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Contribution of Management Consultancy towards Organizations' Financial Performance: A Case of Willy Enterprises Ltd in Arusha Tanzania

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Abstract- Scholars and business practitioners agree that Management Consultancy usage in a firm is an essential tool for rapid organizational growth in all dimensions. Management consulting assists business organizations in increasing business productivity by analyzing existing business troubles and flaws in business plans that hinder the growth of a company (Kopoka 2011). Managers from various departments at Willy Enterprises Ltd had different opinions about what happened before and after usage of management consultants; evidence show that the company had poor performance before usage of consulting services. In this paper two objectives guide the study: To what extent does the organization use Management Consultancy services and to compare the organization's financial performance before and after engaging Management Consultants. Used data were gathered in 2012 through the cross-sectional survey by way of questionnaires, interviews and documentary analysis. The sample of the participants was forty-five (45) respondents from the different managerial position of the company and its client-firms and company's financial statements for twelve (12) years from 1999-2010. In analyzing performance financially, this study decided to use ratio analysis as it is believed to be a robust measure of financial performance as compared to all others (Wood and Sangster, 2011).

Keywords: management, consultancy, organization, financial performance.

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CONTRIBUTIONOFMANAGEMENTCONSULTANCYTOWARDSORGANIZATIONSFINANCIALPERFORMANCEACASEOFWILLYENTERPRISESLTDINARUSHATANZANIA

Strictly as per the compliance and regulations of:

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I. Introduction

Management consulting is an advisory service contracted for and provided to organizations by specially trained and qualified persons (Greiner L and Metzger R, 1983).

Among the challenges facing Tanzania organizations as they strive towards growth and organizational performance as far as competition is concerned are; availability of unbiased expert advice to the organization and a help in solving of various business problems i.e. low productivity, fall in the level of sales, little profit or incurring losses (Sugata and Daryl, 2002).

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Very often management may have crystal knowledge about the problem and the action to take to address the situation. However, they may hesitate to effect the changes because they fear employees may resist such changes.

Naficy (1997) argued that; as business becomes more complex, firms are continually faced with new challenges. They increasingly rely on Management Consultants to help them remain competitive amidst these challenges. Therefore, availability of Management Consultancy Services enable organizations to effect changes easily and solve various problems they face.

Many of Tanzania organizations are still growing slowly, and some fail to face steady competition as far as foreign organizations are concerned. The reason for this situation is not definite also the general understanding and perception of people working in management (managers) about Management Consultancy is not clearly understood.

II. Purpose of the Study

Generally, this study intends to shed light on the contribution of Management Consultancy towards the organization's financial performance in Tanzania context.

Specifically, this paper intends to:

i. Investigate the extent to which the organization uses Management Consultancy Services.
ii. Compare organization's financial performance before and after engaging Management Consultants.

III. Related Literature

For organizations that have well defined and SMART objectives, strategic policies and effective action plans in using Management Consulting Services, to a great extent, minimize the risks associated with impoverished growth and development (Naficy, 1997).

Apart from Management Consultants acting as an agent of change, also bring with them expertise in problem investigation technique and process. They involve the client in problem identification, problem analysis and identification of the most effective solutions (Naficy, 1997).

In addition to the above, a management consultant holds the responsibility of suggesting the latest managerial trends which can boost up profit level of a company. (Kubr, 2002).

Furthermore, Kopoka (2011) argued that; one of the premium roles of management consulting is to encourage communication between employees and employer so as to make the employees feel comfortable in the office environment.

A management consultant makes remarkable efforts of bringing leadership qualities among employees, in such a way they can be able to perform their duties and responsibilities effectively and in-efficiency manner hence more profit to the firm. Due to increase in profitability, it becomes easier for many companies to grow and expand rapidly as far as developing countries like Tanzania are concerned (Kopoka 2011).

We all know that the prime objective of any venture is to make more and more profit, and one of the ways of increasing profit is by managing sales. Block (2000) argued that, if you have a business of considerable size, one should know that running own trade is not an easy task. You must have a target for how many sales you can achieve for one day to keep your business exist and profitable.

If you still facing difficulty to find reliable marketing staff that suits your needs then using sales force outsourcing become the best option. Unlike than hiring sales marketing staff, by using their services, you can get many advantages such as full-scale sales solutions to meet the target of the company and as well as the demand of market (Katherine, 2000).

Lastly, Management Consultancy assists the firm in conducting various training programs for an organization to meet its objective. For more years many consulting has trained and consulted with organizations from around the world. Hundreds of project directors, community leaders, grassroots activists, funders, students, volunteers, and field workers from community-based organizations to large intergovernmental and non-governmental organizations have participated in our broad array of training opportunities. Therefore this becomes as a basis for the framework of rights-based development (Kubr, 2002).

All referred related literature show that if the firm wants to grow and have excellent financial and non-financial performance they have to engage fully in using management consulting services. Many of Tanzania organizations are still growing slowly; some fail to face strong competitions as far as foreign organizations are concerned; therefore, this study intended to bring full attention and understanding as well as usage of management consultancy and the benefits they can offer.

IV. Research Methodology

This study used a cross sectional survey approach. The population proposed was the employees of Willy Enterprises Ltd and its client-firms in Arusha Tanzania by 2012. The study had a sample size of forty-five (45) respondents from different managerial positions of the company and the company's financial statements for twelve (12) years from 1999 - 2010. The study used both primary and secondary data. Primary data employed interviews and questionnaires.

Furthermore, secondary data were from the accounting department and management department by reviewing the records and documents such as financial statements and reports by different consultants in the company. After having financial data collected, were analyzed and interpreted by using Ratio Analysis. Ratio Analysis conceived as a powerful tool for assessing financial position and performance in any business firm as compared to others (Wood and Sangster, 2011). Also, some data were analyzed using Microsoft Excel for tables.

V. Findings and Discussion

Presentation and discussion of the findings drew upon two research questions:

i. To what extent does the organization use Management Consultancy services?
ii. Is there any difference in the organization's financial performance before and after engaging Management Consultants?

VI. Usage of Management Consultancy Services in the Company

This part of the study intended to discuss on evidence to whether the firm seeks professional advice, an involvement of respondents towards usage of management consultancy in the organization, duration of management consultancy usage and types or categories of management consultancy services used. Details of discussed points are as follows.

a) *The Evidence to Whether the Firm Seek Professional Advice*

This part of the research studied on the evidence as to whether the firm seeks professional advice from people or companies outside or not, was drawn as shown in table 6.1.

Table 6.1: Evidence on Whether the Firm Seeks Professional Advice from People outside the Organization

		No. of Respondents	Total	Percentage
Does your organization seek any professional advice from people outside your organization?	Yes	22	22	100%
	No	0	0	0
Total		22	22	100%

Source: Fieldwork Survey, 2012

The research found out that, from all twenty-two (22) questionnaires that were filled by managerial employees of Willy Enterprises Ltd; accept the fact that the company seeks professional advice from people outside the organization as shown in table 6.1 above. These results were enough for the researcher to continue with analysis as he got a proof that Management Consultancy exists in that firm.

b) *Involvement of Respondents towards usage of Management Consultancy in the organization*

The study on respondents' participation towards usage of Management Consultancy in the organization was as shown in table 6.2.

Table 6.2: Involvement of Workers' tasks in-connection to the Usage of Management Consultancy

		No. of Respondents	Total	Percentage
Do any of your tasks involve the use of a management consultancy service?	Yes	22	22	100%
	No	0	0	0
Total		22	22	100%

Source: Fieldwork Survey, 2012

The research found out that, from all twenty-two (22) questionnaires that were filled by managerial employees of Willy Enterprises Ltd; accept the fact that their tasks in the organization involve the use of Management Consultancy Service in one way or another as shown in table 6.2 above. These results were enough for the researcher to continue with analysis as he got evidence that all respondents are involved in one way or another in the use of Management Consultancy.

c) *Duration of Management Consultancy usage*

The study found that, all twenty-two (22) questionnaires which were filled by managerial employees of Willy Enterprises Ltd, the respondents accepted the fact that the company is using Management Consultancy Services. Apart from that, there were ten (10) questionnaires which were filled by employees of the Management Consultancy firms as service providers to the company; they also admit the fact that they usually provide services to the company. Their response; Tan Auditors (9.38%) said between six (6) and ten (10) years, Kasegenya (6.25%) said between six (6) and ten (10) years, Mawenzi (6.25%) said between six (6) and ten (10) years and Security Group (9.37%) said between six (6) and ten (10) years. The study further found out that, 90.91% of respondents said they started using Management Consultancy services from the year 2006 to present, 4.55% of the respondents said from 2008, another 4.55% said 2009. All respondents (100%) from four (4) service providers admitted that they started providing services to the firm by the year 2006. This fact is enough to generalize that the company started using Management Consultancy Services by the year 2006 to present, which is about 93.75% of all 32 respondents. Table 6.3 summarizes the duration which Management Consultancy Services has been used by the company.

Table 6.3: Cross -Tabulation of the Duration of Management Consultancy Usage and Composition of the Respondents

		Duration of Management Consultancy usage		Total	Percentage
		Between 3-5 years	Between 6-10 years		
Companies with Respondents	Willy &Co	2	20	22	68.75%
	Tan Auditors	0	3	3	9.38%
	Kasegenya	0	2	2	6.25%
	Mawenzi	0	2	2	6.25%
	Security Group (T)	0	3	3	9.37%
Total		2	30	32	-
Percentage		6.25%	93.75%	-	100%

Source: Fieldwork Survey, 2012

d) Types or Categories of Management Consultancy Services used

Respondents were asked to give details on the types or categories of Management Consultancy Services that are used by Willy Enterprises Ltd. Among the services that seemed to be mostly used by the company are financial, legal management, making contracts, ensuring the quality of the services offered, in capacity building, in development of plans, technological innovation, strategy formulation and help during a one time project (Source: Fieldwork Survey, 2012).

Apart from Willy Enterprises Ltd, also the service providers (Management Consulting Firms) were asked to give the types of the services that they usually provide to the company, the following were mentioned; Accounting and taxation services, auditing assistance, various classes of insurances, corporate finance and corporate recovery (Source: Fieldwork Survey, 2012).

The research continued to find out in-detail the types of Management Consultancy Services mostly-used. The study found out that Financial and Auditing Management Consultancy service is frequently used. The reason behind the use is to make sure that the company maintains its financial stability and ensure profitability. (Source: Fieldwork Survey, 2012).

VII. Organization's Financial Performance Comparison before and after Engaging Management Consultants

This study found out that, from all questionnaires that were filled by managerial employees of Willy Enterprises Ltd; accepted the fact that the company is using Management Consultancy Services and they started to use by the year 2006.

Therefore, before engaging Management Consultants refer to a period from 1999 to 2005 and after engaging refer to a period from 2006 to 2010. Company's financial statements for twelve consecutive years were analysed by using Ratio analysis to determine financial performance. Within ratio analysis there are four basic categories of performance measures i.e. short term solvency (liquidity), activity (efficiency), financial structure (leverage) and profitability (Pandey, 2004). Then, to hold the notion true following discussion of the financial statements of Willy Enterprises Ltd as the case study of this research was done.

a) Activity (Efficiency) Ratios

These ratios are used to measure ability of the firm to control its investment in assets. These are also called turnover ratios. They provide information about the effectiveness of firm's assets management i.e. accounts receivable turnover, average collection period, inventory turnover, and average inventory holding period, accounts payable turnover, average purchase credit period, assets turnover and fixed assets turnover (Wood and Sangster, 2011). From the above-mentioned ratios, the study decided to choose inventory turnover, receivables turnover, assets turnover, and fixed assets turnover.

Table 7.1: Activity Ratios

Ratio	Inventory Turnover	Receivables Turnover	Assets Turnover	Fixed Assets Turnover
Formula/ Year	$\frac{\text{Cogs}}{\text{Average Inventory}}$	$\frac{\text{Sales}}{\text{Accounts Receivables}}$	$\frac{\text{Sales}}{\text{Total Assets}}$	$\frac{\text{Sales}}{\text{Total Fixed Assets}}$
1999	5.83	34.34	3.72	9.61
2000	6.61	29.82	4.78	14.33
2001	7.48	47.71	4.95	13.98
2002	9.80	46.98	5.04	14.21
2003	18.95	48.34	5.28	13.85
2004	18.28	47.66	5.44	14.22
2005	10.17	43.49	5.58	14.60
2006	10.51	44.27	5.68	14.86
2007	10.71	45.03	5.77	15.12
2008	10.90	46.21	5.92	15.52
2009	11.13	47.41	6.08	15.92
2010	11.36	48.62	6.23	16.33

Fieldwork Survey, 2012

i *Inventory Turnover*

Inventory turnover is materially affected by the nature of the business. A merchandising firm requires a much faster turnover than manufacturing firms. Other things being equal, a higher inventory turnover ratio is preferable (ten times and above) (Baisi, 2010).

From the analysis done for Willy Enterprises Ltd as shown in table 7.1, the research found out that from

1999 to 2002 the inventory turnover was below 10%, then it rose to 18% for the year 2003 to 2004 then fell to 10.17% 2005, then from 2006 to 2010 continued to rise slightly in a constant (consistency) form.

This imply that, before introduction of Management Consultancy there were fluctuations either below ten times on the way the company turn its inventory but after the introduction of Management Consultancy brought positive changes as the firm is capable of selling its stock ten times or above in a year.

ii *Receivables Turnover*

From the analysis done for Willy Enterprises L td as shown in table 7.1, the study found out that receivable turnover fell from 34.34 to 29.82 for 1999 to 2000, then rose to 47.71 for 2001, then fell again to 46.98 in 2002, the fluctuation continued up to 2005 as shown in table 7.1 above. Then from 2006-2010 the rate continued to rise slightly in a constant (consistency) form.

It entails that before introduction of Management Consultancy there were fluctuations on the way the company used its assets in generating sales. But after the introduction of Management Consultancy, brought positive changes as the firm was capable of maintaining a stable rate or increase it slightly from 44.27 in 2006 to 48.62 in 2010.

iii *Assets Turnover*

The ratio reflects the inherent ability of the firm to use its assets in the generation of sales. The higher the assets turnover, the more effective the use of the firm's assets in generating sales which are the cornerstone of profits (Wood and Sangster, 2011). From the analysis done for Willy Enterprises Ltd as shown in table 7.1, the study found out that the assets turnover ratio showed stability with insignificant increase from the first year of evaluation to the last year, there is no fluctuation anyhow. Therefore, there is no direct relationship between the introduction of Management Consultancy in the year 2006 and the way the firm used its assets effectively in generating sales, though it might contribute indirectly.

iv *Fixed Assets Turnover*

Fixed assets turnover are ideally the earning assets of the firm. Therefore, this ratio indicates the ability of the firm to effectively utilize its fixed assets to generate sales (Pandey, 2004). From the analysis done for Willy Enterprises Ltd as shown in table 7.1, the study found out that the fixed assets turnover increased from 9.61 to 14.33 for 1999 to 2000, then fell to 13.98 for 2001, then rose again to 14.21 in 2002, then fell to 13.85 for 2003, then with slight increase in 2004 and 2005.After that, from 2006 to 2010 the rate continued to rise slightly in a constant (consistency) form.

Gives the indication that after the introduction of Management Consultancy in 2006, the firm's ability to effectively utilize its fixed assets to generate sales was improved one year after another, which is a good outcome.

b) *Profitability Ratios*

Equity investors take the risk of whether the business can earn a profit and sustain its profit-making record and potential of the firm measured by calculating the company's' profitability ratios i.e. return on equity, return on assets, gross return on assets, net-return on assets, gross profit margin and net profit margin (Baisi, 2010). From the above-mentioned ratios, the study decided to use gross profit margin, net profit margin, return on assets and return on equity ratios.

Table 7.2: Profitability Ratios

Ratio	Gross Profit Margin (%)	Net Profit Margin (%)	ROA (%)	ROE (%)
Formula/ Year	Gross Profit / Sales Revenue	Net Income. / Sales Revenue	Net Income / Total Assets	Net Income. / Total Shareholders' Equity
1999	23.17	5.65	21.04	87.80
2000	14.66	4.92	23.52	63.19
2001	11.44	1.75	0.64	17.69
2002	12.26	1.52	7.64	17.34
2003	15.51	1.72	9.06	17.97
2004	19.54	1.65	8.97	17.58
2005	24.45	1.70	9.49	17.74
2006	25.54	1.72	9.77	18.12
2007	26.34	2.45	14.17	25.35
2008	26.95	3.49	20.67	35.05
2009	27.60	4.97	30.19	48.29
2010	28.23	6.88	42.89	64.63

Source: Field Data 2012

i *Gross Profit Margin*

This ratio reflects the company's ability to earn a satisfactory income. It gives the percentage of sales available to cover general and administrative expenses and other operating costs (Baisi, 2010).

From the analysis done for Willy Enterprises Ltd as shown in table 7.2, the study found out that the gross profit margin fell from 23.17% to 14.66% for 1999 to 2000, then fell again to 11.44% for 2001, then rose slightly to 12.26% in 2002, then with slight increase in 2004 and 2005. After that, from 2006 to 2010 the rate continued to rise slightly in a constant (consistency) form.

This implies that, before introduction of Management Consultancy there was no stability on the percentage of sales to cover general, administrative and other expenses, but after the existence of Management Consultancy, brought positive changes.

ii *Net Profit Margin*

It gives the percentage of profit earned on sales. It is crucial because the business needs to make more profit to survive in the short and long run (Baisi, 2010). From the analysis done for Willy Enterprises Ltd as indicated in table 7.2, the study found out that net profit margin fell from 5.65% to 4.92% for 1999 to 2000, then fell again to 1.75% for 2001, it continued falling in 2002 to 1.52%, then, with slight increase in 2003 to 1.72%, then, fell again in 2004 to 1.65%, then increased to 1.70 in 2005.After that, from 2006 to 2010 the rate continued to rise.

It imply that, before the introduction of Management Consultancy there were fluctuations on the percentage of sales available to cover general, administrative and other expenses as well as the ability of the firm to make more profit in the short-term to survive in the long-run which is not the case after the introduction.

iii *Return on Assets (ROA)*

Return on assets (ROA) is a crucial return on investment (ROI) measure; this is an adequate method of calculation for simple comparisons between businesses and in one business between numbers of consecutive years (Pandey, 2004).

From the analysis done for Willy Enterprises Ltd as indicated in table 7.2, the study found out that the return on assets rose from 21.04% to 23.52% for 1999 to 2000, then fell to 0.64% for 2001, then rose to 7.64% in 2002, then with slight increase in 2003 to 9.06%, then fell again in 2004 to 8.97%, and then slightly improvement in 2005.Henceforth, from 2006-2010 the rate continued to rise expeditiously i.e. 2006 to 9.77%, 2007 to 14.17%, 2008 to 20.67%, 2009 to 30.19% and 2010 to 42.89%.

This gives the implication that before introduction of Management Consultancy there was inconstancy on the percentage on how the total assets were used to generate income, which is not the case after its introduction.

iv *Return on Equity*

Return on equity (ROE) is one of some ways of reporting the return on investment (ROI). The word return refers to the gain made, and the word investment refers to the amount invested. Financial analysis often requires that the analyst convert pre-tax basis or converted from before-tax to after-tax basis (Baisi, 2010).

Note: firms pay tax at widely varying rates, depending on a host of circumstances; an analyst can determine the appropriate tax rate directly from the financial report by dividing the tax expense by earning before-tax figure (Baisi, 2010).

From the analysis done for Willy Enterprises Ltd as shown in table 7.2, the study found out that return on equity fell from 87.80% to 63.19% for 1999 to 2000, then fell again to 17.69% for 2001, it continued to fall in 2002 to 17.34%, then, with slight increase in 2003 to 17.97%, then, fell again in 2004 to 17.58%, then, increased to 17.74 in 2005. After that, from 2006-2010 the rate continued to rise speedily i.e. 2006 to 18.12%, 2007 to 25.35%, 2008 to 35.05%, 2009 to 48.29% and 2010 to 64.63%.

This gives the imputation that before introduction of Management Consultancy there was oscillation in the percentage on how the total shareholders' equity was used to generate income, but after the introduction of Management Consultancy, brought big positive changes.

c) *Leverage Ratios*

Leverage ratios provide the basis for the analysis of the capital structure of the firm. They measure the extent to which the firm relies on debt as a source of financing. If a firm has too much debt, it risks insolvency, financial distress, and possible bankruptcy. If it has too little, it is probably not growing as fast as it could if it borrowed money to finance profitable expansion, and is perhaps not taking advantage of all the lucrative opportunities offered in its relevant industry (Pandey, 2004). Ratios under this category are, I.e. debt ratio, debt to equity ratio, net-worth ratio, and interest coverage (time covered) ratio. The study failed to interpret these ratios because capital structure of the firm is not well defined, the financial statements of the firm did not show the clear picture on capital formation.

d) *Liquidity Ratios*

Liquidity ratios measure the ability of the firm to meet its short-term obligations when they are due to be paid (Wood and Sangster, 2011). The study decided to use current and quick/acid test ratios as presented in table 7.4.

Table 7.4: Liquidity Ratios

Ratio	Current ratio	Acid-Test (Quick) ratio
Formula	Total Current Assets / Total Current Liabilities	Current Assets - Closing Stock / Total Current Liabilities
1999	0.81:1	0.25:1
2000	1.06:1	0.38:1
2001	1.26:1	0.34:1
2002	1.15:1	0.31:1
2003	1.25:1	0.34:1
2004	1.26:1	0.37:1
2005	1.33:1	0.42:1
2006	1.34:1	0.42:1
2007	1.40:1	0.44:1
2008	1.51:1	0.47:1
2009	1.65:1	0.52:1
2010	1.84:1	0.57:1

Source: Fieldwork Survey, 2012

i *Current Ratio*

From the analysis done for Willy Enterprises Ltd as indicated in table 7.4, the research found out that current ratio increased from 0.81:1 to 1.06:1 for 1999 to 2000, then increased again to 1.26:1 for 2001, then, fell to 1.15:1 for 2002, then, with slight increase in 2003 to 1.25:1, then, with slight increase in 2004 and 2005. From 2006-2010 the rate continues to rise rapidly i.e. 2006 to 1.34:1, 2007 to 1.40:1, 2008 to 1.51:1, 2009 to 1.65:1 and 2010 to 1.84:1.

This gives the inference that before introduction of Management Consultancy the firm was unable to meet its short and medium term obligations which is not the case after its introduction.

ii *Quick Ratio*

From the analysis done for Willy Enterprises Ltd as shown in table 7.4, it was found out that quick ratio increased from 0.25:1 to 0.38:1 for 1999 to 2000, then decreased to 0.34:1 for 2001, then, decreased again to 0.31:1 for 2002, with slight increase in 2003 to 0.34:1, then, increase in 2004 and 2005 to 0.37:1 and 0.42:1 respectively. Henceforth, 2006-2010 the rate continues to rise rapidly i.e. 2006 to 0.42:1, 2007 to 0.44:1, 2008 to 0.47:1, 2009 to 0.52:1 and 2010 to 0.57:1.

This entails that, after introduction of Management Consultancy the firm became more and more liquid in meeting short-term liabilities by using other current assets without including stock, such as; accounts receivable, cash in hand, and cash at bank.

VIII. Conclusion

Organizational performance depends on many factors including usage of management consultants' services for their rapid growth. The findings of this research reveal that Management Consultants have a critical role to play towards the organization's financial performance i.e. increase of company profitability one year after another while minimizing costs (general expenses), enlargement of marketability due to upstanding reputation of the company to the public, enlargement in sales and production volumes, etc.

Thus, managers/directors are urged to adopt usage of management consultancy services for improving their organizational performance by training of Internal Management Consultancy technical experts or outsource where necessary. The training institutions, investors and other stakeholders are advised to encourage, finance and facilitate more research to be conducted on Management Consultancy to raise awareness in the country.

The government should put more extra efforts to promote or advertise the Consulting profession in the country as for the case of Tanzania the field is still new, and enactment of Policies and Establishment of Regulatory Body.

Therefore, the study saw a need for structural as well as institutional reforms to enable all Tanzanian organizations effectively and efficiently use Management Consultancy Services, benefit from them and benefit Tanzania economy at large.

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