Impact of International Standard for Management Consultancy on China’s Consultancy Service Industry

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Abstract. Management consultancy services are an important part of modern service industry. European and American countries enjoy a very mature management consultancy service industry, while China has also witnessed rapid development of the management consultancy industry and increasing market capacity in recent years. However, there still is a large gap between Chinese management consulting enterprises and those in developed countries. Poor services and unregulated competition are major problems in China’s management consultancy service industry. An important reason for such problems is a lack of corresponding standards in the industry. The upcoming ISO20700 Guidelines for Management Consultancy Services will have positive effects on the management consultancy industry. China should take this opportunity to actively implement standardization of management consultancy and develop relevant standards for management consultancy, so as to raise the overall level of the management consultancy industry.

Introduction

Management consultancy is an important link to improve operation and management abilities of organizations and is vividly compared to the “external brain” of enterprises. The management consultancy industry, as an important part of modern service industry, involves a wide range of services covering fields such as strategy, finance, human resources and information management, with process contents including prior, mid-term and after-sales services, practitioner regulations, etc. The popularization and implementation of management consultancy standardization play a key role for suppliers and buyers of management consultancy services as well as industry regulators.

Status Quo of China’s Management Consultancy Industry

Basic statistics

Output value of China’s management consultancy industry
Following the deepening of reform of state-owned enterprises and rapid development of private enterprises, China has seen an explosive growth of total domestic management consultancy market since 2012, which is far higher than GDP growth, and it is optimistically foreseeable that with the implementation of the three national strategies (i.e., the “Belt and Road” Initiative, coordinated development of Beijing-Tianjin-Hebei Region and Yangtze River Economic Belt) and the “13th Five-Year Plan” in the New Normal economy, the domestic management consultancy market will maintain a comparatively high growth rate for some considerable time to come. A preliminary estimate shows that the total domestic management consultancy market has reached RMB 50 billion in 2008, about RMB 90 billion in 2010 and more than RMB 200 billion from 2013 to 2015, indicating an increase of about RMB 50~60 billion every year.

Number of enterprises and personnel engaged in the management consultancy industry in China
At present, there are more than 11,000 registered management consulting companies and more than 200,000 full-time management consultants in China.

Access of foreign-funded enterprises to Chinese market
A lot of foreign-funded consulting companies have accessed to Chinese market, and among Top 30 enterprises in terms of comprehensive strength, there are 17 foreign-funded ones.
The gap between Chinese management consulting companies and those in developed countries

**Low brand concentration**
Among global Top 50 consulting companies on Vault.com in 2009, McKinsey & Co, ranking the first, scored 8.43 points. However, in the selection of 2010 Top 50 Chinese Management Consultancies organized by Institute of Intellectual Business and Industry, China Administration Institute, Allpku ranking the first scored less than 5 points; and the organization ranking the 50th scored less than one point.

**Wide gap in scale**
There are more than 10,000 employees in consulting companies in the US. For example, McKinsey & Co now has more than 9,000 consultants with advanced degrees obtained from world-famous universities and Gartner has 4300 full-time consultants. In contrast, Chinese management consulting companies are small in both staff size and income scale.

**Insufficient profitability**
Accenture witnessed a net income of USD 25.5 billion in the financial year of 2011, equivalent to RMB 164.7 billion. In 2012, operating income of Top 50 management consultancies in China reached RMB 2,903,176,000, accounting for only 1.8% of Accenture’s net income in the financial year of 2011.

**Poor core competitiveness**
Overseas management consulting companies value consulting ability and technological R&D. By constantly summarizing long-term management consulting experience, world-famous management consulting companies have gradually regulated their own management consultancy procedures through organic integration of management theory, technology and practice.

### Status Quo of the Standardization of Domestic and Overseas Management Consulting Services

#### Status quo of the standardization of overseas management consulting services

Management consulting standardization started early in Europe and America. Since 2003, Italy has enacted six standards for management consulting in succession. In 2011, Europe released EN 16114:2011 Management Consultancy Services, which has been widely applied to the management consulting industry and played a key role in regulating the healthy development of European management consulting industry and promoting the prosperity of the same. Britain, Germany, France, Sweden and other countries have also made their own standards for management consulting services based on EN 16114:2011 standard.

In view of this, European countries with developed management consulting industry expect to develop an international standard for management consulting applicable worldwide based on EN 16114 standard, so as to improve transparency and understanding between clients and management consultancy service providers (MCSPs), achieve better results from consultancy projects, provide better value for clients, reduce risk in management consultancy assignments and accelerate the development of management consultancy industry. In January 2013, Italian Institute for Standardization (UNI) put forward the new work item proposal (NWIP) ISO/PC 280. In May 2013, ISO TMB (Technical Management Board) approved the establishment of ISO/PC 280 Management Consultancy Project Board and appointed UNI as the Secretariat of the Board.

In February 2014, the first plenary meeting of ISO/PC 280 was held in Milan, Italy, which discussed the working range of PC280, the frame of the international standard for management consultancy and the setup PC280 task force. In October 2014, the secondly plenary meeting of ISO/PC 280 was held in London, England, which discussed and modified the WD draft. In October 2015, the third plenary meeting of ISO/PC 280 was held in Toronto, Canada, which discussed and modified the CD draft. In October 2016, the fourth plenary meeting of ISO/PC 280 was held in Beijing, which discussed and modified the DIS draft of ISO 20700 Guidelines for Management Consultancy Services. ISO 20700 Guidelines for Management Consultancy Services is expected to be released in 2017.
Development of management consultancy standardization in China

China’s management consultancy industry has started from scratch and expanded from a small to a large one. In particular, since the 21\textsuperscript{st} century, China has witnessed rapid development of the management consultancy industry, of which the market size grows at a rate of 30\% annually. There are more than 10,000 various professional organizations including foreign-funded, joint-venture and indigenous consulting companies as well as colleges, universities and research institutes engaged in consultancy services. From 2013 to 2015, the total market of China’s management consultancy industry reached more than RMB 200 billion, with annual average output growth being nearly RMB 60 billion.

Since China became a member of ISO/PC280 P in 2014, it has actively tracked and participated in the preparation of the international standard for management consultancy. China has set up a panel of experts for the international standard for management consultancy to study the content of each draft of the international standard and put forward suggestions for the international standard on behalf of China. Besides, China is also carrying out valuable exploration in preparation of management consultancy standards and departments concerned have already set about preparing industrial standards regarding management consultancy. Additionally, China is energetically making preparations for founding National Technical Committee for Standardization of Management Consultancy and has preliminarily established national standard system framework for management consultancy.

International Standard for Management Consultancy Services ISO20700

The upcoming ISO20700 Guidelines for Management Consultancy Services is put forward by countries such as Italy, France and Britain based on the European standard for management consultancy. ISO20700 aims at improving transparency and understanding between clients and management consultancy service providers (hereinafter referred to as MCSPs), enable MCSPs to provide better value for clients and reduce possible risk in management consultancy assignments. By improving quality, professionalism, ethical behavior and interoperability of management consultancy, the standard is intended to enhance the effectiveness of the management consultancy industry and accelerate the development of the industry. The standard will provide the best operational guide for both consultancies and their clients and ensure each party is clear about the requirements, goals and responsibilities of a useful and efficient consultancy procedure. This will allow clients to acquire better practical effects from consultancy while consultancies can also present the value they can achieve in a better way. At present, the standard has entered the stage of publication.

ISO20700 standard is a guidance documents and is not intended for certification. It is applicable to all MCSPs of different sizes or in different professional degrees, including individual practitioners, joint ventures, governmental or non-governmental organizations, different departments in a company, etc. As per the standard, the management consulting process encompasses three basic activities: contracting, execution and closure. The standard sets forth purposes, inputs, outcomes and contents of the three basic activities respectively.

Contracting

The aim of contracting is to reach an agreement between MCSP and the client, both of which are committed to working together. This activity starts once the client and the MCSP have reached an agreement. There are many inputs to the contracting phase, including the perceived needs, the expectations and desire of the client and the potential constraints and risks involved in the assignment as well as any significant changes that are beyond the scope of the change control process.

The outcome of the contracting phase is a binding agreement between the MCSP and the client. The agreement determines the services and the deliverables to be provided and establishes rights and obligations for each of the parties. The outcome refers in particular to services the deliverables
to be provided and rights and obligations of both parties. The agreement could be based upon a “request for a proposal”, describing a set of requirements and specifications for services, deliverables and evaluation criteria.

Main content of the contracting phase is the agreement entered into by both parties. The agreement should include context, services and deliverables, approach and work plan, roles and responsibilities, acceptance criteria, terms and conditions, etc. The context refers mainly to relevant facts involved in signing the agreement, for example, an accurate description of the organization’s current situation, the client’s objectives, why the work needs to be done, the assumptions and their impact, the scope and the limits of the assignment, risks, stakeholders, etc.

Approach and work plan in the agreement are listed as a checklist of elements as per the standard, including objectives and scope, approach and methodology, project governance (e.g., changes to the scope, escalation procedures, etc.), contents, documentation, data, information and technological resources, project organization, MCSP’s human resources and their responsibilities, client’s, recipient’s and other stakeholders’ human resources and their roles and responsibilities, timetable, project budget, project management methods, communications (including channels, methods, etc.), knowledge transfer, quality management methodology and deliverables.

**Execution**

Execution is performance of the services agreed in the contracting phase. The execution phase is to deliver the agreed services and perform the assignment, and the aim of execution is to satisfy clients.

The standard contains no specific provisions on the input to the execution phase and only sets forth that execution should not start until there is an agreement; significant changes in the context of the assignment may require that the agreement be renegotiated. Outcomes of the execution phase include services and deliverables, recommendations and approach for the future, ongoing evaluation and improvement (if any). The components of the execution phase should include (1) refining the agreed work plan; (2) implementing the work plan; (3) assignment management and monitoring; (4) approvals and acceptance.

In respect of implementing the work plan, the standard deems that there is no single method of implementation, but a typical management consultancy assignment may consist of the following steps:

1. Prepare: includes collecting relevant data, analyzing the data with reasonable hypotheses, reviewing business models and listing the issue(s); (2) Analyze: includes analysis of different options to address the issue(s) and short-listing the most appropriate option(s); (3) Recommend: includes recommending appropriate solutions from the existing situation along with an implementation roadmap and expected outcomes; (4) Decision-making: includes presentation of recommendations to the client or the recipient for decision-making and acceptance; (5) Implement: includes execution of recommendations, monitoring the progress and measuring the outcomes; (6) Prepare for acceptance and closure.

In respect of assignment management and monitoring, the standards deems that the following activities should be considered: project governance, project management approach, resources management, commitment of resources, monitoring of progress and change control, risk and quality management, communication and reporting, evaluation and feedback.

**Closure**

Closure is the final phase of the assignment. After completion of the assignment, including the delivery of all outputs and assessment of the results, the assignment is “closed” by resolving any unfinished items and meeting all contractual and legal obligations. The standard deems that the MCSP should not consider the assignment closed until the final closure topics have been addressed. These include: (1) legal and contractual matters; (2) final evaluation and improvement; (3) administrative matters; including payment of agreed fees where applicable; (4) communication; (5) intellectual property rights; (6) outstanding minor issues.

The purpose of the closure phase is to achieve an orderly end to the assignment after completion
of the delivery of the service in accordance with the agreement. As per the standard, the closure process starts when a decision is taken that the assignment is complete, normally when the agreed service has been provided and accepted. The assignment can be terminated before the originally agreed service has been provided. In this case, the closure process may need to take place based on a revised agreement.

The closure process results in a number of outcomes, including (1) disclosure of obligations and duties of all parties concerned in the agreement; (2) shared understanding of continuing obligations between all the stakeholders, particularly the MCSP and the client (e.g., guarantee, confidentiality, data protection, outstanding issues, etc.); (3) financial settlement of invoices, expenses, etc.

Contents of the closure phase should include legal and contractual matters, final evaluation and improvement, administrative matters, communication and outstanding minor issues. The standard specifies some metrics for final evaluation and improvement: innovation (development of new services), process effectiveness, process improvements, new systems and behaviors, methodologies, team performance, utilization of resources, condition and impetus, sales leads/references and client satisfaction.

Impact of the Preparation of the International Standard for Management Consultancy on China’s Management Consultancy Industry

Problems in China’s management consultancy industry

Small market size and low maturity
China’s management consultancy industry is not yet mature. Though China has made some progress in the scale and technology of the management consultancy industry, the industry is still at its early stage compared with international mature management consultancy markets. The income of China’s management consultancy industry accounts for only about 0.2% of GDP, indicating a large gap with the world average level and developed countries.

Poor capabilities of market service providers
Management consulting companies feature low competitiveness and service level. Problems such as absence of an accurate professional positioning, small size of most companies and low market share also exist. China’s management consultancy industry lacks the link between enterprises and the market, attaches important to training alone and neglects guidance for employees’ problem-solving ability.

Immature consultancy demanders
Demands in China’s management consultancy market are not yet mature. Most Chinese enterprises have not truly realized the role of management consultancy in promoting enterprise development, which restricts the development of China’s management consultancy industry to a large extent. Chinese consulting companies have to be improved in quality and services provided by them usually cannot satisfy customer needs, thus causing customers distrusting management consultancy companies.

Low quality of practitioners
Among foreign management consulting companies, highly educated personnel with rich working experience occupy a very important position in consultancy team. For example, in RAND Corporation, experts account for more than 80% of the staff and talents with a master’s or doctoral degree account for more than 70%; in Japan, professional consultants have to receive systematic theoretical and technological training for management consultancy for more than one year, and they are high-quality and dedicated.

Absence of relevant supporting policies and measures
Rapid development of the consultancy industry in some countries is inseparable from policies and laws. Compared with mature legal systems for the management consultancy industry overseas, western developed countries tend to support the management consultancy industry as an important industry while China pays less attention to the industry which lacks regulation by laws and preferential policies for development. The Chinese Government obviously has no relevant policies
to support the development of indigenous management consultancy industry. China has no consultancy laws that strengthen the position and service quality of the consultancy industry through consultancy legislation so far.

**Lack of relevant standards and unordered competition**

There are no unified national standards, normative operation rules, common values, standards of practice that are observed by all, effective policy guarantees or communication between peers in China’s management consultancy industry. There are no corresponding criteria for consulting companies’ scale, brand, pre-sales team, implementation team, service price, service process, assessment of results, etc.

**Impact of the release of ISO20700 on China’s management consultancy industry**

So far, the release of the international standard for management consultancy ISO20700 has no direct effects on China’s management consultancy industry. The main reason is that the domestic management consultancy market is not yet mature at present. However, in the long run, standardization of the management consultancy industry in China will be an inevitable trend. This is because management consultancy standardization can benefit all stakeholders of the management consultancy market.

For management consultancy service demanders, they can feel free to choose qualified consultancies through the management consultancy standard and may, based on the standard, evaluate services provided by these consultancies in the process of consultation, correct deviations in time upon consultation and prevent “high input but low output” and disputes arising therefrom. For MCSPs, on the one hand, standardization can help raise the market access threshold, allow enterprises to improve their own capabilities and prevent vicious competition and the phenomenon of “bad money driving out good”; on the other hand, it can reduce the cost on negotiation with demanders and avoid unnecessary disputes. In this sense, standardization can actually protect MCSPs. Besides, in the wake of global economic integration, globalization of the service industry will also be a trend and in order to participate in international market competition, domestic management consulting companies have to meet and even behave above the management consultancy service standard.

Standardization is also of great importance to industry regulators. In the past, industry regulation would always come to the dilemma of “being rigid if regulated and disordered if deregulated”, for which the cause is nothing but absence of standards or disconnection between standards and the reality. Management consultancy standardization will help regulate the operation of players in the industry, specify the practicing baseline for practitioners in the industry and achieve “normative development and moderate control”.

Therefore, management consultancy standardization surely will raise the service level and customer satisfaction in China’s management consultancy industry, and promote rapid and healthy development of the industry.

**Conclusion**

At present, there is a wide gap between China’s management consultancy technology and service quality and those in developed countries. In particular, in respect of raising service level, enhancing service ability and so on, China has to not only actively learn from advanced management experience overseas, but also energetically organize management consultancy standardization activities and boost healthy development of the industry through effective combination of standards and management consultancy. Consequently, on the one hand, we should accelerate the preparation for construction of technical organizations for management consultancy standardization, organize stakeholders of management consultancy standardization in China as early as possible and lay an organizational foundation for carrying out the standardization; on the other hand, we should design a scientific standard system for the field of management consultancy, accelerate preparation of management consultancy standards and change the current situation of no standards in China’s management consultancy industry as soon as possible.
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