

## Consulting – A Business for Business

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### Abstract

*The emergence of information and communication technologies that have linked the world together have led to a global change of all aspects of life, people's way of life and not just material production. Types of economic activity have changed under the conditions of knowledge technology. They allow remote work, offering new opportunities to develop and use personal and knowledge assets. As a result, an institution that meets the needs of time grows and develops. The consulting activity increases the speed of economic decision-making, finds ways to adapt to the individual circumstances of each management technology of the economic agent and promotes the introduction of advanced technological solutions in the field of management.*

*The paper presents a study of consulting as an entrepreneurial entity, and its influence on the evolution of the entrepreneurial environment.*

**Key words:** consulting, business, market evolution, intellectual capital

**J.E.L. classification:** O1, O3

### 1. Introduction

Currently, consultancy is the most important sphere of intellectual entrepreneurship. Because the essence of the consultation means applying a consultant's knowledge to a specific situation, a particular firm, or a process, and aiming at changing this situation, effective consultation is a transforming element in the new economy, as D. Bell writes (Bell, 1973).

As additional resources the client receives from consulting, there are listed experience, behavioral technique, and professional skills. However, in our opinion, this does not explain the spread of advice, which differs from consultations by narrow field specialists - medical or pedagogical consultations. In our opinion, in the consultancy activity, there is an increase in the intellectual capital of the organization in the common work of the client and the consultant.

These approaches present important aspects of consulting, but at the same time do not disclose all the features of the consultancy that are associated with the formation and development of a knowledge-based economy and the increased role of innovation in the competitiveness of economic agents. The analysis of the features of the current stage makes it possible to highlight the logical development of other advisory features not mentioned in the literature.

Nowadays consultancy can be represented as follows:

- 1) As an institution focusing on the current level of habits and standards of perception of advice;
- 2) As a business sector, a separate type of entrepreneurship on the market;
- 3) As a professional sphere with its own standards, criteria and qualification levels;
- 4) As a scientific-applicative field of activity, with its methodology and approaches;
- 5) As a type of occupation or specialized activity, requiring certain skills, competence and qualities of the individual.

The study aims at identifying and characterizing consultancy as an entrepreneurial entity, and its role in the development of the entrepreneurial environment.

## 2. Theoretical background

The importance of knowledge and information as a strategic resource has been reflected in the economic theories of the information economy. The idea of studying the values and the strategic use of information belongs to the Nobel Prize winners, Kenneth Arrow (1972) and J. Stigler (1982), on the basis of which a section of economic theory emerged as an "information economy", dealing with Information Market Asymmetry, Market Signaling, Lemon Market Theory - a market in which it is impossible to verify the purchase and maintenance of the quality of the market product, which is fully applicable to consultancy products.

Florida writes that modern production consists in the fact that "information and knowledge are processed by information and knowledge and, as a result, a new product is obtained: a material product or a way of doing business" (Florida, 1999).

The transformation of knowledge into an important economic resource is discussed in concepts that characterize the new stage of development as a "knowledge economy" or "knowledge-based economy". The term "knowledge-based economy" was put into circulation by Fritz Mahlup in 1962 (Mahlup, 1962). F. Mahlup first made quantitative assessments of the economic knowledge sector, establishing that for the period 1900-1959 there was an increase a significant share of the labor force involved in the knowledge economy, from 11% to 39%, and the product share of the knowledge industries in the US GDP in that year, estimated at 29%. These processes determine an important feature of modern society: technology development or technology. On the other hand, systems for accurately describing knowledge about the implementation of certain actions are developed as a chain of successive interdependent actions, the repetition of which leads to a clear result. This applies both to production processes and to the service sector and is gradually expanding to production and knowledge generation, which is specifically embedded in the explosive development of new sectors of the economy such as Infobusiness site. Infobusiness is the gaining of profit from the processes of production and realization of knowledge and information. Infobusiness continues the division of labor and the design of different types of information and intellectual activities in independent sectors, with its own production and knowledge transfer technologies. One of them is consulting.

## 3. The modern features of the consultancy

### 1) Intellectual capital - the main consulting resource

The system of intellectual capital elements evidenced by Brooking (Brooking, 1997) allows for a wider identification of the types of non-material capital of a consultant and client that a consultant can increase. Obtaining knowledge (learning) and mastering (acquiring user skills) requires considerable expenditure - financial, intellectual, time. However, they act not only as costs but also as investments in the creation of intellectual capital. The knowledge and experience of using it accumulates. Stored knowledge forms a multitude of links to newly acquired knowledge, creating new knowledge configurations.

Intellectual Capital in Consulting includes three types of capital:

1) The capital of explicit and implicit knowledge of consultants, relationships and ways of interaction that provide solutions to customer problems. Explicit knowledge are included in the consulting company's reports and databases. Implicit knowledge are individual skills, experience, and ability to establish a reliable interaction with customers.

2) the internal capital of the consulting company includes organizational structure, corporate culture, intangible assets - patents, licenses, programs.

3) external capital - customer relations, trust, recommendations.

During the consultancy, the client receives new knowledge about process improvement and sales organization, business processes, personnel management and other issues, which he uses after the consultancy project is completed, which allows him to obtain additional profit.

### 2. Creativity and Innovation.

The necessity of creativity and innovation in consulting is explained by the fact that, although the consultants' knowledge is somewhat standardized, because there are standards for training in

higher education institutions, individual business decisions are required in the consultancy, which requires creativity and encourages the development of managerial innovations.

In consultancy, knowledge and information are both a means and an object of work. With the help of knowledge and information, knowledge and information are processed and, as a result, a new product is obtained: a material product or a way of doing business. The consultant receives the necessary information about the firm, identifies the knowledge of the management and the employees of the firm, using for this purpose its own knowledge. Therefore, he determines what information and knowledge is needed to assess the situation; what "places" in the firm should analyze and what specific information should take, how to retrieve the information, what questions to ask. It then analyzes the information obtained by applying its own analytical skills as well as its explicit and implicit knowledge, including intuition, visions, experience, that is, a broad range of what can be included in the concept of "consultant knowledge". He decides on the direction in which the firm can act to achieve the desired result and achieve the goal set with the customer.

Innovation is due to the fact that, for many business events and situations, both standard solutions and innovative solutions are needed. At the same time, the role of innovative solutions will grow in the future as well as the role of imagination, inspiration, originality and initiative in the competition of ideas-based companies (Nordstrom, 2007). Consultancy for such firms should also be innovative and require the same qualities for consulting professionals.

In order for the actions developed to provide the desired result, the consultant has to create a technology through which the implementation of the found solution will give exactly the expected result, taking into account the knowledge of psychology and other aspects of communication with the client. Therefore, modern consultancy requires the ability to develop a knowledge-applying technology in the customer's company in the process of interaction with customers.

### 3. Knowledge technology

As part of the consulting activity, the technologies of application of the theoretical knowledge develop, which can then be used in other consultancy projects with the necessary correction.

Technology developed once and that has given a positive effect in one place can also be applied in another organization. Therefore, consultancy can develop technologies to solve typical problems and generally technology to succeed in solving typical business problems. The possibility of technologization of management solutions comes with the development of information technologies, various services, programs, technical facilities that allow the organic integration of these technical means in the technological consulting process.

However, it would be very simple if any problem could be solved with the help of technology, each time, in a typical way. Developing a knowledge-applying technology to solve a problem should help solve individual problems. The developed technology can contain the basic stages of solving the problem, the elements and methods of its technological solution, but with reference to the conditions of a particular organization; it may be modified in the light of the specific conditions. Thus, in spite of the possibility of creating technology to solve managerial problems, the consultant has to make a specific and therefore creative decision. Therefore, advice is a creative activity, a creation with an important element of innovation. This is the internal nature of the consultation.

### 4) Knowledge accumulation and transfer

Advice involves adopting individual solutions for each business based on knowledge that is somewhat standardized. During the consultation of the projects, the consultant assimilates new knowledge, including the theoretical ones, which he / she has to "implement" in a certain business, that is, in practice, the marketing of knowledge.

For this reason, consultation becomes one of the important "guides" for introducing theoretical knowledge into practice. Universities are no longer entitled to monopoly in producing knowledge (Fuller, 2003). One of these institutes of knowledge production and transfer is consulting.

Consultancy is a scientific-practical activity at the intersection of science and practice. It has to pursue trends constantly in different scientific fields, to gather information and knowledge, to integrate foreign experience and to be guided by modern management technologies. Such an approach allows the enrichment of the intellectual potential, the creation of demand in this field and, in general, the existence and development of the consulting services market.

During the consultancy activity, serious knowledge about companies, applied strategies, problems, solutions are accumulated as an important resource for informing the economy. This resource is important for theory and its development, but also for research purposes.

5) Interdisciplinary nature.

For consulting, economic and management knowledge is important; psychology of influence and sales psychology; legal knowledge; knowledge of information technology. The specificity of the consultancy is to consider not only the information about the firm and the economic nature of the problem, but also the psychological characteristics of the management, the collectivity in which changes need to be made.

6) Entrepreneurship.

Entrepreneurship, in the view of J. Schumpeter, is an initiative to create businesses that produce different innovations (Schumpeter, 1994). Characteristics of consultation is the presence of risks: the risks of a possible misunderstanding of the client, the risk of not wanting changes, the risk of psychological resistance. The task of consulting is to identify the client's business development opportunities in each given situation. Creativity and entrepreneurship are the necessary feature of consultancy, aim of the consulting is for adopting non-standard solutions for each business. As a result, future consultants, who do not usually train in universities, receive "standard knowledge", but their application has in fact an original, non-standard character. This contradiction is the most important feature of consultancy, contained in its essence, and should have the formula for solving.

In our opinion, such a formula to solve the internal contradiction of advice is training in the education process. Training is a specific form of education that differs from the standardized education system developed in the higher education system. It offers the possibility to apply the acquired knowledge in order to solve the individual problems and to organize and personalize the process of interaction, communication and decision-making within the company during a joint analysis of customer problems. Modern technologies allow courses and consultancy training in centers far removed from the homes of consultants.

#### **4. Involvement of consulting in the development of the entrepreneurial environment**

Searching for information is one of the important functions for economic agents whose main task is the production of goods and services. In the modern world, the amount of information, including the economic one, is growing at an accelerated pace. The specialization in identifying customer problems and finding and delivering a result with a significant impact in order to solve the problem accurately acts as a type of unified labor division within the enterprise, which has overtaken it and turned into a specialized market activity. The result of the consultation should be to increase the competitiveness of economic agents through the introduction of effective economic and managerial approaches and the professional development of managers and business specialists.

Other intellectual services have a similar origin. In the services market, consulting is one of the types of business services. Business services represent different types of infrastructure activities, respectively activities that provide conditions for the functioning of the material and non-material spheres of the national economy. These services ensure the formation and interaction of all elements of the infrastructure complex.

The consultancy service may refer to the secondary activities of economic agents (example, the development of a sales system for enterprises in the production area) and the main activity (improvement of the sales system for the enterprises in the sphere of circulation).

The range of issues that lead to the need for consultancy is diverse. These include:

1. Business crises. In our country, anti-crisis consultations emerged before other types of consultancy.
2. Restructuring organization and management, associated with expansion, change of ownership, diversification of the enterprise, change of strategy.
3. Strengthen a competitive market position.
4. Prevent or counteract the opportunistic behavior of employees and managers.

This opportunistic behavior of employees or management staff can lead to losses or even the risk of loss of ownership. Manifestations of opportunistic behavior are job cuts at the workplace, theft, kidnapping - the desire to take over the property - the threat of bankruptcy. All these cases of

critical situation, when the owner or the management cannot solve themselves because of the lack of experience and the internal resources for making the right decisions, are reasons for using the services of a consultant.

Biech presents the following reasons for consulting business management (Biech, 2007):

1. Need for expertise. Due to the fact that the skills and knowledge needed to ensure economic growth or to cope with any major changes in company activities can often not be obtained from permanent employees.

2. Lack of time. Employees of the firm, often having knowledge, do not have time to carry out new projects or studies.

3. Lack of experience. The company may not have qualified specialists, and consultants can do their role until recruited or trained permanent employees.

4. Objective opinion from the outside. External consultants can bring new knowledge and offer an impartial view of how to solve the problem.

5. New Ideas. Consultants bring ideas derived from their work in other companies and industries, new knowledge and successful solution models from multiple sources.

6. Speed and efficiency. Consultants with experience in implementing the company's projects in the past can be a faster and more effective way to solve the problem than making a decision with their own strengths.

7. Assessment of the situation. The Consultant can provide an objective assessment of the situation, identify the problem, and provide recommendations for resolving it.

8. Independence. In case of contradictory situations and when there is a need to reconcile the interests of different parties (eg in mergers or acquisitions, in the reorganization of the firm), the consultant can act as an independent intermediary in settling the contradictions.

## 5. Conclusions

In conclusion, in the modern society, the consulting plays a much larger and more complex role than in the earlier stages of social evolution. This form of business is a natural product of the development of the social division of labor, as an activity specialized in the application of specialized knowledge, in order to solve the economic problems of the economic agents. However, its content and role in the knowledge economy are changing significantly compared to earlier periods.

Under modern conditions, consultancy becomes an important institution of the market economy and, in particular, these features of consulting such as innovation, work for results, creativity will allow consultancy to become an important sphere of society and the most important branch of the business.

The evolving nature of the use of consulting services by companies present in the market will simultaneously lead to a change of companies in their own, as they will increasingly resort to the services of specialized consultancy firms. Thus, in our opinion, today's consultancy begins to intertwine with the subject matter of the companies specialized in management functions. For example, training of staff, developing a marketing program for the company, staff training- all are part of the consultancy firm's activities, as well as: developing a strategy for the company's development; the development of the procurement sector; developing a management system, etc. As a result, the traditional limits of consultancy are expanding.

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