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Peculiarities of Consulting Services Market Regulation in Russia

Abstract

In this article the author analyzes the Russian consulting services market regulation mechanisms. The article reveals the mechanisms of self-regulation of consulting services market in Russia; provides an assessment of their role in the formation and development of the Russian consulting services market; analyzes the relation between government regulation and self-regulation of consulting in Russia.

Keywords: Russian consulting services market, market self-regulation mechanisms.

The process of formation and development of the Russian consulting services market was difficult but dynamic: consulting sector was formed in the infrastructure of Russian economy in less than three decades and now possesses characteristics close to full value and qualified professional services market. One of the most interesting aspects is the regulation of the market. The process of transition from administrative-planned to market economy in Russia required a radical transformation and improvement of regulatory, also state mechanisms. This process is still not complete; and to this day there are many problems associated with development, implementation and coordination of regulatory instruments at different influence levels and directions. From this point of view consulting services market is an example of effectively developing sector in the infrastructural complex of the Russian economy which is of particular interest for study and for analysis.

Consulting services market structure and performance are caused by a number of specific features common for consulting services and, therefore, consulting activity in a whole. Among these specific features the following shall be specified:

- ✓ **Intangibility.** Like most services, consultations are actions. Output tangible product (reports, project documentation, guidelines, policy briefs, etc.) in consultant-client relationship can only arise as a mediator, an interagent between a consultant and a client. But even in this case, it shall be understood that the actual consulting services end product is not a document but a certain idea presented in form of a document.

- ✓ Inseparability from source. It is impossible to divide production and consumption of consulting services in practice: consultation can only be used in the process of own creation. This means that the consulting service is inseparable both from the producer (consultant) and the consumer (client), none can purchase consultation avoiding cooperation with a consultant and none can sell consulting service without interaction with a client. Quality of consulting services depends on the nature of relationship between client and consultant.
- ✓ Non-persistence. Consulting services exist between beginning and completion of their rendering. The service cannot be pre-produced and stored; one can only prepare conditions for its rendering. However, the essence of such feature of consulting services as non-storageability seems rather ambiguous when it comes to results/effects of consultant's recommendations implementation. The life cycle of such service is actually limited in real time but the effects of its use may occur over a long period of time (in the most favorable cases - during the entire entity existence period). Persistence/non-persistence of effect from the use of consultation closely correlates with the quality of consulting service.
- ✓ Quality variability. Quality of consulting services may vary with each actual rendering. Quality of most services is simply not standardizable. The same consultant cannot guarantee the provision of identical quality level for solutions of similar problems for similar client organizations or for the same organization in different periods of time. Solutions of the same problem for client organization developed by different consultants are radically different from each other. From the point of view of organization theory, there is an explanation (for example, according to the law of Ludwig von Bertalanffy) but the client can be disposed not so positively towards this situation – the client organization is interested in obtaining the guarantees on the quality of services and liability in case of inadequate quality of services provided.

Understanding the nature of consulting services is necessary in order to identify direct and indirect consulting services market regulation mechanisms. The role of state regulation in the Russian consulting services market is negligible; it can be argued that the market has a high self-regulation level. Of course, consulting as well as any sphere of business is subject to a major legal and regulatory provisions, it is worth noting that the main regulatory documents in the field of consulting services in Russia are scattered and fragmented. This situation can difficultly be defined as negative; according to the opinion of consulting services market experts and members, weak state intervention in the functioning of the Russian consulting services market played a stimulating role in its development, rather than hindered it. It is worth paying attention to the fact that the consulting services market is mostly self-regulated around the world. In addition, the Russian consulting services market has a fairly extensive arsenal of mechanisms required to adequately ensure its self-regulation.

Activities of consultant professional associations and large international consulting organizations can be considered one of the major mechanisms of the Russian consulting services market regulation. Activities of major international companies in the consulting market in Russia from the very beginning of its existence sets high quality standards. The aim of the national consultant professional associations was the progress of the Russian consulting services to the same level; otherwise proper competition with foreign colleagues in the Russian market would be impossible. Although belonging to the professional community required from Russian consultants compliance with rather stringent requirements, it provided the synergies in the development of the market in the whole. In a separate segment of the Russian economy – in the consulting services market – professional community actually performs state regulatory functions, and performs them well due to a deep knowledge of the specifics of consulting business and its continued support and timely adaptation to changes in market conditions.

Certification of consultants in Russia is voluntary and is carried out by consultant professional associations. Two certifications standards became available in the Russian market: certification under FEACO (European Federation of Management Consultancies Associations) standards and certification under Amsterdam standard (ICMCI - International Council Management Consulting Institutes), implemented by Russian professional associations – the Association of Consultants for Economics and Management and the National guild of professional consultants. Certificates serve as a guarantee of the quality of services provided by the consultant confirmed by the professional community. FEACO standards are more ethical; Amsterdam standards are much more focused on the professional aspects. Certification is carried out exclusively on the initiative of the consultant, is not mandatory and provides no actual permits to enter the market. The client may choose any consultant that meets its requirements; certificates in this case is a kind of indicator of the consultant's desire to conduct its work at the level corresponding to the professional requirements, and bear responsibility for it. The absence of certificate is a signal for the client to consider that for some reason the consultant avoids assessment by the professional community. The foregoing denotes that certified consultants have a competitive advantage in the market.

Training programs for Russian entrepreneurs and managers as well as students of Russian universities have played a very important role in shaping of demand for qualified consulting services. Regulation of the consulting services market was carried out through the formation of knowledge required for: 1) effective collaboration with consultants, for potential clients which were considered as current and future business leaders; 2) individual assessment of a consultant qualification by a client that would exclude the possibility of cooperation with amateurish companies that appeared in large numbers during the formation of the Russian market of consulting services. These two areas have been extremely productive; relevant programs were implemented by Russian professional associations as well as international consulting organizations.

Activities of international “agents of change”, especially in the first decade of the formation of the Russian consulting services market, has been extremely important in terms of formation of structure of the market which laid a solid foundation for its further development. It is worth noting that in the 1990s Russian consulting almost completely developed under external demand for consulting services which were stimulated by international programs of International Bank for Reconstruction and Development, European Bank for Reconstruction and Development, International Labour Organization; and the first guides on consulting management have been created within the framework of programs financed by Tacis.

The crisis in the Russian economy (in 1998, in 2008-2009-ies) ironically turned out to be one of regulation mechanisms for the consulting services market as they created conditions for natural selection of the most efficient and viable consulting organizations. In 1990-ies Russian consulting faced effect of the so-called “dirty field” created by the amateurish consulting companies. The activities of these companies which did not meet professional standards has led to a significant reduction of demand for consulting services as such, and only crises combined with consistent development of client qualification (via training programs) could completely displace them from the market.

Another consulting services market self-regulation mechanism is the system of payment of consultants’ work. Payment systems in consulting are traditionally organized in such a way as to be transparent as much as possible (this degree is determined by specific market functioning conditions), be linked to the quality of consultant’s work. The credibility of the consultant’s work quality is enhanced when a clear definition of responsibilities of the consultant takes place during signing of a contract for the provision of consulting services and when project insurance and/or consultant’s liability is provided. These conditions create a system of financial guarantees for the client and make the interaction with the consultant more predictable and secure.

Consulting market is characterized by a specific advertising strategy based on reviews and clients’ testimonials. The use of aggressive advertising techniques and information diligence in order to reach the widest possible audience of potential clients is conceptually not typical for the market of consulting services. This approach encourages personal interaction between client and consultant before starting the joint project during which the client must ascertain adequate professional qualification of the consultant and assure of coincidence of their views on management practices. Only in this case the consultations will meet the needs of the client organization and will be implemented more likely.

Analysis of consulting services market regulation mechanisms shows that the existing mechanisms are sufficient for effective and adequate self-regulation within market conditions prevailing in the Russian economy. The mechanisms considered above are natural for consulting, take fully into account its specificity and function organically while efforts for more stringent regulation by the state could disrupt the natural structure and dynamics of the consulting services market. The mechanisms of

self-regulation of the consulting market, of course, cannot be extended to the Russian economy in a whole; they are effective in a particular business segment and are effective precisely because they are based on the specifics of consulting activities. The analysis nevertheless valuable from the standpoint of the economy as a whole, because it is a demonstration of the fact that any activity is potentially capable of self-regulation at the expense of internal resources – the role of the state essentially does not have to be determining.