Gartner Strategy Leadership Council

The 4 Drivers of Internal Consulting Groups
Overview

The practice of internal consulting has gained steady popularity and many large companies have already deployed in-house consultants to advise business leaders on a continual basis.

Strategy leaders are increasingly deliberating the merits of positioning and branding their teams as internal consultants and exploring this model’s potential value. This research explains four key factors that drive strategy functions to reposition as internal consulting groups.

Key Findings

• Four major factors are pushing strategy functions toward internal consulting: The urgency of digital business transformation, increased cost pressures, shifting business ecosystems and the rising influence of strategy.

• Digital business transformation continues to increase the variety of growth initiatives companies can pursue, making internal consultants essential in driving executive alignment and keeping transformation efforts on track.

• Rising cost pressures are compelling organizations to explore internal consulting as an alternative to prohibitively expensive third-party management consulting engagements.

• Business ecosystems are constantly shifting, creating opportunities for internal consultants to help executives understand implications for the organization and design relevant response mechanisms.

• An increasing number of C-suite leaders and their teams are asking for strategy’s advice, creating the need for follow-on internal consulting engagements to supplement the advice with execution support.

Recommendations

To make internal consulting investments truly valuable to the organization, strategy leaders must:

• Reduce dependency on third-party consultants by leveraging the internal team’s organizational expertise for extensive execution support

• Help organizational leaders understand the implications of frequent shifts in business ecosystems to facilitate stronger response measures

• Leverage strategy’s increasing influence to ensure constant leadership commitment toward the growth of the internal consulting group
Introduction

American Express, IBM, Cisco, Deutsche Bank, Siemens and Google are among the many leading companies running strategic internal consulting groups. While on the rise in the U.S., the model is even more common for strategy teams in other geographies. About two-thirds of the companies on Germany’s DAX 30 index are running this model.

Internal consulting groups are teams — typically housed within corporate strategy functions — that work in an advisory capacity with corporate functions and business units to explore growth opportunities, create strategic plans, lead change, improve performance and tackle transformation initiatives. These teams compete with external consulting firms for strategy engagements using a talent pool consisting primarily of ex-management/strategy consultants.

Companies with internal consulting teams enjoy several advantages over those that depend exclusively on external strategy consultants. The primary benefits include:

• Increased retention of knowledge from each engagement
• Improved strategy implementation given that internal consultants are better able to drive initiatives forward than third parties
• Lower cost of consultative services
• Development of top talent in the organization
• Improved confidentiality levels

According to our research, 40% of strategy functions use the quality of internal consulting engagements as a measure of their function’s performance, leading to the belief that strategy leaders are largely aware of this model’s existence and benefits. Indeed, the practice of hiring strategy talent from consulting firms is not new. Our research shows that one-third of corporate strategy employees have a background in strategy consulting. However, many strategy leaders we interviewed have yet to formalize the internal consulting model in their organizations.

This research explains the factors driving the adoption of internal consulting, exploring the key reasons for corporate strategy functions to reposition as internal consulting groups.
Factors Driving the Adoption of Internal Consulting

The urgency of digital business transformation

As digital technologies and business models increase the number and variety of growth initiatives companies can pursue, organizations need internal consulting expertise that can flex and adapt to leverage diverse opportunities.

In our 2018 CEO survey, 62% of chief executives indicated having a management initiative or transformation program underway to make their business more digital. However, less than one-quarter of companies are even halfway through their first major digital business transformation (see Figure 1). Most firms expect their transformation will take at least two or three more years.

Figure 1. Status of digital business transformation efforts
Percentage of chief strategy officers (CSOs)

- 6% More than 75% complete
- 17% Between 50% to 75% complete
- 76% Less than 50% complete

n = 61
Source: 2018 Gartner Strategy Digital Disruption Model
Note: Percentages may not add up to 100% because of rounding.
Moreover, only 8% of strategy leaders believe executives have a shared understanding of the business model changes required to stay competitive. Without executive consensus on the changes needed, transformation plans may derail. In-house consulting expertise can help bridge this gap.

While external consultants can provide valuable technical expertise, internal consultants have stronger ties within the organization to drive executive alignment. As full-time employees of their organizations, internal consultants better understand cultural norms, decision processes and internal political hurdles. This positions internal consultants to not only develop ambitious transformation plans but to drive them forward much more effectively than third-party consultants. Many organizations are engaging both internal and external consultants in complementary capacities during large-scale business transformation.

Our research shows that many strategy teams already play pivotal roles in digital business transformation efforts. On average, more than half of strategy leaders agree their teams:

- Make the case for how digital business investments can build or enhance capabilities
- Support business leaders with identifying new business models for a digital environment
- Expose senior leaders to technology-driven market changes (see Figure 2)

**Figure 2. Company effectiveness at completing digital business model transformation learning activities**

Average, CSOs

<table>
<thead>
<tr>
<th>Activity</th>
<th>Effective</th>
<th>Neither Effective nor Ineffective</th>
<th>Ineffective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selecting digital initiatives to learn about future business model options</td>
<td>38%</td>
<td>14%</td>
<td>48%</td>
</tr>
<tr>
<td>Prioritizing digital business model learning initiatives</td>
<td>24%</td>
<td>19%</td>
<td>57%</td>
</tr>
<tr>
<td>Broadly sharing lessons from digital initiatives</td>
<td>31%</td>
<td>19%</td>
<td>50%</td>
</tr>
</tbody>
</table>

n = 58

Source: 2018 Gartner Strategy Digital Disruption Survey

Note: Strategists responding on a 7-point scale (where 1 is “ineffective,” 4 is “neither effective nor ineffective” and 7 is “effective”) to the prompt, “Please rate how effective your company is at the following.”
Increased cost pressures

Rising cost pressures — driven by increasing inflation and tariffs, persistent economic growth and increasing salaries in a tight labor market — are compelling organizations to explore internal consulting as an answer to growing management consulting expenses.

To alleviate rising costs, business leaders are forced to reevaluate prohibitively expensive consulting engagements, among other expenditures. Additionally, these cost concerns are amplified in a recessionary or prerecessionary environment. Many strategy leaders we interviewed believe their organizations may seek to reduce expensive consulting engagements as the economy progresses through a late-stage business cycle toward a possible economic downturn. Should a recession occur, progressive organizations will seize the opportunity by investing in transformative, bold growth strategies. Our research indicates industry rankings typically restack during recessions, with organizations three to five times more likely to move a quartile up or down in industry rankings. This will require companies to reduce spend on consulting engagements to free up resources.

Internal consulting groups are significantly less expensive to engage than leading third-party firms. Moreover, many large enterprise executives have worked at big consulting firms in previous roles, which leads to significant expectations from external consultants. If these expectations are not adequately fulfilled, organizations are pushed toward more cost-effective internal consulting groups.
Shifting business ecosystems

Business ecosystems are constantly shifting, and organizational leaders find it difficult to understand the full implications of these changes for their functions and business units.

For instance, large incumbent firms are facing new threats from upstart competitors. Companies find it increasingly easy to launch and scale new business offerings across geographies, customer segments and the value chain. These constant business changes amplify the need for teams that can help organizations explore a variety of growth opportunities. Strategy teams typically advise business units on these projects, but the expanded universe of opportunities forces strategy to be flexible and develop new capabilities to remain a trusted partner.

This is where an internal consulting model can drive significantly more value than relying solely on external consultants. Outside consultants are often criticized for providing a general response to clients. External firms may not always have a thorough understanding of the client’s organizational culture, processes and stakeholders to provide the deep expertise and guidance clients expect. Given their extensive knowledge of the organization, internal consultants are better positioned to help stakeholders understand how business changes affect their organization and how stakeholders should respond.

This approach also helps drive stronger alignment between enterprise- and business-level strategies. An example can be seen in how companies are tackling the surge of asset-lite business models (i.e., when a company owns relatively fewer capital assets compared with the value of its operations). Many strategy leaders are deploying internal consultants within business teams to work closely with business leaders and explore asset-lite strategies.
Strategy’s increasing influence

Chief strategists are increasingly viewed as trusted advisors within the C-suite. The increased influence creates a strong imperative for the strategy function to safeguard its recommendations with robust implementation support or risk poor strategy execution by business partners, leading to a potential erosion of strategy’s brand.

The percentage of chief strategists reporting to the CEO increased from 33% in 2012 to 57% in 2018 (see Figure 3).

Figure 3. Percentage of strategists reporting directly to the CEO

As strategy leaders and their teams gain more influence in the organization, an increasing number of C-suite leaders and their teams ask for strategy’s advice. According to our research, 85% of CEOs and C-suite executives proactively seek and act on advice from strategy teams at least somewhat frequently (see Figure 4).
However, without adequate implementation support, C-suite leaders and their teams may not be well positioned to execute on strategy’s advice. Our research reveals strategy execution as a top challenge for strategists, with 70% of chief strategists expressing low confidence in their organization’s ability to translate strategy into action. Poor strategy execution poses a significant credibility threat for strategy.

Many strategists believe that execution challenges are exacerbated by the increase in cross-functional business transformation initiatives. To address this challenge, strategy leaders are evolving the focus and mandate of their teams. While strategists traditionally supported projects only as strategic advisors, many strategy leaders are repositioning the function or an arm of the function as an internal consulting unit, to advise and coordinate with business partners across the strategy execution continuum. This approach helps strategy safeguard its recommendations by providing C-suite leaders and their teams with the necessary clarity and execution support on a continuous basis.

Figure 4. How frequently the C-suite seeks the CSO’s advice

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Seeking advice</th>
<th>Acting on advice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very frequently</td>
<td>34%</td>
<td>22%</td>
</tr>
<tr>
<td>Frequently</td>
<td>31%</td>
<td>30%</td>
</tr>
<tr>
<td>Somewhat frequently</td>
<td>20%</td>
<td>33%</td>
</tr>
<tr>
<td>Sometimes</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Rarely</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Never</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

\( n = 89 \)

Source: Gartner (May 2019)

Note: Percentages may not add up to 100% due to rounding.
Conclusion

Strategic internal consulting groups represent a significant opportunity for strategy leaders to create more value and make their teams indispensable. This research explores why an internal consulting model can be invaluable in guiding business leaders through a wide array of challenges as companies navigate new trends reshaping industries and businesses — from digital business transformation to preparing for the next recession.

How we help

To fully meet stakeholder expectations, today’s strategy functions must adopt new consultative models and next-generation analytical tools to enhance and speed up analysis and decision-making support. Gartner can help: We offer tools and best practices to help strategy leaders build a world-class internal consulting organization, which will ramp up the strategy function’s ability to offer timely advice and support to teams throughout the enterprise.
About Gartner

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Our unmatched combination of expert-led, practitioner-sourced and data-driven research steers clients toward the right decisions on the issues that matter most. We are a trusted advisor and an objective resource for more than 15,000 enterprises in more than 100 countries — across all major functions, in every industry and enterprise size.

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