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Welcome to this December 2020 volume of the Management Consulting Journal. Not surprisingly, the impact of the covid pandemic looms large in this suite of research papers.

The volume opens with my summary of a masterclass presentation on the road ahead for the management consulting sector, prepared initially for the Institute of Management Consultants and Advisers, Ireland. The first full paper is Joe O’Mahoney’s insights into ‘How small consultancies grow’, which is based on his prize-winning submission at the 2020 Centre for Management Consulting Excellence (CMCE) research awards. This is followed by ‘Chief digital officers: what we know so far’ by 2019 CMCE prize winner Karl Warner. Carola Valenta and Graham Manville bring us ‘Rethinking the top-line and realignment of the bottom-line in a post-covid landscape’. We end with two short papers. Olga Matthias leads with ‘A tale of two firms’ and we finish with Mostafa Sayyadi’s ‘Ways consultants can help clients’ companies create a culture that thrives’.

This volume features several authors whose work has been recognised in the CMCE awards and it would be remiss not to acknowledge Olga Matthias and Graham Manville, who with Julian Campbell were 2020 finalists for their book ‘Management consultancy insights and real consultancy projects.’

Thanks, as always to my colleagues on the editorial board and to all contributors. Papers from researchers and consultants for our 2021 volumes are invited. Stay safe

The email address for future submissions: simon@consult.co.uk

Author guidelines and a submissions template are available on the Journal site http://www.iconsulting.org.uk/news-and-interact/management-consulting-journal

Prof. Simon Haslam
Founding Editor
Management Consulting: The Road Ahead

Summary of the masterclass presentation to IMCA, November 2020

Professor Simon Haslam CMC

This is a view of the $150bn global management consultancy industry, abridged from a masterclass presentation given to the Institute of Management Consultants and Advisers in Ireland in November 2020. The paper looks forward and explores the implications of current sector dynamics. It is structured into two sections: the global management consulting market, and the implications for consulting business models.

The Global Management Consulting Market

COVID Impact

Reflecting on the 2013 Clayton Christensen paper ‘Consulting on the Cusp of Disruption’ the management consulting sector has experienced more disruption in the past seven months than in the previous seven years. We’ve seen a Covid-related reduction in the worldwide management consulting market size by on average 13%. In some developing economies, the sector has reduced by about 20%. At the moment, nearly everything in consulting is virtual. People are expecting an eventual bounce back in terms of market size, but this is forecast to continue. Financial services, energy, sustainability, pharmaceuticals and health are buoyant markets. There’s also an acceleration in areas such as data and digital, and cybersecurity. Consulting related to the pandemic, such as risk, governance and organisational resilience are on the ascendancy too.

Underlying Trends

There is an underlying dynamic around the maturity of ‘management’ which is changing the management consulting sector. The growth of business schools and the size of the MBA population means a broader comprehension of management practice. The heady days of naïve clients leading to high margins in the consulting sector are long gone. Clients are sharper and more demanding, and we can expect this pressure to rise. Associated with this is the growing gap between ‘standard’ consulting services and specialist interventions. Clients use consultants for two main reasons: one - clients know exactly what to do but haven’t got capacity; two - clients don’t really know what to do and need help. The former, body shopping and commodity services, is under the greater pressure. If a consulting firm has a ‘secret sauce’ and brings insight, expertise, or process skills, the future is brighter. The importance of avoiding commoditised consulting has never been higher.

Bright Spots

There has been growth in some areas of consulting, and this is forecast to continue. Financial services, energy, sustainability, pharmaceuticals and health are buoyant markets. There’s also an acceleration in areas such as data and digital, and cybersecurity. Consulting related to the pandemic, such as risk, governance and organisational resilience are on the ascendancy too.

Implications for Consulting Business Models

Super Niche and the Signature Service

There is a progressive shift in the sector away from billable hours (time and materials) as a charging mechanism, toward the tangibility of consulting as price-bound products or outputs. This productisation enables consultants to make more concrete proposals to clients and to do so without depending on face to face selling. For smaller consulting firms, a compelling recipe is away from general management consulting and towards ‘super niche’. In this approach, value propositions are very focused and relevant (only) to specific sub-sets of the market.

To commercialise ‘super niche’ it is helpful for firms to consider what Consulting Mastered Ltd describe as the ‘signature service’, which is a commercially attractive sweet spot in the market. For a consultant this is a melding of three things: what she/he loves doing; what she/he is fundamentally good at; and what the target market truly values. When the signature services is clear, the task is then to translate it into a communicable and digestible ‘opening sell’. This is the entry product and ideally the client’s first step on the pathway into full signature service.

Thought Leadership

In the words of consulting specialist David Fields, when it comes to networks and networking, it’s not who you know, it’s who knows you. Thought leadership and being known for something hopefully sits at the core of the signature service. Thought leadership in consulting has four qualities: it needs to be novel (not necessarily to the world but to the target market); it needs to be robust and ideally research based; it has to be relevant to the market in question; and it should lead to a commercial proposition. The investment in pursuing a thought leadership strategy carries risk. Sometimes consultants are reluctant to take this path, worried about intellectual property leakage and being plagiarised. Experience seems to suggest it might be more useful to acknowledge these risks as costs of doing business, with the emphasis on the two words ‘doing business.’

The Digital Twin

The term ‘digital twin’ should act as a reminder that the more consultants engage with clients and markets through the web, social media platforms and e commerce activities, the more they are building a virtual personification of themselves. Consultants are advised to consider the degree to which they present well to the virtual world and there is the scope for stronger practice in this area. Few seem to have had a digital audit of their proficiency around LinkedIn, websites, Twitter, and broader social media activity. The future probably does belong to those who show up. And heading forward, this is going to be more in the virtual world than the physical one.

Rise of the Freelancer

The general estimate is 20% of the value of the management consulting market is in the hands of solo practitioners. Consulting has been recognised as a long tail profession with few large firms and a multitude of micro enterprises. And the tail looks to be growing.

This growth is, in turn, stimulating the rise of mechanisms to make the long tail more efficient and commercially fruitful. We’ve seen the growth of portals by which we can interact with other freelancers: Upwork, Comatch and Talmix are three examples. There are also portals that enable the creation of a ‘virtual firm’ – no office, no permanent HR of scale, but a brand and virtual presence plus a client journey. The question for many freelancers in this changing world is whether they themselves become the product.
TECHNOLOGY-ACCELERATED EFFICIENCY
The Learning Curve effect reminds us of the human tendency to become more efficient. Whether served by natural curiosity or the principle of least work is immaterial, the characteristic is prominent. The ascendancy of digital technology gives consultants the opportunity to accelerate their learning curve gains in efficiency, which ultimately translate to gains in margin. The mechanisms to do this are many and growing: diary scheduling, virtual assistants, globally-sourced specialist services (e.g. freelancer.com), scheduling tools, data analytical tools, transcription tools etc. The shift in the nature of work is both encouraging and threatening in this respect. A view is that while only 5% of jobs will be eradicated by automation/robotics, 50% of work-placed processes will be replaced. The implication for consultants is that they are likely to have a future role, but this will be fundamentally redesigned.

CONSULTING AS WELL AS...
The final comment on the consulting business model is about organisational resilience and risk mitigation via business model diversification. Many consultants have understood the need to diversify their client base as a means of risk mitigation, but as the pandemic experience has shown, several businesses have suffered through too narrow a business model in the first place. The way forward for many consultants is probably parallel business models rather than a single one. If you’re the smaller consulting enterprise, this could mean coaching activities, a training business, accredited personality profiling, academic work etc. If these activities are healthily mutualistic, so much the better.

IN SUMMARY
Despite catching a (13%) downturn this year, management consulting is a massive market. Change will favour those firms living in the bright spots and who embrace technology as part of their service delivery.

The future may also favour the consultant who can generate value as the bee in the flower garden. She/he can move between flowers, gathering and pollinating. A consulting firm can’t pollinate the world, so the choice of garden lends itself to service specialisation. Super niche looks to be the order of the day.

The term ‘freelancer’ probably fails to describe the skillset useful for future success in the consulting world. The requirement looks to extend way beyond the ability to ‘deliver’. The label ‘solopreneur’ plays more to the ability to see opportunity in change and grasp the flow of markets. Not only to be skilled at delivery but also to frame, position and communicate consulting value propositions as part of a resilient overall business model is vital.

INTRODUCTION: SUCCESS IN SMALL CONSULTING FIRMS

The growth of SMEs is fundamental to a healthy, vibrant economy. Indeed, as Albaz et al. (2020:5) argue, ‘better understanding and improving the SME ecosystem (by) enabling the growth of SMEs’ is a central part of solving the productivity gap in many countries. Small management consultancies, which represent 97% of Western Europe’s consulting market (IBIS 2020), are a crucial part of this ecosystem and the growth of small consultancies is around 20 per cent on anum - four times the rate of the largest consultancies and their numbers are growing at around 10 per cent a year (compared to negative growth of large consultancies) (MCA 2019). In terms of market size, employment and impact, small (0-50 employees) management consultancies (SMCs) are a growing driver of economic activity.

Understanding the success potential and barriers of SMCs, therefore, is of central importance not just to owners and investors, but also to government policy makers interested in productivity. However, the vast majority of research on consultancies focuses on the multi-national end of the market: the Big four, strategy consultancies, and large system integrators (e.g. O’Mahoney 2013; O’Mahoney & Sturdy 2016). Even within the research on small consultancies, studies on the conditions of success for firms tends to fall between personal monographs or single-case-studies (interesting, but ungeneralizable) and sector-level or institutional studies (useful for government policy-makers but not for owners or investors). However, despite the importance of growing smaller consulting firms to the wider economy, there are few evidenced-based studies of the growth of small consulting firms. Given that 45 per cent of small management consulting firms fail within their first five years of operations ‘it is surprising how little empirical research has been conducted in this field’ (Reihlen & Werr 2015:22). This paper seeks to begin addressing this absence.

Academic studies that have examined the growth trajectories of Professional Service Firms (Greiner & Malernee, 2005; Masul & Van Montfort 2006; Witmeur & Fayolle, 2011; Empson, 2012) tend to follow Greiner (1972) in identifying a multi-stage growth model which identifies a number of key stages in a firm’s development and highlights the periodic ‘crises’ which prompt movement to the next stage (for example, Empson 2012). However, ‘problem-based’ approaches have traditionally been criticised for being deterministic, teleological and generalised (Geroski, 2002; Rutherford et al. 2003; Phelps et al. 2007). Moreover, many of these studies are now dated and potentially miss out on the potential for digital technology to address the challenges that firms face or indeed the significant growth in consulting experience that is a feature of the 21st century (Sahlin-Andersson & Engwall 2002). This paper concurs with critiques of many multi-stage growth models that they can miss out on the micro-level challenges and adaptations that many small firms face, especially those that are highly successful (i.e. generate significant, sustainable, long-term profits for their owners). Achieving this is rare for the new solo or independent practitioner and usually requires some form of growth into a firm that has value beyond its founder (Mainz 2012).

To this end, the paper examines firms that began as solo practices, have grown and then been sold (usually to larger firms or to private equity)!. Specifically, we seek to identify the common challenges and solutions that founders experience in creating a ‘saleable’ company. Using in-depth interviews with 42 founders who sold their companies, this paper makes two contributions. First, empirically, using in-depth interviews with 42 founders who grew and sold their consultancies, the paper identifies five common barriers to growth and how these were overcome. These are: cash-flow; client acquisition; recruitment; the complexity of operations; and governance strategy. In each case, the challenges are outlined, and the tactics deployed by the consultancies to overcome these are detailed. These represent the empirical contributions which will be most relevant to management consultants.

Second, theoretically, which will be of more interest to academics, is that the paper finds no evidence to support the ‘problem-based’ theory of growth for small professional service firms (Empson 2012). Instead, the paper finds that most interviewees actually anticipated crises and made necessary changes in advance to their governance, structure and policies to avoid unnecessary disruption. The paper argues that the cause of the failure of ‘problem based’ theories for small consulting growth is threefold. First, it is based on inadequate evidence. Second, it does not take into account the proliferation of consulting experience and education over the last twenty years which has created more experienced founders. Finally, it does not consider the significant enabler of digital technology to consulting growth, especially in the form of software called Professional Service Automation. It is argued that this minimises some of the problems which earlier analyses argued causes crises for PSFs.

The paper progresses as follows. First, we examine the literature on the successful growth of SMCs, highlighting the limited amount of work and potential themes of interest. Specifically, the paper highlights concerns with the dominant ‘problem-based’ theory of growth. After detailing the methodology, the findings first provide some narrative on the typical lifecycle of such firms, and then identifies five challenges that were common across SMCs that were sold, and the various strategies taken in overcoming these. In the analysis, these challenges are contextualised within the current literature and it is argued that problem-based theorising needs to be amended. Finally, potential research opportunities for improving on problem-based theory are detailed, as are opportunities for better understanding the growth challenges of small consultancies.

LITERATURE REVIEW: THE LIFECYCLE OF SMC GROWTH: CRITICISMS AND OPPORTUNITIES

The risks and rewards of small consulting firms are highly polarized. Forty-five per cent of small management consulting firms fail within their first five years of operations (Knap 2005), yet the market growth of the sector is around 20 per cent and their numbers are growing at around 10 per cent a year (compared to negative growth of large consultancies due to consolidation) (MCA 2019). Most consultancies that survive the first five years pursue a ‘business as usual’ strategy, remaining very small or taking on one or two people, whilst a minority seek to grow, often with a view of selling the firm in the future (SBA 2006). The end-goal of selling the firm is often ignored in studies of PSF growth, which is an odd absence, as the requirement of the buyer very much influence the strategies and practices of the firms that wish to be built. Indeed,

*Growth, sale and exit is not a perfect proxy for success as some successful firms choose not to sell or incorporate in their own right (Greenwood and Empson 2003). However, such firms generally require a similar growth trajectory to those that are sold, and experience similar challenges. More generally, ‘success’ might rightfully be framed in different ways (the ability to work on what you enjoy or spend more time with the family). However, we argue later that the firm that is ready to be bought is also a firm that allows the owner to achieve these goals, whether or not they sell.
there is a small industry that has grown over the last decade specifically advising growing consulting firms that wish to be bought (see for example, Equiteq). There are few credible academic studies concerning what makes a difference to the growth of small consultancies. A review in 2014 concludes that ‘it is surprising how little empirical research has been conducted in this field’ (Reihlen & Werr 2015).

Most studies examine success factors in large consultancies (e.g. Bettencourt et al. 2002) or focus on interesting academic themes which are not specifically linked to growth, such as controlling high-trust creative employees (Winch and Schneider, 1993; Zucker 1991), the ambiguity of the consultant-client relationship (Ram 1999), or knowledge management (Lawendahl et al. 2001). Where growth (or ‘lifecycle’) is studied, work tends to follow variations of Greiner’s (1972) classic model of the stages of organizational growth, which emphasises different stages of growth punctuated by associated crises which prompt new organisational forms.

Greiner argues not only that specific solutions to the challenges of a phase cease to be appropriate as the firm grows, but also that leaders are generally slow to recognise the need for change until the challenges turn into acute problems. There has been significant critique of the lifecycle model of growth generally (Becker et al., 2015; Delmar and Wiklund, 2008) as overplaying the biological model, being teleological, and often lacking substantial evidence for each stage of the argument. Levine and Lichtenstein (2010:317) show that there is ‘no consensus on basic constructs of the approach, nor is there any empirical confirmations of stages theory’.

In the context of PSFs, adapting Greiner’s theory, Empson (2012) follows his general arguments concerning crises and founder resistance to change. She constructs a multi-stage model for firm governance in which the first crisis occurs for founders who have recruited senior professionals who eventually ‘expect an increasing involvement in the firm’s decision-making processes and share of the profits’ (p.15). The resolution to this crisis is a ‘collegial’ form of governance whereby founders surrender both control and equity to satisfy the demands of senior managers. The next crisis is prompted by the growing complexity in the firm that strains the efficiency of collegial decision-making (i.e. several partners co-operating through consensus) and results in disorganisation. The solution is found in governance through committees, until the next phase of growth, which leads to a crisis of frustration, and so on. The subsequent stages Empson (2012) identifies are not that relevant to this paper as they focus on the first stage only. Yet although Empson (2012) suggests that the process of evolution is more complex than Greiner suggests, she represents the sequences as necessary to avoid failure (at least in her sample). The subsequent model is teleological. To this end, one of the cases presented (‘BoutiqueCo’) is presented as a failure (‘organisational death’) for not achieving the Collegial phase, despite later being sold to a larger consultancy - presumably based on sustainable future profits. Moreover, whilst this model makes several assumptions about small consultancies, Empson included only one small consultancy, which employed 30 people (personal communication with author, 2020).

One limitation of this model (and others) is that it represents the governance, structure and decision-making of the firm primarily as a function of its size (and therefore its complexity). Moreover, it makes three related assumptions (again, following Greiner) that perhaps are rooted in a period when entrepreneurialism and, indeed, small PSF experience (and perhaps management education more generally), was not so common: first that founders are generally ignorant of and surprised by the challenges of growth; second that founders are jealous of their power and authority; and third, that time spent on management administration (controls and co-ordination) represents a serious challenge to the success of consultancies. There is good reason to question these assumptions. Concerning the first, it is now commonly argued in the consulting literature that management knowledge, and more specifically, consulting expertise, is no longer a rare commodity (Sahlín-Andersson & Engwall 2002; Sturdy and O’Mahoney 2018), and thus with the proliferation of consultancies, consultancies for consultancies, business schools, and consulting experience, it might be argued that ‘crises’ are more predictable and manageable by founders than they were twenty years ago. This insight links with the observation by Phelps et. al (2007:11) that it is desirable to study ‘sets of problems not linked by sequence, and [also study] the organizational capabilities to absorb and utilize new knowledge to address these problems’. In short, Empson may have identified a problem that no longer exists for many founders.

Concerning the second point, there is little to no evidence that founders jealously guard their equity or power, especially in the face of having a slightly smaller stake in a much larger pie. Indeed, more widely, Phelps et al. (2002:7) argued, ‘support for a clearly identified set of problems that pertain at different stages of an organization’s life...is limited’ (Phelps et al. 2007:7). Concerning the third point, developments in digital technology, especially concerning ERP systems, process automation, and management information systems now offer small firms the ability to cut time spent on management tasks. For example, SPI (2019) found the use of Professional Services Automation (PSA) – integrative software to manage administrative processes for firms, increased revenue per project by 50%, primarily due to the time freed up for additional billing. Whilst PSA was available in 2012, when Empson was writing, it was highly expensive and only used by larger firms.

In summary, there is good reason to question the lifecycle and problem-based approaches to growth both generally, but also specifically in the context of professional service firms. There is also a need for detailed empirical evidence about the specific challenges encountered by firms at specific stages of their growth. To this end, the paper seeks to understand the challenges of growth in the first stage of growth and explores ‘what crises small consulting firms face when growing and how this impact growth’. 
METHODOLOGY
Exploring the relationship between the crises of growth and their impact upon firms is an exploratory and explanatory research challenge. The research undertaken therefore was exploratory, qualitative and assumed a loosely critical realist meta-theory - using induction and abduction to move from data to analysis (O’Mahoney and Vincent 2014).

The methodology identified 42 small consulting firms that had started in the last fifteen years and had grown from founder(s) to a minimum of 19 people (max 173). Firms were selected which still had the founder as CEO so that a continuous narrative of the firm to date was available. Firms were eliminated if they were more than fifteen years old because the founder may not have remembered challenges from much further back. Over 150 firms were contacted, and 42 interviews were granted. We held semi-structured exploratory interviews with the founders of all firms, for an average of 66 minutes. Interviews covered questions such as:

• The growth of the firm in terms of finance and staff
• The drivers of growth internally and externally
• Periods of stagnation
• Any challenges or crises that occurred
• The impact of these challenges and crises on growth
• The response of the firm to the challenges or crises

As interviews progressed, common themes were identified and prompted additional questions around specific topics which are identified in the findings. These interviews were transcribed and coded, and data were inducted into themes and abduced in reference to the literature in order to identify (i) the challenges and (partial) solutions to these challenges, and (ii) how these related to growth.

In addition, 3 interviews were held with Directors at Professional Service Automation companies as these appeared to be important in the growth of SMCs and the author wished to gain a deeper understanding of how they worked.

FINDINGS
The findings in our sample suggest that expertise available to the Partners of growing firms, either of founders, consultants, mentors or IT systems, meant that they did not experience ‘crises’. To a great extent, impending crises were overcome before they happened through strategic decision-making which translated into specific actions that anticipated strains on the firm. This is not to suggest that the governance, structures, processes and systems of the firms did not alter as they grew but that these were adopted proactively rather than reactively in response to problems.

We first identify five common challenges that the consultancies experienced when they grew, and the ways in which our sample overcame these. We then move on to explore specifically the question of whether these challenges caused crises which changed the firm.

FIVE CHALLENGES OF GROWTH

CASHFLOW
A common challenge faced by 29 of the consultancies was the challenge of growth vs. cashflow. In the words of one founder ‘you’re in a Catch-22: you can’t employ people until you land large projects, and you can’t land large projects until you’ve employed people’ [F1]. At its heart, this is a challenge of capital. Assuming no holidays, a newish solo consultant has around 250 working days of which up to 50% will be spent on business development, administration, and company set-up. Even if all those 125 days are billed to a client at £800/day, the solo consultant is left with revenue of £100k. Whilst this sounds far from the breadline, after tax, operational costs, insurance, pension contributions etc. this will often leave the consultant with around £50k, which is rarely enough to employ another consultant. The challenge is made more challenging by the cashflow situation in most small firms: ‘most clients will pay a small amount up front, but the remainder of the payment will be up to three months after the end of the project.... Then you get the odd client that just doesn’t pay’ [F12]. In short, significant growth from cashflow is a real challenge for small consultancies.

The challenge of capital for growth was overcome by successful consultancies in a variety of ways. Note that these points are not exclusive, and most consultancies did more than one. First, all but two of the consultancies either started as joint partnerships or took on partners within the first two years of operations. These partners were generally people they had worked with previously or had studied (typically an MBA) with. In two cases, the partners were spouses. This helped solve the cashflow issue as there are economies of scope and scale when working as a partnership, and joint profits can more easily fund additional resources. Second, ten of the consultancies gained start-up funding, either from a larger consultancy that was interested in purchasing them later, or through private equity that took a stake in the company. In all cases, the founders were experienced, successful and highly networked consultants, and in half of these cases the founders had been involved with starting and selling consultancies before. Third, several (13) consultancies did grow from cashflow outsourcing their administrative tasks to free up billable days. Their first hire was usually an administrative assistant, sometimes using an outsourced service, but more commonly by hiring someone for an increasing number of days as the business grew. As assistants grew more familiar with the business, they frequently undertook more complex and business critical tasks. In the words of one founder, ‘an additional day or two billing a week might add up to £80k in revenue’. Finally, several consultancies mentioned using early tactics to increase revenues and improve cashflow by charging a greater percentage of the project up-front, two billing a week might add up to £80k in revenue’. Finally, several consultancies mentioned using early tactics to increase revenues and improve cashflow by charging a greater percentage of the project up-front, raising their prices, saying no to problem clients, and assuming a loosely critical realist metatheory – using induction and abduction to move from data to analysis (O’Mahoney and Vincent 2014).

The primary method of achieving client growth was delivering high quality work and then publicising this in the form of testimonials and case-studies. Whilst it is not surprising that consultancies claim to be delivering high quality work, most had an explicit strategy early on of ‘going beyond contract’ [F13] in order to generate levels of satisfaction that would lead to repeat business and useful referrals. This was often supported by various awards (for example from the Management Consulting Association) for successful projects which acted as both signals to the market, but also as benchmarking for say, innovation, workplace quality, or project quality. More strategically, as they grew, many consultancies focused on ‘expanding the matrix’ [F20]. That is moving into adjacent industry segments or service lines that would allow cross-selling. One consultant (unsurprisingly) drew a 2x2 matrix with ‘services’ on one side and ‘industries’ on the other. He intimated that as the company grew, the matrix grew into a 4x4 matrix, with the advice that ‘for some consultancies, it makes more sense to stay in the same industry – say, the health service – and focus on expanding services, whilst with others, it makes more sense to focus on specialist services, but replicate them in several different industries’.

The impact of these challenges and crises then move on to explore specifically the question of whether these challenges caused crises which changed the firm.

CLIENTS
Consulting is a demand-driven industry, and there is no growth without a corresponding increase in sales. Virtually all the interviewees reported that they began with ‘clients in hand’, that is, they took clients with them from their previous employment, had a significant network ‘friendly’ to business development advances, or had even won a project before starting-up. Although such business is useful for starting up, it cannot be relied upon to generate growth. Indeed, small new consultancies face significant challenges ‘not only in time investing in business development when [they] really need to be billing the client’ [F6], but also ‘having to displace incumbents that already have a presence in clients’ [F8].

exploring the relationship between the crises of growth and their impact upon firms is an exploratory and explanatory research challenge. The research undertaken therefore was exploratory, qualitative and assumed a loosely critical realist meta-theory - using induction and abduction to move from data to analysis (O’Mahoney and Vincent 2014).
conversations or contacts that led to sizeable contracts often at crucial junctures (for example the 2008 recession). Interestingly, there were three points of contrast with most ‘popular’ advice to small consultancies. The first concerns fees. Most advice to small consultancies by self-styled ‘gurus’ (see for example, Sam Ovens, Taki Moore or Russ Ruffinio) is to raise prices, ideally by negotiating project fees by value (value-based pricing) rather than day rates. Yet among our sample, value-based pricing was relatively rare because ‘there is only limited appetite for this’ among clients... [F9] and it ‘only suits certain types of projects and certain types of buyers’. Project-based pricing was more common. Moreover, most of those interviewed estimated that their day rates were average or lower than average, at least for the first few years of their operations. Even once established, most interviewees choose to use their stronger position to turn down work that didn’t align with their strategy rather than raise their prices significantly.

**EMPLOYMENT**

With small firms especially, when methods or products are rarely significant assets, people are (for once) a firm’s greatest asset and its best guarantor of quality. Yet, why would good consultants want to work for an unknown firm when the likes of McKinsey & Co. might beckon? Moreover, why should a good consultant stay if they are not being promoted or given equity? By far, the most common theme that firms reported helping their people strategy was around culture, values and narratives. A common culture and values were held as central in ensuring smooth growth in the firm, defined by one founder [F22] as ‘what is done when the boss isn’t looking’. Many echoed the sentiment of F3, that ‘your first few hires are absolutely crucial in setting the culture of the company... The time I recruited the outstanding person who didn’t fit our values, it came back to bite me’. Another added ‘Even before the company started, [the co-founder and I] had a list of things we would do, and a longer list of things we wouldn’t do’. What the values were seemed less important than the fact that they were embedded in the recruitment, promotion, evaluation, training and communication efforts of each firm, and that people who didn’t adhere to these were often managed out. This said, a commonly mentioned value was openness. Many founders concurred with F8 that ‘because you’re dealing with bright, ambitious people who easily find jobs elsewhere, you must keep them involved, and not do deals behind their backs’.

The narrative of the firm generally concerned its story: ‘it’s about why we do what we do, how we do it, and what our ambitions are’ [F3]. One founder said that their narrative and culture allowed them to compete with the big names when it came to recruitment, as they could promise ‘challenges, growth and people development, based on a one-to-one relationship between partners and recruits’. In this case, the narrative they created around their size became an advantage in recruiting exceptional IT talent straight out of Universities.

At a senior level (which firms tended to recruit first), consultants tended to either be known to the firm – often, but not always, acting as associates before they are taken on. A few (6) consultancies had merged with other consultancies, but all did so in a very gradual way. A typical story was F10: ‘we became aware of an aligned consultancy that we often passed work to, and vice versa.... Eventually, we ended up sharing some office space and [then] working on projects together, before creating a joint venture that eventually became the new company’. This ‘slow courting’, as F30 put it, was crucial in finding companies that were not just aligned in the market, but also in terms of values.

**PROCESS**

Most firms reported a ‘tipping point’ at between 15-20 employees when levels of complexity meant that they needed to systematise their operational processes. This not only included reporting but also (in fewer cases) methods and services that became more ‘commodified’ or ‘productised’. Several interviewees commented that this point was the most important in their company’s growth, with one founder summarising the sentiment that ‘once you have these processes in place, it is really a matter of scaling them...’ [F18]. Another commented that ‘in terms of growth, nothing is as difficult as the period when you need to move from using several spreadsheets and apps to an integrated system’.

To take reporting first, all firms reported implementing some form of Professional Services Automation (PSA) software, such as Kimble or SherpaDesk. These applications provide integrated systems for reporting and workflow management for project management, people management, marketing, pipe-line management and billing. Interestingly, it is only in the last ten years that PSAs have been affordable for smaller consultancies, and their impact on these firms has not been studied in any depth by organisation and management scholars. Yet, they had provided a significant impact for two reasons. First because they take much of the operational growing pain away by providing a single and integrated workflow management and reporting where, for example, pipeline requirements related to business development were linked to recruitment decisions. Secondly, PSAs are developed from the feedback from thousands of PSFs, and thus provide ‘best practice’ guidance for founders concerning workflow, key performance indicators and project management. Two quotes illustrate this:

- [The PSA] is great – it does everything, but you don’t need to use everything. You use more of it as you grow. Like, we now measure around fifteen performance metrics, but this will grow as we get bigger [F30]
- it’s like having a ready-made operational infrastructure that’s been tested in hundreds of other sites. Because that expertise is built into the system, you’re not reinventing the wheel...

Concerning the commodification of methods and services, this is something that all the consultancies did to a greater or lesser extent, primarily driven by the requirements of future buyers. As one founder intimates, ‘buyers want intellectual property when they buy because it is less likely to up sticks and leave when the buy-out period is over’ [F15]. Certainly, compared to consultancies that were not sold, commodified services and methods were much more common. Many founders felt that these services would provide the basis for sustainable returns after the first few years:

- working like hell will make you profits over the short term because you can provide much higher value than your competitors and the client will be delighted because they’re getting twice the work for half the price. But over the long term that is unsustainable, first because you’ll have a nervous breakdown, but second because it’s hard to convince employees without equity to work as hard as you used to [F6].

On that note, many founders felt that the ability of employees to feed into improvements in processes, methods and services (either internal or customer facing) helped provide them with more autonomy and the recognition that the firm was listening to them. The exceptions to the introduction of commodified services were firms where the value of the firm was very much in highly skilled, sought-after consultants, for example concerning big data analysis, or artificial intelligence. Here, buyers were generally keen on getting hold of the scarce resource rather than buying in specialist methods.

**STRATEGY AND GOVERNANCE**

A challenge for all ambitious management consulting firms is knowing how to grow. Growing too fast can risk cashflow and cultural cohesion, whilst too slow can lead to disgruntled ambivalent employees keen on promotion. Moreover, appearing attractive to a potential buyer, as one founder suggested ‘is not necessarily the same thing as being a good consultancy’ and thus expertise in branding, digital media, and PR is also necessary. Yet, many of those interviewed had either started small consultancies before (n=11), had access to a mentor who had started the company before (n=16) or used a consultancy to advise their growth (n=23). In addition, with reference to the previous section, many (n=10) also said that they received advice from their PSA company, or at least that the use of the software provided them with insights into what they ‘should’ be measuring.
Contrary to the literature, less than a fifth of interviewees reported non-partners demanding equity or decision-making. Some said that they provided senior consultants with equity to encourage them to join the firm, but none reported that this resulted in those employees requiring input into governance. Several (n=7) pointed out that a growing firm can help satisfy the demands for promotion from ambitious consultants, and also provide an exciting challenge which helped lower churn. Only three firms reported significant differences of opinion between partners prior to sale, and two of these resulted in one partner leaving the firm.

**AVOIDING CRISIS**

None of those interviewed described the challenges detailed above as crises or even problems that changed the form of the company. When asked specifically about crises, founders generally spoke about circumstantial, external issues such as the 2008 recession (or more recently, COVID), ill health, or family pressures. Changes in company form, structure and governance for these firms were generally not forced by challenges but were instead pre-empted by founders based upon their previous experiences.

A typical answer when asked about the business outgrowing the current systems and structures is provided by Sarah:

> We didn’t ever attempt to run the business on spreadsheet. …We’ve been on a time sheet system time management system….I have in my previous life, got involved in some depth with all of the different systems that were then available on the market and so we made a decision fairly early on about which one we were going to go with, and we also made an investment fairly soon. I think the benefit of going into a business that you’ve done before, is that you know what you’re going to need, and we didn’t even try to do it without it.  

Sarah had not only been a CEO of a larger consultancy in the same segment, but had detailed previous experience of the software and systems that the consultancy would need later. Others mentioned education, such as Mark:

> I knew what was coming over the hill, so changed things to anticipate it….In the MBA we did a growth module where a speaker emphasised the difficulty of balancing delivery with keeping the pipeline full and recommended partnering early….. That’s exactly what I did, and it paid off for lots of reasons.

Others still pointed to the sheer amount of information available on the internet which helped them avoid crises. When asked about what informed his strategic decisions about the company, Martin replied:

> there’s just so much information available out there. PSA providers provide cases studies and videos, and there’s independent sites which allow you to review their quality….There’s also a lot of people that have done this before that you can contact through LinkedIn or other networks….. I had a non-executive board who had all been there and done that before, and I found most of them through online networks.

When asked specifically about changes to governance typical replies included:

> I knew from previous experience that a smaller percentage of a much bigger cake would be the only way to achieve growth…it’s impossible to do otherwise.

> Even though there were 8 partners, we agreed upfront the one of us would be the CEO and some, but not all, of the others would take on specific roles, so that all important processes has someone responsible for them.

**DISCUSSION**

The findings cast doubt on current problem-based theorising (Empson 2012; Geroski, 2002; Rutherford et al. 2003; Phelps et al. 2007) at least as it applies to the growth of small management consulting firms. First, there is little evidence among interviewees that changes to growing firms are prompted primarily by a crisis of governance (i.e. the sharing of power by founders). Instead, most of them changed the structure, strategy and governance of the firm proactively in order to anticipate crises. In order to avoid crises of partnership governance founders shared equity, used non-executive directors or implemented new systems.

The challenges which were more present for the interviewees were those detailed in the findings: cashflow, clients, employees, processes and governance, but as we have seen, these did not lead to crises which caused changes in the firm, but were generally anticipated and proactively managed: cash-flow challenges were ameliorated by merging, creating a Partnership, accepting venture capital or freeing up billable hours; limited client prospects were overcome by providing outstanding work, seeking referrals, ‘expanding the matrix’; and using LinkedIn more effectively, limitations to resource were overcome by emphasising unique (or rare) values and culture, providing a narrative that was more engaging than the larger competitors, growing the firm to provide promotion prospects and excitement, and merging with similar firms; Operational complexity was overcome through the use of PSA. It should be noted that this administration, prior to the invention of PSA, was a challenge to many firms. Indeed, Empson (1997) tells of a small consultancy (30 employees) whose failure was partially due to ‘time spent on management tasks…and lack of management controls’ (p. 8). The challenge of strategic knowledge was overcome through their own experience, the use of mentors and consultants, and the solutions provided by PSA software. It should be stressed here that many of the ‘solutions’ to these challenges are perhaps relatively new: online networks such as LinkedIn, the use of PSA software, the proliferation and growth of the consulting industry, the ubiquity of the MBA and the availability of expertise on the internet were certainly non-existent when Greiner (1972) penned his seminal paper, and have accelerated significantly since Empson (2012) was written. The literature on PSF growth should be updated to include the advances both in information technology and the proliferation of expertise on firm growth among founders and their networks.
CONCLUSIONS

The paper sought to shine a light into the under-examined challenges and solutions to growth for small consulting firms by interviewing founders that had successfully grown and sold their companies. It identified five challenges and potential solutions to these which shaped the nature of these firms and argues that ‘problem-based’ theories of growth need amending, at least in relation to small management consultancies, and perhaps PSFs more generally. More generally, it appears that ambitious small consultancies with exposure to expertise and PSA software can create a scalable infrastructure that potentially overcomes the organisational and strategic challenges that impacted firms twenty years ago and more.

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In 2012, the Wall Street Journal reported on Gartner, Inc predictions that: “The chief digital officer will prove to be the most exciting strategic role in the decade ahead, and IT leaders have the opportunity to be the leaders who will define it.” (Wladawsky-Bulkley, 2012). Since then, the large consulting firms have shared this enthusiasm by publishing reports that discuss the strategic appointment of a chief digital officer (CDO) to support a company’s digital transformation (Deloitte, 2015; McKinsey & Co, 2015; Strategy&, 2015; Accenture, 2017; BCG, 2017; Bain & Company, 2018; Capgemini, 2019).

Executive search (Russell Reynolds Associates, 2012; Stanton Chase, 2015; Harvey Nash/ KPMG, 2019) and big technology firms (Microsoft, 2018; IBM, 2019) have also published reports on the CDO’s strategic and operational role in the digital transformation. What is clear from analysing these industry reports is there is widespread debate about the CDO’s actual role and intended purpose for supporting digital transformation and improving performance. In some reports, the message is steadfast – a skilled CDO is a critical investment for accelerating a firm’s digital transformation – whereas other reports take a more contextual stance, while some have become less confident about this trend.

Surprisingly, when turning to the academic literature there are only a handful of empirical articles that specifically address the CDO’s purpose and role (e.g. Tumbas et al., 2018; Warner and Wager, 2019; Singh et al., 2020; Berman et al., 2020). Most of this academic literature is published in practitioner journals with some drawing on consultancy research. Fitzgerald et al (2013) is one consultancy contribution that defines digital transformation as “the use of new digital technologies (social media, mobile, analytics, or embedded devices) to enable major business improvements such as enhancing customer experience, streamlining operations, or creating new models.” The authors survey 1,559 executives and managers from a wide range of industries and find that 78% of respondents see digital transformation as a strategic imperative, but only 13% of companies have appointed a CDO.

Similarly, Kane et al. (2016) draw on 16 interviews with senior executives and conduct a global survey on managers’ sense of preparedness for the digital future. Despite only 18% of the survey strongly agreeing that their organisation’s leadership had sufficient knowledge and ability to execute a digital strategy, it is interesting to observe that only one CDO was interviewed or available for this study.

In Singh and Hess (2017) study, they present six case studies to examine the CDO’s role on leading digital transformations across a range of industries. The study distinguishes a CDO’s responsibilities, strategic perspectives and specialisms from other C-level positions such as chief information officer (CIO), chief data officer, chief strategy officer and chief innovation officer. An important distinction is between the CDO and the more familiar CIO role which has long been researched in the academic literature (e.g. Grover et al., 1993; Sleep and Huddleston, 2019). Based on this qualitative research, Singh and Hess (2017) make an important distinction where they argue that CIOs take a functional role as the strategic IT specialist to improve operational efficiencies, whereas CDOs should take a cross-functional role as the digital transformation specialist with the broad aim to create digital innovations and trigger strategic change.

However, there is still limited research about what CDOs actually do in practice. In Tumbas et al (2017: 121) the authors address this issue and note: “since the CDO role is still in the nascent stages and not well defined, the role means different things to different organizations.” The authors interview 35 CDOs from several industries and find CDOs are broadly responsible for building digital innovation, data analytics or customer engagement capabilities. Interestingly, they found that CDOs in their sample concentrated on building one of three digital capabilities in a function such as R&D, operations, or sales and/or marketing which questions the cross-functional role of the role. Related, Tumbas et al. (2018) in a follow-up study found that CDOs intentionally draw on the term “digital” to distance themselves from existing executive roles in order to gain legitimacy. Consultancy research adds to these empirical observations as a PwC study reports that CDO hiring patterns are on a downward trend as one third of existing CDO positions have been replaced due to the changing expectation that a CDO appointment is a senior cross-functional role (Strategy&, 2019). These observations raise further research questions on whether a CDO should replace or collaborate with existing C-level positions such as chief technology officer, chief strategy officer, chief marketing officer and/or CIO and how this might work in practice.

What we do know from the academic literature is there are senior leadership skills that are desirable for supporting a firm’s digital transformation. Whether you need to appoint a CDO to access these leadership skills remains open to debate. This includes appointing individual(s) with the formal strategic planning skills and experience to implement artificial intelligence, big data analytics and/or cloud computing migration projects into existing production, sales and marketing activities (Davison and Ou, 2017; Warner and Wager, 2019; Correani et al., 2020). As a result, academic and consultancy research both report that a defining characteristic of the top CDOs is they understand how to design great user-centric experiences for both customers and employees in relation to processes, products and services (Berman et al., 2012; Berman et al., 2020; McKinsey & Co, 2020; Sebastian et al., 2017). However, despite these attributes, there is still limited academic research that examines the relationship between CDOs and good organisation design. In Warner and Wager’s (2019) study of the digital transformation process at both public and private sector firms, they found that senior management and strategy directors frequently emphasised the importance of user-centric design for redesigning internal structures through the incorporation of cross-functional teams and remote working practices. This was often discussed in the context of improving digital maturity by externally recruiting from companies with strong digital innovation cultures and internally promoting individuals whose digital skills can be leveraged across the firm. We also found that strategy professionals report navigating an innovation ecosystem of customers, suppliers, competitors, employees, institutions, and other stakeholders to be a critical capability for designing user-centric experiences to support the digital transformation of business models, workplace collaborations and organisational cultures.

The academic literature reports that CDOs with cross-disciplinary skillsets are often recognised as the corporate entrepreneurs of the workplace (Sebastian et al., 2017; Singh and Hess, 2017; Tumbas et al., 2018). These research studies conceptualise CDOs as change-agents on the basis they have the pioneering, motivational, diplomacy and resilience skills to convince people across organisational hierarchies about the urgency for digital transformation (Hirt et al., 2014; Singh and Hess, 2017; Tumbas et al., 2018). However, Hirt and Willmott (2014) warn that reliance on a CDO to drive strategic change “carries some risk of balkanization” as those appointed onto the C-suite often lack a CEO’s strategic depth and breadth, while those appointed as functional heads can lack influence or authority across divisions.

Therefore, consultancy research reports that locating CDOs with diverse skillsets often originate from a wide range of professional backgrounds including marketing, sales, technology, consulting or academia; and recommend that a future CDO’s ability to lead cross-functional teams should be prioritised over technical or industry experience (Strategy&, 2015).

Academic research also explores how CDOs themselves try to navigate the strategic and operational challenges of this new and emerging position (Brooks et al., 2018; Singh et al., 2019; Berman et al., 2020). For example, Brooks et al (2018) conduct 40 in-depth interviews with CDOs from 13 countries from a wide range of industries and argue that the “CDO role is beset by paradox” as they must navigate several paradoxical tensions if they are to succeed in this role. These tensions arise when CDOs: (1) aren’t able to build organisational capabilities at the speed at which the business environment changes; (2) are responsible for leading digital transformation projects outside their main area of expertise; (3) are expected to be technical specialists and effective generalists; (4) must implement change projects without clear roles and responsibilities; (5) must disrupt opinion while build consensus; and (6) must drive strategic change at the expense of making their own position obsolete.
All of which indicates a strategic leadership position that is yet to be fully defined.

The CDO’s optimal reporting structure has therefore garnered consultancy and academic research attention but with mixed results. Contrary to the view of some early consultancy reports that CDOs are best placed to report directly to the CEO (Experian, 2014; Deloitte, 2015; McKinsey & Co, 2015) – since the role has evolved – research has started to consider the contextual factors that underpin good appointments. For instance, in a BCG (2017) consultancy report, the authors propose that the success of a CDO appointment is contingent on: (1) the extent to which the organisation’s reporting structure is centralised or decentralised; (2) the complexity of its digital strategy; and (3) the level of digital maturity present in the organisation. The authors argue in situations where an organisation has a low level of digital maturity and needs to embark on a highly complex digital transformation strategy, then a centralised approach is needed where the CDO joins the C-suite and leads digital innovation projects across functions and hierarchies. Whereas, if an organisation is fortunate to have high levels of digital maturity and a clear digital strategy – such as the big technology companies – then a decentralised approach is recommended where middle and senior managers lead centres of excellence at subsidiary level. In practice however, the authors argue that most CDOs will take on hybrid roles as they deploy digital capabilities throughout the workplace.

Although this CDO appointment strategy seems conceptually and intuitively appealing, it is important to emphasise there is limited empirical research that examines these propositions. However, Singh et al. (2019) is one recent empirical study that does explore how CDOs pursue digital transformation activities under certain organisational design parameters. Analysing six case studies, the authors provide empirical evidence that once CDOs have been appointed, their optimal reporting structure is contingent on the diversification of the corporation’s digital transformation strategy and the CDO’s task focus. At corporate level, the authors find when there is a centralised digital transformation strategy, then one CDO should be appointed with the senior remit to incorporate digital innovations across all subsidiaries or business units. Whereas, if the corporate strategy is highly diversified (e.g. decentralised), then it would be beneficial to appoint an independent CDO for each subsidiary or business unit to contribute towards the corporation’s ongoing digital transformation.

By contrast, Berman et al. (2020) conducted a survey of 750 CDOs in 23 countries across 18 industries – the largest scale CDO survey to date – and provide empirical insights on the above propositions. Building on their IBM (2019) consultancy research, the authors report that 68% of high-performing companies regard CDOs as a strategic appointment for organisational success and that 75% of these respondents expect CDOs to lead large, cross-functional technology-based transformation programmes. They find that 61% of CDOs report directly to the CEO, while 17% report to the CIO, but only 17% of CDOs hold board positions. Regressions confirm that CDO reporting innovation negatively impacts company performance, but surprisingly, CDOs that directly report to CIOs instead of CEOs had a superior impact on company performance which is an area they suggest requires further research. In addition, Berman et al. (2020) provide insights on who actually reports to the CDO. They report that digital designers, creative directors and data scientists, along with their teams, most commonly report to the CDO; but only in rare cases do other C-level members such as the chief innovation officer or chief marketing officer report directly to the CDO. As a result, Berman et al (2020: 34) note: “It appears that the CDO reporting structure is as varied as the organisations surveyed,” which indicates there is still much to learn about the CDO’s role and responsibilities for supporting digital transformation.

Since digital transformation is becoming a strategic imperative for organisations, it seems wise for consultants to discuss a CDO appointment with clients when crafting new strategy. As Bain & Co (2018) outline, whether a CDO is externally appointed or an existing executive from the C-suite takes on or shares this responsibility is likely to depend on the: (1) sense of urgency, (2) digital maturity, (3) available resources and capabilities, and (4) desired pace of the organisation. Since digital transformation is more about strategy than technology, this article would argue that senior leaders should concentrate on building what Prahalad and Hamel (1990) would famously describe as core competencies in areas such as user-centric design that go beyond mere technological improvements in functional areas. Outside the big technology companies, Hienert et al. (2011) have reported that well-known companies such as LEGO and Coloplast have built user-centric design core competencies by leveraging employee incentive and empowerment systems with creative intellectual property policies to produce new digital innovations. In these case studies, the authors report that user-centric business models were designed through close collaboration between senior and middle management, which connects the CDO should be the powerful broker that connects these leadership roles.

To conclude, like Fitzgerald (2013) has argued when the CDO appointment first originated, it is still unclear if the CDO will become a permanent corporate leadership position for digital innovation and company transformations. It is also unclear if today’s CDOs will quickly become tomorrow’s CEOs. Despite some case examples of CDOs becoming CEOs, there is still a surprising lack of published research that examines top management team compositions and succession planning for digital transformations in various organisational settings. However, what is certain from reviewing the academic literature and consultancy reports on this topic is that consultancy research and management consultants will continue to play a strategic role in supporting leadership teams with the ongoing digital transformations of organisations in various commercial, public, and third-sector settings.

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INTRODUCTION
As many countries around the world are facing the second wave of the Covid-19 crisis, and given the evolving restrictive measures imposed by governments to contain the global outbreak, companies should keep as their top priority to continue monitoring the shifts in customer preferences and attitudes towards risk in order to detect and understand the changes in the nature of demand.

In the last year, in the majority of markets, companies have experienced a change in the way that customers purchase goods and services, hence it has been crucial for companies to change, accordingly the way they do business. The resurgent crisis is serving as a catalytic agent that is accelerating the transformation of the nature of the relationship between companies and consumers. The catalytic effect is providing a tipping point to shrink the cultural lag (Ogburn, 1957) which is often associated with major technological change. In fact, one of the primary challenges for businesses today is to capture the evolving customer needs and expectations, hence moving ever closer towards a customer-centric approach.

In such context, ensuring a company is able to remain competitive in the market and to outperform the competition will depend on the commercial agility of the go-to-market or “top-line”, and whether the cost structures or “bottom-line” will be aligned accordingly. More practically, such an integrated approach towards the optimization of economic marginality throughout the value chain sees companies redefine their go-to-market strategies while revisiting the cost structures and the transfer pricing models for the margin distribution between the organizational and corporate entities involved.

MOVING TOWARDS CUSTOMER-CENTRICITY
For many industries, the global outbreak has accelerated pre-existing trends in the B2B and B2C go-to-market with respect to having, as a common denominator, a customer-centricity focus. Even though this term has been used since the late 1960s, it has never been as relevant as today given the current context where customers seek more than ever trust and dependability in the brands they choose to purchase from. More specifically, companies realize that the key to surviving this disruption depends on setting a strong customer loyalty program, having as a primary objective the re-adaptation of the offering depending on the new needs and expectations of customers, thus viewing customers as the start and end point of doing business.

As a response to the Covid-19 pandemic, during the lockdown companies started to understand the urge to move more towards an omni-channel strategy, that is the ability to reach a seamless end-to-end customer journey by setting up both the physical and digital sales channels, hence employing a “phygital” approach. More precisely, the concept of phygital has been referred to as a digital marketing strategy linked to intimacy, immediacy and interaction with the customer (Phygital, 2020), which can be achieved by digitalising the top-line performance, that is, by implementing the following building blocks.

Such business attitude is being increasingly adopted with the intention of remaining as close as possible to “distant customers” given the social distancing restrictions. On a practical level, on the one side, we saw businesses investing heavily in e-commerce platforms for example in the supermarket industry where, as a consequence, supply chains have been moved even closer to customers. On the other side, businesses started to employ new commercial and product strategies, for example with live streaming fashion shows in the fashion industry.

The response of companies to meet the new customer needs, capture new demand and generate growth while keeping competitive in the marketplace, can be viewed as an “immediate response phase” where businesses’ primary objective was to respond quickly to the disruption caused by the global pandemic. It subsequently becomes crucial for businesses to start thinking about how to put in place the “rebound phase”, that is in a context in which restrictions become normalized and, in general, where the new reality (“new normal”) starts to set in. The first step is to put in place a comprehensive redefinition of the ante-Covid-19 go-to-market strategies.
RETHINKING GO-TO-MARKET STRATEGIES

Contrarily, from a typical economic crisis that mainly challenges companies from a demand point of view, the resurgent Covid-19 crisis is not only impacting the economic model or demand but also the go-to-market model. On the one side, the economic model is currently under stress as it is experiencing shifts in the customer preferences and needs, attitudes toward risk, and product and channel choices. On the other side, unprecedented lockdowns and other restrictions are influencing the way in which companies sell and deliver their product and services and, ultimately, the way they can engage with their customers.

The map below depicts where on the four quadrants distinct industries are positioned during this crisis. This scenario, characterized by a high volatility in both the economic and the go-to-market model, is expected to endure for at least six months until a vaccine becomes widely available to the general public. From a practical point of view, this crisis is making customers realize what they actually need and what they can avoid in terms of products and services. Therefore companies are challenged with the reflection of the shifts in the customers’ choices, and will understand the necessity to act promptly.

![COVID-19 Crisis Map](Source: Simon Kucher (2020c))

Figure 2: COVID-19 Crisis Map
2. BAD COMPANIES ARE DESTROYED BY CRISSES, GOOD COMPANIES SURVIVE THEM, GREAT COMPANIES ARE IMPROVED BY THEM.

By Andy Grove - Intel Founder

In order for companies to favourably survive the crisis and to fit in the description of Andy Grove regarding great companies, their first concern today is to make a resilient and rapid offer of design, sales and pricing choices repeatedly until the market restores some kind of equilibrium, that is essentially the capability to put in place a plan for achieving top-line agility.

1. AGILE DESIGN. This is about conducting specific improvements or minimum viable outcomes that will deliver immediate value to the products and services of a company. Agile design could include the reassessment of the customers’ willingness to pay, the readjustment of the customer experience to a socially-distanced market and the transformation of products and services to digital forms. Essentially, companies will be confronted with the challenge of redesigning their offering with one that will meet the new customers’ expectations, and deliver high levels of customer experience, safety and economic profitability.

2. AGILE SALES. Given the go-to-market sales developments that have been developed in this period, companies must become experts at mastering the omni-channel by quickly integrating digital selling with the traditional sales channels by putting in place e-commerce platforms. For both the B2B and B2C businesses, a key aspect will be to focus internal resources in aligning the sales teams to the “new normal” by promoting remote-selling and digital interactions with clients through the adoption of video-conferencing tools, artificial intelligence enabled bots, augmented reality and gamification.

3. AGILE PRICING. An important aspect of agility in pricing is to create efficient and responsive pricing strategies. One the one hand, in order to monetize value, agility can be achieved by employing the differentiation tool by setting various types of offerings to target different customer segments. On the other hand, another tool for achieving agility is dynamic pricing that can be used to balance supply and demand; this technique is used by Uber to increase the supply in supply-scarce circumstances by imposing higher prices while reducing demand from those customers that are not willing to pay a premium, hence keeping waiting times to a minimum.

REALIGNING THE COSTS OF DOING BUSINESS

For companies, what comes immediately after the redefinition of the top-line strategies to meet the new go-to-market needs and preferences is the realignment of the cost models. Adjusting to a new flexibility comes at a cost and this is where companies will have to incur structural cost changes. In view of this, from a practical viewpoint, many companies have implemented the following measures by reducing internal costs in order to respond quickly to the pandemic: provisional freezes on new hires, renegotiation of contracts (for example, regarding physical stores for large retail multinationals), and postponement of capital expenditure (CAPEX) investments to a later and more favourable period.

More importantly, what should be assessed is the reflection of cost changes in the market or demand side on the supply chains of companies at a global scale as these are already, or will have shortly, enormous consequences on the management and resilience of the bottom-line of companies. Specifically, changes in public policy and consumer behaviour have formed unpredictable demand streams which in turn have led to the formation of uncertainty within companies with regards to their suppliers; this includes the unpredictability of the sourcing of raw materials, the financial viability of suppliers, and disruptions in the daily activities of suppliers and the delivery of their work. Such aspects of the demand and supply side of business have also impacted the core operations of companies where production facilities have experienced discontinuous operations, low capacity and shortages in capital, labour and materials.

In this context, what becomes exceedingly valuable to companies is to adapt the control model to the market repositioning either internally, by dedicating some people in the firm for this task, or externally, by seeking support from professionals. To give some practical examples, the following are the activities that companies are advised to perform:

1. ADJUSTMENT OF CONTROL MODELS – A structural cost transformation requires an analysis of the impact of the market repositioning on the decision making and management control models and, consequently, adjusting the management control model. In essence, due to a change in the go-to-market strategies, the company may want to adjust the model behind the measurement of their performance levels and, as a consequence, reallocate the roles and responsibilities of the employees in the control functions.

2. REDEFINITION OF CONTROL PROCESSES – It is then necessary to ensure that the re-defined processes are measured and communicated for every company; for example defining the changes to be made to KPIs, the planning and forecasting models, the analysis and reporting models, as well as revisiting the management-by-objectives (Drucker, 1955) or “MBO” policies to control the performance, for example, of each sales channel and customer segment.

3. COSTING REALIGNMENT – Finally, due to a change in strategies and priorities, companies must assess the impact of the go-to-market changes on current cost allocation criteria in the value chain, with regards to products, services, channels, markets, and supply chain, and revisit the costing model and strategies to increase their usefulness for control.

The value of such realignment is to improve the ability to control key commercial variables, in particular the informative quality of costs for the purpose of marginality assessments by channel, market, product and service, and customer. Moreover, this allows the creation of a more reliable foundation for the transfer pricing system which will be covered in the following section.

REDEFINING THE CORPORATE AND TRANSFER PRICING STRATEGIES

As a final step in the alignment of the bottom-line to the top-line changes, should come the redefinition of the corporate structures and transfer pricing models for the purposes of reducing fiscal and legal risks. Inevitably, Covid-19 has triggered disruptions on supply chains and consequently on the liquidity and cost management models. In particular, companies have faced closure or limited operations, therefore they have found alternative ways of doing business by looking for alternative suppliers and service providers and expanding to new markets in order to continue to meet new demand patterns or to cut costs. This requires contractual adjustments with business partners and, especially, an adjustment of the corporate and operating models to manage fiscal and legal exposure emphasised by those structural changes.

If we refer to multinational corporations instead of single companies, the redefinition of the business structures for fiscal and legal purposes is more complex due to the transfer pricing problem. This arises where subsidiary companies sell goods or render services to other subsidiary companies or to the holding company in which the challenge in determining suitable prices for these intra-group transactions. The transfer prices representing such transactions must be at “arm’s length” or comparable to those of other independent companies present in the market. The tax authorities will run regular assessments on multinational corporations as it is common for them to try to minimise their tax liabilities by shifting profits from companies operating in higher tax countries to companies in lower tax regimes.

Especially during economic downturns, the existing transfer pricing models should be adjusted. On the one hand, companies will have to justify to tax authorities that the low operating profits or losses come from the unfavourable economic conditions and not due to the unlawful method of reallocating profits between multinational corporations.
As a final step to this alignment, it is necessary to adapt the governance, organizational structures and responsibilities to the revisited transfer pricing model and value chain.

To conclude, the value that arises by redefining the corporate and transfer pricing policies consists of strengthening the representativeness, objectivity and defensibility of the corporate and transfer pricing models by considering and managing the opportunities and gaps opened by the changes in the top-line or go-to-market policies. This also allows a more reasoned allocation of marginality among the different operating units, strengthening the management-by-objectives systems. Further, the evidence produced with these analyses allows an easy and correct drafting of the transfer pricing documentation for tax purposes.

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**TRENDS**

**1. Top-line: Evolution of the sales channels**

- *Phygital* approach by transferring the physical traffic to the online channel and vice versa, ensuring online and in-store customer journeys
- Requalifying the role of the physical stores towards:
  - Places to collect and return purchases made from other channels
  - Points of a decentralized logistics network with "unlimited" assortment

**2. Bottom-line: Realignment of the management model**

- The omni-channel approach challenges the traditional areas of responsibility:
  - Dual responsibility of the point of sale (PoS) - in-store sales, before and after sales services
  - The performance of the physical and online channels are interdependent
- The planning and control model must be extended to the planning of the service capacity of the PoS and online channel (and necessity to review KPIs).
  - Adapting the PoS MBO system
  - Correct cost reporting by sales channel

**3. Bottom-line: Realignment of corporate structures and transfer pricing**

- Review of the production process to ensure the availability of individual products at the PoS in a timely manner
- Corporate positioning of the online channel (i.e. the legal entity, that is who has the rights and obligations)
- Allocation models of marginality and product losses differentiated by channel
  - Forecasting sales flows and transfer of products between PoS and remuneration planning

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**Case study: Proposed approach to a player in the apparel (fashion) industry with global annual revenue of €200m annually**

**1. Top-line:**

- Evolution of the sales channels
  - *Phygital* approach by transferring the physical traffic to the online channel and vice versa, ensuring online and in-store customer journeys
  - Requalifying the role of the physical stores towards:
    - Places to collect and return purchases made from other channels
    - Points of a decentralized logistics network with "unlimited" assortment

**2. Bottom-line:**

- Realignment of the management model
  - The omni-channel approach challenges the traditional areas of responsibility:
    - Dual responsibility of the point of sale (PoS) - in-store sales, before and after sales services
    - The performance of the physical and online channels are interdependent
  - The planning and control model must be extended to the planning of the service capacity of the PoS and online channel (and necessity to review KPIs).
    - Adapting the PoS MBO system
    - Correct cost reporting by sales channel

**3. Bottom-line:**

- Realignment of corporate structures and transfer pricing
  - Review of the production process to ensure the availability of individual products at the PoS in a timely manner
  - Corporate positioning of the online channel (i.e. the legal entity, that is who has the rights and obligations)
  - Allocation models of marginality and product losses differentiated by channel
    - Forecasting sales flows and transfer of products between PoS and remuneration planning

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**Applicable trends:**

- Customized in-store experience with technological tools (e.g. virtual reality shopping)
- Fashion at home with fashion streaming
- Adoption of KPIs that are proxies for the client's ability to interact and understand the client
- Combinations of online and in-store CRM databases for complete customer or cluster profiling
- Strengthening of the online presence control model: conversion rate, returns, online tracking and in-store customer journeys
- Analytical instruments for measuring the effects of communication for different channels
- Customer profiling models capable of interpreting customer lifestyles
- Allocation of "socio-environmental" responsibilities to the different units
- Development and public disclosure of environmental impact measures by product and channel
- Models for the detection of the management costs of social and environmental variables
- Positioning new trademarks, patents and know-how
- Allocation model for R&D costs, institutional marketing and socio-environmental cost allocation
- Royalties and marketing contribution model
CONCLUSION
Given the period of disruption caused by the Covid-19 pandemic on the global markets, and the subsequent shifts in the way that customers buy due to a change in their needs and requirements, it is crucial to stress the importance for companies to change the way they do business. More practically, we view the resurgent crisis as a catalytic agent that has accelerated the pre-existing trend for companies in both the B2B and B2C go-to-market scene regarding customer-centricity along with the adoption of an omni-channel strategy, through which they are truly trying to stay close to distant customers.

This article proposes an agile and systemic integrated approach to performance optimization to be able to navigate successfully and attempt to outperform the competition in the current context of discontinuity where, subsequently to the redefinition of the go-to-market or “top-line” strategies, companies are highly encouraged to realign accordingly the “bottom-line”, namely the cost and control structures, and the corporate and transfer pricing models. The value of such integrated approach consists in ensuring the overall consistency of the strategies impacting the value chain as a response to the changes in the demand.

Throughout the paper we also exhibit a case study analysis of the proposed approach using a €200m organisation from the apparel sector following the Covid-19 pandemic.

The implications for theory and practice are that it provides an empirical case study for theory building as well as an example of the possibilities of configuring a business strategy that encompasses an overarching approach to the marketing, pricing, and cost and control structures of organisations.

ABOUT SIMON-KUCHER & PARTNERS
Simon Kucher & Partners is one of the world’s leading consulting firm specialising in creating top-line growth strategies that deliver measurable results for companies through the optimisation their strategy, marketing and pricing models by adopting a strong application- and results-oriented approach.

ABOUT CROWE VALENTE
Crowe Valente is among the leaders in Italy in transfer pricing and more generally on international tax issues and associated tax risks. The participation of the firm in international technical bodies allows a vision on the predictable evolution of regulatory systems, essential to design robust transfer pricing policies.

REFERENCES
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INTRODUCTION

Unsurprisingly, management consultancy continues to provide examples of contradictory approaches towards clients even during a time where the phrase “we’re all in this together” had been the umbrella under which we have all sheltered for at least some comfort in the difficult times that the Covid 19 pandemic has placed us in. However, it would seem some of us have been more in it together than others. In conversations with staff in two UK consulting firms over the last 6 months a stark contrast in approaches towards their clients and their business model became apparent. Rather than explicitly judge either example, I present the summaries of the two case studies below to the readers of this journal for consideration, to provide an opportunity perhaps for discussion within firms or even food for personal thought and reflection about what is important for a firm’s success and its longevity.

CONSULTING FIRM 1 – A LARGE GLOBAL CONSULTANCY*

With thousands of employees and a solid track record of successful delivery to a host of multinational clients, this consultancy seemed well-placed to weather whatever the initial crisis developed into. The firm took advantage of the government furlough scheme and placed consultants on temporary leave. Consultants on client assignments which were continuing were told that these assignments were put on hold, onto the scheme. Consultants on assignments which were not on client assignments, or ones where clients said projects would be put on hold, onto the scheme. Consultants on assignments which were continuing were told that the lockdown and resultant client problems may impact their pipeline, as well as negatively affect younger members of their team, who, as a result of furlough, were losing precious mentoring and development opportunities. This climate of openly discussing vulnerabilities opened up new avenues of discussion that perhaps neither party had anticipated. The firm approached client issues pragmatically. Purchase Orders were rescheduled to accommodate current needs yet keep the project progressing, albeit on an extended timeline; an annual contract became a 3-month contract; and finally a discounted rate for a project which had been long discussed was agreed for a pilot so that when the business was able to operate on a firmer footing the project itself could be fully scoped based on the outcomes of the proof of concept. The latter especially felt like a mutual win as two members of staff who came off furlough were assigned to that, and their development needs effectively taken into account in the lower fee rate.

REFLECTIONS

These two companies adopted opposite behaviours towards their clients and staff yet, set against the ethical behaviour standards UK and European professional consulting bodies promote, both conformed. According to the MCA1 working in an ethical way is being responsible citizens, conducting business ethically and fostering an ethical culture, which in practical terms is a tad unifying. Similarly, the European Federation of Management Consultancies Associations (FEACO)² states in its Ethics section that consultancies shall at times maintain the highest ethical standards in its professional work. It does go on to say that consultancies must act at all times act solely in the interests of the client and not do anything likely to lower the status of management consultancy. It would seem that Firm 1 behaved completely in accord with both Associations’ requirements, although whether they acted solely in the interests of the client may be questionable. Having said that, their policy was more directed against their own employees. It nevertheless feels that Firm 1’s behaviour had some ethical shortcomings (Gentilin 2016). Perhaps it is true that it is impossible to provide a precise definition of good and ethical action (Shaw 2020). Firm 2 on the other hand introduced greater transparency, shared vulnerabilities with their clients and generally appeared focused on building stronger relationship foundations for the future (Squire et al. 2009). This feels stronger ethically, and generally more in keeping with the broader literature on client-consultant or buyer-supplier relationships.

FOOD FOR THOUGHT

Arguably, Consulting Firm 1 has not acted unethically, given what the two professional bodies state about ethical behaviour, although intuitively it feels as if it has. In fact Vallini (2007) pointed out that the consultants need for turnover and profit-making was an ethical risk for clients, and that the pursuit of profit-making cuts ethical limits. From these examples a number of questions arise, whether for personal musing or broader open debate. For instance, as a starter for 10:

• What are ethical consulting behaviours?
• Can/should they be policed?
• Is the soft-touch guidance approach of the professional bodies the right way?
• How do clients find out about internal firm behaviour they might consider unethical – and in fact, should they?

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One scholar that is well known in the Academy of Management, one of the largest leadership and management organizations in the world, is Schein (1985, p.12) who describes organizational culture as “a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”. In fact, company culture is reflected in shared assumptions, symbols, beliefs, values and norms that specify how employees understand problems and appropriately react to them (Ogbonna & Harris 2002; Ouchi & Wilkins 1985; Scott 2003; Smircich 1983; Van Den Berg & Wilderom 2004).

Executives today are focusing on company culture. Management consultants can help executives build an effective company culture to improve customer satisfaction through acquiring additional knowledge from customers, developing better relationships with them, and providing a higher quality of service for them. Financial performance is determined through various aspects such as customer satisfaction. And executives can positively affect financial performance through increased customer satisfaction. Financial performance is what every executive is concerned about. Thus, there is a global need to cultivate a strong company culture to accomplish sustainable competitiveness in global markets.

Company culture includes three dimensions of collaboration, trust and learning (Lee & Choi 2003). These three cultural aspects play a critical role in improving innovation and enhancing financial performance. For example, collaboration provides a shared understanding about the current issues and problems among employees, which helps to generate new ideas within organizations (Fahey & Prusak 1998; Leonard 1995; Leonard & Sensiper 1998). Trust in their leader’s decisions is also a necessary precursor to create new knowledge and improve financial performance through increased quality of products and services (Lines et al. 2005). Moreover, the amount of time spent learning is positively related to the amount of knowledge gained, shared, and implemented, aiming at breaking through performance gaps in corporations.

Management consultants are very involved in cultural change initiatives and, in particular, by helping executives as major organizational decision makers who are responsible for creating more effective workplaces, developing people and shifting organizations toward the creation of new services and products. Knowledge, in itself, is a by-product of culture, and culture’s role in guiding and facilitating people’s action is the key to executive decision-making. Through an effective company culture, executives can contribute to new products and services to meet dynamic market needs, through higher expectations and stimulation for new and strategic opportunities to meet the expectations of strategic goals and the needs of customers in the marketplace. Management consultants can help executives build this company culture to serve the customer needs and become more profitable.

By influencing behavior and providing valuable resources, executives can change the culture of an organization (Washington 2008). This new focus helps the organization develop a unique culture that is hard for the competition to duplicate. Management consultants can help executives act as change agents who provide a more humanistic and applicable approach to create a great company culture. Executives can facilitate collaboration by developing relationships in organizations. An executive can also contribute to the cultural aspect of trust, through considering both the employee’s individual interests and the company’s essential needs. The key is for executives to inculcate a culture of trust and transparency of knowledge sharing within organizations so that information can be found and used instantaneously. Also, executives can identify the individual needs of employees and develop a learning culture to generate new knowledge and share it with others. The next sections, particularly, present a set of actions that can be taken by executives to build an effective culture within corporations.
BUILDING A TRUE COLLABORATION CULTURE
To build a collaboration culture, management consultants can help executives improve the degree to which employees actively support and provide significant contributions to each other in their work. Executives particularly need to develop a collaborative work climate in which:

1. Employees are satisfied by the degree of collaboration between departments.
2. Employees are supportive.
3. Employees are helpful.
4. There is a willingness to accept responsibility for failure.

CREATING A NO-FAIL TRUST CULTURE
To create a trust culture, management consultants can help executives maintain the volume of reciprocal faith in terms of behaviors and intentions. In particular, executives need to build an atmosphere of trust and openness in which:

1. Employees are generally trustworthy.
2. Employees have reciprocal faith in other members’ intentions and behaviors.
3. Employees have reciprocal faith in others’ ability.
4. Employees have reciprocal faith in others’ behaviors to work toward organizational goals.
5. Employees have reciprocal faith in others’ decisions toward organizational interests, rather than individual interests.
6. Employees have relationships based on reciprocal faith.

CULTIVATING A SUCCESSFUL LEARNING CULTURE
To foster a learning culture, management consultants can help executives enhance the extent to which learning is motivated within the workplace. In doing this, executives can contribute to the development of a learning workplace in which:

1. Various formal training programs are provided to improve the performance of duties.
2. Opportunities are provided for informal individual development other than formal training such as work assignments and job rotation.
3. There is an encouragement to attend external seminars, symposia, etc.
4. Various social mechanisms such as clubs and community gatherings are provided.
5. Employees are satisfied by the contents of job training or self-development programs.

IN CONCLUSION
We understand that company culture has risen to a phenomenon that is worth understanding, learning, and using in organizations around the world. This article seeks to inspire management consultants to help executives create fundamental changes to create an effective company culture in order to meet and exceed the challenges of the future. The practices mentioned in this article can represent an argument in support of the need for cultural change initiatives in today’s global market environment.

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