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GENESIS AND INITIAL DEVELOPMENT OF CONSULTING MARKET IN BULGARIA

The paper presents the main features of the consulting market in Bulgaria from its establishing to now. It analyses the market of consulting services, and defines the market range. The study focuses on the market genesis, and outlines and presents the three stages of its initial development. It gives short characteristics of the pre-market history of consulting services during the administrative system. It formulates the strategies of consulting firms for entering the market, as well as the factors for their success.

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Nature and range of consulting services

Consulting services are in a renaissance period now (Todorova, 2011). The process is determined by several main factors. First, globalization and increasing competition require the firms to focus on certain elements of the value chain for developing competitive advantages. This leads to a complete change of the production model. In the past the firms completely controlled production and trade process in their own departments. Now they control the management of contractors' networks created by them, and sometimes independently market the production as well under the brand of the main controlling firm. This new model requires much more complex coordination and more often raises problems to the firms' management, requiring specialized consulting support.

Another significant reason for the fast development of the consulting services are the public administration reforms. Looking for more rational use of public resources imposes marketing of whole sectors of the public services, which have been a monopoly of the state and local administration before – education, health care, culture, infrastructure and utilities, etc. This is the reason for privatization of public services, and imposing schemes of public-private partnerships. Besides privatization, conditions are created for competition among the administrative entities for distribution and redistribution of resources, benchmarking, balanced scorecards, programme budgeting and other management innovations are introduced, facilitating this process. Most methods, new for the public administration, originate from the business, but their adapting to this sector requires specific skills and knowledge. The market of projects supporting the solving of global and local problems the public administration deals with at global, European, national, regional and local level, has been developing rapidly.

The third reason for the consulting services renaissance is the introducing of new IT, systems of planning and managing the resources in the firms, internet applications, e-commerce, and "cloud" computer services. This is a new segment on the consulting market, which develops very fast regarding offering software applications, as well as their introducing and maintaining in the firms.

The fourth reason for developing the consulting services derives from the new requirements of the corporate governance in the businesses, the state and tax administration services, and the trade banks for better transparency, and for independent audits and analyses from external specialized consultants. Same requirements apply to implementing projects financed by public funds. The banks also use widely external consultants for technical and economic expert reports on investment projects and for evaluating their implementation.

If logically the consulting market is defined as market relations on demand and supply of consulting services, then what is the nature and range of the consulting services on this market?

Scheme

Morphology of Consulting

<table>
<tr><th colspan="6">Sources of consulting services</th></tr>
<tr><td colspan="3">In house consultants</td><td colspan="3">External consultants</td></tr>
<tr><th colspan="6">Types of clients</th></tr>
<tr><td colspan="3">Private sector</td><td colspan="3">Public administration</td></tr>
<tr><td colspan="2">Large enterprises</td><td>SMEs</td><td>At national level</td><td colspan="2">At regional and local level</td></tr>
<tr><th colspan="6">Consulting areas</th></tr>
<tr><td>HR</td><td>Marketing</td><td>ICT</td><td>Finance</td><td>Planning</td><td>Other</td></tr>
<tr><th colspan="6">Format of delivery</th></tr>
<tr><td colspan="2">Consultancy</td><td>Market studies</td><td colspan="2">Training</td><td>Mixed</td></tr>
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<tr><td colspan="6">Type of transfer</td></tr>
<tr><td colspan="3">Resource Consulting
(Knowledge acquiring)</td><td colspan="3" rowspan="2">Process Consulting
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<tr><th colspan="6">Origin of consulting companies</th></tr>
<tr><td colspan="2">Foreign companies</td><td colspan="2">Local companies</td><td colspan="2">Mixed</td></tr>
<tr><th colspan="6">Way of funding</th></tr>
<tr><td colspan="2">Client</td><td colspan="2">Funding organisation</td><td colspan="2">Mixed</td></tr>
</table>

Author's compilation by: Schein, 1998.; Baltov, 1998; Todorov, 1996, and own observations.

In general, consulting services are temporary, though some permanent activities on maintaining information networks and software applications also fall in this group. Usually, there are consulting services when there is a problem that cannot be solved with the available resources in an organisation. These services are provided by specialized firms or independent consultants outside the organisation. When providing consulting services, specific methods and services are used, which are quite different to ones applied in other markets.

Consulting services have many varieties. The Scheme presents the morphology of consulting services. Specifying the varieties into main types is made by criteria like sources of the services, types of clients, areas of consulting services, format of delivery, professional orientation, types of transfer of information and know-how, origin of the consulting firms and way of funding the consulting services. For the purposes of this study, the only excluded form of consulting is the internal for the organisation consultation, since there is no market transaction, although such consulting could also lead to improvement of the management of the firm.

Morphology of the consulting services shows the structure and types, but on the other hand it shows the variety of combinations of consulting services. For calculating the number of combinations of services, the following formula is used:

$$\mathbf{C}_n^k = \mathbf{C}(n,k) = \binom{n}{k} = \frac{n!}{k!(n-k)!},$$ where:

$\mathbf{C}_n^k$ or *C(n,k)* is number of combinations,
n is number of elements of k^{th} class.

Based on data from scheme 1, after replacing in the formula for n=26 and k=8 we see that the number of possible combinations is 1 562 275. This large number of combinations shows the complexity and multi-variety of the provided consulting services.

Pre-market history of consulting services

Establishing and developing the consulting market is a result of the transition of Bulgaria to market economy, which started after the political changes in 1989. Like all other markets, this one follows general rules and is specified by general characteristics, common for the transition of the country from administrated to market economy. At the same time, consulting market has specifics and internal engines, which influence on its trajectory of development.

Consulting market has not been established on a bare field. During socialism in the country there was a system of providing services on management of the enterprises and the national economy. The relation between demand and supply was organized completely administratively, that is why market of such services did not exist. There were only prerequisites for its development.

Most generally, the existing system consisted of demand by the state and communist party administration, ministries and ministerial structures, and enterprises. On the supply side there were national research institutions and universities, branch institutes and specialized units or institutes within the enterprises. All these organisations were state-owned and financed either from the state budget or mixed – from state funds and from the very departments or enterprises. The system was strongly hierarchy structured. On top of the pyramid there were the three academies – Academy of Social Sciences and Social Management (ASSSM) at Central Committee of the Bulgarian Communist Party, Bulgarian Academy of Sciences (BAS) and Agricultural Academy. The expectations from this level were to create fundamental knowledge for management of the economy.

On second level of the hierarchy there were the branch and functional institutes under the relevant ministries, for example Institute of Finances at the Ministry of Finances, Institute of Foreign Trade and Socialist Integration at the Ministry of Trade, Institute of Industrial Development at the Ministries of Industry, etc. These institutes were to master the fundamental recipes of the academies, in order to be ready to use in practice, and the universities to apply and distribute them while training future managers.

Third and lowest level of this hierarchy consisted of department institutes, which were localized at the large state unions and larger enterprises. Such structures were for example Institute of Machine-Building at Machine-Building Plants union, Institute of Refrigeration Equipment at the Refrigeration Plant, etc. These institutes at the large unions and enterprises serviced only their managements and productions, and specifically adapted the fundamental and applied recipes to the sectors and enterprises where they operated.

In a practical aspect, this model never worked. However, there was a distribution of the “clients” between the organisations supplying consulting services. The Academies of Sciences, and more rarely the universities, provided consulting services to the highest central level, the branch institutes – to the ministries and state unions, and the department institutes – to the departments and enterprises they belonged to.

Until 1989 in Bulgaria there were 242 R&D institutes. Besides them there were also 414 other R&D structures (*NSI, Statistical Yearbook 1991*). Out of all 1814 research fellows in economy and management, 1125 worked in institutes outside the universities (*NSI, Statistical Yearbook 1991*). In the first years of the transition period these institutes were quickly closed down. According to the statistics, there are hardly any Bulgarian firms nowadays that have own R&D units. In 2010 of all 2778 R&D employed, 1538 people are researchers (*NSI, Statistical Yearbook 2012*). After closing down the research institutes, some of the research fellows found naturally new calling in the private consulting businesses.

Centralisation was specific of the consulting system. If a management innovation was considered useful, it was introduced in the form of decree or other prescribing mandatory act, for the whole economy or for some sector(s) of the economy. At a lower level it was done through the system of exchange of experience and know-how.

In the last years of the administrative system in Bulgaria some attempts were made for deeper changes in the management of the economy, which raised serious questions and required a specialized consulting support. A new Labour Code was introduced in 1986. It promoted the concept of the state as an owner, and the workers – managers of their enterprise. With this concept the principle of election of the managements of the enterprises was formally introduced, with actual manipulation of the elections by the communist party governances. A year after Decree 56 on the Economic Activity was adopted, and since the beginning of 1989 it was applied. It allowed existence of private firms. Also, many structural changes were made at central level. Despite the mimicry in implementing these changes, the main problems of the economy to a significant extent were set at the table, and a public discussion for their solving started. Besides Bulgarian experts then, for a first time foreign experts from international firms (for instance Roland Berger) were also invited for making branch analyses and evaluation of large investment projects.

Stages of development of consulting market

The development of consulting market in Bulgaria has passed through certain specified stages, which are formed according to the maturity of the market relations, range of provided services, and the consumers of consulting services. Based on these criteria three stages of the development of the consulting market can be outlined.

Initial Stage of Establishing the Consulting Market

Consulting market has been established right after the political changes took place in November 1989. The deep political crisis in the country and the lack of adequate decisions had gradually blocked the economic activity. Despite the existing legal opportunity, the number of newly created private firms was small, and the public institutions did not function normally due to the political environment. Thus, consulting market became closely dependent on the appearance of private sector in the country, which growth during this period was very small.

The newly created private enterprises entered the market and tried to remain there as long as possible. That is why the needs of consulting services were small and concerned the successful starting and surviving of the newly established private enterprises. Services for registering firms and preparing business plans were mostly in this range. The newly created businessmen did not have free resources to spare for consulting support. Many of the advices were given by relatives, friends, and were not paid.

At this stage of development of consulting market in Bulgaria there was no relevant legislation, which would require specialized consulting services. Also, there was no desire, habits and resources for consulting services on restructuring the state enterprises. The consulting business was not institutionalized and it was very difficult the rare clients of such services to identify suitable consultants for supporting their business.

In the beginning of the transition to market economy one of the most perspective niches for consulting business concerned the privatisation process. Until the end of 1996 in Bulgaria this process was characterized by a policy known as “*stop and go*” and low volume of realized deals, which did not encourage the development of the consulting market (Keremidchiev, 2001).

FDI entering was the main accelerator of the development of the consulting market. In the beginning of the transition the volume of green investments in the country was insignificant, and the blocked privatisation limited even more their coming. Gradually, the established FDI dragged along the consulting firms, which traditionally served them outside Bulgaria, and they started establishing own offices in the country. Such was the situation after the entering of Amylum, Shell, McDonald's, etc.

Though very slow and difficult, the demand for consulting services for restructuring the state enterprises and their preparation for privatisation started during this stage. These services involved evaluation of assets regarding the corporatization (transformation into trade companies) of the state enterprises, revalorization of assets of already transformed state enterprises, evaluation of enterprises, specified parts and assets for privatisation, development of legal analyses, preparation and provision of consultations on privatisation offers and post-privatisation restructuring.

Private enterprises needed consulting services for solving one of the most significant problems – financing the business. Thus the development of consulting services regarding investment and current financing began, e.g. preparation of business plans and investment projects for applying for financing to banks and other financial institutions.

First attempts for providing consulting services in the public sector were made during this stage. The work of American experts under the guidance of R. Rahn and R. Utt was lasting and significant. It provided bases for the transition of the country to market economy (Rahn and Utt, 1990). Another such attempt with a French focus referred to suggestions for a privatisation policy. A French firm, thanks to a support from the French government contracted between the presidents Zh. Zhelev and F. Mitterrand, gave first support to Bulgaria in the privatisation process (Coopers & Lybrand, 1992).

The end of the initial stage in the development of the consulting market came with the introducing of foreign donor programmes and pre-accession instruments. This became more massive after 1995.

Second Stage

The second stage of the development of the consulting market was dominated by the foreign donor programmes and pre-accession instruments. The main donor programmes during this stage were the ones of USAID, PHARE, ISPA and SAPARD of EC, UNDP, British Know How Fund (later DFID), Matra of the Dutch government, as well as many Twinning programmes with non-EU countries. The strong donor representation by number, as well as by size of the provided support, seriously changed the profile of the consulting market in the country. Of course, much of the funds from the donor programmes were spent for investment costs, but the resources for consulting activities were significant.

Most of the donor programmes were directed towards a new client of consulting services – the local and central public administration – municipalities, ministries and state agencies. At first, the attention of the donors was mostly focused on supporting the local authorities. The biggest programme was Local

Government Initiative of USAID with duration period 1995-2007, consisting of three phases with different focuses. Gradually, a position of the donor programmes was formed that the problems of the local self-governance cannot be solved without the central power. On the other hand, the preparation of the country for EU membership increased the administrative capacity of the central power. Solving this task was not in the power of the government and thus gradually the donor programmes began to range also the public administration at national level.

Another new segment of the consulting market, which was very quickly developed at this stage, consisted of non-governmental organisations (NGOs). In the beginning of the transition some larger NGOs were created and successfully functioned, like Club “Economika 2000”, Center for the Study of Democracy, and Institute for Market Economics. They were localized in Sofia and focused on supporting the solving of national problems. Thus they functioned as typical *Think Tanks*. Other varieties of endogenous NGOs did not exist, and if there were any they were reformed old structures like “St. St. Kiril and Metodii” Foundation, “Evrika” Foundation, and others. At that time, there were also some odd NGOs, like the professional football clubs, which were the largest NGOs by volume of realized incomes. Representatives of the civil society almost did not exist at regional and local level. Also, whole sectors like charity, humanitarian support, unions of professional organisations and local authorities, lobby NGOs, were not developed, or were too weak.

At this stage, the establishing of many national and local NGOs started, which besides charity developed also consulting services. Serious resources were spent for creating NGOs market. The creation of centers for regional development and business incubators on the UNDP programme started. They should support small private business and fight unemployment in certain remote regions.

Together with expansion of NGO network, the portfolio of the provided consulting services was enriched. New activities were actively provided, like training, specialization and exchange of experience, institutional strengthening of the administration, entrepreneurship structures, consulting structures, and NGOs.

One of the specifics of this period is the establishing of programmes and schemes for financial support of the business. The biggest programme with a strong investment component was SAPARD (Special Accession Programme for Agriculture & Rural Development) Programme with total budget of almost 226 million EUR. The PHARE Programme also consisted of a component for supporting the technological development and modernization of small and medium-sized enterprises in the country, but in a much smaller size. Since the distribution of the funds between firms and agricultural farmers is done on a competitive base, it created another market niche for providing consulting services.

At this stage in Bulgaria also started the functioning of ISPA (Instrument for Structural Policies for Pre-Accession) Programme, which supported infrastructural projects in transport and environment, with budget of almost 452 million EUR. This programme turned out a favorable base for consulting services on preparation of infrastructural projects, as well as for institutional strengthening of the public administration.

The implementation of these pre-accession and other donor programmes is done most often in cooperation between foreign firms and Bulgarian consultants. Due to this process, large experience on managing projects and providing specialized know-how was transferred from foreign partners to Bulgarian consultants and consulting firms. This training process had its price, often argued by the Bulgarian consultants, presented as a relation between the real transfer of experience and skills, the usefulness of the service to the final client, and the difference in the payments between the foreign and Bulgarian consultants.

The implementing of pre-accession and other donor programmes was done under the control and direct participation of specialized structures, created by the very donors. The European Commission Delegation in Sofia had a large department for managing the pre-accession programmes. Such structures existed also in USAID, UNDP and the embassies of the donor countries. In the frames of the state administration there were executive agencies, which supported the implementation of the donor programmes, but initially had quite limited rights. Gradually, these rights expanded in the frames of the EU programmes with applying the Decentralisation Implementation System – DIS of the pre-accession programmes, and later with the use of the Extended Decentralisation Implementation System (EDIS) in 2007. Through this system all responsibilities on the management of the project cycle were transferred to the Bulgarian agencies, and all rights of the structures at the European Commission Delegation in Sofia regarding management of pre-accession programmes were suspended.

The whole process did not pass smoothly because of the slow reaction of the Bulgarian administration to the new challenges, as well as of the resistance of the well-paid bureaucrats in the European Commission, who did not want to part so easily with the privileges they received from their work for the Delegation in Sofia.

Actually, this is the core of the problem of the low fund absorption of the pre-accession programmes. It is wrong to consider that only the lack of administration capacity of the Bulgarian authorities is a reason for the weak absorption of these resources. There was no substantial progress on these programmes when representatives of European Commission managed and were directly responsible for the execution of these programmes as well. Many of the weaknesses in managing the EU funds, which appeared later in their management by the Bulgarian administration, had its prototype in this period. Then there were also doubts for corruption, the bureaucratic procedures were extremely complex and long, there were always communication problems. For example, the Bulgarian SMEs managers always asked why the correspondence between them and the executive agencies at the Bulgarian ministries should be held in English, or why they should wait for a year to receive approval for their tender documentation for purchasing a conventionally manufactured machine.

Thus, the accumulated problems from heavy and long administrative procedures in the rules of implementing the pre-accession programmes, low administrative capacity of the Bulgarian authorities, ineffective work of the European institutions engaged with the management of these programmes, as well as the corruption, led to low absorption of these resources. The average absorption of the pre-accession programmes until October 2009 was 36% (see table 1). ISPA and SAPARD programme had the lowest absorption – respectively 24 and 27%, while PHARE programme had 48%.

According to agreement between Bulgaria and the European Commission, the initial deadlines for finishing the projects and the payments on the PHARE pre-accession programmes were extended from the end of 2010 to 30th April 2011. This helped increasing the share of the absorbed funds compared with the budgeted ones to 66%, or totally 1.116 million EUR (Commission on the European Matters and Control of the European Funds at the Parliament, 2011).

There was such decision also for ISPA programme, but the extension was by one and two years for 10 projects, and 3 projects were not continued and should be finished with own funds. In this way by mid-2011 on this programme were paid and certified 114 billion EUR, which was 67.1% of the total budget of the programme (Commission on the European Matters and Control of the European Funds at the Parliament, 2011). After finishing the construction of Danube Bridge 2, as well as the other ISPA projects, the programme will be a champion on absorbing funds on pre-accession programmes.

SAPARD programme was also extended to 2009, and the absorption of funds on it increased as well. However, on this programme the calculation of the absorption rate is a difficult task due to the unfinished audits of projects expecting financial sanctions by the European Commission. According to preliminary data the achieved level will be about 60%.

Table 1

Absorption of Funds on Pre-Accession Programmes, 2004-2009 (million EUR)

Programme	Planned resources	Paid	Unused	Absorption rate (%)
PHARE	658.3	315.2	343.1	48
SAPARD	225.9	61.7	164.2	27
ISPA	451.9	108.0	344	24
Total	1336.1	484.8	851.3	36

Source. European Commission, October 2009.

If the funds on the pre-accession programmes were separated to investment and consulting services, certainly the first would be dominating as volume. The absorption of funds for consulting services was bigger, because these projects were smaller and had easier management. Despite the low absorption of public funds, this market segment was dominating in the studied period. The market share of consulting services financed by private investments was significantly smaller.

The market of consulting services financed by private investments until 2004 was dominated by activities related with privatisation, mergers, and buyouts of firms, and other changes in the firms' ownership. Mergers, acquisitions and transfers in the country appeared particularly strong after the end of the mass privatisation in 1999, which ranged over 1000 state enterprises. After the privatisation, funds concentrating the citizens' bonds managed to acquire shares of the state enterprises. There was a fast transfer of shares between these funds for acquiring dominating control over the enterprises. This task was done quickly, because the privatisation funds already at the stage of centralized auctions had created a strategy for joint actions for acquiring certain enterprises. Forming their portfolio came later, after the privatisation funds entered the enterprises, analyzed their development perspectives and determined which enterprises were strategic for them and which were for sale.

After this process ended in 2004-2005, a new wave of demand of consulting services followed. It came from the increasing interest of the foreign companies to enter the construction business in Bulgaria. While for the Bulgarian construction firms it was not a serious problem, the foreign firms needed consultants to overcome the complex procedures in starting and implementing construction projects.

The large flow of foreign and Bulgarian investors in construction in this period quickly took the free work force. In their desire to delocalize mostly the labor-intensive businesses, the foreign investors seriously needed qualified personnel. The limited middle and high management personnel led to increased competition in payment between the firms. Lack of qualified personnel and fluctuation opened big market niche among the consulting firms recruiting personnel. There were specialized firms headhunting high and middle management personnel. The next niche in the management of human resources that developed fast was the sector of professional training and teambuilding.

More massive introduction of information technologies in the firms started also at this stage. First business information systems appeared in the enterprises (Enterprise Resource Planning – ERP), internet entered their offices, massively were introduced accounting and other systems serving the routine activities of the firms. For the needs of this market were developed specialized consulting firms dealing with information and communication technologies, which supported the firms in choosing, developing, introducing and maintaining software and hardware.

Other fast developing segments on the consulting market in this period were strategic planning, financial consulting, consulting on the operations management of the enterprises, including developing and introducing of quality management systems (FEACO, 2005-2006; Small and Medium-Sized Enterprises Agency, 2001).

At this stage of development of the consulting market were established offices in Bulgaria of large foreign companies, like KPMG, Deloitte, Ernst and Young, Pricewaterhouse Coopers and others.

Table 2

Main Specifics of the Consulting Market in Bulgaria, 1999-2010

Indicators	Years											
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total turnover, mln. EUR	49.2	49.0	40.0	40.0	-	56.0	-	60.0	90.0	97.0	90.0	90.0
Number of consultants	2700	2700	2500	2700	-	2800	2800	3000	1500	1392	1400	-
Turnover per consultant, in EUR	18 037	18 000	16 000	15 000	-	20 000	20 000	20 000	60 000	70 002	64 285	-

Source. Composed by the author with data from FEACO Survey about 1999-2011.

The dynamic consulting market was positive in the analyzed period, especially in the last years of the second stage. There was a serious growth in the volume of the market as well. From 40 million EUR in the end of 1990s it reached 60 million EUR in 2006 (see table 2). Although according to FEACO data the number of management consulting firms even decreased to 200 in 2004 with initially 225 in 1999, the number of consultants increased till 2006. The reached turnover per consultant for the period was about 15 000 – 20 000 EUR annually.

At the end of this period another tendency of the consulting market started. After most donor programmes and projects finished, many of the directly or indirectly created and financed by them organisations, mostly NGOs, had difficulties finding business, and gradually started to leave the market, or still existed but only formally. Table 2 reveals this tendency through the decrease of the number of consultants from about 3000 people in 2006 to 1400-1500 people in the years after. Main reason for this was the organisation schemes, inadequate to the Bulgarian conditions that the foreign consultants tried to impose by transferring experience from other countries. Another serious reason was the formally implemented programmes for institutional establishing and developing of organisations, artificially created by the donor programmes. However, the instability of the consulting market became a very important moment. In the period of accession of Bulgaria to EU, there was a serious vacuum on the consulting market. It was provoked by the end of many projects managed by the decentralized system of managing pre-accession programmes and the lack of accreditation of the Bulgarian agencies for working on the expanded decentralized system of management. Besides, there was a delay of almost a year in starting the operational programmes, which were actually implemented only in the end of 2007 and the beginning of 2008.

A small part of the elite consultants used this period to orient to the foreign markets. Such markets were other Balkan countries like Macedonia, Serbia, Kosovo, Albania and Turkey. With its scale Romania was also an attractive place for delocalization of the consulting business from Bulgaria. Other further markets for the Bulgarian consultants were the former Soviet Union countries, due to the good knowledge of Russian language.

Third Stage

The third stage of developing the consulting market started after 2007, after the accession of Bulgaria as a full member of EU. This stage continues till nowadays and has a short history. However, this stage has clear specific characteristics. Main source of financing of the consulting services become the implemented operational programmes, along with the Rural Development Programme. These programmes have dominating impact over the private funds of the firms spent for consulting services.

There are three main changes of the consulting market after the accession of Bulgaria to EU. First one is the changed system of management of the operational programmes. The second change is the increased volume of the market. The third change is the withdrawal of many foreign firms from the Bulgarian consulting market.

The system of managing the European funds through 7 operational programmes and Rural Development Programme is already institutionally established and normatively regulated. The main work principle is that all the management, monitoring, audit, verification and certification of the expenditures on the implemented programmes and projects is a responsibility of Bulgarian organisations or their contractors, while the European Commission has functions of following control of the documents for implementing the projects, payment and final approval of the made expenditures.

Although delayed and at the second try, a management system for reporting and monitoring the projects started functioning. It is called Information system for management and monitoring of EU structural instruments in Bulgaria. However, such public system is not created for Rural Development Programme. This hinders the transparency and access to information on the implementing of this programme.

The existing functioning system for managing the European funds is the formal side of the process of proper use of these resources. The practical management of the funds is much more important. In the first two years since the beginning of using European funds some serious problems have occurred, like corruption, conflict of interest, breaking the rules of assigning public offers.

Doubts about corruption in assigning public offers have forced the European Commission to suspend the implementation of some projects and programmes. These measures refer to projects for road and water and sewage infrastructure. Accreditations of some agencies were revoked by PHARE and SAPARD. These problems, together with the lack of administrative capacity in the Bulgarian public institutions, have led to 2.08% absorption of funds on operational programmes until 31st October 2009.[1]

Decentralization of implementing the projects is another important specific feature of the new system of managing the European funds. While in the past the

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[1] http://www.eufunds.bg/docs/Copy%20of%20financial%20implementation%20SCF_31102009%20_BGL.pdf

whole contracting procedures on the pre-accession instruments have been done by structures at the ministries, now the main contracting on the projects is done by the beneficiaries. Main part of this resource is assigned to the Bulgarian municipalities. The business, NGOs and other beneficiary organisations on the projects have also such rights. This change requires the consulting firms to learn to work with municipalities, which have different management culture and stereotypes compared with ministries.

The total size of the planned financial resources on operational programmes in 2007-2013 as an EU engagement is 6.853 billion EUR (see table 3). Besides these funds, another 3.242 billion EUR are planned for developing rural areas, agriculture and fishing. With national co-financing, the total size of these resources becomes over 11.500 billion EUR. These funds exceed by many times the resources planned and received in the country from the pre-accession programmes. What part of this resource can be absorbed is a question, which Bulgarian governments should answer. By the mid-2012 for a period of 5.5 years the paid funds on all programmes, financed by European funds, is 26.14%. It is obvious that for the remaining period of 3.5 years (till the end of 2015) exceptional efforts are needed so this share can rise at least to the absorption level on the pre-accession funds.

Table 3

EU Financial Engagement towards Bulgaria, 2007-2013

Goal/Fund	Budget (billion EUR)	Share (%)
Cohesion, i.e.:	4.391	65.7
ERDF	3.205	72.9
ESF	1.186	27.1
Cohesion fund	2.283	34.3
European Territorial Co-operation	0.179	2.6
Total	*6.853*	*100.0*

Source. National Strategic Reference Framework, 2006.

Third main change at this stage is that the foreign consultants leave the market and mostly Bulgarian firms take the freed market niches. Few of the foreign firms with business in Bulgaria register local offices so they can participate on the market of public tenders. Other foreign firms try to organize consortiums with Bulgarian firms, thus saving costs for maintaining offices in the country. However, most of the foreign firms have left the Bulgarian market and have focused on other markets like Serbia, Macedonia and Kosovo in the region, and Russia and Ukraine, even more to the East. The freed market niche is a big change towards fast growth of the Bulgarian consulting firms, which should come with maintaining and improving the quality of the provided by them services.

At the third stage the turnover of the consulting market has reached 90 million EUR (97 million EUR in 2008) compared to 60 million EUR in the beginning of the state (see table 2). This is about 0.25-0.3% of GDP of the country and about

0.1% of the European consulting market. There is a three times increase in the realized turnover per consultant, which in the last years reaches values like 60 000 – 70 000 EUR (see table 2).

Strategies for consulting firms entering the market

An important characteristic of the market is how the consulting firms enter it. The practice in Bulgaria is very interesting and instructive. There are two ways of creating and entering of consulting firms: traditional and non-traditional.

The traditional strategies are well-known and widely practiced. Local consultants or experts wishing to work as consultants create and register a firm, develop and offer relevant services on the market. These forms are widely used by foreign consulting companies, which create their subsidiaries, country offices, and most often organize joint teams of foreign and local consultants to provide services. Another form of entering is a sale of franchise by a foreign firm to a local one, which is especially popular in auditing services.

In the first years of transition founders of Bulgarian consulting firms most often were experts from closed or fading branch and company institutes, as well as other academic circles. Very often consulting firms were created also by professors and fellows from universities and functioning research units, in parallel with their teaching or research activity. Other teachers and researchers worked as individual consultants or participate as external personnel to other consulting firms.

Together with these traditional ways of entering the market in the country, some non-traditional strategies are used. Some of these strategies are a typical reaction to the situation on the market, while others are immoral or “on the edge” of the law.

The transition from offering consulting services from the “not for profit” sector to the “for profit” sector is a non-traditional strategy. It is used by the more flexible NGOs, which look for new markets of their services. Bulgarian NGOs are forced by the market to make this diversification in order to survive the frequent fluctuations. Some of the most often examples of such changes are in training.

Creation of consulting firms by former employees of the state, of ministries, former members of Parliament and other people close to the power at a certain moment, is another non-traditional strategy for entering the consulting market. In the beginning of the transition such firms were created also by functioning state and enterprises’ employees. Gradually this practice has stopped due to obvious conflict of interest. Usually, people of power have organized for themselves a special project or programme before they leave the state job. After that they work as consultants in the firm winning the project. Facts of such practices have often appeared in the media. Most popular seem to be the cases in the Ministry of Economy, as well as “Agriculture” State Fund.

Preparing for the European funds, some entrepreneurs with non-consulting services main business started establishing consulting firms, for example centers of vocational training. Such diversification of the business in general is possible. Doubts about the capacity of such new organisations to ensure the necessary quality of the training appear. It is difficult to find answer to such issue with lack of control by the National Agency for Vocational Education and Training (NAVET).

Most of the non-traditional strategies of entering the consulting market have had only initial success, and after finishing the project the firms and newly emerged consultants have looked for another job because of their non-competitiveness on the market.

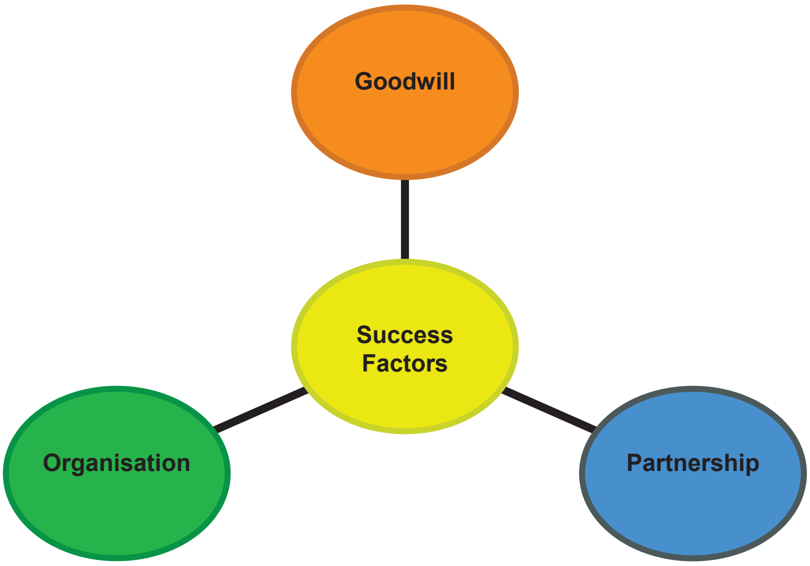
Success factors or instead of conclusion

Gradually, hard, and through many transformations, consulting market managed to overcome its embryo period of development. The big expectations for achieving higher maturity and productivity refer to the next years, when after the end of the economic crisis the volume of the market will most probably increase, together with the requirements for quality of the provided services.

The experience of the 20 years of development of the consulting market allows outlining the factors for successful functioning of the consultants, like firms and individuals, in Bulgaria. The most important of them are three: goodwill, organisation and partnership (see the Figure).

Figure

Success Factors of the Consulting Firms



Goodwill is an important factor in every business, but in consulting services it is particularly significant, since the trust between the assigner and the executor in this sector is hard to create. Assigning consulting service refers to positive expectations ("The consultant will come and solve the problem we either cannot deal with or we do not want to deal with"), but also to taking a significant risk if the task is not executed. That is why the longer a firm is on the market, the more successful projects it has, the more clients have recommended its activity, and the easier it is to have activity in the future.

Consulting business is specified by a large irregularity of the work load. That is why most of the consulting companies have learned how to fight the stress. The constant stress, however, leads to decreasing productivity. That is why it is very important how the internal structure and work organisation can manage the irregular loads. The experienced firms have developed approaches for managing the problem and reducing the bad consequences of the stress and overload. Different inter-firm structures and conditions should be adapted to it, like availability, certainty and comfort of the firm material and technical base, policy for hiring and developing personnel, including using temporary personnel at the top loads, creating skills for team work, developing organisation culture and modern style of management.

The third but not less important factor for prosperity of a consulting firm is the skills for creating and maintaining successful partnerships. Partnerships are a way of not just winning consulting projects, but more importantly of exchanging consulting skills and tools, meeting different national and professional cultures, creating trust between the partners, which is a basis for future projects. Successful partnerships are the best proven way of creating and developing networks and strategic unions. In this way small consulting firms, limited in available competences and provided services, like most of the Bulgarian ones, can participate in solving complex projects and problems, which require different professional knowledge and skills. This is a way of expansion on external consulting markets for Bulgarian firms.

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