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# Knowledge transfer across permeable boundaries: An empirical study of clients' decisions to involve management consultants

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## KEYWORDS

Management consulting;  
Knowledge;  
Client-consultant  
relationships

**Summary** We investigate the relationship between the knowledge requirements of projects and clients' decisions whether to procure services from external management consultants for the execution of these projects. Using data from interviews with client decision-makers regarding the execution of 86 projects, we find that knowledge requirements are strongly associated with the decision whether or not to involve external consultants. The results highlight the closeness of the relationships between clients and consultants, supporting Kitay and Wright's [Kitay, J., & Wright, C. (2004). Take the money and run? Organisational boundaries and consultants' roles, *The Service Industries Journal*, 24(3) 1–18] view of the permeability of the boundaries between many client organizations and their consultants. The findings also confirm our expectation that clients use the services of external management consultants in order to procure functional or industry-specific knowledge which consultants can pool and apply efficiently across many projects.

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Knowledge intensity is widely recognized as a hallmark of the management consulting industry. Consulting practitioners often argue that they add value to their clients by providing knowledge or expertise that is unavailable or hard to access in their clients' organizations (Dawson, 2000; Scott, 1998). In the academic literature, the provision of knowledge to clients is regarded as an important function of consultants, too (Alvesson, 1993, 1995; Engwall & Kipping, 2002). However, unlike the classical professions of law, accounting and medicine (Perkin, 2002), consulting cannot claim a particular body of knowledge as its own (Groß & Kieser, 2006). In addition, there is no reason to assume that the advice that consultants provide adheres to standards of rationality or

personal disinterestedness in a stricter way than decisions taken by other actors in the economy (Ernst & Kieser, 2002; Kieser, 2002; Salaman, 2002). Despite these factors which cast doubt on the argument that consultants add value by providing knowledge-intensive services, empirical research clearly indicates that clients' desire to tap into consultants' knowledge is an important motivation for them to procure consulting services (Dawes, Dowling, & Patterson, 1992).

Nevertheless, surprisingly little empirical evidence has been produced so far on whether clients' decisions to involve consultants are affected by the knowledge requirements of the project at hand. This question is particularly salient as clients' choices from which sources to procure knowledge-intensive services generally go beyond the dichotomous options of "make" versus "buy" (Williamson, 1975), i.e. of in-house production versus acquisition from the outside. Clients often maintain long-lasting and interaction-intensive relationships with consultants which go beyond the mere

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economic exchange of services for a price (Kitay & Wright, 2004). The commercial aspects of their transactions are embedded in a web of relationships that provide safeguards against the risk of opportunistic behavior (Barbulescu, Galunic, Bensaou, & Jonczyk 2007; Granovetter, 1985). The choice between in-house provision of services and the procurement of these services from an entirely external party constitute merely the extremes of an entire range of options (Smith Ring & Van de Ven, 1992). For the provision of knowledge-intensive assets, forms of relational contracting are particularly appropriate (Eisingerich & Bell, 2007; Lambe, Wittmann & Spekman, 2001), as even classical transaction cost economics confirms (Williamson, 1985). The objective of this paper is to investigate whether the knowledge requirements of projects that clients wish to carry out are associated with their decisions about which among a whole range of options for the procurement of services to choose. We use data from 41 interviews conducted with decision-makers from client firms regarding the commissioning of 86 projects. Our focus is on the perspective of clients as the (potential) buyers and users of consulting services, hence not on the views of consultants.

The structure of our paper is as follows. In the next section, we review the conceptual and empirical literature regarding the knowledge-provisioning function of consultants. We also summarize existing evidence regarding the importance of knowledge as a driver of clients' decisions for or against the procurement of services from external consultants. Furthermore, we develop a theory regarding the provision of knowledge-intensive services in relational exchanges, and derive hypotheses for testing. In the third section, we discuss our data, measures and analytical approaches employed in the empirical part of the paper. We then provide an overview of the results. In the final sections, we discuss the implications of our findings for theory and managerial practice, and the limitations of our paper. We also provide recommendations for future research.

## Review and hypotheses

### Knowledge provision as a function of consultants

In the extant literature, consulting is widely recognized as a knowledge-intensive activity (Alvesson, 1993, 1995; Engwall & Kipping, 2002). From an historical perspective, consulting emerged at the latter part of the 19th century as an industry that thrived on the efficiency of employing external expertise for solving problems that are brief, specialized and non-recurring within a particular client organization (Armbrüster, 2006; McKenna, 2006). Sharma (1997) analyses the relationship between clients and consultants as a principal-agent relationship, where consultants exchange knowledge (in the form of information-intensive yet actionable recommendations) against fees (see also Clark, 1995). Various forms of knowledge transfer (e.g., informing clients about new technologies and advising them regarding business opportunities derived thereof) feature prominently in Turner's (1982) and Bessant and Rush's (1995) reviews of consultants' functions.

Knowledge may be defined as information that has qualities of reliability and validity (e.g., through proof, experience and practical application) and is thereby distinguished

from mere opinions or beliefs (Liebeskind, 1996; Murray & Peyrefitte, 2007). Interactions between consultants and clients involve both explicit knowledge (i.e., information that can be encoded and deciphered with relative ease) and tacit knowledge such as practical know-how (Nonaka, 1991; Simmonds, Dawley, Ritchie, & Anthony, 2001). The relative importance of these two types of knowledge in the work of consultants depends largely on the nature of the client-consultant relationship. For example, in the "purchase of expertise" model of consulting (Schein, 1987), the primary function of consultants is to deliver information (e.g., market research) that meets the client's prior specification. In contrast, in the "guide-mountaineer" model of the process consultation school, consultants help clients reflect and take action upon their own development (Massarik & Pei-Carpenter, 2002; Schein, 1988, 1998). Therefore, the client-consultant interaction in this model tends to be accompanied primarily by the transfer of tacit knowledge.

Much of the theoretical and empirical literature that has affirmed the knowledge-providing function of consultants has focused on the supply side of the market for consulting services (Werr, 1999, 2002; Werr, Stjernberg, & Docherty, 1997). Descriptive segmentations of the consulting market are also largely supply-side oriented, as they describe the services offered by consultants on the basis of conventional functional criteria such as "strategy", "operations", "IT", etc. (e.g., FEACO, 2004; Kennedy, 2006). In contrast, comparatively little is known about the demand-side perspective on the knowledge-provisioning function of consultants, i.e., the knowledge requirements of clients when procuring consulting services. Werr (2005) argues that the quest for external knowledge and expertise is one among several factors contributing to the construction of clients' needs for consulting services. Dawes et al. (1992) found that consultants' experience in a client's industry was an important knowledge-related factor that led clients to decide in favor of an external consultant, and that – conversely – the lack of relevant industry experience was ranked as the most important reason for clients not to choose a consultant. Clark (1993) differentiates between the factors that guide clients' search processes for external consultants and the criteria used to select among alternative providers, finding that a consultant's understanding of the client organization and its culture is almost equally important for both parts of the overall contract awarding process, more so than the consultants' expertise. The finding that a consultant's prior knowledge of the client organization is important appears consistent with the evidence suggesting that clients tend to work together with the same consultants on a repeated basis, giving incumbent consulting firms with established client relationships an important competitive advantage over industry newcomers (Semadeni, 2006). These results are informative, but they do not provide a conclusive answer to the question which particular knowledge requirements lead clients to seek advice and support from external consultants.

### Transferring knowledge across permeable boundaries: governance considerations

Although clients may procure knowledge-intensive services from external providers, an alternative option for them is to procure that knowledge from internal sources. According to

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