resolution takes an ICT focus and looks at the flow of information between governments and the public and recognises the power of communication technologies to promote knowledge exchange, technical cooperation, and capacity building for sustainable development. The index scale is 0-1 with higher scores representing countries with the more developed e-government processes.

**Global Creativity Index (GCI) (Florida, R., Mellander, C., King, K.M., 2015)**
This is a four-dimensional ranking of countries. It combines individually ranked countries based on creativity, technology, talent, and tolerance in the overall score. The CGI is published by the Martin Prosperity Institute which belongs to the University of Toronto’s Rotman School of Management. The index ranges from 0-1 with higher score representing higher national creativity.

**Corruption Perceptions Index (CPI) (Transparency International, 2018)**
This index has been published annually since 1995 by Transparency International. It ranks countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The index uses a scale of 0-100 where 0 is very corrupt and 100 is very clean.

The combination of these indicators into a single index, with the power of each of the five being equally weighted, led to the proposition below.
CRI = \( f\) (IDV, IEF, EGDI, GCI, CPI)

Testing the index showed the CRI has a correlation ‘r value’ of 0.90 when compared to the assessment of the strength of a country’s management consulting sector as a proportion of its GDP and an ‘r value’ of 0.93 when compared to the assessment of the strength of a country’s management consulting sector in respect of the size of the country’s population. Appendix 1 shows the CRI data for the fifteen countries used to develop the index. It can also be appreciated that, if a country wishes to alter its propensity to embrace management consulting, it can look at the CRI ingredients and the factors that are comparatively poor. These point to what the CRI suggests are holding the development of the sector back.

**Demonstrating the CRI**

To help demonstrate proof of concept, the CRI was applied in reverse to the fifteen countries from which it was developed. ‘Best fit’ lines, using least squares method, were calculated for each representation of the consulting market strength (CRI compared to consulting market size as a proportion of GDP and consulting market size as a proportion of population). The two ‘best fit’ equations are:

**Man. Cons. Sector as a proportion of GDP = (1.0084*CRI) − 0.0167**

**Man. Cons. Sector as a proportion of population = (588.53*CRI) − 36.092**

As a result, both of these ways of estimating the size of the national management consulting sectors were applied to each of the fifteen countries, and the resultant data compared with the reference data from Source Global Research. The findings below illustrate the degree to which CRI can faithfully show the size of national management consulting markets. Having two ways of applying the CRI (via GDP and via population) gives two estimates of the management consulting sector value for each country.

| Country    | Size of management consulting sector (reference data) | Estimate of management consulting sector as a proportion of GDP | Estimate of management consulting sector as a proportion of population |
|------------|------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
| USA        | 81,131                                               | 80,294                                                        | 80,300                                                        |
| UK         | 13,400                                               | 10,482                                                        | 10,811                                                        |
| Germany    | 11,625                                               | 9,305                                                         | 12,639                                                        |
| France     | 7,110                                                | 4,872                                                         | 7,699                                                         |
| Australia  | 6,730                                                | 6,263                                                         | 7,304                                                         |
| China      | 9,088                                                | 870                                                           | 12,110                                                        |
| Canada     | 5,425                                                | 5,896                                                         | 7,340                                                         |
| Spain      | 2,195                                                | 1,842                                                         | 3,672                                                         |
| Italy      | 3,006                                                | 3,086                                                         | 6,678                                                         |
| Netherlands| 1,903                                                | 2,042                                                         | 3,529                                                         |
| Japan      | 1,756                                                | 1,696                                                         | 9,327                                                         |
| Switzerland| 1,678                                                | 2,062                                                         | 1,545                                                         |
| Brazil     | 1,582                                                | 732                                                           | 5,533                                                         |
| Photon     | 657                                                  | 872                                                           | 4,950                                                         |
| Austria    | 308                                                  | 758                                                           | 917                                                           |

Figure 2: Estimates of national management consulting markets using the CRI compared to reference data (illustrating degrees of accuracy)
Applying the CRI to Other Countries

Applying the CRI to other countries enables the index to be used to estimate the size of the management consulting sector in those countries where this is not known. It can also help these countries appreciate why variances in the disposition towards management consulting exist – the propensity to embrace management consulting being shown to be a function of five factors. The following data (Fig 3 below) estimate the national management consulting market for a selection of ten countries, using the CRI together with country’s GDP and population as the basis for these estimates.

For some countries, both the GDP and population methods seem in close agreement in terms of the estimated size of the national management consulting sector. In other cases, the two estimates vary. On one occasion the resultant estimate is a negative number, which while an impossibility (the lowest value of an economic sector in reality is zero) illustrates the possible impact of the assumptions underpinning the creation of the CRI and limits of the correlation and ‘best fit’ approaches.

Looking at the specific CRI ingredients helps in understanding the relative difference in countries’ disposition to embrace management consulting. Appendix 2 shows the data around the five CRI ingredients, for the ten countries where the CRI was used to estimate the size of the management consulting sector. Alongside this data is its global rank in each factor. High CRI values result from high CRI factor scores and high global rank in that factor. Whereas lower propensity to embrace consulting results from the CRI factors with comparatively low scores and global ranks. While causality is neither evidenced nor implied, this gives a country-by-country insight into which factors might be holding a country’s management consulting back and possible avenues where attention might be focused if there was an ambition to ‘move the needle’ and create a stronger sector.

Implications of this Research and Next Steps

So, while not definitive or conclusive, the CRI project has helped shine a light of the relative vibrancy of national management consulting sectors. The CRI project is work in progress but thus far the work has created the following:

- A means of explaining why the relative strength of the management consulting sector varies from country to country.
- A means of estimating the size of a national management consulting sector, where this information isn’t known.
- Insight into where attention might be devoted, should a country or economy wish to further enhance or strengthen its national management consulting sector.
This paper is one step in a journey which started in 2018. Research into the role and efficacy of the Consulting Readiness Index continues. As a live research project, the development of the CRI will continue. Work in progress includes seeking to re-validate and extend the CRI indicators and ingredients, to refine the CRI equation, to further evaluate the effectiveness of the CRI as a means of estimating the size of management consulting sectors, to extend the reach of the CRI to look at other countries, and to work with countries and national management consulting institutes/bodies on how the disposition towards management consulting as a relevant activity can be strengthened.

| Country  | CRI  | IDV/100 2017 | IEF/100 2017 | EGDI 2018 | GCI 2015 | CPI/100 2017 |
|----------|------|--------------|--------------|-----------|----------|--------------|
| Australia| 0.493| .90          | .910         | .905      | .970     | .77          |
| UK       | 0.442| .69          | .754         | .900      | .961     | .82          |
| USA      | 0.427| .91          | .751         | .877      | .55      | .75          |
| Canada   | 0.391| .80          | .795         | .926      | .920     | .82          |
| Switzerland| 0.330| .80          | .315         | .852      | .922     | .85          |
| Germany  | 0.294| .75          | .735         | .877      | .877     | .81          |
| France   | 0.227| .71          | .833         | .879      | .922     | .79          |
| Austria  | 0.192| .55          | .723         | .830      | .769     | .75          |
| Japan    | 0.163| .46          | .396         | .874      | .708     | .73          |
| Italy    | 0.124| .76          | .525         | .821      | .716     | .50          |
| Spain    | 0.125| .51          | .536         | .842      | .911     | .57          |
| Brazil   | 0.037| .38          | .529         | .737      | .867     | .37          |
| Russia   | 0.030| .39          | .571         | .797      | .676     | .29          |
| China    | 0.012| .29          | .574         | .651      | .462     | .41          |

Appendix 1: CRI data for the fifteen development countries
CRI = f (IDV, IEF, EGDI, GCI, CPI), for the fifteen countries in the study, and the data for the five components of the CRI.

| Country  | CRI  | Hofstad IDV | Hofstad IDV rank | Index of Economic Freedom (2017) | IEF World rank | eGov index (2018) | eGov Index rank | Global Creativity Index (2015) | GCI rank | Corruption Perception Index | CPI rank |
|----------|------|-------------|------------------|----------------------------------|----------------|-------------------|-----------------|--------------------------------|----------|---------------------------|---------|
| Denmark  | 0.41006| 74          | 52               | 75.1                             | 18             | 0.915             | 1               | 0.917                         | 5        | 85                        | 2       |
| Finland  | 0.32026| 63          | 74               | 74.9                             | 24             | 0.882             | 1               | 0.917                         | 5        | 85                        | 3       |
| Hungary  | 0.11580| 80          | 40               | 65.6                             | 56             | 0.727             | 45              | 0.873                         | 28       | 45                        | 66      |
| Ireland  | 0.27837| 70          | 60               | 76.7                             | 9              | 0.829             | 22              | 0.865                         | 13       | 74                        | 15      |
| Israel   | 0.12418| 56          | 52               | 69.7                             | 36             | 0.800             | 31              | 0.865                         | 39       | 62                        | 32      |
| Lithuania| 0.09904| 60          | 80               | 75.8                             | 16             | 0.753             | 40              | 0.43                          | 51       | 59                        | 38      |
| Norway   | 0.32701| 69          | 62               | 74.0                             | 25             | 0.896             | 14              | 0.883                         | 11       | 85                        | 3       |
| South Africa| 0.06490| 65          | 70               | 62.3                             | 81             | 0.662             | 69              | 0.864                         | 28       | 43                        | 71      |
| Sweden   | 0.36310| 71          | 58               | 74.9                             | 19             | 0.889             | 5               | 0.915                         | 7        | 84                        | 6       |
| Turkey   | 0.02209| 57          | 126              | 55.2                             | 60             | 0.711             | 52              | 0.349                         | 88       | 40                        | 91      |

Appendix 2: CRI data for the ten new countries to which the CRI has been applied.
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