MANAGEMENT CONSULTING: STRATEGIC ROLE IN IMPROVING BUSINESS PERFORMANCE

Dr P.K. Sinha
Director
Management Institute, Pune

Ms. Sanchari Sinha
Research Associate
Pune

ABSTRACT

Service industry is one of the fastest growing sectors of the Indian economy. It accounts for more than 50% of India’s Gross Domestic Product (GDP) and forms the backbone for social and economic development. This industry comprises of various subsectors in which Management consulting is one of them.

Management consulting is an industry in which the consultants provide advice to those in charge of running and operating a business. They are responsible for business transformation. It is the practice of advising or guiding an organisation to improve its performance. When an organisation feels that it has reached the bounds of its expertise, it may call in the advice and support of a management consulting firm whose skill set might expand the reach of the business.

This article brings about the importance of the Management consulting industry and the strategic role of management consultants in assisting organization’s improving their business performance.

Introduction

Management consultants help organisations improve their performance primarily through analysis of existing organisational problems and through development of improvement plans.

Organisations hire the services of Management consultants for a number of reasons including for gaining external advice and access to the consultant’s specialised expertise. Consulting firms due to their exposure and relationship with numerous organizations are said to be aware of industry “best practices”, although the transferability of such practices from one organisation to another may be problematic depending on the situation under consideration.

Consultancies may also provide organisational change management assistance, development of coaching skills, technology implementation, strategy development or operational improvement services.

Management consultants generally bring their own proprietary methodologies or frameworks to guide the identification of problems and to serve as the basis for recommendations for more effective or efficient ways of performing work tasks.

The sphere of this field is not restricted to a small area of an organisation but to areas like project management consultancy, information management consultancy, human resource management, strategic development, improvement in operational process & organisational coaching skills for employees etc. Today not only large scale firms, but also small as well medium sized organisations hire the services of Management consulting firms.

Management consulting service functions are commonly broken down into eight task categories:
1. Provide information to a client
2. Solve client problems
3. Make a diagnosis, which may necessitate redefinition of the problem
4. Make recommendations based on diagnosis
5. Assist with implementation of recommended actions
6. Build a consensus and commitment around corrective actions
7. Facilitate client learning
8. Permanently improve organisational effectiveness

Management consulting approaches are ‘expert’/’prescriptive’ approach and ‘facilitative approach’.

- In the expert approach, the consultant takes the role of an expert and provides expert advice or assistance to the client.
- In facilitative approach there is less input from and fewer collaborations with the client(s). With a facilitative approach, the consultant focuses less on specific or technical expert knowledge, and more on the process of consultation itself. A facilitative approach due to its focus on process is often referred to as ‘process consulting’.

Many consulting firms are organised in a matrix structure, where one axis describes a business function or type of consulting. For example: strategy, operations, technology, executive leadership, process
improvement, talent management, sales, etc. The second axis is an industry focus. For example, oil and gas, retail, automotive. Together, these two form a matrix, with consultants occupying one or more ‘cells’ in the matrix. For example, one consultant may specialise in operations for the retail industry and another may focus on process improvement in the downstream oil and gas industry.

Literature Review

- Wikipedia (2008) defines management consulting as both the industry and practice of helping organisations improve their performance, primarily through analysis of existing business problems and development of plans for improvement.
- Management consulting grew with the rise of management as a unique field of study. The first management consulting firm was Arthur D. Little, founded in the late 1890s by the MIT professor of the same name. Though, Arthur D. Little later became a general management consultancy, it originally specialised in technical research.
- Booz Allen Hamilton was founded as a management consultancy by Edwin G. Booz, a graduate of the Kellogg School of Management at North western University, in 1914, and was the first to serve both industry and government clients.
- The first pure management consulting company was McKinsey & Company. McKinsey was founded in Chicago during 1926 by James O. McKinsey but the modern McKinsey was shaped by Marvin Bower, who believed that management consultancies should adhere to the same high professional standards as lawyers and doctors.
- Andrew T. Kearney, an original McKinsey partner, broke off and started A.T. Kearney in 1937.
- After World War II, a number of new management consulting firms were formed, most notably the Boston Consulting Group (BCG), founded in 1963, which brought a rigorous analytical approach to the study of management and strategy.
- Work done at BCG, Booz Allen Hamilton, McKinsey and the Harvard Business School during the 1960s and 70s developed the tools and approaches that would define the new field of strategic management, setting the groundwork for many consulting firms to follow.
- Another major player of more recent fame is Bain & Company, whose innovative focus on shareholder wealth (including its successful private equity business) set it apart from its older brethren. Also significant was the development of consulting arms by both accounting firms (such as Accenture of the now defunct Arthur Andersen) and global IT services companies (such as IBM). Though not as focused on strategy or the executive agenda, these consulting businesses were well-funded and often arrived on client sites in force.
- Management consulting has grown quickly, with growth rates of the industry exceeding 20% in the 1980s and 1990s. As a business service, consulting remains highly cyclical and linked to overall economic conditions. The consulting industry shrank during the 2001-2003 period, but steadily grew until the recent economic downturn in 2009. Since then the market has stabilised.
- Currently, there are three main types of consulting firms. Large diversified organisations, medium-sized management consultancies and boutique firms that have focused areas of consulting expertise in specific industries, functional areas, technologies, or regions of the world.
- There has been research conducted on the importance of management consulting industry.
- Hellgren et al. (2004) have studied the role of management consultants in the context of one particular type of business transformation, namely post-merger and acquisition integration.
- Buono (2005) in Challenges and Issues in Knowledge Management highlights on consulting firms becoming increasingly involved in not only providing organisational clients with advice and new ideas but in implementing those ideas and solutions.

Research Design & Methodology

- Need for the study
  - Need for this study is due to the fact that business transformation is a fundamental, large scale and long term change that affects an organisation on four accounts:
    1. An organisation’s conception of itself
    2. An organisation and its operations reorganisation to match that conception
    3. An organisation’s alignment with its environment
4. An organisation’s human resources and capabilities
   o A management consultant may connect to business transformation by playing a strategic role.
   o There has been a need for management consulting services due to persistent organizational problems. These are as outlined below:
     • Organisations face a number of persistent yet variable problems that create an atmosphere of uncertainty, risk and vulnerability particularly in relation to the organisations dynamic interaction with the environment.
     • Dependency and uncertainty are two threats to organisations. Organisations face a range of problems in addition to those posed by scarce resources and uncertainty. This includes pressure from political, economic, social and cultural systems.
     • Organizational survival depends on the capacity to solve problems in the form of systems, procedures, regulations, norms and ideology. This is compounded by pressure on managers who are action oriented, enterprising and innovative.

   • **Objective of the study**
     o Objective of this study is to understand the changing role of Management consultants from a traditional to strategic role while keeping in mind business transformation.

   • **Research Design**
     o Qualitative research approach has been used.

   • **Source & Methods of Data Collection**
     o Secondary data was collected from a number of sources including published and unpublished materials in the form of books, reports, journals and periodicals.
     o Key research method undertaken has been literature and empirical research.

   • **Research Process & Structure**
     o Research process followed here could be characterised as one with high interplay between theory and empirical research.
     o Identification of the research began with an analysis of the existing literature and research on this topic.
     o Structure of this study is that it contains five parts i.e. introduction, literature review, research method, data presentation, analysis & interpretation and conclusion.

**Data Presentation, Analysis & Interpretation**

   o **Four persistent organizational problems and management requirement to deal with them**

1. **Scarcity**
   - Threat to organizational viability results from limited or scarce inputs for 'production' and lack of demand for organizational outputs.
   - Organisations require inputs such as labour, technology know-how, information and assets such as land and raw material.
   - Organizational viability and survival can be threatened due to scarcity of essential resources. If resources are unlimited and available at no cost to the organisation in time, money or effort the organisation is at no risk of the environment with respect to that resource. But, these conditions are rarely met and thus the problem of scarcity creates opportunities or a 'market' for solutions in the form of techniques and tools that focus on organizational efficiency in order to manage problems associated with resource scarcity.
   - A recurring management issue is the problem of scarcity of raw materials, information, essential labour and critical expertise. Managers attempt to control resources in order to guard against resource scarcity by ensuring a predictable supply or flow of these resources and efficient utilization of these resources. At a micro level time management systems are classic individual ‘control’ systems designed to ‘manage’ risks of scarcity of ‘time.’
   - Management consulting has long acted on the risk of scarcity by focusing on issues of ‘organizational efficiency’.

1. **Uncertainty**
   - Organisations can be threatened due to uncertainty posed by internal organizational and external environmental change.
   - Organizational members seek information about the environment in order to make decisions about their plans, strategies and activities. If perfect information is available and there is certainty about the consequences of managerial action then there is little ambiguity about what comprises rational decision making and the best course of action. However, organisations operate in complex
environments and information is required to reduce organizational uncertainty in order to establish appropriate goals and allocate sufficient resources.

- Organisations face uncertainty due to information scarcity and imperfect information creating an atmosphere where management decision making is at best ‘boundedly rational’ and subject to political processes and power plays, because of incomplete and imperfect (or distorted) information, lack of decision criteria, failure to evaluate alternatives and the absence of clear choice.
- Organizational challenges that emerge from information scarcity and organizational uncertainty create an opportunity for Management consultants to deal with problems concerned with decision making, structure, communication processes, information gathering and analyses, strategy and goal attainment. For example: team briefing, planning and strategy consulting, market industry intelligence and analysis, structural change and implementation, decision making change and implementation. All this reflects a focus on problems created by environmental complexity that manifest as organizational uncertainty.

2. Conflict

- Organisations are faced with recurring problems of conflict, tension and divergent interests that occur as a natural consequence of employee-management relationship.
- External, institutional normative pressure creates a need for organisations to conform, or at least present an image of conformity, to the wider institutional environment.
- Organisations therefore, have to deal with two issues. One is challenge in extracting compliance from employees to exert labour power and in organising employees to work. The second is the need for conformity to constraints imposed by wider regulatory system.
- Failure to gain compliance threatens the internal cohesion of the organisation and can manifest as industrial action. Failure to conform to wider regulatory environment can leave the organisation vulnerable to external conflict.
- Conflict risk requires a focus on compliance and conformity. Human resource consulting is an example of the market for solutions to organizational risks of conflict. For example: search and recruitment consultants aim to ‘match’ a person to an organization; job design and skill audits match current and future individual skills with current and forecasted organizational requirements; industrial and employee relation consultants monitor and manage compliance with wider institutional demands.
- In addition, remuneration consultants design ‘rational’ reward systems in the name of ‘equity’, ‘retention’ and ‘satisfaction’, organizational morale, industrial relations climate and a focus on quality of work life and ‘wellness’ issues all espouse concern with the intersection of the individual and organisation in order to channel diverse motivation into organizational requirements.

3. Instability

- Management consultants respond to problems of organizational instability by focusing on internal issues. For example in attempting to inculcate shared values and beliefs and external issues such as organizational legitimacy in terms of wider environment.
- From an organizational point of view, shared ideologies, well-understood theories of action, experiences in the form of myths and tradition, and developed paradigms can provide a cohesion that potentially integrate an organisation even without standardized rules, procedures and policies.
- Organisations face varying degrees of hostility from the wider environment depending on organizational purpose.
- Management consultants in the name of ‘team building’, organizational induction and training, ‘leadership’ programmes and ‘management’ training address potential organizational problems of internal stability.
- Management consultants also respond to threats of instability in the external normative order through public relations, international Management consulting and strategic positioning. This concern is external organizational image and legitimacy.
- Management consultants therefore concern themselves with issues of internal integration and trust as well as external trustworthiness or goodwill. Techniques, tools and programmes are developed that are concerned with how organizational members form the basis of commitment to the organisation and the organisation’s public face or image.
- Some Management consultants attempt to influence and manipulate the organizational framework by which action is translated into meaning within and outside the organisation.
• **Management Consulting: Operating Business Model**
  o To deal with organizational problems as outlined above and when helping an individual, a group, or an organisation, a Management consultant fulfills a number of roles that it finds appropriate for the client, the situation, and style. Due to variety of existing observations and interpretations, it is difficult to exhaustively define only one set of specific roles for a management consultant.
  o Management consultants help businesses improve their performance and corporate business strategy. This is primarily achieved by providing an array of end to end services to achieve improved business outcomes such as increased revenue growth, reduced operating costs, improved efficiency and effectiveness while improving the overall capital value of the organisation or its assets.
  o Management consultants develop a specific approach and methodology for businesses to realise improved outcomes. Through this approach they ensure continued collaboration occurs with the businesses for enabling focused outcomes.
  o The diagram outlined below is a sample overview of the Management consulting services model and the activities performed as part of business management services offering. It is important to note that this operating business model is on case to case basis and is subject to change depending on the client and its business problem.
  o Management consultants systematically analyse and develop business models. The dimensions followed by them are as outlined below:

![Diagram of Management Consulting Services and Activities](image-url)
At the centre lies the strategic core. It comprises all fundamental decisions of a company including defining the product portfolio, selecting target customers and markets and utilising core competencies. All other elements surround this strategic core and need to be examined carefully to identify and define the ways they interact with one another.

Management consultants approach to analyse business models offers organisations the chance to evaluate their business model using a pragmatic and structured approach and to ensure it is fit for future. They support in identifying and analysing relevant market and competition trends.

Strategic options are identified using quantitative analyses to fully evaluate an organisation's strategy.

- **Management of business transitions, growth & opportunities by Management consultants**
  - Businesses whether small, home based, large and global corporations are faced with a variety of challenges. Management consultants successfully manage business transitions, growth and opportunities by:
    - **Performance Analysis:** Analyse business performance using professional financial analysis tool
      - Professional financial analysis tool used by Management consultants applies key financial ratios, percentages and industry standards to assess business health and development opportunities.
      - The tool reviews business finance applications and is useful for business analysis, strategy development and goal setting.
      - Consultants provide clients with an easy to read summary report that examines each organisation’s financial health and established goals and priorities. This report is a valuable business tool for monitoring performance and examining ideas for business growth.
    - **Business Plan:** Develop and implement detailed business plans for new, existing or growing businesses
      - Assist with business start-up including assess new opportunities and set up book keeping systems.
      - Analyse performance of a business that is for sale.
      - Develop and implement business plans that lead to business growth.
      - Examine strategic priorities when starting a new or purchasing an existing business.
      - Plan for capital acquisitions related to business development.
    - **Budgeting:** Create realistic budgets that integrate seamlessly into accounting software and guide business operations
      - Help business owners gain control of their finances.
      - Work with client's management team to establish budget tools, integrate budget figures into accounting software and develop systems to track and compare expenditures.
    - **Controllership:** Oversee business operations by acting as a controller to ensure client's businesses run smoothly
      - Oversee billing, accounts receivable, accounts payable, cash flow, bank reconciliations, and bookkeeping.
      - Produce and interpret financial reports and manage other aspects of business operations.
    - **Training:** Training staff and management team on accounting software, reading and interpreting financial statements or by developing strategic plans
      - Help to read and understand financial statements for improved decision making.
      - Maximise use of bookkeeping software.
      - Develop strategic plans that outline key action items, evaluation measures and financial expectations.

- **Management consulting industry in India**
  - Literature research, existing scenario and trends make it evident that the Management consulting industry in India is complex. This is due to its regional diversity, presence of a large unstructured market, poor infrastructure and legal and bureaucratic systems. This scenario is further complicated
by lack of intensified market intelligence, risking the accuracy of any data driven consulting assignment.

- Management consulting in India has gathered momentum in the recent years. It is gaining importance with increasing globalisation and rising prominence of India in the world economy.

- Some of the key emerging trends in the Indian Management consulting Industry are as follows:

  1. **High end strategy consulting**

     - Management consulting in India has traditionally been more of capital funding and market sizing. However, the situation is changing gradually and there is a steady shift towards high end strategy consulting. This shift is largely being driven due to increase in opportunities both global and local for Indian companies and therefore there is a need for prioritization and evaluation of opportunity costs. Also, the increasingly competitive markets in a new “flat” world have increased the costs of having a flawed strategy.

     - A potential drawback to this shift is with respect to the clients’ ability to implement strategies that are recommended by Management consultants. Clients have to balance the need for implementation with cost economics.

  2. **Industry structure**

     - There is a definite clamour for Management consulting services across all industries and sectors as India takes on a greater role in the world stage. Economic and regional diversity has created multiple market segments with different needs. As a result, there are multiple layers in the Indian Management consulting Industry with each layer catering to distinct set of needs as outlined below.

     ![Diagram](image)

     Source: Meritus Knowledge Centre, July 25, 2011

     - Global management consulting firms have an edge over “low cost” domestic players due to their experience and knowledge investments. Their experienced talent and deep relationships with customers makes them ideal for high level strategy projects that require macroeconomic or global perspectives. However, majority of domestic businesses (especially SMEs) cannot afford their services, leaving domestic players to bridge the supply gap, with much more viable value proposition in terms of service and fees.

     - With near saturation and declining profit margins in the bottom of the Management consulting pyramid, Indian IT consulting firms are moving up the value chain towards high end technology consulting. However, winning credibility as a management consulting firm is a big challenge. Indian IT firms realise these limitations and as a result are now spending increasingly on innovation and R&D.

     - Niche management consulting firms are specialists that focus on particular function(s) or set of industries. At a smaller management consulting firm, clients get a senior professional for full duration of the project, while a big-brand global firm typically offers blended packages with senior consultants working part-time on strategy and junior associates overseeing execution. Rising talent levels, flexible business models and competitive billing rates have helped these firms to pit themselves against established players. With their hands-on experience with smaller domestic clients, they can spot emerging trends faster making them best positioned for projects that involve both strategizing and long term execution.
3. ‘Paid’ management consulting services

- Business development in Management consulting is usually a long-drawn process as selling an intangible product to savvy entrepreneurs is a tough proposition. Unlike the West, where the client primarily wants to see a strong methodology before awarding the assignment, Indian clients want a glimpse of the final solution prior to signing any contract.
- Cultural perception has also been a hindrance in accepting the concept of Management consulting.
- In India, knowledge and advice are usually linked with a person’s age. The very idea of a freshly-minted graduate giving management advice to people with significantly more work experience is not readily accepted.

- **Nature of Work: Management consultants**
  - Management consultants might be single practitioners or part of large international organisations. Some of them specialize in a specific industry, such as healthcare or telecommunications, while others specialize by type of business function such as human resources, marketing, logistics, or information systems.
  - In the government sector, they tend to specialize by type of agency. The work of consultants varies with each client or employer and from project to project. Some projects require a team of consultants, each specializing in one area. In other projects the consultants work independently. In all cases they collect, review and analyses information in order to make recommendations to managers.
  - Both public and private organisations use Management consultants for a variety of reasons. Some lack internal resources needed to handle a project, while others need expertise to determine what resources will be required and what problems may be encountered if they pursue a particular opportunity.
  - To retain a consultant, a company first solicits proposals from a number of consulting firms specializing in the area in which it needs assistance. These proposals include estimated cost and scope of the project, staffing requirements, references from previous clients and a completion deadline. The company then selects the proposal that best suits its needs. Some firms, however, employ internal management consulting groups rather than hiring outside consultants.
  - After obtaining an assignment or contract, Management consultants define the nature and extent of the problem that they have been asked to solve. During this phase, they analyses relevant data which may include annual revenues, employment, or expenditures and interview managers and employees while observing their operations. After this they develop solutions to the problem. While preparing their recommendations, they take into account the nature of the organisation, the relationship it has with others in the industry, and its internal organisation and culture. Insight into the problem often is gained by building and solving mathematical models, such as one that shows how inventory levels affect costs and product delivery times.
  - Once a course of action has been worked upon, findings and recommendations are reported to the client. Their suggestions usually are submitted in writing, but oral presentations regarding findings are also common.
  - Management consultants in government agencies assist in increasing efficiency and worker productivity and control costs. For example, if an agency is planning to purchase personal computers, it must first determine which type to buy, given its budget and data-processing needs. In this case, Management consultants would assess the prices and characteristics of various machines and determine which ones best meet the agency's needs. Consultants may manage contracts for a wide range of goods and services to ensure quality performance and to prevent cost overruns.

**Conclusion**

- As business becomes more complex, firms are continually faced with new challenges. They increasingly rely on Management consultants to help them remain competitive amidst these changes.
- Management consultants analyse and propose ways to improve an organisation’s structure, efficiency or profits.
- The use of management consultancy is becoming more prevalent in non-business fields including the public sector as the need for professional and specialist support grows. Other industries such as government, quasi-government and not-for-profit agencies are turning to the same managerial principles which have helped the private sector for years.
- Globalisation and economic boom have made India a great place for Management consultants to work.
Apart from entry strategy for multinational corporations looking to set up base in India, Management consulting firms are also picking up significant business from Indian corporations that are realigning themselves in an increasingly decoupled world. Increasing competition after the economic reforms has forced companies to seek out newer ideas, leading to an upsurge in the demand for Management consulting services.

Indian owner driven organisations have started hiring Management consultants to advise them while taking strategic decisions, changes in their company culture due to second generation and in advising while making their organisations professional in order to compete with multinational organisations.

There are exciting times for the Indian Management consulting industry. The future lies in doing things the multinational way i.e. by embracing innovation, developing knowledge and nurturing talent. As the industry transforms itself to deliver greater value to its client, it needs to invest in developing the “management consulting mindset” i.e. look at the big picture, identify crucial insights and excel at client engagement.

References

- Blunsdon, B.F. (2002): Why is there a market for management consulting services?
- Prasad, H.A.C & Sathish, R.Policy for India’s Service Sector, , , Department of Economic Affairs, Ministry of Finance, Government of India. Working Paper No. 1/2010-DEA