

1149 S Hill St., Suite 950  
Los Angeles, CA 90015  
213-740-9814  
<http://ceo.usc.edu>

## CEO Working Paper Series

Human Resource Consulting

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Gerald E. Ledford  
*Senior Research Scientist*  
*Center for Effective Organizations*  
*Marshall School of Business*  
*University of Southern California*

Ed Lawler  
*Director*  
*Center for Effective Organizations*  
*Marshall School of Business*  
*University of Southern California*

Susan A. Mohrman  
*Senior Research Scientist*  
*Center for Effective Organizations*  
*Marshall School of Business*  
*University of Southern California*

No society can provide its members with a high quality of life unless it has effective organizations.

Edward Lawler III

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## Human Resource Consulting

The field of human resources (HR) consulting is large, extremely diverse, and highly dynamic. This introductory update to the 2005 chapter that follows provides an updated view of the HR consulting marketplace and the types of individuals and consulting firms that occupy it, as well as the organizational actors who purchase and consume HR consulting services. It includes a discussion of different types of HR consulting services, the types of consultants that work in each area, the buyers and users of consulting services, and the scope and potential business impact of each type. The business of HR consulting has evolved rapidly and has become a major determinant of how consulting services are delivered and how people are managed in organizations.

### Definitions

*Human resources management* is concerned with the structures, practices, and processes for managing people in an organization. It includes but is broader than the typical personnel processes that the HR department manages, such as talent acquisition, rewards, performance management, and learning and development. It also includes human resource strategy, the technology for managing HR processes, organization design and change, and other areas of practice that concern structures and process for managing people.

*HR consulting* involves providing expert advice and services on human resource management issues. Here we are primarily concerned with consulting services that take the form of projects that result in organizational decisions about HR strategies, policies, practices, and systems. HR consulting services can be and are provided by solo consultants and by large firms with thousands of employees, consulting projects can last from a few days to years, and projects may have a very narrow or very broad scope.

Our consideration of HR consulting will omit “guru consulting,” an activity that is highly visible and lucrative for a few individual practitioners but very different from other HR consulting. We know of no studies or data about this market segment, but it is certainly tiny in size relative to the overall HR consulting market, despite its prominence. In this market, a handful of individuals who are prominent enough to be considered gurus command daily speaking fees that may exceed the annual income of many HR consultants. Gurus include professional speakers, personalities, authors, and professors who espouse a “hot,” provocative point of view on an HR-related topic. Guru consulting is fundamentally different from other types of consulting in that its unit of service is the presentation, not a project that helps an organization to make specific decisions, create new processes, or design and implement changes. Indeed, gurus often have no experience or interest in guiding organizational action related to their topics. In the guru market, inspiration and entertainment are more important than action.

### **Market Size and Characteristics**

There are a few studies of the HR consulting market, most notable are the Barnes Reports (2015) and IBIS World (2016). These studies give a rough sense of the size and characteristics of the market, although none provides a complete perspective on HR consulting. Therefore, the available market data somewhat understate the size of the market, the number of practitioners, and the types of projects that HR consultants do. Also missing is good growth data, although there is little doubt that the market has grown significantly since our 2005 chapter was written.

Barnes Reports (2015) does not define HR consulting, but it lists major sub-industries (which also are not defined) as HR consulting services, compensation and benefits planning, incentive or award program consultants, employment agencies, labor and union relations consultants, personnel management consultants, programmed instruction service, and training and development consultants. This perspective focuses on only some of the segments that we see as important in HR consulting. It

does cover most of the key issues that HR executives report their functions spends their time on (Lawler and Boudreau, 2015). The HR consulting market for just these segments is very large.

Barnes Reports (2015) indicates that the HR consulting U.S. market alone will be \$24.5 billion in 2016. Some 16,608 firms employ 24,541 people (an average of only 3.8 per establishment), and both the number of firms and employment are down significantly since 2012 (both down 28%). Barnes Reports offers some interesting global data. The U.S. market is by far the largest market. The five next largest based on sales in U.S. dollars, are somewhat surprising: China (\$18.9 billion), Japan (\$9.7 billion), Germany (\$6.1 billion), and Brazil (\$4.1 billion). China and India employ the most HR consultants, with 493,000 and 403,000 respectively, and they are the only countries that employ more than the U.S.

Using a somewhat different and much broader construction of the HR consulting market, IBISWorld (2016) indicates that the U.S. HR consulting market generates \$22.7 billion in revenue, \$2.2 billion in profit (for an average margin of almost 10%). It reports that industry growth has been faster than the growth of the overall economy but is slowing. The report indicates that an astounding 43,765 enterprises in the industry employ 182,904 people, up from employment of 141,268 (30%) in just the previous five years. This indicates that the average consulting firm employs four people. Average wages in the industry were \$73,602 in 2016. Given that the compensation of senior consultants and principals in major firms is several times that amount, the median wage must be far lower.

IBISWorld (2016) focuses on personnel services in its report but includes other segments as well. Major market segments in its study are compensation and benefits (42% of total revenue), HR management consulting (34%), actuarial consulting (11%), and "other" (13%). Compensation and benefits is the largest, but executive, employee, and sales compensation and benefits have different practitioners, different buyers, different goals, and different business cycles. HR management consulting includes consulting on personnel programs and services, including supervision, training,

performance management, and employee assessments. Actuarial consulting assesses risks and is used in creating various kinds of insurance programs, benefits, and financial programs. “Other” includes consulting on business strategies, custom computer applications, executive search, and advice on corporate restructuring.

IBISWorld (2016) characterizes the HR consulting market today as mature because it has revenue growth approximating the rate of the economy, accelerating merger and acquisition activity, established technology and process, market acceptance of its products, and rationalization of low margin products and brands. Consolidation clearly is occurring, and relatively large firms are emerging. For example, in 2010, Aon Consulting Worldwide merged with Hewitt Associates to form Aon Hewitt. Also in 2010, Towers Perrin merged with Watson Wyatt, and the combined entity merged with Willis to create Willis Towers Watson. More recently, executive recruiter Korn Ferry acquired Hay Associates.

The differences in the data between the Barnes Reports and IBISWorld reflect the different segments of the market that they cover. Barnes focuses more on the lower margin segments traditionally associated with personnel services, while the IBISWorld data includes other, higher margin, growing segments such as HR strategy consulting and some HR technology work. This difference is reflected not only in the size of the market reported, but also in the overall growth of the HR consulting market reported in the two studies.

### **Types of HR Consulting**

There are seven major streams of HR consulting: human capital strategy, HR technology, organization design, organizational change, HR process reengineering, HR outsourcing, and HR program design and execution. Human capital strategy involves developing an HR strategy that supports, enables, and influences the business strategy of a particular organization. A classic strategy issue is the

decision about whether to “make, buy, or rent” (hire and train new employees, hire trained employees from elsewhere, or outsource) particular types of employees that are essential to the business strategy.

HR technology consulting involves helping an organization choose the best technology solutions and implementing technology to assist with tasks such as tracking employee work hours, managing payroll, and assisting with other HR transactional processes. Organization design helps organizations create the structures and processes that support their business strategies. A classic problem is determining whether a functional structure, a business unit structure, matrix, or some more complex structure is the best fit for the organization’s needs. Organization change is variously called organization development, change management, and organizational effectiveness, and involves helping management to manage major changes in the organization. For example, consultants may help manage the process of integrating the employees an acquired company or help management learn to behave in a less cumbersome, bureaucratic manner. HR process reengineering involves helping the organization redesign its work processes to increase effectiveness, reduce costs, and/or increase work quality. This may include changing work designs, communication patterns, reporting relationships, and information systems.

HR outsourcing involves hiring outside vendors to provide services. Typically this involves outsourcing routine, transactional processes such as payroll or retirement plan administration, but in rare cases can involve outsourcing of the entire HR function. Finally, HR program design and execution entails designing and operating programs that are part of one or more HR processes, such as talent acquisition, compensation, benefits, learning and development, careers, or succession planning.

### **Types of HR Consultants**

The traditional HR consultancies still play a major role in HR consulting. Large firms in this space include Aon Hewitt, Willis Towers Watson, Mercer (part of Marsh McLennan), and the Hay Group (now

part of Korn Ferry). IBISWorld (2016) indicates that, Aon Hewitt has a 10% share, Willis Towers Watson has a 4.8% share, and Marsh & McLennan (including Mercer and other firms) has a 4.4% share. These firms are able to handle multi-million dollar assignments from the largest global companies, can deploy large teams to staff projects, and can offer services in every segment of the market. There are innumerable mid-sized, small, and tiny firms that handle HR consulting assignments, usually specializing in a very limited number of areas of HR. For example, there are dozens of firms that only assist in the management of employee recognition programs, including providing merchandise services and gift cards that are used in these programs.

The major accounting firms, including PWC, Deloitte, Ernst & Young, and KPMG, have human resource consulting practices. Over the years, these firms have built large human resource consultancies, divested them when regulators viewed such consulting as constituting a conflict of interest with their core accounting services, and rebuilt their human resource consulting operations when the regulatory climate became more favorable.

Many of the major strategy consulting firms, including McKinsey, Booz Allen Hamilton, and Bain & Company, offer HR consulting services, often called “human capital consulting”. The strategy firms have built, downsized, and rebuilt their human resource consulting practices over the years as market demand has waxed and waned. Several firms operate at the intersection of strategy, operations, IT, and outsourcing, including Accenture, Capgemini, and AT Kearny. Their offerings always have included some type of HR consulting expertise due to the people issues involved in their specialties. Finally, a wide variety of large firms with other primary businesses also do some HR consulting, including information technology firms such as IBM, outsourcing vendors such as ADP, “best practice research” firm CEB, and executive search firm Korn Ferry (largely through the Hay Group).

Firms with a primary consulting business outside of the HR consulting industry, such as McKinsey, tend to specialize their work rather than to develop a comprehensive HR consulting offering. For example, the strategy firms gravitate to human capital strategy and organization design consulting. IT-oriented firms tend to offer HR technology consulting and organizational change consulting, because systematic change management is a core process in technology implementation. Operations firms tend to offer HR technology, change management, and process reengineering solutions. The accounting firms, especially Deloitte and PWC, come closest to rivaling the HR consulting firms in providing services for most or all types of HR consulting, although different firms concentrate on different areas. For example, Deloitte has an especially prominent HR technology implementation business.

Although we have emphasized large brand-name consulting firms in illustrating the types of firms in the marketplace, small firms perform a great deal of HR consulting. IBISWorld indicates that there are almost 44,000 U.S. consultancies in this space, most of them very small. Perhaps, the major reason for this is that there are very low barriers to entry in HR consulting. Licenses and other formal credentials are required only in a few specialized areas, little capital investment is required for most types of HR consulting, and there is relatively little government regulation of the industry.

The HR consulting industry is mature with few new products and services, and competition among HR consulting firms is intense. The largest, global firms tend to give most of their consulting assignments to the largest consultancies, which have the manpower and global footprint to meet the requirements of such firms. Smaller organizations tend to be more price-sensitive, and are more likely to employ smaller and mid-sized HR consulting firms. However, there is considerable overlap between size segments, and large clients sometimes use small consulting firms, and small clients sometimes use large consultancies.



## **Buyers of HR Consulting Services**

There is a distinction in the marketing of consulting services between the financial buyer and user buyers. The financial buyer, quite simply, is the person or group with the funding to purchase consulting services. In the case of HR services, the corporate or business unit executives outside of HR often are the financial buyer and the HR department must rely on these executives for final approval of some or all projects. The larger the project scope and cost, the more likely it is that the financial buyer will be outside the HR function. Some types of projects are typically funded by a financial buyer from outside of HR, including major HR technology projects, large organization design projects, process reengineering, and outsourcing projects.

User buyers are those who deal with consultants day-to-day in program development and ultimately use the services that the consultants provide. User buyers can include HR managers, line managers, the information technology function, and other groups. User buyers typically influence the process of purchasing consulting services by shaping project specifications, and their assistance may be essential to the success of the project.

We know of no data on who the buyers of HR services are, but it is clear that many types of HR consulting services are provided by firms from outside the traditional HR consulting market. HR consulting firms tend to be dominant in HR program design and execution and HR process outsourcing, but other types of consulting firms are able to use their access to buyers from outside the HR function to gain business in all other types of consulting services. Overall, the more visible the project is to the executive suite, the higher the price tag, and the more risk to the organization the project presents, the more likely it is that other types of consultancies will have a significant market share.

## **An Overview of the HR Consulting Field**

Table 1 provides a summary of the major segments of the HR consulting market, the types of consultants who do the most work in each segment, as well as the primary financial buyers, user buyers, project scope, and potential business impact in each area. Our characterizations of potential project impact may be controversial in some quarters. We believe that the rows near the top of the figure are more likely to represent large projects with a large potential business impact than are those at the bottom of the chart. That is precisely why the financial and user buyers are more likely to be in the executive suite for assignments in these segments, and why the price tags for projects in the top rows of the figure are, on average, much higher than for projects in the bottom rows. Most multi-million dollar consulting assignments are outside of HR program design and execution, although there certainly are projects of that size in the HR program design and execution segment. The risk and impact of decisions to outsource HR services, change an organizations design, adopt a new HR technology platform, or a new human capital strategy is likely to be far greater than for the typical HR program change.

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Projects in any of the market segments can have an important impact on business results. For example, one of the authors of this chapter was part of a team that helped a Fortune 100 firm overhaul its sales rewards program, and an internal study by the client company indicated that the project had a return on investment of over \$100 million from higher sales and reduced turnover of top sales performers. However, most HR program design and execution projects are smaller in scope and impact and do not attract much visibility with senior executives.

Our primary conclusion is that HR consulting firms do not provide most HR consulting services, and most buyers of HR consulting services are not part of the HR function. This is particularly true for

projects in market segments that are likely to have the greatest cost, risk, and value-added potential for the client organization. Further, there is no reason to believe this will change in the next decade.

## **Conclusion**

As predicted in our 2005 chapter, a lot has changed in the last decade with respect to how HR consulting is delivered and what is delivered, but it remains true that HR consulting is inseparable from the future of the HR function in organizations. It is changing and will continue to change. Thus, the next decade is likely to see many changes in the HR consulting world. They are likely to include major changes in technology, strategy, and the offerings of consulting firms.

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Figure 1

Major Types of HR Consulting

Type of Consulting	Project Example	Type of Consultants	Primary Client(s)	User Buyers	Typical Project Scope	Maximum Business Impact
Human Capital Strategy	Whether to “make, buy, or rent” talent	Strategy, HR, accounting	Top executives, CHRO	Business managers, HR	Small to large	Very large
HR Technology	Implementation of Workday HR suite	IT, HR, accounting	Top executives, CHRO	IT, HR, management, employees	Large to huge	Very large
Organization Design	Fix the way our network organization works	Organization design, strategy, HR, accounting	Top executives	Business managers, HR	Moderate to large	Very large
Organization Change	Help with integration of an acquired company	Change management, HR, IT, accounting	Top executives, business managers	Top executives, business managers	Small to large	Large
HR Process Improvement or Reengineering	Streamline workflow, reduce cost of talent acquisition	Strategy, HR, accounting, IT, organization design	HR	HR, business managers, IT	Moderate to large	Moderate
HR Outsourcing	Vendor servicing of retirement plans	HR, IT, specialized outsourcers	Top executives (large-scale), HR (smaller scale)	HR, managers	Moderate to very large	Very large
HR Program Design and Execution	Create a new incentive plan	HR, accounting	Executives, HR, Managers	HR, managers	Small to moderate	Moderate