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## THE CHALLENGE OF MANAGING A SMALL CONSULTING FIRM IN A DEVELOPING ECONOMY: CASE STUDY CAA/PROCONSULTING

Doina Nistor\*, ORCID ID 0000-0002-7451-275X

Technical University of Moldova, 168 Stefan cel Mare Bd., Chisinau, Republic of Moldova

\*doinitanistor@gmail.com

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**Abstract.** The aim of the paper is to analyze the development of the consulting services in Moldova, and the challenges of managing a small consulting firm in a small-scale developing economy. To support our opinion and articulate the practical challenges faced by a local consulting firm we used the study case approach. The paper is based on the experience of a real consulting company. It highlights how business environment contributes to promote change in the organizations. The business environment is constantly changing calling SMEs to catch every opportunity in order to be resilient and competitive on the market. Consulting services have a critical role to play helping businesses to be more competitive by providing the required niche or temporary expertise. The presented case study highlights the major consulting trends and challenges such as productizing consulting services and the need for specialization in consulting to bring the desired value for the client. The implication of the research brought the importance of developing the consulting services market, due to their major role in promoting change in a business.

**Key words:** *consulting, business development, change management*

**Rezumat.** Obiectivul lucrării este de a analiza dezvoltarea serviciilor de consultanță în Moldova și provocările pentru managementul unei firme mici de consultanță în contextul unei economii de scară mică, care se află în tranziție. Pentru a susține opinia autorului și a articula provocările practice ale firmelor locale de consultanță, am utilizat abordarea studiului de caz. Lucrarea se bazează pe experiența unei firme reale de consultanță. Aceasta subliniază influența mediului de afaceri asupra promovării schimbării în organizații. Dinamismul schimbărilor actuale generează schimbări în cadrul firmelor, care trebuie să reacționeze prompt pentru a supraviețui și a rămâne competitive. Serviciile de consultanță au un rol-cheie în competitivitatea afacerilor, oferind expertiza temporară sau specializată necesară. Studiul de caz descris evidențiază principalele tendințe și provocări în consultanță, precum necesitatea unor servicii de tip produs în consultanță și necesitatea de specializare în consultanță pentru a aduce valoarea adăugată necesară clientului. Implicarea cercetării a condiționat importanța dezvoltării pieței de consultanță dat fiind rolul major al acesteia în promovarea schimbării în afaceri.

**Cuvinte-cheie:** *consultanță, managementul schimbării, dezvoltarea afacerilor.*

### Problem definition

The business environment is constantly changing calling SMEs to catch every opportunity in order to be resilient and competitive on the market. Very often SMEs do not have the knowledge nor the experience to use those opportunities or build in the value and cost efficiencies required to thrive. This is where consulting services have a critical role to play pushing SMEs to recognize and adopt change and opportunity. The consulting firms provide *niche* expertise that may be unavailable to the SME. Consulting firms provide the *temporary* expertise that is needed to quickly be deployed within the SME. When the client-consultant relationship functions at its best, the consultant gives the client: **information, expertise, insight and execution** [1].

However, the consultancy services in Moldova are still underdeveloped. Until now the consulting market has been dominated by third party (donor) financed projects aimed at economic and social development. While these have an important role to play in accelerating the development of consulting services, on one hand, they are also subsidizing the consulting cost and driving demand, i.e. use of consulting by local SMEs, on the other hand. Many assisted SMEs are first time users of consulting services. For example, 63 percent of SMEs benefiting from the EBRD Small Business Program, that subsidizes up to 60% of the consulting service cost, have never worked with a consultant before starting their project [2]. Since starting work in Moldova in 2005, EBRD supported over 1,000 SMEs [3]. EBRD states that its SME beneficiaries had measurable impact from their consultants, especially on increase of turnover (83 percent of all assisted SMEs with a median increase of 20 percent) on productivity improvement (57 per cent of all assisted SMEs) [4]. The commercial market for management consulting services in Moldova is evolving sluggishly with services provided by (international) consulting firms to the largest 150 companies in the country. There are smaller consulting engagements to small and medium sized companies, however these are more productized consulting services, such as development of business plans for accessing bank finance, setting up a cost or financial management system or brand identity development. The EBRD consultant database in Moldova counts 275 qualified consultants, primarily in areas like strategy, marketing, organization, operations, technology, engineering solutions, quality management, financial management, energy efficiency and environment. To support our opinion that local consulting firms are evolving professionally on a continuous basis to raise their services to the international quality benchmark, yet struggling with own organizational challenges, we used a study case approach. In order to argue our judgments, we took the experience of a consulting company that started its activity under the donor projects.

CCA/Proconsulting has been quite successful in the past 15 years. Now the company is at the threshold of a new development phase and should prepare itself to participate in the anticipated changes in the need for professional services in the coming years both in donor financed projects and in commercial engagements for their private business clients. The ever-changing business landscape, market disruptions, digitization, and more recently the COVID-induced pandemics are posing survival challenges to the consulting firm and are requiring it to adapt its business strategies.

The Managing Director is seeking advice how to anticipate the growth demand in the market for professional services and in particular he needs changes in the company strategy, the development of a commercial strategy and the translation of these new directions into internal organizational consequences such as new consulting services,

requirements for streamlining the consulting process, the internal organizational structure and the staffing of key positions.

### **PRIOR WORK**

Before being able to make conclusions on how the business environment influenced the entrepreneurial behavior and inherently the consulting services, we had to become familiar with the ins and outs of the company and how the organization is operating in the market. Therefore, a business review, including the analysis of the situation has been carried out. During the assessment we spent time in getting acquainted with the company's activities, results and achievements to date, as well as challenges met with all the people in the organization. Firm-level observations were carried out for several years.

We also familiarized ourselves with the market for management consulting in Moldova by studying the available market information and data on the various competitors and met with representatives of various organizations active in professional services, business development in Moldova. Thereafter we have worked with the Managing Directors and key people to discuss on how they see the changes in the strategy, business development, marketing and promotion and the internal organization of the consulting process and, in general, in the life of the consulting companies.

### **CASE STUDY: CCA/PROCONSULTING**

#### **Market development and market position**

The Moldovan consulting market still is in an early stage of development. Most consulting related services will for some time be dominated by donor financed projects, and their ability to subsidize business consultancy to increase SME demand and affordability of consulting services. Areas of major interest are training on management, marketing, financial management, organizational development. Digitalization, energy efficiency and quality management, alongside the principles of circular economy will drive the future needs for professional consulting services, initially provided mostly by foreign international consulting firms in combination with local consulting partners. This occurs because of lack of domestic expertise in these areas.

Later on, the process will be taken over by the local consulting companies that have gained experience in cooperating with foreign international firms, and have created a quality profile, which is essential in developing credibility with local industrial and non-industrial companies to become an important services provider.

Amongst around 270 consulting firms are providing consulting related services in Moldova. Out of these around 30 are comparable with the type of portfolio the Proconsulting company has. Apart from four or five companies (Business Consulting Institute, Business Intelligent Services, Agroinform, Gateway and Partners, Magenta Consulting) most of them are smaller, have a shorter track record and not such a developed reputation. The Big Four audit international firms (PwC, Deloitte, EY and KPMG) are all bigger than the Moldovan consulting firms and do larger consulting projects for the Government or larger corporations, and do not cover the medium-sized SME business segment.

Proconsulting has a sound track record, a very good reputation with their beneficiaries, donors, banks and SMEs familiar with the company, particularly in rural development, agriculture, manufacture, construction, but also in implementing larger rural development projects. Proconsulting became a certified member of AMCOR Romania, the

National Association of Management Training and Consulting Firms that is member of the European Consulting Associations Federation.

### **Productizing and digitization trends in consulting services**

The table below shows the structure of the consulting services portfolio in Proconsulting that the growing importance of *productized* and *digitally driven* consulting, that complements the main portfolio of *customized* management consulting.

The firm is striving to *productize* its services to mitigate the seasonality in the consulting business and the small market size. Productizing is a hot trend in the consulting market today and is defined as the consultant creating the same solution applicable to all of their clients, as opposed to creating a unique solution for each buyer [5].

It is essentially relying on the same process and/or steps in delivering a similar consulting service to clients. *Productizing consulting services* can be a profitable move, can help scale the consulting business, and ensure a more streamlined and predictable business [5]. International studies indicate that 40% of consultants offer a fixed-scope, fixed-price productized service, so this is a rising trend [6].

Productized consulting services are being offered to SMEs and banks by Proconsulting, and complement their custom consulting services, like feasibility studies, investment consulting, re-engineering of business processes and strategy assessments.

The firm plans to expand its custom management services in quality and production systems, such as business process re-engineering and Balanced Score Card, anticipating the increased need for SME production efficiency and the focus on quality as one of the principles of the sustainable economy.

Proconsulting's productized consulting services include banking loan applications, business plans, collateral valuation as bank service for loans, among others. The firm pointed out to lower profitability for productized consulting services, but that these are still essential for keeping a minimum business and building relationships with clients for potential custom consultancy.

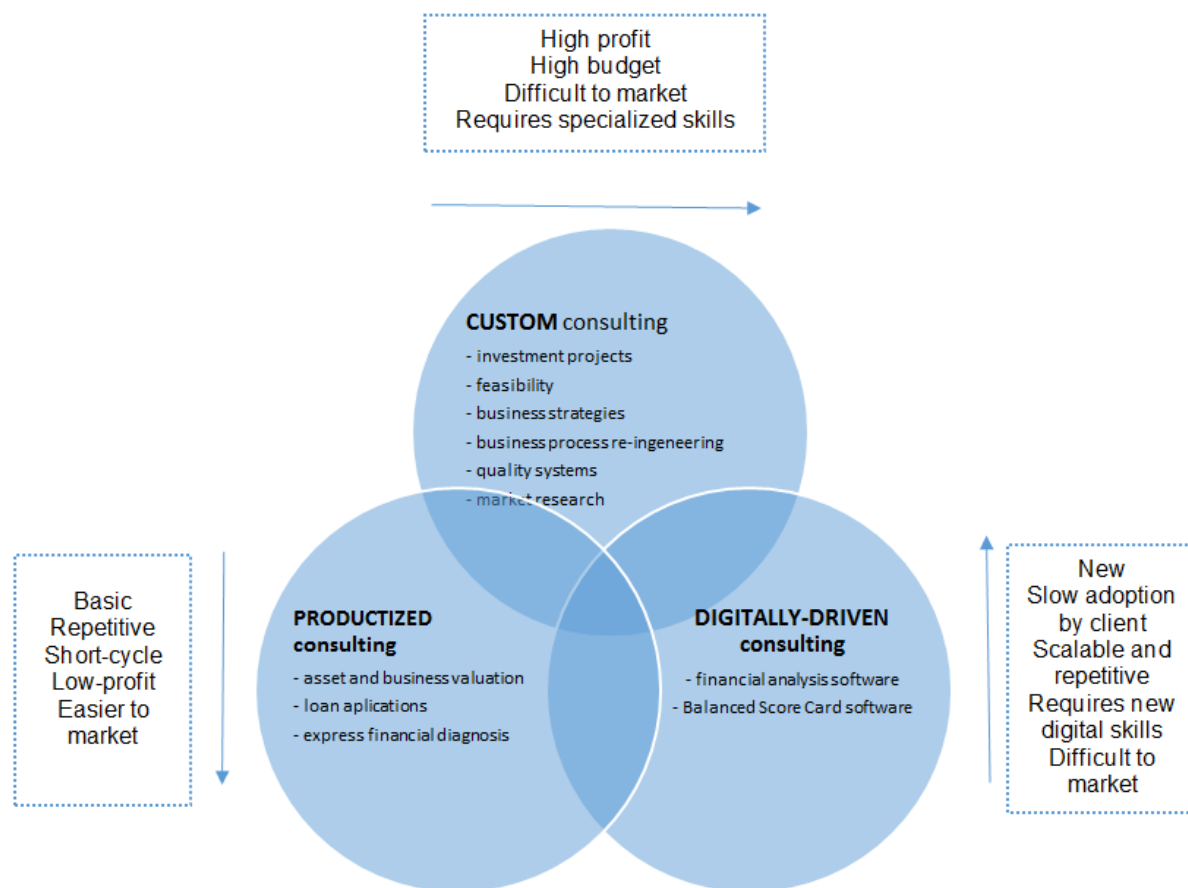
Proconsulting is shifting from a more traditional to a new-generation consulting firm that embraces digitization as the core of their business.

This is both a necessity and a challenge, because most of Proconsulting's clients are from traditional industries, like agriculture, construction and manufacturing, including from the rural areas, and are slow at digital transformation of their businesses.

As such, the firm partnered with digital firms and became authorized reseller of specialized software for financial management, such as Balanced Scorecard Romania, and Business Studio from Russia.

Although this software complements its financial management consultancy services and is scalable, it requires new digital skills for the consulting team and is difficult to market, because of lack of readiness of clients to spend on such investments. SME-clients usually digitize the accounting process as the first step and are reluctant to further digitize their financial management.

However, given the huge digitization trend shaping today's economy, it is advised to keep investing in and experimenting with *digitally based* consulting services.



**Figure 1.** The structure of consulting services portfolio in Proconsulting.

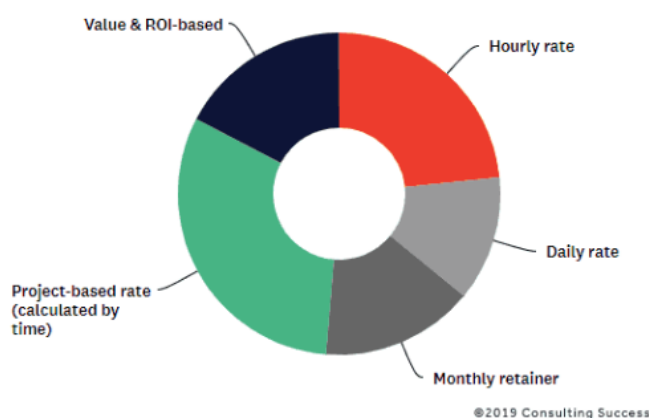
Source: Proconsulting, compilation by author

### Fee structure and pricing consulting services

For a better understanding of the pricing strategies in consulting, it is suitable to present the diagram below from a recent study by Consulting Success, one of the most comprehensive online learning platform engaging an international community of 34,360 consultants [7]. The results point out that project-based rate and hourly rate continue to be the most frequent pricing strategies in consulting services. As such, Proconsulting typically engages a *project-based rate*, calculated by time and/or using the daily rate of its consultants. The focus is on short-cycle consulting projects, typically 1 to 3 months, which are more affordable to clients and enable the client to see quick wins and results. Proconsulting related that pricing its services is one of the biggest challenges, and ensuring a high profitability margin while delivering value to its client. Proconsulting is not considering a value & ROI based fee that is a hot topic and a somewhat rising trend among international consultants, pushed by the client’s need to tie the consulting cost to measurable impact and/or value to the business.

Another aspect to be considered is the correlation between the consultant’s specialization and the consulting price and profitability. Specialization is an important factor for the success of consultants and clients are ready to pay more for niche expertise and specialization. The same study by Consulting Success found that 32% of consultants who are specialists enjoy an 80% profit margin in their business compared to those who don’t make their specialization clear [7]. Proconsulting’s specialization is business feasibility

and finance, as well as agricultural development, and these are the segments of increased trust from its clients and a premium pay. To conclude, Proconsulting acknowledges the need to specialize in order increase pricing and profitability of its consulting services. However, it was noted that Proconsulting does not make it so clear in their marketing that they have specialist expertise, and this may be an area for improvement.



Source: 2018 consulting fees study [6]

### Human Resources

The status of human resource management in Proconsulting is typical for a still relatively young owner managed business in a developing environment. Thus, a flat organizational structure, little formalized systems and structures, no job descriptions, no structural performance evaluation etc. and implementation of good ideas failing because of daily pressure of the business. The firm struggles somewhat with labor fluctuation and varies the size of its team depending on the volume of projects. The permanent team consists of young bright individuals who are eager to learn but need guidance and direction. Senior specialist consultants are project-based since these needs are temporary and determined by a specific consulting project. Staff positions in Finance, IT and Office management are outsourced to keep costs down.

The Managing Partner carries out business development, marketing and sales and currently the firm totally depends on the efforts made by the Managing Partner in securing new business. Not without success so far, but the environment is changing and this requires a quite different approach.

Professional training is envisaged for everyone and additional training opportunities come from Proconsulting's international memberships and partnerships. As is the case with personal goal setting and defining objectives for people that go beyond their immediate tasks, which would direct them towards a contribution to the development of the organization as a whole.

Short communication lines are in place facilitating quick exchange of job-related information. Remuneration and motivational systems are considered to be very important to get and keep people involved and let them work hard and disciplined. However, compensation systems are connected to individual output targets in projects and not to contribution of development of the company. It is advised that compensation should be

linked to final results of the company and the contribution the own unit is making to that result. Compensation should be built up from the fixed basis salary, year-end bonuses and profit sharing.

The terms of employment, particularly the variable part of compensation of an individual is therefore project related, which creates difficulties when the project is ended. This poses challenges with team continuity and securing monthly wages on a permanent basis.

### **Organization and culture**

The organization is formally split in two legal entities, but informally operates as one entity. And with reason as there has been excellent synergy to date. Not for profit is covered by the small, but highly qualified and commercially successful NGO that operates as the foremost fundraiser and project management entity in the Moldovan market for third party financed projects. The commercial consulting arm targets business clients and larger custom management consulting projects. The organization structure is flat with ambitious young professionals and limited career opportunities. The sense of being part of a (business) community is not very well developed, because the Managing Director as the leader in the organization has not consciously taken any actions to change the culture.

### **Financial Management**

Financial management is the responsibility of the Managing Director who is aware of all relevant details and is on the ball, concerning all financial matters. Appropriate automated accounting systems are in place. Reporting is up to date and on time. The systems seem adequate to cope with the different requirements for NGO projects and commercial business. Lucrative and creative solutions have been found and implemented to cope with legislative issues. In general the financial control over the company is rather sophisticated, considering the stage of the company's development and the local comparisons that can be made with similar organizations.

### **SWOT Analysis**

#### **Strengths:**

- on top level sound network with influential people with donors, banks, government;
- good reputation, fine track record in delivery of big projects;
- known for financial management and finance expertise;
- developed internal organization, language skills;
- finances available for investments;
- international professional membership;
- international consulting service partners in Romania and Russia;
- new digitally driven consulting services that are on the edge of development.

#### **Weaknesses:**

- lack of business development marketing skills;
- limited sales capacity in specialized field (rural area, quality systems, business process reengineering, financial management software)
- firm specialization is not clear in marketing efforts

**Opportunities:**

- emerging consulting market;
- large companies first;
- growing funds from EU, EBRD, bi-lateral for Institution Development, Management Training, and foreign investment projects;
- emerging consulting market with medium sized companies, particularly for practical Finance related services (financial management, digitization of accounting) and production improvement (quality systems);
- subcontracting and cooperation agreements with international consulting firms (language and culture).
- new knowledge and reinvention of the consulting service portfolio in digitization and business processes

**Threats:**

- limited capacity of potential clients, i.e. SMEs, to pay for consulting services;
- lack of interest with foreign companies to invest in Moldova;
- seasonality of consulting projects challenging business continuity and ability to maintain an in-house consultants team;
- inability to acquire top level professionals with adequate commercial attitude and skills;
- failure in bringing workforce up to speed; knowledge, attitude, commercial and business orientation.

**Conclusion and recommendations**

The company has done surprisingly well taking into account the difficult business and legislative environment under which the organization had to be build up from scratch. With a good feeling for entrepreneurship the shareholders have in a balanced manner taken initiatives that have led to a financially healthy organization that now will have to develop and invest in order to participate in the gradually growing market of diversified consulting services.

Major fields of concern are the following:

- new business development capacity and capabilities;
- fluctuation of consulting business;
- changes in the economic, business and market environment, disruptions caused by digitization that are requiring new knowledge and reinvention of the consulting service portfolio.

In ten years, the company tends to be a leading consulting firm in Moldova offering a wide range of specialized services, some of them organized in separate business units. Services and related solutions will be rendered to small (start-ups), medium sized and large companies.

Key to the success of the combined firms are and have been committed to deliver top quality service, a proactive development and business attitude, an innovative climate and culture where people are challenged to continuously seek for new solutions for clients' problems, a strong commercial business orientation and above all the attitude to enter into a true partnership with all our clients, small, medium sized and big.

Proconsulting specialization is investment and finance, as well as agricultural development, and these are the segments of increased trust from client and a premium pay.



Proconsulting should further specialize in order increase pricing and profitability of its consulting services.

The given conclusions resulted in the following portfolio recommendations:

CCA's (Business Advisory Center NGO) services portfolio concentrates on:

- Business Development in: Agriculture/Trade, Tourism, Public administration;
- Tourism and Infrastructure.

Proconsulting will focus on the development and sale of professional services in the following domains:

- Investment Consulting, incl.: Business planning, Business and asset valuation, Market research, Partner Search, Credit/Loan brokerage;
- Financial Management, incl.: Financial analysis/Financial Planning, Cost reduction programs, ABC, Budgeting systems, Accounting and bookkeeping.
- Information Technology, incl.: Software development for financial analyses and planning, Standard packaged software sales.
- Management Training in-company and open market: Management skills, financial management.

Goals and objectives of senior professionals should partially be related to the contribution of the jobholder to the organization and should promote cooperation within the organization between units. Proconsulting's productized consulting services should be further developed to include banking loan applications, business plans, collateral valuation as bank service for loans, among others. Consideration should be given to expand the production consultancy, such as quality systems and social compliance standards, that would further specialize the firm.

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