

# Knowledge Consulting Service

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Contributor: Seok Kee Lee

Knowledge consulting services are one of the fastest growing fields in the knowledge service industry since the 2010s and have been emerging as a core area of the knowledge economy. Accordingly, consulting services are actively sought and provided in various fields, including business strategy and management, accounting, and ICT, and global consulting firms have experienced rapid growth.

Keywords: consulting service ; metafrontier ; technology gap ratio ; Tobit regression

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## 1. Introduction

Deepening globalization, revolutions in information and communication technologies and the advancement of the service industry, and higher income levels of consumers resulting in the sophistication and diversification of demand in the 21st century have all led to the arrival of knowledge-based economies. Unlike past economies, which were centered on labor and capital for creating added value, information and knowledge form the core of competitiveness in a knowledge-based economy. In this sense, consulting services, which use a relatively higher input of knowledge to augment existing industrial expertise and provide innovative and new knowledge and information to various firms, have been recognized as a “knowledge-intensive business service (KIBS)” among the many businesses and services that have gained greater attention with the emergence of knowledge-based economies (OECD, 2007).

The demand for business consulting services across various fields—customer experience, M&A and divestitures, change management, performance improvement practices, and sustainability—has been rising over the recent years as firms seek to strengthen their global competitiveness and maximize corporate value amid rapid changes in the business environment. Along with the continuous growth of global companies, firms that provide consulting services have also undergone enormous changes both in quantity and quality. As of 2020, the size of the global consulting market has reached approximately 132 billion USD, and the number of business consultants in the US has grown to about 734,000 persons ([www.statista.com](http://www.statista.com), accessed on 25 April 2021).

On the other hand, despite the rapid growth of consulting services, relatively few studies have been conducted on consulting service firms. As a principle, most consulting firms keep the information on their internal finances, personnel, and consulting projects confidential. This is mainly because their major customers are firms that have requested consulting services, who usually require the contents of the services they are provided to be kept strictly confidential since those services deal with internal company information. Therefore, little information on consulting firms and their corporate clients, who are respectively the providers and subjects of consulting services, is publicly disclosed. Even in the case of well-known and well-reputed consulting firms, such as *McKinsey & Company* and *Bain & Company*, little is known about their clients and projects <sup>[1]</sup>.

This lack of information has created a gap in the analysis of the services provided by consulting firms or the competitiveness of individual consulting firms. For consulting firms to strengthen their core competencies and operate successfully in the fast-growing consulting market, it is necessary to measure and analyze their relative service operating efficiencies <sup>[2]</sup>. In this regard, a data envelopment analysis (DEA) on the efficiencies and performances of consulting firms is essential for understanding the market positions of consulting firms and enabling the firms to realize more efficient operation by comparing their current competitiveness and performance. Existing studies have mainly dealt with the factors affecting consulting service quality or client satisfaction <sup>[3][4][5][6][7][8]</sup>, and few have attempted to analyze the competitiveness or relative efficiencies of multiple consulting firms. Therefore, assuming that the evaluation of consulting firms' relative efficiencies could improve the efficiency of individual consulting firms and contribute to maintaining the sustainable growth of the consulting market as a whole, this study measured the relative efficiencies of 27 global consulting firms that provided consulting services as of 2020. This analysis is expected to provide knowledge service businesses with guidelines on more efficiently allocating and coordinating internal resources, and help them to establish operation plans and achieve long-term strategic goals <sup>[9][10]</sup>.

Consulting firms are technically homogenous in that they all provide professional knowledge services, such as advising and suggesting solutions on business strategy, management, IT, human resources, accounting, etc. Nonetheless, the geographical differences in their service operations create heterogeneity in their production technologies, such as the methods of operation or the levels of consulting service technology [9][11][12]. For example, 'ghSMART' in the US and 'YCP Solidiance' in Asia both provide consulting services to clients in their regions, but their service operation strategies or levels of organization vary due to geographical differences. In particular, the political, legal, social, commercial, and linguistic characteristics of the countries in which consulting firms operate lead to differences in consultation processes and the way consulting projects are organized. Due to this characteristic of consulting services (i.e., technically homogeneous as a service type but heterogeneous in terms of regional operation policies), setting the 27 global consulting firms as decision making units (DMUs) of a single population in the DEA could likely lead to inaccuracies and analytical errors [13][14]. Classifying the firms into different DMU groups based on their operational characteristics could not only provide more accurate benchmarking information but also suggest better strategies for efficiently allocating and managing the firms' resources.

## 2. Evaluating the Service Operating Efficiency and Its Determinants in Global Consulting Firms

Consulting services refer to the consultations on business management provided by consulting firms to other client firms in various industries. Consulting firms analyze and diagnose ways to improve the corporate client's situation by having experts in business management find solutions to the client's management problems and support its overall operation from a multifaceted and objective perspective based on professional knowledge and expertise. As such, consulting firms provide a type of professional knowledge service involving the analysis of successful cases in various industries and the application of best business practices.

Generally, a consulting firm uses the diverse human and material resources within the firm to carry out successful consulting projects and seeks to improve the quality of its consulting services with the goal to increase client satisfaction and project performance. There has been some research conducted on client satisfaction with consulting firms' service quality and service performance [3][15][16][17][18]. For example, Momparler et al. [3] analyzed the relationship between consulting fee, consulting service quality attributes, and client satisfaction and argued that consulting firms need to build service practices that meet the expectations and preferences of their clients and make efforts to improve customer satisfaction and efficiency. Aldhizer et al. [15] examined the determinants of consulting service quality in relation to accounting and nonaccounting service providers using the SERVQUAL model. Soriano [16] measured consulting service quality, including project cost, project knowledge, and consultant evaluation, among Spanish companies and investigated the effect of consulting service quality on client satisfaction.

These prior studies are meaningful in that they provide measures to determine the quality of intangible services and analyze client satisfaction in the field of consulting. However, due to the non-disclosure agreements between consulting firms and their clients and the resultant lack of information, the research on consulting services has not been extended further. Human resources in the knowledge service industry generally play a critical role in the generation and accumulation of knowledge [19] and have a positive effect on service quality and customer satisfaction [20]. In managing personnel, compensation affects the quality of service provided by employees and serves as a tool for enhancing employee behavior and increasing organizational efficiency [21]. Incentives are designed to increase employee productivity through motivation [22], and performance-based employee compensation plans not only increase organizational productivity but also motivate employees to continuously improve their productivity [23][24]. In this way, compensation affects employee and organizational productivity, which are directly related to organizational performance. In other words, compensating employees, who are a vital component of knowledge consulting services, influences the firm's productivity, which ultimately affects its performance.

Most consulting services are project-based, and consulting firms assign teams to these non-standardized projects [25]. The teams assigned to a project are part of the consulting firm, and the relationships among team members affect their satisfaction with the firm [26][27]. Communication, mutual support, and solidarity among team members are also associated with the quality of teamwork, and in turn, the quality of teamwork has a statistically significant effect on project performance [28]. Moreover, it has been reported that team characteristics significantly impact customer satisfaction and that good teamwork with supervisors increases profits and improves organizational performance, resulting in a competitive advantage [28][29]. On the other hand, supervisors' ability to empathize motivates team members to make more effort and cooperate with each other, leading to a high correlation with continuous commitment and work performance, while team members' commitment positively affects teamwork quality and team performance [30][31]. The individual abilities of team members are important, but so is improving teamwork quality by building a smooth relationship between the team

leader and members as this can help the team project become successful in improving the organizational performance, including profitability, competitive advantage, and client satisfaction.

All consulting projects involve new external tasks at various levels, and clients expect customized solutions to their problems [25]. However, many consulting firms try to accumulate knowledge and create standardized solutions that could be provided to their clients. The internal tasks of consulting firms include differentiating their services, designing organizational structures for each situation, and managing client-tailored knowledge services [32]. Among these, managing knowledge services, which includes balancing internal and external knowledge exchange, is a critical task [33]. Consulting firms share and utilize the knowledge accumulated within the firm to carry out consulting projects successfully and to create new knowledge that could be sold or provided to clients. Thus, it is crucial for consulting firms to implement effective strategies for knowledge and internal task management.

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