

**„CONSULTANCY IS AN INDUSTRY IN WHICH
THE REAL ASSETS GO HOME EVERY NIGHT...”
INTERVIEW WITH IMRE HERCEGH,
CERTIFIED MANAGEMENT CONSULTANT
OF VIALTO CONSULTING**

Q: Could you tell me a few words about the development of VIALTO so that we can have an understanding of its changing position.

A: We established our company 7 years ago. There were 12 of us, and we all had 10 to 15 years of experience in consultancy at both Hungarian and international companies. Since the establishment our primary aim has been to provide services in four different areas. These are the financial services including banking services, the telecommunication services and the public services. The fourth area is related to European Union pre-accession funds. We are involved in such projects mainly in South-East Europe. These are internationally announced projects funded by the European Union the World Bank or EBRD. We are participating on these tenders by establishing consortia with the right experts and managing the entire tendering process. If the tender is won we – as a consultancy firm – are responsible for the project management. Many highly skilled and experienced professionals work in these projects with specialised knowledge for example in customs or telecommunication legislation or the application of EU statistical methodology but they don't necessarily know how to manage these projects. That's where we can help.

Q: Does it mean that you give advice on how to lead a project?

A: No, it doesn't. We don't provide project management consultancy advice. We are the project leaders ourselves. As the project starts and the execution phase gets underway our project expert becomes responsible for the successful completion of the project. During the tendering phase we do the assembling work and our role is to help winning the tender...

Q: And who brings business?

A: Business? Well, these are all open tenders and tendering is a long process. Sometimes it may take up to 3 to 4 years to win a tender.

Q: Do you rely on your previous business relationships?

A: Partly yes, of course. Even to find out about a tender call we need considerable network of relationships. EU projects have multiple participants. One of them is the beneficiary or beneficiaries who will have considerable gains from the output of the project. Others are those funding the project (e.g. the EU) and there are also local or regional bodies representing the fund owner. We have had a project in Turkey for example. Our involvement in this project was rewarded with various international consultation awards followed by intense media attention. You could even find it on several webpages. One of them had the following headline: "Hungarian consultants teach Turks how to count olive trees". The project in fact aimed at the introduction of the EU statistical methodology in the Turkish Statistical Institute. But the expression 'counting olive trees' was used in the article because part of the project was to adopt an agricultural forecasting and monitoring system. In this particular project the beneficiary was the Turkish Statistical Institute and the finances were provided by the EU. Our role was to establish the consortium and find and enlist experts and also to implement the project. In order to become part of a project like this we need local contacts just to know what the coming projects are. Besides our local contacts we also have to keep a close eye on the new project opportunities and decide which of these can be feasibly won. We have an extensive network of international experts from Lithuania to Portugal.

Q: How has your career related to the development of the company?

A: I have been working as a management consultant since 1991. Consultancy as a profession started to emerge in Hungary around that time although many elements of it were practiced already in the 1980s, but the naming of it had been different. I started to work at Andersen Consulting in 1991 which has been part of the Arthur Andersen Group. Then I worked at a Hungarian consulting firm called AAM for 8 years. Finally, in 2007 my friends and I set up our own consultancy. Let me add to this that personally I don't work in the previously mentioned international projects. I manage development and reorganisation projects mainly at telecommunication companies and financial institutions.

Q: What is your position in the company?

A: I'm one of the owners of the company and I am also one of the managing directors. The start of our company was quite interesting from a management science aspect, too. We had "revolutionary" ideas at those times. We had disagreements with the management regarding a particular reorganisation, and in the course of the dispute the owners of the company wanted to exert their power claiming that after all they were the "owners", and they were free to make decisions. It was true, of course. We claimed however, that they did not "own" us – who generated and managed businesses. Consultancy is an industry – as a university professor once said – in which the real assets go home every night and the owners can only hope that they would show up for work in the morning. This example shows that no one can actually 'own' a consultancy or rather the consultants working for a consultancy. When we started our company we decided to create a co-operative type of business model. It actually meant that anyone was welcomed to become a partner in our company who had at least 4 or 5 years of experience with their own clientele. First, we thought that all the consultants who work for us would get sooner or later an ownership status. This would have allowed a joint leadership and consequently a joint strategy formulation. It was an attractive idea but it failed because of some "hard rules" of capitalism. The first big decision came when we had to get a bank loan. Nowadays, banks don't lend money unless the owners provide joint and unconditional personal guarantee. It was surprising to see that only a few of us were ready to be guarantors. So, in terms of risk taking our 'co-operative business model' didn't prove to be a success...

I studied mathematical economics in the middle of the 1980s and for about 6 or 7 years I had worked as a research economist. Then in 1991 my colleague, Gábor Kornai encouraged me to become a consultant. As a consultant I'm primarily engaged in reorganisation of business processes, organisational development and implementing major IT systems. Today, in Hungary, majority of the consulting jobs are related to IT system developments. I was involved in many such projects despite the fact that I'm not an IT specialist. I'm a project manager specialised in IT projects so I know how to manage the individual phases of these projects, how to manage risks involved and how to get through these projects successfully. These projects are also packed with tasks related to business processes, organisation and the management of employees. The purpose of my very first project was to figure out how to teach a new IT system to 10,000 railwaymen. It shows that my job is much closer to management science than informatics.

Q: I would like to continue with some more theoretical questions. What would be your quick answers to the following question: what are the core competencies of a management consultant?

A: The most important competence I think is the ability to work with people, especially in highly stressful environment. Also, management consultants must know how to manage conflicts and how to identify real issues in difficult situations. They must be able to tell the difference between crisis and panic. And they must know how to push gently toward a positive outcome. I personally think, that the human factors play the most important role among the many competencies management consultants must have.

Q: What do you think is more important, a broad knowledge of a particular industry or knowing the functional areas of organisations?

A: Both are very important but knowing the industry is a little bit more emphatic because there are as many combinations of functional areas as organisations. I worked a lot in the banking industry in the last 15 years. Every one of these banks has organized its functional areas somewhat differently. But if you get to know a function in one particular industry very well, for example customer service or sales, then the know-how can be easily transferred to the context of other industries. We have focus areas too in which we worked in several different industries but still, if you work in an industry you have to know it.

Q: Do clients expect consultants to have a thorough knowledge of the industry?

A: Absolutely. You must be familiar with the basic facts of the industry. It is not expected from the consultant though to have company-specific information. There are specialists in the field of risk management for example who have been working in that field for 15 years. As expected I'm less of a specialist of that field simply because I have several focus areas besides risk management. Compared to them I have wider insights however into the industry that I've gained from working with many companies. Naturally, I see the world through a different lens.

Q: So, does it mean that if you don't have previous involvement with a particular industry you can't win a business?

A: No, it doesn't. You can always find business from other industries if the project is not too industry-specific. Let me give you an example. Recently, we've started to work at a shared service centre that provides services for a group of companies. I'm not sure whether it's common knowledge but shared service centres are one of the most prosperous businesses today. Several large international companies brought their shared service centres to Hungary. These



provide various services such as customer service, accounting services or collection etc. We started to work on business continuity planning at a shared service centre. It didn't require any specific knowledge on the industry itself but we certainly needed to know a lot about business continuity, customer service and the processes involved.

There are many different strategies consultants can use. There are consultants who can provide services in many different areas within a certain industry and there are consultants

who are specialised in a specific area (e.g. IT security). Both strategies involve risks. We opted for a strategy that allows us to have a deep understanding of the industries we work in so that we can provide a wide variety of management consulting services.

Q: Theoretically, there are consultancy firms that offer services as companies and there are also individual consultants. Do you think this division of the consultancy industry reflects reality?

A: Yes, I do. The number of individual consultants has been growing in recent years. In itself it is not harmful for the industry but there are some drawbacks. There are many new entrants to our industry who previously worked at large companies and decided to become consultants. There is nothing wrong with it if that individual has the necessary skills and experience. It only becomes an issue when people who lost their job for some reason think to continue their career as consultants without having the basic skills or knowledge required by the profession. These people certainly have extensive knowledge about the areas they had worked in e.g. as middle managers at banks, telecommunication companies or at automobile manufacturing companies. This is however not enough to become a consultant. Their lack of knowledge about consultancy as a

profession can easily lead to a decrease in the level of quality, and foster bad opinion about the consultancy industry as such. Also, it often happens that the financially vulnerable new entrants drive prices down because their fixed costs are considerably lower than the consultancy firms'. They don't have to pay monthly wages or trainings for employees. Clients may think that an individual consultant costs less, however clients also should know that the quality of such work cannot be guaranteed. I have other concerns as well. As a result of the presence of many small or one-person consultancy firms training of junior consultants becomes almost impossible. I was lucky enough to have the opportunity to work at large companies where I have received proper training. In a company environment junior consultants have the opportunity to get appropriate work to learn on consultancy projects from senior consultants. Consultancy firm can provide consultants with both formal and on the job training. As we can see, our industry is becoming more fragmented and individual consultants outnumber firms which makes training of junior consultants more and more difficult. This is an underlying issue the consultancy market has to deal with sooner or later.

Q: Are there any new technologies in consultancy?

A: It depends on what we mean by technologies in consultancy. I think that consultancy is heading into different directions. Many try to follow the path of "automating consultancy". It means development of artificial intelligence type applications. Those developing such applications hope, that it can replace real life consultants in certain areas. A British consultant for example developed a software 10 years ago that contains over one hundred multiple-choice questions for the top management. Based on the answers provided the software generates a maturity model that shows the areas in which there is work to be done. The ambition of this software is to have a diagnosis of the company without a consultant. This software allows companies to monitor their improvements as well. Although companies liked this software I have to admit that it didn't become a success because companies nevertheless wanted a living consultant to be part of the process. All in all we can say that consultants are still irreplaceable.

Q: Do you mean that they have a unique role?

A: Yes. Not only unique but they also have a supportive role during the implementation phase of the project. Software can give suggestions of what a company should do but it cannot tell a company how to organise the suggestions into tasks or an action plan that actually works in a certain situation.

There are specific ‘techniques’ though which emphasise the human aspect of consultancy. Workshop techniques for example have improved a lot in recent years. There are well known methods how to develop a joint vision in an organisation with the involvement of hundreds of people.

Consultancy also has an area which is on its borderline and focuses entirely on the human aspect. In the last 10 years we can see a boom in executive coaching. The reason why there is huge demand for executive coaching roots in a well known phenomenon called executive loneliness. Those executives, who are on the very top of an organisation, find it hard to share their problems, dilemmas and doubts. This is where executive coaching helps which is very much in now and at the same time it is very much needed, too. The pitfalls of this specific area of consultancy is that many consultants assume that a few years of experience as a top manager provides enough background to become a coach. I’ve seen many consultants working as an executive coach who quitted their jobs as top managers and it was simply convenient for them to become a coach. I’m not suggesting that their executive background is unimportant what I’m suggesting is that other trainings are also needed to work as a coach for example some training in psychology. I’m not sure whether coaching can be defined as a ‘technology’ in consultancy but I’m absolutely sure that this particular area of consultancy is booming...

Q: Is data mining used in consultancy?

A: Data mining is a support tool. Companies develop databases for decades, - and we also help them in this. But it is still quite vague what these databases can be actually used for. There is no doubt that data mining is a booming area as well. And this is the area where consultancy meets science and innovation. Network analysis for example is an area of expertise which is essentially built on data mining. Organisational network analysis is aiming at mapping the informal relationships within an organisation. The findings of the analysis of informal relationships within organisations are used to improve cooperation, knowledge management and sales. Customer network analysis uses databases to study relationships between existing and potential customers. Telecommunication companies for example have databases for this purpose. Of course, when using databases, legal issues are critical. Individual rights are paramount when creating models from databases. Banks are similar to telecommunication companies because they also have open databases that can be used to make customer network models. The bottom line is that data mining firms rely heavily on research results. They bring information and data whereas business consultants help companies interpret information. For example, business consultants can show companies how to apply the findings of database

analysis to build a successful sales campaign. Moreover, the methodology of how to build a successful sales campaign can also be established. This is our field of competence. I would say that data miners are technical specialists so usually they have very little contacts with companies. They mostly like to deal with data, and we consultants like to deal with people. They deal with data and rely on scientific research results and consultants rely on the work of data miners to provide companies with trustworthy advice.

Q: What are the trends in terms of techniques used in the global consultancy market including emerging markets as new competitors?

A: It is a difficult question. I've mentioned one trend already. In the last 20 years there has been a shift from consultancy firms defining the consultancy market to individual consultants. There are big consultancy firms today of course but there is also a large group of individual consultants. It is becoming more and more evident that we need to find an answer for the question of how these two can cooperate in the future.

Q: Is consultancy still an essentially American technology?

A: Not any more. There are dominant European consultancy firms and there are many international firms with not fully clear national background. I don't know for example what nationality is KPMG or PwC. Even if a consultancy firm has been originally established in the US – and many of the really big ones were – the way they are working in Europe or Hungary is more European or Hungarian than American. When I first started as a consultant 20 years ago my company, Andersen, had strong roots in the US. We had to participate in trainings in the US and basically the know-how and the methodology came from the US. Today, a similar company would give much more freedom to its subsidiaries and in fact locality is stronger than the directions given by the parent company. In Hungary, we can only give advice which is accepted and embraced by Hungarian companies. I suppose it works the same way in Italy or any other countries. There is another significant change that took place. Today, methodology is less important than earlier. 20 years ago a methodology and a few reasonable consultants were enough to win and to get through a major project. It is different now because more specific skills and expertise are needed and the role of new research areas has also increased. In addition, clients are better informed today and many consultants became top managers. There is a Hungarian bank where the majority of the top management had worked earlier as consultants.

Q: It is helpful for consultants if they can communicate effectively with the client.

A: It surely is. First of all, it is good if clients who previously worked as consultants know exactly what they can expect from a consultant. But it also indicates that there will be many challenges because the clients think that they know everything that we consultants know. So, usually these ex-consultant clients have higher expectations.

Q: Then why do they assign a consultant from outside the firm? Is it because they don't have enough time or is it because they have tunnel vision?

A: There are many reasons for that. They know exactly that from inside an organisation everyone develops tunnel vision after a while. This is also one of the reasons why top executives are rotated. Besides, they don't have enough time to push important changes through the organisation. This is a job much more appropriate for a consultant who is not attached to the organisation. It might also happen, that a specific set of skills is needed which is missing from inside. They might have read all the White Papers in the McKinsey Quarterly concerning the issue they are facing in the organisation but they need someone who can implement the contents of what they read. So, today we need to know much more than 15 years ago.

Q: Have consultants from Asia appeared in the consulting industry, yet?

A: Only in certain areas. Indian and Chinese IT development companies are more and more present on the market, and as a side offer they are providing some management consultancy as well. Some of these consultants are really exceptionally intelligent and knowledgeable, but cultural differences often cause problems. I've met some of these brilliant professionals from the best schools armed with the most cutting-edge methodological background who found it really hard to bridge the cultural gap between a Hungarian company and their company. Application development is less problematic from this point of view because data and mega-bytes are understood the same way anywhere. But as soon as we deal with people cultural issues come to the forefront. For now, I don't think Asian consultants are serious competitors. As I said earlier consulting is based on people's competencies and as a result it is culture-specific.

Q: Asian cultures are traditionally good at relationship management.

A: I agree. But they do not necessarily fully understand how a Hungarian counterpart, let's say a manager deals with information, risks, decision making, or crisis situations. In some

cases when the parties are able to develop a good cultural understanding they consultants are able to work very well with local clients, but these are exceptions.

Q: So, they can enter their own markets and become winners in a very short time.

A: On their own markets definitely yes. But as I said consultancy is strongly culture-dependent, so entering other markets is not so easy. This is by the way also valid the other way round. We know from personal experience that working in relatively not so distant countries like the Balkans may become strenuous.

Q: All right. We have already talked about the distinctive features of consultancy in Hungary and the region. Could you recap on that?

A: Our profession is fundamentally very similar in the United States, Western Europe or Asia. I did talk about the most important characteristics of consultancy. Large consultancy



firms have withdrawn from the market which has been flooded with small consultancy firms or individual consultants. In addition to that, it is worth mentioning that the private sector takes up less of our skills and expertise in recent years, basically since the economic crisis began. And it is also rather complex to get business in the public sector since almost all public consultancy projects are funded by the EU nowadays.

A Hungary-specific issue is the presence of ‘anti-consultants’ sentiments. In western countries this is an almost non-existent phenomenon, while in Hungary it comes up frequently and unfortunately with a political overtone. In such cases responsible-looking officials declare that consultants are corrupt money-makers and naturally it is also picked up by the media. But as I said it earlier the consultancy market is a bit overcrowded which makes it less transparent. There is a colourful palette of consultancy activities and some companies draw up invoices labelling their business activities as consultancy which I don’t consider that.

Q: The Taxation Office doesn’t like consultants.

A: I don’t agree. The Taxation Office does like the huge amount of money consultants pay in taxes. It is rare that companies employ a consultant illegally. What the Taxation Office finds more difficult I think is to figure out what the nature of our work is. The company registry for example is lagging behind with the classification of consultancy. It wasn’t long ago when sorghum broom making and sweeping broom making were still grouped separately yet there is still only one NACE number for business consultancy.

Q: Are there consultants who chose their profession out of necessity?

A: Yes, there are. They are those, who lost their job and for the lack of a better opportunity they started to work as consultants. I don’t think it is a problem but everyone needs to see it very clearly that they are not management consultants. They are quite effective in various fields of expertise. But they are not consultants.

Q: Finally, I would like to ask you about your thoughts on the medium-term outlook of consultancy in Hungary. Do you think consultancy is a lucrative business opportunity today?

A: I have to give you an optimistic answer for this question mainly because I’m a consultant myself. I think that the consultancy market is receptive to changes resulting from the boom-

bust cycles of the economy. It used to be the idea that companies need consultants in good times and bad times. When the economy is expanding companies need consultants for development projects and when the economy is shrinking companies need consultants to cut costs...As a matter of fact this is simply not true. When recession has hit the economy Hungarian companies instantly reacted with full-scale cost cutting and then hibernate. They didn't need consultants for that. After the recession started to be felt or when the banking sector and the telecommunication sector was hit really hard by unexpected and strict government measures these companies had no choice but to cut back on developmental projects including consultancy services. I tend to think that if one day Hungary steps on the road to recovery consultancy will become a lucrative business. The improving macroeconomic indicators of the last few quarters are not yet felt in everyday business life. But as I said once the economy picks up consultants will be in demand. One of the reasons for this is that there are many industries which neglected organisational development for years. There are companies with 5 or 6- year-old technologies and business processes and they must catch up. As a macroeconomist I know it too well that recession often ends when it becomes impossible to further delay the replacement of depreciated assets and that is the moment when the economy starts to recover. The consultancy market will also pick up when companies cannot further delay developmental projects. Consultancy is needed because there were and there will be certain challenges in management which can only be tackled from outside the organisation. In the long-term I'm truly optimistic.

In the short and medium-run – unless the economy will start real recovery, those consultants working in the private sector will have to wait. At the same time, as long as projects are continued to be funded by the EU, consultants will be needed in the public sector. However this is not an easy area, even if most of these projects are really badly needed. It is not easy to see clearly through the decision making mechanisms and the different interest groups. Although there always will be new consultancies rapidly coming from nowhere and also rapidly disappearing to thin air, but ultimately, the future of management consulting industry rest on those consultancy firms that endure through time. In short, I would be cautiously optimistic in the medium-run but I do believe in a bright future for the consultancy industry in the long-run.

Q: Thank you very much for the interview.

A: It was my pleasure.