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THE NEW MANAGEMENT STRUKTURE OF CONSULTING FIRMS

Theoretical approaches to such organizational and structural system of management of an enterprise which would be able to improve efficiency of consulting and market saturation with high quality intellectual and business services were considered and generalized.

Keywords: *consulting, management structure, organizational design, hierarchical structure, multilevel structure, organizational legal form, managerial style.*

Problem statement. Topicality of the research on management of consulting firms and its social and economic aspects amid recession is defined primarily by continuing stagnation of economy what in its turn requires not only change of forms and methods of economic management but also thinking of all categories of employees taking part in the management process. Recovery is impossible without creation of a new mechanism of management at the level of enterprise that provides both its stability and flexibility, its susceptibility to market environment changes and various innovations. Formation of such a mechanism by cut and try method is a prohibitively expensive and protracted process. That's why the necessary condition for solving assigned tasks is scientific inquiry, analysis, practice generalization and substantiation of such a system of management of an enterprise that could improve efficiency of consulting and market saturation with high quality intellectual and business services.

At the same time it is possible to mention a small number of comprehensive studies on above mentioned topic. In recent years native and foreign scientists such as Ehryuel I.M., Rerle R.D., Blyunova A.O., Butyuryuna G.M., Dobrenyкова O.V., Makhem K., Grey O., Osyuka S.G., Maksyumenko G.V., Weinstein G.I., Dobrovolsyka A.B., Mazaraki A.A. prepared whole series of studies where some aspects of this problem are examined and analysed. However, the issue of construction of organizational and structural system of management of an enterprise that could improve efficiency of consulting and market saturation with high quality competitive intellectual and business services amid the global financial crisis requires another look which makes actual the choice of topic and special-purpose orientation of this article.

The purpose of this research is theoretical generalizations and identifications of the optimal organizational form, structure and management culture for the improvement of the effectiveness of consulting and market saturation with high quality intellectual and business services.

Presentation of the main material. It is necessary to select various organizational legal forms because differences in the issues of taxation, accounting, reporting and responsibility set a stamp upon the business organization of consulting companies. In economic literature [1,3,4,6,8,9] such organizational legal forms of consulting companies are selected (Table 1):

- sole proprietorship (solo expert, the owner and his several employees);
- partnership (the most widespread form in the sphere of consultancy) is created on the basis of the agreement between several persons who bring together their knowledge and resources and create a company being committed to divide profits, losses and commitments between themselves;
- corporation (joint-stock company) in the context of setting-up of transnational companies.

Table 1**Comparative analysis of basic organizational forms of consulting companies**

Characteristics of organizational forms of consulting			
Organizational form Characteristics	One-man enterprise	Partnership	Corporation
Formation complexity	Simplicity and easiness of formation, low foundation and formalisation costs	The same as the one-man enterprise plus treaty between partners	It demands considerable efforts and material expenses due to specific legislative regulation
Ability of mobilization of capital	Limitations of amount of owner savings	It increases the possibility of capital mobilization for pooling of partners' savings	Very high, there is the possibility to mobilise capital fast by issue of securities
Amount of liability of owner	Full liability by all commitments including property	Full shared subsidiary liability including partners' property	Limited cost of securities being issued
Control measure on the part of owner	Overall control	Divided between partners, the source of variety of opinions	In accordance with the fraction of shares being issued
Length of life	Limited by length of life of owner	It depends on terms of a treaty between joint partners	Unlimited
Taxation	By rate of personal income tax	The same as the one-man enterprise	Double taxation
Liquidity	Low, sales difficulties	Sufficiently low, equity position sales difficulties	High
Field of activities	Ethnocentric	Ethnocentric	Geocentric

Application of each one of the mentioned organizational forms is suitable for specific market and legal conditions. But in the process of professional development an individual firm can change the form of business – from the sole proprietorship to the corporation. The desire of owners and top management of consulting firms to

motivate consultants to the high-efficiency work is implemented by their involvement into the company co-ownership. Thus, almost one-third of employees of leading consulting firm McKinsey are partners what makes it possible to solve a number of strategic problems (Figure 1).

The structure of management of consulting firms means the ordered set of interrelated elements which are in permanent relations between each other which maintain their functioning and development as a whole

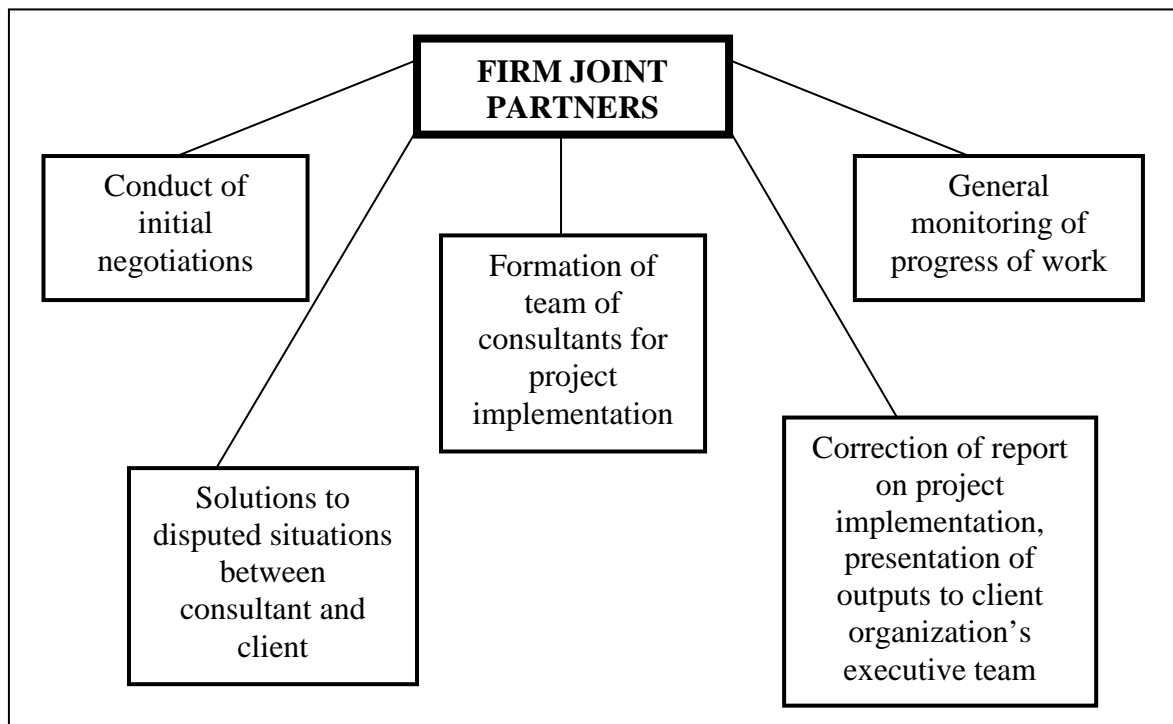


Figure 1. The strategic concerns of consulting company joint partners

The separate employees, services and other links of management apparatus are structure elements and intercourses between them are supported by the relations which it is accepted to break up into horizontal and vertical ones. Horizontal relations are associated with approval and usually single-level. Vertical relations are connections of subordination and a need in them emerges in case of hierarchical control when there are several levels of management. Moreover, the relations in management structure may be line and functional ones. Line relations reflect the movement of managerial decisions and information between so-called line managers, i.e. persons who are fully responsible for the organization or its structural subdivisions; the functional relations have to correspond to the information flow line and managerial decisions to those or other managerial functions.

According to references [1,7,9,10,12] and review of the practical activity of such companies as UCPPS (Kyiv, Dnipropetrovskyk), WUMC (Lviv), INCONS (Kyiv), EUROCONSULT (Odessa), PCG (Kyiv), SS&C (Kyiv), EBS (Kyiv), M. I. P. (Kyiv), KCG (Kyiv), KMC(Kyiv), INCONSULT(Cherkasy), GRAFFITI (Mykolaiv), KhMC (Kharkiv), RIC (Vinnytsia), DCC (Donetsyk), ANT-Consult (Kirovograd), UBC (Kyiv), BIG (St. Petersburg), Bestlog (Moscow), the structure of organization

administration or organizational structure of management (OSM) is one of the key concepts of management which is closely connected with the purposes, functions, managerial processes, work of consulting firms' managers and distribution of authority between them. Within the framework of this structure there is the entire management process (movement of information flows and management decision making) which involves managers of all levels, categories and professional specialization. The structure can be comparable to the frame of building of management system which is built in order to all processes proceeding in it to be implemented duly and efficiently. Hence, there is the attention of consulting companies' chief executive to the principles and methods of management structures building, choice of their types, study of trends of alterations and assessment of conformance to tasks of organizations.

The relations between elements of the management structure are supported by connections which it is accepted to break up into horizontal and vertical ones. The first ones are associated with approval and single-level. The other ones are the relations of subordination. A need in them emerges in case of hierarchical management structure where there are various levels of management, on each of them own aims are being pursued [4,6,13].

The functional relations link up with those or other management functions. Accordingly there is such a concept as authority of line personnel and staff personnel and functional authority. The authority of line managers entitles to resolve all issues of development of trusted to them organizations and subdivisions and also give orders binding on other members of the organization. The staff personnel authority is limited by the right to plan, recommend or advise and assist but not to order to other members of the organization to execute their orders. If one or other employee of the administrative apparatus is entitled to make decisions and execute a piece of work usually performed by line managers, he will receive so-called functional authority.

Within the framework of the management structure there is the management process (movement of information and management decision making), among the parties of which management tasks and functions are divided and therefore - the rights and liability for their performance. In this respect the management structure can be considered as a form of distribution and cooperation of management behaviour within which there is the managerial process aimed at achieving intended purpose of consulting company management.

As far as some researchers state [1,10,13], the management structure includes all goals divided between the various links, connections between which ensure coordination of single acts on their fulfillment, therefore, it can be considered as the reverse side of characteristics of operation mechanism (as a process of implementation structural connections of management system). The connection of management structure with the key concepts of management - its purpose, functions, process, operation mechanism, human beings and their authority, - attests structure's enormous impact on all parties of management. That's why consulting companies' managers of all levels pay great attention to the principles and facilities of structures formation, the choice of type and combination of structures shapes, research of

trends in their composition and assessment of their compliance with the purpose which are also solved by objectives.

Manysidedness of the content of management structures provides for multiplicity of principles of their formation. Firstly, the structure has to reflect the purpose and objectives of consulting company, therefore, to change with the alterations which are taking place. It has to reflect the functional specialization of labor and scope of authority of the workers of management; the latter is defined by the philosophy, procedures, rules and job descriptions and extends as usually in the direction of higher levels of management. In this respect, the authority of manager of any level is limited not only by internal factors but also by environmental ones, the level of culture and system of values of society, the traditions and canons adopted in this society. In other words, the management structure has to satisfy socio-cultural environment and during its formation it is necessary to take into account the conditions in which it will work. In actual fact, it means that attempts to copy blindly the management structures which operate efficiently in other organizations are doomed to failure if the conditions of work are different. It is also important to implement the principle of correspondence between the functions and authority, on the one hand, and between the qualification and level of culture, on the other hand, because the specificity of such companies requires consultants with greatest expertise.

In western management theory based on the concepts of organizational behavior the structure of a company is considered as the most important factor that determines both forms of behavior (business) of the entire team and its members. In this context, the organizational structure includes the following concepts of management as: correlation of responsibility and authority, delegation of authority, centralisation and decentralisation, liability and control, spans of control, organizational company policy, models of management decisions, formulation of general and individual tasks and others. In actual fact, it is a case of informative side of management structure: what purpose it serves and what management processes it provides. Thus, giving the general characteristic of the organizational structure it is possible to subscribe to an opinion of a number of authors [1,3,4,8] who highlighted several statements that determine its significance: 1) the organizational structure of the firm provides the coordination of all management functions; 2) the structure of the organization determines the rights and duties (authority and responsibility) on management levels; 3) the organizational structure influences on the effective operational activities of the company, its survival and prosperity; 4) the structure in this particular firm defines the organizational behavior of its employees, in other words the management style and the quality of work of the team.

Over many decades the organizations were creating such organizational management structures which were called hierarchical or bureaucratic. The concept of hierarchical structure was formulated by German sociologist Max Weber who formulated a normative model of rational bureaucracy. It contained the following fundamentals: clear specialization of labor which caused a need for qualified professionals on every position; management hierarchy wherein the lower level reports to and is controlled by higher levels: the existence of formal rules and

standards to maintain homogeneity of fulfilment of tasks and responsibilities by managers; the genius of formal impersonality using which the officials perform their duties; recruitment according to the job specifications for a certain position. The objective nature of managerial decisions serves as a guarantee of rationality of such a structure. This multilevel structure can be presented in the form of the administrative pyramid where on the first level there are consultants without ranks who alone or by brigades perform work for the client. On the second level there are operation executives or mentors who are responsible for the brigade or individual consultants and perform such functional duties as planning of consultants work; the work performance control; provision of information to the company management about the progress of work and work of each consultant; interfacing of consultants with the management of the client organization. The third level - co-owners of the firm who bear formal responsibility to the client for work being performed by the consultant or brigades of consultants of the firm. On top of the pyramid there is managing director (Chairman of the Executive Committee). The President and Chairman of the Executive Committee also belong to the top management of the company.

The *hierarchical type of structure* has many variations but the most popular one is the line and staff organization of management which still gains widespread acceptance in organizations all over the world. The basis of the line and staff structures is so-called "mine" principle of formation and functional organization subsystems specialization of management process (marketing, production, research and development, finance, staff, etc.). In accordance with each of them the hierarchy of services is being formed. It interfuses the entire organization throughout. The results of work of each service of management apparatus are estimated by the parameters characterizing fulfilment by them of their purpose and tasks.

Long experience of using the *line and staff management structures* (Figure 2) has shown that they are the most effective when the management apparatus performs routine tasks and functions that repeat themselves more often and are rarely alterative. They can be found in the management of organizations with mass or high-volume production as well as in the deficit economic mechanism when the production is the least sensitive to the scientific and technologic progress. In such an organization of production management the company can operate successfully only if changes in all structural units take place uniformly. But it doesn't exist in actual practice; the lack of fit of reaction of management system appears on request of the external environment. The scenario is gathering pace by loss of flexibility in the relations between management apparatus employees because of use of formal rules and procedures. As a result, the transfer of information is complicated and slowing what cannot but have an impact on speed and timeliness of management decision making. The necessity for coordination of operations of the various functional services racks up sharply the volume of work of the head of the organization and his deputies, in other words the top bracket of management.

According to some authors this structure is the most effective in cases of necessity of accomplishment of stable tasks and execution of iterative processes or relatively similar responsibilities of the performers and limited amount of information, orders and instructions [1,4,6,8,9].

The variety of hierarchical organization of management is so-called *divisional structure* with which according to [1,3,4,6,8,9] a combination of centralized coordination with the decentralized management (decentralization with maintaining coordination and control) is common.

The key persons in the management of organizations with divisional structure are not the heads of functional subdivisions but managers who are in charge of separate departments.

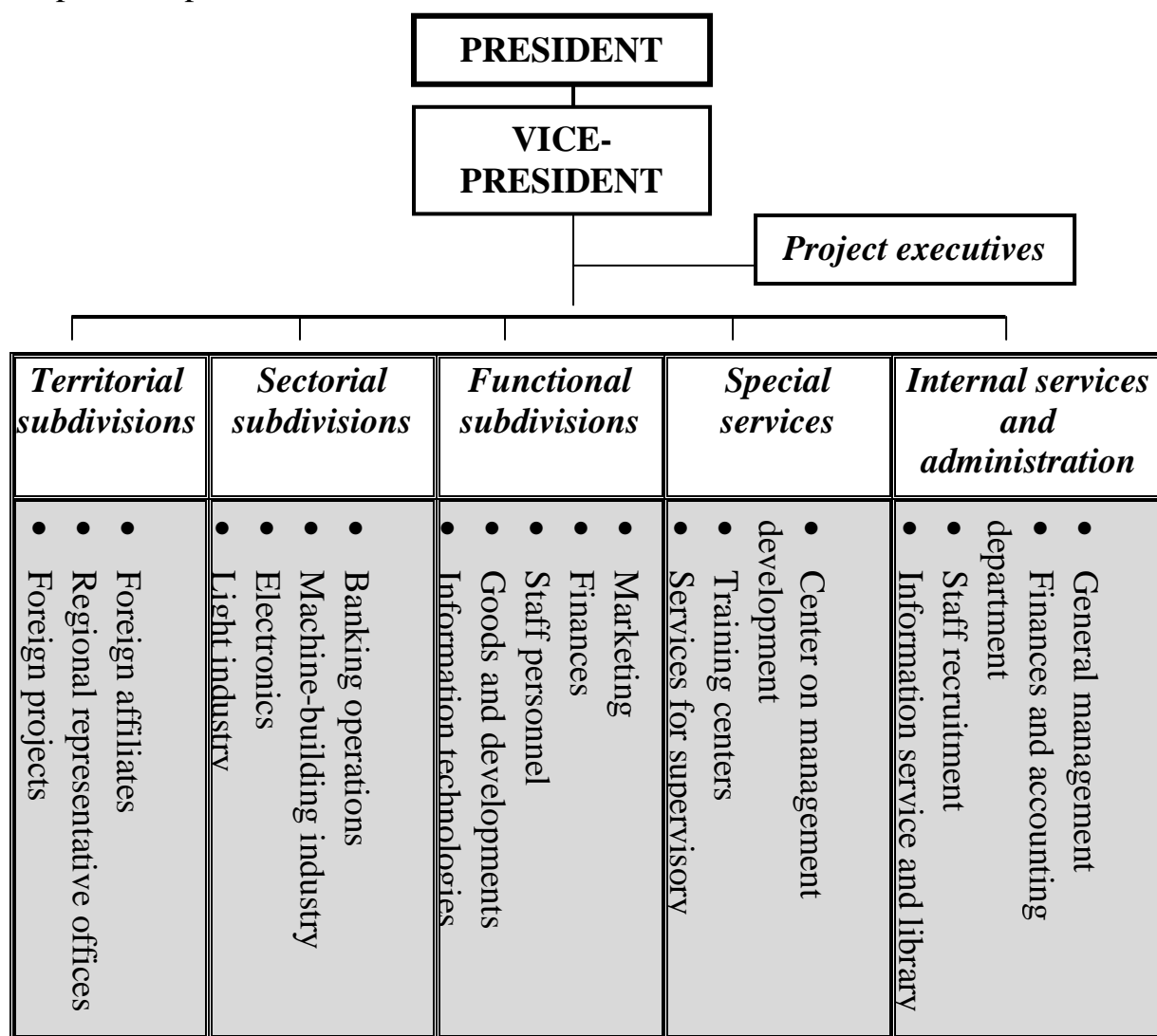


Figure 2. A typical line and staff organizational structure of consulting companies

The structuring of the organization into departments is worked out usually by the general criterion among three ones: by the services being provided (*product specialization*), orientation on consumer (*consumer specialization*) and serviced areas (*regional specialization*). This approach provides more close connection with consumers, significantly speeding up the response to the changes occurring in the external environment. As a result of expansion between the operational and economic independence the departments became profit centers which use actively given liberty for improvement of the work effectiveness.

At the same time the divisional management structures resulted in increasing hierarchical pattern, in other words chain of command. They demanded the formation of intermediate levels of management to coordinate the work of departments, groups, etc. Management functions overlapping at various levels led finally to increasing expenses for the administrative apparatus of the consulting firms.

The various modifications of the hierarchical structures which were used abroad and in our country didn't allow to solve problems of coordination of horizontal functional links, raising of the responsibility and accretion of power of lower and middle levels managers, dismissal of top-bracket from the operational control. It was required for the transition to more flexible structures better tailored for dynamic changes and requirements of the environment.

The main feature of the structures known in the practice of management as flexible, adaptive or organic, is ability which is typical of them to change with relative ease its shape, adjust to new conditions, blend in with the management system. These structures look out for accelerated implementation of complex programs and projects within large enterprises and associations, the whole industries and regions. Usually they are formed on a temporary basis, in other words on the duration of a project, program, problem solution or achievement of desired goal and are characteristic of such efficiently-run companies as GFA Konsalting group, McKinsey & Co., BKG, BIG, Bestlog and so on. The varieties of this type of structure are project, matrix, special-purpose programme, brigade forms of organization of management [5, 9.11].

The *project structures* are formed in the process of organization's development of projects which mean any processes of purposeful changes in the system like, for example, modernization of production, mastering of new products or technologies, construction activity, etc. The project management includes the determination of its goal, structure formation, planning and organization of execution of works, coordination of performers' actions. One of the forms of project management is forming special subdivision – the project team working on a temporary basis. It usually incorporates the necessary experts as well as management ones. The project head manager is vested with so-called project authority. It includes responsibility for project planning, operating schedule and progress of work, expending resources made available including material incentives for employees. In this respect, it is of great importance that manager would have a knack of forming concept of project management, dividing tasks among team members, clearly defining priorities and resources, adjusting conflicts in a constructive way. Upon project completion the structure is broken up and employees go to the new project structure or return to their permanent position (when there is contract work, they resign). Such a structure is very flexible but upon availability of several purpose-oriented programmes or projects it leads to fragmentation of resources and complicates significantly maintenance and development of production and scientific and technological potential of the organization as a single entity. To simplify coordination in the organizations the staff management agencies are created on the base of project managers or so-called matrix organisations are used.

The *matrix organisation* reminds of a lattice organization based on the principle of double subordination of the performers: on the one hand – to the immediate supervisor of functional service which employs staff and provides technical assistance to the project manager; on the other hand – to the project manager (of purpose-oriented programme) who is invested with necessary authority for the managerial process in accordance with the planned time, resources and quality. In such an organization the project manager interacts with two groups of inferiors: with the permanent members of the project group and other employees of the functional departments who report to him temporarily and on a narrow range of issues. But along with this they maintain their subordination to the immediate subdivision supervisors, managers of departments and services.

A move to matrix organisations usually does not spread to the whole organization but only to its part. However, its success depends largely on to what degree the project managers possess of managers professional qualifications and can lead the project group. The scale of usage of matrix structures in the organizations is rather significant which attests their effectiveness. The matrix management structure is created usually on the functional structure basis [8,9,11]. In the process of its growth the consulting firm adheres to a principle of “conquest” of new regions, countries and continents. This requires the establishment of regional branches rendering services in that or other region. It may be interim parties seeking new clients; large offices which can provide independently advisory services on wide range of issues.

The basic idea of structure of regional branches management is that members of target group or brigade including both consultants of the regional branches and specialists of functional departments are in a dual subordination: in temporary subordination – to the head of the regional branch; in permanent one – to the head of the functional department.

The establishment of temporary target groups received extensive development in project management. The objective process of aggravation of problems being solved and consultants’ specialization in certain fields of knowledge have need of establishment of temporary groups for more successful work. They are actually the core of the matrix organisation.

In case of *brigade structure type* the skill requirements for employees are significantly changed: an advantage is given to people with universal knowledge and skills because only they can maintain substitutability and flexibility when the group changes tasks are being fulfilled. In brigades the functions of employees are enlarged and their skills are improved as a result of mastering several skills and jobs and fuller growth of capabilities. The combination of collective and individual responsibility for the quality of work and its final result curtails drastically the need of external tight control and the intermediate records of output.

Accordingly, the wage conditions are changed and aimed primarily at economically sound cooperation and heightening interest in raising incomes and profits. The brigade has flexible systems that provide close link between the level of salary of each member of the brigade and general results (in such terms of, for example, incomes or profits).

Today we can observe such trends of development of consulting firms: firstly, the rapid expansion of large consulting companies increasing constantly their range of services; secondly, small firms of focused specialization do not show apparent tendency towards diversification. The reason of such trends is that expanding of range of services is caused by the allocation of significant funds to maintain additional personnel what in its turn leads to rising costs of services of consultants and, thus, to reducing their competitiveness.

An identifying feature of consulting firms is the responsibility of all employees, regardless of hierarchy and position in the company, to provide consulting services.

Conclusions. The efficiently-run consulting companies have such outstanding features as flexible, adaptive or organic organizational design structures with such a feature as ability to change easily its shape, adjust easily to new conditions, fit organically in the managerial system, lay down the guideposts on the accelerated implementation of sophisticated programs and projects within large enterprises and associations, whole industries and regions.

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Новітні структури управління консалтингових компаній

Розглянуто та узагальнено теоретичні підходи до побудови такої організаційно-структурної системи управління підприємством, що могла б забезпечити підвищення ефективності консалтингу і насичення ринку високоякісними інтелектуально-діловими послугами.

Ключові слова: консалтинг, структура управління, організаційний дизайн, ієрархічна структура, багаторівнева структура, організаційно-правова форма, стиль менеджменту

Руденко-Сударєва Л.В., Онищенко В.В.

Новые структуры управления консалтинговыми компаниями

Рассмотрены и теоретически обобщены подходы к построению такой организационно-структурной системе управления предприятием, которая смогла бы обеспечить повышение эффективности консалтинга и насыщение рынка высококачественными интеллектуально-деловыми услугами.

Ключевые слова: консалтинг, структура управления, организационный дизайн, иерархическая структура, организационно-правовая форма, стиль менеджмента.

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