

MANAGEMENT CONSULTING RESEARCH

Volume 1

Thomas Deelmann
Michael Mohe
(Editors)

Selection and Evaluation of Consultants

Rainer Hampp Verlag

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Selection and Evaluation of Consultants

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The selection and evaluation of consultants, consultancies, and consulting services belong to probably the most critical issues in management consulting research. However, the research in these areas is still sparse and does not yet reflect their importance in an adequate manner. Additionally, in recent years new developments in management consulting have taken place, which have still not yet been covered. Observations of the consulting market indicate that both clients' firms and consultancies have begun to professionalize their selection and evaluation procedures. This, in turn, changes the previous rules in the consulting market and stimulates the birth of new business models such as e-consultancies or meta consultancies.

This book tries to capture these new developments, and intends to consolidate the existing research and stimulate new research implications in the area of selection and evaluation in management consulting.

Key words: Consulting Research, Management Consulting, Evaluation, Selection

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Preface

This book addresses two crucial issues in management consulting: selection and evaluation. Indeed, both the selection and evaluation of consultants, consultancies, and consulting services are probably the most critical issues in management consulting research. And, there is some literature covering these two fields. However, the inventory of research in these areas is still sparse and does not yet reflect their importance in an adequate manner. Additionally, in recent years new developments in management consulting have taken place, which also still have not been covered. Observations of the consulting market indicate that both clients' firms and consultancies have begun to professionalize their selection and evaluation procedures. This, in turn, changes the previous rules in the consulting market and stimulates the birth of new business models such as e-consultancies or intermediaries like meta consultancies.

This collection of papers tries to capture these new developments, and aims to consolidate existing research and stimulate new research implications in the area of selection and evaluation in management consulting. For this, it first covers both practical and academic points of view, as we believe that consulting practice and consulting research can learn from each other. Second, as selection and evaluation procedures can be viewed from multiple perspectives, the articles in this book offer different ways on how to look at selection and evaluation procedures: from the client's view, the consultant's view, and the market's view. Third, as conceptual and empirical research are valuable research strategies for learning more about our two topics of interest, the papers within this book follow both conceptual and empirical approaches. The following figure shows these different views on the two fields of interest and suggests some exemplary questions which will be discussed:

Selection of Consultants			Evaluation of Consultants		
Perspective	Conceptual	Empirical	Perspective	Conceptual	Empirical
Client	How do clients choose their consultants? What are their criteria?		Client	How do clients evaluate their consultants and consulting projects?	
Consultant	How do consultancies choose their consultants (recruiting, staffing)? How do consultants select their clients?		Consultant	How do consultancies evaluate their consultants and consulting projects? How do they react to the client's evaluations?	
Market	How do intermediaries, meta-consultants etc. act in the market place? What kind of role do they play?		Market	How can players in the market place be analyzed and evaluated? How can the efficiency of consultancies be evaluated and increased?	

Fig. 1: Perspectives, structure, and exemplary questions to be discussed in the following chapters

This book is structured into two sections according to its subjects:

The first six articles in section 1 address different problems of selection in management consulting.

Thomas Deelmann suggests using the consultant's business model as one selection criterion. In short, a business model is the abstract description of the regular business activity of an organizational unit. Beneath the classical management consultancies, which act as professional services companies, there are other players in the consulting marketplace, e.g. senior consulting companies, student consultancies, and internal corporate consultancies. They have different goals, strategies, and business models. Knowledge about these aspects gives advice on when to select which consultant type during the process of selecting a consultant.

Sandra Niewiem and *Ansgar Richter* investigate the choices of clients in favor of or against the involvement of external consultants in the execution of project work. The study draws on data from 86 projects gathered through interviews with 41 managers. The authors analyze these data using content analytical approaches that combine both deductive and exploratory methods. They find that the mode of co-operation typically found between clients and consultants can be characterized as an intermediate mode of governance between procurement from the market and an integrated, internal setting. The results provide tentative support for the transaction cost economic framework underlying the study. On this basis, the authors derive important implications for both consultants and managers.

Dieter W. Kaiser suggests that strategic HR management is a core competency for consultancies. A consulting firm establishes its position in a competitive market by cultivating its competence profile and through the verifiable successes of its work for clients. This requires consulting firms to have continuous access to the required skill profile. Thus, the main challenge facing human resource management at a consulting firm is to define the profile of the consultants, find the desired individuals, support their ongoing development, and ultimately tie them to the company on a long-term basis – during their employment as a consultant and, if possible, thereafter. The author shares his insights into the process of human resources planning, recruiting, staffing, and personnel development of a top management consultancy.

Michael Mohe attends to the question of what consultancies expect from graduates and universities. The starting point of the article is an interesting observation: On the one hand, a job in management consulting is very attractive for many graduates, but on the other hand, a very vague and mythical picture of recruiting criteria remains for the external observer. Therefore, the article provides empirical data from consulting companies in

Germany. The consultancies were asked about their expectations regarding recruitment criteria for graduates. Furthermore, this article focuses on the role of universities as one option for qualifying students for a later occupation as a management consultant. Here, the consultants were asked about their expectations of both learning volumes and methods to find out the criteria upon which a special study course “Management Consulting” should be based. The article concludes with implications for graduates, universities and consulting firms.

Axel Gloger noticed that the current forces of change in the consulting marketplace are in the first place value neutral. What is more interesting is the following way of looking at things: It could be rewarding to recognise and describe in detail the changes that are emerging in the market. Both sides of the market, consultants and their clients, could recognise what energies and forces are being produced by the changes. Experience suggests that it would be advisable in future activities not to resist these forces, but to use them as a lever to improve one’s own position. The aim of his article is therefore to describe these changes, to assess what their further effects are likely to be, and to draw conclusions for the agenda of the market participants.

Bettina Türk and *Thorsten Posselt* consider the changes initiated by the increasing relevance of web based technologies in the economy. They focus on the future significance of web based intermediaries using the example of the German consulting market. For the derivation of the success or non-success of an e-intermediation, chances and risks (which are linked with the use of intermediary services in the field of consulting) are identified and evaluated. These relationships are empirically verified by a logistic regression analysis of data, based on a survey in German client and consulting firms. That a general interest exists concerning an e-intermediation of consulting services can be essentially explained by the fact that web-based intermediaries offer the chance to reduce transaction costs for both clients and consultants.

The second part of this book focuses on different evaluation issues in management consulting.

André C. Wohlgemuth attends to the topic of performance evaluation in management consultancy, which continues to be the subject of strong debate. In every consultancy engagement there are situations or phases when the client wants to obtain a full picture of the consultants’ performance by carrying out an evaluation. Usually at the end of an assignment there is a need for systematic assessment. This article presents the Swiss questionnaire for the evaluation of quality in management consultancy promoted by ASCO, the Association of Management Consultants Switzerland. The questionnaire is “generic”

because it covers many management consultancy situations and can be adapted to the specific needs of the user.

Sven Haferkamp and *Sabine Drescher* present results from a study concerning several aspects of knowledge management of consulting projects. For the examination of the current state of client professionalization in the relationship with strategic management consulting firms, interviews were conducted with seven experts of German DAX-listed companies in the period from May 2005 to July 2005. The study and the best-practice approach for the holistic management of management consulting projects derived from it shows that clients can make a critically important contribution to the success of management consulting projects. The systematic application of the measures described within the article will have the effect of professionalizing the co-operation with consulting firms and perpetuating the knowledge gained as a result of consulting projects within the organization.

Guido Klenter and *Niels Möllgaard* look at the increasingly knowledgeable use of consulting services by many companies and present the consequences of this development from the perspective of a consulting firm. Growing customer demands for more precisely quantifiable consulting results represent a significant factor shaping the business model “consultancy”. These new expectations have already led to considerable changes in the sector, and the process is far from complete. Two aspects are closely examined in the context of the development that the business model is currently undergoing: the selection, evaluation and further training of consulting staff, and the systematic analysis and development of projects. Consultants face new challenges in all phases of the project life cycle – in the preparation stage, during project work, and subsequent to the conclusion.

Matin Ebrahimchel, *Michael Mohe*, and *Richie Sternzeld* address the problem of evaluation from the consultants’ point of view. For this, they conducted an interview series with different consultants from major and medium-sized consultancy firms, in which the consultants were asked how they perceive a) their own evaluation systems within their consulting firm, b) the clients’ evaluation systems, c) the relevant (restricting and/or promoting) social and political conditions for a project evaluation. Additionally, the consultants were asked for alternative or “ideal conceptions and/or ideas” about project evaluation as well as their limitations. The findings reveal remarkable insights in the evaluation practice within consultancies’ and clients’ companies as well.

Michael Scholz noticed that efficiency is often used as a qualitative or quantitative measuring instrument to determine the success of business consulting projects. In his article, he aims to implement an integral explanation model of the efficiency of business consulting projects, which comprises all relevant elements and their interdependencies in a system-

theory approach. Different disciplines of consulting research and perspectives have been considered to build the integrated explanation model. A software-based representation of the model allows the simulation of different consulting situations and the anticipation of changes that are being undertaken by the system's actors. The model is configured for typical consulting situations, and recommendations are derived to improve consulting efficiency. The recommended proceedings give consultants as well as clients general advice with practical relevance on how to deal with challenging consulting situations from a system-oriented perspective.

Thomas Deelmann, Andreas Huchler, Stephan A. Jansen, and Arnd Petmecky present the results of an empirical study on internal corporate consultancies. With respect to the professionalization of clients, one can especially mention the trend towards the organizational implementation of internal consulting departments. While this phenomenon is already quite common in business practice, it has not yet attracted much interest in social scientific research. Empirical knowledge about the characteristics of internal corporate consultancies might help to better evaluate and assess their working results and to compare internal corporate consultancies with external consultancies.

We would like to thank the authors for their contribution to this selection of papers concerning conceptual and empirical work on the issues of selecting and evaluating consultants. We are indebted to the German Federal Ministry for Education and Research (*Bundesministerium für Bildung und Forschung*) for supporting this project. Last but not least, we are grateful to Rainer Hampp for supporting our idea of combining a selection of research papers in the area of management consulting.

Thomas Deelmann and Michael Mobe

Siegburg and Oldenburg, 2006

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Section 1: Selection of Consultants

Selection of Consultancies Based on the Business Model-Criterion

Thomas Deelmann¹

Introduction

McKinsey & Company, The Boston Consulting Group, Monitor Group, and other management consultancies have taken a prominent role in the business arena. In research and popular management literature, these professional services companies have got major attention. Beneath these companies, a more alternative group of suppliers for management and business consulting services has established itself. However, these suppliers tend to be strongly underrepresented in the media, have lower attention in the business arena, and are seldom subject to research.

Aim of this chapter is to give a brief overview to some of these kinds of consultancies which can be seen more or less as direct competitors of the major consultancies mentioned above (Walter and Deelmann 2005). It wants to narrow the identified gap in consulting research. The discussion of the consultancies' business models will be used to describe and differentiate the service companies.

Subjects to the investigation are so-called *Senior Consulting Companies*, *Student Consultancies*, *Accountants and Tax Consultants*, and *Internal Corporate Consultancies*. Within this chapter, for each group its business idea, advantages and disadvantages of an engagement for their clients, and its basic business model will be discussed. Additionally, this paper will have a brief look on the consulting capacities provided by non-profit organizations, professional associations and lobbying groups. This chapter focuses on a different consulting market, which today is to a large extent out of scope for many clients and the public. Nevertheless it can be considered as an alternative to the classical consultancies. Clients might use the alternative business models of consultancies as a criterion for the selection of their suppliers for consulting services.

The following paragraph introduces the business model as a framework for analyzing business units. Subsequently the generic business model of a classical consultancy is introduced. It will serve as a reference model for this chapter. In the following chapters each of the more alternative suppliers of consultancy services is discussed and its business model

¹ I would like to thank Estela Walter for her valuable input.

is depicted as well as a brief recommendation when to select the very supplier is given. A brief conclusion closes this chapter.

Business models as an analysis tool

Based on an extensive literature review and an empirical refinement, various elements and building blocks of a business model were identified (Scheer et al. 2003). The most important points were on aggregation and abstraction of the reality into the model, the organization as scope of the model, the notice of technology, actors and their roles, the competitive environment, and the flows of money, information, and goods. However, profits, produced value, and processes were seldom mentioned. In the following an interpretation of these elements in more detail will be given.

Abstraction, aggregation: The model itself is an abstract construction of the reality. The elements of the business under investigation are represented in a more simple way in order to allow a focused view from a bird's perspective and to support the analysis of the organization.

Organization, actor, role: The subjects within a business model are one of its most important elements. An actor might represent a single person as well as an organizational unit or the combination of organizational units. Governmental organizations might be treated in the same way and can be represented by a business model as well. If not mentioned otherwise, the terms 'organizational unit', 'business', and 'organization' are used synonymous within this chapter.

Value creation: The creation of goods and services reflect a production process in which – based on a given initial state – a transformational process will reach a final state. This hopefully reflects an increased value in comparison to the initial situation.

Technology: It reflects a tool or resource for value creation and has variable importance, depending on industry and environment: An internet business start-up might be influenced by technology more intensive than a local hairdresser.

Influencing factor: The competitive environment might consist of market forces (e. g. price wars, entry of new competitors) as well as other influencing factors (e. g. shift in the age structure of the customers).

Flow of money: Financial transactions and revenue streams are relevant in order to represent the business or economic aspects within the model. The flow of money will mostly be identified in duality with a product flow of equal value. The flow of money takes place between two organizational units. It is therefore called transfer flow.

Product flow: Produced goods and services are mostly delivered from one organizational unit to another. It is therefore a transfer flow, too. Product flows will mostly be identified in duality with a flow of money of equal value.

Flow of information: Literature often disregards the flow of information in the discussion of the key elements of a business model. However, information which is transferred and exchanged between organizational units is often a driver to business success. Therefore this paper includes the flow of information as one kind of a transfer flow.

The definition of a business model in this paper combines the relevant aspects discussed above (Scheer et al. 2003, p. 22):

A business model is the abstract description of the regularly business activity of an organizational unit. The model consists mostly of organizational units, transformational processes, transfer flows, influencing factors, supporting tools, or a selection thereof.

Figure 1 suggests graphical representations for the single elements of which a business model consists. The next section will discuss a certain business model in more detail and show the combination and interaction of the several model elements, too.

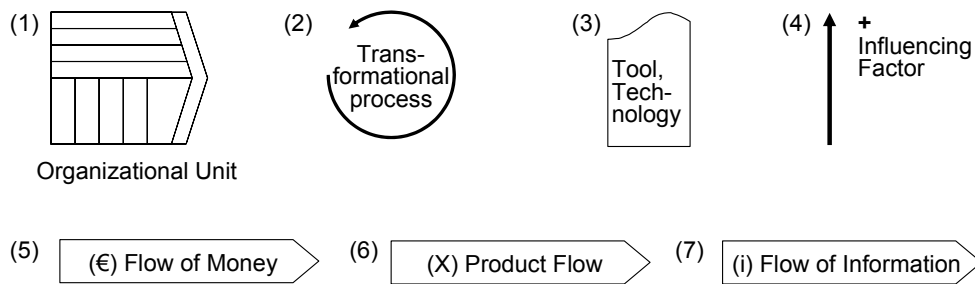


Fig. 1. Elements of the Business Modelling Language (Deelmann and Loos 2004, pp. 14-16)

Generic business model of a consultancy

The business model of most consultancies insists on consultants, who use their knowledge and capabilities in order to solve business problems of their very clients. Therefore, they use appropriate methodologies, consulting styles, and tools (Smith and Smith 2003). In a straightforward way the generic business model looks like this: A client gives a problem to the consultant. The consultant in turn solves the problem and hands over the solution. For this activity, the consultant gets a fee from the client.

In a more sophisticated specification of the business model, there is a team of consultants which serve one or more clients. The team members use a knowledge management system in order to store, distribute, and share client-, problem- and methodical-related information. The very kind of consulting projects which could be managed depends on the individual consultants, their knowledge and the used methodologies. However, the finan-

cial streams depend on the type of consulting project and on the *leverage effect*. This leverage effect is determined by the numerical relation of the consultants in a 'partner' position and the rest of the consultants. A larger leverage states that one partner could train more consultants (the partner can leverage the knowledge). Larger projects (e.g. IT implementation projects) with relatively low daily fees could be managed. On the other hand, in consultancies with a lower leverage fewer consultants are trained by one partner. Smaller projects (e.g. strategy development) could be managed, but the daily fees will usually be much higher (Maister 1982).

In consultancies, project work dominates traditional office work. The organizational structures as well as the processes are dynamic. Projects consist of several phases (Cope 2001; Niedereichholz 1997a; Niedereichholz 1997b). From a consultancy viewpoint, a project has three phases, which in turn might be again split up: Project initiation (with request, proposal, and contracting), project work (with analysis, conception, pilot, and implementation), and project completion (with project evaluation, documentation, and client satisfaction measurement). Distinctive for the work in a consultancy is the changing physical and mostly distributed workplace. Therefore, the staffing of consultants is critical for the project success.

The elements discussed above can be summarized as the generic business model of a consultancy. A graphic representation is shown in figure 2. With respect to the supplier of consultancy services discussed below, this way of doing consulting work can be named as *classical* or *traditional* consulting service. The business idea, the advantages and disadvantages in engaging on of the more alternative suppliers, and their business models are discussed and mirrored with the classical business model of a consultancy in mind. The goal is to show that various business models of consultancies are appropriate for different client situations.

Goal, strategy, business model, and recommendations for selection

In brief, the goal of the classical management consultancies can be described as (1) maximizing the profit margin and as (2) generating sustainable growth. Therefore they try to create new management trends and to sell advice and problem solving capacity and capability in these newly designed areas. In addition to this, they permanently have to optimize their leverage effect between the number of partners and the number of consultants. The main driver of the business model can be found within this leverage effect, the management and transfer of knowledge, and in a key account management. Clients should consider the usage of external, classical consulting companies, if they want to work with highly reputable consultants who know state of the art tools, trends, and techniques,

and/or if they want business-oriented solutions which might have an alibi-function in some cases.

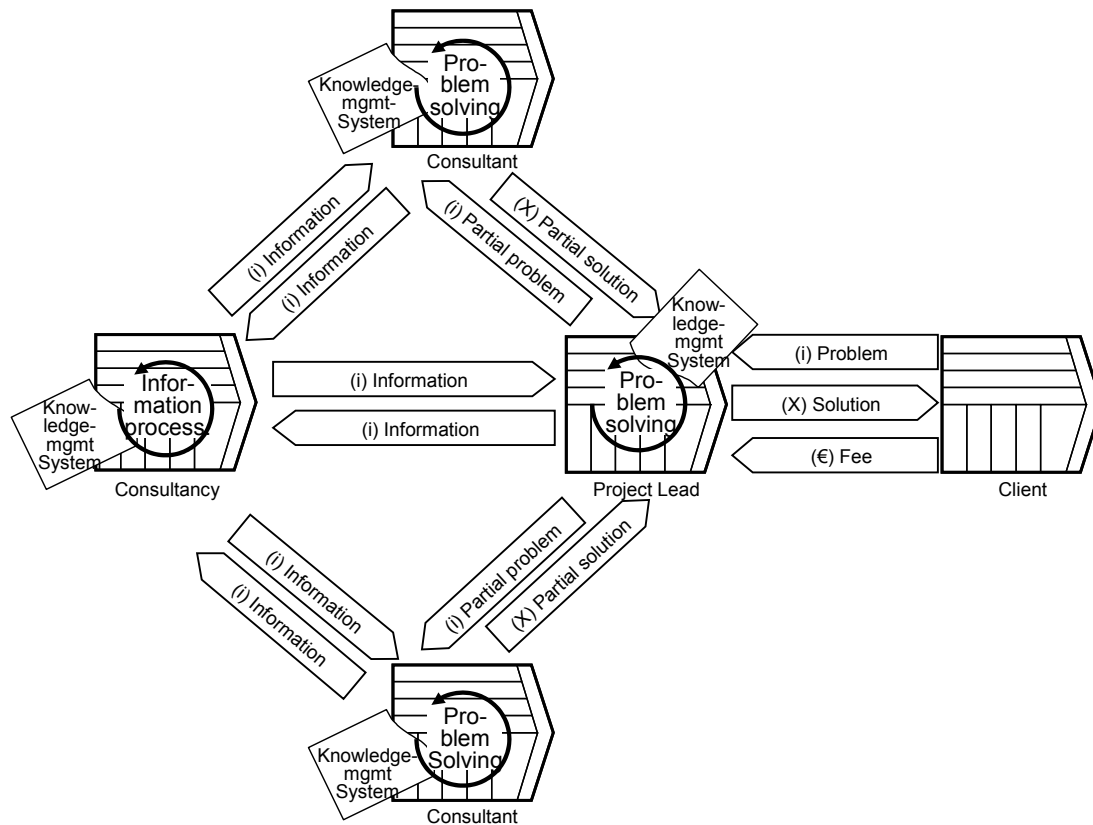


Fig. 2. Generic Business Model 'Consultancy' (Deelmann and Petmecky 2005, p. 246)

Senior consulting companies

Business idea

Senior Consulting Companies consist of 'senior experts' which are people who often want to bring in their professional experience into the business context without being a line management employee. Senior experts decide about their workload themselves. This workload ranges from a few hours per month up to a full-time engagement. There are two main reasons for the emergence of Senior Consulting Companies. The first one is on a business level: There is a possibility for employees who will eventually retire in the foreseeable future to reduce their working engagement step by step. On the one hand, senior experts can refer to a self-determined workload reduction. On the other hand, there is a chance for companies which support Senior Consulting Companies to use the expert

knowledge of their senior employees and to transfer their knowledge to more junior employees.

The second major reason for the emergence of Senior Consulting Companies is based on the socio-demographic change which currently hits Western Europe. Corporate functions responsible for HR-Development have to cope with age management issue because of (1) the lack of younger specialized employees, (2) the upcoming retirement-boom of the so-called baby boomers, and (3) the increasing lifespan and the resulting public force to rise the pension age. Therefore, the set up of a Senior Consulting Company can be considered as one way to employ senior employees as 'senior experts' and to work with them on a more flexible basis.

For corporations, Senior Consulting Companies fulfil two concrete tasks: They substitute in some ways the classical Consultancies and they act as a role model within age management programs.

In addition to this more or less economical character of the Senior Consulting Companies there are non-profit Senior Consulting organizations as well. They focus on the delivery of development aid and the support of reform processes in third world countries. These non-profit organizations are not in scope of this article. (ASEP 2005, Consenec 2005, SES 2005)

Advantages and disadvantages for individual consultants and clients

In the following, some chances and risks will be identified for senior experts and clients of Senior Consulting Services. Advantages for the senior expert are the gain of flexibility, new challenges, and more freedom: Project driven activities support part-time jobs, which in turn lead to a more flexible working environment. The possibility to engage oneself in projects and to leave repetitive and routine tasks behind leads to new challenges. And finally the chance to define scale and scope of the workload might be seen as a new kind of freedom.

A disadvantage for the senior expert is the salary reduction, the loss of power, and resistance within the company. Salary models in Senior Consulting Companies often consist of a fix-based salary and a variable salary which is based on the personal engagement and activity of a senior expert. Together, they might be less than the last regularly salary the employee got before becoming a senior expert. One aspect which is differentiating consultants and corporate senior staff is the usage of support functions. While the corporate executive often has a secretary, one or more assistants and some departments which report to the executive, the Senior Expert will mostly have to work without these reporting

structures. This loss of personal power often goes in line with an increasing degree of resistance by the employees, which consultants in many companies are facing.

Clients of Senior Consulting Companies are often their parent companies. They can claim several advantages because of engaging these service units. First, clients hold and maintain access to knowledge, which was collected over long years. Second, by phasing out their existing senior employees and transferring them to a Senior Consulting Company, there are new career perspectives and chances for younger employees. High potentials can be empowered. Third, there might be a classical economic reason: The costs of a layoff or high indemnifications for senior executives might outnumber the operational and capital expenditures of running a Senior Consulting Company.

On the opposite to these advantages, there are some disadvantages, too – mainly if the services are offered to third-party companies. Third party customers can refuse to engage an external consultancy because of confidentially reasons. Internal knowledge can spread to competitors. Second, the Senior Consulting Company's parent company might be afraid that certain activities and behaviour of the senior experts will last a damning light on the parent company.

Areas of engagement

Clients might wonder whether to engage a Senior Consulting Company or a classical external consultancy. The following table compares both in terms of advantages and typical tasks:

Table 1. Advantages and typical tasks for Senior Consulting Companies and Classical Consultancies

Advantages for using Senior Consulting Companies	Advantages for using classical consultancies
<ul style="list-style-type: none"> – Experience – Personal network within the company – Processes and procedures are well known – Costs for external consultants will be reduced 	<ul style="list-style-type: none"> – Industrial and methodical competencies – External and neutral view on the customer – Innovative and more loadable
Typical tasks for Senior Consulting Companies	Typical tasks for classical consultancies
<ul style="list-style-type: none"> – Implementation tasks – Coaching – Subject matter expert-style consulting – Interim management – Partly the undertaking of external tasks and projects 	<ul style="list-style-type: none"> – Business process redesign – Implementation of large-scale strategy projects – Classical management consulting – Benchmarking – Know how transfer from third-party companies

Goal, strategy, business model, and recommendations for selection

In short, the goal of most of the Senior Consulting Companies can be described with knowledge management and transfer, and the work as an age management instrument.

Their strategy is to dispense and distribute organizational knowledge. They support the goal of the learning organization. This makes it relatively easy to have a co-existence with the classical consultancies.

Compared with the business model of the classical consultants, Senior Consulting Companies tend to have a one-on-one assignment of consultants and projects. There is no leverage effect between partner and consultants. Its main product is to offer guidance for their clients.

Prospective clients should think about selecting Senior Consulting Services if they seek guidance within their day to day work; if they want to learn about organizations and organizational behaviour, or if they need effective help in steering and managing a project – not for doing operative project work.

Student consultancies

Business idea

The roots of consultancies run by students are based in France. Students wanted to consult businesses during their studies and apply their theoretical knowledge to real life cases. The driving force was the independent project work. Student Consultancies create a link between practical business and academic education because of the transfer of theoretical knowledge into praxis via real cases and the support of businesses with new and inspiring ideas.

The first Student Consultancy was founded in 1967, the first consultancy in Germany in the 1980s. Meanwhile there are more than 80 consultancies in Germany which mostly consist of 20 to 60 consultants. The size of the Student Consultancy is often driven by the size of the university, where the consultancy is located. (Graf et al. 2006, BDSU 2005, James 2005, JCNnetwork 2005, Oscar 2005)

Advantages and disadvantages for individual consultants and clients

Students, the members of Student Consultancies, face several advantages and disadvantages while working as a consultant. Undoubtedly, the collection of practical experience during the study could be named. Students can meet a challenge, network via the direct link into the economy, gather some skills which are relevant for the consultant's job (e.g. social competence), and get trained on several aspects.