CHAPTER 1 ORIENTATION

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CHAPTER 1: ORIENTATION

“Nothing stops a firm faster than people who believe that the way they worked yesterday is the best way to work tomorrow. To succeed, not only do your people have to change the way they act, they’ve got to change the way they think about the past”

Blanchard & Waghorn 1997:25

1.1 BACKGROUND

Management Consulting Firms (MCFs) are currently operating in a highly competitive services industry in South Africa and are experiencing tremendous growth and fundamental change in a dynamic world of client needs and demands. The growth of the Internet economy, globalisation, the need for practical strategic, organisational and operational solutions are all part of the evolving consulting landscape, as firms contend with issues, including talent exodus, effective utilisation and practice development. With so many players, consulting has become a highly competitive profession.

Applying a strategic approach in such an environment can provide competitive advantage. To lure customers it is vital to have the leading edge on business advice offered to clients, but good advice must be supplemented by excellent service.

Competitive advantage is an important aspiration of any ambitious MCF. Along with adding value and setting strategic agendas, creating competitive advantage remains a pipe dream for many MCFs. That is because information systems departments are too often pigeonholed into an internally focused operational support mode, but it does not have to be that way, says Pastore (1996:Internet).

Porter (1990:44) explains in the “Competitive Advantage of Nations” that “… a nation’s competitiveness depends on the capacity of its industry to innovate and upgrade.”
In addition the industry benefits from having strong domestic rivals, aggressive home-based suppliers and demanding local customers. Competitive advantage results from the differences in culture, management style, infrastructure, economies, institutions, histories, demographics, and other factors that affect the way people live and do business. Porter (1990:44) stated that by using such differences to continuously improve and innovate, a nation's competitive advantage would increase. Based on Porter's (1990:45) assessment of innovation, some MCFs became successful because they are able to serve a market segment that others have ignored.

Therefore, MCFs need to utilise national advantages such as factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. These conditions are what Porter (1990:52) calls the "Diamond of national competitive advantage".

The real needs of the clients should be identified and addressed – even in cases where the clients cannot define or verbalise their needs themselves. These services cover the total area of doing business in a dynamic environment and can include the following:

- business management advice
- financial consulting and support
- information technology support
- financial project management

A typical MCF offer the above-mentioned support on either contract or full time basis. As a result they need to have an extensive array of experienced consultants and should therefore be in a position to supply the prospective customer with a team of quality people on all levels to fulfil the underlying needs. The firms can even take over the management of various projects to give the customer the assurance of adequate and suitable manpower at all times.
The starting point of the professional service is to employ the best, train them best, stretch their horizons, expect the best and make them part of a winning team, dedicated to leading excellence in professional service. Such MCFs have very specific management structures and a virtue that qualifies them from their competitors. MCFs plays an interactive role within their clients’ organisations, to add to, and complement their business skills, help them focus on the future and reap the benefits of an exciting new era.

The achievement and opportunity specialising in the full life cycle of information solutions, MCFs should be a recognised leader in the provision of systems engineering, integration, support and maintenance services to meet the total solution needs of customers. Whereby promoting an entrepreneurial spirit among employees, encouraging innovative improvements in products, services, and processes and applying values of delighting customers, continuous quality improvement and employee development to guide achievement of the sustained growth of the business for both employees and shareholders.

Areas of specialisation of MCFs must therefore include such diverse areas as: computer science, business management, business strategy, engineering, telecommunications, finance, business process engineering, sales methodologies and economics. Experience enables them to understand customer’s requirements and recommend the best solution.

The lines of some of the specialised services can include:

- **Information technology and telecommunications services**: design and implementation of management information systems, including software applications, hardware/software integration, networks, and telecommunications.
- **Systems engineering**: support in specialised technologies and specific engineering disciplines.
- **Operational and acquisition support**: field support for client systems and programmes and general technical support to commercial project managers.
• **Software development:** provide complete software design, development and maintenance using different platforms and development tools.

• **Maintenance:** provide complete maintenance services on hardware, software and network infrastructures.

• **Co-sourcing and outsourcing:** the delegation to a third party of the continuous management responsibility for provision of an IT (Information Technology) service under a contract that includes a service level agreement.

The research problems to be addressed in this study are discussed in the next section.

### 1.2 STATEMENT OF THE RESEARCH PROBLEM

“The best competitive position to be in, is to have no competition”

Robert 1997:1

Many theories have emerged over the years as to how a firm goes about growing at a competitor’s expense. The obvious method for a MCF is to duplicate the competitor’s strategy and then attempt to outmarket, outsell and outservice competitors. According to Robert (1997:1) this is called the *imitation strategy* and it may be the finest form of flattery, but it is the worst form of strategy. Therefore, a MCF does not gain at the expense of the competitor strategy, but rather by crafting and deploying a distinctive strategy that changes the rules of the game in its favour.

Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors (Pearce & Robinson 2000:294).

Every day South Africa faces more competition and business leaders are feeling the pressure. It is not easy to face up to the harsh realities of a new competitive environment. The management consulting industry faces challenges everyday. Bhupta & Kothari (2002: Internet) reported that “… *there were the Big five, who knows when there will be none?*” Nothing seems safe after the fall of the once-elitist. Arthur Andersen. Nothing seem predictable after IBM swallowed the consulting arm of
consulting giant Price Waterhouse Coopers (Bhupta & Kothari 2002: Internet). These are disturbing times for big and small management consulting firms. The rules are being re-written and the industry is being reborn. Soon after the fall of Andersen, there seems to be a mad scramble by the remaining Big Four, (Deloitte & Touche, Ernst &Young, IBM and KPMG) to ride themselves of all remnants of their consulting business.

The question that is uppermost in the minds of all corporates today is what is the future of the Big Four, and the smaller MCFs? Until now, they were the ones who taught their clients how to set things right, but today they are fighting for their very existence.

The research problem can be summarised as follows:
Because MCFs have to compete in a highly competitive market, smaller MCFs are inevitably placed under pressure to be successful and need to know how to meet the challenges. To maintain a competitive advantage over rivals, a strategy need to be devised for a smaller MCF and, in order to do this, practical guidelines must evolve to provide a smaller MCF with a competitive strategy over rivals.

All the above mentioned elements will have an effect on the future of an existing smaller MCF.

1.3 RESEARCH OBJECTIVES AND COMPONENTS OF THE STUDY
The primary objective of this research is to provide practical guidelines on a competitive strategy for a smaller MCF to obtain competitive advantage in the management consulting industry.

This study sets out a specific action plan and guidelines, which are formulated to implement practically the general strategic considerations for MCFs and to identify which of the role players involved in the consulting and service industries could benefit from the competitive contribution by a smaller MCF. The following research objectives
have been established in order to discover some strategic considerations for smaller MCFs, the following objectives are set:

**Objective 1: To conduct an overview of the essence of MCFs, by pursuing a strategic approach to obtain competitive advantage and the strategic implications thereof (Chapter 2)**

To provide an overview of the essence of smaller MCFs. According to Cronje et al. (2004:367) “Consultants provide smaller businesses which do not have the expertise or resources with necessary services, and can act on the same level as top management and are more objective.” According to Porter (in Pearce & Robinson 2000:86), the nature and degree of competition in an industry hinge on five competitive forces, namely: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products and services, and the jockeying among current contestants.

The following important factors of MCFs are discussed in chapter 2, namely to understand and define a MCF; its origin; the market it operates in; what services it specialise in; determining the driving forces of a MCF; what is it that determines the nature of products, customers and market segments. It is important to understand the essence of the industry to be able to consider possible strategic approaches. The decisions of a smaller MCF represents an integral part of the strategic management process.

Chapter 2 deals with the essence of MCFs and with:

- evaluating the essence of MCFs;
- understanding the changes and developments affecting the MCFs;
- analysing the various factors that influence the existence of smaller MCFs;
- evaluation of the environment forces for competitive advantage over rivals;
- the consideration and evaluation of the forces for competitive advantage over rivals and the implications thereof.
An understanding of this area is critical in order to determine a competitive strategy for a smaller MCF.

Objective 2: To determine the key success factors in smaller MCFs (Chapter 3)

To identify the key success factors for smaller MCFs. An understanding of this area is critical in order to determine the future market opportunities and threats for a small MCF. This is done to understand which are the driving forces behind smaller MCFs and how this will affect the industry they operate in. By studying the key success factors that will influence their existence, smaller MCFs can determine what to do in a highly competitive market.

Chapter 3 deals with identifying the key success factors of a small MCF and specifically deals with:

• analysing the client-consultant relationship;
• analysing the various key success factors;
• evaluating the niche market of a small MCF;
• understanding the challenges facing a small MCF;
• analysing the Keynes Multiplier Effect on a smaller MCF;
• consider how to attract customers for a small MCF.

Objective 3: To determine the impact of macro, market and micro environment segmentation on the small MCF (Chapter 4)

The market segmentation, the external (macro and market) environments which constitute the uncontrollable external forces in MCF environment as well as the internal (micro) environment. This chapter also focuses on the impact of the seven habits of highly effective people (Covey 1994:11). To focus on a winning or losing habit for a small MCF is a habit and how many good habits do really exist and can these habits make a difference to a smaller MCF.
Chapter 4 deals with the market segmentation and environments of a small MCF and specifically deals with:

- evaluating the market segmentation of a small MCF;
- understanding the impact of the macro environment on a small MCF;
- understanding the impact of the market environment on a small MCF;
- understanding the impact of the micro environment on a small MCF;
- analyses the seven habits of highly effective people and applying it to the effective habits of a small MCF.

**Objective 4: To emphasise the importance of the existence of small a MCF and implement some practical guidelines based on research findings to provide a competitive strategy for a small MCF (Chapter 5)**

This study concludes with a summary of findings drawn from the study. Final conclusions are made with regard to all objectives set for the study. Some recommendations are also made with the view of further research.

To provide meaningful practical guidelines on competitive strategy, which can be helpful in decision-making purposes, whereby a small MCF will gain competitive advantage and to obtain competitive edge over rivals. Conclusions from this chapter are vital outflows of the study and they were drawn from the research findings. The recommendations of this final chapter outline the additional areas of inquiry, based on the results of the research.

### 1.4 RESEARCH METHODOLOGY AND CONSTRAINTS

“Research methods have to contain clear objectives derived from research questions, specify sources from which data is to be collected, and consider the constraints”

Saunders et al. 1997:92

Research is viewed as multiple, systematic strategies to generate knowledge about human behaviour, human experience and human environments in which the thought
and action process of research are clearly specified so that they are logical, understandable, confirmable and useful. The research methods used in this study were the following:

1.4.1 Literature study

“The literature review encapsulates much more than just reviewing the literature, in fact literature review refers to a scrutiny of all relevant sources of information”

Mouton 2001:87

The background, overview of MCF, and strategic considerations thereof are based on a study of literature. This includes scientific books such as managerial, financial and industry-related magazines, articles in professional journals, research reports, the Internet and newspapers. The literature study is important according to Cilliers (1973:133) because it is not only important for the clear formulation of the problem but also for executing the planning and actual implementation of the investigation. The literature study forms a major component of this study and plays an important role in the achievement of all the objectives.

1.4.2 Internet

In the past, scientific communication occurred largely by means of journals and books, but with the advent of the Internet an information explosion occurred and was used for this study. According to Garbers (1996:320) “The Internet not only saves much time, but it also serves as an information service that is available day and night, with an unlimited number of books and resources that can be researched over an unlimited period of time.” The Internet is a powerful means of making new and recent information such as official documents, policy documents, speeches or press releases available expeditiously.

The importance of the Internet cannot be over emphasised in the pursuit of satisfying the hunger for information and knowledge. The Internet is the greatest, fertile repository of answers and information ever created by humankind and will be used as an important tool to obtain research information.
1.4.4 Limitations of the study

The confidentiality and availability of some critical information represents one of the biggest obstacles in the intended research. In theory, verification of the research could be achieved through inputs from industry experts and experimentation in the actual market environment. By experimenting with and testing the proposed solution in the actual market environment, proof could be obtained of the research’s feasibility and validity. Before being able to design a future state or strategies towards such a state, analysis and understanding of the subject are needed. The study is restricted to management consulting. It does not include other fields of consulting such as engineering, architectural or information technology.

1.5 CLOSURE

As MCFs becomes more complex, a smaller MCF is continually faced with new challenges. A smaller MCF has to compete in a highly competitive industry with bigger MCFs and should therefore follow some strategic considerations to gain competitive advantage over rivals. Smaller MCF should position itself in the market place to secure a positive impression with discrete set of buyers, beating the competition at their own game and being the first choice for the client. For a small MCF to survive in today’s competitive world, a need to move constantly forward and create its own future is necessary before someone else does. A small MCF needs a competitive strategy providing the means to create the necessary foresight and to manage the required transformation.

To gain competitive advantage, a small MCF must have best market intelligence, the right resources in the place at the right time, and products and services that meet the needs and expectations of customers at the right price. This research is conducted to identify practical guidelines for a competitive strategy for a small MCF to obtain competitive edge over bigger MCFs and to contribute to the industry.