

## **WHAT TYPE OF MANAGEMENT CONSULTING DOES THE TOURISM INDUSTRY NEED?<sup>1</sup>**

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### **ABSTRACT**

The subject of this article is the analysis of the actual use of management consulting services in the tourism industry from the client's perspective. After a description of MC services, a typology of the consulting industry using the criteria of specialisation is presented. Based on typology the three characteristics which can be used to differentiate types of consulting firms from the TTH sector perspective are described. We compare these characteristics with the criteria of post-purchase evaluation of MC services and try to conclude with some theoretical guidelines. These conclusions are then compared with our own experience from working as management consultants with TTH companies. The research concludes with some advice for the tourism industry concerning criteria for the most efficient selection of appropriate companies providing management consulting services.

**KEY WORDS:** management consulting, tourism

### **INTRODUCTION**

Both, management consulting (MC hereafter) and tourism industries have experienced fast worldwide growth in the last few years and trends show it will be the case also in the forthcoming period.

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<sup>1</sup>Review paper

As a part of so-called professional services business sector (which includes accountants, advertising agencies, architects, design engineers, executive recruiters, fashion designers, insurance brokers, lawyers, media producers...) the management consulting industry is growing in importance by covering a large number of services and business lines, among them also tourism.

The same is true for the tourism industry (for statistical purposes usually defined as the Travel, Tourism, and Hospitality-TTH sector) with its huge multiplier effect on overall national and international economy.

In an international environment where (paraphrasing Heraclitus) “change is the only constant” MC and the tourism industry must constantly reinvent themselves in order to keep their market position within the global international business.

We start our research with the presentation of the MC industry. Then a typology of the consulting industry using the criteria of specialisation is presented. Based on this typology the three characteristics used to differentiate types of consulting firms from the TTH sector perspective are described and then linked to the criteria of post-purchase evaluation of MC services. Theoretical conclusions are compared with our personal consulting experience with TTH sector companies which lead us to recommendations concerning the most efficient selection of appropriate MC companies for the tourism industry.

### Management Consulting Shares and Trends

The MC industry has received little academic attention. According to Srinivasan (Srinivasan, 2014) this is due to the three basic reasons: (1) high fragmentation with a variety of consulting firms of different sizes and specialisations, (2) the MC industry is not regulated, unlike other professional service firms such as accounting or law and (3) MC services are hard to study, measure, and quantify. When we talk about the MC industry, we first consider what is usually defined within the MC industry as a “service line” (SL hereafter). According to FEACO (European Federation of Management Consulting Associations)<sup>2</sup>, the MC market is analysed by considering the following six major segments-service lines:

- Strategy (analysing and defining corporate, business or functional strategies, improving business operations, optimising planning, business modelling and organisation redesigns, including turnaround management projects),

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<sup>2</sup><http://www.feaco.org/sites/default/files/sitepagefiles/Feaco%20Survey.2016-2017.pdf>

- Operations (integration of business solutions by the use of different tools or concepts, such as: business process reengineering, customer relationship management, cost reduction or supply chain management),
- Sales & Marketing (evaluating and improving activities in terms of client insight and relationship management, sales and channel management, pricing, promotion, product portfolio management and branding),
- Finance & Risk Management (analysing and improving planning, budgeting and performance management models and optimizing capabilities in measuring and controlling enterprise risks),
- People & Change (dealing with the effects that change has on the human element of the organisation, including targeting the improvement of the 'people' element through HR strategies, performance measurement, benefits, compensation and retirement schemes, talent development programs, training and coaching),
- Technology (evaluating IT strategies with the objective of aligning technology with business processes, including support for decisions related to the planning and implementation of new technologies for business applications).

Beside the mentioned six there is also a group of various smaller service lines which complement MC projects, such as: market research, executive and general recruitment, etc.

Based on the FEACO MC turnover survey for 2016 and the 11 European countries (Austria, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Norway, Slovenia and the UK) in average the largest part among all SL was realized within the Operations SL (21.6%), followed closely by the Technology SL (20.2%) and Strategy SL (18.3%). People & Change gets 15.1%, Finance & Risk Management 10.5% and Sales & Marketing 3.9%. These six SL represent almost 90% of the total turnover and all other smaller complementary MC services a little bit more than 10%. As a noticeable trend in the period 2005-2016, a clear growth of the Operations SL can be observed (from 37.0% to 56.2% of total turnover) and on the other side a decline especially in the Strategy SL (from 30.0% to 18.3%).

According to the Consultancy.uk<sup>3</sup> statistics the largest segment-service line of the global MC market in 2016 was also Operations Consulting, which accounts

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<sup>3</sup><https://www.consultancy.uk/consulting-industry/global>

for nearly 30% of the market, followed closely by the Financial Advisory segment (29%), Strategy Consulting (15%) and HR consulting (15%). The second perspective when analysing the management consulting industry is distribution of MC activities through so-called business lines (BL hereafter) or client industries. FEACO use the following main ones:

- Consumer & Industrial products (all the manufacturing industries, e.g. automotive, consumer products, high tech, machinery, pharmaceutical...),
- Financial services (banking & financial services and insurance),
- Energy & Utilities (oil & gas, chemicals & petrochemicals),
- Telecoms & Media (communication, media & entertainment, telecommunications and publishing),
- Public administration (at central and local level, supranational institutions and public healthcare).

Beside the mentioned five dominant business lines, all other less important businesses for the MC industry are grouped together as Other services BL which consists mostly of: retail, travel & leisure, private healthcare, software & computer services and business services.

Based on the above-mentioned FEACO MC turnover survey, the data for the period show that the European MC industry is strongly concentrated on the private services business lines with more than 60% of MC turnover. The manufacturing sector represents less than 26% of the overall MC market and the public sector the remaining 14%. Within the total of all business lines the Other services BL stands for 17.8% which is more than Public administration BL (14.1%), Energy & Utilities BL (8.2%) and Telecoms & Media BL (7.5%). This might justify the decision that at least the most important MC services that are actually included in the Other services BL for statistical purpose could be followed as a separate BL.

When comparing the periods 2005-2008 and 2016 only minor changes of MC total turnover distribution among the business lines-client industries took place.

In conclusion, to this general analysis of the MC industry we can say that at the European level there was a clear shift from the Strategy to the Operations service line in the last decade. The Operations SL is also the most important on the global level, but the difference with the Strategy SL is less important than in Europe only.

### Specialist or Generalist Dilemma

When deciding which management consulting company to use for the needed services, one of the first dilemmas at the clients' side is usually: should we engage a specialist or a generalist?

Brandon-Jones et al. (Brandon-Jones, Lewis, Verma, & Walsman, 2016) first propose an interesting distinction among four types of consultancy firms as presented in the following table:

Table 1. Four types of consultancy firms

		Functional specialization	
		Narrow	Broad
Industry specialisation	Broad	Deep Knowledge Traders	Generalists
	Narrow	Super Specialists	Market Knowledge Traders

Source: Brandon-Jones et al. (2016)

The same authors then continue their empirical research concerning characteristics of consultancy in the TTH sector, first by trying to answer the question about customer engagement differences among consultants of all four types of consultancy firms. Their data indicate that the Super Specialists and Market Knowledge Traders spend significantly less time with clients than Deep Knowledge Traders and Generalists. In other words, broad industry specialization (which in fact equals less or no industry specialization) means more direct consultants' engagement for the clients.

The next area of research is the characteristic of customization. The survey data suggests that small firms customize their service offerings to a significantly greater extent than larger firms. The effect of seniority on customization analysis indicates that senior consultants report higher levels of customization of their service offerings when compared to those with more junior positions. This conclusion is valid for both small and larger consulting firms. When considering the effect of specialization on customization, the conclusion is that Generalists customize significantly more than Super Specialists.

There is no difference in the amount of customization among the other two groups: Deep Knowledge Traders and Market Knowledge Traders.

The third characteristic analysed is the knowledge and capital intensity in consultancy. Survey data shows strong evidence of knowledge intensity with reliance on knowledge assets (human capital) and knowledge intensity of activities with employees with a formal qualification.

The authors find no evidence of firm size or seniority influencing the level of knowledge intensity but they observe significantly greater levels of knowledge intensity of more senior consultants in larger firms. This suggests a hierarchy or stratification of knowledge intensity among larger MC firms that is not present in smaller firms.

Data also indicate that Deep Knowledge Traders reported significantly higher levels of knowledge intensity than Super Specialists. There is no measurable difference amongst any of the other groups.

The survey data indicate that the level of capital intensity is much higher than might be expected for professional services; this is explained by the level of investment in IT. Significantly lower levels of capital intensity were observed for the smaller MC firms.

Using the results concerning these characteristics in trying to describe a target MC consulting client from the TTH sector, we could say that clients who expect (1) high level of consultants' engagement and (2) more client customization are probably more attracted by the Generalists. On the contrary, clients who expect more knowledge intensity from consultants opt for the senior consultants and larger MC firms with narrow functional specialization and broad industry specialization. The intermediate conclusion could thus be that the criteria of functional specialization for the TTH sector when deciding about the engagement of MC firms is more important than the criteria of industry specialization. But, is this really true or, even more importantly, are the three main characteristics analysed (customers' engagement, service customization and knowledge intensity) really the main drivers which influence and guarantee the expected results of MC activities, both in the TTH sector or in general?

Our opinion based on experience is that the customer's engagement and service customization are crucial in connection with an excellent communication with clients. At least in Slovenia, putting too much emphasis on the knowledge intensity can provoke the client's rejection especially in the case when he lacks formal education.

## Quality and Management Consulting

When trying to define key indicators that serve MC clients to evaluate the quality level of received MC services, we start with presenting the eighth fundamental purposes of consulting assignments as defined by Turner (Turner, 1982): (1) informing clients, (2) solving a client's problems (3) making analysis, (4) making recommendations, (5) proposing implementation of recommended solutions, (6) creating a consensus and commitment concerning recommendations, (7) transferring competencies to the client and (8) improving the client's effectiveness in the long term. The meaning of "quality" can certainly be described from various perspectives. As stated by Bennet et al. (Bennett, Härtel, & McColl-Kennedy, 2005) ex-post assessment of the consulting engagement is difficult due to the intangible nature of knowledge-intensive MC services as well as the high emphasis on credence qualities. Therefore, subjective customer satisfaction surveys are the most manageable form in evaluating consulting projects. The MC services client's perspective is well presented by Haverila et al. (Haverila, Bateman, & Naumann, 2011). The authors analyse post-purchase evaluation of MC services by clients as an important phase of the consulting engagement process due to its implications for subsequent business. One of the first observations is that customer satisfaction factors are similar to the selection criteria for consultants (ex-ante: what clients thought they would receive) and the criteria used for the evaluation of outcome quality (ex-post evaluation of processes and deliverables). The survey analysis shows that two customer satisfaction themes concerning MC evaluation emerge as far more important, both with US and non-US respondents: consultant characteristics (respectively 33.07 and 34.66%) and project management (32.67% and 25.00%). Within the consultant characteristics theme the first two topics are again the dominant ones and the same for US and non-US clients: knowledge and expertise (94.29% and 81.82%) and experience (54.29% and 59.09%). Concerning the project management theme, the two dominant topics are: meeting project expectations (65.71% and 45.45%) and meeting project timelines (51.43% and 40.91%). For the non-US respondents the answers concerning the second theme are more dispersed among different topics, so two additional topics should be mentioned: developing and planning project objectives (36.36%) and high quality deliverables (36.36%). In Table 2 we try to connect the previously described characteristics of consultancy in the TTH sector with customer satisfaction themes and topics. We choose selected

themes and topics which, according to our opinion, best describe the characteristics of a consultancy in the TTH sector. First of all, some limitations of the presented connections should be considered. These are mostly: relatively small samples, customer satisfaction themes and topics are analysed only within the strategic consulting engagements, limitation of research by selection of ex-ante variables and different periods of conducted research. The conclusions which can be made on the basis of Table 2 presentation can have a consultant's or clients' (TTH companies) perspective. We start from the supposition (not necessarily true in business practice) that clients prefer higher customer engagement (assured by Deep Knowledge Traders and Generalists), more customization (Generalists) and high knowledge intensity (Deep Knowledge Traders), the two types of consultants seem to be most adapted to the TTH sector.

Table 2. Customer satisfaction and characteristics of MC in TTH sector

<b>CUSTOMER SATISFACTION WITH MC: corresponding themes and topics</b>		<b>CHARACTERISTICS OF CONSULTANCY IN THE TTH SECTOR: corresponding types</b>
<b>Themes</b>	<b>Topics (%, average all respondents)</b>	
Consultant characteristics	<ul style="list-style-type: none"> <li>• experience (56.69)</li> <li>• responsiveness (29.18)</li> <li>• partnership (27.92)</li> <li>• good interpersonal and communication skills (17.08)</li> </ul>	Higher customer engagement: <ul style="list-style-type: none"> <li>• Deep Knowledge Traders</li> <li>• Generalists</li> </ul>
Program management	<ul style="list-style-type: none"> <li>• communicating project status (22.86)</li> <li>• creating seamless team with customer (21.37)</li> </ul>	
Consultant characteristics	<ul style="list-style-type: none"> <li>• creativity and innovativeness (26.17)</li> </ul>	More customization: <ul style="list-style-type: none"> <li>• Generalists</li> </ul>
Customer focus	<ul style="list-style-type: none"> <li>• understanding customer needs (42.99)</li> <li>• understanding customer's industry (33.90)</li> <li>• understanding company culture (23.64)</li> </ul>	
Consultant characteristics	<ul style="list-style-type: none"> <li>• knowledge and expertise (88.06)</li> </ul>	Higher knowledge intensity: <ul style="list-style-type: none"> <li>• Deep Knowledge Traders</li> </ul>

Source: Brandon-Jones et al. (2016), Haverila et al. (2011).

Adapted by the author.

Choosing among them depends on the clients' perspective. Whether they prefer higher knowledge and expertise, they would probably prefer more senior consultants from larger Deep Knowledge Traders (broad industry specialisation and narrow functional specialisation). On the contrary, when more customization of MC services is appreciated and expected, the clients would probably prefer senior consultants from small Generalists (broad industry specialisation and narrow functional specialisation).

#### How Theory Fits With Personal Business Practice?

The first issue arises from FEACO MC turnover survey for 2016; Sales and Marketing are apportioning only 3.9 % of funds spent for consultancy in the management field. It may seem to be controversial data but according to our experience this subject is well covered and included also in the other SL when MC companies are engaged. In other words, it is not about whether the client needs knowledge about Sales and Marketing or not but rather does he need only this specific knowledge or paired with other competencies.

Second observation is about the changes in MC. Based on more than 20 years of personal business practice in the MC industry, we confirm a clear shift of clients' demand from strategy to operations consulting. Very often this has been connected with the request to continue into the implementation phase of the project which can also be risky for the consultants since not all clients are willing to agree upon the relevant authority granted to the consultants.

The third observation concerns the process of choosing the MC solutions provider by the client. During our MC business practice (the company we worked for most of the time would be closest to the Generalist) we had several possibilities to engage in negotiations or project work with companies from the TTH sector, mostly based in Slovenia. An interesting observation, well known within the MC industry is that the most difficult task is to sell MC services. When projects are sold they normally finish with at least an acceptable level of clients' satisfaction.

When our company succeeded in winning the sales negotiations with the TTH companies, this was mostly because of our excellent knowledge of the local situation (country and company) and derived clients' trust into our competencies to customise deliverables of our work. In these cases the local view dominated

over the international experiences of our foreign competitors who were mostly seen as the service providers who would like to propose the implementation of generic international models which cannot be applied directly within the “specific” local environment. An interesting observation is that no client really tried to explain which precisely were those specific characteristics of the local market that were so different from the foreign ones.

When our company did not succeed in selling our MC services, those who signed instead were almost always the local companies described as Deep Knowledge Traders (with narrower functional specialisation than ours) or Market Knowledge Traders (with narrow-TTH sector specialisation and broad functional specialisation) coming from abroad, especially from the countries with a well-developed tourism industry such as Spain. The clients who decided to engage one of the two types of our competitors were either from the state administration or larger TTH companies with the dominant part of international incoming clients.

### Conclusions

Although we can find a lot of professional literature dealing with MC services and also with the question of their quality (Barry Curnow & Jonathan Reuvid, 2005; Czerniawska & May, 2004; Kubr, 2005; Newton, 2013; Sadler, 1998 ...) we can observe an evident lack of academic contributions concerning quality analysis of the MC industry, which is even truer when limited only to the TTH sector.

Also because of the clear shift from strategic toward operations consulting future growth of the MC industry is expected. The same is true with the tourism industry. This leads to the conclusion that there is plenty of development potential for MC services to be offered and used by the TTH sector worldwide.

As the global MC market in general is dominated by a relatively small number of the big general consulting international companies it seems that for the TTH sector the variable of functional specialisation is a more important selection criteria of MC companies than industry specialisation.

Concerning the TTH sector, a macroeconomic view should not be omitted by the MC industry. When trying to sell consulting services and looking after the real economic opportunities for the MC industry, the information provided by the World Economic Forum’s Travel and Tourism Competitiveness Index

(TTCI)<sup>4</sup> could be a valuable source of information. Especially for those MC companies that try to propose strategic consulting services to local authorities. From the TTH clients' perspective, it should not be limited to the (certainly important) dilemma about specialists or generalists as providers of MC services. Some already successful attempts have been made in the previous decades in order to assure the quality of consulting services for MC clients. First to mentioned is a CMC certification, developed and delivered by the International Council of Management Consulting Institutes (ICMCI). In 2017, the International Organisation for Standardisation (ISO) published the ISO 20700:2017 standard which provides guidelines for the effective delivery of management consultancy services. These are important steps toward a quality assurance of the global MC industry and should also help to maintain the focus of potential clients on the most important dilemma when choosing consultancy services.

Therefore, it is not only about generalists vs. specialists, narrow vs. broad functional or industry specialisation, neither about junior vs. senior consultants, small or large MC companies, local or international ones. It should be primarily about a desired excellency of the MC deliverables.

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<sup>4</sup>First published in 2007 as a measurement of the factors that make it attractive to develop business in the travel and tourism industry of individual countries. The overall index is made of three main subindexes: (1) regulatory framework; (2) business environment and infrastructure; and (3) human, cultural, and natural resources.

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