



ARE THE COLLECTIVE ASSETS OF CONSULTING FIRMS ERODING?

For decades now, consulting firms have become increasingly corporate—some more than others, obviously, but the overall trend has been remorseless. Knowledge management systems, proprietary methodologies, and brands all have played their part in moving firms away from being collections of eclectic individuals and toward being corporate entities. There have been many factors behind this; for example: globalization, the need to create barriers to entry, and clients' demand for increasing speed of delivery—especially in the e-business context. But perhaps, if we're really honest, the most important driver has been the need to manage risk. Many an engagement has become unstuck because a prima donna consultant didn't think to check his or her approach with colleagues. "Corporatization" has been the key way in which consulting firms have tried to control the mavericks in their organizations, and its net effect has been to create a generation of consulting firms that are *collectively* risk averse. Like has attracted like: Risk-averse firms have recruited risk-averse individuals, making them even more risk averse over time.

However, while consulting firms have become more risk averse, business—especially e-business—has become much

less so. "There's less collective concern about risk," commented one consultant I talked to recently. "Clients accept that no amount of analysis can completely prevent the potential problems. They realize that they can't adopt the kind of comprehensive, linear planning process they have done in the past." Not surprisingly, risk-taking clients want to work with risk-taking consultants, not simply because they may be able to persuade them to share in the risk to some degree, but also because the cultural synergy will be greater. As the director of one of the new specialist Internet consulting firms put it:

We need to provide e-business clients with people they can follow. This is much more important here than in a traditional industrial hierarchy because e-businesses tend to be much flatter organizationally and need proportionally more people capable of leading small teams. Chains of command simply aren't appropriate in the digital age.

Some consulting firms, especially the strategic ones, see a massive opportunity in this environment. "It's been really liberating for us," said one senior partner at the Boston Consulting Group. "We're now much more able to challenge the

status quo fruitfully than we could ever do before: Clients are much more receptive. Issues they wouldn't have entertained previously—like collaborating with companies they viewed as competitors—have suddenly become major talking points."

For other firms, however, the prospect is an alarming one. While the new entrants into the market can be bullish, many established firms are finding the corporatism they've striven to build up may be a liability. Clients have always prized specialist knowledge, but venturers into the new economy are often also looking for people who can project certainty—people who have strong personal judgments for which they're prepared to live and die. As a result, we're seeing a surge of "charismatic consulting" in

FIONA CZERNIAWSKA is the founder and managing director of Arkimeda, which specializes in providing research and advice on strategic issues to professional service firms. She also lectures on e-business at London Business School, and on management consultancy at Kingston Business School in London and the School of Advanced Management Studies in Haarlem, Holland. In addition to her consulting and lecturing, she speaks and writes extensively on the consulting industry.

which an individual's vision and faith dominate.

I'd argue that this raises two problems. The first is the more obvious, but it's perhaps also the less important: You can't put the clock back. Consulting firms that have pursued the corporate route are going to find it hard to recruit the kind of highly individualistic people who thrive in this environment and impossible to "charismatize" their existing staff overnight. Too much has been invested over too long a period in creating structures and processes that constrain freedom of movement. While you can take these away, you can't take away the habits and mind-sets that they've engendered. The only option is to launch an entirely new organization with its own culture—as many consulting firms have done—which will eventually supersede the existing one.

The second, more significant problem is disintermediation. As individual consultants become more prominent, what added value is the collective firm providing to its clients? As far as clients are concerned, the answer seems to be *navigation*. "The power of these firms essentially lies in the networks they own," commented one senior executive. "If I want to reach the global expert in a specific area in a Big Five firm, I need help finding my way through all the possible options. But once I've identified the people with whom I want to work, the firm as a whole doesn't have a great deal to add." The consulting firm is essentially an intermediary, helping clients identify the right person or group of people with whom to work. Over the years, consulting firms—like other intermediaries—have tried to strengthen the hold they have over their clients by incorporating additional facets designed to increase loyalty:

- Quality assurance procedures aimed at raising the overall standard of engagement delivery

- Links to other organizations that reduce a client's incentive to look elsewhere for assistance

- Knowledge networks that enable a single consultant to bring the global brain of the organization to bear on the problems of a local client.

But if we've learned one lesson so far, it's that the position of intermediaries is

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very precarious. In fact, we're already seeing the value of the collective assets of consulting firms being eroded. Quality assurance is turning out to be less relevant in an environment that is simultaneously riskier ("We can't prove this is the right thing to do; we have to believe it is") and more quantifiable ("But at least we'll know precisely who's buying what"). Links to other suppliers are of dubious value if people are unconvinced by the quality of the end product. As one buyer of consulting services put it:

The idea of one-stop shopping is particularly unattractive. Clients aren't going to be satisfied with having second-rate services, just for the convenience of having them come from a single supplier.

Knowledge networks have fared better: Consultants clearly find it helpful to exchange ideas so quickly, and clients are clamoring to have access to them. But how much longer will this remain the

case? There are plenty of other sources of knowledge becoming available. Navigation remains, therefore, the primary reason why large corporations continue to use consulting firms: How else would they go about finding talented, prequalified individuals?

Some websites that are designed to help companies select consulting firms already exist (MCNI.com is one), but they are largely aimed at small- to medium-sized businesses and freelance consultants, rather than at large corporations or established consulting firms. There are, however, three good reasons to believe that even the largest consulting firms will be disintermediated in the end.

The first is classic economics: cost. Like other intermediaries, consulting firms earn their keep by charging a premium for their navigation services. Many of the overhead items that this premium is intended to cover—marketing, support staff, physical offices—represent the traditional means by which the navigation process has taken place. Promotional literature and events all help to raise clients' awareness of a firm's expertise; support staff field inquiries from clients; offices bring people together so they have some sense of who knows what. In today's world, these overheads look old-fashioned—the consulting equivalent of visiting an insurance broker's office or paying a travel agent a commission for booking a holiday. Both the financial services and leisure industries have been revolutionized by companies, like First-e or Travelocity, that have been able to use the Internet and Web-based technologies to significantly reduce processing costs and pass these savings on to consumers in the form of lower prices. The door is open—in fact, it's hanging off its hinges—for someone to use the same means to cut out the inefficiencies of consulting firms.

The second reason is perhaps a repercussion of the first: Processes can be

divorced from content. Companies that find they can perform a process significantly more efficiently than other players in the same industry are beginning to realize that their core competence may lie in the process itself—in the means, not in the end result. Thus Dell, which spun out a specialist consulting company in mid-2000, may decide that its real strength lies in supply-chain optimization, rather than in the production of computers. Separating processes from the “content” they contain will enable other companies to follow suit. In the consulting industry, firms face the same questions: Is their core competence putting together effective consulting teams or managing assignments? Are there other companies that are better equipped to take on the navigation role—search engines like AltaVista or Yahoo!, or news aggregators like More-over.com?

The same issue applies to the role of the consulting firm in quality assurance: Is this really a core competence of a particular firm, or is it something that could be handled more efficiently and more effectively by an organization that specializes in accreditation—for example, the British Accreditation Bureau, which

certifies the skills of individual consultants? In this context, it’s easy to see why most of the larger consulting firms have resisted the idea of formal qualification

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for consultants: Such a move would essentially remove an important part of their power base.

The final reason why the hegemony of the consulting “firm” is unlikely to go unchallenged for much longer has to do with information: its availability and accessibility. The consulting industry is a notoriously secretive one; but, while clients appreciate that much information about an assignment will be confidential, they’re becoming increasingly restive at the extraordinary dearth of

information about consulting services. The fact that many clients go to conferences in order to evaluate the consultants present shows that there is a demand for meaningful—and most important, *comparable*—information. It’ll only take one major firm responding to this unfulfilled need to change the rules for everyone. If, overnight, one firm significantly increases the information it publishes about individual consultants—their approach, their style, the types of projects on which they’ve worked—then other firms will have to follow suit. Once that’s happened, there’ll be nothing to stop another organization from taking that information and combining it with other relevant data—testimonials from clients, for example.

To my knowledge, nothing like this exists at present. Why? Because this information is the real intellectual capital of consulting firms, the family silver they can’t afford to give away. Without ownership of this information, consulting firms will cease to exist. ■

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