

**MANAGEMENT CONSULTING BUSINESS MODELS: OPERATIONS  
THROUGH AND FOR DIGITAL TRANSFORMATION**

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Dissertation submitted as a partial requirement for the conferral of  
Master of Science in Management

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September 2018



## **Acknowledgements**

First of all, I would like to thank my parents for being my biggest inspiration and for always giving me all the support to pursue my dreams and accomplish my personal and professional goals. I own them everything I am.

To my girlfriend who was always there in every moment and was by my side at this stage. At the good moments, but mainly at the less good ones, she was always my biggest support. Now and forever, I love you.

To the Professor Carlos Jerónimo, for provide me his knowledgement, and for, through his example, having shown me what being a good professional is.

To the executives who participated in the study, for their humility, for spending time of their tight schedule with a simple student, and for providing me real and important lessons for the content of this dissertation.

To my friends that even with less available time, have always provide a meaning to my life and make me a fulfilled person and conscious about what is really important in life.

It was not an easy path, but was undoubtedly one of the most enriching years of my life.

*Thank you all!*

## **ABSTRACT**

Management consulting as a service has become part of almost every company's daily business. The growth is being exponential, even with all the non-consensual issues and controversies in the industry. However, the market is increasingly competitive, with new competitors coming from everywhere. At the same time, the world is changing at a speed never seen before, and the challenges are several: automation, scarcity of resources, democratization of the information, big data, and regulation are some examples. Thus, it's not possible for consulting firms to keep providing the market needs without continuously adapting their own business models. The companies that can outperform these challenges more efficiently will win against the competitors.

Investigate which strategies and mechanisms adopt to be agile and flexible enough, in which sectors invest the most, and how reinvent the business models in order to be resilient in a fast changing and technological world are the main objectives of this research.

Several interviews with the top management of fifteen of the biggest consulting companies in Portugal were conducted. The results suggested that companies are now trying to differentiate by the services delivered, and these business models' adaptation to the digital transformation is, rather than a reality, a need.

**Key-words:** consulting, business models, operations, digital transformation, consulting companies, Portugal.

JEL: M19, L89, O14

## **RESUMO**

A consultoria de gestão como serviço faz parte da atividade diária de quase todas as empresas. O crescimento tem sido exponencial, apesar de todos os aspetos não consensuais e controversos da indústria. Contudo, o mercado está cada vez mais competitivo com novos concorrentes a entrar por todo o lado. Ao mesmo tempo, o mundo está a transformar-se a uma velocidade nunca antes vista, e os desafios são diversos: automatização, escassez de recursos, democratização da informação, *big data*, e regulação, são apenas alguns exemplos. Portanto, não é possível que as empresas de consultoria continuem a responder às necessidades do mercado sem continuamente adaptarem os seus modelos de negócio. As empresas que conseguirem superar estes desafios de forma mais eficiente irão estar em vantagem perante os concorrentes.

Investigar quais as estratégias e mecanismos a adotar pelas empresas para serem ágeis e flexíveis o suficiente, em que setores investir mais, e como reinventar os modelos de negócio de maneira a ser resiliente num mundo cada vez mais tecnológico e incerto, são os principais objetivos desta dissertação.

Assim sendo, foram realizadas diversas entrevistas a gestores de topo de 15 das maiores empresas de consultoria em Portugal. Os resultados demonstram que as empresas estão a diferenciar-se pelos serviços fornecidos, e esta adaptação dos modelos de negócio à transformação digital mais do que uma realidade, é uma necessidade.

**Palavras-chave:** consultoria, modelos de negócio, operações, transformação digital, empresas de consultoria, Portugal

JEL: M19, L89, O14



## TABLE OF CONTENTS

|   |    |
|---|----|
| I – Introduction .....  | 1  |
| II – Literature Review.....   | 4  |
| 2.1. Management consulting and consultant definition .....                  | 4  |
| 2.1.1. Management consulting .....  | 4  |
| 2.1.2. Consultants .....  | 6  |
| 2.2. Management consulting’s history .....                                  | 7  |
| 2.2.1. Origin and evolution.....  | 7  |
| 2.2.2. Legitimation and institutionalization of management consulting.....  | 11 |
| 2.3. Motivations and critical success factors .....                         | 13 |
| 2.3.1. Motivations.....   | 14 |
| 2.3.2. Critical success factors .....                                       | 15 |
| 2.4. Management consulting – risks, uncertainty and challenges.....         | 16 |
| 2.4.1. Management consulting uncertainty .....                              | 16 |
| 2.4.2. Management consulting challenges .....                               | 17 |
| 2.4.3. Digital transformation and technology – the next big challenge ..... | 19 |
| 2.5. Management consulting in Portugal .....                                | 23 |
| 2.6. Service lines and sectors in the MC.....                               | 25 |
| 2.7. The so called “ <i>Big Four</i> ” .....                                | 26 |
| 2.8. Business models.....   | 28 |
| III – Methodology.....  | 31 |
| 3.1. Research paradigm and objectives.....                                  | 31 |
| 3.2. Research questions and hypothesis .....                                | 31 |
| 3.2.1. Research questions .....   | 31 |
| 3.2.2. Research hypothesis .....  | 32 |
| 3.3. Research context and design.....                                       | 33 |

|   |    |
|---|----|
| 3.4. Methods of data collection and analysis .....                                | 35 |
| 3.4.1. Data collection approach .....   | 35 |
| 3.4.2. Pretest .....  | 36 |
| 3.4.3. General Considerations .....   | 37 |
| IV – Data analysis .....  | 38 |
| 4.1. Context.....   | 38 |
| 4.1.1 Role in the company.....  | 38 |
| 4.1.2. Number of employees .....  | 39 |
| 4.1.3. Offices in Portugal .....  | 40 |
| 4.2. Structure.....   | 41 |
| 4.2.1. Services .....   | 41 |
| 4.2.2. Organization .....   | 43 |
| 4.2.3. Main sectors .....   | 45 |
| 4.2.4. The pattern in the operating industries .....                              | 46 |
| 4.3. Differentiation and innovation.....  | 49 |
| 4.3.1. Main triggers .....  | 49 |
| 4.3.2. Impact of the geographic location in the companies’ strategy.....          | 52 |
| 4.3.3. Existing mechanisms and tools to monitor market trends.....                | 55 |
| 4.3.4. Grab opportunities.....  | 58 |
| 4.3.5. Competitive advantage and differentiation through their business model.... | 61 |
| 4.4. Future vision .....  | 64 |
| V – Conclusions .....   | 69 |
| 5.1. Main conclusions .....   | 69 |
| 5.2. Research limitations.....  | 73 |
| 5.3. Future research.....   | 74 |
| VI – References .....   | 76 |



|                                     |    |
|-------------------------------------|----|
| VII – Appendices.....               | 82 |
| 7.1. Conducted interviews .....     | 82 |
| 7.2. List of the companies .....    | 83 |
| 7.3. Interview’s questionnaire..... | 85 |

**List of Acronyms:**

|         |  |
|---------|--|
| BCG     | Boston Consulting Group                                      |
| BPO     | Business Process Outsourcing                                 |
| EY      | Ernst & Young  |
| FEACO   | European Federation of Management Consultancies Associations |
| FDI     | Foreign Direct Investment                                    |
| GDP     | Gross Domestic Product                                       |
| IBM     | International Business Machines                              |
| ICT     | Information, Communications and Technology                   |
| IT      | Information Technology                                       |
| MC      | Management Consulting  |
| PMO     | Project Management Office                                    |
| PwC     | PricewaterhouseCoopers                                       |
| R&D     | Research & Development                                       |
| SME     | Small and Medium-sized Enterprises                           |
| S&P 500 | Standard and Poor’s 500                                      |

**List of Tables:**

**Table 1:** Summary table of the main occurrences concerning the evolution of consulting industry and the respective authors. Source: self-constructed table..... 9

**Table 2:** Summary table of the main consultancy’s motivations and critical success factors with the respective authors. Source: self-constructed table..... 14

## List of Figures:

|   |    |
|---|----|
| <b>Figure 1:</b> MC Turnover and GDP, according to FEACO: “Survey of the European Management Consultancy 2015-2016”, page 6.....  | 10 |
| <b>Figure 2:</b> MC Turnover growth rate, source FEACO: “Survey of the European Management Consultancy 2015-2016”, page 5.....  | 11 |
| <b>Figure 3:</b> Main challenges faced by the consulting industry based on the literature. Source: self-constructed. ....   | 19 |
| <b>Figure 4:</b> Data Collection Approach. Source: Self-constructed. ....   | 35 |
| <b>Figure 5:</b> Interviewee’s role in the company. Source: self-constructed chart based on the interviews obtained, 2018.....  | 39 |
| <b>Figure 6:</b> Companies’ number of employees. Source: self-constructed chart based on the interviews obtained, 2018.....   | 40 |
| <b>Figure 7:</b> Companies’ offices present in Portugal. Source: self-constructed chart based on the interviews obtained, 2018.....   | 41 |
| <b>Figure 8:</b> Companies’ organization. Source: self-constructed chart based on the interviews obtained, 2018.....  | 45 |
| <b>Figure 9:</b> Companies’ main sectors of activity. Source: self-constructed chart based on the interviews obtained, 2018.....  | 46 |
| <b>Figure 10:</b> Reasons that explain the existing pattern in the companies’ operating industries. Source: self-constructed chart based on the interviews obtained, 2018 ..... | 47 |
| <b>Figure 11:</b> Companies’ influential investment triggers. Source: self-constructed chart based on the interviews obtained, 2018.....  | 49 |
| <b>Figure 12:</b> Companies’ reasons of their offices locations. Interviewee’s role in the company. Source: self-constructed chart based on the interviews obtained, 2018 ..... | 52 |
| <b>Figure 13:</b> Companies’ mechanisms and tools to monitor market trends. Source: self-constructed chart based on the interviews obtained, 2018. ....                         | 56 |
| <b>Figure 14:</b> Companies’ actions and measures to achieve opportunities. Source: self-constructed chart based on the interviews obtained, 2018. ....                         | 59 |

**Figure 15:** Companies' differentiating factor in the market. Source: self-constructed chart based on the interviews obtained, 2018..... 61

## **I – INTRODUCTION**

Due to its characteristics, the consulting industry is the basis for the reinvention of the companies. The literature proves it, and throughout the history there are several examples where consulting influenced several sectors, and even the management thinking.

Canato and Giangreco (2011) defined consultants as knowledge brokers and knowledge integrators, recognizing their superior knowledge and experience in specific industries. Back et al. (2014) referred consulting firms as a crucial resource to facilitate and implement the innovation. Therefore, and at a time marked by digital transformation in all the sectors, consulting firms can't just be another face in the crowd but its propeller and booster.

According to several recent reports of the most reputable consulting firms, and visible also in the majority of the conducted interviews, the digital transformation is, inclusive, the biggest challenge for all the sectors in general, and consequently for the management consulting world, that will have to adapt to these changes and keep technologically able to advise the remaining entrepreneurial world.

Based on the literature concerning the origins and the history of the management consulting, it is undeniable and consensual the imposing path of the industry throughout the years (according to FEACO, in 2015, the MC turnover growth rate was 6.7% while the GDP growth rate was 1.5%). However, in the literature focused on the new challenges of the industry some authors doubt from the capacity of the industry don't be harm from the actual disruptions in the industry (Christensen et al., 2013), and different visions are presented. Also, and despite management consulting's high practical relevance, Wirtz and Gottel (2016) affirmed that the scientific discussion of this discipline is relatively young and needs to advance, and it is visible some skepticism against the industry from all sides.

Since the early days, the strategies and the organization of the consulting firms were surrounded by great secrecy and they have simply look inside and work inside their wall. Nowadays, new challenges appeared, with new competitors raising from everywhere, the information is more democratized than ever, and several consulting firms are for the first time under the risk of become obsolete.

Accordingly, this dissertation aims to add value in the discussion of the future of the management consulting and the impact of the digital transformation in the consulting firms' strategy, trying to understand where the risks are, the weaknesses of the sector, and

understanding the strategies companies are following in order to face and overcome another revolution (this one, faster than ever).

The target population intended in the study regards members of the consulting companies that holds management positions from firms located in Portugal and the invitations were sent to the selected sample of 30 companies, with a response rate of 50%. The final sample size consisted of 15 respondents from 15 different consulting companies. The sample selection for this study was made in a judgmental sampling, which is a non-probability sampling technique. The present research can be considered as a qualitative research by conducting in-depth interviews with the executives of the chosen firms. Regarding the data collection techniques, it was first collected secondary data through reports from INE, PORDATA and FEACO, scientific articles, books, reviews and master and doctorate dissertations. Primary data was also collected through the fifteen interviews with the top executives from the firms. Lastly, to analyze the collected data, a content analysis was set.

The interviews with the main consultants in Portugal, who work in the area at more than one decade, are extremely useful to understand the big picture and to comprehend the vision of the ones that faced so many disruptions, threats and challenges all over the years. It was asked about their company's organization and the context, their main sectors of activity, the triggers in the market that influenced their strategy, how they keep innovative and ensure a motorization of the market's trends, and their future vision of the industry.

Regarding the structure of this dissertation, after this preliminary part, a theoretical review is made concerning the mains topics of consulting throughout the existing literature. It will be approached the concepts of management consulting and consultants, the origin and the history of the management consulting, its legitimization and institutionalization, the faced challenges and uncertainty within the industry, it will also be addressed other relevant topics as the motivations and the critical success factors of the industry, the management consulting in Portugal, the service lines and sectors, the so called "Big 4", the current main challenges consulting companies are facing, digital transformation, and lastly, the concept of business model is clarified. Then, in the methodology chapter the research questions and objectives are revealed as well as the methodology techniques in place for data collection and analysis. Subsequently, the approaches used during the investigation are indicated and an elucidation of the key findings with some relevant conclusions. Finally, it will be presented general conclusions remarks, limitations of the

study, and the contributions of this study to the management consulting body of knowledge.

## **II – LITERATURE REVIEW**

In fact, it is really difficult to create a widely accepted definition about the concept of management consulting and its origin and evolution, due to the difficulties on defining the ambiguous boundaries of the profession of consultant and on classifying the nature of the work, due to the dynamics of the environment in which the industry is embedded, and due to the wide range of areas that may be subject to consulting jobs.

It is humanly impossible to cover all the opinions about this issue, but everything cited and mentioned here it's considered, by the recent literature, acceptable and actual.

### **2.1. Management consulting and consultant definition**

#### 2.1.1. Management consulting

In 1981, Bernie Ramsbottom wrote in Financial Times “Of all the businesses, by far consultancy is the most bizarre. For to the penetrating eye, there's no apparent reason why, with no more assets than a pen, this group of personable men can sell to clients more than twice the same ridiculous advice, or find, in such a rich profusion, problems to fit their own solution”. These intangible side of the management consulting, a people dependent business, based on their knowledge as its main asset, is being difficult to be defined.

Grainer and Mezger affirmed in 1983 that consultancy is an industry that will not have a clear definition and paraphrasing Fincham et al. (2013) “no sooner are the limits of the [consulting] industry identified or the composition of consultancy skills articulated, than these factors (unique tasks, skills and firms) become redundant because the nature of consultancy work has shifted”

Butler (2009) illustrates the difficulty to explain management consulting, mentioning that it encompasses hundreds of areas. Moreover, according to Freire (2008), there isn't an accepted definition of management consulting, and it arises from the inexistence of consensus on what counts for the delimitation of the market in terms of activities and of the service providers.

Toppin and Czerniawska (2005) stated that “there are probably more ways to segment the consulting industry than there are to skin that infamous cat”. However, over the history, several authors gave their contribution and tried to define this unique industry.

Greiner and Metzger in 1983 has claimed that management consulting is an advisory service provided by trained and qualified resources who identify the management problems of the client's organization, analyze the referred problems, recommend solutions to these problems, and when it's requested, even help to implement the recommended solutions.

Butler in 2009 seemed to agree to what was mentioned by Greiner and Metzger (1983), defining management consulting as an independent professional advisory service which help managers and organizations to accomplish organizational objectives by identifying and grabbing new opportunities, solving management and business problems, increasing learning and implementing changes. Also, according to him, management consulting is constantly changing, including the services provided, as a result of the changes in the services performed by managers, however, rather than the nature of the consulting services, the most important is how the activity is performed.

In 2014, also Srinivasan tried to define the concept, suggesting that management consulting "includes any activity that has as its apparent justification the provision of some kind of support in identifying or dealing with management problems, provided by individuals, groups, or organizations that are external to the particular management domain and which are contracted by the management on a temporary basis".

In 2014, Lopes da Costa & António suggested that management consulting could be defined as an external support for the strategic and operational functioning of the companies, provided to the client in a rational, emotional and creative way through suggestions and recommendations or the implementation of the same.

Moreover, for Lopes da Costa et al. (2014), the management consulting is defined as a distributor of knowledge and new organizational practices within and between organizations.

Fincham et al. (2013), demonstrates the similarities between the concept of "management" and "management consulting", referring that it is complex to understand the difference between consulting and management, once both activities are assuming tasks and functions of the other. Also, António (2012), refers to this similarities between the two concepts, suggesting that management consulting is related to new forms of "smart" management knowledge in its various forms.



### 2.1.2. Consultants

“Management is neither a science nor an art, it is a practice learned through exposure to and experience with a wide variety of companies in a wide variety of industries...Consultants, transcend organizations and thus gain exposure.” (Drucker, 1981)

Peter Drucker was one of the most important people in the Management Consulting thinking, and it was also considered as “the father of modern management” (Cohen, 2009). For him, the consultant is a practitioner, like any other executive. But unlike the executive in the organization, the consultant has *exposure* that is about gaining insight about management and diagnostic capability, through varied cases, different from the corporate executives. Also, he brings to the practice of management what being professional requires: *detachment*, the absolute need to stay free of involvement (Drucker, 1981). According to him, these two characteristics are fundamental and distinguish, in fact, consultants from all the other professionals.

In 1982, Marvin Bower provided 6 criteria that should substantiate the choice of hiring consultants: provide competences that are not available in the firm; have varied experience in the world outside the client’s firm; have time to study problems; are professionals; are independent; have the ability to create action based on their recommendations.

Canback (1998) and Drucker (1981) retained only the second argument related with the consultants’ experience, but Peter Drucker make a differentiation and added some specificities, the so called exposure.

Canato & Giangreco (2011) divide the role of consultants in 4 different points: consultants as standards setters; consultants as information sources; consultants as knowledge brokers; and consultants as knowledge integrators.

**a) Consultants as standards setters:** consultancies build up discourses explicitly to supply the industry with a set of methods and solutions, for which they then can offer full assistance.

**b) Consultants as information sources:** consultants have superior knowledge, experience and expertise in specific industries. They have been exposed to general trends in the industry, contacting with different environments, situations and problems, rather than focusing on a single firm’s specific.

**c) Consultants as knowledge brokers:** the experience gained by assisting clients with different solutions developed in different industries gives management consultants the capacity to use and transfer useful knowledge from one project to another.

**d) Consultants as knowledge integrators:** consultants act as knowledge integrators when they not only advise and instruct, but also help customers to implement solutions and support the processes of knowledge transfer.

Also, in 1983, DiMaggio stated that the standardization of business practices is deeply tied to the access to management knowledge. In this context, he affirmed that consultants play a unique role as carriers and promoters of homogenization, capable of generating isomorphism.

In addition, Kipping and Armbuster, in 2000, affirmed that regardless of their role as creators, consultants have predominantly been disseminators of knowledge.

## 2.2. Management consulting's history

### 2.2.1. Origin and evolution

Regarding the origin and evolution of the industry, the table below summarize the main occurrences over the time since its existence, which are detailed in the following text.

| Timeline                             | Occurrence   | Author   |
|--------------------------------------|--|--|
| Turn of the century 20 <sup>th</sup> | <ul style="list-style-type: none"> <li>• First management consultants.</li> <li>• First consulting firms.</li> <li>• Beginning of scientific management (Taylorism).</li> </ul>  | Canback (1998).<br>Glückler & Armbrüster (2003). |
| 1910 - 1970                          | <ul style="list-style-type: none"> <li>• Second generation of consultants.</li> <li>• Business research services.</li> <li>• Origin of Mckinsey and Boston Consulting Group.</li> <li>• Beginning of the organizational and strategic consulting.</li> </ul> | Canback (1998).<br>Glückler & Armbrüster (2003). |

|                |   |   |
|----------------|---|---|
| 1970 - 1980    | <ul style="list-style-type: none"> <li>• Companies focus on core competencies and outsourcing the rest.</li> <li>• Major accounting and audit firms and other IT companies created management advisory service groups (Deloitte, EY, KPMG e PwC).</li> <li>• Beginning of ICT-based consultancies.</li> </ul>   | <p>Canback (1998).</p> <p>Kipping &amp; Kirkpatrick (2013).</p>                     |
| 1980 - 1985    | <ul style="list-style-type: none"> <li>• Real sector revolution.</li> <li>• 80% of the companies entered in the market.</li> </ul>  | <p>Ernst &amp; Kaiser (2002)</p>  |
| 1985 - 1992    | <ul style="list-style-type: none"> <li>• Requests for management consulting services increased by about 30%.</li> <li>• Industry faced unique growth rates.</li> <li>• In 1987, it generated estimated results of about 288 million.</li> <li>• In 1992 represented a turnover of around 2.1 billion euros.</li> </ul>  | <p>Schlegelmilch et al. (1992).</p> <p>Lopes da Costa &amp; António (2014).</p>     |
| 1992 - Present | <ul style="list-style-type: none"> <li>• In 2005 the total income was around 123 billion euros.</li> <li>• In 2016, the Global Consulting Industry's market size was 251 billion dollars.</li> <li>• In Europe, the Management Consulting industry had also a huge growth and nowadays, the turnover rate is considerably higher than the GDP growth rate.</li> </ul> | <p>Kaiser &amp; Kampe (2005).</p> <p>Consulting.uk (2016).</p> <p>FEACO (2016).</p> |

**Table 1:** Summary table of the main occurrences concerning the evolution of consulting industry and the respective authors. Source: self-constructed table.

Butler (2009) stated that “the advice business is as old as mankind”, and Lopes da Costa & António (2014) affirm that “the management consultancy is one of the most ancient activities in the world”. However, the *first management consultants* appeared around the turn of the 20<sup>th</sup> century, according to Canback (1998). At the same time, some of these consultants also started some of the first consulting firms in the World (e.g. Arthur D. Little, Inc.).

Initially, and according to Canback (1998) these pioneers were mainly concerned with operational efficiency issues (shop floor), and individuals were consulted as “efficiency experts” on production procedures and time and motion (Glückler & Armbrüster, 2003). It was the beginning of Scientific Management (Taylorism).

The *second generation of consultants*, between 1910 and 1940, expanded the concept of management consulting in the World and consolidate their position in the second half of the century. In 1914, Edwin Booz (Booz Allen Hamilton, Inc.) started offering “business research services” (Canback, 1998). In 1926, James O. McKinsey started Mckinsey & Company (Canback, 1998). In 1933, the Glass-Steagall Banking Act in the USA, which separated commercial from investment banks, provided the grounds for the development of a consulting market (Glückler & Armbrüster, 2003). In 1963, Bruce Henderson start the Boston Consulting Group (Canback, 1998) and the real developments on the field started to become globally noticed. It was the beginning of the organizational and strategic consulting (marketing and sales, corporate strategy and organizational structure).

From the 1970s, to respond to new structural conditions (oil price shocks, financial market deregulation, globalization and new Asian competitors) companies became leaner, removing many layers of management, and smaller, concentrating on their core competencies and outsourcing the rest (Kipping and Kirkpatrick, 2013).

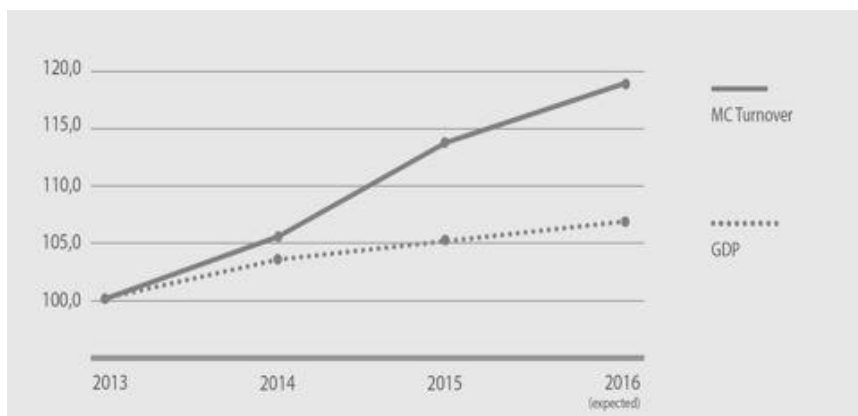
To operate successfully, they need IT based tools (to connect and control both their internal department and their external networks). Thus, major accounting and audit firms, and other IT companies (the earlier users of IT systems, as well as the hardware and software providers) create management advisory service groups and became major

players in consulting industry (Deloitte Touche Tohmatsu, Ernst & Young, KPMG e PriceWaterhouse Coopers) (Kipping and Kirkpatrick, 2013). It was the beginning of ICT-based consultancies.

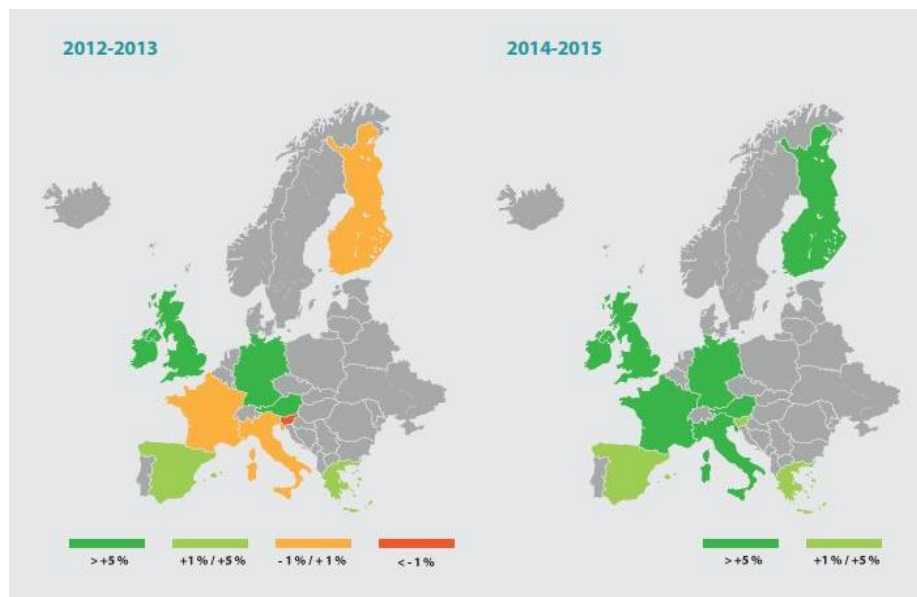
However, management consulting was still in its infancy as an industry (Canback, 1998). According to Ernst & Kaiser (2002), the real sector revolution starts in 1980. In this period, entered in the market 80% of the companies that came to establish the industry.

Between 1985 and 1990 the requests for management consulting services increased by about 30% (Costa and António, 2014). At this time, the industry faced unique growth rates. In 1987, it generated estimated results of about 288 million euros, in 1992 represented a turnover of around 2.1 billion euros (Schlegelmilch et al., 1992), and in 2005 the total income represented worldwide a total in the value of around 123 billion euros (Kaiser and Kampe, 2005). According to Consulting.uk (the leading online platform for the consulting industry in the UK) the Global Consulting Industry's market size was, in 2016, 251 billion dollars.

As it can be seen from the graphs below, in Europe, the Management Consulting industry had also a huge growth and nowadays, after fully recovered from the crisis, keep presenting a turnover rate considerably higher than the GDP growth rate.



**Figure 1:** MC Turnover and GDP, according to FEACO: “Survey of the European Management Consultancy 2015-2016”, page 6.



**Figure 2:** MC Turnover growth rate, source FEACO: “Survey of the European Management Consultancy 2015-2016”, page 5.

### 2.2.2. Legitimation and institutionalization of management consulting

As explained previously, management consulting firms advise managers on strategy and operations, with the goal of improving performance. These consulting firms are all over the world, and are widely recognized and accepted nowadays: management consulting revenues and employment don't stop growing and careers in the industry are among the most coveted (Lemann, 1999).

However, as also explained, it was a long way to arrive here and benefited a lot from structural changes in corporations that increased managerial complexity (Kipping, 2011) and the regulatory changes of the 1930s that limited the roles of bankers and accountants as business advisors (McKenna, 2006). Also, the expansion of business schools and its importance, and the expansion of business press in the early 20<sup>th</sup> century contributed to the rise of management consulting and its institutionalization (David et al., 2013).

Nevertheless, all these changes did not create the necessity for any one particular form of management consulting by themselves. Although today the professional form of consulting is commonplace and highly institutionalized (McKenna, 2006), this consequence was not inevitable. For example, organizations could have internalized the

consulting function or created a different form of advisory organization, affirmed David et al. (2013).

Therefore, according to the same author, for overcame these barriers, pioneers initially worked to make salient contradictions between structures and practices in client firms that clashed with the values of efficiency and rational organization, and pointed to challenges arising from the growing complexity of the corporate form.

However, theorization involves also specifying solutions and not only point out the problems and make them salient. Thus, the need to offer distinctive solutions to the problems, pushed consultants to exploit existing knowledge areas not yet used by top managers (psychological techniques, accounting, natural sciences...), drawing on forms of expertise that were accepted but had not yet been applied to management issues neither to solve organizational problems (David et al., 2013).

Accordingly, the professional form of management consulting had gained considerable legitimacy by the 1950s (Klein, 1977; Kubr, 2002; McKenna, 2006; Kipping, 2011), being considered in the industry as desirable, significant and appropriate (Suchman, 1995), and they were, then, able to attract large and prestigious clients. In 1940, Booz was hired to reorganize the U.S. Navy, and helped create the Army Services Forces. Arthur D. Little, Inc. also consulted for the military in the lead-up to and during World War II, and also for large and expanding firms. McKinsey & Company grew rapidly during that time as well (Bowman 1984).

Additionally to the growth of these firms, were founded new professional consulting firms as, A.T. Kearney, George Fry & Associates and Cresap, and McCormick & Paget (David et al., 2013).

In 1950, the USA invested \$1 million for managing consulting projects in the government, and in 1952 they hired McKinsey & Company to reorganize the White House and advice on political appointments. It was the start of a “golden age” for professional management consulting firms (McKenna, 2006).

The path was rough in the beginning, and most of the first consulting firms were near bankruptcy on some occasions, but at that time (50s), they had become undoubtedly accepted, respected and solid. (David et al., 2013).

### 2.3. Motivations and critical success factors

| Motivations and critical success factors |   | Author                           |
|--|---|----------------------------------|
| <b>Motivations</b>                       | <ul style="list-style-type: none"> <li>• Consultancy provide necessary information and cutting-edge knowledge.</li> </ul> | Back et al. (2014).              |
|  | <ul style="list-style-type: none"> <li>• Legitimacy to innovation.</li> </ul>   | Back et al. (2014).              |
|  | <ul style="list-style-type: none"> <li>• Access to critical information from consultants.</li> </ul>                      | Back et al. (2014).              |
|  | <ul style="list-style-type: none"> <li>• Legitimize, support and justify clients' decisions.</li> </ul>                   | Van Werven & Bouwmeester (2010). |
|  | <ul style="list-style-type: none"> <li>• Expertise and extra staff.</li> </ul>  | Tisdall (1982).                  |
|  | <ul style="list-style-type: none"> <li>• Promote risky decisions and important changes.</li> </ul>                        | Back et al. (2014).              |
|  | <ul style="list-style-type: none"> <li>• Facilitate and implement the innovation.</li> </ul>                              | Back et al. (2014).              |
|  | <ul style="list-style-type: none"> <li>• Access to a network of critical knowledge.</li> </ul>                            | Back et al. (2014).              |
|  | <ul style="list-style-type: none"> <li>• Specialist sectorial knowhow.</li> </ul>   | Czerniawska (2004).              |
|  | <ul style="list-style-type: none"> <li>• Exposure.</li> </ul>   | Drucker (1981).                  |
| <b>Critical Success Factors</b>          | <ul style="list-style-type: none"> <li>• Consultant expertise.</li> </ul>   | Bronnenmayer et al. (2016).      |
|  | <ul style="list-style-type: none"> <li>• Intensity of collaboration.</li> </ul>   | Bronnenmayer et al. (2016).      |
|  | <ul style="list-style-type: none"> <li>• Common vision.</li> </ul>  | Bronnenmayer et al. (2016).      |



|  |   |                             |
|--|---|-----------------------------|
|  | <ul style="list-style-type: none"> <li>• Provided resources.</li> </ul>     | Bronnenmayer et al. (2016). |
|  | <ul style="list-style-type: none"> <li>• Top management support.</li> </ul> | Bronnenmayer et al. (2016). |
|  | <ul style="list-style-type: none"> <li>• Project management.</li> </ul>     | Bronnenmayer et al. (2016). |

**Table 2:** Summary table of the main consultancy’s motivations and critical success factors with the respective authors. Source: self-constructed table.

### 2.3.1. Motivations

According to the literature, and even more, to the statistics and the reality, one may affirm that the management consulting assume today a crucial position in the business world, and in the world in general. Hence, it is possible to summarize some motivations that encourage firms to, nowadays, look for consulting services more and more.

Management consulting is of notable theoretical and practical relevance and a resilient and successful business area (FEACO, 2013).

In a world subject to constant changes and disruptions, it is crucial to keep in the top of the wave and be innovative. According to Back et al. (2014), management consulting firms can provide not only necessary *information and cutting-edge knowledge* but also *legitimacy to innovation* decisions through their support and confirmation, once external consultants may have *access to critical information* that increases their innovation potential.

According to Van Werven and Bouwmeester (2010), one of the most important role played by consulting firms is that of *legitimizer, supporting and justifying clients' decisions*.

Moreover, Tisdall (1982) understands consultancy as facilitating organizational change providing both *expertise and extra staff*.

Consulting firms can make client firms to take *risky decisions* and *promote important changes* by providing *legitimacy for innovation* based on their experience and high-quality analytical skills (Back et al., 2014), or even also reputation (serving as quality assurance seal for the shareholders, for example).

Given extensive knowledge, information, expertise, and even reputation, the involvement of consulting firms can increase firm innovation in terms of both inputs and outputs. Again, consulting firms, usually the leaders in the generation of management ideas and organizational changes, can work as an important *resource to facilitate and implement the innovation*, providing client's firms *access to a network of critical knowledge* that can facilitate innovation (Back et al., 2014).

Czerniawska (2004) stated that *specialist sectorial knowhow* is among consultants' most fashionable and coveted qualities, and pointed the generation of *in-depth knowledge* of a firm's industry, as one of the most important consultancy's benefits.

Additionally, Drucker (1981) refers that *exposure* was always considered one of the fracturing points in favour of consultants that saw so many things in specific industries and sectors.

### 2.3.2. Critical success factors

Management consulting is only well executed and reach all its potential when some factors are ensured. In a study carried out by Matias Bronnenmayer, Bernd W. Wirtz and Vincent Gottel in 2016, they analyzed which factors are more positively related with the success of the projects and with the clients' satisfaction. Thereby, *consultant expertise*, *intensity of collaboration* and *common vision* show the strongest performance impact, according to the authors.

*Common vision* represents the relation between the project objectives and the outcomes, desired both by the client and the consultants. (Bronnenmayer et al., 2016)

*Intensity of collaboration* is related with honest communication, exchange of interests between client and consultant. (Bronnenmayer et al., 2016)

As a people-dependent business, in management consulting it is essential achieve a good fit between the capabilities needed to reach the project objectives and the expertise of the engaged consultants (Covin & Fisher, 1991). Thus, *consultant expertise* that aggregates

important characteristics as the ability to bring consensus, excellent specialist knowledge, extensive industry know-how and project experience, the impetus for new ideas and consider issues from different perspectives, seems to be very important for the success of the projects.

Besides, in their study, *provided resources*, *top management support* and *project management* represent factors that showed a positive impact as well. *Project management* aims to minimize the information asymmetries and improve the project's efficiency through well-planned and strong project coordination and monitoring; *top management support* expresses the management's commitment to the consulting project; *provided resources* embraces the resources which client provide for the management consulting project (human and financial resources, availability, the time frame, and others). (Bronnenmayer et al., 2016)

## **2.4. Management consulting – risks, uncertainty and challenges**

### 2.4.1. Management consulting uncertainty

Uncertainty and frictions are, since always, connected with the consulting market. Nevertheless, as the demand for consulting services grows, so does the skepticism, and some suspicions about the industry appeared (Glückler & Armbrüster, 2003; Tomenendal, 2007; Fincham et al., 2013).

Tomenendal (2007) believes that frictions arise because of asymmetric information and the resulting uncertainty about potential opportunistic behaviour of the partners. Additionally, Fincham et al. (2013) states that the core concern of much management consulting research to date is uncertainty.

For Glückler and Armbrüster (2003), the lack of an accepted definition of management consulting is itself a source of considerable uncertainty for both clients and consultants, and the problems begins here. The author also identified institutional and transactional uncertainty as the two most significant types of uncertainty in the consulting sector. The first one, institutional uncertainty, according to them, arises from the lack of formal institutional standards such as professionalization, industry boundaries, and product standards. Whereas, transactional uncertainty comes from confidentiality of information, the intangibility of the service, and the interdependent and interactive character of the co-production of consultants and clients.

Minimal regulation of the consulting business in terms of legal or organizational norms and standards, and very low market entry barriers, permit that any individual or firm to label their services 'consulting'. The absence of professionalization and standardization, and some characteristics of the industry (e.g. the opportunity for opportunistic behaviour), leads that the quality of consulting services cannot be assessed prior to the assignment. This source of uncertainty has been referred to as performance risk (Das & Teng, 2001). Those kinds of uncertainty are proposed as aspects of the limited extent of institutional or system trust (Glückler & Armbrüster, 2003).

#### 2.4.2. Management consulting challenges

Glückler and Armbrüster (2003) affirm that market success of a consulting firm depend on its ability to create long-lasting and trustworthy networks of client relations and they conclude that networked reputation have to be recognized by consulting firms as a very important approach in order to enlarge their clientele, and create a sustainable and solid strategy. Also Fincham et al. (2013) refers to this challenge claiming that concerning the particular modes of handling with uncertainty, it is crucial to build on trust-based relationships (e.g., experience-based trust towards the other party).

In a more internal level, Srinivasan (2014) divided the challenges faced by the management consulting industry into three broad categories: competition and differentiation; organizational design of the management consulting firm; internal organization of knowledge flows to serve the client needs.

Competition and differentiation, once consulting firms are facing an increasingly fragmented industry with more competition and more heterogeneous players in the market, and it becomes crucial for consulting firms to define their unique identity and differentiate themselves from the rest (Srinivasan, 2014).

Organizational design of the management consulting firm because with the increasing globalization of consulting firms and their clients, the traditional professional partnership organizational form is under threat, and consulting firms had to implement new organizational forms that best suit their contexts and identities (Srinivasan, 2014).

Internal organization of knowledge flows to serve client needs is even more important in a rapidly changing world. High knowledge intensity of management consulting firms

guarantees that firms manage their flows of knowledge proactively within the firm, especially tacit organizational knowledge. Efficient leverage of organizational knowledge is critical for generating and preserving the balance between exploitation of existing knowledge and creating new knowledge, allowing consulting firms to keep in the crest of the wave (Srinivasan, 2014).

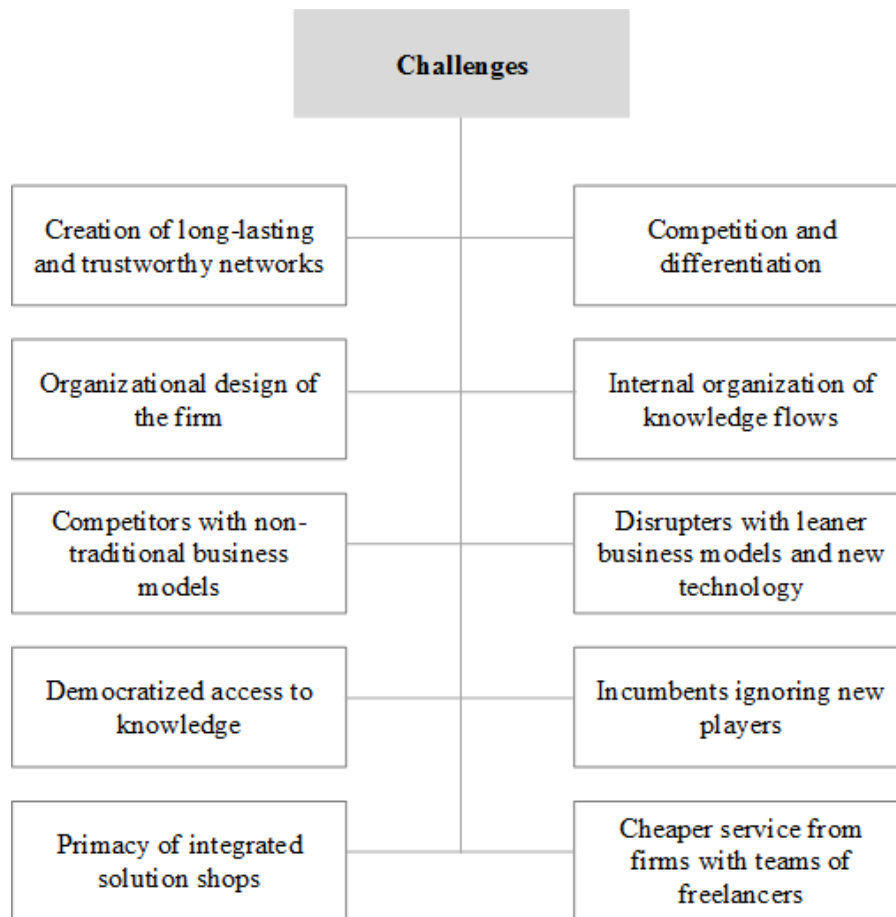
Christensen et al. (2013) also found signs of disruption into the consulting industry and its dynamics – specified below:

- The increasingly sophisticated competitors with non-traditional business models (specialized niche consulting firms) that are gaining acceptance;
- Disrupters march upmarket, armed with leaner business models and new technology;
- Incumbents choose to ignore the new players;
- Predominance of combined solution shops intended to comprise all aspects of the client engagement, are shifting to modular providers specialized in providing one concrete link in the value chain (allowing customers to save a lot of money and avoid the payment for features they don't value)
- Access to knowledge is democratized;
- Firms with leaner project teams of freelance consultants (usually consultants with experience) provide a cheaper service (they don't carry fixed costs on unstaffed time, expensive downtown real estate, recruiting, training...), assuming much more client control over the approach and outcome.

Some people from the consultancy world are sceptic about all these changes. And it is understandable the thinking of consulting as an immune industry against disruptions, mainly because of 2 factors: opacity and agility, according to Christensen et al. (2013). On one hand, the factor opacity, that according to the author, results from the fact that prestigious firms have evolved into “solutions shops”, and because it's extremely difficult for clients to judge a consultancy's performance. On the other hand, the factor agility results from the practiced ability to move smoothly from big idea to big idea, using their mainly asset - the human capital.

These mentioned characteristics made the consulting firms bulletproof during the last years. Nevertheless, access to knowledge is being democratized, and clients no longer

have to pay the fees of big consulting firms. The modular providers are now offering advice based on the research they specialize in gathering. The range of problems requiring strategic solutions also should shrink and the competition never was so strong. Keeping innovative, differentiated and efficient is the main goal and essential for the survival. (Christensen et al., 2013)



**Figure 3:** Main challenges faced by the consulting industry based on the literature. Source: self-constructed.

#### 2.4.3. Digital transformation and technology – the next big challenge

Digital transformation is now a reality and according to Reddy and Reinartz (2017) there isn't almost a single thing that has not been affected. Schwertner (2017) seems to agree, adding that the world economy is transforming into a digital economy with a proliferation of cloud computing, big data and analytics, mobility and broadband connectivity, e-commerce, social media and the use of smart sensors and the internet of things.

Both authors (Reddy & Reinartz, 2017) advance also with two definitions stating that digital transformation, in a traditional sense “refers to the use of computer and internet technology for a more efficient and effective economic value creation process”, and in a broader sense it refers to the “changes that new technology has on the whole, on how we operate, interact, and configure, and how wealth is created within this system”. For them, the digital transformation has an obvious impact on the economic systems and commercial players, but also on the lives of individuals and on society in general.

Kotarba, in 2018, firstly came with the definition of digital, stating that digital is the “formation of new entities and relationships driven by application of information technology”. Regarding digital transformation, the same author defined the digital transformation as the “modification or adaptation of business models, resulting from the dynamic pace of technological progress and innovation that trigger changes in consumer and social behaviors”.

Schwertner, in 2017 advanced what he defined as digital business transformation, affirming that the concept means the use of technology to create new business models, processes, systems and software, which results in additional profitable revenue, greater efficiency, and superior competitive advantage. He added that digital business transformation results in significant changes in the organizations’ way of work, since it incorporate new digital technologies into all business areas.

However, the authors (Reddy & Reinartz, 2017; Schwertner, 2017; Kotarba, 2018) also agreed that all these transformations can entails some risks. Reddy and Reinartz (2017) stated that these transformations will bring superior tangible and intangible value, however, changes also bring costs and risks, and unforeseen, sometimes. Thus, all these possible benefits and risks will have to be evaluated, but according to them, resist to innovation is not an option. Schwertner (2017) added that rapid changes in the digital environment entail shortening strategic planning times and shrinking to annual planning, careful handling of extrapolation of existing data, perception of the need for continuous change, decentralized management, etc.

Other risks, costs and challenges were identified by the authors Reddy and Reinartz (2017) who warned that customers can loss privacy and be harmed by performance uncertainty, companies can have to face new competitors and faster innovation cycles, individuals will face the possibility of automation replace the human workforce, and

society has some challenges for taxation and regulation, and data protection will also be an important challenge.

Schwertner (2017) also stated that the capacity to manage and protect consumer data is a challenge in this progressively digital world that is faced by most of the existing industries, and affirmed that the main adversities and barriers to the digitization of companies are cultural traditions, resources' resistance to change, absence of good methods and pertinent knowledge and, lack of adequate resources, and lack of motivation and risk taking, rather than the human factor. For him, digital business transformation is only positive and successful with a solid strategy and leadership.

Nevertheless, the benefits of the digital transformation are undeniable, according to the recent literature. Reddy and Reinartz (2017) identified the lower costs of interaction (information exchange, coordination, safeguarding, enforcing...) and reducing information asymmetries, for example. Also, the fact of the number of connections in economic and societal systems are growing exponentially. The big data is also mentioned, and the fact of being accessible everywhere and in real time.

To conclude, Reddy and Reinartz (2017) believe that there is potential benefits for everyone. The customers can benefit from new products and services, more choice and lower prices; the companies from greater efficiency and effectiveness, and even opportunities to enter in new markets; the individuals from an easier sharing and renting, more flexible work models and new opportunities with crowdsourcing and crowdworking, for example; the society, can benefit from better public services and a more efficient public administration. Schwertner (2017) selected cloud computing, internet of things, mobile technology, and big data and data analysis as the main opportunities created by this digital world.

Reddy and Reinartz (2017) also identified five common factors that characterize the new disruptive companies and how successful they will be: low margin, asset-light, scalable, innovative, and compliance-easy. Thus, they operate on low margins (profit due to volume), they have an asset-light structure, they have the ability to scale up fast, they are innovative in terms of technology, and they have to be either compliant or to work with regulators and other stakeholders in order to survive and thrive.

Regarding the last reports of some of the most reputable consulting firms, it is also possible to identify some important changes, challenges and trends predicted for the near



future of the world that may affect the management consulting industry and the world in general. The main one is, undoubtedly, the digital transformation, the technologies and all that it entails. According to the report from PwC: *Five Megatrends and their implications for global defense & security (2016)*, the digital revolution is altering behaviour and expectations, as well as the tools applied to deliver services and experiences. Additionally, from the report, it is clear that digital businesses are changing the game, entrepreneurship don't stop to rise, and new competitors will emerge.

The report from EY: *Megatrends (2015)*, indicate the disruption (fuelled by the convergence of social, mobile, cloud, big data and growing demand for anytime anywhere access to information and technology) as a challenge, mentioning that it is taking place across all industries and in all geographies, and new challenges will become visible. Moreover, big data is another actual phenomenon, taken as the key for innovation and productivity.

According to the McKinsey report: *Big data: The next frontier for innovation, competition, and productivity (2011)*, the amount of data in our world has been exploding, and analysing large data sets (big data) will become a key basis of competition.

In the PwC report, they go further affirming that the ability to gather and analyse data in real time may become a requirement for doing business, rather than a competitive advantage. Jody Miller, BTG's CEO, in 2013, seemed to agree to what was mentioned by stating that "democratization and access to data are taking out a huge chunk of value and differentiation from traditional consulting firms".

Moreover, according to Christensen et al. (2013), it's expected that as artificial intelligence, predictive technology and automation improve, the pace of productization will increase. They defend that these solutions will only get better with time and they will radically level the playing field of any industry in which opacity is high, reducing brand-based barriers to growth.

The report from EY also reflects that knowing how to internally adapt to these radical changes, and keep technologically able to advise the companies in all the challenges that the evolution of the digital enterprise presents as new competitions, changing customer engagement and business models, unprecedented transparency, privacy concerns and cyber security threats, is crucial and vital for all the consulting industry.

## **2.5. Management consulting in Portugal**

The first management consultants appeared in Portugal between 1940 and 1950, carried out by academics and consulting departments of large economic groups existing at the time (Sismet, 1993).

During the 1960s there was the first peak of consulting services called by Amorim and Kipping (1999) as the period of the first wave of industry development, based on a government effort in modernization and industrial development. Nevertheless, the national consulting companies were, at that time, low developed, opening space for the entrance of foreign companies.

In 1969, McKinsey entered the Portuguese market to reorganize the Union Manufacturing Company (CUF), though it not has established a permanent presence in the country at this stage (Amorim & Kipping, 1999).

However, in Portugal, more than by shifts in services, the evolution of the consulting industry occur by two main political happenings (Freire, 2008). Thus, the second generation was in 1974, with the revolution of April 25 and the beginning of the democracy. At this time, the loss of the access privileged of the colonial markets, and the nationalization of the financial sector and some industrial companies, altered the focus of the consulting industry. So, the companies of this sector could no longer respond and meet the needs of companies which were then in the process of nationalization, ruling now the worry about labor relations and industrial organization (Cunha & Marques, 1995). Again, new opportunities to foreign consulting companies, that offered consulting services focused on industrial organization and labor performance.

In 1986 occur the second key political event, and Portugal joined the European Economic Commission. Since then, Portugal has experienced a high-level economic growth and its industrial structure also changed significantly. Most of the large state-owned enterprises, including some of the major utilities, have since been privatised. From this time, many large companies grew considerably and diversified their activities (Cunha & Marques, 1995). FDI also increased a lot and the Portuguese economy faced one of its most interesting phases.

The management consulting market grew in Portugal with the growth of SMEs and entrance of some multinational companies (McKinsey in 1989; Boston Consulting Group

in 1995). In more recent years, the market is being divided in 2 segments: multinational consulting firms and small and medium consulting firms. (Freire, 2008)

Multinational consulting firms, with main clients from national and international companies whose consultancy market is focused on IT services, strategy and corporate finance.

On the other hand, there is the supply of services from a big number of small and medium consulting firms whose competitors are public and semi-public organizations, where the main clients are small and medium national companies, and main services provided consist in economics studies, European funds application, quality systems, and training. (Freire, 2008)

The increased pressure of competition, governments, suppliers, financial institutions and even the customers, forced companies to use the support of external consultants, both in matters of a strategic nature, or operational in nature. And as these pressures should be maintained in the medium to long term, it is expected that the market continues to flourish. (Costa & António 2014).

So, it is possible to conclude that although the management consulting market in Portugal has developed late due to the backwardness of the Portuguese economy in terms of the level of development and industrial structure, its growth has been steady over the years (Costa & António, 2014).

According to the last report related with the consulting industry published every year by INE Portugal, in 2016, the value of *Services Provided to Companies* (Serviços Prestados às Empresas, in Portuguese) increased 4.4% (2.7% in 2015), reaching 13.798 million of Euros. Moreover, 110.891 companies provide these services, employing 367.486 people (+ 4.1% than in the year before, after + 5.6% in 2015) and generated a gross value added of 7.870 million of Euros (+ 5.5%; + 1.8% in 2015). The gross operating surplus, registered a growth of 8.4% comparing with the year before (- 3.9% in 2015), reaching 2.255 million of Euros”, we can conclude that the consulting industry returns to great growth rates, also in Portugal. (INE’s reports: “Estatísticas da produção industrial 2014” and “Estatísticas da produção industrial 2015”).

Of these 13.798 million of Euros, accounting, auditing and consulting represents 28.2% (3.850.779 million of Euros, more 2.5% than in 2015), and IT sector, represents 26.3% (3.324 068 million of Euros, more 7.9% than in 2015, far above the average, 4.4%),

remaining as the sectors that contributed the most to the item 'Provided Services to Companies'. However, the IT sector is having bigger growth rates and it is expected that overcome the accounting, auditing and consulting weight soon, which comes related with the higher importance of the technologies and information systems in all sectors around the world. (INE's reports: "Estatísticas da produção industrial 2014" and "Estatísticas da produção industrial 2015").

Analysing the residence of the clients, it verifies that the EU's market is getting more significant, absorbing, in 2016, almost 12.2% of the total 'Provided Services to Companies' item, and the private sector represents the main side of the clients, and it is increasing its importance comparing with the public one. (INE's reports: "Estatísticas da produção industrial 2014" and "Estatísticas da produção industrial 2015").

This growth in the management consulting industry, come together with a generalized growth in both the financial sector and the non-financial sector of Portuguese companies, and the Portuguese economy in general in the last couple of years. For instance, sectors related with the tourist accommodation activities have presenting exponential growths (turnover variation between 2014 and 2015 was equal to 10.1%) and even traditional sectors as the agriculture and fisheries are growing in an interesting basis (turnover variation between 2015 and 2015 equal to 6.2%). (INE's reports: "Estatísticas da produção industrial 2014" and "Estatísticas da produção industrial 2015").

## **2.6. Service lines and sectors in the MC**

In an industry so diffuse and with no boundaries defined, it was not few times that different authors tried to segment, divide and establish limits and borders. According to Christensen et al. (2013), nowadays is even more difficult to made this distinction once the traditional boundaries between professional services are blurring and there is even more interdependencies between services and solutions, but Glückler and Armbrüster, (2003) stated that different kinds of services often overlap within a single consulting project, and the separation and distinction of these services would be artificial and largely pointless. However, it is common to see a division between service lines.

Gross and Poor (2008), by their turn, divided it in 4 different segments: strategy and human resources, core areas in the beginning of the industry, and IT and operations, the dominants nowadays.

In the annual report of FEACO (Survey of the European management consultancy 2015-2016), the management consulting market is analysed by seven service lines: strategy; operations; sales and marketing; finance and risk management; people and change; technology; other service lines (complementary professional services).

According to this report, in 2016, the two main service lines were operations and technology. Comparing with the situation in 2008, before the crisis, one may denote that strategy lost its central position, and technology is assuming, more and more, a dominant position. “Digital transformation has changed the game” - assumed Ezio Lattanzio, FEACO chairman - creating the need of a different set of services and generating opportunities “to new players that have their roots in mastering digital technologies more than in developing advices and that are going to enter into the market with new business models”. Different solutions, processes and specializations are coming to the field in a dizzying speed.

Also, in the FEACO annual report (Survey of the European management consultancy 2015-2016), the industry is analysed and divided by clients/sectors. It is defined the three most important clients/sectors, and then detailed by industries within the services: the manufacturing sector (includes for example all the consumer and industrial products), the service sector (includes financial services, energy, utilities, telecoms and retail...), and the public sector (governments, public healthcare...). The European management consulting industry is dominated by the private service sector, occupying more than 50% of the total turnover in 2015, and financial services and consumer and industrial products are the highest spenders.

Gross and Poor, stated that in 2008, the three leading markets or clientele groups were manufacturing and natural resources, the financial sector, and governments or the public sector. The remaining with was fulfilled by the service industries (telecom and transports, for example).

## **2.7. The so called “*Big Four*”**

Much of the actual world of the consulting industry started to be designed many years ago in the accountancy industry. That was dominated by a group of firms known as the Big Eight for much of the 20th century: Arthur Andersen, Arthur Young & Co, Coopers

& Lybrand, Ernst & Whinney, Deloitte Haskins & Sells, Peat Marwick Mitchell, Price Waterhouse and Touche Ross (Financial Times, 2015).

After their expansion during the 1950s and 1960s, the opportunities to sustain to grow in the audit market were limited and they started to invest in their consulting practices, reaching today an incredible position (Meckfessel, 2017).

Fincham et al. (2013) confirmed it and identified, thus, a set of five consulting companies that over the course of the years are representing a significant proportion of the industry's profits - the "the big 5": Arthur Andersen (that ended up to be forced out of business by the American authorities in 2001, due to the Enron's scandal), Delloite & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers (PwC).

Thus, and after decades of growing, mergers, scandals and crisis, they become nowadays the so called Big 4 (Deloitte & Touche, PricewaterhouseCoopers, KPMG, and Ernst & Young) (Financial Times, 2015).

However, from all the scandals, the one that revolutionized the auditing and consulting world, was the Enron financial scandal that culminated with the Arthur Andersen's demise, that took the Congress to pass the SOX Act of 2002 (Sarbanes-Oxley Act) - in which Arthur Andersen, the company's auditor, also provided lucrative consulting services to Enron, which many observers believed compromised the auditor's independence (Arthur Andersen, in 2000 at Enron, alone, profited about twenty million euros in auditing processes and more than twenty million euros in the consulting business (Fincham et al., 2013).

Since always, but mainly after the Enron scandal, the regulators are being focused in the possible issues of conflicts of interests in the audit and consulting firms.

As a way to mitigate these conflicts of interest, the 2002 Sarbanes-Oxley Act restricted auditors from supplying non-audit services, as consulting to their audit clients. (Financial Times, 2015).

Thus, in the beginning of the XXI century, and due to the pressure of the regulators and the turbulence in the area, the result was a paradigm shift, and some of the companies sold their consulting arms.

In the year 2000 Capgemini acquired the consulting business branch of Ernst & Young. In 2002 PricewaterhouseCoopers sold it to IBM. Also in 2002, KPMG sold all its UK and

Germany business consulting practices to Atos Origin. Still in that year, the Arthur Andersen consulting practices were also incorporated into Deloitte & Touche (Lopes da Costa, 2013).

Conflict of interests, reducing professional focus and audit quality are pointed out as the main reasons for these frictions (Meckfessel, 2017)

However, there are signals that these firms are returning to the past and, nowadays, Big 4 are seeing their consulting revenue grow much faster than their auditing revenue, which is producing serious concerns in the regulators (Wall Street Journal, 2013).

Moreover, and according to the US Public Company Accounting Oversight Board, from 2011 to 2013 the consulting arms of the Big Four are now growing faster than traditional management consultants (Financial Times, 2015).

The US Public Company Accounting Oversight Board (PCAOB) Chairman James Doty represent well these concerns and stated that the implications for independence, objectivity, scepticism, audit quality couldn't be ignored (Meckfessel, 2017).

For that reason, in 2014, European regulators passed important modifications in the legislation. "Mandatory rotation" comes on the top, demanding companies to change auditor at least every 20 years and imposes a 70 per cent cap on the fees a firm can generate from non-audit services. Moreover, forbids some advisory services and stated a prohibition on contractual clauses in loan agreements that require the audit to be performed by one of the Big Four firms (Financial Times, 2015). In the USA, the House of Representatives blocked similar proposal (Journal of Accountancy, 2015).

Steven Harris, a PCAOB board member, concluded that "audit independence and audit quality could be threatened by the growth of the advisory and consulting services at the largest audit firms". The next steps taken by the regulators will be, undoubtedly, crucial for the reality of these companies and the market in general (Financial Times, 2015).

## **2.8. Business models**

At this stage, the main concepts concerning management consulting are already clarified and analysed. In this chapter it will be studied another concept critical to this dissertation: business model.

Despite the concept of business model became an important and attentional theme from academics and practitioners, the initial writer on business models and its beginnings was Peter Drucker (Hanák & Slávik, 2017).

Drucker, the initial writer on business models define it with two fundamental questions: “Who is our customer? What do they want?”. The answers would be the basis for defining the business model (Ranjith, 2016). Thus, according to Drucker, the elements that compose a business model are: customers, value propositions, product/service offerings, and mechanisms of value creation and appropriation (Fjeldstad et al., 2018).

According to Fjeldstad et al. (2018), a business model is related with a firm’s operation, how it generates value for customers, and also how seizes value by executing the activities in an effective and efficient way. Secondly, a business model concerns the company’s dynamics, i.e. how a firm alter and adjust the elements that compose its business model as a way to adapt to diverse changes happening in its environment.

Geissdoerfer et al. (2018) seemed to agree to the business model’s features mentioned arguing that a business model is a “representation of the value proposition, the value creation and delivery, and value capture elements and the interactions between these elements within an organisational unit” (Geissdoerfer et al., 2018).

For Ranjith (2016), business models are “firm’s theory of competitive advantage, and above all it creates value to its shareholders”. Teece (2010), adds that a business model “describes the design or architecture of the value creation, delivery and capture mechanisms employed”.

In fact, business model is an internal system that solves the existential condition of the company, is about how a company works. At the same time, it will have significant implications on the market position of the company, assuming a huge importance for its future (Hanák & Slávik, 2017).

It is important to refer that business model differ from business strategy in several senses (business strategy is not an internal system but an external (competitive) approach, and it’s not so generic), however, there is influences between them and a higher degree of intensity of this relationship improves the market position of the company and may be a potential source of higher company performance (Teece, 2010; Ranjith, 2016; Hanák & Slávik, 2017). Therefore, Ranjith, (2016) define an effective business model as an aggregation of purposeful alignment of capabilities and resources to achieve competitive



advantage and conclude that superior business models have the capacity to provide value proposition, stronger competitive positions compared to the competitors and rivals, and capacity to maintain profitability. Moreover, the ability to modify a business model in a fast and effective way is a significant source of sustainable competitive advantage (Geissdoerfer et al., 2018).

## **III – METHODOLOGY**

### **3.1. Research paradigm and objectives**

The consulting industry has all over the history, helping companies to overcome several challenges and changes in all sectors of activity. Consulting companies due to its nature and characteristics, are the basis for the reinvention of the companies.

Nowadays, the market is suffering one of the biggest revolutions due to the transformations created essentially by the technology (digital transformation), that is generating important changes in the market in general.

Consequently, there are many challenges and opportunities to the consulting industry. Thus, this dissertation intends to:

- i.** Understand the market composition regarding the sectors of activity in the consulting industry (before and after the digital transformation starts to become so relevant).
- ii.** Investigate the impact of a world characterized by the digital transformation on the consulting firms' strategy.
- iii.** Investigate the different business models within the consulting industry as a way to understand how are those firms operating through and for digital transformation.

### **3.2. Research questions and hypothesis**

#### 3.2.1. Research questions

The main research question to be explored in this dissertation is the following:

*How are consulting companies adapting their business models to the digital transformation?*

To analyze this main question, this study is structured regarding different sub-questions that are going to be investigated, namely:

- Is the digital transformation currently influencing companies' investment in certain operating sectors?
- How the digital transformation can influence the companies' decisions regarding their offices' geographical disposal?

- Do geographical disposal of consulting firms represent a strategic factor for the digital transformation and expansion of the companies?
- Which are the mechanisms and tools used by consulting companies to face the digital transformation and follow the market trends?
- What are the consulting companies' approaches to grab new opportunities resulting from the digital transformation?
- What are the factors that contribute the most for the companies' differentiation nowadays?
- How consulting firms perceive the future of the business and the market in general?

### 3.2.2. Research hypothesis

***Hypothesis 1: Digital transformation is directly influencing the geographical disposal of consulting firms.***

Concerning the geographical disposal of the companies, it is important to understand in which way all these decisions can impact their own strategy, what is the main reason behind it, and what they consider as the most positive factor of that choice. Also, it is relevant to understand how the digital transformation is influencing the companies' decisions regarding their physical offices.

Therefore, *hypothesis 1* which considers that the digital transformation is influencing the geographical disposal of consulting firms will be assessed.

***Hypothesis 2: Digital transformation is increasingly influencing the consulting companies' strategy regarding their investment in operating sectors.***

All over the existing literature, it is understandable an apparent pattern regarding the main client industries in the management consulting industry, that was later confirmed during the interviews. However, it is also known the strong way that digital transformation is transforming the consulting business and the market in general. Thus, this hypothesis aims to study if, and in which way, the companies' future strategies regarding their investment in the operating sectors are changing and being influenced by the digital transformation.

***Hypothesis 3: Management consulting firms present concrete strategies and procedures to be aware of the trends and grab the inherent market opportunities.***

Digital transformation is influencing consulting firms in several ways, and different challenges and opportunities are appearing. In this hypothesis it will be verified if, and with which strategies, consulting firms are following the trends and the market opportunities, and which strategies they have to grab these opportunities.

***Hypothesis 4: Management consulting firms are implementing specific measures and mechanisms as a way to adapt their business models to their clients' digital transformation.***

It's unquestionable that digital transformation is strongly impacting and influencing all the sectors of activity (and consequently, consulting firms' clients) creating new challenges for the market in general. According to its own characteristics and nature, consulting firms are, many times, the basis for the others company's reinvention, primarily due to their advisory function. Thus, consulting firms have also to face these issues, and this hypothesis aims to assess if consulting firms are implementing measures and mechanisms to adapt their business models to the referred digital transformation.

### **3.3. Research context and design**

Since this research intends to analyze *how are management consulting firms reinventing their business models in a world of digital transformation* from the population of consulting firms in Portugal, in order to identify a proper representation of the reality, the selection of the sample was made in a judgmental sampling, a non-probability sampling technique, which means that the selection was done by applying expert knowledge of the population to decide which characteristics are relevant to be represented (Lavrakas, 2008). As the designation indicates, non-probability sampling techniques involve researchers drawing samples from a larger population without requiring random selection. (Tansey, 2007)

As a result, the target population intended in this study will regard members of the companies that holds management positions, including in this category, directors,

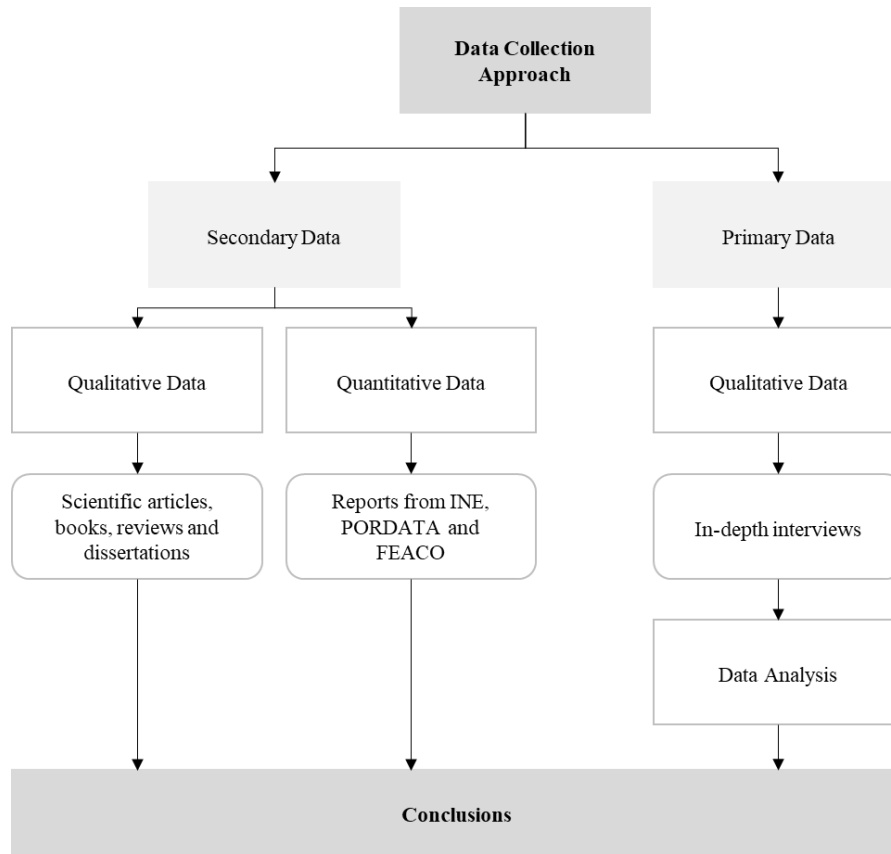
partners, senior managers, and managers from firms located in Portugal where management consulting offices could be found. The importance of the interviewees' experience was the main factor to invite mostly respondents with top management positions that are related, typically, with more strategic functions. The invitations were sent to members of the selected 30 companies by e-mail and LinkedIn, and since the response rate was 50%, the final sample size consisted of 15 respondents from 15 different consulting companies in Portugal.

The present research can be considered as a qualitative research that, according to Lavrakas (2008), "it is an inductive and context-specific research that focuses on observing and describing a specific phenomenon, behaviour, opinions, and events that exist to generate new research hypotheses and theories". This type of research is based on words, feelings, emotions, sounds and other non-numerical and unquantifiable elements (Herbst & Coldwell, 2004)

In this investigation, the qualitative research was done by conducting *in-depth interviews* with the executives of the chosen firms. According to Arthur et al. (2017), in-depth interviews are "purposeful interactions in which the investigator attempts to learn what another person know about a topic, to discover what that person has experienced, what he or she thinks and feels about it, and what he or she thinks about it". Therefore, in-depth interviews was the research method chosen since it provides more clear information, allowing the executives to better elaborate their ideas and allows the interviewer to ask for some clarifications.

### 3.4. Methods of data collection and analysis

#### 3.4.1. Data collection approach



**Figure 4:** Data Collection Approach. Source: Self-constructed.

Regarding the data collection techniques, it was first collected secondary data. Secondary data corresponds to data collected by someone else for another primary purpose (Johnston, 2014). It is broadly material created by other researchers that is available for reuse by the general research community (Hox & Boije, 2005). Accordingly, secondary data was gathered in order to study the general circumstances of the Portuguese industries, namely, were consulted reports from INE and PORDATA in the last 10 years and other reports from FEACO that provides important insights about the consulting industry in Europe. Moreover, secondary data was collected from scientific articles, books, reviews and master and doctorate dissertations to gain a deep understanding of the subject and analyse its mains concepts and topics, presented in the chapter of the literature review.

Primary data was also collected, which by definition means “data collected for the specific research problem at hand, using procedures that fit the research problem best” (Hox & Boije, 2005), through the fifteen interviews with the top executives from the firms which enable the analysis of several crucial factors, namely, the company’s business models, its main operating sectors, the geographical disposals, its internal and external strategies, and provided the main conclusions of this study. The referred interviews were conducted between February and May 2018 with an average duration was 45 minutes. It was made a questionnaire that can be found in appendix 7.3, as a way to guide the interviews composed by thirteen open question divided in four different groups: the context and background; the company’s structure; companies’ innovation and differentiation in the market; and lastly, the future vision.

To analyse the collected data from the interviews, a content analysis was set. Content analysis was the one chosen since it is a research method that is applied to the verbatim responses given to open-ended questions (Lavrakas, 2008). According to Chelliah et al. (2015), content analysis allow to identify and classify patterns through texts, representing a vital tool when examining the identity that management consultant firms portray.

#### 3.4.2. Pretest

Before starting with the interviewing process, a pretest was elaborated, as recommended in the literature by several research specialists such as Cooper and Schindler (2013). The main reasons for pretesting interviews are to discover how to increase the motivation of the participants; increase the likelihood of engagement; discover any possible problems related to content, wording and sequence of the questions; discover any target questions which require deeper research; and lastly, find out ways to improve the overall quality of the questionnaire (Cooper & Schindler, 2013).

Accordingly, before proceeding with the interviews, a pre-test was conducted with the participant from the *company M*. In that event, it was tested the pertinence of the questions, their sequence, the time of the interview, the behaviour of the interviewer, the disposal of the interviewer and it was also checked if it would be relevant and pertinent to add more questions to the questionnaire. In general, it was not found by the participant any particular constraints, fault or errors in the questionnaire, and the results obtained were considered in the data collected and analysis.

### 3.4.3. General Considerations

As previously mentioned, 15 organizations participated in this study. However, taking into consideration that the participants requested to remain anonymous, as well as the company they represent, the identification of the companies and the respective participants is occulted in this dissertation, and the companies are here identified and distinguished by alphabetic letters, as it can be seen in appendix 7.1.

It is also significant to note that there isn't any personal relationship or connection between the researcher and the participants of the investigation.



## **IV – DATA ANALYSIS**

The present chapter aims to analyze the findings and results of the information gathered and processed from the fifteen conducted interviews with the executives of consulting companies working in Portugal in order to assess the research hypothesis and extract insightful conclusions of the topic.

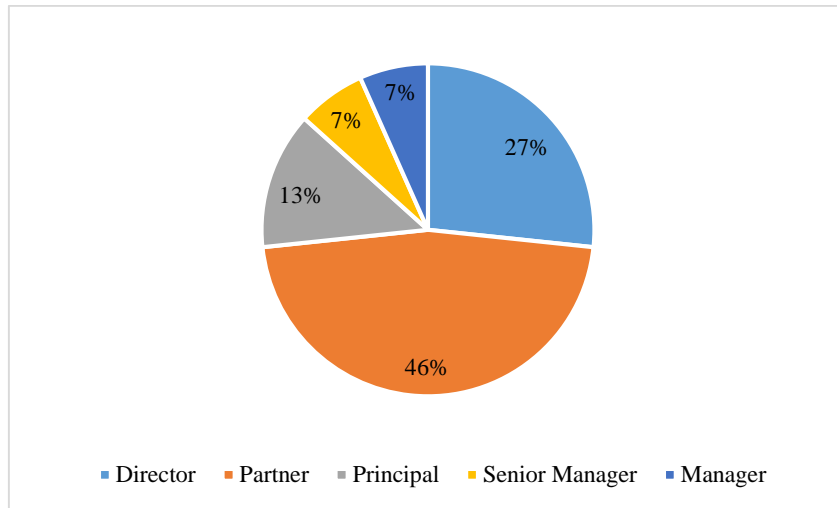
The analysis is firstly divided in four different groups. The first one - the context - intends to introduce the company and the interviewee. The second section, namely structure, presents the services provided by the company, its organization, and the main operating sectors. Differentiation and innovation is the third section that aims to analyze the way company react to the market and the strategies used to differentiate their business model as a way to achieve a competitive advantage. The final section represents the future vision of the companies regarding the consulting industry and the market in general.

### **4.1. Context**

#### **4.1.1 Role in the company**

In order to get a deeper and more consistent insights from the consulting firms, it was chosen different people, in different positions, from the companies selected for the study. Giving preference to top managers, there was the opportunity to interview 7 partners, 4 directors, 2 principals, 1 senior manager, and 1 manager. As the investigations is more focused on the strategic part than the operational one, all the respondents have strategic and/or management functions.

The manager referred is in charge of the financial services, in the consulting part, and the senior manager, in the strategy and corporate finance part. All the others interviewees have more wide functions, mostly, strategic ones.



**Figure 5:** Interviewee’s role in the company. Source: self-constructed chart based on the interviews obtained, 2018.

#### 4.1.2. Number of employees

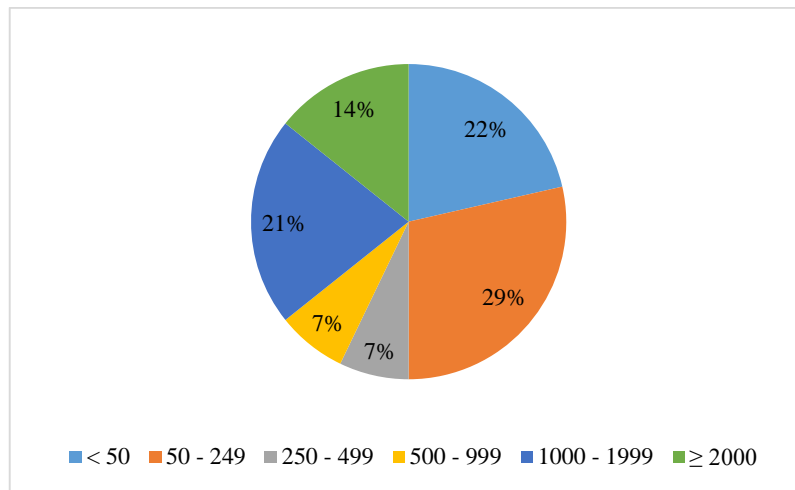
After the selection of the companies and also the people interviewed, it’s pertinent for the study to understand the size of the selected companies in Portugal. These data allow to organize the different companies regarding their size and to verify in which way, companies with similar size have, or not, similar behaviour in the market.

According to the European Commission recommendation 2003/361/EC, there are three criteria to categorize the companies (micro, small and medium-size enterprises): Staff headcount; annual turnover; balance sheet total.

With the present data, it is possible to categorize the companies focusing on the number of effective employees that states that a company with less than 10 employees is considered a micro company, with less than 50 employees a small company, and with less than 250 is a medium-size company.

From the selected companies, two of them have 25 employees, and one of them 45. These companies can get into the category *small* companies. Then, there are four other companies with between 50 and 250 employees that can be considered as a *medium-size* company.

Outside the SMEs group (7 companies), there are one company with more than 250 employees and less than 500, one more between the 501 and 1000, three between 1001 and 2000 and also three with more than 2000 employees.



**Figure 6:** Companies' number of employees. Source: self-constructed chart based on the interviews obtained, 2018

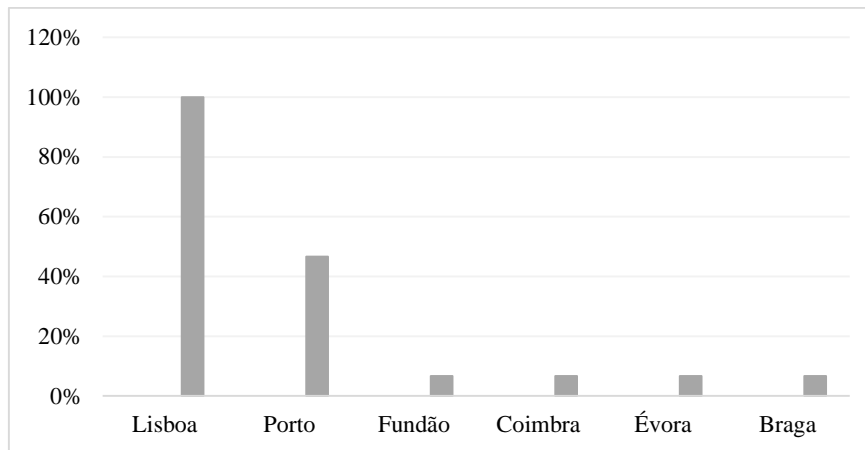
#### 4.1.3. Offices in Portugal

Another important question regarding the strategy of the different companies is related with their geographic disposal. Therefore, and to conclude the context part, it was asked where the companies have present physically their own offices. This information will be more explored later, in order to understand the real impact of that decision in the companies' strategy.

First of all, all the companies have, at least, one office in Lisbon. However, only 6 of them have a physical office only in Lisbon, since 9 of them also have an office in other cities as well, and 2 companies have offices in three different cities.

Consequently, 7 of these companies (about 50%) also have an office in Oporto (the second biggest city in Portugal). Coimbra, Braga, Evora and Fundao are all cities with one office from one of the companies that composed this study.

The companies with offices in cities apart from Lisbon and Oporto have in common the fact of being all originated in the technological area (*company F*; *company G*; *company H*; *company J*).



**Figure 7:** Companies' offices present in Portugal. Source: self-constructed chart based on the interviews obtained, 2018

## 4.2. Structure

### 4.2.1. Services

Regarding the structure of the companies, and in a more internal level, it was asked which services these companies provide. In a general view, it is understandable some differences in their origin and focus. There are companies more focused in the technological level and others in the strategic level, for example.

Accordingly, besides the services provided by these companies, it is possible to divide them into 4 groups: IT companies; big 4; strategic consulting companies; and local consulting companies.

The IT group, with an obvious higher weight in the provision of technology services, is represented with 7 companies in the sample. Big 4, where there was the opportunity to interview 3 of them, and that have the particularity of having born in the auditing world. Two of the companies belonging to the strategic consulting group with a more orientation for the strategic part of the consulting (advisory) than the proper implementation. Lastly, it was interviewed 3 local consulting companies, i.e. Portuguese companies with a more confined scope and a greater focus in the Portuguese market.

Regarding their specific services, the *company F*'s participant divide their offer in three different units: strategy, technology and outsourcing. Here, the technology and the digital transformation is transversal to all units, and the specific business unit related with the technology prove its importance for the company.

*Company G*, that also belongs to the IT group, provides services related with engineering and R&D. The investment in these services is justified by their belief that the level of outsourcing services by the biggest R&D investors (manufacturers as Microsoft, IBM or BMW) will increase dramatically and these companies will no longer have the development of their product 100% in-house, due to the pressure they have to launch new products and respond to the competition. The participant truly believes in a future with co-development and co-investment between the manufacturer and the consulting firms.

Another technological consulting firm is *company H*. Although the referred company have a more strategic line of business, their core business is technology. The biggest consulting firm with European origin, have as their more profitable line of business the development and maintenance of information services and technological solutions. The participant believes in an increasing proximity between the business and technology areas and they try to offer a service with both competences. They also invest in different services as the digital customer experience (automation), enterprise resource planning and cloud platforms, always with a technological transversal focus.

*Company I*, another big technological consulting company, also invest in the development of new technological concepts and solutions. They also have services related with strategic consulting, BPO, and outsourcing.

The biggest Portuguese IT consulting company is *company J*. In the interview, the interviewed partner stated that they are positioned between the generalist consulting companies and the IT (implementation) ones. Their main services are the conception and integration of systems, and the implementation of their own products and solutions.

*Company K's* respondent affirm that consulting only makes sense behind one or more information systems or a digital strategy, emphasizing their technological side. Their logic is always to use information technologies as a tool for the implementation of strategies. The company provides services based on the design and development of information systems and all the related consulting activities (strategy, human resource, change management, quality management, etc.), sometimes, supported by a PMO (in transversal projects).

From the IT companies, lastly, a local company - *company L* - is mainly focused in offering SAP services. The company has a great focus in technological solutions and provide also outsourcing services

*Company A* positioning is quite different from the rest of the companies, investing and offering only strategic consulting services to top management (in bigger projects). One may consider more similar with the *company A*'s services, the ones provided by *company B* in the sense that their main focus is also in the traditional consulting services avoiding the operational consulting and the implementation of information systems, for example. However, according to the partner interviewed, their positioning is relatively different and they are positioned "between the pure strategic consulting firm and the operational and implementation consulting services, investing in the transformation consulting". They segment their offer in three big areas: digital and analytics, business and operations transformations, and regulatory. They also offer services in corporate finance and incentives.

Related with the three companies that belongs to the Big 4 group, one may verify that they offer similar services. Audit (their origin), tax, transactions, management and risk consulting, corporate finance, and outsourcing are the main services provided. In common, they also have the fact of having recently invested in technological companies showing a clear signal of their adaptation to the new challenges.

In the local consulting group, *company O*'s respondent mentioned services like advisory, corporate strategy, operations, technology, governance, and risk and compliance, always in a way of advisory and not of implementation. However, they also combine their higher focus in the business with technological consulting. They assert themselves as an independent/agnostic consultant.

*Company M* is organized in six different competence centres, namely, PMO, innovation management, benefits management, change management, operations management, strategy management, that provides both outsourcing and consulting services

Lastly, *company N* is specialized in services for SMEs. Their services are mainly related with incentives, digital marketing, quality management and process improvement. They are more "implementers than strategists", mentioned the interviewee.

#### 4.2.2. Organization

In order to understand how companies are segmented and oriented, it was asked about the companies' organization. Do they have a matrix organization, with their consultants organized by functional areas/services and industries? Do they have a vertical

organization with a bigger specialization in industries, or a horizontal organization, with a higher focus in the functional areas? These are the questions to be analysed.

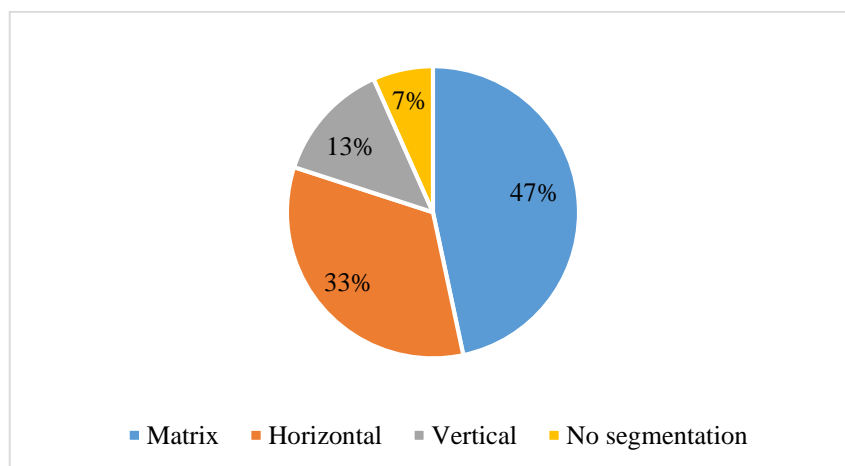
Seven participants from different companies answered that the companies they represent have a clean matrix with some functions segmented into industries and some industries subdivided into different functions. Two of them referred that, although their matrix organization, there is a bigger importance in the horizontal side and one participant referred that their vertical side is more significant in the matrix.

Only one participant stated that the company have a vertical organization (by industries), while three respondents mentioned a clear horizontal orientation (by functional areas), and also one interviewee referred that there is not any kind of specialization in their internal organization. The participant that referred that there is not any kind of specialization, justified the option by their dimension (it is the smallest company in the study in terms of staff headcount).

Almost 35% of the interviewees mentioned a horizontal organization or a matrix inclined for the horizontal organization, and 80% of them are from the IT group. The one that mentioned a vertical organization is clearly more focused in the strategic part.

*Company D's* respondent affirm that although their general matrix, in their technological unit, there is a higher focus and a higher specialization in the functions, more than in the industries.

The pattern shows that the technology push the organization for a more horizontal side, requiring a higher orientation for the functions.



**Figure 8:** Companies' organization. Source: self-constructed chart based on the interviews obtained, 2018

#### 4.2.3. Main sectors

To understand the companies positioning in the market and to where they orient their investment, it was asked which their major client industries are. Are there differences between the companies with different size or different natures (IT, strategic, etc.)? Or, on the opposite, the client industries are not per se a way for companies to differentiate?

At *Company F*, it was possible to understand that they cover a wide range of industries (mainly S&P 500's companies), but it was mentioned financial services, and oil and utilities as the main sectors.

The participant from *company G* referred telecoms, health, financial services, and public administration as their major client industries, and the one from *company A* stated financial services, consumer and industrial products, retail, utilities, and also public administration.

The respondents from *company B* and *company H* assumed a big position in the financial services sector due to their background and track record clearly focused in that sector.

At *company E*, *company C*, and *company D* it was also mentioned financial services and utilities. It was highlighted the financial nature of the *company E* that origins a bigger overlapping between their DNA and clients from the financial services area, being easier to capitalize their track record. *Company C* and *company D*'s respondents also referred public sector (that although brings lower return, due to the fact of having price as the main distinguish factor, enhance reputation and notability to the firm) and the *company E*'s one added telecoms. The respondent from *company I* mentioned financial services, utilities and gas, and also that they prefer to focus in a small number of clients.

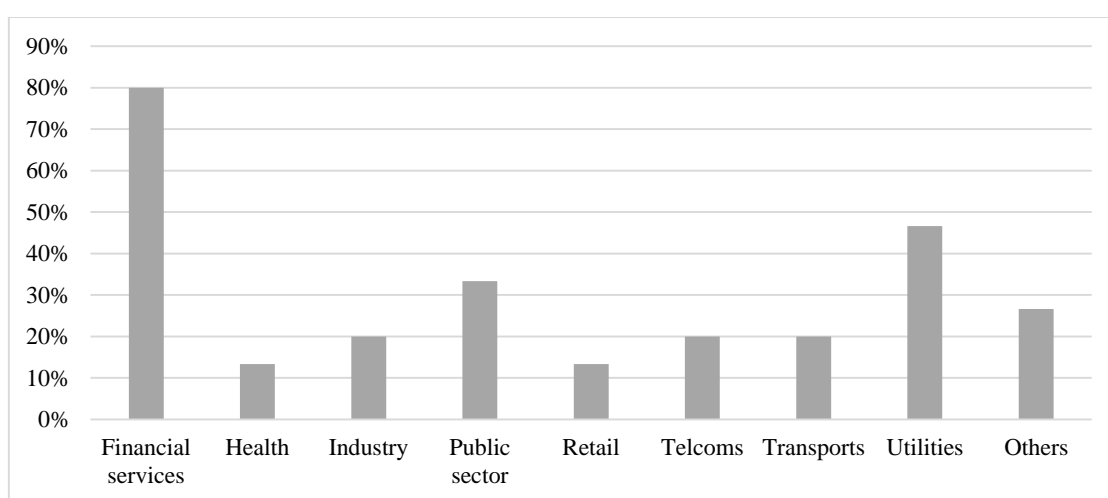
Different from the others, *company L*'s respondent affirmed that industrial products and pharmaceutical industry are their main sectors, and that insurance (financial services) has an important weight as well. It was added that they are always trying to diversify and searching for new clients.

Regarding *company J*, the investment in financial services, utilities, telecoms, public sector and transports show their great scope in different sectors. *Company K*'s respondent



also affirmed that they don't limit any sector and that they work in a wide range of sectors, with a certain incidence in everything related with the services and public sectors, and some industry. Thus, they don't structure their solutions by sectors.

The interviewee from *company M* also referred financial services, transportation and retail. *Company N*, focused in the SMEs, considers the industrial sector as their main operating sector and, lastly, *company O's* respondent mentioned energy and environmental industry for historic reasons, and also health, public sector and financial services.

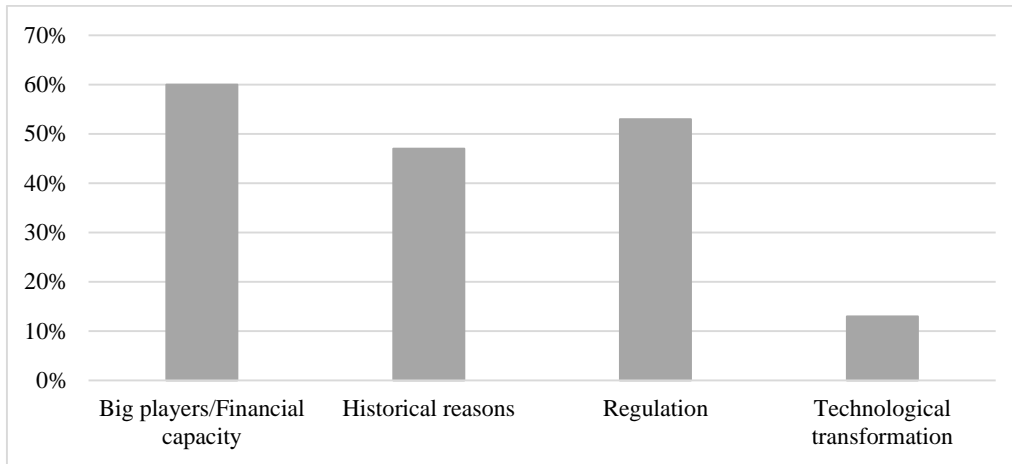


**Figure 9:** Companies' main sectors of activity. Source: self-constructed chart based on the interviews obtained, 2018

As a conclusion, it is notable that 80% of the companies mentioned financial services as one of their major client industries, and more than 45% also referred utilities.

#### 4.2.4. The pattern in the operating industries

In the course of the interviews, and as the graph in figure 10 exhibits, it is understandable a recognition of a certain pattern regarding the main client industries in the management consulting industry (mainly financial utilities sectors). Thus, it was also questioned what are the main reasons that can explain the entrance of the companies in that sectors in the first place, and the existing pattern all over the years.



**Figure 10:** Reasons that explain the existing pattern in the companies’ operating industries. Source: self-constructed chart based on the interviews obtained, 2018

The main mentioned reason is related with the fact of these industries having the biggest players in the market. Hence, the financial capacity of the players in a certain sector was considered the main reason why that sector “attracted” so many consulting companies. According to the interviewee from *company A*, these are the players that “can create or destroy a lot of value”, demanding well-executed decisions. *Company C*’s respondent pointed out the fact of these players have to face big challenges and the one from *company E* also mentioned the number of big players in the sectors (that are able to pay their fees). For the *company N*’s participant, it is also related with the companies that have the capacity to pay the biggest projects. *Company B* added the fact of these players have the capacity to buy today, but also “the strategic dimension to keep buying tomorrow”. The *company O*’s respondent referred that in these industries were and are big companies that buy a lot of consulting projects, and at *company I*, it was also mentioned the bigger economic groups as an important driver. The interviewee from *company M* agreed that there are sectors more attractive, with big players and complex projects as financial services, than others with smaller companies and more specific projects with lower value, where the necessary effort to reach the project dilutes the small margin that the project would generate. The *company L*’s respondent also stated that these sectors are the ones where big companies are present, with many projects and investment in information systems and consulting.

According to the interviews, the second most important reason that can explain the entrance of the companies in the referred sectors and the existing pattern all over the years

is regulation. This factor could help to understand the attractiveness, mainly in the financial services sector.

The participant from *company G* admitted that regulation creates needs in the consulting market and *company E*'s respondent stated that banks and insurance companies are in the sector with more regulatory variables, which may explain the great appetite for that sector. The *company D*'s interviewee added the regulation in the utilities sector to explain the pattern regarding the main clients sectors. To conclude, *company K*'s participant affirmed that "the pressure of regulators was always one of the trends identified as the most important" and added that "since we came from a crises caused by the absence of regulation it is more likely that in the future we will have over-regulation than the absence of regulation".

Historical reasons are also pointed out as an important reason that can justify this pattern. The *company B*'s respondent consider that in Portugal, it has always been tradition, in the consulting market, the important weight of the financial sector, "it is something historical", according to him. For the *company O*'s respondent, the consulting firms are truly conditioned for their track record and their history that is where they can differentiate from the competitors and where the market recognize them the most. The *company H*'s interviewee affirmed that there is a predisposition for certain sectors and that is important the recognition that the market gives to the company in that sector. Regarding their human capital, there is a big and historic specialization in the financial sector and market, with their recognition, allowing the company to have a strong position and market share in that sector. The *company E*'s respondent also mentioned that there is a bigger overlapping between the *company E*'s DNA/competences with clients from the financial services sector, affirming that it's easier to capitalize that track record (since they born through audit firms).

The weight of the technological transformations in an industry was also mentioned as a possible explanation for a bigger historical appetite for certain industries. For example, at *company J*, it was stated the fact of the financial services' sector have been, since the beginning, one of the sectors that invested the most in information systems as a reason for some consulting firms start to provide services for that sector.

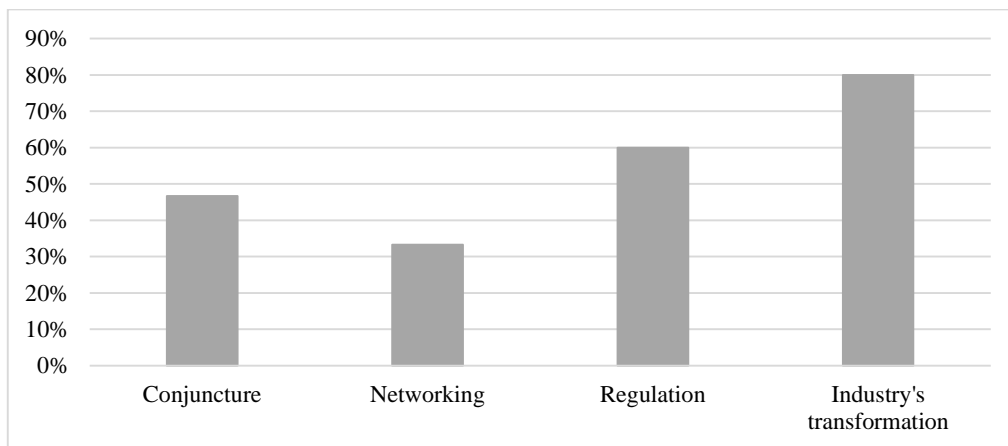
### 4.3. Differentiation and innovation

#### 4.3.1. Main triggers

After understanding the companies' context, their internal organization, their positioning and their major client industries, it was necessary to comprehend how companies look to the market, how they analyse it, and how they, posteriorly, attack the market or react to their triggers (that can lead to a change in their strategy).

Some companies are more reactive, others try to be more proactive. However, every company in the study realized the importance of understand where the opportunities in the market are.

Consequently, it was first asked which triggers influence their future investment in different sectors, and which triggers lead to a change in the company's strategy (in terms of clients' sectors). Accordingly, four triggers stood out: regulation; conjuncture; industry's transformation; networking. The chart below exhibits the findings in a broad view:



**Figure 11:** Companies' influential investment triggers. Source: self-constructed chart based on the interviews obtained, 2018

Industry's transformation refers to a digital/technological transformation in different sectors of activity. The data collected demonstrates a change in the paradigm, with digital transformation assuming nowadays an incomparable importance regarding the triggers that influence the companies' investment (in terms of operating industries) the most.

According to the *company E*'s interviewee the main driver of the investment nowadays is the technology, also because all the sectors are realizing the importance of the technology. Taking this into account, they have invested in cyber security teams, for example. At *company H*, for instance, the higher future investment will be in the sector of utilities, precisely because in the interviewee's opinion "the biggest technological budgets are in the referred sector", and it is a very exposed sector to technological evolution. The technological transformations and the technology in the industries represent, for them, the main trigger.

At *company D*, the technology was also highlighted as a critical trigger, and for the *company K*'s respondent, all the technological and digital transformation have a huge impact in the companies in general, and it can be very painful for the ones that couldn't adapt to it. It is also crucial for the consulting firms to be ready to help the clients in this transformation. For them, the consulting is, now, only reasonable behind one or more information systems and with a digital strategy. In the *company M*'s interview, the technological transformation was also referred as an important trigger, with the example of the digital transformation in the media sector as an important factor that increase the industry's desire for consulting. The *company O*'s respondent agreed that the technological transformations in the industries have to be faced as important opportunities for the consulting firms.

Although the industry's transformation is now considered as the main trigger regarding the consulting firms' investment, there are some discussions regarding its effects on the specific sectors of activity, which will be approached on the conclusions chapter.

Regulation, which was already pointed out as one of the main reasons for the apparent pattern in the industry, was also considered the second main trigger in the companies' strategy regarding the investment in certain industries. As explained before, several participants considered that regulation creates needs in different markets and according to the participant from *company O*, "it increases the pressure for that sector".

*Company K*'s respondent affirmed, for example, that they only engaged in the financial services sector in the moment that they realize that there were new regulatory impositions that were not being easily fulfilled. Thus, whether in terms of regulations in the financial sector or in terms of data protection regulation, the ones who could overcome these heavy processes without great damages or costs will win - mentioned the interviewee -

concluding that a regulation is a requirement/imposition, and every requirement/imposition is a trigger for that sector.

At *company D*, regulation was also mentioned as an important trigger that can explain their appetite for the energy and financial services sector, and the participant from *company G* concluded that the regulation can generate market needs.

The participant from *company J* warns that “all the crisis and scandals make the clients being under a higher scrutiny and, consequently, leads to a higher investment in the regulatory part”, mentioning in particular the financial services and the inherent regulation as important drivers and triggers for the consulting firms, in the past, but mainly in the future. The participant from *company M* agreed on what was mentioned by the respondent from *company J* referring all the mechanisms that the financial institutions have to create due to the increase of regulation, as important opportunities for the consulting firms.

Regarding the conjuncture point as a trigger, it was included in this point different mentioned specific triggers, as clients’ momentary needs, financial restructurings, sales of public companies, economic conditions as a financial crisis or a growing market, political tensions, or even an increase of foreign pressure in certain industries.

The interviewee from *company D* also selected the conjuncture factor, mentioning some past examples like China’s competition in the textile sector and financial restructurings in the construction industry, and the respondent from *company F* referred that their trigger is the expectation of future revenues and the clients’ needs. The one from *company C* agreed that it is essential to keep attentive to the market and clients’ needs, even the ones that they don’t know that exist.

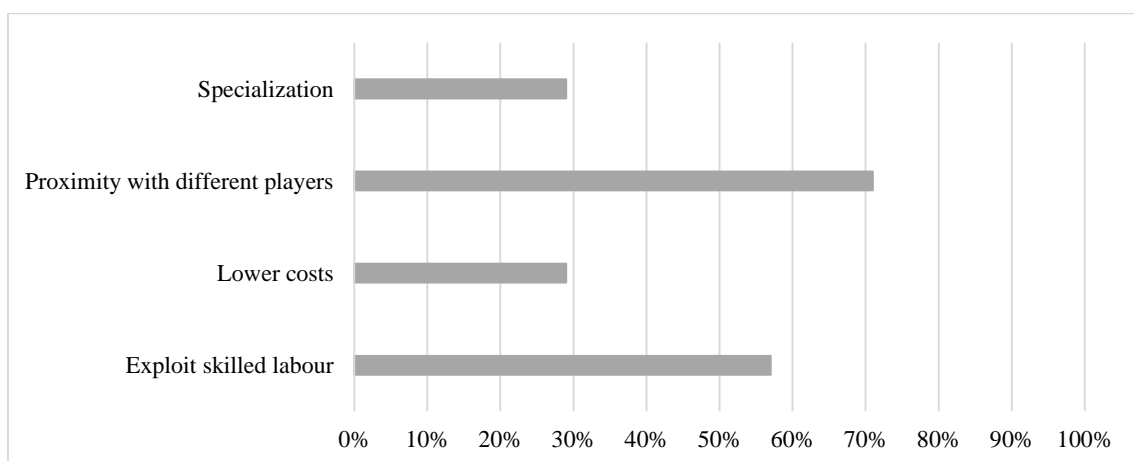
Lastly, networking was another trigger mentioned in some interviews. For the *company I*’s respondent, it was mentioned in the sense of companies (or even sectors) that are already clients of the group and that are initiating their business in Portugal, and for that reason it can facilitate the entrance in these companies or sectors. The *company B*’s interviewee also mentioned networking in the sense of competences or skills inside the company group, that can allow the company to more easily invest in an industry that is growing in the country and that the company’s group already had a background and a track record that can ensure the necessary skills and also the recognition of the market to be successful. The *company G*’s interviewee gave the example of their investment in the

aeronautical industry (when some foreign companies come to Portugal) that was facilitated because the global *company G* group already had that competences abroad.

The *company A*'s respondent emphasized their strict focus in certain areas, stating that they avoid to run off in all directions, once the commercial involvement of their product takes time and intellectually require a great effort. The *company N*'s one stated that their strategy, in general, is based on the sectors and geographies where they feel that their presence is lower than their potential, and the respondent from *company L* affirmed that they are more reactive and for them, the question of the clients sectors, is not a strategic option but something opportunistic.

#### 4.3.2. Impact of the geographic location in the companies' strategy

Related with the question made in the context section regarding the cities where the companies have their offices, which showed that 60% of the respondents hold their offices in more than one city and 27% even have offices in cities apart from Lisbon and Oporto, it is now important to understand in which way all these decisions can impact their own strategy, what is the main reason behind it, and what the companies consider as the most positive factor of that choice. Also, understand how the digital transformation is influencing the companies' decisions regarding their physical offices. The findings are the follows:



**Figure 12:** Companies' reasons of their offices locations. Interviewee's role in the company. Source: self-constructed chart based on the interviews obtained, 2018

From the ones that invested in an office outside Lisbon (60% of the companies), almost 78% opted for an office in Oporto and only 22% didn't chose Oporto as an option. Also, 56% of them only have offices in Lisbon and Oporto.

As referred before, all the companies with offices outside Lisbon and Oporto (with or without an office in Oporto) are all from the IT group. The other common denominator is that all the chosen cities outside Lisbon and Oporto are cities near the university in a clear logic of try to capitalize possible connections and partnerships with these educational institutions. The ones with offices only in Lisbon and Oporto are all outside this group. Regarding the remaining 40% with only an office in Lisbon, half of them have an IT orientation, and the other half haven't.

It's consensual the difference between the Oporto's market and the Lisbon's one. Accordingly, the main reasons referred for the companies opt to be also outside Lisbon was the proximity and the search for new players and sectors (option chose mostly by companies outside the IT group).

At *company N*, it was said that the biggest part of their business come from the Oporto's office. They consider the proximity as a really important factor and also that Oporto holds more and better SMEs and industry (textile, for example). *Company D's* respondent seems to agree and added that the North's market has a lot of heavy industries while Lisbon has more services, and they consider "the proximity an important factor to get into a company or a sector". At *company E* was stated that the company desires to grow in Oporto and there is a strong commitment to be near the clients. The *company C's* interviewee added that the market in Oporto is really enterprising and have a large industrial complex, and the participant from *company M* concluded saying that their presence in Oporto ensure ease in the direct contact (very important for them) with certain clients.

The second reason most mentioned was the exploitation of skilled labor (an option mentioned by all the companies that belong to the IT group with offices outside Lisbon). It is common in all of the companies present in the study the difficulty in recruit qualified resources comparing with the actual market demand.

As it is possible to see in the graph above, the possibility of having lower costs and the need of specialization, mostly in some technological areas (artificial intelligence in the



case of *company J*, for example), were also mentioned as important reasons that justify the option of having other offices besides the one in Lisbon.

*Company F* defined their office in Braga as a delivery centre oriented for technological services. The participant also confirmed that it is very difficult to recruit in Lisbon due to factors like emigration and the huge number of niche technologic companies.

At *company G*, the participant also described their offices outside Lisbon as global delivery centres that provide more specialized services. It was also stated that their decision to hold an office in Fundao came from the need of more skilled labor (near from university) and highlighted the importance of the partnership with the university for a “greater control in the value chain”. The lower costs in that city is considered the icing on the cake.

For the *company H*'s respondent, there is a rational of costs but also a rational of growing in the decision of open an office in Evora. He agreed that Lisbon and even Oporto are too condensate in terms of skilled labor. The partnerships with the local university and other local institutions are also pointed out as essential factors to leverage critical human capital.

Lastly, *company J*'s interviewee affirmed that the current trend is attract new people for the company rather than to be close of their (potential) clients, and that in Coimbra there is an interesting skilled labor to explore. The office in Coimbra is also oriented for some specific technological areas (specialization in artificial intelligence).

For the remaining companies that hold an office only in Lisbon, there is a consensus in the fact that Portugal is a small country and that nowadays there is much more opportunities in terms of work remotely (the benefits of have other offices, in their logic, doesn't compensate the inherent costs).

*Company O*'s respondent said that even with some loss of competitiveness, it has not been a problem not to have an office in other cities. In conclusion he added that Portugal is a really small country, and *company B*'s respondent agreed with that opinion, and added that this option is not a limitative factor.

At *company K* it was stated that “Portugal is short” and their natural market is not only the country. “To be near the airport, is more important that to be in other Portuguese cities”, it was concluded.

For the *company L*'s respondent, despite the advantages of having offices in different cities (to have the opportunity to be near some clients, for example), nowadays they can work remotely with almost every clients, and the interviewee from *company I* stated that their major clients industries are concentrated in Lisbon.

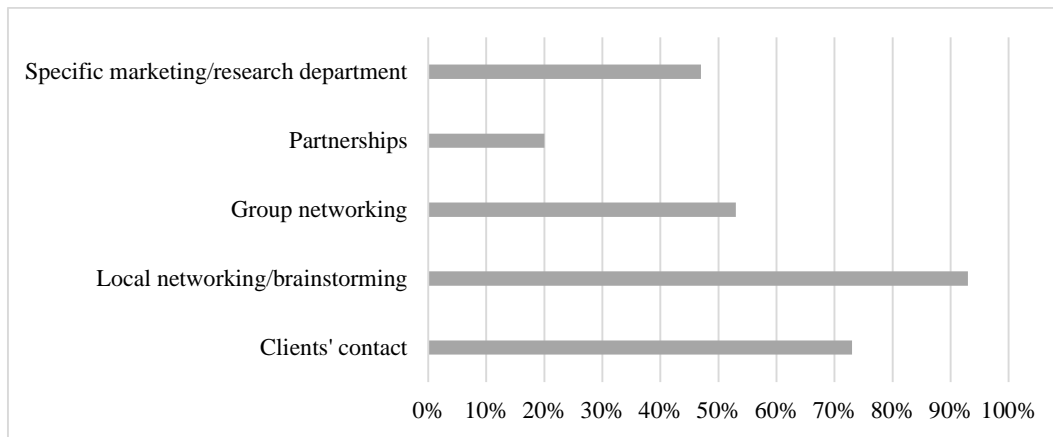
The decision to open different offices in Portugal, in general, do not seem a consensual question, but it is perceptible that, at least, this question is present in the “companies’ mind” and it is up to them to clearly measure the pros and cons of that option and act accordingly with their best interests and strategy.

However, several companies see in Oporto an interesting market that compensate their option in expand their geographical disposal, and in the largest IT companies, the reality is a bit different and there is a bigger consensus in the need of having different offices in different cities, mainly, in order to exploit skilled labor (the preference is given to a location near the university).

To conclude, it is possible to perceive a relation between a decision of having offices outside Lisbon and the digital transformation and expansion of the companies but, for the generality of the companies it is not, for now, the main reason. However, the sub group composed from the companies that can be considered as more technological (for its genesis) see their geographical expansion essential for their own digital transformation and expansion.

#### 4.3.3. Existing mechanisms and tools to monitor market trends

According to Rupert Murdoch, founder of News Corporation, “the world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow”. In a world more and more competitive, it is crucial understand the market, anticipating competition, be more agile and flexible. Consequently, it was asked which mechanisms and tools companies use or have, in order to monitor and follow the market trends.



**Figure 13:** Companies’ mechanisms and tools to monitor market trends. Source: self-constructed chart based on the interviews obtained, 2018.

It is undeniable the importance given from the companies to the human capital inside the company, and the internal networking and brainstorming was considered by more than 90% as an important mechanism to monitor and follow the market trends. According to them, the experience, exposure and skills of the people in the company are the most important tool in order to analyse and understand the market. This option is strongly linked with the importance of people in an organization as a consulting firm, and it seems consensual. Thus, internal meetings, internal reflexions and having different people who to talk, can be essential.

The interviewee from *company C* highlighted the factor that they consider fundamental, and paraphrasing him: “People! More than processes or training events, the key is people”. And he congratulated the company’s organization to allow people with complementary skills to constantly talk with each other about what is happening in a certain area, considering that the sum of all together is far superior to all ideas separately, originating better integrated products and/or solutions to offer. The *company D*’s respondent also mentioned the importance of a constantly contact between experienced and smart people from different areas.

The *company M*’s interviewee believe that in an age of democratization of information, they can keep almost as updated as the companies with a bigger networking and affirmed the importance of a local brainstorming with all their internal resources (from top to bottom).

The *company I* respondent also highlighted their internal culture and people, and the importance of create a dynamic, a culture, and a structure in terms of human capital and know-how that allow them to be more efficient and effective in the market. *Company K*'s interviewee agreed in the key importance of the culture and the people. For the interviewee from *company B*, they promote fortnightly meetings in order to identify trends and opportunities in the market. At the end of the meetings, it is selected one responsible for each action plan and the progress of the same is monitored in the next meetings, always in a logic of teamwork, brainstorming and networking. They also mentioned their interesting clients' networking that give them real and closer insights from the market. Client's contact that was, in fact, the second answer more mentioned in that question. Companies agrees that understand the client can mean understand the market.

The respondent from *company A* stated that customers are an important source for understand which are the future opportunities, but highlighted as well that they work in a networking organized by sectors and functional areas that helps them to keep updated and innovative. The one from *company L* also mentioned the close contact with the client, in order to always try to understand what they can improve outside their current projects, and to understand the clients' vision about the near future.

The *company N*'s interviewee highlighted the importance of the client's contact, and the consequent perception of new services and solutions they can develop, and the *company E*'s one reinforced the idea, concluding that their significant clients' base is a source of very relevant requests, through where they can better define their future strategies and offers.

Then, and obviously, for the global companies, the networking inside the whole group can be a distinctive mechanism to companies stand out from the crowd and offer innovative and pioneering solutions, and more than 50% of the participants referred that. *Company A*'s respondent assumed that the whole company is feed by an internal generation of knowledge and a motorization of opportunities that is happening all the time in all their offices, and at *company E* it was also mentioned their global networking and the fact of be in a global market as a facilitator to understand the market.

Some companies mentioned their specific and specialized market research teams, and partnerships with universities and manufacturers as important distinctive factors. At *company G*, they create a mid-term plan to the next three years that is reviewed every

years (with the strategy, markets, sectors and offers). The company have a marketing department for a group level that analyse the market potential, trends, and opportunities in a macro level, that is subsequently moved to a local level. The *company H*'s participant referred their partnerships with manufacturers in order to test new concepts and technologies, and at *company J* it was stated some interesting partnerships with similar companies from other countries and with universities to follow the trends and the most recent information.

#### 4.3.4. Grab opportunities

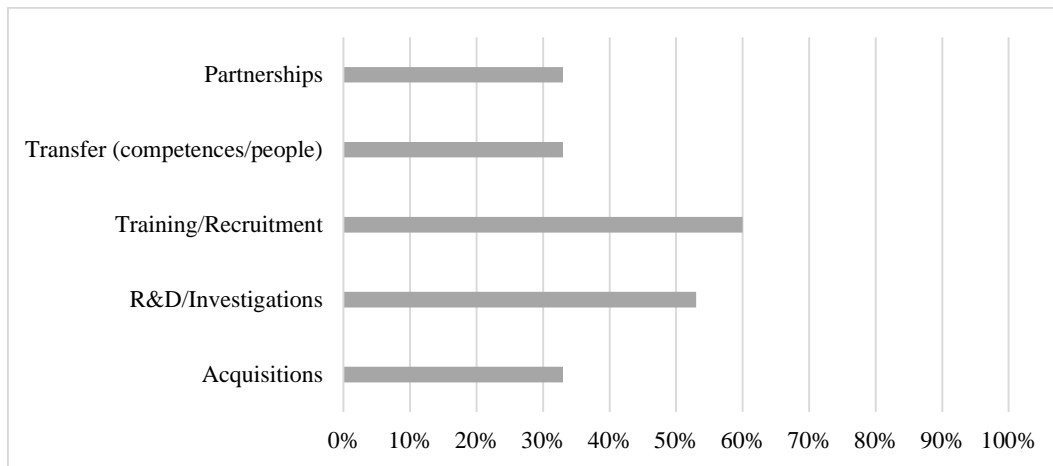
After understanding the mechanisms used in order to follow the trends and the opportunities in the market, the question here was, how companies can, then, grab these opportunities and how they ensure that they are well succeed in their investment in new opportunities (that, several times, means new clients, new sectors, new technologies, new contexts, etc.)?

In the course of the interview, it was asked about the main companies' internal competence that allow them to change their focus/strategy and, for example, invest in a completely new sector. For about 60% of the respondents, skilled people is crucial to ensure that company can adapt and internally change to get new opportunities.

*Company D*'s respondent congratulated the company for the flexibility of their employees, a basic requirement for the success of the firms, and the *company N*'s one also mentioned their agility and flexibility stating that "it is what keeps us alive". *Company J*'s interviewee affirmed that to ensure internal competences to change, they need skilled people that, through some ideas, theories and concepts at an embryonic stage, can quickly implement new solutions.

Forty per cent of the respondents affirmed that the networking of the company can be really important to ensure their capacity to change, adapt, and grab new opportunities. At *company A*, for instance, was highlighted their "very large network in other countries that have already done what is being done in Portugal", that facilitate their adaptation to new contexts and challenges.

However, when it was asked about their main actions and measures to achieve the identified opportunities, the findings are the following:



**Figure 14:** Companies’ actions and measures to achieve opportunities. Source: self-constructed chart based on the interviews obtained, 2018.

Training and recruitment was selected as the principal initiative when companies need to change to a new direction, growing in a new sector, or attain a new opportunity. R&D was considered the second most important factor. The transfer of people or knowledge from different offices of the same company, the acquisition of new companies (specialized companies and/or start-ups), and partnerships with niche firms were also mentioned as important factors and initiatives to facilitate companies to get new opportunities.

At *company F*, it was highlighted the fact of the company being a corporation instead of a partnership. Due to that reason, they obtain the capacity to easily transfer resources from one country to another.

At *company G*’s interview, it was stated that “if it means a strategic opportunity, they do a local investment, recruiting people and training their employees”. The possibility of acquiring companies to accelerate the learning curve is also considered.

For the *company A*’s interviewee it is the transfer of knowledge between the whole group the main factor that allows the company to grab all the opportunities that they believe that are important for them. In that way, they can enhance all the internal competences developed all over the world.

The *company B*’s respondent stated that they prioritize their internal resources but it was affirmed that if the needed skills doesn’t exist in-house, they hire externally, or even integrate new teams.

At *company H* it was highlighted their global network of investigation centres and their R&D investment, where are created new innovative solutions. In a more external level, it was also mentioned the financing (and possible future acquisition) of start-ups and other companies. The final goal is to be on the edge of the technological evolution, according to the participant.

The *company C*'s interviewee affirmed that when new important ideas emerge, they can try to create the competence internally, training people, or they recruit outside, always with the aim of specializing people. It was added that in specific cases, partnerships with specific companies can be an advantage (more common in the technology part, where some software house can provide a specific technology to help solve a client's problem, for example).

At *company I*, they consider crucial to create and develop new technological and business concepts that originate new opportunities for the company, and they don't discard partnerships with niche partners.

Regarding *company E*, they combine an investment in external recruit and internal training where they try to create the needed competences. The final goal is, after identifying an opportunity, create the necessary machine to provide these services. And it can be done through people and technology, according to the respondent.

For the *company L*'s interviewee it's really important a continuous internal training for all the company that can allow them to know and understand the clients (and future possible clients), and to keep able to add value for them.

At *company J*, it was also mentioned the financing of start-ups (or even acquisitions) in order to quickly bring the necessary skills into the company, and consequently grab opportunities

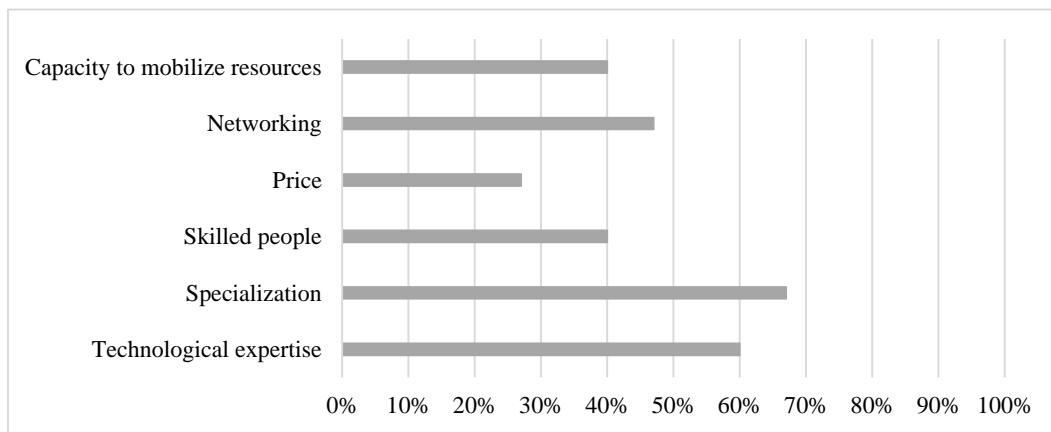
The *company D*'s respondent referred that their networking can give them a competitive advantage comparing with most of the companies in Portugal and mentioned the high investment in their employees in order to be able to respond to all the new challenges and opportunities.

The *company K*'s respondent mentioned their development of complex business technological solutions in simple systems as their main goal and a solid way to be able to face new opportunities in the market.

Both *company M*, *company O* and *company N*'s interviewees also highlighted a solid training, specializing, if possible, their consultants, as a crucial factor to keep them competitive, and when it's necessary, they go to the market to recruit people with the competences needed.

#### 4.3.5. Competitive advantage and differentiation through their business model

In order to better analyse the hypothesis of management consulting firms are adapting their business models to their clients' digital transformation, it was asked to the interviewees to summarize in which way the companies are differentiated from the competitors and the main factors that can contribute to that.



**Figure 15:** Companies' differentiating factor in the market. Source: self-constructed chart based on the interviews obtained, 2018.

Accordingly to the figure above, more than 60% of the respondents believed that their technological expertise and specialization differentiate them in the market, the most mentioned response.

Regarding specialization, the *company N*'s respondent stated that their company is probably the most specialist on what Portugal 2020's applications concerns and that they have one of the biggest clients' portfolio in this area. In the other areas that they also invest, they try to be as specialists as possible as well, in order to stand out from the competition. The participant from *company E* reinforce the idea stating that "specialization would be the ideal world" and that it's really important for the market to recognize the competence of that people and company. The interviewee from *company F*



gives the example of the cyber security, where, on the past, they had only disperse people working on it, and now, they create a specialized area to focus on that. In the *company I*'s interview, it was affirmed that they always reach the client with a great level of specialization and, if they can't get that specialization internally, they get that through their partners. The interviewee from *company L* affirmed that they invest in niche areas and, in that areas, they are the super specialists. More than all the competences and skills that they obtain in that areas from specialization, that allow them to talk in great detail with the client, for example, they can also "run away" from the big consulting firms that will not focus in that areas since, in his opinion, they can't have super specialists in every areas and have to provide a more generic offer. At *company J* it was highlighted their concrete solutions, the specific technological resolution as the differentiating factor, and in the *company M*'s interview was mentioned their scientific management method as an example of specialization that, in their opinion, should be seized, at least, by the smaller firms.

Concerning the differentiation by technology and their technological expertise, the *company K*'s interviewee that mentioned that technology is nowadays a crucial trigger, once is now replacing and changing several processes, practices and organizations, affirmed that there is always a digital strategy and information systems in their offer. Also, he affirmed that their logic is constantly use information technologies as a tool to implement and materialize their strategies and their complex business technological solutions in simple systems. *Company G*'s respondent also emphasize the technological expertise and highlight their delivery center that allowed them to take to Portugal more complex and demanding projects, forcing them to increase their level of maturity and quality in terms of processes and systems. Also, their platforms of big data and analytics are considered a differentiating factor as well, giving them a much more sophisticated capacity to interpret data. In *company H* the technology is considered their core business. They affirm that the evolution of the technology is increasingly linked with the business and it never can dissociate the technology from the business. Their technological integrated services and solutions are seen as an important differentiator factor, reflecting their huge investment in technological research and development, as for example, the investment in the salesforce technology that made *company H* Portugal the center of excellence of salesforce in Europe. Even in *company D*, that don't have a technological genesis, it was affirmed that the technological is now a real concern and they understand

its huge importance. Thus, they are acquiring different technological units and they will continue to invest in that specialization in the future.

The networking, the capacity to mobilize resources, and skilled people were also considered important factors to differentiate.

The *company F*'s interviewee selected their almost unlimited capacity of financing and mobilize people (they have the capacity to seek resources from the other countries) as the main factor that contribute for their differentiation. It gives them the capacity to go to projects that other companies don't go. Also, their networking that allow them to use their best practices from one country to another, for example, was also mentioned as an important factor in their work. At *company A* it was highlighted their internal networking, where is grouped and developed all the information and is created an internal knowledge in a continuous process, that differentiate them in several particular areas. Their global networking also provides an important transfer of knowledge. Another differentiating factor is their human capital (they have the capacity to recruit the best students from the top universities), allowing them to have a huge value creation in their projects. In the *company C*'s interview was stated that people is the key of this business, and the networking is also really important. Thus, one of the great advantages of *company C* is to have who to talk to, and people with several different backgrounds and specialties. To the *company O*'s respondent, the differentiating factor is, undoubtedly, their consultants who have an unusual experience and seniority. In general, they have an inverted pyramid, with more senior than junior people, which is quite uncommon in the consulting world, and differentiate them from the majority of consulting firms, according to the interviewee. The *company B*'s one believe that their dimension allow them to select their people with a higher rigor and criteria, giving them a greater control over their projects and increasing their quality.

Some companies with a smaller size, as *company M* or *company N*, although don't consider the price as their main differentiating factor, they admit that it can facilitate their entrance in some companies or sectors.

It seems that companies can't trust only in their actual structure, reputation and market recognition. Even their financial capacity as to be materialized in real differentiation and value for the clients, otherwise, they will be just another one. Thus, these answers proves the importance given for the companies to the specialization and technological transformation and its importance in their future.

#### 4.4. Future vision

Taking a look in the future vision and future strategies mentioned in the interviews, it gets clear that consulting firms are increasingly investing in an adaptation of their business models in order to face the new market challenges.

Technological changes were mentioned by more than 85% of the interviewees when it was asked about the future vision for the consulting world and for the companies they represent.

At *company F*, it was stated that nowadays “all types of projects (strategic oriented, operational, etc.) have always a big technological side. It’s urgent to understand the impact of the technology, and this is transversal to all sectors”. Also, that technology is no more a typology of project, but the projects themselves. Cost reduction is completely linked with the use of information systems more efficient than the human action. It was also mentioned the cyber security and data protection as becoming important areas in the near future, that the company is, inclusive, creating a special unit for that.

The respondent from *company G* alerted for the possibility of a disruption in the industry, mainly due to the crowdsourcing. According to the participant, it multiplies the number of potential solutions, and companies can control costs better. Also, they believe in an approximation between the manufacturers and the consulting firms in a co-investment perspective, sharing data and knowledge as well. “Clients will force the change in the consulting world”, he said.

At *company A*, they remembered that consulting is based on two pillars: change, and the difficult to train people and develop intern knowledge to be able to work and adapt to that change. For them, there is two clear trends: a higher specialization, i.e., it’s needed for a consultant to be specialist in what he is doing and bring new knowledge, and not only something from the public domain. Also, that consultants can’t be anymore only counsellors but they have to implement and prove their real value, and be paid in function of their impact.

At *company B* it was mentioned the concepts of artificial intelligence and predictive analysis to justify their belief that in some years, some activities conducted by consultants will be automated, forcing the sector to find a new space inside the organizations. Also, they alert for the inevitability of be agile and fast. “Client now buys immediacy. Consulting firms have to be fast and have already the needed competences”. This will

oblige companies to specialize, since it's difficult to be good in everything, and once there are some specialities more expensive and others cheaper, it can't be charged the same kind of fees. It is believed that some boutique or niche firms can have advantages here. It is also pointed out the universality and mobility of the consulting, and how people will be more and more important comparing with the company per se.

At *company H*, it was referred an organizational change: "information systems will be no more areas of support inside the organizations, but it will have to be soaked in what the business of the company is". It was highlighted the importance of the technology, considered as the engine for doing business, transversal to any sector of activity. "This will make that, probably, the today's biggest companies will not exist in 10 or 20 years and the biggest companies in 10 or 20 years don't exist nowadays", it was concluded. It is also mentioned that the consulting firms' solutions have to be more and more integrated, and it will end the segregation between technological, strategic, and operational consulting. According to the interviewee, *company H* is adapting to that, making their services and solutions even more integrated, and working in a layer between the technology and the business. Moreover, he mentioned that the higher specialization will be very important and the ones who could take more competitive advantages from the technology will win.

The *company C*'s interviewee pointed out the regulation as a big challenge in the future, in the sense that, nowadays, the business world moves faster than what the regulators can keep up with, and there are more and more completely new and different businesses. It was mentioned also the excessive information (big data) and artificial intelligence as important factors in the near future. However, due to the consulting firms' synergies and their knowledge of the market, they believe that all the technological changes rather than creating any disruption in the industry, it will be used to improve the consulting work, making it more efficient, and with better solutions to the clients.

The respondent from *company I* assumed that the world is facing another revolution, but this one faster than the others, a technological one. Artificial intelligence and regulation were considered as the main future challenges. Artificial intelligence once it will have a huge impact in what are now "our" functions, positions and occupations while humans. Regulation due to the new movements completely deregulated and with no geography determined (blockchain and bitcoin, for example). The interviewee argued that it will be a challenge also for the society in general, and affirmed that the fact of traditional clients

are also now in possession of technology, with research and development areas like the consulting firms, can also affect the relations between them. It was concluded that it will be needed a partnership vision, otherwise they will fight for the same space and resources. According to the participant, with a higher weight of technology, labor shortages, and artificial intelligence, the consulting service has to be done in a different way.

“It is inherent to consulting firms having to be constantly reinventing themselves”, stated the *company E*'s interviewee. However, he agreed that technology will create lots of disruptions in the industry, and for that reason, it has to be made a great investment in the technological area to keep on the crest of a wave, alerting also for the possibility of actual big technological players become competitors in the near future (google, amazon, etc.). Additionally, it was affirmed that everything that the company will do in the future, will be more technological than ever. Another challenges mentioned were the labor shortages and the difficulty to deal with the new generation of workers. According to the participant, the way that consulting firms and consultants will cooperate and collaborate, will change dramatically, with the emergence of some freelancers, for example. Thus, the difficult in the recruitment will increase.

The *company L*'s participant started saying that the demand for consulting is increasing a lot again, and the trust in the consulting as well, as in the period before the crisis. Thus, he alerted for the possibility of a new bubble, with the increase in the price of the wages and the consulting services. It was also referred the strategy of the majority of the big consulting firms that are growing in terms of people, mainly from the basis, with junior analysts coming directly from the university. According to the interviewee, this factor can spoil the quality of the service, and that's why they are investing in a different solution. To conclude, it was mentioned that their high level of specialization in some niche areas will be even more important in the future, at the same time that the level of competition won't stop to increase.

For the *company J*'s respondent, the market will have much more companies with concrete and specialized solutions and less transversal and generic ones. Accordingly, “the world will evolve more and more to have companies with own solutions and already designed. There is no time to think about what we are going to do, the world moves faster and faster. There is no time to wait”. Thus, it was argued that the solutions will be, at least, more prototyped, and then, used and customized for each client. Also, it was stated that the IT consulting firms will have a higher growth than the general firms.

At *company D*, it was identified the fact of the technology change the whole world of the consulting both in the short and long term. “The way business is done, the way companies will be more agile in their processes, the way consulting business can become obsolete within a short time”, are some examples. Thus, it was referred that it will be necessary evolve and follow the clients in the technological changes and help them, but also develop themselves in technological terms. And that is why *company D* has already their own technological units and the investment will increase in the future, according to the interviewee. Confronted with the possibility of the consulting become obsolete due to this technological revolution, it was stated that at the same time that clients’ firms become more efficient, the complexity of the business will also increase and some companies that are not demanding for consulting will face more complex contexts in their business, making easier for consulting firms to reach them. Thus, it’s not believed that the consulting industry could suffer a critical disruption that can put the future of consulting at risk.

*Company K*’s respondent was more drastic and affirmed that consulting without a technological basis will finish, as well as the generic consulting. It was added that no one will pay for pre conceived ideas, once information is able everywhere. He concluded saying that consulting firms have to be more specific, specialists, innovative and differentiated instead of only evangelize. They have to develop new concepts and create new ideas. “The consulting world will be increasingly demanding”.

The respondent from *company M* mentioned the project management as an important future trend. According to him, companies transform themselves through projects, and the need for project management will increase. It was also predicted many contextual changes in the market that will become more fast and demanding. “The think-plan-act process will have to be even faster”. Also, it was stated that the companies’ strategies should become more operational and the processes automated and robotic. In his opinion, the companies that will add more value with this technological changes will overcome the competitors.

The *company N*’s participant believed that the big consulting firms will adapt themselves to the actual changes, mainly acquiring other teams or companies, keeping themselves in the crust of the wave. But it’s undeniable that every consulting companies have to reinvent and transform themselves, according to him. It was added that general companies will really continue to need consulting since “any company is auto sufficient enough, and even

the companies with good dynamics will need help in the future to keep growing. Consulting will still make sense”.

Lastly, the *company O*'s interviewee mentioned the fact that the increasingly high rotation and recruitment of junior consultants can damage the quality of the consulting, its perception, and the relation between clients and vendors.

## V – CONCLUSIONS

The present dissertation, through the collection of secondary and primary data from the interviews with consulting companies' top consultants, aims to provide an understanding of the consulting market in an era of digital transformation, and investigate the different business models within the consulting industry as a way to understand how are those firms operating through and for digital transformation. After displaying the data collected, in this chapter are assessed the research hypothesis and exhibited the general conclusions of the investigation.

### 5.1. Main conclusions

*Hypothesis 1: Digital transformation is directly influencing the geographical disposal of consulting firms.*

Considering the offices' location of the interviewed companies, it was found that 60% of the companies have offices outside Lisbon. The remaining companies only have offices in Lisbon, and it was possible to confirm that this question of open offices outside Lisbon is not consensual between the consulting firms, although it is perceivable that it's something that all the companies have already pondered.

For the companies that rejected, for now, their physical expansion, it was pointed out the small dimension of the country, and the possibility of work remotely as factors that justify their option. For the remaining companies, the main mentioned reason for their geographical expansion was the proximity with different clients, where was highlighted the importance of a closer contact with the client and the importance of a different market, as the one that exist in Oporto.

Oporto started to be the first option when companies wanted to expand once it is the second biggest market in Portugal, with surely different characteristics. Thus, from the companies that have offices outside Lisbon, 78% opted for an office in Oporto.

The other main reasons for geographic expansion are related with an exploitation of skilled labor and a higher specialization. Here, the specialization refers always to technological matters, and the skilled labor is related with technological skills. These options were mainly mentioned for the IT companies. These group was also the one that



chose offices outside Lisbon and Oporto, in a clear demonstration of different goals regarding the geographical disposal of their firms. For them, their geographical expansion is essential for their company's digital transformation.

Therefore, it can be concluded that the digital transformation is directly influencing only one specific part of the consulting firms, and for that reason, this hypothesis is not validated. However, this investigation reveals also a clear enlargement of the consulting firms, that didn't born in the technological area, to a more technological side, which may face in the future the same issues than the technological consulting companies, and making this hypothesis true in the next few years.

***Hypothesis 2: Digital transformation is increasingly influencing the consulting companies' strategy regarding their investment in operating sectors.***

Regarding the major operating sectors of the investigated companies, financial sectors were considered the major operating sector for the companies interviewed with 80% of the companies mentioning it, following by the utilities sector, with more than 45%. When asked the main reasons for their presence in that sectors for the first time, the results suggests the attention to digital transformation as low importance, being mentioned by only 7% of the respondents. On the opposite, the financial capacity of the players in that sector (60%), following by the regulation (53%) and other historical reasons (47%) were considered the main reasons why companies are present in certain operating sectors for the first time.

Nevertheless, when asked which triggers are considered the most important for their strategy and that can influence the most their future investment in different operating sectors, the results were quite different. Industry's transformation (that means technological transformations in a certain sector of activity) was classified the main trigger (80%), following by the regulation (60%), conjuncture (about 45%), and internal networking (about 30%). According to the consulting companies that selected industry's transformations as the main trigger, these digital and technological transformations has this huge importance, once affect not only the technology of the clients per se, but also their processes/operations and consequently the management of change. These companies suffer a natural pressure to evolve in that sense, which results in a more dependency of consulting related not only with technological services but also strategy, operations,

management of change, and innovation services. Consequently, it is expected that it will generate more sales to all type of consulting companies.

Regulation stills representing a strong factor for the companies' decision regarding their investment in the operating sectors, the conjuncture, that include different mentioned specific triggers, as clients' momentary needs, financial restructurings, sales of public companies, economic conditions as a financial crisis or a growing market, political tensions, or even an increase of foreign pressure in certain industries, and the companies' internal networking, are also representing important factors for the company.

Thus, the data demonstrate a change in the paradigm, with digital transformation assuming nowadays an incomparable importance regarding the importance of the sectors where the companies will may invest the most. The technological transformation was signalize as the main trigger, and the sectors where is expected to have higher technological budgets are the ones the companies seemed more interested, being the hypothesis clearly validated.

***Hypothesis 3: Management consulting firms present concrete strategies and procedures to be aware of the trends and grab the inherent market opportunities.***

According to the companies, the market is changing faster than never and for that reason, it is even more crucial perceive the new trends and the market opportunities, and anticipate from the competitors.

Therefore, create strategies and mechanisms to monitor market trends and to, after that, grab these opportunities and ensure that they will be well succeed in their investment, is assuming a higher importance in the companies' strategies.

Every company in the study, with no exception, manifested a great attention to this factor, considering indispensable understand or even anticipate the market trends. Even concerning the specific strategies for the referred, it's understandable a consensus, with more than 90% of the companies selecting local networking and local brainstorming as an important mechanism to monitor and follow the market trends, and more than 70% selecting the contact with the client. It's undeniable the importance given from the companies to their human capital, and to a closer contact with their clients. In general, the responses were similar both in terms of importance and in terms of specific mechanisms used.

Regarding the companies' strategies and actions to ensure they are well succeed in getting new opportunities, it was also clear a huge investment from the companies. All the interviewed companies are trying to expand their services and the main selected actions to achieve new opportunities were training and recruitment, and R&D. Partnerships, and acquisitions were also mentioned, showing the active and strong position that most of the companies are assuming.

For all of this, the hypothesis is totally validated, once companies are presenting concrete (and, inclusive, increasingly aggressive) strategies and procedures to be aware of the trends and to grab new market opportunities.

***Hypothesis 4: Management consulting firms are implementing specific measures and mechanisms as a way to adapt their business models to their clients' digital transformation.***

Consulting firms have to constantly reinvent themselves and try to help companies to overcome their difficulties and to seize new opportunities. Therefore, this hypothesis aims to understand if consulting firms are adapting their business models to their clients' digital transformation.

In this research, when it was questioned to the interviewees about the way the companies are trying to differentiate from the competitors and attaining competitive advantage, specialization and technological expertise were mentioned as the main practices (more than 60% of the companies selected, at least, one of these options), showing a clear importance from the companies to the digital in their business models. Their skilled people and networking were also mentioned. There is a feeling that companies can't trust only in their past structure, reputation and market recognition. Even their financial capacity has to be materialized in real differentiation and value for the clients, otherwise, they will be just another face in the crowd.

According to the future vision of the companies, and future strategies, it gets even more clarified that companies are aware of the challenges, and that they are investing in an adaptation of their business models in order to face them.

Technological changes were mentioned more than 85% when it was asked to the companies their future vision for the consulting world and for their companies. More than 30% mentioned that their company already invest in an inorganic growth, with the

acquisition of specialized teams (cyber security and big data and analytics, for example), and most of the companies, as already stated, are investing in their own specialization and technological expertise in order to offer real value in a fast changing world.

All the above information helps to validate this hypothesis, and confirm that consultants are aware of all the changes that our world is facing. Only the future will say which ones could adapt more efficiently their business models.

To conclude, all of the consulting companies prove to be aware of these changes and present concrete strategies to face them. Consulting firms, inclusive, not only don't discard the digital transformation on their operating sectors, as even look to the sectors that could have a higher impact from the digital transformation as the most attractive sectors. Indeed, there is some differences between the way consulting firms are adapting their business models, some more significant than others. For example, there was not found a consensus in terms of their geographical disposal, and the consulting companies manifest some different strategies to try to have success in this technological era. Nevertheless, the majority of consulting companies, from all types, see benefits in this digital transformation arguing that it will generate more opportunities in different consulting business areas (operations, strategy, technology, etc.).

Therefore, this study answer the proposed main question "*how are consulting companies adapting their business models to the digital transformation?*" and gives important insights on the management consulting research field by discussing the future of the management consulting and the impact of the digital transformation in the consulting firms' strategy.

## **5.2. Research limitations**

Throughout the elaboration of this dissertation some limitations were identified and will be detailed below.

Starting with the literature, it was identified unclear definitions and some divergences regarding the consulting as an activity or an industry, its definition, their benefits and risks, and other fuzzy questions. Thus, access to literature is considered as a limitation in this study.

Moreover, this study contains some limitations due to the exclusive focus on the Portuguese market. Given the referred limitation, it is not recommended to extrapolate the data to a global analysis and conclusions. Also, due to a geographic limitation, the companies that participate in the study are all from the Lisbon area, and a bigger and more diversified sample could create a more representative and realistic view of the subject.

Regarding the interviewing process, another limitation detected arise from fact of the interviewees being representative of the service provider's side (their opinions and their beliefs) and therefore the service receiver's side was not explored, which can hide an important part of relevant information for the industry and the study itself.

Lastly, since this study doesn't clarify whether the main mentioned triggers in the interviews (industries transformation) will beneficiate more certain sectors of activity in detriment of others, or by the opposite, it will be transversal to all sectors of activity, for that reason it is not conclusive the best strategies companies should take regarding their operating industries.

### **5.3. Future research**

In order to overcome the identified limitations it can be relevant to, in the first place, extend geographically this study and create a bigger and more diversified sample, and consequently, create a more complete analysis.

Further development of the existing literature and further unprejudiced discussion on the management consulting subject can also help to clarify the fuzzy questions around the management consulting, even some authors argue that there is an absence of professionalization and institutionalization that takes to unclear issues on the topic.

The service receiver opinion and perspective on the subject should be collected and confronted/ contrasted with the ones from the service provider in order to provide a broader and more realistic vision of all the aspects of the industry.

More specifically, it would be pertinent to make a deeper research regarding the expected effects of the identified triggers in different specific sectors of activity and regarding the specific strategies implemented to handle the digital transformation, in order to understand which effects companies intended to achieve with which one. These particular

referred points would be very significant to try to define better strategies for the consulting companies regarding the digital transformation revolution.

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## VII – APPENDICES

### 7.1. Conducted interviews

The table below exhibits the interviews that were conducted and the inherent details.

| <b>Group</b>                      | <b>Firm’s designation</b> | <b>Function</b> | <b>Date</b> |
|-----------------------------------|---------------------------|-----------------|-------------|
| <b>Strategic Consulting Firms</b> | <i>Company A</i>          | Principal       | 09/03/2018  |
|                                   | <i>Company B</i>          | Partner         | 10/04/2018  |
| <b>The Big-Four</b>               | <i>Company C</i>          | Partner         | 20/03/2018  |
|                                   | <i>Company D</i>          | Senior Manager  | 26/04/2018  |
|                                   | <i>Company E</i>          | Partner         | 07/05/2018  |
| <b>Technological Firms</b>        | <i>Company F</i>          | Manager         | 03/04/2018  |
|                                   | <i>Company G</i>          | Director        | 07/05/2018  |
|                                   | <i>Company H</i>          | Principal       | 12/04/2018  |
|                                   | <i>Company I</i>          | Partner         | 16/03/2018  |
|                                   | <i>Company J</i>          | Director        | 07/05/2018  |
|                                   | <i>Company K</i>          | Director        | 19/03/2018  |
|                                   | <i>Company L</i>          | Partner         | 21/02/2018  |
| <b>Local consulting companies</b> | <i>Company M</i>          | Partner         | 12/02/2018  |
|                                   | <i>Company N</i>          | Partner         | 10/05/2018  |
|                                   | <i>Company O</i>          | Director        | 23/03/2018  |

## **7.2. List of the companies**

The list below corresponds to the companies that were sent invitation to participate in the instigations, doesn't meaning that all of them accepted. The final sample is present in the appendix 7.1.

1. Accenture - Consultores De Gestão, S.A.
2. Deloitte Consultores, S.A.
3. Ernst & Young, S.A.
4. Kpmg Advisory - Consultores De Gestão, S.A.
5. Epimetheus - Servicos De Gestao, S.A.
6. Winning Scientific Management, LDA
7. BearingPoint
8. BDO
9. Pricewaterhousecoopers /Ag - Assessoria De Gestão, LDA
10. The Boston Consulting Group, LDA
11. Critical Holding, S.A.
12. Mckinsey Internacional, Inc. – Sucursal
13. Primeit - Consulting, S.A.
14. Mercer (Portugal) - Recursos Humanos, LDA
15. Milestone Consulting, S.A.
16. Next Consutling, S.A.
17. CH Consulting
18. Lopes Garcia
19. Mazars
20. Everis
21. Management Solutions
22. Reditus - Consulting, S.A
23. Zertive, S.A

**24. Link Management Solutions, SA**

**25. Yunitt**

**26. Capgemini**

**27. Altran**

**28. Quidgest**

**29. Novabase**

**30. Leadership Business Consulting**

### **7.3. Interview's questionnaire**

#### **1. Context**

1.1 What are your role/function in the company?

1.2 How many collaborators does the company have in Portugal?

1.3 How many physical offices does the company have in Portugal? In which cities are those located?

#### **2. Structure**

2.1 What kind of services does the company provides?

2.2 How do you define the structure of the company regarding the operating industries and services provided (functional/matricial/by industries)?

2.3 Which are the main operating sectors of the company?

2.4 There is an apparent pattern in the consulting world regarding their operating industries. What are the main reasons that can explain the entrance of the companies, in that sectors, in the first place?

#### **3. Differentiation and innovation**

3.1 Which are the main triggers that can condition the company's investment in certain operating industries or areas?

3.2 Which are the strategic reasons of company's geographic locations?

3.3 Which mechanisms and tools are used by the company in order to monitor market trends?

3.4 After identified the market's opportunities, which actions and measures are used by the company to achieve/grab these opportunities?

3.5 Which are the company's differentiating factor?

#### **4. Future vision**



4.1 What is your future vision concerning the consulting business and the market in general?