# CHAPTER 3: KEY SUCCESS FACTORS FOR MANAGEMENT CONSULTING FIRMS

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SYNOPSIS

The purpose of this chapter is to identify the key success factors for a smaller MCF. 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 a MCF and how it will affect the industry it operates in. Small MCFs are highly important to the economy and require a distinctively different approach from consultants to that which would be used with large companies.

The key success factors for a smaller MCF can determine what to do in a highly competitive market. The following specific key factors are investigated:

- 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;
- analyses the Keynes Multiplier Effect on smaller MCFs;
- consider how to attract customers for a small MCF.

The above-mentioned focus areas support objective 2: to determine the key success factors in smaller MCFs.
3.1 INTRODUCTION

The client-consultant relationship has a significant impact on the development of a smaller MCF. This relationship can often begin before face-to-face contact, especially at the level of the idealised relationship. Consultants may also impose from either within or without the organisation. Such imposition will influence the relationship and may generate relational difficulties before consultancy work even begins. Smaller MCFs have the advantage of being seen as a relatively neutral resource, unless they have been imposed and have the added credibility of their expertise and track record, which is why they have been invited in the first place. Clients often find it easier to share a problem with an outsider, but it can be a disadvantage not to have personal experience of the culture and an insight into the business of the organisation. It may therefore take longer to build an effective consulting relationship.

From the client’s point of view, the relationship may be further complicated by the practice, often within larger MCFs, of having a client services director or contracting agent who is someone other than the person who delivers the work. The client will usually want to know and meet the consultants who will be actively engaged in the delivery. This is especially important where the initial relationship is sustained at an institution-to-institution level. Ensuring that the psychological or relationship contract occurs between the real clients. The consultants charged with responsibility and delivery is crucial, but this relationship is best integrated in the wider field of both consultant and client systems.

3.2 THE NICHE MARKET OF A SMALLER MANAGEMENT CONSULTING FIRM

With the expected good preconditions on the markets there are good prospects for all types of players. Recklies (2001: Internet) suggests, that the large MCFs will continue to become generalists and the smaller MCFs will have to seek their own fortune in becoming specialised niche players.

As for the large MCFs, they will see a continuing concentration to gain market share and market power. There are two options, namely: a handful of big market leaders
could merge amongst each other to form a maximum of big three at the end of the decade. In addition, large but not that big firms might merge to form new entrants into the group of really dominant players. On the other hand, each of today’s market leaders could seek further growth, especially in attractive new market segments, by acquiring small MCFs with high specialisation and good reputation. Both possible developments lead to an enormous concentration in this player group, which is followed by even heavier competition.

In the segment of large MCFs, the accountancy-based MCFs have already started to separate from the accounting houses. This requires total independence of auditors of the companies quoted at the stock exchange. Therefore, the larger MCFs strategies are to offer a broad range of consulting services to their auditing clients came into conflict with regulations. In the result, the former consulting arms of the larger MCFs will gain the freedom to act independently from the auditing businesses constraints. This will make them even more aggressive and competitive.

Small MCFs will continue to specialise. This can provide a stable market position but as demand changes, might leave some of them unprepared for the new trends. The result is a polarisation of large global and small niche players, leaving a lack of service to the small and medium enterprises that are not attractive clients to both of these groups. This under-serviced middle segment creates three options, namely: large MCFs could develop effective ways to operate in this sector; small MCFs could network to fulfil the complex needs of small and medium enterprises clients forming ad hoc virtual medium-sized MCF on a project basis; there could be a renaissance of the real medium-sized MCFs.

Other changes in the field of players will occur through new entrants. Attracted by the impressive market growth and chances for cross-selling many non-consultancies will establish consultancy-divisions. The banking businesses will provide excellent market access to these entrants. Telecommunication companies can provide professional advice in the area of information technology. Nearly every company who has expert knowledge in certain areas could extend this to consulting services for its customers. In addition, further entries of sole practitioners and small MCFs can be expected.
This wave of new entries will have a double effect on competition. It will increase the competition by: i) leading to more mergers and acquisitions; ii) to do some breakdowns; iii) there are not legal regulations for consultants as anyone can become one; iv) there will be quality problems in some cases, which could damage the reputation of the whole industry.

Recruitment of clients will remain a problem, especially the large MCFs compete aggressively for the so-called “high-potentials.” A price war and decreasing loyalty of key staff could be the result. Smaller MCFs will try to overcome their handicap in hiring good people in creating new working-styles and corporate cultures that are attractive for more entrepreneurial-minded people.

The rising complexity in the consultants’ and their clients’ environment makes the use of knowledge management system keys. The large MCFs will face some structural problems. These are embedded in their structure as partnerships, which can limit their ability to raise capital and slow decisions and changes, which causes problems to form a global internal but local external culture, and in the concentration process, which needs enormous management capacities to solve post-merger-integration-problems. This can create an opportunity for other players to enter some poorly serviced fields.

### 3.3 ATTRACTING CUSTOMERS FOR A SMALLER MANAGEMENT CONSULTING FIRM

“It is often the case that you do not have one client but several clients or categories of clients and that the client is often a group or an organisation not just individuals. This throws up the considerable question, ‘who are you engaging with?’ and has a major impact on the mode and style of communication you choose”

Sadler 2002:88

Sadler (2002:88) suggests that there are three key groups of people that are included in a small MCF client system, namely:
• *Those who know:* those who know about the problem, and those who know of sources of help, may include supervisors, human resources staff or even client customers if necessary.

• *Those who care:* could include those who may be suffering as a result of the problem or shortcoming, such as those in positions of responsibility, personnel and training, sponsors or even shareholders;

• *Those who can:* should include those who can do something about the problem, such budget holders, those with line management authority, those with enabling resources and the work groups and individuals who will accomplish the required changes. An effective smaller MCF needs to listen to the dialogue of all three.

The major driving forces in the management consulting industry are changes in the clients’ environment, the rising competition within the industry and the developments in the areas of information technology and communication. Today nearly all industries are undergoing massive change (Recklies 2001: Internet). Information technology has the potential to reshape most industries and these developments foster changing consulting needs at the clients’ side, namely:

• advise about their strategic direction according to these changes;

• help in planning and implementing the necessary changes.

For smaller MCFs this implies that they have to be prepared to provide these newly needed services and have to adopt latest trends in technology and economy even more quickly than their clients. Thus, due to the variety of clients and developments, the needs for consulting services are very dynamic and complex. Small MCFs are steadily forced to respond to these dynamics.

The trend for globalisation in many industries drives consultants to globalise as well. Most clients wish to get a consistent service from their consultant for all their subsidiaries, wherever they are (Recklies 2001: Internet). The rising competition forces smaller MCFs to continuously look out for new business opportunities and rethink their competitive position in relation to existing and newly entering competitors. Information
technology and communication not only change the clients consulting needs but also the processes within the industry.

To determine the key success factors, smaller MCFs need to consider the following:

- developing strategic assumptions about the future that are sound, robust, authoritative and relevant;
- identifying and evaluating a full array of policy options consistent with these assumptions and flexible enough to prevail in important alternative futures;
- involving the key internal and external players in this process, drawing systematically on their experience, knowledge and insights.

Based on the current and possible future situation of the industry, the following critical success factors need to be analysed (Recklies 2001: Internet), namely:

- **Knowledge and knowledge management:** The industry is highly based on experience and brainpower. In a world of growing complexity it is critical to ensure sufficient distribution of the existing knowledge throughout the company. This allows an optimal utilization of the internal resources and the staffing of each assignment with the best available people.

- **Innovation:** includes the constant monitoring of the environment. It is important to develop solution for new issues as soon as possible to have them at hand when the clients realise the problems. Ongoing in house adoption of latest developments in economical science and technology also provides skills and experiences that can be sold to the clients.

- **Reputation/quality:** as a service industry MCFs rely much more on the clients perception of their work and on their reputation. This is the basis for the acquisition of new clients as well as for the development of long-lasting relationships with existing clients;
• **Networking/alliances:** especially smaller MCFs need to develop a network of alliances to create awareness for themselves and to increase their range of services offered through cooperation with other consultants.

The above critical success factors need to be analysed and is important to examine the challenges facing a smaller MCF.

### 3.4 CHALLENGES FACING A SMALLER MANAGEMENT CONSULTING FIRM

The structure of the consultancy industry has changed enormously, both in response to the needs of clients and as a result of major new entrants into the market. Client demand for more information technology expertise has encouraged the large information technology companies to come into the market in a very significant way. Having done so on the back of information technology, many of these companies have begun to offer services in other sectors of consultancy, so their growing presence in the market is changing the shape of the industry.

The current structure of the consultancy industry is therefore highly complicated, with many suppliers earning their revenues from non-consultancy work as well as consultancy and with suppliers overlapping each other in what they offer. It is often difficult to categorise particular consultancies because even if they are specialists they still stray into what for them are non-specialist sectors.

For the overall market of MCFs, a further growth can be expected. Technological and political forces expose companies in all industries to continuous change. After former waves of lean management many companies are left with insufficient management capacity and expertise to handle the resulting corporate change processes internally. This creates on ongoing need for consulting services.

The total market growth might slow down a little bit, but will remain considerably above GDP-growth (Recklies 2001: Internet). There will be considerable shifts amongst the market segments. Traditional MCFs will stagnate and nearly merge with information technology consulting. Besides information technology, major areas of growth will be
knowledge management and organisational learning, human resource management, change management and the development of global strategies. In general, there will be a shift from traditional advise to implementation. This implies that clients will express the wish that their MCFs share more risks of the projects. Payment structures might shift from hourly fees to flexible, return related payment or even equity stakes. Consultancies might even learn a lesson from venture capital firms in this regard.

The smaller MCF is less dependent from changes in business cycle and clients will always need expert advice to manage their growth or to restructure their business in a declining market.

### 3.5 KEYNES’ MULTIPLIER EFFECT ON A SMALLER MANAGEMENT CONSULTING FIRM

“Keynesianism is one of the most contentious schools of thought of our time”

Smit et al. 1997:82

The Multiplier is one of the main building blocks of Keynes’s aggregate demand management income (employment) creation theory. Keynes focuses on consumption spending as the principal determinant of income growth, arguing that consumption releases purchasing power to producers and thereby validates their investment plans (Ahiakpor 1998: Internet). Saving plays no positive role in supplying the funds for investment in Keynes’s reasoning. Keynes (1937:669) states, “The investment market can become congested through the shortage of cash. It can never become congested through the shortage of saving” and “Saving has no special efficacy as compared with consumption, in releasing cash restoring liquidity” Keynes (1938:321). Consumption spending thus is the means through which an initial amount of expenditure creates a multiplier effect.

Keynes used many neoclassical postulates and methods, although Keynes criticised them sharply. Keynes’s system was based on a subjective psychological approach, but like several other economists before him, he had a macro-economic approach aimed at addressing the problem of unemployment (Smit et al. 1997:82). Keynesian economics
addressed pressing problems of its day: depression and unemployment. Society as a whole gains from fuller employment. Tight labour markets through rising aggregate demand permitted negotiations for improved wages and working conditions without fear of unemployment.

Government controls gave the banking system liquidity, security and stability but in the eyes of many reformers and intellectuals, it brought about unemployment. Tax cuts in the 1960s and 1970s, unaccompanied by overall reductions in government expenditure, were based on the Keynesian principle of stimulating demand and economic growth (Smit et al. 1997:83).

Contemporary economics could be said to be a combination of neo-classical micro-economics and Keynesian-inspired macro-economics. Keynesian concepts found in almost every economic textbook are: the consumption function, the marginal propensity to consume, the savings function, the marginal propensity to save, the marginal efficiency of capital, the transaction, precautionary and speculative demands for money, the multiplier, ex post and ex ante savings and investment, fiscal and monetary policy. The Keynes system should be applied by MCFs to ensure success and sustainability.

3.6 CLOSURE

As with all working relationships, a smaller MCF need maintenance to stay healthy. It is very easy to get lost in the task or the problem and not devote sufficient time to ensuring that the relationship remains vibrant and alive. Most change occurs via people, and they have their own personal needs that must be fulfilled. The consultancy project and work are art of their lives, although the tendency is to see the people as part of the consultancy project and thus forget the broader backdrop of their humanity and the impact the project might have on them. Time must be build in to review how the relationship is going and not just the task. There will be a need to plan small wins to keep spirits up and build morale, time for celebration and relaxation, time for nurturance and energising, to make the best use of the ebb and flow of people’s energy and motivation.
MCFs should obtain a niche market, if could not gain a market share out of a power perspective. The client base of MCFs should continuously preserve and also expand. This could be obtained through knowledge, innovation, the right reputation and effective networking.

As large MCFs are gaining a bigger slice of the market as clients feel their consultants should have the range of skills and expertise required to adopt an overview of the business. However, the smaller MCF will continue to play an important part in the consultancy industry, where the smaller MCF has specialised expertise that it can bring on focused areas of a solution. Therefore, when a smaller MCF has value to add to a project in a specialised area, it may be called in to offer assistance for a focused part of the project. Asbury (2001:4) states, “In the long-term, satisfied clients lead to more work for those organisations that are able to add the most value. Quality in the management consulting industry must be the paramount consideration.”