

Course of Management Consulting

Management consultancy

Professor Corrado Cerruti

Academic Year 2017/2018

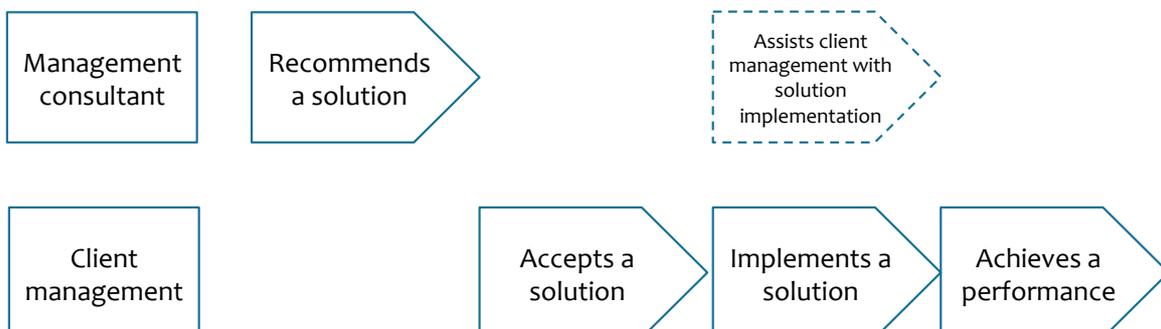
Agenda

- Definitions of MC;
- Roles of MC;
- Reasons for hiring MC and effects;
- The relevance of knowledge;
- Internal VS External MC;
- Key drivers of management consulting demand;
- MC industry's dimensions;
- Competitiveness in the MC industry.

Definitions of MC

| | No assistance with implementation | Assistance with managerial tasks regarding implementation | Assistance with non-managerial tasks regarding implementation |
|----------------------------------|--|---|---|
| Advice on management decision | Management consultancy (narrow definition) | Management consultancy (broad definition) | Business consultancy |
| No advice on management decision | | Business services (BPO) | Business services |

From advice to client performance: the chain



Roles of MC in client perspective

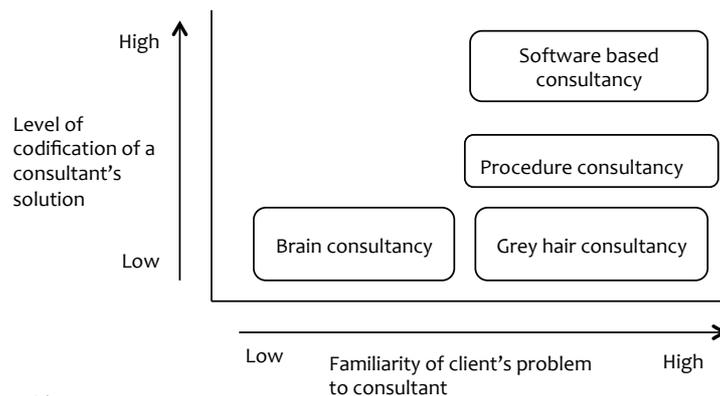
| Role | Description |
|-------------------------|--|
| Expert | Provide knowledge to solve problem defined by client |
| Doctor | Identify and solve problem for client |
| Facilitator | Provide process which client can use to identify and solve a problem |
| Hired hand | Provide temporary capacity for client, not related to specific client problem |
| Legitimitor | Provide legitimacy to a client's solution which other stakeholders oppose |
| Political weapon | Provide arguments for client's position in a political fight |
| Scapegoat | Take blame for a client's solution that is not in the interest of other stakeholders |

Reasons for hiring MC and effects

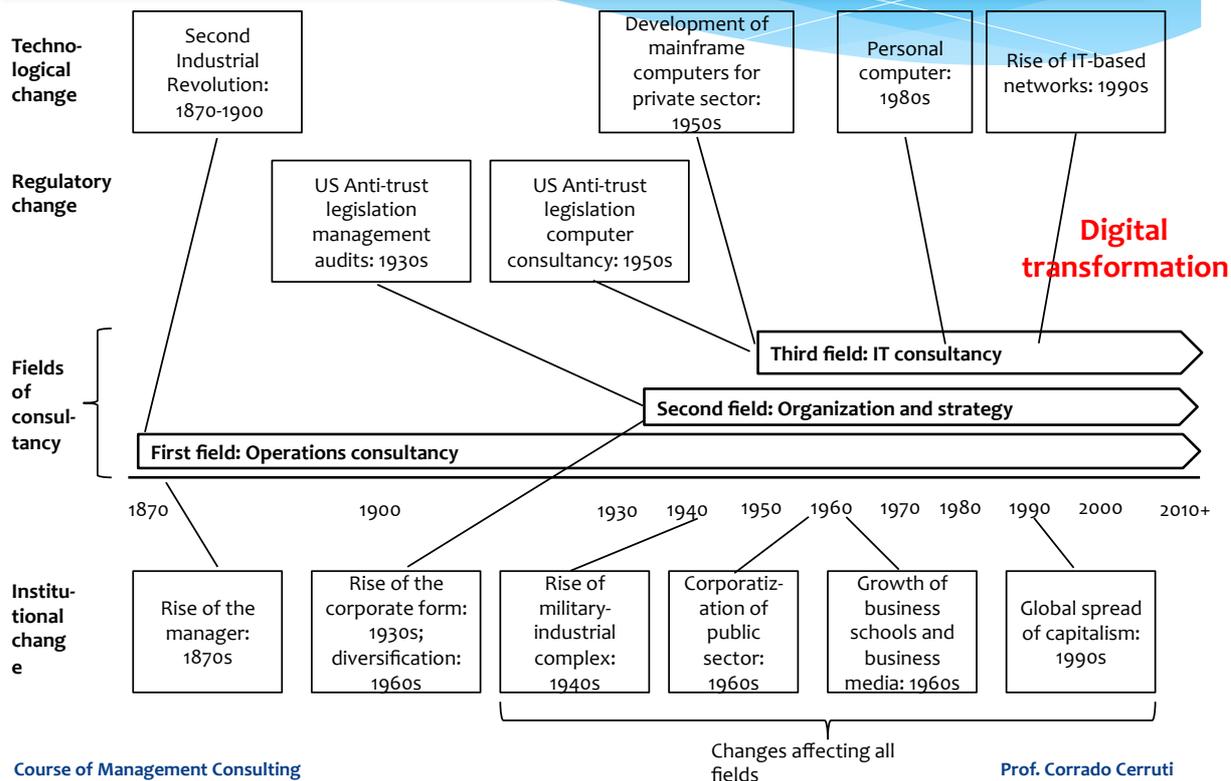
| Offerings of management consultants | Hiring reason | Primary effects sought by client |
|---|--------------------------------------|--|
| Management consultants' knowledge and capabilities | Knowledge providing | Improve performance (effectiveness and efficiency of client organization) |
| | Problem solving | Improve performance (effectiveness and efficiency of client organization) |
| | Management auditing | Improve economics and reduce risks for client organization |
| | Capacity (non-differentiated) | Relief for internal resource constraints of client organization |
| | Decision validation | Legitimacy to overcome opposition against decision <ul style="list-style-type: none"> • Benefit for client organization • Benefit for factions or individuals within client organization |
| Management consultants' reputation | Win political fight | Arguments to win political fight <ul style="list-style-type: none"> • Benefit for client organization (macro-politics) • Benefit for factions or individuals within client organization (micro-politics) |
| | Scapegoat | No blame for client management or individuals within client organization |

4 types of MC

1. **Brain Consultancy:** solving new client problems requires large effort. Consultants have to invent the wheel. They have to be smart and creative to come up with new solutions.
2. **Grey hair consultancy:** Consultants may exploit their experience to solve client problems. It is appropriate for client problems that have been solved before.
3. **Procedure Consultancy:** Procedures take the form of methods, tools and techniques. If consultants can codify their knowledge in procedures, they no longer have to rely on experienced, grey hair consultancy.
4. **Software-based consultancy:** MC may attempt to codify their knowledge into software (e.g. analytics software to diagnose client problems).

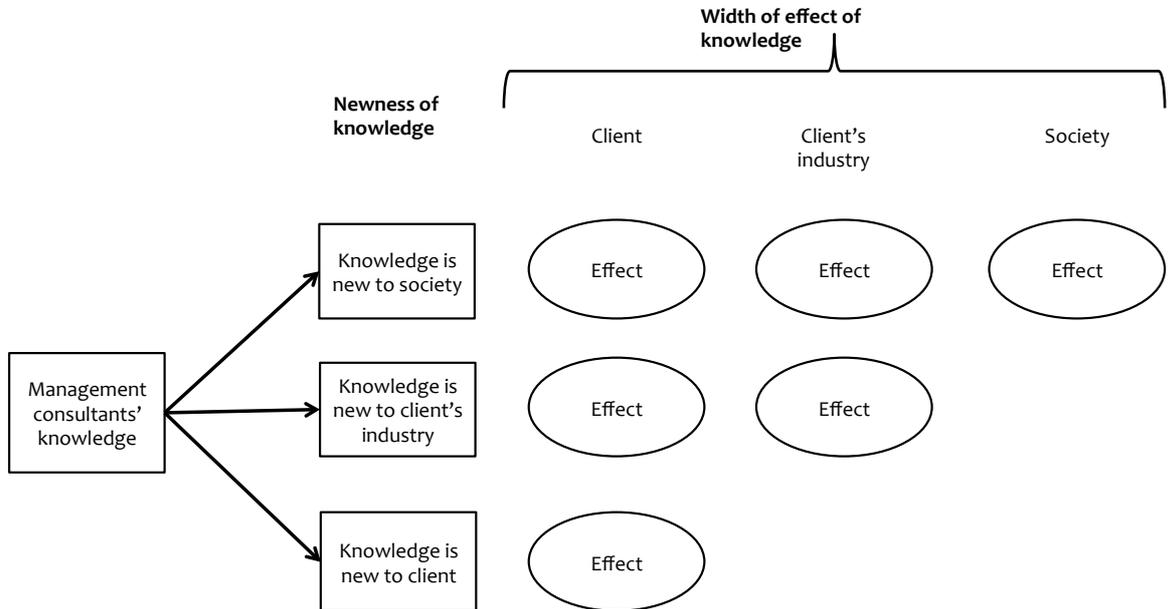


Institutional changes driving evolution and growth of MC



The effects of knowledge

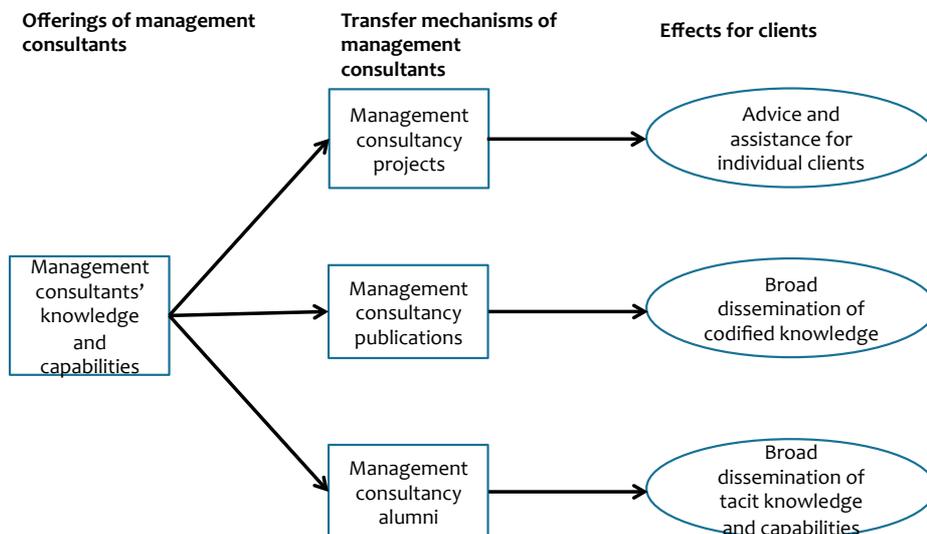
Knowledge plays an important role in MC offerings. The newness of this knowledge determines the **width of the effect**.



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Three mechanisms effecting clients and society



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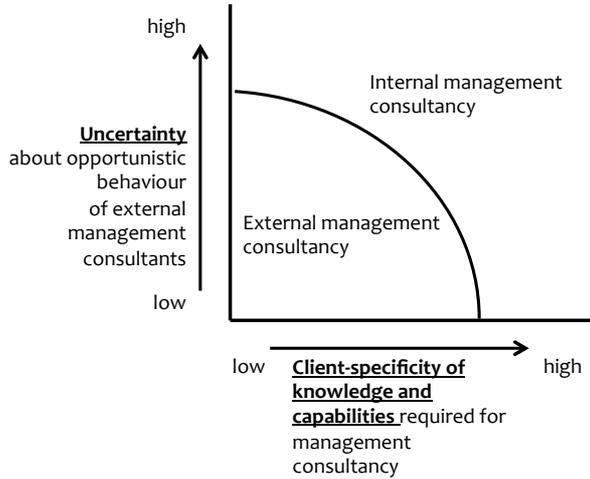
The effect of different fields of MC

| Consultancy field | Effect on client performance |
|----------------------------------|---|
| Operations | Improvement of client's operational efficiency and effectiveness |
| Organization and strategy | <ul style="list-style-type: none"> ▪ Improvement of client's organizational efficiency and effectiveness ▪ Improvement of client organization's competitiveness ▪ Improvement of client's business portfolio (if applicable) |
| Information technology | Improvement of the efficiency and effectiveness of the client's information systems and processes |

Internal VS External MC

| Area | Differences | Implications |
|---------------------------|---|---|
| Knowledge | Internal consultants will generally focus on one organization. | Internal consultants will have better client understanding, which may benefit in particular expert consultation on implementation and process consultation. |
| | External consultants will generally work for a broader group of clients, which may span different sectors. | External consultants will have broader, more varied knowledge and skills, which may benefit expert consultation and doctor consultation that requires new-to-the-client knowledge and skills. |
| Relation to client | Internal consultants are subject to the client's hierarchy, whereas external consultants operate at arms' length. | External consultants are more suited to provide impartial, independent consultancy. However, external consultants may also better be used as political ally and scapegoat. |
| Reputation | Internal consultants may develop an internal reputation but not a public reputation. External consultants may develop a strong public reputation. | If external consultants have a strong public reputation, they may be used as legitimators. |
| Cost | Internal consultants generally have lower fees than external consultants. | Internal consultants' cost advantage may in particular be decisive if clients need hired hands and large-scale, long-term consultation on implementation. |

Internal VS External MC - risks



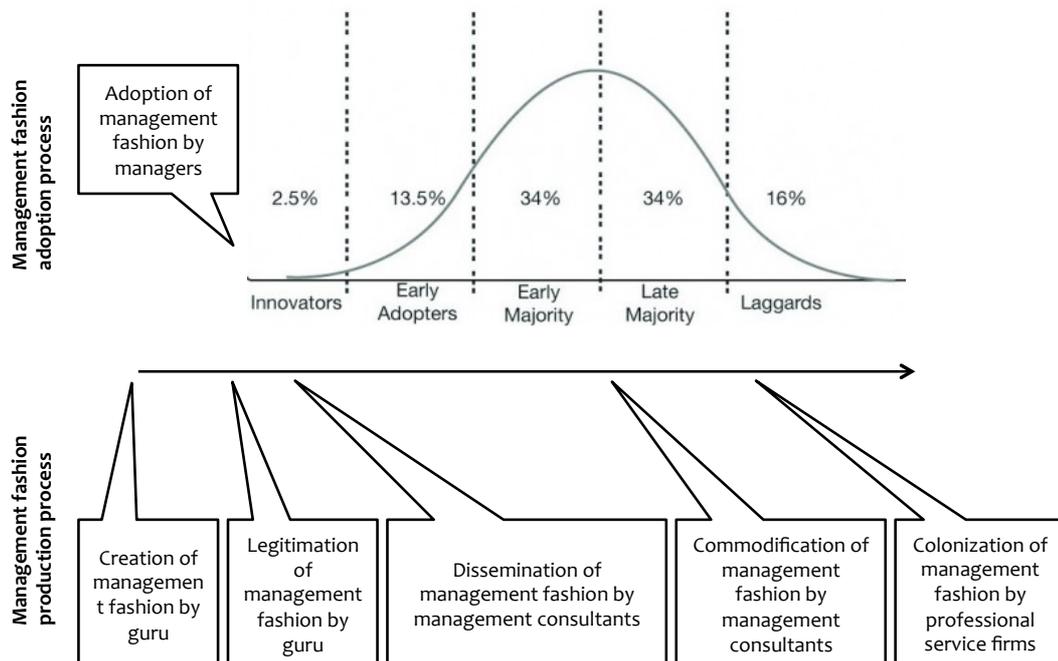
The use of external MC may carry risks for clients:

Overdependence: clients rely too much on external consultants to solve their problems, they will not develop internally resources and capabilities.

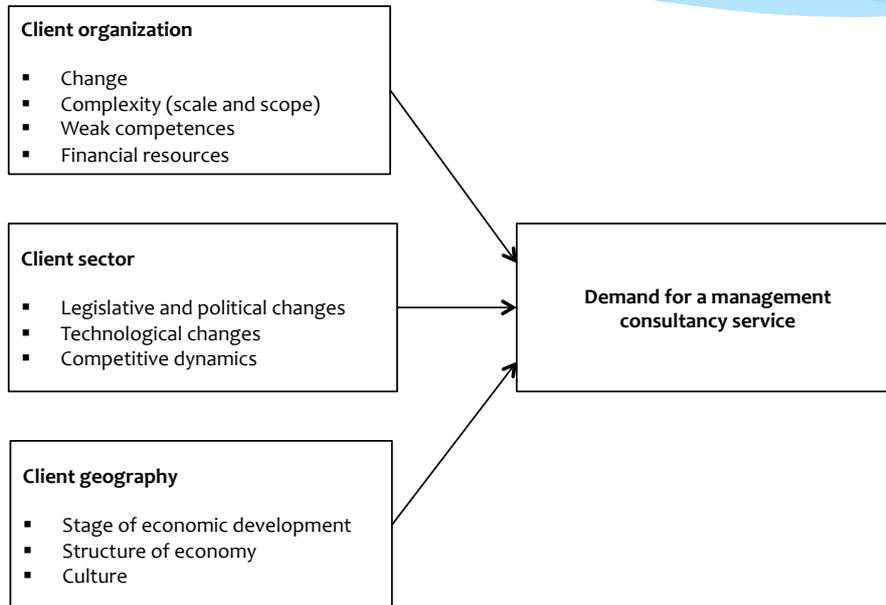
Isomorphism: if more organizations in the same sector rely on MC, the sector runs the risk of similarity of organizations.

Opportunism: if a client of MC achieves its goals with the MC's advice, competitors may be interested in hiring this MC, that will use the knowledge from the original project.

The MGMT knowledge – Production and adoption

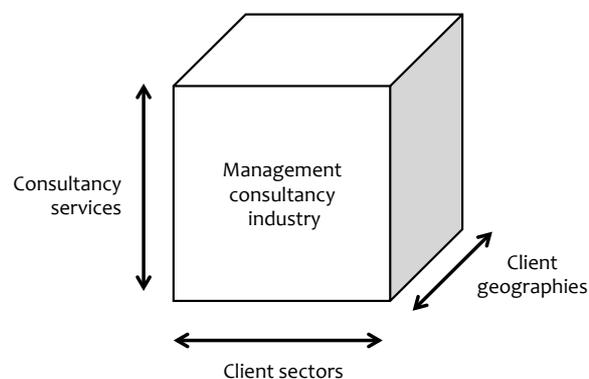


3 key drivers of demand



MC industry's dimensions

*MC is not a homogeneous industry. A **global MC industry does not exist** and national differences continue to play an important role in the use of MC.*



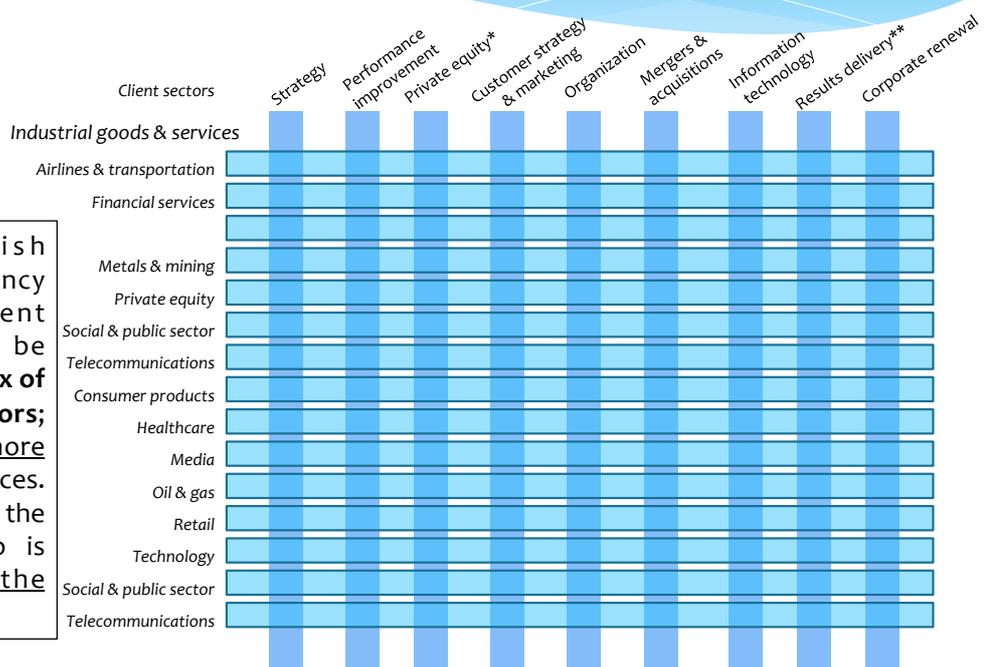
Scope of firms in MC industry

The number of services may vary. We may perceive a spectrum of this spectrum of the scope of MC services. At one side of this spectrum we will find firms solely focusing on a **single service**. At the other side, we will find firms offering a very **broad scope** of MC services. These last ones firms are organized into so-called «**lines of service**», staffed with specialists.



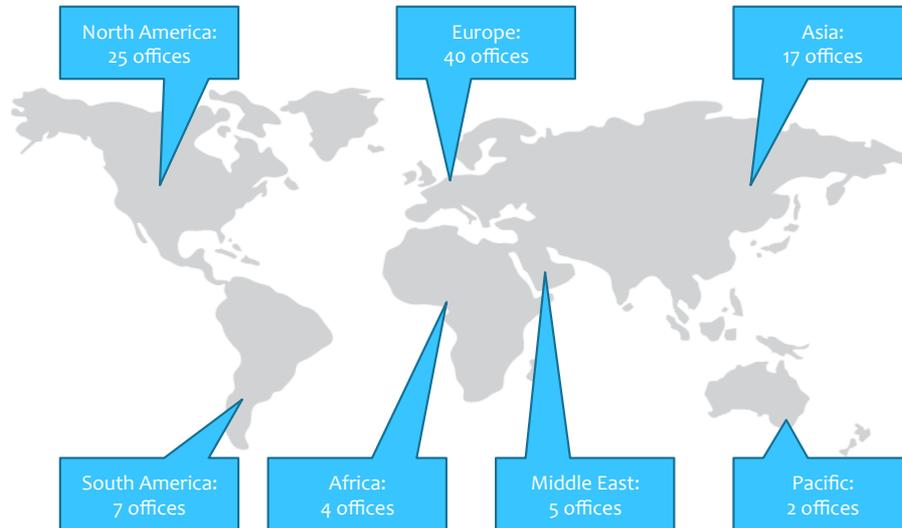
Client sectors

Firms distinguish between consultancy services and client sectors and may be organized as a **matrix of services and sectors**; client sector is more important than services. **Clients interact with the MC's partner who is responsible for the client sector.**

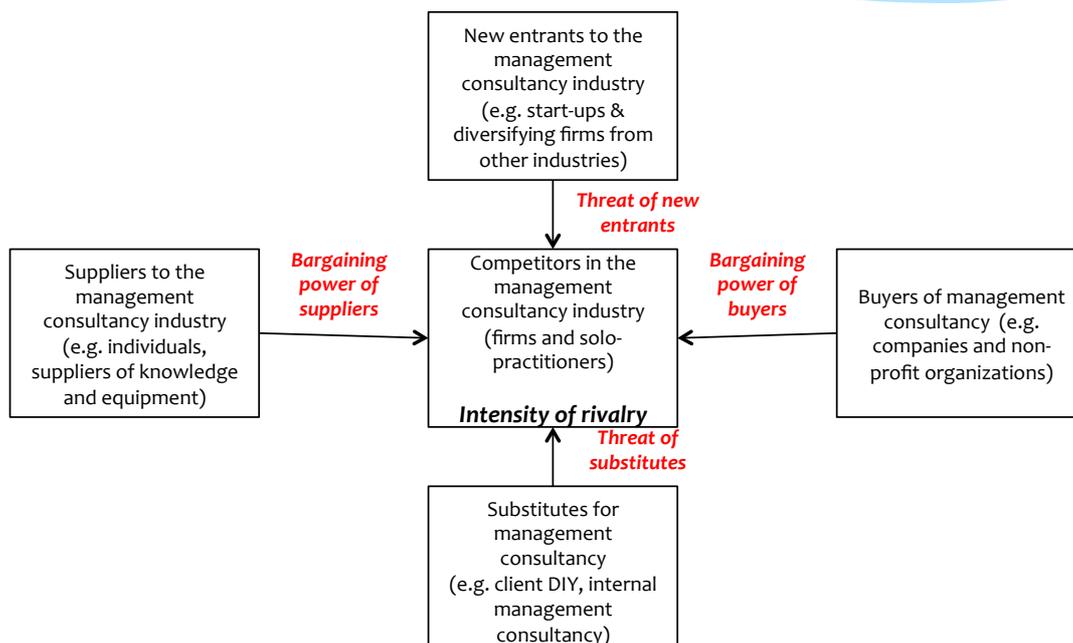


Geographies

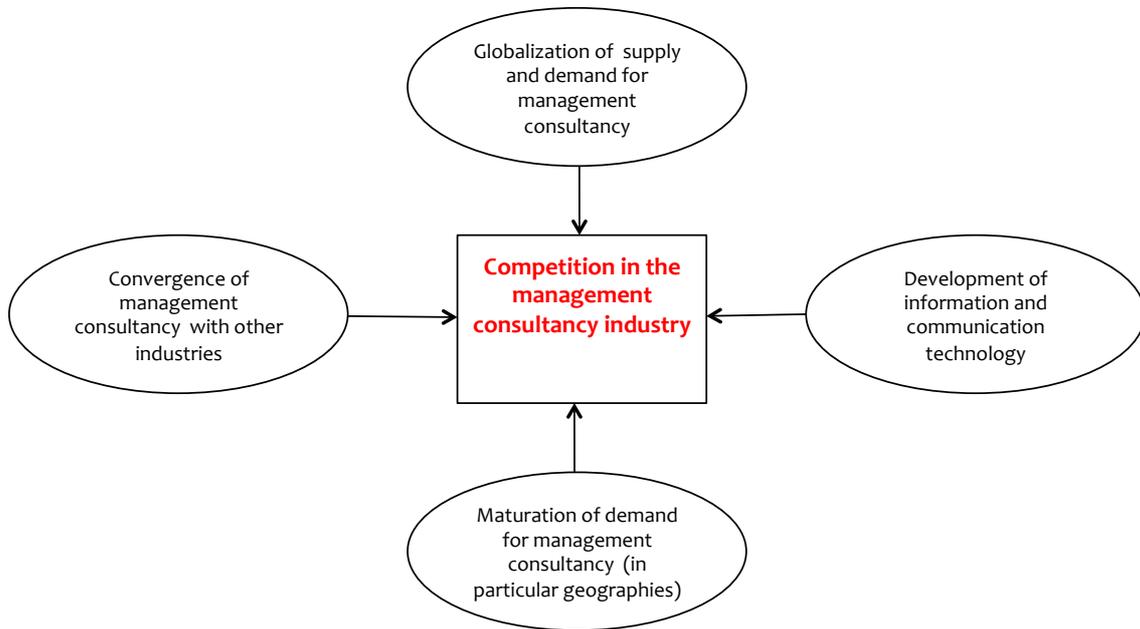
As MC is a service, **it cannot be exported** from the home country of the consultancy firm. Differences across geographies make local customized approach necessary. Big player have a global presence.



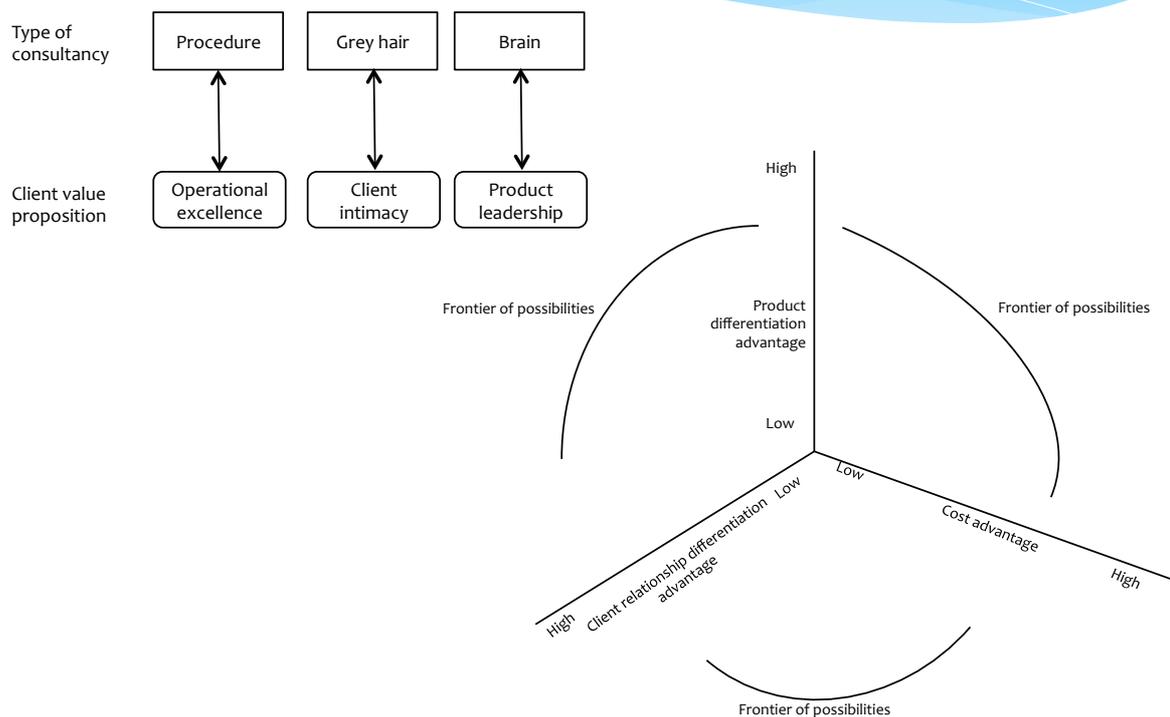
Competitive forces



4 key development impacting competition



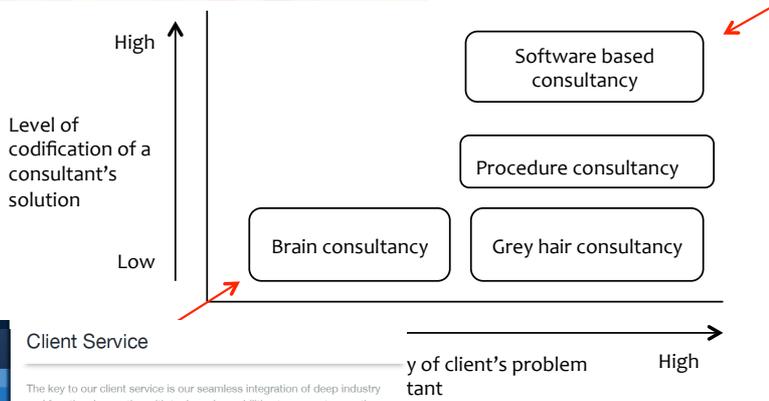
Competitiveness and client value propositions



Where McKinsey is competing

McKinsey Solutions – Innovative services combining McKinsey expertise with data, analytics, and tools

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Client Service

The key to our client service is our seamless integration of deep industry and functional expertise with tools and capabilities to support execution and make change happen—on a global scale.

Industry Practices

There is no substitute for knowing an industry inside and out. Organisations need to track competitive dynamics, regulatory changes, and advances in technology to compete and thrive in their sector. Our consultants draw upon years of direct, front-line experience as well as deep industry knowledge to ensure our clients' success.

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- Aerospace & Defense
- Automotive & Assembly
- Chemicals
- Consumer Packaged Goods
- Electric Power & Natural Gas
- Financial Services
- Healthcare Systems & Services
- High Tech
- Metals & Mining
- Oil & Gas
- Paper & Forest Products
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