



HOLLYWOOD & ASSOCIATES

There's a lot of talk about acquisitions at the moment, which is hardly surprising when we've almost reached the point—certainly in the e-consulting sector—of buy one firm, get one free. But even the biggest players aren't immune to this kind of speculation—the last year has seen an almost continuous stream of one firm or another being sold or merged.

Conventional wisdom has it that size matters. But is the “megafirm” really the only option?

In order to answer this, we first have to understand the two primary motivations driving this consolidation: money and technology. Money—certainly at the moment—is the obvious rationale. Almost all smaller firms are having to cope with shrinking client demand. Most of them are finding it hard, if not impossible, to fall back on institutional funding to see them through a difficult period. Being bought out by a bigger firm goes some way toward guaranteeing the jobs of individual consultants, even if it obliterates their brand in the process. But cash is largely a temporary issue. At present, we're still experiencing the backlash to e-business hype—it has become fashionable to denigrate e-business, just as once it was fashionable to extol its virtues. But at some point in the future, there'll be the backlash to the

backlash, when no doubt many of the firms currently in financial difficulties will rise, phoenixlike, from the ashes.

Technology is a far more important matter: The relationship of a consulting firm to the technology its clients choose to implement is something that has an impact on its long-term survival. Part of the reason for this lies in the increasing “technocratization” of consultancy: You can't draw up a supply chain strategy, for example, without thinking of both the

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systems required to support it and the complex computer modeling tools required to optimize it. Similarly, can you prepare a really credible marketing strategy that isn't based on exhaustive analysis of consumer behavior data? Even in the highest echelons of strategy formulation, the software now exists to evaluate scenarios and to calibrate systems-thinking diagrams. Mergers between technology and consulting firms have benefits in clients' eyes, reflecting a long-standing

desire for more concrete outputs and for theorization to be linked more closely to implementation. There are advantages, too, on the supply side, from being able to bundle consultancy and technology together in the same package for a single fee.

The arguments for consolidation may sound compelling, but the strategy is not without its pitfalls. The first is that old chestnut of the consulting industry—objectivity. If a consultant works for a technology company, surely he or she will be under pressure to recommend the products irrespective of their applicability? But there's a clear trade-off here between objectivity and the level of expertise in a particular software the consultant provides, which is likely to be higher if the consultant works for the software company that develops it. In

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practice, therefore, the objectivity “problem” is largely overcome by clients using consulting firms in discrete roles: independent consultants for advice ahead of package selection; “tied” consultants for implementation.

Consulting firms themselves face a more serious problem: How do you integrate the skills of a very large firm? One of the key changes wrought by e-business on the consulting industry is the recognition that the whole is greater than the sum of the parts—that clients obtain more value from a consulting project in which the disparate skills involved are genuinely integrated than from a series of projects in which each skill is quite distinct. Before e-business burst upon the scene, a typical consulting project was sequential; the effect of e-business—because companies believed that the time-to-market was critical—was to compress this structure so that each stream overlapped. The attraction to clients remains immense. Integrated teams mean shorter (although not necessarily less expensive) projects. They also mean that that perennial weak link in the consulting chain—the transition from strategy (theory) to implementation (practice) is much less likely to be a problem because the same team that designed the strategy would be involved in executing it. Another benefit seems to have been the resulting quality of thinking. Just as companies were discovering that making links between different industry sectors could allow them to create whole new business models, so clients have discovered that bringing different people and perspectives together in an environment in which they could enhance and challenge each other’s ideas resulted in a better end product.

The problem for the consulting industry is that integration doesn’t always sit comfortably with large-scale acquisition. Logically, it should: What better way is there—on paper—of ensuring that clients can have access to the full range of skills they require than by bringing all

those skills together under one umbrella? But, in reality, many consulting firms have proved themselves to be just as divided into “silos” of expertise as the clients they advise.

Being able to field integrated teams was one of the key differentiators of the new entrants into the consulting market. As one partner in a new firm put it:

We don’t have a cultural legacy of rating one skill set higher than the rest—of divisively putting our strategies above our technologists and reinforcing this message by paying them more. We can treat everyone equally and ensure that every client team has to have a representative from each skills group.

Even established firms, quick to deride the contribution of the e-consultants in other areas, acknowledge the significance of this trend. According to one senior partner I spoke to:

E-consultants took a more creative approach to organizational design. They introduced new business models that the industry is still in the process of evaluating and assimilating. As with the development of any new product, there’s been an inevitably high failure rate, but that doesn’t mean that nothing of value has been left.

If we really want to maximize *client* value, I’d argue that the consulting industry needs to do more than this. Clients want consultants with different specializations to work together—they’ve discovered this is a very effective way of working, and that’s not something they’re going to forget. Consulting firms have responded in pretty much the only way they know, by absorbing potential rivals. In other words, most acquisitions are driven by competition, not by generating value for clients.

A different—and perhaps better—model for the industry would be collaboration.

After all, other people manage to do this. When a film studio has an option on a particular idea, it discusses it on and off with a small number of executive producers with whom the studio has worked in the past; at some point it makes a decision to make the film. A producer is hired who in conjunction with the studio and the executive producer appoints a director. While the director then takes charge of hiring the cast and filming, the producer pulls together the highly complex logistics that go into filmmaking—hiring the crew, finding the locations, building the sets, and so forth—as well as keeps control of the overall timetable and budget. The key feature about the way in which the film industry works is that a

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multitude of independent specialists come together for a short period of time with a specific goal (making a film). Some of these specialists play a very specific role and are involved only for a short period; others—like the director and producers—are involved from start to finish. Once the film is completed, the crew disbands.

Consulting is not so different. A client has an idea: It may brainstorm that idea with a small number of consultants with whom it has a long-term relationship and then hire a consulting firm to manage the development of the venture. This firm, in turn, orchestrates a whole host of specialist firms, each with a specific role. But, for the consulting industry to work in a structure similar to that of the film industry, consultancies need to know

where they fit into a more complex value chain, and consulting projects need to be more visible.

It's one of the reoccurring irritations of the consulting industry that the vast majority of firms that have expanded beyond the niche on which they were originally focused remains unclear about the precise nature of their intellectual capital. As one client I recently interviewed put it:

One of the main problems with the consulting industry is that people—clients and consultants alike—don't tend to think in terms of pure intellectual capital. The traditional unit in which you buy consultancy is people, and it's therefore hard to separate people from ideas. In fact, consultants make this even harder by being bad at articulating their knowledge proposition. What clients need to be able to do is to define precisely the intellectual capital they need and to be able to match this against the intellectual capital on offer from a given set of firms.

But the consulting-project-as-film analogy works only if consultants can feel confident that they will be given their due—that when a project is a success, potential clients can be made aware of the firm's contribution. Where consultants remain anonymous, they are

dependent on their input to the process (their brand), rather than their output (the results of the project). And a key difference between the film and consulting industries clearly lies in the profile of their respective output—in fact, it's

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hard to imagine two more different outputs. A film is publicized, it's highly visible, and every contributor—from the \$1 million-a-day diva to the animal trainer—gets a mention at the end. By contrast, a consulting project has typically been something that happened behind the scenes, cloaked in the mystique the industry has gathered around it. Most important, consultants have played the part of facilitators, not prime movers; the credit (and the blame) is all the client's.

Two factors are changing this. First, nothing has been as fast a means of gaining credibility as being able to say to clients “we did that,” and consultants

have for the first time been coming out from the wings to take a bow. Having found that taking public credit for successful projects represents a fast track to gaining credibility, consulting firms are likely to repeat the strategy when it comes to the next management bandwagon. Second, getting consultants to publicly ally themselves to specific ventures has advantages in clients' eyes as well. For decades, clients have been frustrated in their attempts to make consulting firms accountable for their actions; consultants have claimed many factors—the number of variables that affect an outcome, changing market conditions, the client's role in implementation, but ultimately the confidentiality of the client-consultant relationship—to avoid being held responsible for what happens. An environment in which consultants accept credit (and therefore can be attributed with blame) goes some way to resolving this issue.

Mind you, I guess we'd need to think through the publicity: “Business Process Reengineering III” or “Engagement: Impossible” may not set quite the right tone. ■

INDEXED UNDER:

Consulting firm, merger & acquisition;
Consulting firm, collaboration