

MANAGEMENT OF THE MOLDOVAN SMALL CONSULTING FIRMS

D. Nistor, PhD student
Technical University of Moldova

INTRODUCTION

The market for professional services and more in particular management consultancy services in Moldova is still under developed, but yet rapidly entering its growth phase. Until now it has been dominated by donor financed projects aimed at economic development and social development. Because of donor policies these projects merely have been executed by not for profit based organizations.

The commercial market for management consulting services slowly is starting up with services rendered by (international) consulting firms to the largest 150-200 companies in the country and small engagements to small and medium sized companies in specific consulting services.

The “*myth*” that there is no consulting market in Moldova, that clients do not want to pay for consulting services is gradually being turned down, and market signals client readiness in that respect. Nevertheless, empirical evidence shows that clients want to pay for “*real*” consulting, preferably tying consulting to certain changes or results accomplished in the client firm. Preference is given to tangible consulting services, such as brokerage of loans or other capital, preparation of a business plan for external use (such as an investor or a commercial bank) or feasibility research. Randomly would companies call out to strategic guidance, change management or other management consultancy services?

To cater this incipient market, donor based financing has transitioned into second-generation type of support, whereby the objective to assist the beneficiary/client enterprises has been complemented with the goal to consolidate the market place. Donor programs which subsidize up to 50 percent of the consulting service contract value to the client enterprise as opposed to full subsidy (“*free consulting services*”) have been developed to stimulate the commercial nature of consulting and teach clients to pay. Two most recent examples are the EBRD BAS (European Bank for Reconstruction and Development Business Advisor Services) and WB CEP (World Bank Competitiveness Enhancement Project programs).

Experience of more developed economies shows that as this subsidy comes under scrutiny by the government and the sponsor community, its potential impact cannot be underestimated because it is such a cornerstone of the industry’s revenue model. However, the firms (or industries or even countries) that have benefited most from the current model will also be most vulnerable to any changes to that model.”

In a developing economy, the consulting sphere is emerging and growing hand-to-hand with the “*client*” firms, becoming an indispensable pillar of a well-functioning, efficient and thriving market. As “*client*” firms mature there are growing opportunities for consulting, which the consulting firms have to recognize and capitalize upon. However, increased maturity of clients implies a higher quality service by the consulting firm, which can be achieved only by more sophisticated, modern and effective management. Thus, the ability to manage the change in a maturing market is critical for consulting firms that wish to survive and grow. Moreover, the faster than ever changing global environment and globalization that affects the operation of any Moldovan business make this task more challenging for the consulting firms, set client expectations even higher, and double the efforts needed by a consulting firm for achieving improved professionalism.

1. SMALL vs. LARGE CONSULTING FIRMS

Consultants and their business models can be roughly divided into large national consulting firms and small consulting firms. Steven Holms [2] has outlined the major differences in the market strategies of these two business models. Although he referenced to financial investment consulting, the principles largely apply to any consulting and are brought below:

Large Consulting Firm Model:

- Emphasize client list
- Emphasize firm research capabilities
- Emphasize numbers as proof of expertise/resources
- Focus on firm over individual consultant

- Highlight “*safety*” of hiring a large firm
- Price at or below median
- Significant revenues ...through manager forums and marketing support services

Small Consulting Firm Model:

- Emphasize focus on business
- Emphasize caliber of individuals
- Emphasize original research, creative thinking as proof of expertise/resources
- Focus on value-added to fund from our involvement
- Price at or above median
- Significant revenues ...through broker/dealer referral and sale of “*performance books*”

As such, clearly, in terms of market strategies, a large firm would be offering a wider range of [or “*full package*”] services with strong research capabilities, emphasizing client list and firm expertise, with prices at or lower than average, while a small firm tends to be specialized in its offered services, emphasizing the caliber of its individuals, with prices at or higher than average. Finally, the large firm comes with the “*safety and comfort*” for hiring it.

Relating these findings to Moldova’s market status, noticeably most firms would fall into the smaller firm category, with the single exception that the prices of small consulting firms in Moldova would tend to be lower than those of larger ones. Perhaps, this comes with the fact that the *large* firm category is dominated by the international firms that have higher operating costs than smaller ones.

Moldovan professional consulting firms are typically young and quite small, operating in a market that is limited in size and still uneducated. Majority are domestically owned with an average size between 5 and 10 employees, randomly reaching up to 20 employees, which by international parameters categorizes these firms as micro. Many international firms have entered the market during the past years toughening the competition.

Empirical evidence shows that domestic consulting firms are managed in a very rudimentary way, a factor which limits growth and the capacity of the consulting firm to cope with a maturing and thus more demanding client. There are virtually no advanced management practices implemented, with a few exceptions.

Many small firms that are getting larger have trouble with getting processes in place to support their growth, leading to a chaotic development and management. This results firstly in multiple organizational issues and lowering profitability, as well as personnel-related troubles, such as falling

motivation and high people turnover. More gravely, if a firm does not undertake quick and specific steps to improve the “*health*” of its organization while experiencing growth and coping with a more mature client, this could for the medium and long term revert the growth trends downwards and lead to drop in sales and client loss. Empirical evidence already supports that Moldovan business clients acknowledge growing consulting needs, but however are not satisfied with the level of professionalism by domestic consulting firms and are starting to look in the region, for instance Russia, Ukraine or Romania, for which there are not language barriers with Moldova.

2. RECOMMENDATIONS FOR SMALL CONSULTING FIRMS

In a developing economy, the change transfigures from a variable to a constant. For consulting companies, the change is the main asset, and if they can operate with it, they should find and develop core competencies. The Moldovan consulting firms have to rise up the quality of their services, as their clients get more mature and knowledgeable. Focused strategies, building corporate values, verified models, standards and innovations in business processes, pro-active marketing, combination between tangible and non-tangible services to attract clients, and most importantly motivating and managing the human capital, which is the basic asset of a consulting firm, are the key ingredients for a successful small scale consulting practice.

Given the authors’ management experience with both domestic and international consulting firms, below are outlined a few of the most critical organizational improvements that should be undertaken by a small consulting firm while coping with its growth and increasing client sophistication.

Strategize and make efforts to turn strategy into operational planning. The performance of any business starts with a clear vision and goals from its owner, taken through by the managerial team into operational planning and management. Oftentimes, a small firm consults a client on building a successful business strategy, while lacking one on its own. Because of daily business pressure, small firms underestimate the need to define clearly the firm’s vision and goals as a critical factor for development and growth. In a small consulting firm, the owner(s) is typically the managing partner and the firm’s most senior consultant, therefore, it is his/her duty to define the strategy of the firm. Finally, the firm’s director should make efforts to

transpose the strategy and goals in the business's current operations, thus ensuring disciplined methodical actions for its implementation.

Attract partners as an approach for business growth. The challenge of a small firm is that the CEO is typically its most "senior" consultant and is overwhelmed with daily business. While the small firms marketing strategy is focusing on the caliber of individuals (rather than company expertise), the CEO is engaged almost entirely in attracting new clients, as well as managing and implementing contracts. Hence, balancing the consultant role with firm administration is a challenge, and restrains growth. Experience shows that it is quite difficult to attract and retain senior consultants in small firms, although consulting teams are built around a senior consultant who has the ability to inspire trust to the client and lead project implementation.

Therefore, although neglected in Moldova, an optimum solution for a small-scale consulting firm to grow or diversify the service portfolio is to attract senior consultants as partners in the business. This will not only ensure that you acquire an experienced senior consultant, but also that this consultant is motivated enough to contribute to the development of the organization.

Realize and develop your competitive advantage: is it specialization or price? Some small consulting firms tend to be boutique firms, which imply narrow specialization in one or two fields, making them uniquely positioned and their clients less sensitive to price. However, if the firm tends to offer services that are more diversified and have stronger competition, then firms must carefully evaluate its price competitiveness. Working on the cost structure and using cost control as a competitive weapon may play a huge role in gaining market share.

Combine tangible with non-tangible services and engage "smart" PR. Empirical evidence shows that any consulting firms should have a balance between the so-called tangible and non-tangible consulting services. As such, a small firm with only tangible services should use this opportunity to diversify and graduate to non-tangible service, and vice versa. For instance, market research should be complemented with market strategies, thus enabling to build growth upon the existing client base. Moreover, although small firms are best acquiring clients through "word-of-mouth", building trust and image on the market should not be neglected. While lacking specialized PR team and having limited budget, small firms should creatively engage in PR actions, such as running trainings and

seminars, encouraging its senior consultants to publish articles on professional topics, etc.

Keep documenting business processes. While it is important to preserve the flexibility and agility of the organization, basic business processes should be in place. Empirical evidence shows that process improvement (merely through identifying and documenting business processes and creating a cycle for decision-making) can contribute to increase of efficiency, effectiveness and quality by 20-30 percent. Documenting internal procedures, and making these transferable to new-comers, putting in place basic project management principles are a minimum required and can make a huge difference in firm's performance.

Raise the professionalism and motivation of people. People are the core of a consulting organization, while today motivated and dedicated individuals make the difference. Thorough training of newly hired and existing consultants is a permanent practice of large and multinational consulting firms. Raising professionalism across the organization is critical and contributes to higher quality services and better people motivation. The later is particularly important, since career growth in a small firm is limited compared to a larger firm. To support professionalism increase, a small firm must allocate an annual budget for external training, use in-house training means (for example, by more experienced colleagues), perform regular evaluations, insert remuneration schemes that stimulate output targets, but also client satisfaction and contribution to organization development.

Invest in corporate values and building ethics. The culture of the organization is key for a sound working environment and maintaining people motivation, and is under permanent attention in large corporations. Defining and sharing key corporate values with the staff will help a small firm to increase motivation. Moreover, particular emphasis should be placed to ensure ethical consulting by setting boundaries within the organization and explaining legal implications. This will ultimately increase the quality of the organization itself and of its services.

Bibliography

1. **Milan Kubr.** *Management Consulting. A guide to the profession. Third (revised) edition.* International Labour Office, Geneva. 2000.
2. **Stephen P. Holmes,** *Thoughts on Managing a Consulting Firm in 2004,* https://www.summitstrategies.com/research/documents/manage_firm_2004.pdf

Recommended for publication: 27.09.2011