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Meet the MasterMinds: Fiona Czerniawska on What's Next for Consulting

Fiona Czerniawska is a recognized authority on the consulting industry. She has written six books, including *Value Based Consulting*, *Management Consultancy in the 21st Century*, and *Management Consultancy: What next?* She is founder and managing director of Arkimeda, a research and consulting company.

Czerniawska is also the Director of the Think Tank for the Management Consultancies Association (MCA), where she is responsible for research on trends in consulting. She is the Consulting Editor for MCA's journal, *Spectra*, and the Editor of the MCA Book Series.

She is a Program Director for the Centre of Management Development at the London Business School, and also teaches at Kingston Business School in London and Haarlem School of Advanced Management Studies in Holland.

In this interview, MCNews talks with Czerniawska about consulting, present and future.

MCNews: You have said that, in the future, the consulting industry could begin to look more like the film industry, with different firms and individuals collaborating on a specific project, and then going their separate ways. What are the implications of such a trend for the large and small consulting firms?

Czerniawska: I think this trend is the result of client pressure. Clients want greater specialization and a clearer view of what consultants do. It's also a result of changes to the intellectual value chain that is consulting: consultants continually have to reinvent where they add value and what kind of knowledge they create.

In terms of implications, I think we have probably come to the end of the era of consolidation. It seems ironic to say that when we have just seen, for example, PwC Consulting being bought by IBM. But I do think consolidation has come to kind of an evolutionary cul-de-sac.

This primarily has to do with the client's view of the value they get from the collective consulting firm. Clients have concerns that the consulting firm as an entity is much more motivated to sell consulting services than to act in the client's best interest. In an environment of shrinking markets and greater competition, these concerns move up even higher on the agenda.

I think the film industry model is going to happen as a result of that client pressure. For the big firms, it will mean soft branding their services. You can already see that with Accenture, for

example, which has talked about Accenture outsourcing and Accenture technology. That's the first step to soft branding. It's the first step towards breaking up an organization to focus on those particular areas in much more depth, rather than trying to support an umbrella brand that clients regard as increasingly untenable.

In theory, in the next few years, consulting could be driven more by collaboration than competition. That is, more cross working between different consulting firms, which hopefully will result in a better product for the client.

MCNews: By umbrella brand do you mean the consulting firm as a one-stop shop?

Czerniawska: Right. And, I think for the smaller consultancies, the future actually looks pretty rosy because clients like specialist skills; they like being able to understand exactly who consultants are and what they do.

MCNews: What does this industry transformation mean for consulting firms?

Czerniawska: What I hope it means is that consultants will focus more on clients, and clients will be more comfortable and assured of that focus. I think that the more sales-oriented consulting firms become, the less comfortable clients are with the nature of the services they are buying. This applies equally to large and small firms.

I am just doing report on the implications of the Enron debacle for the consulting industry, and have talked to lots of clients around the world about what Enron has done to change their views. I have not found radical change, but a sharper delineation of underlying concerns. One of those concerns is about the sales focus. Clients worry that consultants are trying to sell them things they really don't need. That was at the heart of the problems at Enron: people became greedy; they wanted to sell too many services.

MCNews: What are the implications of some of the larger firms taking on roles such as outsourcing, technology and operations?

Czerniawska: I think the consulting market is polarizing between two camps—the traditional advisory, independent firms and management services companies. That's got some very interesting implications because, first of all, is management services really defined by the professionalism and trust that we thought of as being inherent in the consulting industry? The management services side actually has much more to do with definable objectives, contracts and that kind of thing. I can't see how these companies can now talk about trust being important to them when they have moved to a model that is, in a sense, beyond trust.

MCNews: Is that because they literally have wares to sell?

Czerniawska: Exactly. So, it's not the same problem that the traditional consulting firms have had in terms of selling intangible services and the need to build relationships.

MCNews: What types of services do you think will be important in the future?

Czerniawska: I think one is about change management, organizational change. I did a survey on the European consulting industry a few months ago, which suggested that change management is a very big market that is inadequately addressed, and that clients are very concerned about consultants leaving them with projects the organization can't integrate or assimilate.

Clients are looking for more than just completed consulting engagements; they are looking for help with organization-wide change. There are people working on change but, for the most part,

they are niche consultants, independent consultants, coaches or mentors. It's small scale and fragmented.

In my view, there is absolutely nothing happening in terms of facilitating change across the total client organization. What do consultants do to reinvent an organization? Take the problem off the client's hands, which is about management services.

There is a gap in the market there, an opportunity.

MCNews: Do you think management services firms would have trouble integrating into their firms the types of consultants who could facilitate organization-wide change?

Czerniawska: Absolutely. I remember talking to a client about this and he said, you know, the problem is not so much to do with the consultants. It has to do with projects. You give a project a life of its own, objectives and a sense of identity. It's immensely hard to reintegrate that into the organization once it's completed. It's a bit like a lump of sugar in a sugar pot that's gotten damp. You can chip away with your teaspoon, but the lump of sugar never becomes the free flowing sugar it was originally. There are always hard bits that don't quite flow within the organization.

MCNews: With regard to branding and marketing, it's difficult to tell consulting firms apart. Any thoughts on how a firm can differentiate itself in the market these days?

Czerniawska: That's a sixty-five billion dollar question! To be fair to firms that have tried, it's an industry in which differentiation is very difficult because of its inherent homogeneity.

With something like soap powder, you can experiment with the chemical input or change the formula, but it's still soap. If you change the formula of consulting too much, it becomes something else, like management services. If you make consultants different and innovative enough to be exciting, maybe they don't look like consultants anymore.

So, it's hard, and I appreciate that firms have a problem finding a balance between being different while not being so different that clients won't accept their expertise. That being said, consulting firms have got to come to grips with this because clients do find it hard to distinguish one firm from another. And, that creates a reputation commons problem.

In medieval times, there were areas of land for common grazing. Because it was commonly owned land, nobody had the responsibility for making sure it was not overgrazed. As a result, everybody took advantage of it, put their animals there and they ate all of the grass.

The reputation commons problem for consulting is that there is a reputation for the industry in total, and the survival of all firms depends on it. Is consulting a good or bad thing in the public's mind? No firm has a mandate to protect that reputation because it's a collective resource.

We have learned from Andersen's part in Enron that, when one firm is severely damaged, it affects everybody. I think one way consulting firms can protect themselves from being damaged by future scandals is through differentiation. If one consulting firm ends up being engulfed in a scandal, the same brush will tarnish the whole industry. So it's imperative for firms to differentiate themselves because that is the only means by which they can put a barrier between their brand and the wider industry brand.

MCNews: How can a firm do that?

Czerniawska: I think it comes down to a couple of things. One has to do with the value of consulting input. It seems extraordinary that nobody really knows the value of consultancy.

Certainly in the Anglo-American economies, where companies spend huge amounts of money on consulting, there is a paradox: companies are simultaneously profligate and cynical. Consulting is seen as a necessary evil: the only kind of respect it engenders is grudging.

But there isn't enough information about what consultants do, and not enough open, honest evaluation of projects that worked really well and ones that didn't. That is driven partly by consulting firms who want to win work, but also by clients who don't want their decisions open to scrutiny. Clients want an easy life: if a consultant offers a panacea, however unrealistic, there's a temptation to say, fine, we will buy that.

So, I think the firms that differentiate themselves will be the ones that find a way of articulating and perhaps even quantifying the value that people talk so much about. Quite a few clients have told me that what they would really like for the consulting industry is some kind of rating system to help them make more informed decisions, to allow them to compare different consultants in a meaningful way.

MCNews: Wouldn't the consultant start to look like a consumer good?

Czerniawska: Yes, like dolphin-friendly tuna! You get labeling that says exactly what you are getting. Seriously though, that raises all kinds of questions, like how would you police such a system? I am not suggesting that it would be an easy route, but I do think it would set firms apart. Bain & Company has tried to do it by tallying their clients' performance against the Dow Jones, and showing that there has been, say, a thirty percent improvement. Of course, it's very difficult to work out whether the improvement is because of Bain's input or because they chose their clients well. But, it's a start, and a firm that is trying to address the issue might actually win more brownie points with their clients.

MCNews: *The Consultant's Scorecard* by Jack Phillips is about measuring the return on investment for consulting projects. Is that what you have in mind?

Czerniawska: I think that's the right direction to go. It would be good if a big consulting firm took the initiative and actually worked on a way to measure return on consulting investment. Get some academics involved, or whatever it takes to make sure it's rigorous and not just done in the interests of self-promotion. Then it could be used to force the industry to raise the bar on its own disclosure.

You would need something like Standard & Poor's for an objective evaluation. Otherwise, it's just a selling point. I am sure there is an opportunity for a firm to measure the impact of consulting, and to address questions like, what value does the corporate entity of a consulting firm add? Why bother coming together in an organization?

I think the rationale for some of those things get seriously questioned when you look at what the internet could do in terms of facilitating access between clients and consultants. The firm is really just an intermediary, a way for clients to find the right person for the right job. There is probably an opening for a professional intermediary between clients and consultants, sort of an independent contractor to connect people together correctly. That would be kind of like a Yahoo, a worldwide network of consultants.

MCNews: Moving to the subject of pricing, what are the pricing trends in the consulting market? Do you see value-based pricing taking hold at all?

Czerniawska: Nope. Value-based pricing has been talked up, but there are a whole lot of complications with it. And, both clients and consultants realize that when they start to get into it.

There is enormous pressure on price. It's like ten years ago with the audit industry, when we watched audit fees being halved every time an offer went out to tender. I suspect something similar is going on with the consulting industry at the moment. There is certainly a lot of discounting being done, and maybe it's even going to cannibalize some of the margin long term. It will be very difficult to claw that back once the boom times return.

MCNews: Because it's so hard to raise rates?

Czerniawska: Yes. What's interesting is that I have been just looking at a survey done here in the UK about pricing, and it suggests that consulting firms are far more worried about price than clients are. We always thought it was the other way around. But the research suggests that, for clients, price is just kind of there and, as long as it's in the ballpark that is okay.

Clients are much more interested in getting the most value for the price. The client might say we have \$100,000, what can you do for that? So, perhaps there is a bit of paranoia in the consulting industry at the moment that everything is about price, and we've got to keep cutting and discounting as the only way to win work. It would be more attractive from the client's point of view to focus on value. I am not talking about value pricing, but about the work done for the amount of money the client is spending.

MCNews: So, if a client says, we don't have the amount you are asking, should the consultant talk about reducing potential value, rather than cutting the price but keeping the same scope?

Czerniawska: Absolutely. There are two parts to the equation, value and price. Why don't they focus on how to increase value for the same price? That would protect their margin. It's interesting that people aren't trying to do that.

MCNews: You have mentioned that a lot of consulting firms haven't yet recognized the extent of the change facing them in the market. Are there any firms that do get it?

Czerniawska: I think the firm structure is part of the problem here. That structure gets in the way of the changes that need to be made to adjust to changing market conditions. The firm has to justify its existence. It goes back to the earlier points about sales, and also about the value chain. So, I think the firms themselves are preventing change. The firms that do get it are those that are reinventing the corporate entity, reinventing the nature of what a firm is.

MCNews: And maybe fragmenting along different service lines?

Czerniawska: Fragmenting, but also pushing the pendulum back towards the individual consultant rather than the collective firm. For ten or fifteen years, that pendulum has swung heavily in favor of the firm and the firm structure. I spoke with someone recently who pointed out that consulting firms have become too centralized. People think they've got to drive the organization in one direction, and that makes them less responsive to market changes.

The firms I see doing innovative things and trying to respond to the market are those that have found a balance between what they need to do collectively and what they need to do for individual consultants. That kind of balance between the whole and the sum of the parts allows them to be almost self-organizing so they can reduce the amount of management structure, reduce the bureaucracy. This allows consultants to decide for themselves what to do, but still provides the supporting tools.

MCNews: What about the firm that is migrating toward the management services concept? Don't they need to have standardization for delivery, consistency and quality, a balance somewhere between central control and distributed control?

Czerniawska: To be fair, there is probably no one balance or formula that will suit every firm. But I guess it's about awareness of the trade-offs that you make. There is something almost inconsistent between having a very robust, let's say, strategy and operations consultancy sitting side by side with a large-scale management services firm. They have different operating models and different management needs.

I don't mean to be saying to consulting firms, you should do this and you should do that. There is no single solution for everybody, but we need more informed solutions than we currently have. It would be good to raise the level of debate about this, and that's what I am trying to do.

MCNews: If you could give just one piece of advice to a leader of a consulting firm, what would it be?

Czerniawska: I'd say look for ways of proving the value that you add. I mean really proving it, not just talking about it. Invest in studies or bench marking exercises to really demonstrate that having consultants in the economy is a good thing. Make the case that it raises the economy's overall productivity to have these bright people employed in consulting firms rather than in industry.

MCNews: Thanks for your time.

To find out more about Fiona Czerniawska, her books, articles, research and services, visit www.arkimeda.com and www.mca.org.uk.