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**Management Consulting in Estonia**  
**An Empirical Analysis of the Market Structure in the Context of**  
**Economic Transition**

*by*

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**Summary:**

Having been a country with significant management consulting facilities in the former Soviet Union, Estonia has a comparatively long tradition of management consulting. In looking at the Estonian consulting branch today, the picture of a small scale branch emerges as being on the threshold of a restructuring within the new capitalist economic system. As there is hardly any literature and data about Estonian management consulting this paper gives an overview of the management consulting branch in Estonia. It will focus mainly on the results of a survey conducted among Estonian management consultancies in May 2009 which presents data on branch characteristics, consulting work and client-consultant relationships, partnerships and internationalization. The results are discussed in the light of the development of the Estonian economy since their independence in 1991 and especially since the turn of the millennium.

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## 1 Management Consulting in the CEE Countries: Market Institutions and Transformation

Country-specific development of management consulting<sup>1</sup> is deeply linked to its socio-economic structures and local institutions which are in turn shaped through its historical development including predominant political ideologies, cultural norms and values as well as technological progress. These factors form the institutional arrangement of a market (i.e. Faust 2000; Mayer, Whittington 2004; Galan, Sanchez-Bueno 2009). In most Western European countries management consulting developed in the aftermath of World War II after being heavily influenced by US-American consultancies (Kipping 1996, 1997; McKenna 2006). However, the development was also embedded in complex economic, social and cultural systems that contributed to different lines of evolution through the years (see the contributions in Kipping, Engwall 2002; Glückler 2004; Kandrova 2006; Faust, Kordon 2008). National consulting cultures began to evolve (Pemer, Sieweke, Werr 2009). With regard to Eastern European Countries, the system transformations after 1990 have dramatically reshaped the market structure leading to different institutional arrangements (i.e. Lang, Winkler 2006, 2009; Alas, Tafel 2009), giving fresh impetus to development of management consulting and vice versa.

The role of management consulting in the economic transformation process of CEE countries has not been yet well researched (Schmidt 2009; Kandrova 2006). According to some research, particularly that which follows the economic transformation process<sup>2</sup> from the state directed economy to the market economy, shows that this transformation is a very important event (i.e. Martin 2002; Schmidt 2009) encompassing crucial institutional changes which result in changes of consulting demands (Gross et al. 2004). Privatization, which is the market entrance of foreign investors as well as the intensified adjustment of companies and employees to the logic of capitalism, accounted for the increased demand of consulting services in Eastern Europe (Gross et al. 2004, see also Sanderson, Faust 2009). In most countries, the demand was met by the large, international, US-based consultancies entering the new markets very quickly. At the same time local consulting facilities started to emerge (Birkner et al. 2009) meeting the demand for consultants who were familiar with the language and country-specific, economic and cultural issues (Birkner et al. 2009). Although in some formerly socialist countries the emergence of management consulting goes back to 1960s, the decisive upsurge came up with the fall of the Iron Curtain and the structural changes (Gross et al. 2004; Leimann et al. 2005). State agencies for enhancing economic restructuring and economic support seem to be an important factor in the management consulting market as they also offer consulting to

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<sup>1</sup> We broadly understand management consulting as a service which is provided by an independent, professional consultant interacting with the client, and which aims to give advice on business related problems (Becker 2005). Sturdy et al. (2009) provide a current discussion of definitional lines and a more interactional view.

<sup>2</sup> Lang (2005: 5) distinguishes political, technological, economic, organizational, and social transformation processes in the formerly socialist countries which also imply changes of values, norms, and behaviour of individuals (see also Schmidt 2009). Transformation may be managed, evolutionary or self organized.

private firms but can also support the establishment of a local consulting branch (Faust, Sanderson 2008).

As a former member of the Soviet Union, Estonia is one of the most successful and rapid transforming economies choosing a radical path leading to EU accession in 2004 (i.e. Smallbone, Welter 2009; Haltivander, Vodopevic 2002). In contrast to other CEE countries, i.e. the Czech Republic, management consulting has had a comparatively long tradition in Estonia which had already started in the 1960s with visits to the US and some collaboration with Finish consultancies in the 1970s (Leimann et al. 2005). Since the political and economic change, the sector developed increasingly dynamically, particularly in the new millennium, as we will show. Despite having been one of the most progressive consulting facilities in the Soviet Union there is little research about management consulting in Estonia (exceptions are Leimann, Rääks 2004; Leimann et al. 2005; Üksvärav 2008). Beyond the informative studies of the state agency Enterprise Estonian (EAS) in 2005 (EAS 2005a, 2005b), there is little information about the current situation. How did the Estonian market develop after their independence in 1991? How is the market structured in terms of company characteristics, client relations and partnerships? Did management consulting develop from scratch such as in Bulgaria (Esche 2008) or were there former traditions? If so, then how did these survive the change in systems? Which roles do foreign consultancies have, particularly in light of the strong political orientation towards foreign investment? Considering the small size of the Estonian market, how important is internationalization for the consulting firms in Estonia? How is consultancy embedded in the institutional landscape of independent Estonia? To fill the gaps, we will seek to go one step further in research about Estonian management consulting by analyzing its current development. Similarly, we want to shed more light on consulting in the transformation processes from formerly socialist economies to the context of the current economy. We will: (1) show the development of consulting during the last seven years on the basis of the official statistics (Estonian Business Registry) and (2) report the results of a survey among Estonian management consultants conducted in May 2009 which provides information on company characteristics, partnerships and networks, clients- and work relations as well as on internationalization tendencies. The paper is structured as follows: (1) while referring to the conceptual framework of transformation approaches (Lang 2005, 2007), we will introduce the most important characteristics of the economic transformation in Estonia in order to provide background information. (2) We will show the development of consulting in the period from 2000-2007. (3) We will introduce the results of our survey considering structural characteristics, client relationships, partnerships, and internationalization. (4) In conclusion, we will sum up the results and give an outlook on future research.

## **2 Estonia in the Transformation Process**

### **2.1 Economic Transformation and Consulting**

The question of whether institutional characteristics shape nation specific features of economies leading to different local approaches to strategy and leadership or whether the countries of the world incrementally follow a universal, (mainly US-based) approach of

strategy and management (Galan, Sanchez-Bueno 2009) also accounts for the development management consulting. Is there a mostly ubiquitous dominance of large US major consulting firms or is there a prevalence of local approaches which have been shaped historically? Research on formerly socialist transition economies has a clearly institutional approach: the comprehensive transformation processes from state directed to market economies deeply shape nation-specific capitalist economies leading to local institutional environments for companies (i.e. Lang, Winkler 2006, 2009; Lang 2005, 2007; Schmidt 2009; Smallbone, Welter 2009). Economic transformation encompasses the restructuring of monetary and fiscal politics, the legal system, trade politics, property rights, the banking sector, and the labor market regulations. According to Schmidt (2009), the transformation encompasses processes of imitation, adaptation, and adoption of socio-economic institutions stemming from other and in most cases Western capitalist economies. These processes and their results impact the consulting business in two ways: (1) they shape the regulatory and legal environment in which consulting firms establish their client relations. (2) Through the changes, new fields of activity for consulting firms develop (Gross et al. 2004).

## **2.2 The Transformation Process in Estonia: successful rapid transition**

Estonia's transformation process and economic performance is often considered as one of the earliest, most successful and most exemplary amongst those of the former Soviet Union economies (i.e. Haltiwander, Vodopevic 2002; Gylfason, Hochreiter 2008; Smallbone, Welter 2009). After having been occupied by the former Soviet Union since 1940, Estonia regained independence after the fall of the Iron Curtain in August 1991. Estonia belonged to the group of countries which underwent rapid transformations and faced major problems through dramatic declines of economic activity, unemployment and inflation in the first half of the 1990s (Haltiwander, Vodopevic 2002). Due to tight fiscal politics, a consequent liberalization of trade, privatization, modernization and restructuring of the economy, the situation improved and resulted in considerable growth rates in the second half of the 1990s and into the new millennium. During the late 1980s, Estonia experienced an increased economic autonomy leading to a comprehensive price reform in 1990/1991 which helped to adjust national prices to the world prices. In 1992, the Estonian Kroon was implemented, influenced by and dependent on the German Mark. In combination with a tight, consistent fiscal policy, inflation could be stabilized and reduced. Furthermore, the economy opened up: there were only very few import tariffs or restrictions except for an administrative fee of 0.5% (Haltiwander, Vodopevic 2002). Privatization was almost finished in 1996; most large enterprises had been sold (Smallbone, Welter 2009: 185). Due to a policy towards foreign investors and exports, Estonia attracted a considerable amount of foreign investors and foreign capital contributing to the growth of exports and to an influx of duty free imports (Smallbone, Welter 2009). Estonian companies as well as the Estonian Government cultivated intensive economic contacts to the Nordic neighbor states, especially Finland and Sweden who also account for the highest FDI rates (Holts 2005; Smallbone, Welter 2009). High FDI rates had also been an "important enabling factor contributing to the success of its economic reforms and the structural transformation of the economy" (Smallbone, Welter 2009: 188). On the

other hand, the economic growth was due to the export activities of Estonian companies and the increase of the domestic demand enhanced by higher real incomes.

Privatization in Estonia had already started in the aftermath of Gorbachev's Perestroika policy where small state enterprises were established as well as privately owned co-operations. From the time of 1987 it had been permitted to found joint ventures with foreigners. These tendencies served as forerunner models in later privatization that was led by centralized privatization programs (Jones et al. 2003) following the German "Treuhand" approach of individual sales through evaluated biddings starting in 1993 (Haltiwander, Vodopivec 2002; Alas, Tafel 2009). Due to the fact that privatization was open only to insiders (employees) first and then later to outsiders and foreign investors, ownership structures of Estonian enterprises are diverse consisting of insider investors and outsider investors (Hannula 2006; Jones et al. 2003). However, there is a high concentration of ownership since many enterprises are family owned while at the same time having close connections to foreign investors. In one third of all domestic companies, the company belongs 100% to the CEO, top management team and their closest family (Alas, Tafel 2009: 8). Due to the involvement of the owners in corporate governance they have a strong influence on company decision making.

Considering the economic structure, most companies in Estonia are rather small or medium sized. According to Masso, Eamets and Philips (2004), who analyze statistic data from the Estonian Business Registry, the share of firms with 0-99 employees is 70.58%. In their sample, 28.14% is not available which may indicate an underestimation of this number<sup>3</sup>. Männik, Hannula and Varblane (2004: 20) also point out that "small firms with less than 100 employees are prevailing in Estonia." The relative simple conditions for establishing enterprises contribute to the large amount of small enterprises (Watson, Downes 2008: 15-16; Smallbone, Welter 2009). Moreover, entrepreneurs are supported by state agencies such as Enterprise Estonia and the Chamber of Commerce which help them to receive grants, get consulting support as well as training and information. Considering the quality of growth, the Estonian SMEs are comparatively successful: There is a sizable share of growing companies (Smallbone, Welter 2009) and their innovation activities lead to economic growth (Paasi 2000: 193).

In terms of sectors, Estonia has a large service sector accounting for two thirds of the economy. Manufacturing has a share of 14% while the primary sector (mainly agriculture and forestry industry) is comparatively large accounting for 20%. According to Smallbone and Welter (2009: 190), the concentration in service reflects low entry thresholds compared to the primary and secondary sector and additionally points to a pattern of demand typically found in CEE-countries where service was unobtainable during the Soviet period. In socialist times the structure of the sectors was very different as it was in most CEE countries, with a large share of agriculture and manufacturing. The adverse cir-

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<sup>3</sup> Smallbone and Welter (2009: 191) report a vast majority of small and medium-sized enterprises for 2002. The vast majority was very small, employing fewer than ten persons (78.2%). Small enterprises accounted for 17.2% and medium-sized companies for 3.3%. Because of the exclusion of a large number of sole traders from the National Tax Board the role of micro-businesses is probably understated.



cumstances caused by the change in the economic structure were seen in the high unemployment rates throughout the 1990s and mismatches of skills resulting in a large amount of long term unemployment. Employment rates did not begin rising before 2001 (Smallbone, Welter 2009).

In considering corruption as one of the major problems in transformation economies, Estonia seems to be dealing with the dilemma well. According to the Open Society Institute (2002), Estonia is among the least corrupt of the new EU member states. Corruption is a relatively limited problem among senior officials and politicians. Although there are significant problems in the area of local government and administration, Estonia has made major progress towards putting in place a comprehensive anti-corruption framework including an advanced anti-corruption legislation. However, some institutions do not seem to be effective in fighting corruption (i.e. the parliament) and there seems to be problems with organized crime.

Another important characteristic of transformation economies is a large informal sector including “the household economy (production for household consumption), the social economy (dependence upon favors and help from friends and relatives), and the cash or black economy (additional monetized activities)” (Wallace et al. 2004: 1) which has enabled a lot of households in the formerly socialist countries to survive the transition in job loss, unemployment and inflation. The informal economy, which was a prevalent phenomenon in the beginning of the transition (Laar 2007), decreased throughout the economic change down to 15% of informal employment in 2001 (8-9 estimate per cent of the GDP)<sup>4</sup>, including people working illegally, self-employed and home based, free licensed, and other forms of atypical work (Glovackas 2005). Because Estonia has been economically successful with high incomes and economic growths over the recent years, it is probable, that this sector will increasingly dissipate (Wallace et al. 2002: 2).

Estonia’s structural position at the beginning of the millennium was comparable to that of the other Baltic States: economic growth was comparatively high, between 2004 and 2007 the growth rate increased from 6% up to 11.4%. In 2008, the downturn became noticeable: the growth rate fell to 7.3% (Index Mundi 2009). According to the transition indicators of the European Bank for Reconstruction and Development (EBRD 2009), Estonia scores high on the transformation index in regard to all indicators<sup>5</sup> among the transition countries.

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<sup>4</sup> This is comparatively few compared to other transition countries (Lithuania 25%, Croatia 27%, Bulgaria 30%, Serbia 40%, Ukraine 50%) and a little more than the EU average of 9% (Glovackas 2005).

<sup>5</sup> The indicators include large-scale as well as small-scale privatization, enterprise restructuring, price liberalization, trade and forex system, competition policy, banking reform, non-bank financial institutions and infrastructure reform (EBRD 2009).

## 2.3 Management consulting in Estonia

### 2.3.1 Market overview

Comparing the current Estonian consulting market to other Eastern European markets, it appears to be rather small in size. According to two studies of Enterprise Estonia (EAS 2005a, 2005b)<sup>6</sup>, in 2005 Estonian companies drew on consulting services to the amount of 16.4 million Euros<sup>7</sup> which is a small investment compared to that of Germany (client investment about 16.4 bn. Euros in 2005, BDU 2007: 3). The turnover in management consulting in Estonia was estimated at about 4.2 Mio. Euros, which is pretty low compared to other CEE countries, as table 1 shows:

**Table 1: Selected Eastern European consulting markets in 2005**

	Total turnover of consulting services, in 2005 (in million Euros)	Turnover of management consulting, in 2005 (in million Euro)	Number of management consulting companies, in 2005	GNI per capita, PPP (current international \$) in 2005	GDP growth rate p.a., in%, 2005
Bulgaria	37	56	200	8.560	9,4
Czech Republic	250	390	1323	19.290	6,5
<b>Estonia</b>	<b>16,4<sup>8</sup></b>	<b>4,2<sup>9</sup></b>	<b>50</b>	<b>15.990</b>	<b>10,2</b>
Hungary	194	251	468	16.010	4,1
Poland	159	240	Na	13.270	3,6
Romania	100	200	480	9.070	4,1
Slovenia	94	120	885	22.810	4,1

Sources: FEACO Annual Report (2005), World Bank (2009), EAS (2005a, b)

Despite a relatively high per-capita-income compared to other formerly socialist countries, Estonia lags far behind when it comes to management consulting (table 1). Interestingly, Estonian companies spent double the amount of money for training (500 millions EEK) indicating that training still has a high importance and therefore it may be difficult to distinguish training from consulting.

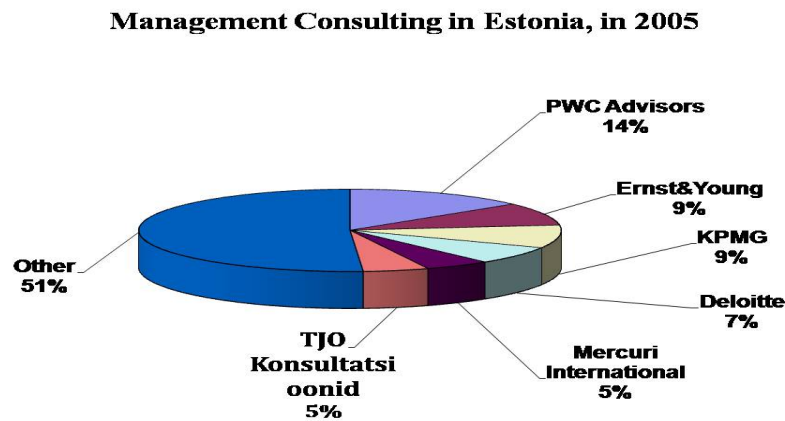
The numbers of consultants vary dramatically depending on the data source. According to the EAS studies, ca. 50 companies acted as management consultants in 2005 including big Western companies (figure 1).

<sup>6</sup> The study (EAS 2005a) is based on a survey among 764 Estonian companies randomly selected from the Estonian Business Registry.

<sup>7</sup> According to EAS, these numbers have to be interpreted carefully because they also include expenditures for internal consulting or other costs in regard to consulting. In addition, these numbers estimated from the statements of Estonian firms. Expenditures from foreign clients are not included.

<sup>8</sup> Ca. 255 Estonian Kronas (EEK).

<sup>9</sup> Ca. 65 Mio.EEK.

**Figure 1: Management Consulting in Estonia in 2005**

(Source: EAS 2005b: 52)

According to EAS (2005b), foreign consulting companies covered about 44% of the market, which is quite similar to other European countries (i.e. Germany, where the largest firms cover 60% of the market, BDU 2008). As Leimann et al. (2005) point out; the majority of the foreign based firms also offer accounting. The largest group consists of micro-sized companies, sole traders or firms with only one or two employees. There are very few local small and medium-sized companies.

### 2.3.2 *Historical ties: Management consulting in the Soviet period and the early years*

In the former Soviet Union, Estonia was one of the few countries providing consulting facilities. The service was first inspired by visits to the US by a famous Estonian consultant, Raoul Üksvärav, who later propagated these ideas about management and rationalization he learned in the US further in Estonia. In the 1970s and 1980s, Estonian managers and consultants collaborated with Finnish colleagues from a Finnish consultancy MecRastor (see Ainamo, Tienari 2002; Leimann et al. 2005). As there was no privatized activity possible, management consulting in the Soviet system was disguised as collaboration between enterprises and universities, namely the Tallinn Polytechnical Institute (TPI; now Tallinn University of Technology). Consultants had to call themselves trainers or teachers and the consulting projects were formally labeled as research projects (Leimann et al. 2005: 7). In the 1980s, Estonian consultants worked in a lot of other post-socialist countries gaining a comparatively high level of experience and a strong reputation. In the late 1980s, joint ventures with Finnish and Swedish consulting firms were founded and there was also a certification committee in Estonia (Leimann, Rääks 2004; Leimann et al. 2005). An important step was the fact that the Swedish company SIAR merged with the French consulting firm Bossard. SIAR-Bossard had an Estonian subsidiary that specialized in market entry into the Baltic region. After their independence in 1991, the Estonian Association of management consulting (Eesti Konsultantide Assotsiatsioon, EKA) was founded in 1992, formally uniting consultants for the first time and maintaining cooperation with the Nordic countries. Several Estonian consultancies expanded their activities and SIAR-Bossard gained considerable importance attending to the transition process with teams of Western and local consultants and advising foreign

investors about transforming their subsidiaries (Leimann et al. 2005: 13f.). In the mid-1990s, SIAR-Bossard became a part of Gemini and later Cap Gemini and Ernst&Young decided to close the Baltic offices as the transition process had been successfully accomplished. Besides SIAR-Bossard, some large international auditing firms (PWC, Deloitte & Touche, Ernst&Young, KPMG) established offices in Estonia and also offered (and still offer) consulting services. In addition, numerous small, local consultancies appeared by the mid-1990s offering a broad range of consulting services (Leimann et al. 2005: 14).

### 2.3.3 Latest developments: Consulting from 2000-2007

According to the statistical data of the central Estonian Business Registry<sup>10</sup>, micro- and small firms have the largest share. This firm level data set covers all branches in Estonia and contains all registered management consultancies from 2000-2007. It gives us a picture of the development of that branch during the last seven years in terms of the number of companies, development of employee numbers and yearly turnover.<sup>11</sup>

Generally, a problem of official numbers of management consulting industry is systematic overestimation<sup>12</sup>. As in many other countries (McKenna 2006; Engwall, Kipping 2002: 4), in Estonia the consulting profession is not legally protected or regulated (Watson, Downes 2009: 27). This usually leads to large numbers of consulting firms that encompass a considerable share of inactive, nominal members in official data bases<sup>13</sup> and also advising occupations that are not management consultants in the narrow sense of the word but rather estate agents, banker or lawyers also working as consultants (Faust 2006). In order to filter inactive consulting firms, we only took into account members of the list who file a tax return.<sup>14</sup> Since some companies “misuse” their consulting firm registration to pad their services, the official data represents all kinds of services which may be labeled consulting, for example advice in the context of sales<sup>15</sup>. Hence, the official data is merely a broad indicator for the development of consulting services in Estonia

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<sup>10</sup> RIK (Registrite ja Infosüsteemide Keskus) stands for Centre of Registers and Information Systems and is a state agency working under the Ministry of Justice. It provides a number of e-services, amongst the provision and administration of several registers and information services such as the commercial register encompassing the central business registry. This was founded in order to provide a reliable data base of all economically active companies in Estonia for legal and research purposes. The data base collects data since 1997 making it impossible to study the early years of transformation (Masso, Eamets, Philips 2004: 4). Before 1997, firms are only registered if they applied for registration. Registration is obligatory if the annual turn over exceeds 250000 Estonian kroons (EEK) (RIK 2009a).

<sup>11</sup> We asked for firm specific data of EMTAK classification numbers 7022 and 70221 (business and other management consultancy activities). Economic activity is classified according to the EMTAK classification which is administered by the Centre of Registers and Information Systems and is the local Estonian Version of the internationally harmonised NACE classification. EMTAK is divided into five levels and also serves for comparison of international data (RIK 2009b).

<sup>12</sup> This also holds true for all developed countries (Ittermann, Sperling 1998; McKenna 2006).

<sup>13</sup> The same problem occurs in Germany where studies on consultancy rely on data from the German Consulting Association (BDU, Bund Deutscher Unternehmensberater) (Rudolph & Okrech 2004; Ittermann & Sperling 1998). Only few studies create their own data basis on based on firm or telephone registers (Bohler & Kellner 2003).

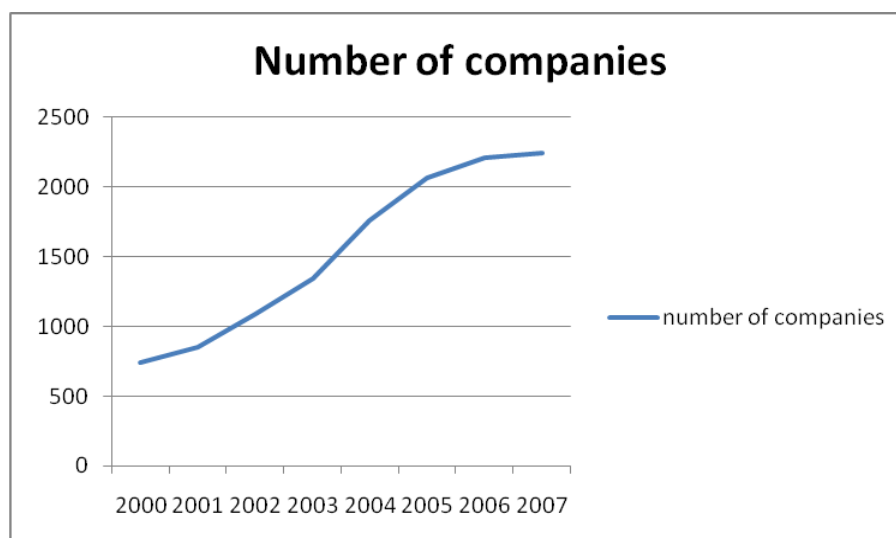
<sup>14</sup> A large amount of registered management consulting firms are not economically active: 2246 out of 3971 registered management consulting firms in 2007 made an annual statement meaning that 1725 firms were economically inactive.

<sup>15</sup> For definition approaches see also Nestmann, Engel, Siekendiek 2004; Walger 1995.

functioning as a first approximation to the field. The vast differences in numbers to the EAS study (2005b) may be due to systematic overestimation as well as to definition issues. While the EAS study is based on numbers of consultancies offering strategy advice, the official numbers covered “business and other management consulting activities” (EMTAK, see RIK 2009b) and was based on personal information.

According to the official data, the Estonian management consulting market has grown fast during the last seven years: the number of companies has increased from 739 up to 2246, it has more than tripled (figure 2).

**Figure 2: Number of consulting companies in Estonia 2000-2007**



(Source: RIK)

It grew steadily between 2000 and 2007 which is in line with (a) the general developments of SME sectors in mature economies that tend to progress at similar rates (Smallbone, Welter 2009: 190) and (b) the development of the consulting markets in other transformation countries such as Romania (FEACO 2007).

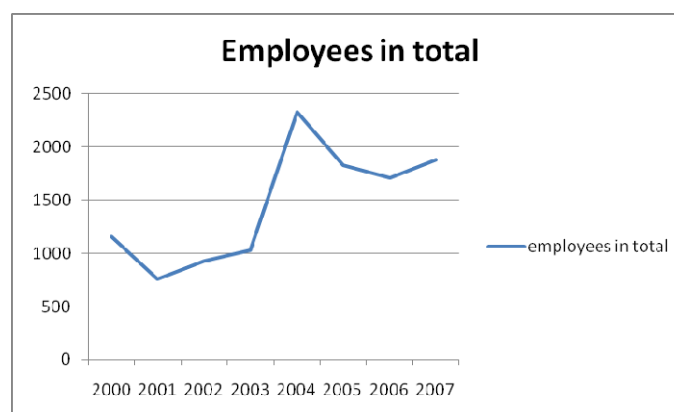
Looking at the development of the number of companies in different size groupings, the growth is mostly due to the entry of small firms with only 0-9 employees. This group grew very fast over the years – it more than quadrupled between 2000 and 2007 (table 2). Small companies consistently have the largest share among management consultancies and this holds true in the structure of the Estonian economy where small companies also have the largest share (Masso, Eamets, Philips 2004; Männik, Hannula, Varblane 2004; Smallbone, Welter 2009). The number of the group of medium sized companies (10-49 employees) varies drastically between ten and thirty over the time period. In the group of companies that did not declare any employee numbers (probably the sole traders), there are also variations as well: it rose steadily and peaked in 2005 with a slight decrease in 2006. Very few companies have more than 50 employees and there is only one company with more than 250 workers in the years 2000, 2004, and 2007.

**Table 2: Number of firms and firm size**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>0-9</b>	439	585	787	982	1376	1585	1815	1824
<b>10-49</b>	10	13	16	10	21	23	31	20
<b>50-249</b>	1	0	0	1	3	4	0	2
<b>+250</b>	1	0	0	0	1	0	0	1
<b>No number of employees declared</b>	288	248	281	347	360	456	368	399

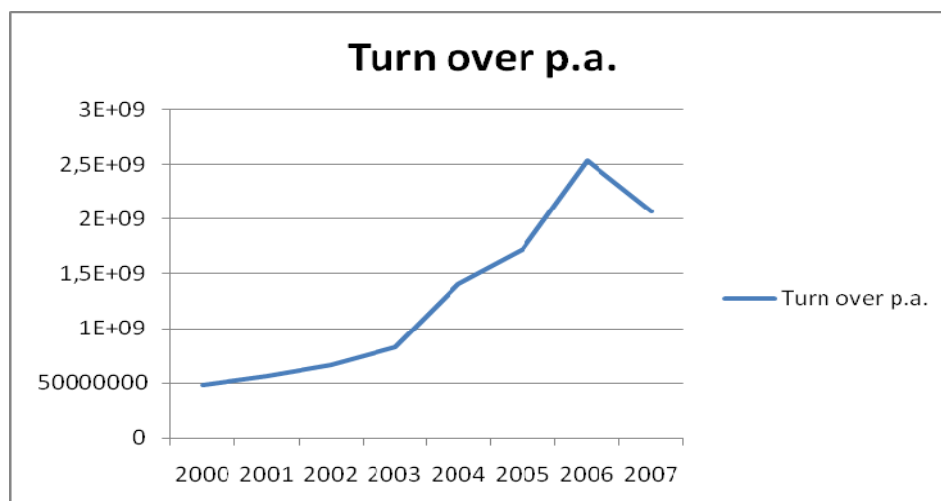
Source: RIK data

The variation in size could be due to a more project-based market structure where consultants are temporarily employed for projects. This is also supported by the development of the numbers of employees in total. It reaches a peak of 2327 in 2004 and decreases afterwards with a slight rise again in 2007 (figure 3).

**Figure 3: Employees of Estonian consulting firms in total, 2000-2007**

source: RIK

In terms of turnover, the amount of turnover between 2000 and 2007 steadily increased until 2006 and decreased in 2007 (Figure 4).

**Figure 4: Turnover of Estonian consulting firms in total, 2000-2007**

source: RIK

Considering the company size and turnover rates, it is visible that the average turnover rates of small and medium sized companies varied drastically between 2000 and 2007. Although the number of companies increased substantially between 2000 and 2007, the annual turnover of the companies did not rise congruently and there is marked variation among the groups of different sized companies (table 3). The average turnover rates of small companies increased until 2001 and slightly decreased in 2002 and rose steeply to 30% in 2003. In 2004 and 2005 it dropped again and increased about 20% in 2006. The variations in the group of middle sized companies are even more drastic. The average rates rose up and down regularly: in 2001, there was an increase of 19%, in 2002 a decrease of 25%, in 2003 an increase of 37%, and in 2004 a decrease of about 23%. 2005 and 2006 were good years with an increase of 29% and 37% while the rate dropped again in 2007 about 39%. Large variations in average turnover rates also occurred in the groups of the larger companies.

**Table 3: Average annual turnover rate and firm size**

	0-9	10-49	50-249	< 250
<b>2000</b>	605.232,90 €	8.321.239,20 €	1.200.000,00 €	7.418.000,00 €
<b>2001</b>	607.328,59 €	10.211.384,77 €		
<b>2002</b>	580.811,04 €	7.712.807,18 €		
<b>2003</b>	845.735,13 €	12.175.803,40€	1.558.000,00 €	
<b>2004</b>	737.072,61 €	9.456.552,34 €	1.745.125,67 €	3.358.000,00 €
<b>2005</b>	682.812,71 €	13.172.520,13 €	11.942.467,00 €	
<b>2006</b>	830.869,26 €	20.734.367,06 €		
<b>2007</b>	799.168,68 €	12.710.392,00 €	5.342.037,50 €	847.730,00 €

The strong variations in average annual turnover rates may indicate a more project-lead business in which the consultants may have some other income source in order to balance demand shortcomings. The market is rather small therefore demand could be extremely

inconsistent. An external factor may be the EU Accession: In 2003 and 2004 we find immense growth rates in terms of firm entry and annual turnover rates per company which may be due to increased demands because of the EU Accession (see also Leimann et al. 2005).

However, Estonian companies seem to be rather cautious in assigning consultants. According to the EAS Study (2005a) between 2004 and 2005, 22% of the Estonian companies assigned consultants<sup>16</sup> which is a comparatively low number (Smallbone, Welter 2009: 215). Like in other countries (Glückler 2004; Kandrova 2006; Kipping, Engwall 2002), ca. 50% of clients relies on personal recommendation when coming to the selection of consultants which marks the importance of informal relations in the Estonian consulting market.

In order to supplement the statistical impressions of the company with data about the consultants' experience, the foundation of the firms, their partners, work with clients, and tendencies of internationalization, we will report the results of our online-survey amongst Estonian consultants in the next chapter.

### **3 Methodology**

We created a web-based questionnaire on the basis of five methodological reasons: (1) generally, consultants are difficult to reach at their offices because as a service occupation they are highly mobile and flexible. Therefore, an online-survey would best apply to their need to be flexible<sup>17</sup>. (2) Because the effort for the consultants was comparatively low, the participation in the survey was low-threshold. (3) Due to the geographical distance of Estonia from Germany, a traditional survey would have only been possible with considerable logistic and time resources. (4) Moreover, online survey data is easily and securely transferable into data analysis software (Brake, Weber 2009: 415). (5) Furthermore, the culture prefers an online survey: according to our experience and field information, Internet use is very popular in Estonia.

#### **3.1 Data Collection**

We created the survey with an online survey tool ("unipark system"). The questionnaire was programmed in html-format and the tool generates a link to the questionnaire which was available with the internet. Due to different reading behaviors in the internet (Brake, Weber 2009: 417-418), we tried to precisely format the questions. We also provided the questionnaire in English and in Estonian (the native language of the country). The respondents mainly used the Estonian version (only 3 out of 145 chose the English version).

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<sup>16</sup> According to the data of Smallbone and Welter (2009: 215), 39% of Estonian SME's reported to use external advice in 2002. Out of this, 42% used private consultants, 35% business partners and 19% friends and family members.

<sup>17</sup> The disadvantage of this flexibility is that the interview situation is not controllable for the researcher (Brake, Weber 2009: 428). As this would also be the case in telephone interviews, we decided to accept this in favor of the advantages.



As recommended by Weber and Brake (2009: 421), the survey was online for three weeks (May, 10th – May, 31<sup>st</sup> 2009)<sup>18</sup>.

In order to analyze the Estonian consulting branch, we wanted (1) to create a broad picture of consultants' structural characteristics (firm size, employees etc.), (2) of client relations (project size, core competence, influence of clients in projects), (3) partnerships, and (4) international activities. Therefore, the questionnaire consisted of 50 questions in four parts, covering structural characteristics of the firm, client relations, partnerships and internationalization.

### 3.2 Contacted firms, respond rate and representativeness

In order to cover a large share of the basic population defined as economically active management consulting firms in Estonia<sup>19</sup>, we contacted a member of the board of directors of the Estonian management consultant organization (EKA). He distributed the survey link among the EKA members, in their networks, in the networks of Enterprise Estonia and in his own network. Approximately, 160 management consulting firms were contacted. 145 respondents visited the start page<sup>20</sup>, 126 viewed the questionnaire, 116 started the questionnaire and 69 terminated it<sup>21</sup> (table 4). So, based on these numbers, we can analyze at least 67<sup>22</sup> data sets.

**Table 4: Participation rates**

Net participation	Absolute numbers	Per cent
Participated	126	100,00%
Terminated	69	54,76%

Source: Field report, June, 2<sup>nd</sup> 2009

Concerning company size, our sample somewhat deviates from the pattern in the Business Registry (table 5). We have an overrepresentation of middle sized firms and an underrepresentation of small and very large firms. Since the deviation is quite small, we can carefully generalize from our sample.

<sup>18</sup> The majority of respondents contacted the survey in the first week (87.6%) and also answered the questionnaire (88.4% or 61 respondents in absolute numbers), despite follow-up e-mails in the second and third week. The most popular time to fill out the questionnaire was in the early morning between 6:00h and 8:00h (about 63% of respondents).

<sup>19</sup> The number of consulting firms who is currently performing client projects can be estimated from the EKA member list (about 59 firms and consultants) and the list of the ESA network (about 130 firms and persons).

<sup>20</sup> The net respond rate was 90.6% which is very high. Particularly in terms of an online-survey the rates are usually low compared to traditional mail versions (Weber, Brake 2005: 79). This high return rate is probably due to two factors: (1) the high reputation of our gate keeper was a strong incentive to fill out the questionnaire. (2) Due to the lack of data on the management consulting market, the results will be of interest for the participating firms.

<sup>21</sup> The share of net respondents was 78.8% high (126 participants in absolute numbers). 69 participants terminated the questionnaire, which is a total net return rate of 41.9% (based on a number of 160 contacted consulting firms).

<sup>22</sup> We had to take out two data sets because of the response patterns: The respondents clicked through the questionnaire without giving any answers.

**Table 5: Firm size of Estonian management consulting companies in the sample (2009) and in the Business Registry (2007), absolute and per cent**

Firm size (employees)	Official number of mgt. consulting firms in Estonia, 2007		Sample (2009)	
	Absolute	Per cent	Absolute	Per cent
0-9	1824	98,8%	55	82.08%
10-49	20	1%	11	16.4%
50-249	2	0.1%	1	1.49%
+250	1	0.05%	0	0

Source: RIK<sup>23</sup> and survey data

## 4 Results

### 4.1 Structural characteristics of Estonian management consulting firms

The majority of respondents were in high management positions such as CEO or members of the executive board (73%). The largest share of the remaining respondents (11.9%) was also experienced as senior consultants. Only two were junior consultants (table 6).

**Table 6: Position of the respondents within the firm**

Position	absolute	Per cent
CEO	14	20,9%
Member of Executive Board	35	52,1%
Partner	2	2,9%
Senior Consultant	8	11,9%
Project manager	4	5,9%
Junior Consultant	2	2,9%
Other	2	2,9%
Total	67	100%

Extensive work experience of the respondents is also indicated when looking at the years of seniority (table 7).

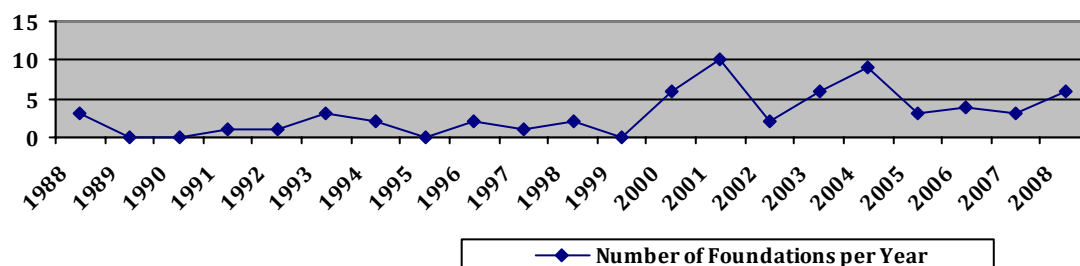
<sup>23</sup> In the Business Registry, there was no data available for 2008.

**Table 7: Respondents' years of seniority**

Years of seniority	In this firm (in absolute numbers)	Years of being a consultant (in absolute numbers)
1 year and below	9	2
2-3 years	11	6
4-5 years	15	16
6-10 years	23	23
11-20 years	9	19
Missing values	2	3
total	69	69

The vast majority of respondents (58) were consultants for more than 6 years. 34 respondents have worked more than 6 years in their current company. Only two are rookies with seniority of one year or below. Looking closely at the consultants with a seniority of 11 – 20 years, there are only three persons who started in 1989. None of the respondents worked as a consultant during the occupation period.

Considering the year of foundation, most consultancies in the sample were founded after 2000 (figure 5).

**Figure 5: Number of Foundations per Year**

There were hardly any consulting firms founded immediately after 1989 since only two respondents worked as consultants at that time. The boom of the industry, according to our sample (and according to the official data), was at the beginning of the new millennium when most of the respondents started their consulting career. As shown above, a volatile increase of consultants from 2000 on is also observable in the official firm data. In our sample as we compare the numbers of the amount of consultancy firms between 1999 and 2000 we note that the number nearly doubles. An explanation could be that the approaching EU membership might have been more important for the Estonian consulting industry than the system change in 1989. The demand for consulting may have risen with the new regulations, competition, and opportunities in the EU, while the system change initially established the prerequisites for a demand in terms of market economy. Another explanation may be the reorganization and centralization of state-regulation business support: in 2000, seven foundations that were attached to five different Ministries were integrated in two new institutions bundling Estonia's structure for economic support: the Kredix (Credit and Export Guarantee Fund) and Enterprise Estonia (EAS).

EAS has the responsibility to implement public business support measures as well as support the local business development centers (Smallbone, Welter 2009). Hence, EAS offers information, access to financial support and a wide range of business consulting that is free for the clients covering business analysis as well as advice in regard to the application for funds or EAS programs<sup>24</sup>. Being a low-threshold service, this consulting service may serve as a teaser for private consulting as it helps the clients to overcome any fear of an initial contact. The EAS also mediates consulting firms and clients through a data base and provides a certification in order to “help consultants improve their service quality” (EAS 2009). Most importantly, the EAS funds consulting projects through their programs and probably has a very strong influence on the consulting market.

**Table 8: Legal form of the responding consulting firms**

Legal Form	Number of firms (absolute)
Private Limited Company	62
Public Limited Company	3
Non-profit association	1
Missing value	3
Total	69

Most of the responding firms are privately owned. Only three are publically owned and only one is a non-profit association. This indicates that management consulting in Estonia is a service industry which is particularly provided and influenced by privately owned actors and not by intermediate or public institutions as was the case in Germany until the 1970s (Faust 2000).

A small majority of 56.6% does full-time-advisory, but over 40% has other jobs (table 9). Hence, for a large part of the top managers among consultants, the job is not a full-time job, which may indicate that consulting businesses in Estonia are rather small.

**Table 9: Number of consultants with other jobs**

Question: Do you have any other jobs?		
	Absolute numbers	Per cent
Yes	29	43,4%
No	38	56,6%
Total	67	100%

9 respondents are freelancers (no employees). 7 of these have another job along with being a consultant for at least more than 5 years. The majority has more than 10 years experience in freelancing. Only one of these freelance consultants responded that the number of employees decreased - so this person must have had employees during the last three

<sup>24</sup> Source: request at the EAS in regard to their consulting services, e-mail from July 17<sup>th</sup> 2009.

years. This person had also had a partner (number strongly decreased) but expanded the number of his/her network partners. In three more cases, the number of network partners has increased during the last three years. Since there are only two freelance consultants without other jobs, it is not clear whether they work full time as consultants or whether they used to have job but are currently unemployed. One of them seems to be an occasional consultant: he/she is junior level (consultant for one year) and has no income as a consultant (turnover in 2008 = 0). The other one seems to be a consultant in the narrow sense of the word: he/she has run his/her business for three years and has a turnover rate of less than 100.000 Euros in 2008.

The hypothesis of consulting firms being rather small is also confirmed by the fact that only 31% (21) of the consultants has more than one office. Nearly two thirds has only one office (table 10).

**Table 10: Consultancies with more than one office**

	<b>Does your company hold any more offices?</b>	
	absolute numbers	per cent
Yes	<b>21</b>	<b>31%</b>
No	<b>45</b>	<b>67%</b>
Missing	<b>3</b>	<b>2%</b>
Total	<b>67</b>	<b>100%</b>

Similar to the Czech consulting market (Birkner et al. 2007), the Estonian consultancies are mainly rather small businesses (table 11). Looking at the numbers of employees shows that the vast majority of 43 respondents have below 5 employees and only 2 have more than twenty. Only one respondent had about 160 employees.

**Table 11: Number of Employees of the sample companies**

<b>Firm size</b>	<b>Number of firms, absolute</b>	<b>Number of firms, per cent</b>
0 Employees	9	13.4%
1-5 Employees	43	74.2%
6-10 Employees	4	6.9%
11 - 20 Employees	9	15.4%
More than 20	2	3.4%
Total	67	100,0%

The variation pattern which appeared in the Business Registry data is not visible in our sample (table 12): In one third of the cases, the number of employees grew during the last three years. 33 could keep its employees stable and only 5 respondents had a decrease of employees. A similar pattern of growth holds true for the development of partners: 31 respondents could add to their partners during the last three years, 21 could keep them stable and only two had a decrease in the number of partners.

**Table 12: Development of the amount of employees during the last three years**

Development of amount of employees during the last three years		
	Consultants	Partner
<b>strongly increased</b>	<b>11</b>	<b>5</b>
<b>Increased</b>	<b>12</b>	<b>26</b>
<b>did not change</b>	<b>33</b>	<b>21</b>
<b>Decreased</b>	<b>3</b>	<b>2</b>
<b>strongly decreased</b>	<b>2</b>	<b>3</b>
<b>Varied</b>	<b>1</b>	<b>4</b>
<b>Missing</b>	<b>5</b>	<b>6</b>
<b>Total</b>	<b>67</b>	<b>67</b>

In terms of turnover rates in 2008, the businesses are much smaller than the Business Registry companies: a majority of 34 earns less than 100000 Euros per year and 22 earned between 100.000 and 500.000 Euros. Only 8 companies earned more than 500.000 (table 13).

**Table 13: Turnover in 2008, in Euro**

Turn over	Amount of firms
Less than 100.000 Euros	<b>34</b>
Between 100.00 and 500.000 Euros	<b>22</b>
More than 500.000 Euros	<b>8</b>
Missing	<b>3</b>
Total	<b>67</b>

Based on company size we found that a majority of the smallest firms (no employees, 1-5 employees) earned less than 100.00 Euros while almost all larger firms earn more.

**Table 14: Turn over in 2008 (Euro) and firm size**

Turn over	Firm size in regard to employees				
	0	1-5	6-10	11-20	< 20
<b>0</b>	2	1			
<b>Less than 100.000 Euros</b>	6	27		1	
<b>Between 100.00 and 500.000 Euros</b>		15	4	2	1
<b>More than 500.000 Euros</b>	1			6	1
<b>Missing</b>					
<b>Total</b>	<b>9</b>	<b>43</b>	<b>4</b>	<b>8</b>	<b>2</b>

The turnover has developed fairly well during the last three years (table 15). A majority of 46 companies had an increase while only 10 had a decrease of turnover. In the group of firms with 1-5 employees a large majority of 29 could extend its turnover, while 8 companies acquiesced to a decrease.

**Table 15: Development of turnover during the last three years**

	Turn over development	Firm size/employees				
		0	1-5	6-10	11-20	< 20
<b>strongly increased</b>	11	1	4	2	4	
<b>Increased</b>	35	3	25	1	4	1
<b>did not change</b>	7	1	5	1		
<b>Decreased</b>	7	1	6			
<b>strongly decreased</b>	3		2			1
<b>I don't know</b>	1		1			
<b>Missing</b>	3	3				
<b>Total</b>	67	9	43	4	8	2

Considering the development of the prices, a majority of companies (35/36) perceived an increase in terms of the daily rate as well as in terms of the average project volume during the last three years. For 14 firms, the rate was stable and a small group of 8/9 firms perceived a decrease. This reflects a generally positive development of the turnover.

**Table 16: Development of prices**

	Development of prices	
	daily rate	average project volume
<b>strongly increased</b>	1	2
<b>Increased</b>	34	34
<b>did not change</b>	0	0
<b>Decreased</b>	6	8
<b>strongly decreased</b>	2	1
<b>Stable</b>	14	14
<b>I don't know</b>	4	4
<b>Missing</b>	6	4
<b>Total</b>	67	67

The average volume of the projects is rather low with the vast majority of projects bringing in below 500.000 Euros (table 17). Considering the yearly turnover rates of the consulting firms in the sample this seems to be a logic consequence.

**Table 17: average volume of projects, in 2008, in Euro**

Volume of projects on average	Firms
12.500-50.000 Euro	10
70.000-100.000	19
100.001-500.000	19
More than 500.000	1
Missing	17
<b>Total</b>	<b>66</b>

The project size also indicates that the market is rather small-scale with small consultancies advising small client firms.

To sum up, the Estonian consulting branch is mainly characterized by rather small businesses (in terms of turnover and number of employees) which are privately owned. Their economic performance has for the most part developed positively with increasing numbers of employees and increasing turnover rates mirroring the growth of the company

## 4.2 Partnerships

Most management consulting firms collaborate with partners in project based partnerships as table 18 indicates.

**Table 18: Collaboration with partners in project based partnerships**

Collaboration with Partners	
Yes	54
No	11
missing	2
<b>Total</b>	<b>67</b>

In order to map these partnerships in greater detail, we also asked for the numbers of consultant network partners regularly working together on projects. Most companies work with a few external consultant network partners: 12 consultancies frequently only work with one external consultant, 8 with two and only one firm works with ten or fifteen partners (table 19).

**Table 19: Number of consultant network partners**

Consultant Network Partners	Number of companies
0	23
1	12
2	8
3	2
4	5
5	4
8	1
10	1
15	1
Missing	5
<b>Total</b>	<b>62</b>

Considering the size of our respondents' networks during the last three years, we can assert that 32 respondents have extended their network and 19 have kept it stable. In only two cases the number of network partners has decreased during the last three years (table 20).



**Table 20: Development of the network size during the last three years**

<b>Number of Network Partners</b>	
<b>strongly increased</b>	<b>11</b>
<b>Increased</b>	<b>21</b>
<b>did not change</b>	<b>19</b>
<b>Decreased</b>	<b>2</b>
<b>strongly decreased</b>	<b>0</b>
<b>Varied</b>	<b>3</b>
<b>I don't know</b>	<b>3</b>
<b>Missing</b>	<b>8</b>
<b>Total</b>	<b>67</b>

Most firms work with both international and Estonian partners. A large share of 29 companies only work with Estonian partners indicating a more local orientation. Only two companies exclusively work with international partners (table 21). This indicates that most Estonian management consultants are directed at the local market.

**Table 21: Nationality of Partners**

<b>Nationality of Partners</b>	<b>Number of companies</b>
Estonian	29
International	2
Both	32
Missing	4
<b>Total</b>	<b>67</b>

About half of the partnerships are rather new as table 22 indicates: 18 companies have only worked with their partner three years or fewer and another 15 firms established their partnerships 4-5 years ago. The other half of the partnership has been intact for five years or more and six companies have been collaborating with their partners for more than ten years. This pattern particularly reflects the age of the companies themselves (see above).

**Table 22: Duration of partnership**

3 years and below	18
4-5 years	15
5 - 7 years	7
8-10 years	11
more than 10	6

Most partnerships (53) are based on personal relationships including private relationships (“friends”) and relationships out of the personal network (“met partners during study time / former employment”) (table 23). A considerably large share of partnerships (45) developed out of the visibility in the consultancy branch (“partners observed our work”;

“conferences, trainings”) confirming the branch to be rather small-scale. Only 27 partnerships resulted from client relationships. This pattern confirms that strong ties are more eligible as a basis of collaboration than weak ties (Granovetter 1985; Burt 1992).

**Table 23: Establishment of partnerships**

<b>Establishment of partnership</b>	
Our partner observed our work	26
By the medium of friends	27
By the medium of clients	17
Collaboration on client initiative	10
Meet on conferences, trainings etc.	19
Meet during study time / former employment	26
Other	8

The question also encompassed a free answer possibility (“other”) which was used by eight respondents. Four answered that their partnership is based on proactive partner search, one partnership resulted out of a merger and another partnership is the relationship with a foreign parent company.

Private and business networks also serve as acquisition instruments (table 24). In the majority of the cases, the share of projects acquired through private networks is below 50%. Only a small minority of eight firms receives projects through their friends. The share of companies acquiring more than 55% of projects through business networks is much higher (20). 17 of these firms receive more than 80% of projects through business contacts. Considering the comparatively low rates of repeat business (see below), these contacts may be business partners, clients recommending the firm, or contacts gained through state support (see below). Hence, business networks have a higher importance than private networks in client acquisition.

**Table 24: Share of projects acquired through private networks and business networks**

	<b>share of projects through private networks</b>	<b>share of business networks projects</b>
25% and below	22	12
30%- 50%	20	21
55%- 75%	7	3
80%-100%	1	17
Missing	13	13
0	4	1
Total	67	67

### 4.3 Client- Consultant Relations

Considering further instruments of client acquisition (table 24), recommendations seem to be very important as well as mouth-to-mouth marketing and personal contacts. This confirms Glücklers research (2004, 2006) on reputational networks emphasizing the importance of personal relationships in the consulting business due to imminent uncertainties.

**Table 25: Instruments of client acquisition<sup>25</sup>**

Direct marketing	25
Mouth-to-mouth marketing	49
Recommendations of friends or relatives	10
Recommendations of business partners or clients	58
Personal contacts	56
Training	23
Conferences	21
Through my other jobs	12

When asked which instrument is most effective, recommendations rated highest (34) which is consistent with Glücklers results on network reputation (see 2004, 2006). Most important are the recommendations of clients and business partners. The second important instrument is personal contact (14) followed by word of mouth marketing (6). Only four respondents selected direct marketing and training (table 26). This further confirms the importance of reputational networks and personal contacts.

**Table 26: Most effective instruments of client acquisition**

<b>Most effective is</b>	
Training	4
recommendations of clients	17
recommendations of clients and business partners	9
Recommendations	7
recommendations of friends and relatives	1
Personal contacts	14
direct marketing	4
searching for information	1
Word of mouth	6
other jobs	1
Conferences	1
I do not say	1

Training services used to be another label for consulting in Estonia (Leimann, Ainamo, Tienari 2008: 7). According to our current field information training is still an important means by which to acquire new projects and to establish client relationships. This is only partly confirmed by our results. A large share of companies offers training as indicated by table 27.

<sup>25</sup> More than one answer was possible.

**Table 27: Companies who offer training services (“Do you offer trainings?”)**

<b>Yes</b>	<b>44</b>
No	15
missing	8
<b>Total</b>	<b>67</b>

However, the share of assignments out of training is comparatively low. 29 Companies do not receive any assignments as a result of training and the majority of the remaining respondents only acquire 10% or less of their projects out of training services (table 28). Thus, the importance of training services in regard to client acquisition seems to be minimal. The offering of training does not seem to have a significant importance for consulting firms but may instead be the responsibility of specialized firms.

**Table 28: Share of Assignments out of training**

<b>No assignments out of training</b>	<b>29</b>
up to 10%	22
15 - 30%	8
40 - 60%	4
70-90%	3

Repeat business generally has a substantial importance in the consulting branch (Sturdy 1997; Glückler 2004: 162f) as it is a measure for long term success as well as a signal for potentially new clients. In our sample, only 40% of the respondents have more than 60% repeat business (table 28). However, one third of respondents have a share of repeat business below 35% which is considerably low compared to the rates Glückler (2004: 163) found in Germany during the 1990s.

**Table 29: Share of follow-up projects**

Share of projects	Number of companies	
	Absolute numbers	Per cent
Up to 35%	21	31.3%
50%	13	19.4%
60% -75%	13	19.4%
80% - 100%	14	21.0%
Missing	6	9.0%
Total	67	100%

In contrast to Glücklers (2004) findings, in Estonia there is hardly any correlation between the duration of market presence and the share of repeat business.<sup>26</sup> Hence, long

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<sup>26</sup> Pearson's  $r = 0.05695678$ .

term market presence does not indicate long term client relationships in Estonia. A reason could be that the cooperation between clients and consultants is mainly related to single projects depending on public funding that helps lead to more opportunity-driven consulting assignments and projects. These results are similar to the pattern found by Wood (2002: 61-63) in the North-West of the UK, where the consulting market is rather small-scale as well. For further investigation, an analysis of regional distribution of consultancies would be useful. Due to the high concentrations of industry in and around the capital Tallinn and in some other large cities (i.e. Tartu, see Smallbone, Welter 2009), regional distribution may strongly influence the structure of the consulting business in that it favors high shares of public sector assignments with low rates of repeat business.

In order to validate that repeat business is more likely with private clients, we correlated repeat business with public sector assignments (Hypothesis: “A high share of public assignments correlates with less repeat business” and “A high share of repeat business correlates with fewer public sector assignments”). The correlation was positive but not very high (Pearsons  $r = 0.360$ ) which was due to the fact that there was a considerably large group of companies (13 out of 50) with little repeat business and a small share of public assignments (both below 30%). These companies were mainly “young” businesses; all were founded after 2004 and are probably not sufficiently established to receive more public sector assignments and are additionally too new to have repeat business. The correlation was confirmed by the fact that the majority of companies (7 out of 14; 3 were missing values) without public assignments had high rates of repeat business (more than 50%).

A lot of companies (51) have clients in the public sector (table 30).

**Table 30: Companies who have public sector clients**

Clients in the public sector	
Yes	51
No	14
Missing	2
<b>Total</b>	<b>67</b>

However, projects in the public sector seem to have a rather large share of the business of Estonian management consultants since the turnover share of projects in the public sector is rather large. In 24 companies the share accounts for 30% or less and 22 companies had a variable share between 40 and 75% (table 31). 4 companies work mainly in the public sector with a share of public sector projects at 80% or more.

**Table 31: Turnover share of public sector projects**

Turnover share of public sector projects <sup>27</sup>	Number of companies
Up to 10% <sup>28</sup>	10
15-30%	14
40%-75%	22
80% - 100%	4
Total	50

In order to find out about the influence and number of clients we asked for the share of the major three clients. 30 respondents answered that the share of their major three clients is more than 40%. For 26 respondents, the share varied between 15 and 30% and in seven companies the share of the major clients is under 10% (table 32). 12 report a high dependence from their major three clients.

**Table 32: Share of three biggest clients**

Share of the three major clients	Number of companies
Up to 10%	7
11-30%	26
40%-70%	18
70% - 100%	12

In order to analyze the share of the major client in more detail, we also checked the company size. Unsurprisingly, in the largest firms (more than 20 employees) the share of the three major clients was small: 5%. In the middle sized companies, the share varied between 15 and 30%. Among the small companies (1-5 employees) there was very strong variation from 3% up to 100%. Table 30 indicates that nearly half of the small companies are fairly independent from their clients with a share of the three major clients up to 30%. Ten of the other companies have quite a high dependence with a share of the three major clients up to 80% and 5 companies almost completely depend on three major clients. The majority of freelance consultants (without employees) seems to have a comparatively broad basis of clients dependent on their three major ones up to 50%. Two of them are very dependent on the main clients (85% -100%).

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<sup>27</sup> The respondents could fill in a number.

<sup>28</sup> Nobody selected "0", so all respondents with public assignments gave information on the share of turnover.

**Table 33: Share of the three major clients and company size**

Share of the three major clients	Companies, 1-5 employees	Companies without employees
Up to 30%	19	3
35-50%	7	2
60%-80%	10	
85% - 100%	5	2
Missing	2	2
<b>Total</b>	<b>43</b>	<b>9</b>

In looking at the consulting subjects, we can see that a large share of firms give advice on more general issues of company leadership such as strategy, processes and project management. A large portion of work is allotted to financial support of central institutions, the Estonian state and the EU. This supports the aforementioned suggestion that the EU accession of Estonia as well as the funds of state agencies such as Enterprise Estonia contributed to the growth of the consulting business. More specialized fields, such as human resource management, knowledge management and M & A, are occupied by a minority of companies. IT has a considerably low share (12%). Similar low rates are known from Bulgaria (Esche 2008), but the reasons most likely differ: Unlike Bulgaria, Estonia's IT equipment in terms of households with internet access is rather advanced (EITO 2006). Therefore, the poor demand for IT consulting may be due to the small size of client firms where there is little need for large IT systems and thus little need for IT consulting. A study among German IT consulting firms showed this very phenomenon (Wieandt 2009).

**Table 34: Subjects of consulting<sup>29</sup>**

Consulting subjects	Absolute numbers	Per cent
Strategy consulting	44	65.6%
process consulting	39	58.1%
M&A	8	12%
Export, Internationalization	21	31.3%
HR	10	15%
Product & Service design	29	43.2
Marketing & Communication	25	37.3%
Project management	42	62.6%
IT	8	12%
Knowledge Management	8	12%
EU aid	34	50.7%
State aid	33	49.2%
EU regulations	8	12%

About one third of the respondents (19) gave some more specialized consulting issues such as transport, environment management, tourism, technical planning or intellectual

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<sup>29</sup> More than one answer was possible.

property rights (table 35). Only one respondent refers to consulting specific concept (organization diagnosis<sup>30</sup>).

**Table 35: Specialized issues of consulting**

More specialized Issues	Number of companies
Organization Diagnosis	1
Transport & Logistics	2
environment management	3
Tourism management	1
technical planning	1
public procurement	2
Risk-analysis, success analysis	2
technical development and implementation	1
project assessment	2
Supervision	1
process management	1
intellectual property rights	1
client relations management	1

In viewing the issues of training we can see that not all consultancies offer training in their competence fields (table 36). Nevertheless, the number of companies offering training in their field is quite high when we consider the fact that training is only offered by 44 companies of the sample. Hence, training seems to be an additional source of income but training is to a lesser extent an instrument of client acquisition.

**Table 36: Issues of training**

Consulting subjects	Absolute numbers
Strategy consulting	30
process consulting	28
M&A	1
Export, Internationalization	5
HR	9
Product & Service design	19
Marketing & Communication	19
Project management	18
IT	5
Knowledge Management	5
EU aid	13
State aid	9
EU regulations	5

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<sup>30</sup> Organization diagnosis may be quantitatively oriented and then leads to the implementation of ratio systems such as balanced score card. Another string of organization diagnosis refers to social science approaches of organization development such as Scheins approach of organization culture (i.e. Schein 1998) or systemic approaches (see i.e. Wimmer 1992; Königswiesner, Hillebrandt 2008; Glasl 2004).



Considering the specialized training offers is also interesting. In this area far more issues arise, such as taxes and accounting but also soft skill training such as time management, creativity, client relations management, time management and sales techniques (table 37). However, the demand for these trainings seems to be rather limited since these issues are only offered by one company at a time.

**Table 37: Specialized issues of training**

Issues	Number of companies
Organization Diagnosis	1
Transport & Logistics	2
environment management	2
Tourism management	1
public procurement	2
Finance	1
process management	1
client relations management	1
Tax, accounting	1
document management	1
stress management	1
time management, creativity	1
lean manufacturing	1
sales techniques	1
Missing	2

A good indicator for the characterization of the client-consultant relationship is the question of the core of consulting work (table 38). A portion of core consulting seems to be to help the client solve problems and bring in knowledge as 56 companies stated problem solving and 45 knowledge transfer as the bulk of their work. This indicates that a majority of consultants see themselves and probably also act as experts bringing in (new) expert knowledge and showing others how to improve, usually implying a more technically oriented and advising role than a development of a partnership (see Moldaschl 2001; Wimmer 1991; Kitay, Wright 2004)<sup>31</sup>. A fairly smaller share of the respondents sees themselves rather as facilitators than as expert empowering the client and helping him to manage change.

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<sup>31</sup> Of course, for further analysis these relationships have to be investigated in greater detail and in more depth. An eligible approach would be qualitative methods such as case studies (see Yin 2003).

**Table 38: The core of consulting work**

<b>Core of consulting work</b>	<b>Absolute numbers</b>	<b>Per cent</b>
Problem solving	56	83.4%
Knowledge transfer	45	67%
Communication support	15	22.4%
Help the client to manage his problems by himself (empowerment)	42	62.6%
Implementation, change management	35	52.2%
Search for financial sources	2	3%
Financial analysis, accounting	1	1.5%

In order to find out about the development of consulting issues and in order to further characterize the Estonian consulting business we asked for the rating of the development of several items as termed in table 39. First, we can state that the demand for process and strategy consulting mainly increased during the last three years. In one third of the cases, the clients claimed implementation of advice while at the same time this claim did not change in another third of the cases. This may indicate that a fairly substantial part of clients became more challenging and sophisticated. This also reflects a tendency of the branch towards more long term relationships focusing on client development rather than on the transfer of expert knowledge as is also visible in other countries, i.e. Germany (Rudolph, Okrech 2004; Seidensticker 2005) and Australia (Kitay, Wright 2004). Considering the issue of evaluation of consulting services (for further discussion see Ernst 2002; Kieser 2002; Kühl 2009a), clients' claim for certification is a good indicator since it reflects a demand of greater market transparency and greater certainty while selecting consultants. Since consultants in our sample only experienced an increase in this claim to a slight extent, there are two different patterns of possible explanations: (1) the grade of transparency of the Estonian market of management consulting is sufficient for most clients. The network relationship between clients and consultants reflected the great importance of recommendations depicted in the above table may function as an equivalent to certification since they secure market transparency through consultants' reputation. (2) Due to the fact that consulting is available for the vast majority of (small) enterprises for a considerably short time, the clients may be rather inexperienced in terms of critical evaluation or they may not blame consultants' advice for bad performance results.

**Table 39: Development of demand of consulting issues**

	Development of demand of consulting issues during the last three years					
	Process consulting	Strategy consulting	In case of only strategy consulting projects, clients claim for implementation of advice	Requirement for coaching	Clients claim for certification	Training
<b>strongly increased</b>	1	3	0	2	0	3
<b>increased</b>	24	21	20	16	6	10
<b>did not change</b>	20	18	21	16	20	22
<b>decreased</b>	4	6	0	3	1	12
<b>strongly decreased</b>	1	2	3	0	2	1
<b>I don't know</b>	8	7	9	15	23	7
<b>Missing</b>	9	10	14	15	15	12
<b>total</b>	67	67	67	67	67	67

Considering training, the survey results indicate that there is a persistent demand for training with a considerable increase. Interestingly, the demand for coaching is higher indicating that this people-centered, more individual method is gaining increasing popularity among Estonian managers. This also reflects a trend which is visible in other western societies (Kühl 2009b) and may also reflect adjustment processes in leadership issues.

#### **4.4 Education and Knowledge Base of Estonian Management Consultants**

The level of formal qualification of Estonian management consultants is very high. In almost all companies, employees studied at a university (table 40). Almost all consultants have studied at a university (97.8%). A large majority (87.5%) studied in Estonia while a smaller share studied abroad (16.1%). A small group of 5.3% only studied abroad. Hence, our research is an indication for the thesis that the knowledge base of Estonian management consultants is influenced more by local academic knowledge and relies only to a fairly small extent on internationally gained knowledge. Of course, further investigation must include an analysis of the Estonian universities' curricula in order to find out more about the contents of management consulting education.

**Table 40: Companies employing employees educated at a university<sup>32</sup>**

	<b>0 employees</b>	<b>1-5 employees</b>	<b>6-10 employees</b>	<b>11-20 employees</b>	<b>above 20 employees</b>	<b>number of employees in total (per cent)</b>
Number of companies in total	9	43	4	9	2	
Number of companies with graduated	6	41	4	9	2	
Missing	3	1	0	0	0	
Number of employees in total		89	26	135	178	428
Number of employees who studied at a university	(6)	86	26	135	178	425 (97.8%)
Number of employees who studied in Estonia	(6)	80	4	131	165	380 (87.5%)
Number of employees who studied abroad	(1)	22	0	35	13	70 (16.1%)
Number of employees who only studied abroad	0	6	0	4	13	23 (5.3%)

Another aspect of academic education in consulting is that it has signaling effects on clients suggesting a high quality of consulting (Alvesson, Johansson 2002)<sup>33</sup>.

Considering the impact of academic knowledge on the consultants' daily routine, we asked whether they apply theoretical knowledge in their projects. As table 41 indicates, most of them do.

<sup>32</sup> We asked for the number of employees who studied at a university in order to check whether the branch is as highly academic as in most European countries.

<sup>33</sup> Considering the international title Certified Management Consultant (CMC) of consultants, candidates are requested to have an university degree (ICMCI 2009). The CMC certificate is awarded by national management consultant associations which are members of the International Council of Management Consulting Institutes (ICMCI).

**Table 41: Application of theoretical knowledge in projects**

<b>Application of theoretical Knowledge in consulting projects</b>	
Yes	<b>57</b>
No	<b>8</b>
Missing	<b>2</b>
<b>Total</b>	<b>67</b>

In order to describe the influence of academic and theoretical knowledge more adequately, we also asked for the relevance of different knowledge bases of consultants, including their experience, the relevance of their educational knowledge as well as client influence since consulting is an intransitive service in collaboration with clients. As table 42 indicates, experience is the most important knowledge base of consultants. About 85% rate this item as relevant or very relevant. This reflects the argument of Bloomfield and Danieli (1995: 28) who point out that practical knowledge and experience in other organizations is crucial for consultants serving their self-representation of gate-keeper of organizational knowledge. About two thirds of the respondents rated their educational knowledge relevant or very relevant but on average it is not as relevant as experience. The influence of the client is also important: about 80% of the respondents rated the clients' influence as high or very high. Hence, we can state that academic knowledge seems to be important but the most important is experience.

**Table 42: Relevance of knowledge bases for consulting work**

<b>Relevance of experience</b>		<b>relevance of educational know-</b>	<b>relevance of client influence</b>	
	Number of companies, absolute	Number of companies absolute		Number of companies absolute
<b>very relevant</b>	33	13	<b>very low</b>	0
<b>Relevant</b>	25	27	<b>low</b>	0
<b>not very relevant</b>	3	19	<b>middle</b>	14
<b>not relevant at all</b>	1	4	<b>high</b>	20
<b>I do not know</b>	3	1	<b>very high</b>	31
<b>Missing</b>	2	3	<b>I do not know</b>	0
<b>Total</b>	67	67	<b>missing</b>	2
			<b>total</b>	67

Another indicator describing the work attitude of consultants is what they do when their knowledge is not sufficient (table 43). A large portion of the consultants tries to add a more competent consultant to the project team. Most of the consultants try to find a solution themselves by asking other consultants or seeking advice in literature or the internet.

**Table 43: strategies in case of insufficient knowledge**

<b>What do you usually do, when your expertise is not sufficient?</b>	
	Number of companies in total
Adding a competent consultant to the project team	<b>52</b>
Ask for advice from other consultants	<b>34</b>
Literature	<b>39</b>
Internet, data bases	<b>2</b>
Refer the customer to other consultants	<b>4</b>
I always find a solution	<b>1</b>
ask for advice of other competent people	<b>1</b>
we did not have such a client yet	<b>1</b>

In order to check, whether the Estonian consultants draw on American models or concepts<sup>34</sup>, we asked whether they have any models in their work. Most of the respondents do not have any models; only 15 consultants use any models, as table 44 shows. This indicates that the Estonian consultants use their own concepts rather than American ones.

**Table 44: Use of models**

<b>Do you have models?</b>	<b>Number of companies, in total</b>
Yes	<b>15</b>
No	<b>48</b>
Missing	<b>4</b>
<b>Total</b>	<b>67</b>

The ones who have models also listed them. As table 45 shows, four consultants use models from Anglo-American consultancies (McKinsey and PwC), or concepts brought up by US-Consultancies (lean manufacturing) and two draw on two famous authors and consultants of the American management literature, David Allen and Margaret Wheatley. Two consultants refer to social science methods such as developmental consulting as well as group therapy methods. Two consultants use models originating in Estonia. Hence, in this group the American influence is quite strong but the group using models is rather small. This may indicate the thesis that the influence of American concepts is rather weak and may have only inspiring functions, and that Estonian consultants still rely on local academic knowledge and their own hands-on experience rather than outside models.

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<sup>34</sup> The reason for this was twofold: (1) From other CEE countries, a high influence of US-based consulting was reported (Birkner et al. 2007; Gross et al. 2004) and we wanted to check for Estonia. (2) Due to the traditions of Estonian consultancy inspired by US-American consulting concepts (Leimann et al. 2005) we wanted to check whether there may be an upsurge of American concepts.

**Table 45: Models in Use**

<b>Models in use</b>
Trigon Development Consulting
McKinsey (2)
experienced Consultants
The strongest wins
An Estonian Technology Park
Group Therapy methods (Psycho drama, supervision)
Ulo Vooglaid; Margaret Wheatley
PWC
Business models
lean manufacturing
David Allen (Getting things done)
Data security standards

However, American influence is nevertheless received since Estonian consultants read US-based scientific and management literature as well as publications from American consultants (table 46). But nearly half of the sample group also reads literature from Estonian business schools and universities. Despite the significant influence of the Scandinavian neighbors on the Estonian economy, their influence in consulting is small. Other Western European literature seems to have slightly more impact although it is still less than the American impact.

**Table 46: Reading of scientific articles**

<b>Reading of scientific articles</b>	
	Number of companies in total
Mainly literature from Estonia	<b>32</b>
Scientific articles published by the University of Tallinn or Tartu	<b>11</b>
Scientific articles published by the Estonian Business School (EBS)	<b>1</b>
Literature by US-American Business schools	<b>9</b>
US-American management literature (e.g. Harvard Business Review)	<b>25</b>
Literature from Western Europe	<b>23</b>
Working Papers, White Papers of US consulting firms	<b>10</b>
Working Papers, White Papers of Scandinavian consulting firms	<b>4</b>
Internet sources (news, blogs)	<b>6</b>
Others	<b>5</b>

Reading of scientific literature is an important source of further education as is participation in scientific activities such as conferences and research. This usually also signals up-to-date information as well as seriousness and quality of work. It is also important in confirming the expert status (i.e. Alvesson, Johansson 2002) and it may be a continuation of

the collaboration between universities and consulting firms during the Soviet period (see above). Table 47 shows that a large share of Estonian consultants attends conferences and one half of the respondents take part in research activities.

**Table 47: Participation in research activities**

	<b>participation in conferences</b>	<b>involved in research</b>
	Number of companies in total	Number of companies in total
<b>Yes</b>	41	
<b>yes, more than once a year</b>	0	16
<b>yes, once a year</b>	0	4
<b>yes, less than once a year</b>	0	13
<b>No</b>	23	31
<b>Missing</b>	3	3
<b>Total</b>	67	67

These research activities are seen as mildly important for finding clients, as table 48 shows. About one third even rates these activities as unimportant for finding clients. Hence, we can suggest that the consultants are motivated by other reasons to take part in scientific activities, such as further education, expansion of their knowledge base, networking and learning.

**Table 48: Importance of publications when finding clients**

<b>Importance of publications when finding clients</b>	
	Number of companies in total
very important	7
to some extent important	12
sometimes important	18
generally important	7
not important	20
Missing	3
<b>Total</b>	67

#### **4.5 Internationalization**

Before we analyzed the data, we believed that internationalization must be fairly developed in Estonia. Since the market is rather small, Estonian companies may feel the need to expand internationally, particularly since the EU accession facilitated international business in Europe. When analyzing the data, we stated that in our sample internationalization is still in its beginning phase. As table 49 shows, the large majority of firms have predominantly Estonian clients. Only four respondents said that their clients are rather international. This again reflects the local focus of Estonian consultants.



**Table 49: Nationality of clients**

<b>Nationality Clients</b>	
	Number of companies in total
Estonian	61
predominantly international	4
Missing	2
Total	67

The international business of the four companies was initiated by their foreign partners or through professional networks. Only one respondent said that he actively found his partners through marketing activities. Hence, international business seems to be more incidental than planned.

The companies in our sample acquired their international clients through their business partners (2), personal contacts (2), conferences (2) and recommendations of business partners or clients (3). This also indicates a high importance of personal and professional networks in the international business just as was shown for German companies by Birkenner et al. (2007). Recommendations were rated here most important as well.

Companies who offer their services abroad mainly work in the same fields as at home: strategy, production systems, IT, HR and some specific issues such as digital archive auditing. As an additional issue, the support of foreigners in implementing their entry strategy to the Estonian market was also rated. The geographical focus of activity is Eastern Europe: clients are in Latvia, Lithuania, Russia, Ukraine, Bosnia, Bulgaria, Croatia and Romania. Not surprisingly, some companies also have clients in Finland and Sweden, which are the most important countries in terms of Estonian trade and investment relations. Some companies are also active in Western European countries such as Germany, France, UK, Netherlands and Switzerland. Hence, we can suggest that a small minority of the consulting companies are internationally active and cover various countries while the vast majority is concentrated in the Estonian market.

Considering the development of the international business during the last three years, we may suggest that most of the international activities have started during the last three years as three companies reported that their international business strongly increased. Internationalization may be a next step for some consulting firms, as about a third of them have expansion plans to foreign countries for the future (Table 50). About 40% plans to stay at the local level.

**Table 50: Plans of Internationalization**

<b>Plans of Internationalization</b>	
Yes	19
No	28
Missing	20
Total	67

## 5 Conclusions

To sum up, statistical data and our survey data indicates that *the Estonian consulting branch* is mainly characterized by rather small businesses (in terms of turnover and number of employees) that are privately owned. Their economic performance is mostly positive with increasing numbers of employees and increasing turnover rates.

Having had some traditions in the formerly socialist Estonia, in the first years of transition, the consulting market seemed to be rather small and dominated by Western and foreign firms, namely Finish and Swedish players (Leimann et al. 2005). In the Mid-1990s, a more local structured, but still small market emerged, also dominated by small companies. Quite an upsurge of the market was observable from 2000 on. According to the official data, the number of consulting firms constantly grew between 2000 and 2007 in high numbers. Besides statistical effects, we can assume that there was considerable growth of the number of particularly small consulting businesses<sup>35</sup> which is similar to developments in other transition countries such as Romania (FEACO 2007). Strong variation in the groups of medium sized and large firms could be due to a more project-based market structure where consultants are temporarily employed for projects. This is also supported by the development of the numbers of employees in total peaking in 2004 and decreasing up to 2007.

*Our sample* consists of mainly small enterprises as well. The respondents are highly experienced. The aforementioned assumptions are supported by the fact that there were hardly any foundations of sample consulting firms after 1989 since only two respondents worked as consultants at that time. The boom of the industry, according to our sample, was at the beginning of the new millennium when most of the respondents started their consulting career. An explanation could be that the approaching EU membership might have been more important for the local consulting industry than the system change in 1989 which was especially covered by large foreign consultancies (Leimann et al. 2005). Moreover, the early years of transition were also a time of strong system breakdowns (Laar 2007) where local consultants' competitive advantages were probably rather low due their experience which had been gained within the socialist system. With the prospering of the economy, trust in local capacities may have returned supported by cultural and language advantages.

The *demand for consulting* may have risen with EU-regulations, competition, and opportunities in the EU while the system change initially established the prerequisites for demand in terms of market economy.

Another explanation may be the reorganization and centralization of *state-regulation business support*: in 2000, Enterprise Estonia (EAS) was founded implementing public business support measures as well as supporting the local business development centers (Smallbone, Welter 2009). Hence, among other services EAS offers a wide range of

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<sup>35</sup> Even if we can orient on the estimation of 50 management consulting firms made by the EAS in 2005 (EAS 2005b), there is a considerable growth assumable because the EAS data base of private consultants encompasses about 130 consultants in 2009 (own calculation).

business consulting that is free for the clients covering business analysis as well as advice in regard to application for funds or EAS programs<sup>36</sup>. Being a low-threshold service, this consulting service may serve as a teaser for private consulting helping overcome any fear of contact. The EAS also mediates consulting firms and clients through a data base and provides a certification in order to “help consultants improve their service quality” (EAS 2009). Most importantly, the EAS funds consulting projects through their programs and probably has a strong influence on the growth of the consulting market in which a considerably large share of firms partly relies on publicly financed assignments. As the majority of the sample enterprises have clients in the public sector, projects in the public sector have a rather large share of the business of Estonian management consultants in terms of turnover share.

The *importance of public assignments* is supported by the fact that rates of repeat business accounts are rather small. Moreover, in Estonia there is no correlation between the duration of market presence and the share of repeat business. A reason could be that the cooperation between clients and consultants is mainly related to single projects with a strong dependence on public funding leading to more opportunity-driven consulting assignments and projects. These results are similar to the pattern found by Wood (2002: 61-63) in the North-West of the UK, where the consulting market is rather small-scale as well. Low repeat business rates correlated slightly with high public sector assignments in our sample which was due to the fact that there was a considerable large group of companies with little repeat business and a small share of public assignments. These companies were mainly “young” businesses; all were founded after 2004 and are probably not sufficiently established to acquire more public sector assignments and additionally they are too new for repeat business. The correlation was confirmed by the fact that the majority of companies without public assignments had high rates of repeat business (more than 50%). For further investigation, an analysis of regional distribution of consultancies would be useful.

The *magnitude of the client base* of the respondent firms is of considerable variation: half of the respondents have a rather small client base and another half a rather large client base. Surprisingly, there is considerably strong variation among small sized companies.

In looking at the consulting subjects, we can see that a large share of firms give advice on more general issues of company leadership such as strategy, processes and project management. A large portion of work is allotted to financial support of central institutions, the Estonian state and the EU. This supports the aforementioned suggestion that the EU accession of Estonia contributed to the growth of the consulting business. More specialized fields such as human resource management, IT, knowledge management and M & A, are occupied by a minority of companies. IT consulting is rarely needed in a small firm environment because it usually focuses on large-scale IT implementation (Wieandt 2009).

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<sup>36</sup> Source: request at the EAS in regard to their consulting services, e-mail from July 17<sup>th</sup> 2009.

The focus of consultants in term of the *core of the consulting work* seems to be on helping the client to solve problems and to bring in knowledge. This indicates that a majority of consultants see themselves and probably also act as experts bringing in (new) expert knowledge and showing others how to improve usually implying a more technically oriented and advising role than a development of a partnership (Moldaschl 2001; Wimmer 1991; Kitay, Wright 2004). A smaller share of the respondents considers themselves being a facilitator rather than an expert by empowering the client and helping him to manage change. As for the development of client relations, there is some indication, that clients have become more demanding. However, evaluation of services does not seem to be an issue.

Considering instruments of *client acquisition*, recommendations from the client and partner networks as well as from personal contacts seem to be very important as well as word of mouth marketing and personal contacts. This confirms Glücklers research (2004, 2006) on reputational networks emphasizing the importance of personal relationships in the consulting business due to imminent uncertainties. In contrast to the thesis of the importance of trainings for client acquisition, our research shows that the respondent companies offer training but acquisitions resulting from trainings have a rather small share.

Most respondents work with *partners*. The number of partners is rather small and about a half of the partnerships have been established less than 5 years. Considering how old the companies are this is not a surprising fact. However, there are six partnerships that have lasted more than 10 years. Most partnerships are based on personal relationships including private relationships and relationships resulting from the personal professional network. A considerably large share of partnerships developed from the visibility in the branch. A smaller share of partnerships resulted from client relationships.

The *level of formal qualification* of Estonian management consultants is very high. In almost all companies, the employees have a university degree. A large majority studied in Estonia while a smaller share studied abroad. With regard to the impact of academic knowledge on the consultants' daily routine, most of them use their theoretical knowledge in their work. However, experience has a higher importance and the client influence on the consultants' work is also substantial. Qualitatively guided research and the application of academic or theoretical knowledge as well as the status of experience in the daily work could be further investigated. It would be interesting to find out more about the influence of academically gained, more codified knowledge in consulting. There is also some indication that the Estonian consultants tend to use their own concepts rather than the American ones. A large share of Estonian consultants attends conferences and one half of the respondents take part in research activities. So, Estonian consultants also use reading scientific literature and scientific activities as a source of further education and learning.

However, *American influence* is nevertheless received since Estonian consultants read US-based scientific and management literature as well as publications from American consultants. But nearly half of the sample group also reads literature from Estonian business schools and universities. Despite the large influence of the Scandinavian neighbors

on the Estonian economy, their influence in consulting is small. Other Western European literature seems to have a little more impact although this is less than the American impact.

As the Estonian economy is considered rather internationalized (Smallbone, Welter 2009), *internationalization* is surprisingly still in its beginning phase. A large majority of firms have predominantly Estonian clients. Only four respondents said that their clients are rather international. Companies who offer their services abroad mainly work in the same fields as at home: strategy, production systems, IT, HR and some specific issues such as digital archive auditing. As an additional issue, the support of foreigners in implementing their entry strategy to the Estonian market was also rated. The geographical focus of activity is Eastern Europe. Not surprisingly, some companies also have clients in Finland and Sweden, which are the most important countries in terms of Estonian trade and investment relations. Some companies are also active in Western European countries. Hence, we can suggest that a small minority of the consulting companies are internationally active and cover various countries while the vast majority is concentrated in, the Estonian market. Internationalization may be a next step for some consulting firms; as about a third of them have expansion plans to foreign countries for the future. About 40% do not have any expansions plans.

Our study indicates that the Estonian market is rather small in size and characterized as small scale in terms of the vast majority of companies being micro- and small enterprises. The Estonian market is still developing on both sides, supply and demand (Smallbone, Welter 2009: 215). Nevertheless, the market is growing and further study on the regional structure and the institutional arrangement would shed light on the mechanisms of consulting in transition countries. The development in Estonia supports the thesis that local management consulting develops better in prospering economies (which is supported by the developments in the Czech Republic, Hungary and Poland, FEACO 2007) where sufficient resources in terms of public funding or private financing ease the assignment of external advice. Public funding seems to be a decisive support factor for consulting particularly in the sector of small enterprises shaping a market for small consulting firms.

In order to further investigate our results, more research and qualitative case studies would be necessary. The interesting points were the relationships between consultants, clients, and state agencies such as EAS and the Chamber of Commerce. Another point would be the investigation of networks between consultants and academics as well as the analysis of partner and client-consultant relationships. The clients should be analyzed in more detail as well. Another point would be the investigation of the consultants' knowledge base.

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