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# Maximizing the value of consultants

Key lessons from clients

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## Introduction

# Maximizing the value of consultants

## Key lessons from clients

The consulting industry is going through what is arguably the biggest market adjustment in its 80 year history.

Expansion in the late 1990s came to an abrupt halt in 2001, as private sector clients, faced with shrinking profits, significantly reduced the amount of money they were prepared to spend on consultancy and left consultants with an over-capacity problem of unprecedented proportions. 'This is the toughest time the consulting industry has ever experienced', says Jerry Greenberg, the Chief Executive of US-based Sapient.

This report looks at how these changes have been perceived by clients and seeks to understand:

- where consultants do and don't add value
- what clients can do to maximize that value.


The report is based on the contribution of almost 100 private and public sector clients from around the world. The author is indebted to them for their insight.

Fiona Czerniawska is the founder and managing director of Arkimeda, a firm that specializes in researching and consulting on strategic issues in the consulting industry, and the Director of the UK Management Consultancies Association's Think Tank. Prior to setting up Arkimeda, Fiona has had more than 15 years experience as a management consultant, primarily working in the areas of marketing and strategy, and now speaks and writes extensively on the consulting industry and related issues. Her books include: *Management Consultancy in the 21<sup>st</sup> Century* (1999), *Management Consultancy: What Next?* (2001), and *Value-Based Consulting* (2002). She is also the author of a variety of commercial reports on the consulting industry, including *E-Consulting: Winning Strategies for the New Economy* (2000), *Creating E-Business Success* (2001), *The European Consulting Market* (2002), and *Consulting on the Brink: The Implications of Enron for the Consulting Industry* (2002). Her most recent book is *The Intelligent Client*.

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# Where do consultants add value?

## And why don't they always do so?

### SECTION 1

The downturn in the consulting market has been greeted with a degree of relish by the business media: an arrogant industry has been justly humbled. Consultants, meanwhile, see themselves as scapegoats for organizations' post-e-business, post-Y2K, post-Enron hangovers.

Against this backdrop, client attitudes to consultants appear, at best, polarized and, at worst, nonsensical.

There's no shortage of clients willing to praise the contribution that consultants make. 'Without any doubt,' said one executive, responsible for consulting projects worth several tens of millions over five years, 'most of the projects with which I've been involved would not have been delivered without consultants. Consultants bring up-to-date skills, a focus on outcome and speed of delivery. Moreover, they carry no in-house baggage with them.'

Yet, weighted against this is an equal amount of acrimony directed at consulting firms that appear to enrich themselves at the expense of their clients while delivering little in the way of tangible benefits. 'I can remember one specific incident,' recalled one client, 'when a large consulting firm undertook a worldwide exercise to map our business processes. At a one-day exercise at a factory in Newport, Wales, the 'facilitator' – a Frenchman with unintelligible English, who had only joined the company two weeks before – was trying to involve a range of staff from all levels, all of whom spoke English with heavy Welsh accent. The facilitator had no idea what he was supposed to achieve, and was unable to describe anything to the cross section of staff. Consequently, they thought the whole process was a joke (but not a particularly amusing one, when they realized the Frenchman was earning three or four times what they did).'

From the research undertaken for this report, it's clear that clients do think consultants add value, but only when consultants operate in one of two distinct modes:

- in specific, specialized areas where in-house expertise is scarce and where a consultant has in-depth knowledge and a wider range of experience to draw upon
- on large-scale change projects where momentum needs to be created and sustained.

#### **(1) Specific, specialist projects**

The use of consultants in focused areas is part of the larger make/buy decision made by organizations. 'We use consultants in areas where we have little experience,' said an executive in a multinational corporation. 'When we need resources and access to best practice, the downsides of employing

consultants (primarily cost and lack of specific knowledge) outweigh the benefits relative to using our internal networks.' 'Using consultants allows us to apply specialized skills and knowledge without having to acquire these things for ourselves, via training or experience,' agreed another. 'We use consultants with expertise in areas where we need help to get a project completed,' confirmed a third. 'The value of consultants to us is that we do not have to keep trained specialists on our books when we might only need them for a particular project. We can easily go to the market and hire the expertise.'

Not surprisingly, this way of using consultants has grown in line with organizations' need to reduce fixed costs. As one client pointed out, 'the consulting industry allows us to square an otherwise impossible circle – undertaking major projects while also operating a leaner structure.' 'Although consultants are expensive,' said another, 'much of the work we ask them to undertake would be prohibitively expensive if we were to do it by ourselves.'

For some, this shift from fixed to variable expenditure has gone too far. 'We went through a stage when consultants were everywhere,' said one executive. 'It was a headcount game: we couldn't employ the people we needed on a full-time basis, but we could use consultants, so we did what we were supposed to do without hiring. Some managers have done themselves a disservice because they've given the impression that it's possible to do a lot of work with a small number of people. They're now reaping the whirlwind because their "discretionary" expenditure has now been cut back as well.'

However, the value of consultancy does not stem solely from the consulting industry's superior economies of scale in disseminating knowledge. Just as valuable to clients is consultants' ability to obtain otherwise inaccessible information. 'We simply don't have a consulting firm's resources when it comes to skilled interviewers and researchers,' was the experience of one typical client. 'We can't carry out anonymous research, and we don't have consultants' breadth of experience when it comes to ferreting out information.' 'We use consultants to validate major changes in strategic direction and potential acquisitions, because they have access to information we don't have and because they generally have a broader perspective about what's going on in the market place' was another reoccurring argument.

Equally important to this style of consulting is the ability of consultants to use their external position in order to challenge an organization's status quo. 'We value their creativity,' said one client, 'and their ability to bring new and different perspectives which are not available in-house.' 'They bring fresh and innovative ideas to complex problems,' said another. 'Consultants tend to have a wider perspective and to have been exposed to more approaches to solving problems than internal employees. On successful

consulting projects, much of the value consultants bring lies in their objectivity – by analyzing a problem and proposing a solution in a way that could not have been done in-house.' Not just objectivity, but independence is often critical here: 'we really value having an independent discussion partner, where there is no potential conflict of interest' said one executive.

Consultants' better access to information and their neutrality also mean that they have a valuable role to play in marshalling the support of stakeholders both within and outside the client organization. As one client put it, 'we use consultants to convince executives who aren't prepared to accept an internal point of view.' 'Decisions get taken more quickly if we bring in consultants to support what we're saying,' agreed another. 'A consultant can validate or legitimize a current or future process.'

## (2) Large-scale change projects

At the opposite end of the spectrum, consultants also add value by providing the resources, know-how and momentum required to manage and sustain complex projects, often centred on the implementation of new computer systems. 'The time saved and process management skills are vital,' was how one client summed up the contribution of consultants here. 'We get extra pairs of hands, and new information on how other, similar companies are performing.' 'Although consultants are expensive, using them for project-related work proves time-, as well as cost-efficient,' commented another.

Independence and innovation are much less important here than up-to-date knowledge, particularly of suppliers' products, and the ability to ensure the seamless integration of the different parts of a project. Clients looking for consultants to work on IT projects actively want them to have knowledge as good as that of the developers themselves and fully accept that this requires a close working relationship.

Alongside specialist consultants, large-scale projects often need flexible resources – people who are prepared to roll up their sleeves and do whatever it takes to make a particular milestone, irrespective of the original specifications of their role. This facility is hugely valuable to clients who always find it hard to free up sufficient people internally to cope with the peaks of work that occur on big projects, and who often find that even those people who are free are unwilling to work in unfamiliar areas.

However, respect is often grudging: most executives would prefer to use in-house resources. 'We go to great lengths to avoid using consultants,' said one. 'The only use we have for them is where there are people who have specialist technical knowledge needed to deal with a specific and tightly-defined problem. We believe we can get better results from our own people if we have issues of the type most

“management consultants” are employed to address.’ Many see consulting as an evil made necessary by years of pressure on headcount which have deprived them of the skills and resources they need. ‘It’s been a numbers game,’ commented one manager. ‘Consultants have allowed budget-holders to achieve their objectives while keeping fixed costs down.’


consultants for a specific project of set duration,’ agreed another, ‘not on an ongoing retainer’. ‘Good consultants don’t have to sell themselves: they keep their heads down and tell it like it is – and get plenty of work as a result,’ was another common theme.

## Why is value so hard to achieve in practice?

The dissatisfaction expressed by clients essentially stems from confusion between these two consulting models. Clients, looking for specialized, independent input are disappointed when:

- *Projects are staffed with inexperienced people who are unfamiliar with the business and may be learning on the job.* ‘Many consulting firms profess to bring expertise and leading-edge thinking, but deliver bodies’ was a common complaint. ‘So much success depends on the personal qualities of the consultant. Inspired and inspiring people are very valuable: “average” consultants are not,’ commented one manager. ‘We do not use consultants to any great extent,’ said another. ‘It’s too costly and time-consuming to bring them up to speed on our business. They do have value in areas such as benchmarking, but only if they already have industry expertise and you have worked with them for some time.’
- *The consultants involved apply a formulaic solution to what the client perceives to be a unique problem.* ‘My experience is that they ask you for your watch, tell you the time and then ask you to buy the watch’, is a complaint that has continued to dog the consulting industry since the mid-1980s, to the irritation of both clients and consultants. ‘Consultants persist in turning up with their own recipe or model which they’re looking to apply,’ argued one executive. ‘When all you have is a hammer, everything looks like a nail. There needs to be far more honesty in the bidding process: consultants need to say, “we have a hammer, but what you need is a wrench”.’ It’s an attitude, clients believe, that derives from consultants’ lack of contact with day-to-day business realities: ‘consultants should be able to offer real experience in the subject they are selling.’ ‘Bright as they may be, consultants cannot add to the experience and knowledge of experienced, in-house staff,’ agreed another.
- *Consulting firms try to sell them services they don’t need.* From the evidence of this survey, clients who limit the input of consultants to specific areas are much more likely to value their contribution. ‘We’re looking for very specific things, tied to a tangible, short-term solution,’ said one client, ‘and we use consultants that don’t have a sell-on mindset.’ ‘We generally use





# Maximizing the contribution of consultants

## SECTION 2

The last two years represent an upheaval of almost unprecedented proportions in the consulting industry, with demand collapsing in some areas, shrinking margins and wide-spread lay-offs. Such restructuring has inevitably had implications for clients. 'We've seen a dramatic change in the way that consultants want to work with us,' said one. 'During the e-business hey-day, self-confident consultants weren't selling consultancy, so much as the future. They saw themselves leading you into the land of glory, and they didn't want to get paid per hour, but by results. We've now gone in completely the opposite direction – perhaps even too far into the doom state. Consultants are now offering to work for free. But that's not good either: people need decent pay to do a decent job. We always seem to be going too fast from one extreme to another.'

Clients are also concerned about the repercussions of so many lay-offs for the quality of service they receive. 'We see some of firms struggling because partners who were good at the relationship building relationship have had to roll up their sleeves and work,' said one client. 'The career path has also become more difficult: there are fewer promotion opportunities, and some of those people slogging away are bound to become disenchanting. If I worked in one of these firms, I'd want to see significant cultural changes going forward.'

Lean times have increased the pressure consultants are under to sell work. According to more than one executive, 'there's a lot more hunger: we get more sales calls.' Prices in some areas have come down, but are more conventionally structured. 'There are some good deals around,' said one client, but, overall, we're less likely to see unorthodox proposals. Consulting firms, that used to approach us on the basis "we'll do it for free, if you give us a percentage of x", have now reverted to time and materials billing and are much less willing to take on any risk.'

But, for some clients, prices have been less affected than attitudes. 'We haven't seen a significant change in fee rates, but we're finding that consulting firms are being far more careful in terms of planning and resourcing projects, and there's greater transparency when it comes to delivery,' was how one client described this trend.

The momentum for change has been accelerated by Enron. While consultants may like to believe that this was an issue that affects only audit firms, roughly half of the clients surveyed for this report said Enron had reinforced concerns they had about the consulting industry as a whole. 'Enron has contributed to the view that I and other members of the management team have, that you can never outsource responsibility,' said one client. 'If we don't maintain our internal competencies and our ability to

keep certain activities in-house, then we're putting our business at risk ... It has been a useful sobering up.' 'Enron hasn't changed my attitude,' said another, 'because I've always thought there were underlying problems with the idea of bringing together a whole host of services under one organization. I'm just surprised something like this hasn't happened before.' 'I think we'll see much clearer delineation of services in the future,' agreed a third, 'and a more rigorous evaluation of who is doing what with whom.'

Clients believe that the key lesson of Enron is that they have to be in the driving seat, when it comes to using consultants. 'You *have* to manage the consultant,' stressed one executive. 'There is a great tendency for it to be the other way around.' 'Lack of stewardship of consulting contracts – indeed, of any contract – suggests a fundamental vacuum at the heart of an organization's management,' agreed another.

## The key lessons

'Managing consultants takes more time than most clients expect, or are prepared to admit,' one executive pointed out. 'Perhaps counter-intuitively, if consultants see that their client is focused and determined to deliver a successful project, they'll be more motivated to raise their game and deliver real value. Left to their own devices, consultants will seek to broaden the scope of the project and maximize their revenue, rather than client value.'

According to one public sector client, due to a number of reasons (poor scope of work, incomplete expectations and technical requirements, etc) consultant contracts are often ill-managed. This has a number of implications: project timelines can be allowed to creep; there is neither provision nor request for deliverables; the scope of the work changes; the cost of the project skyrockets. This is a good case for "buyer beware", yet more and more government personnel depend upon the consultant to "take care of them and their project". While the vast majority of consultants do, there are some who take advantage of the situation. This obviously creates problems and issues regarding quality within the client community and ill-will among all concerned about expectations. It brings an air of suspicion to the situation as a whole.'

Such comments are equally applicable to the private sector: the message is simple – putting in the effort to manage consultants effectively reaps significant dividends. 'My best advice?' said one client. 'Choose your consultants carefully and use them wisely. Your reputation will become established and consultants will know your work ethic beforehand.'

Clients make ten key recommendations to organizations about to engage the help of consultants:

1. *Always maintain up-to-date knowledge of the areas in which you're seeking consulting help*

According to one client, 'the lower a client's knowledge level, the more time they waste with consultants and the more dependent they are on the conclusions. Just because you use consultants, doesn't mean you can afford to be less knowledgeable than them. It's only by being their equal that you can use them effectively. Inferior knowledge makes for inferior consulting.' 'You have to ensure that some of your own people are trained in same disciplines you're using consultants for,' agreed a second. 'You can outsource many things, but Enron has shown just how dangerous it is to have blind faith in an outside expert.'

2. *Be actively involved in the specification of the consulting project*

The knowledge required to manage consultants should not be acquired in isolation. 'The effective management of consultants has to be based on a real understanding of what the consultants are trying to do, and how they are trying to do it,' argued one client. 'Such understanding can only be gained through involvement.' 'Clients have to take a more pro-active attitude when it comes to defining a solution and be more assertive when they think the proposed solution may be flawed,' agreed a second. 'Take a more pro-active attitude towards the definition of a solution and be more assertive when a solution design may be flawed,' advised a third.

3. *Set a clear scope for the project*

'I believe in the 70/30 rule,' commented one client. '70% preparation and 30% execution. If you do enough upfront planning of what you want and how you intend to get it, the rest of a project part is just following the roadmap you've established.' 'We try to leave nothing to chance,' another agreed. 'We attempt to include in the consulting agreement a sufficient scope of work. The scope of work will typically include deliverables and assigning to the project manager specific milestones to work towards, evaluate, and accept or reject. Managing consultants requires some levels of trust and a personal relationship structured within a legal framework.'

These were points made by many clients. According to one typical view: 'we've learnt that we have to define our problems, needs, expectations, and the potential risks. Failing to scope the work is unfortunately construed as writing an open check, such is the reputation of consultants'. Scoping the project should include a definition of what needs to be done, exclusions and assumptions, the specification of individual tasks, and acceptance criteria for the whole solution. It's also important to

break the work down into controllable phases and to have a clear exit strategy. 'Keep the goal of the project clear and simple,' advised one client. 'Choose a deadline, agree on the financial aspects, and only set the next step once the previous step is finished.' 'Agree a strict date and a strategy to get them out of town,' suggested another. 'The tighter the contract, the better. This means thinking through what it is you want, otherwise you end up paying through the nose for things you didn't include.' 'An ambiguous scope or timeline or requirements will result in either significant scope creep (with increased costs) or an unsatisfactory conclusion,' agreed a third.

#### 4. *Specify clearly who is responsible for what*

'You need to know exactly what you expect consultants to achieve, and to agree this in a brief that spells out exactly who will do what,' is how one client put it. 'You need to see the CVs of the majority of the consulting team, to know how much time each member of the team will commit, and to agree the extent and means by which the consulting team will interact with your staff. If the scope is clear, then agreeing this will be simple, but, if the project is likely to involve changes within your company, these issues need to be thought through prior to employing consultants.' Although important in every project, it's particularly so in projects where the consultants will not be based in the client's offices. 'Off-site teams tend to be less well-managed,' one executive observed, 'but it's important to retain the upper hand yourself. No project should be primarily driven by consultants.'

#### 5. *Choose the right people, not the right firm*

Experienced clients look for experienced consultants: they look at the individual's track record, not the firm's. 'People have become fed up with 25 year olds delivering packaged presentations on the basis of no industry knowledge whatsoever,' said one client. 'The key to using consultants successfully,' another observed, 'is to be absolutely ruthless about demanding the individuals you want to hire. Typical consultancy practice is to bring senior people to the sales pitch and then look to deploy more junior staff.'

As a result, more and more clients appear to be turning to niche consultancies or sole practitioners. 'We rarely use consultants but have an independent consultant in our office at present,' commented one person. 'His function is to open doors and to make our capabilities known within our sector, and he is ideally suited to this task as he is well known within the industry and has had 31 years of experience at one of the major players within it.' 'The great thing about most small consulting organizations is that they have no ego,' agreed another. 'We have an ex-Big Four consultant working with us at the moment, who is immensely talented. His process skills have been honed by his background, but he's carrying none of the political baggage you'd associate with a bigger firm: he's completely task-focused. With more

people like him becoming available on a freelance basis all the time, the smart buyers of the future will go straight to the market.' Many clients now consider other qualities alongside know-how: 'you have to look at their integrity and professionalism,' said one. 'I buy the individuals, not the firm.' 'The individuals are more important than the reputation of the firm,' another concurred.

#### 6. *Respect your consultants, and ask them to respect you*

'No one will have all the answers, particularly where large-scale projects are concerned,' was one comment. 'Clients may, in fact, have more of the answers, but lack the time or resources to act on them.' 'Make consultants aware that – to a large extent – they're facing equals with respect to knowledge and experience. Be open about what you expect from them,' was another. But greater sensitivity on the part of the consultants to the contribution of clients needs to be matched by genuine openness by clients themselves. According to one executive, 'working effectively together requires a degree of honesty on both sides. Many clients pretend that what they want is help when they really just want the consultants to do everything. In other instances, clients want consultants to do everything, but then interfere and try to fix the answer.' 'You have to be free in sharing internal information,' was the advice of another.

The key is equality: 'a consultant needs terms of reference and to be bedded in with the rest of the team like a permanent employee,' is how one client put it. Moreover, the need for mutual respect extends beyond the conventional boundaries of the client-consultant relationship. 'While there's obviously considerable competition between firms, we employ many firms working together in a "rainbow" team,' commented one client. 'This takes trust: we need to see more trust.'

#### 7. *Ensure that skills are transferred from client to consultant*

'Consultants can strip more value away than they bring,' admitted one executive. Skills transfer is consequently high on the agenda – 'this is one of the most important benefits to using consultants', remarked one individual, 'because it gives us greater capability in the future.' 'We use consultants sparingly, and only where we perceive a genuine skill shortage that cannot be filled by training,' said another. 'Even then, I like the deal to include knowledge transfer so that we don't remain dependent.'

Three barriers have to be overcome, if an effective transfer of skills is to be achieved. First, clients accept that they need to be more aware of how the skills of consultants complement, rather than replace, those in their own organization. As one client pointed out, 'waste comes in when an organization

uses consultants, either without checking what skills are available in-house, or on a long-term basis as a member of a team. I work in the public sector where business experience is at a premium, but the skills and knowledge we need can often be obtained through courses, seminars and networking.’ Second, everyone involved has to be aware that the consultants will not be around in perpetuity. ‘Don’t give your consultants a free hand,’ advised one client. ‘Most of them will stay over years and don’t have extra value for the organization.’ The third problem is the attitude of consulting firms themselves. ‘Many consultants only want to sell their hours,’ said one executive. ‘They don’t understand the value of their knowledge to the client. Managing this kind of consultant is very easy; send them home as soon as possible....’ ‘Learning about best practice usually means having to force individual consultants to draw on the experience of the whole firm,’ commented another. ‘This is often difficult, as consultants don’t get any credit for this. Such synergy doesn’t happen naturally.’

#### 8. Demand that consultants make a difference

Many clients complain that consultants leave no ‘footprint’ behind them, that the client organization continues just as it did before the consultants intervened. ‘There needs to be greater recognition by consultants that they have a responsibility for the ultimate outcome,’ said one executive, ‘rather than just for advice which may lead to an outcome.’ Part of this involves consultants being able to see beyond the confines of an immediate project in order to assess its implications for the client’s organization as a whole. ‘There needs to be a broader focus on why the project is there,’ added a second. ‘Consultants often show little commitment to the client’s organization – the bigger picture. Perceptions of service would be much higher if they did so.’

But having an impact isn’t just a matter of taking a broader view of any issue or bringing a new skill. ‘I would like to see more inspiring – more guiding – consultants, not just consultants that do the work,’ was a comment made by several clients. At the same time, asking consultants to take on this role requires a significant change in the way clients treat them. According to one client, ‘consultants should be encouraged to be creative and to try to make a real difference. They must be able to operate in a failure tolerant environment, and, if they’re going to avoid mistakes, they need to be coached intensively.’ Nor does it mean that clients can abdicate responsibility: ‘make sure you always decide yourself,’ advised another. ‘In the end consultants can be blamed but they can’t be held responsible.’

#### 9. Know your deliverables

In a perfect world, every deliverable in a consulting project would be clearly specified, measurable and enforceable. ‘You have to check the services against the contract to ensure you are getting what you

asked for at the agreed price,’ was one typical comment. ‘Make sure you have a deadline that cannot be changed,’ was another. But many clients also recognized that it’s not always easy to be so clear-cut. As one client put it, ‘one of the problems with consulting projects is that it can be hard to attribute a value directly to the consultants’ input. With so many variables to take into account, who’s going to say “you did this” or “you didn’t do that”.’ However, the consulting industry’s apparent unwillingness to engage in this problem has left clients feeling frustrated and means that they’re looking at options for resolving the issue themselves.

There can’t be a single solution which standardizes the output of consultancy to the point where all consulting projects can be compared, which doesn’t also blur the different ways in which value is genuinely created. This means that the first step has to be to sub-divide projects, so that comparisons can be made more meaningfully. Clients see consultants as generating two different types of value:

- Value from effectiveness occurs where the inputs to a project are highly uncertain, but where the output can be measured. What this means in practice is that, while it’s possible to identify a clear goal for the consulting project, it’s hard to draw a clear set of causal relationships between that goal being achieved and what the consultants actually do. Clients have to trust that the consultants they’ve hired have contributed to achieving the desired goal, but neither side can prove this is the case. For clients in this situation, the key is to establish those clear goals from the outset, and make them the combined objective of everyone involved in the project, whether consultants or internal people. Everyone involved have to be given an incentive to do whatever it takes to meet the objectives.
- The opposite of this – value from efficiency – takes place where the output of a project remains uncertain (it’s not possible to ascribe a clear set of goals with which everyone in an organization agrees), but where the work carried out by a consulting firm can be measured. An example here would be a complex change management project. The overall objective of the project might be hard to define (how can you measure whether an organization has changed?), but consulting firms involved in the project might be playing quite clearly defined roles – designing and delivering an internal communications strategy for example. In such situations, the discussion of what constitutes value needs to be focused around the work the consulting firm does.

But the two over-riding criteria for judging success are, first, that the criteria set are shared by as many organizational stakeholders as possible and, second, that it’s the medium-term, practical impact of a

project that matters, not its short-term 'wow' factor. 'Consultants should come to the point with deliverables the organization can use,' remarked one client. 'They should speak the language of the company.' 'Value is measured by the ability to implement the suggestions and recommendations made by the consultant,' said another. 'Good performances that add value to the organization usually result in additional work or positive recommendations of the consultant.'

#### 10. *Share risks and rewards*

A corollary of mutual respect is that both sides should benefit when a project goes well, and suffer when it goes badly. Consultants have for some time been complaining that their attempts to negotiate performance-based contracts have fallen on deaf ears, largely because clients have been unhappy with the scale of the potential upside to the consultants. For their part, clients claim to have found consulting firms unwilling to go down this route. 'While it inevitably varies from firm to firm, I generally believe the consulting industry is still too conservative when it comes to pricing engagements. Risk sharing and value pricing remain difficult topics, and it's much easier just to charge hours,' said one

But a combination of greater realism in pricing by consultants (the result of the recession) and greater recognition by clients of the benefits to them of performance-based contracts is producing a slow, but substantial, sea-change. An unambiguous pricing structure remains essential: 'you have to be clear on the pricing structure and how hours will be billed or how the consulting project will be priced,' was a typical comment, but so too was the recognition that alternatives need to be considered. 'We weren't very innovative when we contracted with the consulting firm we hired,' recalled one client, 'and assumed that standard time and materials payment would be appropriate. We subsequently realized that a risk / reward arrangement would have been far more effective. It would have meant that we didn't need to be concerned about – for example – the time the consultants had off for training, because it was only the final deliverable that mattered.' 'Consulting is often accused of breaking the link between risk and reward,' commented another. 'In the old days, the risks were negligible and yet the rewards were still high. Where consultants have been forced to share the risks with the client, the job is invariably done better, and both clients and consultants work well together.' At the same time, many clients are wary of too much reliance on the contract. As one pointed out, 'unfortunately, with all the requirements and safeguards written into a contract, if the contract begins to "go bad", there's often no way to stop the downhill spiral. All the insurance and licensing in the world will not prevent the project capsizing. As the potential for larger and multi-faceted consulting contracts becomes greater, the probability that important issues get overlooked or ignored increases.'





# An agenda for change

## SECTION 3

Clients are remarkably consistent about the kinds of changes they'd like to see take effect in the consulting industry.

Top of their agenda is information: 'Consultants often look as though they're only too keen to regurgitate the latest solution or package, without trying to take into account companies' specific situations,' complained a typical client. 'This means there's a lot in the way of impressive presentations, but there's very little substance.' 'I want a better way to gain information about a consulting service without being bombarded by white papers and sales people calling me. I could spend all day doing this, but it would be nice to know what's out there,' said another.

It's recognized that it's not just the consulting firms who are at fault here: clients themselves have been insufficiently proactive in demanding better information. 'Clients should push more aggressively for reference sites and case studies, and then contact them,' argued one respondent. 'Most do not follow up on the references provided, although this is crucial if they're to be more informed and in control. I also think that consultants should be forced to be more honest about what they can't do. Expectations need to be clear on all sides.'

For some clients, market forces could resolve this problem: 'the market for consultants is competitive enough for no need for any form of regulation – it is, after all, a "reputation" business,' said one. Technology, too, may have a role to play: 'what we need is an accessible database of smaller / medium-sized consultancies which are better equipped to provide tailor-made solutions / advice,' said another. Many clients said they would welcome more opportunities to compare their experiences of using consultants: 'I'd really like to have the chance to see what other people have found,' was a typical comment.

Of the majority of clients for whom better information was a priority, most believe that some form of external validation is also required. The message is the same in both the private and public sectors. 'I'd like there to be some kind of third-party review of what consultants do, so that I can assess this without being hassled by sales people from the consulting firms themselves,' said one company executive. 'Being part of government means a document prepared for another entity can be shared with us without restriction,' said a public sector client. 'But most government entities do not have formalized performance reviews which makes in-depth comparison difficult.' Other clients saw the solution slightly differently: 'it would be immensely useful to have some sort of on-line marketplace for consultants, where we could identify the precise individuals we wanted to work with, rather than the

firm.' Most were simply interested in the outcome: 'we need to be able to compare different consulting firms on a more reliable basis,' is how one client summed it up.

As a corollary to this, many clients thought that consulting firms should be more open internally and between firms. 'Our consultants are most often hired because of personal networks ... A more open network would increase the number of consultants available to an organization. In order to achieve this, consultants need to think about their competitors as colleagues – something which represents a difficult transition.'

Item #2 on the clients' agenda is a code of practice to correct the distortion many clients see in which consultancies, under pressure to maintain the growth rates of the previous decade, are tempted to sell clients work they do not need and cannot afford. 'I'd like to see codes of practice,' said a private sector client, 'governed by a central but independent body and a method by which past experience and specific skills areas can be assessed and independently verified before a client commits to a particular consultancy.' The picture is the same so far as the public sector is concerned. As one client commented, 'we would hope that – within public contracting – there is some second party oversight built into each contract along with the professional licensing, and errors and omissions insurance which would either prevent or minimize that impact of any problems.' For most clients, this issue is a matter of ethics, rather than a call for the professionalization of consulting in legal terms. 'One of the lessons of Enron,' said one client, 'is that all consulting services need to be held to a consistent standard whether professional or not. The fact that an industry is professional or not is immaterial, faced with the potential for something like Enron happening again.' This client spoke for many when he linked what he saw as the lowering of ethical standards to the long-term reliance on the same team of consultants. 'There's always pressure to do more with less, a temptation to trust the consultants I'm already working with to take on more and more work. Clients should spread work around and limit the terms of service for a particular firm. One of the fundamental issues of stewardship is how we keep the honest honest.'

Many clients believe the professionalism of the consulting industry has been damaged by the way in which many consulting firms have responded to the downturn in the market. 'The consulting industry need an internal code along the lines of "do we still bring value to our client", if it's not to be seen to be preoccupied with its own survival,' commented a client.

Item #3 is accountability: according to one executive, 'consultants should have a similar level of professional liability as say lawyers, surveyors and accountants for their advice.' 'There has to be

greater recognition by consultants that they have a responsibility for the ultimate outcome of their work; rather than just for advice which may lead to an outcome,' said another. However, the underlying concern here is about clarity of ownership. As has already been noted, the vast majority of clients fully accept that there are consulting projects where the buck unequivocally stops with them. They also believe there are other projects where responsibility can reasonably and unambiguously be assigned to the consultants involved. Concern over accountability is therefore directed at those instances where accountability is unclear, where clients think consultants are ducking the issues – 'consultants should take more responsibility,' said one.

Lack of accountability rises in proportion to the number of variables in play. Ironically, when many people are looking at the very large IT projects and wondering whether these are capable of bringing down both client and consulting firm if they fail, these projects are unlikely to be the source of an Enron-style debacle – because accountability is clear-cut. They may result – indeed, they increasingly are resulting – in litigation where one party has not fulfilled its obligations. While they damage the reputation of the consulting firms involved, it's improbable that such cases would raise any systemic issues across the consulting industry: they would be (and have been) treated as acts of individual negligence. A more plausible scenario is that a less well-defined consulting project, which is both shown to have contributed to a corporation's demise and in which neither side has been clear about accountability, becomes the scapegoat and an illustration of an industry-wide failure.

However, most clients acknowledged the difficulty of realizing this. 'Accountability is complicated by the wide range of consulting services and the fact that many involve leading-edge knowledge,' admitted one executive. This makes it difficult to envisage codes of practice being applicable at anything other than the individual level: 'I'm not convinced that codes of practice will work very effectively with such a fragmented and disparate industry', agreed another. 'Consultants should be encouraged (forced?) to undergo some formal, professional training and to have more open peer/client review. The "Chartered Consultant" exists but ... I am not sure that the governing body for such a qualification has sufficient credibility within the industry. While many people happily accept that good consultants do not usually make good corporate managers, it also true that good corporate managers cannot automatically expect to make good consultants. More (objective) education is required for those considering life as a consultant.'

At the same time, clients were cynical of what they perceived to be reluctance on the part of the consulting industry to engage with this issue: 'consultants usually do a pretty good job of insulating themselves from failure,' was how one client saw it.

A clear agenda for change exists: the need for more reliable, externally validated information; a code of practice that provides clients with reassurance that consultants are genuinely – as they purport to be – acting in their clients’ interests; and greater accountability. However, the present inability to exchange information, a fragmented industry and intangible services all combine to form quite formidable barriers to translating these aspirations into a practical platform around which clients might congregate. But, without action from consulting firms on the concerns raised by clients, the possibility of an Enron-scale scandal haunts the consulting industry. ‘There is always some possibility of a high-profile project going badly,’ said one executive. ‘And, as we all know, the “court of public opinion” can convene quickly and render a verdict without all the facts, even before all claimants make it to court.’