

Is There an “Enron” in Consulting’s Future?

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If Enron wasn’t the first accounting scandal, how come it’s had such a significant impact on the accounting profession?

In his book *The Tipping Point*, Malcolm Gladwell identifies three factors that “tip” a small change into a big change, whether that’s an obscure book into a number-one best-seller or a few occurrences of a virus into a full-blown epidemic:

- The power of context—the timing of a change, which may be more or less helpful to its propagation
- Stickiness—the extent to which the impact of a change is lasting
- The law of the few—a small number of people behaves in a way that, intentionally or not, increases take-up of the change.

The impact of Enron’s collapse has been akin to a social epidemic, gaining the kind of media and watercooler coverage usually reserved for blockbuster movies: All three “tipping” factors have been apparent. It’s doubtful whether Enron would have riveted the world as it did had we not already been in a recessionary environment complicated by international tension and the threat of war. Massive corporate losses have happened before, but when Enron collapsed, it passed a point of no return. No amount of cost-cutting or restructuring could restore the damage done to those who worked there or who were dependent on the company’s fortunes. The “stickiness” of

Enron was also a result of the perceived corporate culpability. Similarly, revelations of alleged document shredding by Andersen decimated the firm’s reputation, not incompetence. Moreover, the Internet and the extensive business media have undoubtedly made it far easier for information on the circumstances surrounding Enron’s collapse to be disseminated.

Could the same scenario play itself out in the consulting industry? A year ago, audit clients would have laughed if you’d told them their world-class auditor would go out of business. Is such a denouement really so implausible among consulting firms?

The Power of Context

Surveying the anecdotal feedback from clients typically carried in the media, we might be mistaken for finding it nonsensical. Why are so many clients cynical about consultants, yet continue to hire them?

Questioning more clients in more depth, as I did as part of my research into the impact of Enron on the consulting industry, suggests that there are two distinct areas in which consultants do add value: on large-scale change projects where momentum needs to be created and sustained; and on specific, specialized areas where in-house expertise is scarce and a consultant has in-depth knowledge and a wider range of experience to draw upon.

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Conventional practices, not just ethical lapses, may place the future of some consulting firms at risk.

Against this backdrop, there are a multitude of minor criticisms, most long-standing, none a surprise to experienced consultants: Consultants are misused; they're short on new ideas; their suggestions are impractical; they tell you what you already know. To date, such carping has remained a strictly sideline activity, never gaining the critical mass to push it up on the agenda of more than the occasional, isolated client. But two factors suggest that this may not continue to be the case. The first is recession. Respect for consultants is often grudging: Most executives would prefer to use in-house resources; many see consulting as an evil made necessary by years of downsizing that have deprived them of the skills and resources they need. "It's been a numbers gain," commented one manager. "Consultants have allowed budget-holders to achieve their objectives while keeping fixed costs down." Economic downturn has exacerbated the problem: Not only are clients demanding better value-for-money, but there is also widespread resentment at the way in which consulting firms (despite recent layoffs) appear to grow at the expense of their clients.

A critical issue here is that no one really knows the value of consultancy: In the absence of any rigorous and far-reaching analysis of where and how consultants add value (whether—in hard terms—by increasing their clients' shareholder value or—in softer terms—by improving their management capabilities), hearsay has acquired the currency of fact.

The second factor is disenfranchisement. Many client surveys focus on the person who foots the bill, the all-important budget owner whose influence over the decision to hire consultants and the choice of consulting firm is critical. This approach concentrates on short-term issues—the current market—and in so doing ignores the fact that tomorrow's budget-holders are the people who, today, are working side-by-side with the consultants their bosses bring in. What senior executives perceive to be "momentum," "kick-starting" a large-scale project, or even specialist input often translates into disenfranchisement and disappointment among those actively involved.

Most clients feel that the value contributed by consultants is realized only with effective management from clients themselves. Where consultants succeeded, the consensus was that it was often in spite of the nature of the consulting industry, not because of it. "Always manage them closely," said one client. "They are there to contribute to your agenda, and you need to make sure it remains your agenda, not theirs."

Stickiness

Because clients believe that their proactive management of consulting projects is critical to determining success, it follows that they also believe that this is the main barrier to an Enron-scale scandal hitting the consulting industry. "I don't believe there could be an Enron-style episode affecting management consultants," said one typical executive, "since the implementation of a consultant's recommendations is always (even if by default) a company management decision.

This is very different from an auditor's scrutiny of accounts, which is meant to be independent, unbiased and [in adherence] to professional standards."

This does not, however, mean consultants are off the hook. Some clients simply don't accept the caveat emptor philosophy. Many believe that it would be possible for a failed project to generate Enron-like shock waves if it could be shown that the consulting firm involved had knowingly and deliberately sold work a client did not need or could not afford. The perceived risk of a consulting firm being able to circumvent clients' decision-making processes increases the greater the range of services a firm is trying to sell. This applies to the audit-consulting relationship that Enron threw into such clear relief. "Rather than any single event," said another client, "I'd see a scandal

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emerging from the exposure of dubious practices that have made consultants extend billable time with clients. This would destroy reputation and lead to loss of repeat business or failure of cross-selling.”

Clients also believe a scandal is more likely to occur the further removed the consultants are from the client's site or the more long term the relationship is. As one client put it, “there's always been the potential for something like Enron happening, always pressure to do more with less, always a temptation for clients to think they have a great firm on board, to trust them more and more, and to give them more work. Clients have to spread work around and limit terms of service.” “I do think [an Enron-scale scandal in the consulting industry] will happen,” agreed another, “and, to some degree, I'd welcome it, because the message to both consultants and clients needs to be hammered home. Consultants would be forced to think more carefully about whether they truly believe their own marketing speeches, and clients would be forced to take more control of consultants.”

The Law of the Few

For a failed consulting project to have impact similar to that of Enron, it would have to be seen as more than an isolated incident, as more than a single lapse of judgment by an individual consultant. As with the banks in the aftermath of the Wall Street crash, people would have to perceive a pattern. Similarly, broad public criticism is unlikely to drive change unless it finds a coherent voice, either in the form of a pressure group or via a small number of high-profile evangelists. History suggests that this is more likely to happen where the evangelists have a previous, complementary agenda and where the opposition that might otherwise lobby against change is divided.

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

Item #1 on their agenda is information. For some clients, market forces could resolve this problem: “The market for consultants is com-

petitive enough for no need for any form of regulation—it is, after all, a ‘reputation’ business,” said one. But, for the majority of clients for whom better information was a priority, most believed that some form of external validation was required. The message was 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 salespeople from the consulting firms themselves,” said one company executive. Other clients saw the solution slightly differently: “It would be immensely useful to have some sort of online 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.

Item #2 on clients' agenda is a code of practice to correct the distortion many clients see, particularly during a recessionary period, 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.

Item #3 is accountability: According to one executive, “consultants should have a similar level of professional liability for their advice as, say, lawyers, surveyors, and accountants.” “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 that may lead to an outcome,” said another. However, the underlying concern here is about clarity of ownership. The vast majority of clients fully accept that there are consulting projects where the buck 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

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accountability is unclear and 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 eyeing 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.

While clients acknowledged the difficulty of realizing this, many are 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 three aspirations into a practical platform around which clients might congregate. These barriers also account for part of the reason why no individual or group has become the standard-

bearer for reform. Many clients belong to user groups of particular software companies, but there is no equivalent for clients of consulting firms, and most feel the effectiveness of such groups would be seriously compromised by the need to protect confidential information. While understandable, this stance severely limits meaningful debate.

On the Edge of Tipping

So how close is the consulting industry to “tipping”?

Comparing the feedback from clients with the circumstances surrounding not only Enron but also other major business scandals strongly suggests that the consulting industry has reached a critical state. The stage is set: The only reason why the consulting industry has not been assailed by an Enron-style scandal has been a lack of either information or a small group of sufficiently motivated evangelists. If either of these circumstances change—if clients start exchanging hearsay about consultants more widely and openly and if a small number of people (the trade associations of particular sectors, for example) could see the opportunity to force change (and be credited for it), then the consulting industry has little to protect its collective reputation. ■

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