The Influence of Innovation on Competitive Advantage in the Management Consultancy Sector

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Abstract: Embracing the transformation and changes that innovation can bring is crucial for a business to maintain a sustainable competitive advantage in such a complex, volatile and competitive environment. Ignoring the transformative nature of the business environment and keeping operating with a business model that is outdated and does not move with time, can be extremely detrimental to a company and it may ultimately lead to the cannibalization of the business itself. The business consultancy sector in the UK saw a dramatic increase in the number of firms operating in the field. This brings the need for business consultancies to differentiate through innovation in their entrepreneurial proposition whether in a product or a service, in a new way of operating, in the resolution of an issue or in the implementation of systems, production or quality that will change the way in which a firm creates, delivers, and captures new value.

Keywords: Innovation, Entrepreneurship, Management Consultancies, Sustainable Advantage, Business Models.

1. Introduction

The saturation of the Business Consultancy sector brings the urgent need to innovate to sustain competitive advantage in the industry, not only aiming at survival but to create and capturing new value and pioneer the market. The case company object of examination for this paper is PTHR, which stands for People and Transformational HR, a micro consulting venture founded 9 years ago by Chief Energy Officer Perry Timms with the vision to foster better business for a better world (PTHR, 2022). Defined by their Stack model for their business, PTHR provides business consulting and advisory services to create solutions and capitalise on opportunities to unleash the potential of their clients. The author has decided to select this case company because PTHR is a very progressive business itself, thus, it seems interesting to evaluate what and how a business consultancy, already progressive and innovative in its nature, can develop as a new entrepreneurial proposition to further exploit market opportunities for value creation both for external stakeholders and for the organization itself whilst evaluating hindrances towards innovation in the management consulting industry.

1.1 Research Questions

- To what extent do innovation and entrepreneurship influence the development of sustainable competitive advantage for businesses?
- Are there hindrances preventing business consultancies from innovating and offering new value through entrepreneurial products or services?
- Will there be value generated for PTHR and its stakeholders by developing and launching a new entrepreneurial proposition: the HR Careers Accelerator? And, if so, what type of value will be generated for its stakeholders?

2. Literature Review

2.1 The nexus of entrepreneurship and innovation for Sustainable Competitive Advantage

Humankind has seen unprecedented increases in economic prosperity and living standards over the past century, but these developments have also been accompanied by a growing concern for a variety of externalities, including unequal wealth distribution, climate change, skills shortage, rising market competition, etc (Hart 1997; Zadek 2001). The scale of these concerns has driven a revaluation of the role of industries in the struggle for sustainable development, accounting for the role of innovation in this process. Innovation, just as it has been labelled the engine of growth at the societal level and a source of persistent competitive advantage at the business level, appears to offer the chance to appreciate how crucial it is for businesses to develop a competitive advantage in today's VUCA (Volatile, Uncertain, Complex and Ambiguous) business environment (Lovins et al. 1997; Senge and Carstedt 2001 cited in Wagner, 2017). Therefore, the link between entrepreneurship, innovation and SCA will be better exemplified in the next few paragraphs, and it shall give some highlights to complement the answer to RQ 1.

The term "sustained innovation" was coined by Christensen (1997) to characterise how most large firms direct their R&I efforts toward making small adjustments to current goods, services, or procedures to create a sustainable advantage over a sustained period. Literature pointed out that competitive advantage is what sets a successful entrepreneurial venture apart, in other words, gives a competitive edge. In fact, when a company has a competitive advantage, it might be because it has something other organisations do not; it might do something better or even do something they cannot do. Securing a competitive edge is regarded as the ingredient for long-term success, but is it easy to get? There are three most common views discussed in the literature on entrepreneurship and organisational success according to which competitive advantage can be achieved and kept. These include the industrial organisation approach (I/O), the resource-based view (RBW) and the guerrilla view.

In more detail, if looking at the I/O view, the focus of the analysis is external, meaning that getting and keeping a competitive advantage depends on the ability to see external trends and changes and interpret and act on them. Differently, the RBW has an internal focus and emphasizes exploiting organizational resources and capabilities and acquiring new and unique ones. Lastly, the main premise of the guerrilla view is that an organization's competitive advantage is temporary as the external environment is characterised by continual and radical changes because of market instability, technological disruptions etc. Thence, successful ventures must be adept at rapidly disrupting the current situation and surprising competitors to keep them off balance, in other words, acting like a guerrilla unit (Coulter, 2003). This brief digression into analysing the concept of competitive advantage and the three main ways in which it can be achieved and kept is relevant to RQ 1 and proves to be useful to appreciate what strategy the case company, PTHR, intends to adopt in building a SCA through the new entrepreneurial proposition that will be suggested later in this research paper. Consequently, literature on how to go about developing a new proposition is worth examining at this stage.

2.2 The growth pathway matrix

Research has stressed that a small, innovative business wishing to expand should create a completely new good or service that enables it to provide a benefit that the huge, established market leader has yet to provide. As the new proposition departs from the established business practices used by large organisations and seeks to provide a new value proposition, literature refers it to as a "disruptive innovation" (Chaston, 2010). Nevertheless, at the outset of any innovation process, it is advisable that the firm determines whether the product or internal processes are to be the focus of the entrepreneurial action at first. The growth alternatives indicated in the framework below can be looked at to help with this analysis to identify which strategy gives the highest possibility and potential for success to a specific business. Strategies can be about the development both of a new process and a new product, or one of the two as shown in the matrix below (Figure 1). When picking a growth pathway, small business entrepreneurs favour product innovation, according to research by Aris et al. (2000). In this respect, being PTHR a small consulting venture wanting to deliver new value different from what competitors are offering in the HR consultancy field whilst exploiting the future workplace trends as a source of opportunity, the disruptive innovation approach described above, will underpin the development of the new entrepreneurial proposition for the Company in the form of a new product and new process.

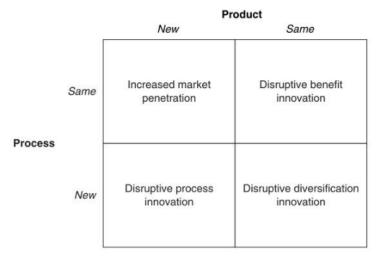


Figure 1: Growth pathway matrix (Chaston, 2010. p.127)

2.3 The Management Consultancy sector: outline of the industry in the UK

Despite being relatively new compared to other professions like law or accounting, consulting has been one of the knowledge industries' most successful sectors, with revenues rising by more than 10,000% in the last thirty years (O'Mahoney, 2010). The Management Consultants industry covers a range of consulting services including strategic planning, IT, marketing, human resources, and business process management (Olivieri, 2022). Plunging business confidence following the coronavirus pandemic reduced the demand for industry services in 2020-21 which rebounded in 2021-22 and is forecasted to slow in 2022-23. From a positive stance, industry revenue is forecasted to grow at a compound rate of 4.5% over the next five years driven by improved economic conditions and the strong demand to fill the skills gap in the market (ibid.). This leads to investigating how management consultancies can take the most out of the increasing demand for business consulting, which can represent a great market opportunity for growth. Nevertheless, as with any opportunity, if not promptly embraced, it can become a threat and outpaced by the growing competition in a sector in the growth stage of its life cycle (Olivieri, 2022) (Figure 2).

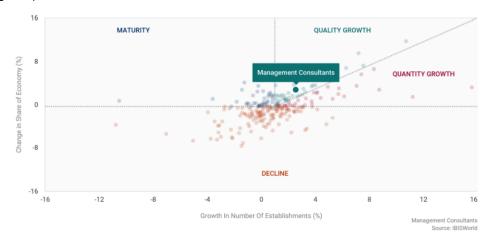


Figure 2: Management Consultants Industry Life Cycle (IBISWorld, 2022 p. 16)

According to the Institute of Consulting and the CMI (2011), there was a need and urgency for innovation in the consultancy industry in the UK already eleven years ago. Therefore, in this respect, it seems pertinent to highlight what business consultancies mean by innovation. The Institute of Consulting (ibid.) highlighted that when business consultancies are asked what innovation means for them and their operations, they mainly highlight four types of innovations: new solutions in terms of creating products and services new either to the market or itself; adapting solutions by modifying existing products, services and processes to entry new clients or markets; though leadership through papers and research that provides new insights and advice and creative problem solving with ad hoc solutions for clients. Considering the growing number of Business and HR consultancy firms in the UK, a need to increase the scope and maybe nature of their service portfolio to take advantage of the demand for new lines of consulting especially digital and progressive HR and OD solutions (Olivieri, 2022) could represent a prosperous market opportunity if timely exploited.

2.4 Investigating hindrances toward innovation

Misconceptions around innovation include thinking of innovation as mere inventiveness. However, by looking at the concept of innovation more holistically, it can be referred to as "something different that creates value" (Forbes, 2019). Research has highlighted that the most innovative organisations exhibit five key behaviours which include focusing on understanding customers' unstated needs and desires, cross-pollinating meaning collaboration across and beyond the organisation, recognising that success requires experimentation and failure at times, as well as empowering people to take considered risks, voice opinions and seek needed resources (Scott et al., 2019). The UK definition of innovation has its roots in the Organisation for Economic Co-operation and Development (OECD) definition, outlined in the Oslo Manual 2018, according to which if a company engages in any of the following activities is defined as 'innovatively active'. These include: "the introduction of new or significantly improved goods, services or products; demonstrable engagement in innovation projects not yet complete, scaled back, or abandoned; the introduction of new and significantly improved forms of organisations' structures or practices, marketing concepts or strategies" (UK Innovation Survey Report, 2021. p.4).

Nevertheless, the UK Community Innovation Survey shows that even though there was an increase in the percentage of UK businesses' innovative activities from 36% in 2016-2018 to 45% in 2020, more than half of the existing businesses are not yet innovative active. Therefore, this leads to question if there are hindrances preventing businesses and, for the purposes of this paper, business consultancies, from innovating and offering new value through entrepreneurial products or services. This shall provide some insights into answering RQ2. In this regard, it shall be stressed that innovation activities are often associated with an uncertain amount of costs, uncertain return of invested money and risk for the company (Ceccagnoli, 2009). The most common categorization of innovation barriers used by many authors is based on Piatier's division of internal and external barriers (cited in Ceccagnoli, 2009). This defines internal barriers as those originating inside the company that an enterprise can influence and include issues relating to functional areas inside the company as financial resources, human resources, or corporate culture. On the other hand, there are barriers that are partially or completely beyond the influence of the enterprise as they arise in the external environment. In this respect, Duarte et al. (2017) define four main types of barriers to innovation: economic factors, knowledge factors, market factors and reasons to innovate, presenting market factors as external barriers (Figure 3).

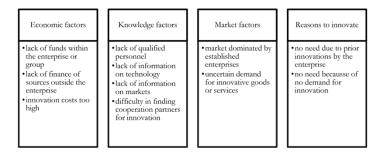


Figure 3: Barriers to innovation (Duarte et al., 2017)

Since the case company selected for this paper is a small consulting venture consisting of 6 PTHR internal employees and 8 freelancers now, it seems essential to narrow this down and refer to any barriers that might hinder innovation activities in small and medium business consultancy enterprises. Madrid-Guijarro et al., (2009) determined specific barriers hindering innovation activities mostly in SMEs due to their specific characteristics such as "limitations regarding external clients, the existence of excessive control, lack of planning for changes demanded by the market and business environment, an inadequate education and lack of executives training" (Hussinger, 2010, p. 59). Therefore, according to the arguments proposed thus far, it is possible to infer that the size of the business as well as the limited availability of resources and capital can be two of the main aspects that decelerate the adoption of innovative approaches at different levels from strategic to operational.

Notwithstanding, from a critical perspective, it is worth asking whether a company to be able to integrate innovation at the core of its practices, does necessarily have to be a big-sized business with numerous resources and capital to invest. Deloitte and McKinsey (cited in Denning, 2020) suggest that less than 10% of big firms are making real progress in becoming more adaptive and agile. Truth is that when it comes to innovation, bigger companies might have to welcome disruptions and, if accounting for the fact that they might have spent many years developing a strong brand, the development of a new proposition might ultimately damage the brand itself if it does not prove to be successful or to bring value in the long-term and this might be too risky (Pazio, 2017). On top of this, most large firms are still organised as bureaucracies that are the antithesis of the agility required for bold innovation in any field (Denning, 2020). As a consequence, the myth around the size of a business is one hindrance towards innovation shall be critically evaluated and carefully scrutinized as it has been demonstrated above how both 'big' and 'small' sized companies can be reluctant or hindered to innovate regardless of the size of the enterprise itself.

2.5 The "solution shop" and the traditional business model (BM) of consulting

The extent of standardisation in offering consulting solutions determines how "conventional" business models (BM) used by consulting firms are classified (Grolik et al., 2003; Baaij, 2014). On the one hand, there are consulting firms that are accustomed to dealing with comparable issues and thus offer highly standardized solutions both in products and services. They use a kind of "re-use" BM, which is based on the reuse of already-existing consulting approaches and frameworks, with the goal of effectively solving recurring managerial issues, limiting the recurring investment of senior consultants and, being able to manage numerous projects at once.

Contrarily, companies with a "customized" strategy develop very distinctive and highly personalized solutions to unique clients' demands. In so doing, they offer guidance that is mostly targeted at high-level strategic problems by channelling individual expertise (Gressgard et al., 2014; Hansen et al., 1999).

The question about the appropriateness of management consultancies' BMs in the face of the drastic changes of the last decades has been posed by Christensen et al. (2013), who analysed the industry by looking for symptoms of a disruptive pattern. They discovered that the consulting business has remained resistant to disruption for so long due to opacity and agility, but they foresee an inevitable disruption for such incumbents (RQ 2). In more depth, a distinction between the "solution-shop" and the "traditional business model" (BM) of consulting has to be mentioned. In the so-called 'solution-shop', consultants work to diagnose and solve problems with an undefined scope and the value is delivered through their judgement rather than through standardised and repeatable processes. The logic of the solution business is very different from the logic of the product business; it calls for more collaborative management, more customer involvement in business planning, and recognition of the cross-functional character of the firm (Storbacka, 2011). Consequently, business consultancies wishing to deliver solutions effectively through this approach, need to integrate all their business functions, including product development, marketing, sales, and operations whilst ensuring an in-depth understanding of target clients' needs and identifying opportunities to create value (Ibid.). The creation of value must be understood through the eyes of the customers (Brady et al., 2005) and, in effectively doing so, the following model including capabilities and management practices is suggested highlighting how essential the interaction between stakeholders and the consultancy is when it comes to developing valuable solutions by combining customer insights and firm resources thus exploiting external opportunities and turning them into orders to secure customer value creation and firm value capture (Storbacka, 2011) (See Figure 4).

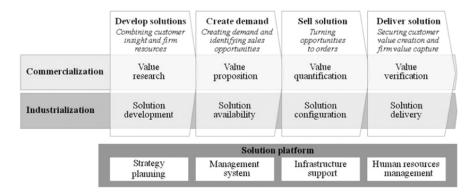


Figure 4: The solution business model framework (Storbacka, 2011. p.703)

3. Findings and Discussion

3.1 A new business-level strategy

It is stated that management consultancies sustain themselves through the generation, development, and dissemination of innovations for their stakeholders and clients (Clegg et al. 2004; Engwall and Kipping 2002 cited in O'Mahoney, 2011) using appropriate strategies. Business-level strategy determines a firm's strategic position to achieve a competitive advantage when competing in a single industry or product market (Hambrick, 1980). To achieve a competitive advantage over the competition, it is important that companies appreciate that competitive advantage can arise either from external change where the company's ability to respond to change and make it an opportunity will be essential or internally through innovation, and creative capabilities thus to create value for customers from novel products (Grant and Jordan, 2015). Indeed, innovation is not just about opportunity analysis and portfolio management but also about working with clients to generate and build new offerings and businesses.

The two main types of competitive advantage are cost advantage where the goal of the firm is to become the cost leader in its industry and differentiation advantage when the company can supply products that are differentiated in such a way that customer is willing to pay a price premium that exceeds the additional cost of differentiation leading to the so-called differentiation advantage (Grant and Jordan, 2015). In this respect, to identify the business-level strategy most suited to PTHR's new entrepreneurial product, Bowman's strategic clock is considered. It shows the range of options through which a business can position its products based on

price and perceived value leading to 8 strategic options categorized in four quadrants and demonstrated in a clock (Haselwanter et al., 2014).

Critically speaking, achieving competitive advantage through cost differentiation might not be suitable for PTHR because of the vision, mission and values the company holds which praises conscious business approaches for transformational work design, solutions and support with progressive HR, Organisational Development and Leadership through the creation of ad hoc seismic shifts in the culture, operating model, skills and behaviour for their clients. Therefore, if they suddenly were to provide standardized, basic products and services, this would go against their brand identity and purpose statement. Consequently, the strategy suggested to PTHR is to secure competitive advantage through differentiation by looking at its customers and their needs (the demand side), and creating new value with an innovative product that exceeds the costs of differentiation.

Being People and Transformational HR a specialised transformational business and HR consultancy, they could exploit the market opportunity highlighted throughout the paper by developing a new product, which can be named "The HR Careers Accelerator" (HRCA) aimed at giving people interested in advancing their career in HR the know- how to:

- (a) make choices to pursue one or more of these practice fields for their own career trajectory and
- (b) feel comfortable knowing how all the other elements of modern and progressive HR are without having done them all and most crucially
- (c) prepare them for advancement when automation removes administrative work from HR more widely

From the value proposition framework compiled below (Figure 5), it is worth highlighting that the gains of developing and launching the HRCA positively affect the broader community of practice, both PTHR itself and its main external stakeholders (clients). Therefore, it is possible to infer that the HRCA can bring value to its community of practice, both economically and socially. With regards to economic value, it is configured internally in the form of revenues to PTHR and externally if seen as a valuable investment from companies to empower their people to work better, more efficiently and productively. From a societal perspective, it will allow the People Profession to grow and change as the market changes rather than being cannibalized by it.

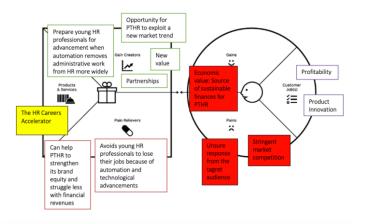


Figure 5: Value Proposition Canvas (Source compiled by the author)

4. Conclusion

The aim of this research action project was to understand and support entrepreneurial action in practice. The main objective was to evaluate the extent to which innovation and entrepreneurship influence the development of sustainable competitive advantage for businesses. The analysis was narrowed down to the consultancy sector in the UK. Given the saturation of the business consultancy sector in the UK, the need to innovate to sustain competitive advantage resulted in being paramount for business survival and value creation (RQ1; see para 2.2, 2.3). Thereafter, this research scrutinised hindrances preventing business consultancies from innovating concluding that the most common categorisation of innovation barriers includes internal barriers such as financial resources, human resources, or corporate culture and external barriers such as market factors. It was

concluded that it is more about the willingness companies have to welcome disruptions and their consequences rather than the financial resources themselves alone (RQ2).

This research background represented the rationale underpinning the suggested entrepreneurial proposition PTHR, an already transformative venture in nature, could launch in the form of an HR Careers Accelerator programme aiming at empowering HR professionals with skills required in the near future when automation will remove administrative work from HR more widely. Broadly, these research findings can affect both the way businesses act, managerial implications, and the way in which people think about the topic area, theoretical implications. In terms of managerial implications for businesses operating in the business consultancy field, this research stressed how crucial is to embed innovation in the corporate agenda and attempt to discard commonly shared presumptions on hindrances toward innovation in both big and small enterprises as innovation can take different facades and influence processes, products or both. An open managerial approach towards the new and the innovative with the potential disruptions these might bring can represent the turning point in securing a competitive advantage. From a theoretical perspective, this action research served to better appreciate how cutting-edge and always evolving the concepts of innovation and entrepreneurship are as demonstrated by the growing number of research in this topical area and underlined the crucial role business leader with an entrepreneurial mindset and entrepreneurship competencies have in driving a company's success. Interestingly enough, the application of theoretical frameworks such as the Business Model Canvas, the Value Proposition Canvas and the Product Canvas served to design a new entrepreneurial proposition for an actual company and, thanks to the aid of these tools and frameworks, the analysis can be replicated in other contexts.

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