

# Knowledge Management in Consulting Activities

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**Abstract:** Nowadays, knowledge is key to value-creation in most industries, but for consulting companies, the knowledge generated and shared in the organization represents the core service. Therefore, a strategy for active knowledge management and utilization of knowledge in its different state is needed. The present paper provides a review focusing on the meaning of knowledge for consulting activities. The different stages of a consulting project are examined and the demand for knowledge management support in the course of the project execution is analyzed. Additionally it is emphasized that two different management strategies are applied simultaneously in the companies. With the personification strategy the human oriented approach is practiced, within the technical oriented approaches of the codification strategy the storage of explicit knowledge is promoted. Next to the codification and personification strategy the coordination of the goals within the knowledge management as well as the active knowledge management influence on the consulting success is emphasized. The paper aims to point out the increase of customer satisfaction, quality of consulting services as well as the effectiveness in project work based on knowledge management.

## 1 MOTIVATION

Consulting companies are confronted with a high fluctuation rate concerning their consultants. Poor promotion prospects as well as the contempt of personal commitment are seen as reasons for this. Thus, saleable working hours provide a central measure for the advisory services in most of these companies. This results in a high outward, but low inward orientation. Furthermore, consultants obtain a high autonomy. The working process on site with and for the customer is regarded as more valuable than the development of the own organization. After the completion of a project, investing time in the documentation of the results is not seen as a service for the customer and thus is more likely to be neglected. A further barrier, associated with the documentation of perceptions, is the inner competitive pressure given the fact that the documentation is also perceived from other consultants and hence can be used.

The article describes the characteristics of consulting activities and knowledge management. The consulting market is examined in terms of the characteristics of a professional consultation with its frames and their classification as knowledge intensive and professional services. In a second step,

the conjunction with knowledge management in its crucial phases of a typical consultation project takes place. Conclusively, the via knowledge management obtained competitive advantages especially technology and human orientated strategies as well as the goal and usage of knowledge management initiatives within consulting activities are described.

## 2 THE ENVIRONMENT AND THE CHARACTERISTICS OF CONSULTING

### 2.1 Definition and Minimum Requirement towards a Professional Consultation

Consulting is a professional service which is performed by one or more generally speaking functionally qualified and from the consulted clients hierarchical independent people, which is time-limited as well as in most cases effected for consideration and has the aim to define, structure and analyze business problems of the contracting company interactively with the clients as well as acquire problem solutions and, if wished, plan their

realization cooperatively with representatives of the client and realize these plans within the company (Gattnar, Eck, 2013).

The main aim of business consulting is providing support for the processing of business motivated issues. Thereby, different aspects can be determined.

Among others, such aspects are strategy topics, organization and business processes, and information technology or personnel issues at the customer. Hence, according to the classification of Bundesverband Deutscher Unternehmensberater various consulting focuses exist: the *strategy*, *organization*, *IT* as well as *HR* respectively *personal consultancy*. (Bundesverband Deutscher Unternehmensberater, 2008).

In general it is to be noted that business consulting is fully characterized by customer independent and generally complex tasks and parameters which require corresponding customized solutions even if the scope of individuality can vary depending on the project type or the consultation focus.

The recommendation of the consultants orientates itself towards the goal of the customers and the therefore relevant topics. The consultant is characterized as the professional problem solver which provides the customer with its experience-based knowledge. Due to this the entire consultation process, within an ideal typical construction, lies in the hands of the consultant whereas the aims and the situation of the customer shape the input for the consultation process. It is necessary to analyze these in a prior step to consultation, since in reality the missing aim on the part of the customer can sustainably impede the consultation.

The minimum requirements towards a professional consultation include that consulting is an external and independent provided service in order to process problems of a defined customer due to specifically for this operation obtained knowledge and abilities. It is performed on terms of a written contract for money and granted on conditions of ethical perceptions and moral rules.

Next to these minimum requirements the consultant know-how shapes the core competence of a consultant, which defines its professionalism. These include the knowledge and the ability to understand which are required for the co-creation and management of consultation processes in order to secure oneself and the client the necessary scope for development to process problems. For the application of specific methods and technologies the consultant requires a basis which primarily contains a basic understanding of consultation processes as

well as knowledge about characteristics and the organization of the project layout. Professional consultation additionally concludes the competence of the consultant in its field of expertise as well as its abilities to contribute to the setup of a promising consultant / client relationship. Following points count to the requirement criteria of consultants: Ability to explain problems and solutions, comprehensive expertise as well as experience from earlier or similar counselling cases. These for all consultants equally affected expectations are to be endorsed by problem specific request of the customers (Gattnar, Eck, 2013).

## 2.2 Classification of the Consultation as Knowledge Intensive Process

Consulting companies belong to the category of „Professional Service Firms“. These are so-called knowledge intensive non-public companies in which the value creation process is highly based on people and their expert knowledge and experience. The service is primarily generated by employees with academic or at least higher education. Private companies as well as public institutions and establishments belong to the group of customers. The professional service is generally strongly linked to the scientific process in the field of know how in which it is offered (Gattnar, Eck, 2013).

On the one hand „professional services“ are intangible services which produce an intangible output (i.e. a concept for process optimization) via intangible input factors (e.g. methods, processes, expertise of experts) in a creative performance process. On the other hand „professional services“ are not commodities, but are much more characterized by heterogeneity respectively variability. The result as well as the quality of the service is highly dependent of their provider since these are performed with a high intensity of the factor work and within timing by partly different experts. Due to this, providers of the “professional services” try to counteract this fact with standardization, corresponding personnel selection and knowledge management. However, since these are, to a large extent, provided customer individually it is complicated to standardize them.

From the intangibility, heterogeneity and customer individuality of the professional service results that the potential customer is confronted with the high amount of uncertainty in the phase of acquisition. The quality as well as the qualification of the company is difficult to evaluate beforehand for the customer. A further feature is the

simultaneity of the production of the service and its consume. “Professional services” cannot be produced in stock or stored as products which makes the counterbalance between the own interconnect capacity and the timing highly complex. To a high extent the service is mostly produced in interaction with the customer whereas the degree of customer participation can vary according to the stage of the project.

All in all „professional services“ are understood as services which according to Müller are, to a high extent, customized to individual customer needs and are mostly provided in close cooperation with the customer under insertion of distinct expertise and experience of highly qualified employees. “Professional Service Firms” with their optimized key processes (e.g. employee qualification, knowledge management etc.) and innovative organization structures frequently obtain a role model function especially for the customer.

In total, consultation services fulfill the features of knowledge intensive processes. The effective usage of available as well as the quick production of new knowledge for the solution of customer problems within the work process embodies a major challenge in consulting. However, the once acquired knowledge often isn't sufficient for new projects. Due to this it is necessary to complement, improve and to renew this as a product of social interaction and cooperation within a process. Within this process it is necessary to frequently considerate the actualization and preservation of the present knowledge at the consultation since the aspect of

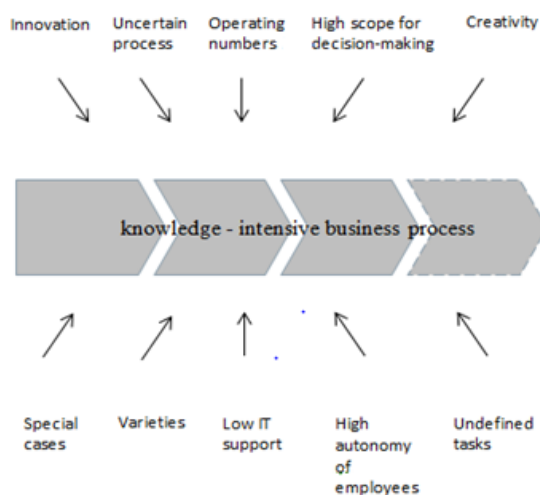


Figure 1: Several features knowledge intensive business processes (Remus, 2002).

actuality is especially relevant at consultation services particularly in terms of experience and expertise. Hereby, the knowledge intensity can be used as dimension for the classification of knowledge intensive business processes (Remus, 2002). Figure 1 illustrates several features which complement described characteristics of knowledge-intensive business processes.

### 2.3 Knowledge Management Support in the Crucial Stages of a Consulting Project

Consulting projects are to be seen as projects since they have a clearly structured beginning and a clear end whereby a task is to be processed in the meantime which would not be manageable in this form for the customer. The graphical illustration in Figure 2 depicts an ideal-typical procedure of the crucial stages of a consulting project.

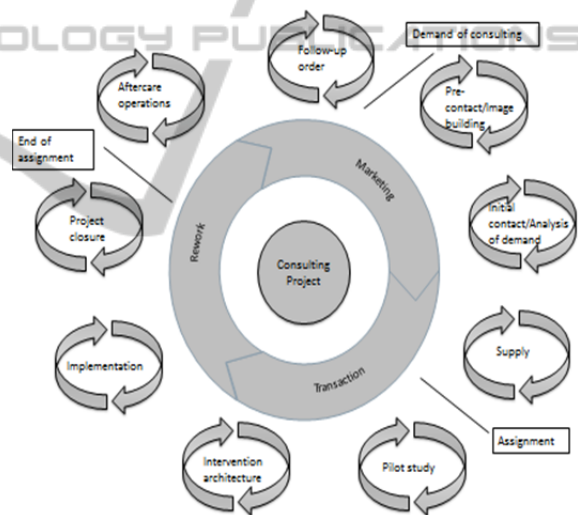


Figure 2: Crucial stages within a consulting project (Gattnar, Eck ,2013).

Within an opportune case the trigger for a consulting project illustrates a customer query mediated by a key account manager. Already in this early stage of the consulting project assumptions concerning the contracting authority must be made. Furthermore, the consultation service is dependent on the expectations of the consultant based on these assumptions concerning the situation at the customer since the consultant obtains needed information from the difference between the assumptions and that what he or she finds with the customer.

The decision which consultant participates in the consulting project is, next to their availability also

based on the assumptions concerning the structure at the customer. In most cases consultants are chosen who have already gained experience in similar projects, which are familiar with the assumed structures and are available for the assumed project duration.

All in all the presuppositions are the basis of the consulting projects from which the consultant can react in the situation of the initial contact. In order to meet the presuppositions concerning the background of the customer query as well as the current situation at the customer a comprehensive support via knowledge management is necessary. The assumptions should be retained within a frame of problem definition since this is the basis for the termination of the initial business contact or for the release of the engagement. Furthermore, the subsequent consultation process subsists on the creativeness of this run-up phase.

Every bigger consulting engagement with an own pre-phase should include a depicted pre-study. This gives the opportunity to execute a diagnosis of the situation in terms of an intervention which can reveal the actual problem, enable an exact time and cost calculation and is crucial for the composition of the consulting team.

The in the pre-phase gathered information and drawn conclusions should be documented and allocated for other consultants. This can be followed by a workshop with a joint discussion which can be helpful in the decision of conducting a consulting project as well as in the formulation of a contract. The necessary foreknowledge for the formulation of a contract is crucial for the sustainability of a consulting project so that this can be complied with available resources and a calculated profit margin.

The actual project implementation takes place at the customer. The end of the consulting project is set in the initial contact and must be defined in the consulting engagement. Generally following things are important in this phase: A retrospective view on the entire consulting project, an evaluation of the project results, agreements concerning the aftercare as well as regulations concerning the further possible customer contact between consultant and customer. All these points should be stored within a knowledge management and be available for follow-on projects. (Gattnar and Eck, 2013).

### **3 KNOWLEDGE AS PRODUCTION AND COMPETITIVE FACTOR IN CONSULTING**

Consultancy is defined by the fact that the applicable knowledge and the necessary expertise become obsolete quickly. The reason lies in that both are contextual and, due to this, frequently change. Next to this the staff development in consulting is marked by a high fluctuation rate. This on the one hand side requires that the knowledge of outgoing employees is documented respectively forwarded and on the other hand that the company conveys knowledge as quickly as possible to new employees. Additionally, next to general problem solving technics also specific know how concerning technologies, processes and products are important (Broßmann, M., Mödinger, W., 2011).

Knowledge constitutes a central input factor in the process of service and is as much important as much complex and specific the creating service itself is. Hence, the consultation success is dependent of this production factor in a particular way. Due to the fact that the value added is primarily dependent on high qualified, committed employees, knowledge management is assigned with the role of a main respectively key process. In order to counteract the short half-life period of specialized consultation knowledge a systematically run knowledge management for the actualization and preservation of the input factor knowledge is added for consulting.

In the following consultation is described as a knowledge intensive service for which knowledge as a competitive factor is crucial. Next to the strategies of knowledge management the aims and expected benefits at consulting activities are discussed.

#### **3.1 Knowledge as Competitive Advantage**

Consulting, understood as a knowledge intensive service, is based on common knowledge and knowledge which presents a competitive advantage. In the course of time the competitive advantage degenerates while expert knowledge turns into common knowledge if no new, specific knowledge is developed. Knowledge is only then a competitive advantage if it really contributes to a value generation for the customer and is seldom in comparison to the competitors. The relative market

position can be held longer the worse the knowledge of the competitors is imitable respectively substitutable.

The goal of knowledge orientated company management consists of generating knowledge from information and implementing these in sustainable competitive advantages which are measurable in terms of business successes. This means to generate all steps of the knowledge staircase which are shaped from basic concepts of knowledge management. From this three action fields of the knowledge management can be derived: the strategic and operative knowledge as well as the information and data management. While the strategic knowledge management passes the knowledge staircase from top to bottom in order to answer the question which knowledge is needed in order to stay competitive, the operative knowledge management contains the networking of information for knowledge, ability and negotiation.

### 3.2 Strategies of Knowledge Management in Consulting

There are two different knowledge management strategies preferred in the consulting environment. In some companies information technology plays an important role in the handling of knowledge. Hereby this is accurately codified and stored in databases. Again in other companies knowledge is seen as closely tied to a person. This is mainly forwarded via direct interaction with other individuals. The purpose of the information technology in this case does not lie within the storage, but in the support and substitution of information.

The two common knowledge management strategies can be described as a *personification strategy* and as the IT-supported form named *codification strategy*. The choice of one of these management strategies defines the extent of the IT-support which a company needs. In terms of the technical oriented approach of the *codification strategy*, knowledge is generally compared to explicit knowledge in documented form. This knowledge can be provided the consultants with help of the information technology. Prior functions of supporting systems should facilitate the visualization, search, structuring, publication and presentation. In contrast the human oriented approach of the *personification strategy* mainly deals with implicit knowledge which is not available in a codified form. Communication, expert search, cooperation and community support shape the focus

in this case. With their help highly specific consultation services can be offered.

Furthermore, the study showed that both strategies appear in consulting to the same extent. Which strategy dominates is dependent on the method of how a consulting company generates value added for its customers. The *personification strategy* is useful for companies which are mostly confronted with new and individual problems during their consulting activities. Thereby, the implicit practical knowledge of the partners is in a great demand. Otherwise a standardized consultation service such as it was the case at the SAP-consultation requires access to reusable, codified knowledge which can be stored and accessed by the help of information technology. An optimal solution is given with the deployment of both models in a proportion of about 80:20. In due consideration of the expenditure the choice of both models at the same time is yet not optimal. Despite the relative low amount of one of the models of approx. 20% of the entire strategy the effort, which emerges through the implementation of tools and methods for its realization, is unlikely higher.

### 3.3 Aims and Utilization of Knowledge Management in Consulting

Knowledge management develops direct and purposive potential in order to improve the competitiveness of a company and deliver solutions for the challenges of the market. Customers expect high problem solving competence, empathy for the situation and low uncertainty in handling consultation projects in the course of a consultation service. On behalf of consulting companies the economic project execution next to the comprehensive customer satisfaction is of centrality. Hence, four aims for the introduction of knowledge management in consulting arise (Gattnar, Eck, 2013).

#### - Higher effectivity of the projects

The results of the consultation services are critically questioned due to the tough competitive situation. The market pressure under which the customer companies lie demands an effective consultation service in order to win a competitive advantage for the customer. The improvement of the competitive situation for the customer is related to innovative solutions which contain fewer hazards for the consulting company. However, prior knowledge is necessary for this.

**- Higher effectiveness in project work**

With the strategic setup of knowledge and its specific reuse the profitability of service provision is supposed to be improved.

**- Enhancement of the own profitability**

The image of the consulting company sustainability determines the price which can be achieved on the market. An enhancement of the own profitability on the one hand encompasses efficiency increasing criteria, but includes the deployment of available knowledge as marketing instrument and argument for better prices.

**- High customer satisfaction**

Acceptable cost effectiveness must be revealed for the customer. With each project the knowledge of the consultants about the customer is deepened which is the reason why follow-up projects, due to a shorter project initiation phase, can be transacted more economically. That again intensifies the customer loyalty.

## 4 CONCLUSIONS

Present paper emphasizes the meaning of knowledge management for consulting activities. Over and above the minimum requirements of a professional consultation this process was classified as a knowledge intensive process in the entire process structure of an engagement. Furthermore, the stages of a consulting project were examined and the demand for knowledge management support in the course of the project execution was motivated. Additionally knowledge in terms of consulting was defined as a competitive resource. It was emphasized that two different management strategies are applied simultaneously in the companies. With the personification strategy the human oriented approach is practiced. Hereby the focus lies on the support of the communication and cooperation of employees. In contrast thereto, within the technical oriented approaches of the codification strategy the storage of explicit knowledge is promoted. Next to the codification and personification strategy the coordination of the goals within the knowledge management were emphasized with the entire company goals during consulting. Hereby it became clear that knowledge management can concretely influence the consulting success.

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